

# SECURITIES AND EXCHANGE COMMISSION

## FORM S-11/A

Registration statement for securities to be issued by real estate companies [amend]

Filing Date: **1999-03-26**  
SEC Accession No. [0000950144-99-003239](#)

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### FILER

#### STRATEGIC TIMBER TRUST INC

CIK: **1062013** | IRS No.: **020499201** | State of Incorp.: **GA** | Fiscal Year End: **1231**  
Type: **S-11/A** | Act: **33** | File No.: **333-71291** | Film No.: **99573892**  
SIC: **6798** Real estate investment trusts

Mailing Address	Business Address
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AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON MARCH 26, 1999

REGISTRATION NO. 333-71291

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

AMENDMENT NO. 1

TO

FORM S-11  
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

STRATEGIC TIMBER TRUST, INC.

(Exact name of registrant as specified in its governing instruments)

5 NORTH PLEASANT STREET  
NEW LONDON, NEW HAMPSHIRE 03257  
(603) 526-7800

(Address, including zip code, and telephone number, including area code, of  
registrant's  
principal executive offices)

C. EDWARD BROOM, PRESIDENT AND CHIEF EXECUTIVE OFFICER  
STRATEGIC TIMBER TRUST, INC.  
5 NORTH PLEASANT STREET  
NEW LONDON, NEW HAMPSHIRE 03257  
(603) 526-7800

(Name, address, including zip code, and telephone number, including area code,  
of agent for service)

Copies to:

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</TABLE>

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the effective date of this Registration Statement.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] -----

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] -----

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. [ ] -----

If delivery of the prospectus is expected to be made pursuant to Rule 434, check the following box. [ ]

-----  
THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THIS REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.  
-----  
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THE INFORMATION IN THIS PROSPECTUS IS NOT COMPLETE AND MAY BE CHANGED. WE MAY NOT SELL THESE SECURITIES UNTIL THE REGISTRATION STATEMENT FILED WITH THE SECURITIES AND EXCHANGE COMMISSION IS EFFECTIVE. THIS PROSPECTUS IS NOT AN OFFER TO SELL THESE SECURITIES AND IT IS NOT SOLICITING AN OFFER TO BUY THESE SECURITIES IN ANY STATE WHERE THE OFFER OR SALE IS NOT PERMITTED.

SUBJECT TO COMPLETION, DATED MARCH 26, 1999

PROSPECTUS

[COMPANY LOGO]

16,600,000 SHARES  
STRATEGIC TIMBER TRUST, INC.  
COMMON STOCK  
\$ PER SHARE  
-----

Strategic Timber Trust, Inc. acquires, owns and manages timberlands and sells timber. We expect to qualify as a real estate investment trust, or a REIT, for federal income tax purposes.

This is an initial public offering. We currently expect the initial public offering price to be between \$19 and \$21 per share. We have applied to have the common stock included for quotation on the Nasdaq National Market under the symbol "STTR." The underwriters named in this prospectus may purchase up to 2,490,000 additional shares of common stock from us to cover over-allotments.

-----  
INVESTING IN THE COMMON STOCK INVOLVES CERTAIN RISKS. SEE "RISK FACTORS" BEGINNING ON PAGE 10 FOR MATERIAL RISKS THAT MAY AFFECT YOUR INVESTMENT IN THE COMMON STOCK, INCLUDING:

- The volatility of timber prices may reduce our revenues.
- Environmental and endangered species regulations restrict timber harvesting and may otherwise restrict our ability to conduct our business.
- Tax laws do not require us to distribute any cash to you.
- We do not have a significant operating history, and we incurred a combined net loss of \$16.4 million in 1998.
- Our management has never operated a REIT or a public company.
- We may not be able to achieve our intended growth.

- Acquisitions of additional timberlands involve numerous risks.

- We depend on key members of our senior management.

Tax laws and provisions of our organizational documents limit ownership of our common stock by one person to 9.8% of all outstanding shares and may otherwise restrict transfers of our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

<TABLE>  
<CAPTION>

	PER SHARE	TOTAL
	-----	-----
<S>	<C>	<C>
Initial Public Offering Price	\$	\$
Underwriting Discount	\$	\$
Proceeds to Strategic Timber (before expenses)	\$	\$

</TABLE>

The underwriters are offering the shares subject to a number of conditions. The underwriters expect to deliver the shares to purchasers on or about , 1999.

-----

SALOMON SMITH BARNEY

CREDIT SUISSE FIRST BOSTON

DONALDSON, LUFKIN & JENRETTE

A.G. EDWARDS & SONS, INC.

WARBURG DILLON READ LLC

ABN AMRO ROTHSCHILD

A DIVISION OF ABN AMRO  
INCORPORATED

MORGAN KEEGAN & COMPANY, INC.

, 1999

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[COMPANY LOGO] STRATEGIC TIMBER TRUST, INC.

[MAP DEPICTING LOCATION OF REGISTRANT'S TIMBERLANDS AND SURROUNDING  
MARKETS APPEARS HERE]

<TABLE>  
<CAPTION>

REGION	ACRES	PREDOMINANT SPECIES	MERCHANTABLE TIMBER (THOUSAND CUNITS*)	NUMBER OF MILLS WITHIN MARKET AREA OF PROPERTY
-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>
California	122,339	Second-growth redwood,	2,613	42

		Douglas-fir, ponderosa pine, true firs		
Louisiana	82,009	Slash and loblolly pine	1,989	50
Oregon	232,621	Ponderosa pine, Douglas-fir	836	14
Washington	10,822	Douglas-fir, western hemlock, cedar	290	31
	-----		-----	---
	447,791		5,728	137
Total	=====		=====	===

</TABLE>

\*1 cunit equals 100 cubic feet of timber.

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You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with additional or different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus is accurate as of any date other than the date on the front of this prospectus.

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Until , 1999, all dealers that buy, sell or trade the common stock, whether or not participating in this offering, may be required to deliver a prospectus. This is in addition to the dealers' obligation to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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## SUMMARY

This section summarizes information contained in other parts of this prospectus. This summary does not contain all of the information you should consider before investing in our common stock. You should read the entire prospectus carefully before deciding to invest in our common stock.

Throughout this prospectus, when we say "we," "us" or "Strategic Timber," we generally mean Strategic Timber Trust, Inc., a Georgia corporation, and its subsidiaries. These subsidiaries include Strategic Timber Partners, LP, a Delaware limited partnership, and Pioneer Resources, LLC, an Oregon limited liability company. If the context requires, "Strategic Timber" may refer to Strategic Timber Trust, Inc. without its subsidiaries.

We operate our business through Strategic Timber Partners, LP, which we refer to as our "operating partnership" or "Strategic Timber Partners" in this prospectus. We own all the stock of the sole general partner of Strategic Timber Partners, a Delaware corporation called Strategic Timber Operating Co.

Unless we state otherwise, the information in this prospectus assumes that the transactions described under "Structure and Formation of Strategic Timber" are completed, the underwriters' over-allotment option is not exercised and the initial public offering price is \$20 per share, the mid-point of the range of anticipated initial public offering prices. Unless we state otherwise, all share and per share information in this prospectus has been adjusted to reflect a 36.59-for-1 common stock split, which will occur before completion of this offering.



We acquire, own and manage timberlands and sell standing trees, commonly referred to as timber. We have been in business since April 1998. We currently own approximately 448,000 acres of timberlands in the states of California, Louisiana, Oregon and Washington. Our timberlands are located in active and competitive timber markets. They contain approximately 5.7 million cunits of a variety of species of merchantable timber, which is timber that is suitable for sale in local markets for commercial uses. Approximately 92% of our merchantable timber is of sufficient size and quality to be manufactured into lumber or plywood, which is more valuable than timber of the same species that can be converted only into pulp, paper products or other wood products.

Our revenues come primarily from the sale of timber to purchasers who cut the timber and then transport the cut timber, or logs, to mills that produce lumber, plywood, paper or other wood products. Because we do not own any timber conversion facilities, such as lumber mills or paper mills, we do not have the cash operating expenses, working capital needs and capital expenditures associated with these facilities. Our primary operating expense will be depletion, which is a non-cash expense relating to the cost of timber harvested. Accordingly, we expect the cash we generate from our operations to exceed our earnings for accounting purposes. In 1998, before beginning full scale operations, our businesses incurred a combined net loss of \$16.4 million.

We will elect to be taxed as a REIT for federal income tax purposes. Most of our net income will be treated as capital gains. The tax rules applicable to REITs do not require us to distribute any of our capital gains to you. We intend to use this flexibility, which is not available to REITs primarily earning ordinary income, to retain a substantial part of the cash we generate to acquire additional timberlands. We also expect to distribute a portion of our cash to you. These distributions will generally be treated as either a return of capital or as capital gains.

Our principal objective is to maximize long-term shareholder value. We believe that we are well-positioned to achieve this objective because:

WE BELIEVE TIMBER IS AN ATTRACTIVE INVESTMENT ASSET

- Trees grow predictably, and generally become worth more per unit of volume as they grow because the logs they produce have higher value end uses.

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- Timber owners have flexibility to harvest more trees when local timber prices are high. When local timber prices are low, owners can harvest less and let the trees continue to grow.
- Historically, timber prices in the United States have risen faster than inflation over the long term.
- We expect worldwide demand for wood products to increase over the foreseeable future. By contrast, we expect that worldwide timber supplies will be constrained relative to this demand.

OUR MANAGEMENT HAS SUBSTANTIAL EXPERIENCE IN ACQUIRING AND MANAGING TIMBERLANDS

- Since 1985, members of our management have participated in a series of timberland investments in the United States, Latin America and New Zealand as principals, investment managers and investment

advisors.

#### WE BELIEVE THERE WILL BE INCREASING OPPORTUNITIES FOR US TO ACQUIRE ADDITIONAL TIMBERLANDS

- We have observed a growing trend toward consolidation of timberland ownership. We believe this trend will continue because of (1) the desire of large forest products companies to recognize greater value from their timberland assets and (2) the difficulties faced by owners of smaller timberland tracts in efficiently managing their timberlands.

#### WE BELIEVE WE CAN COMPETE EFFECTIVELY IN ACQUIRING TIMBERLANDS

- The tax rules do not require us to distribute most of our earnings to our shareholders. This will permit us to retain a substantial part of the cash we generate from the sale of timber for acquisitions.
- Our structure allows a timberland owner to contribute timberlands to us in exchange for interests in our operating partnership. This will permit these owners to defer the tax on their gains while diversifying and obtaining liquidity for their timberland assets.
- Forest products companies that operate mills may view us as a preferred purchaser of their timberlands because we do not compete with their manufacturing operations, since we do not own timber conversion facilities.

#### HOW TO CONTACT US

Our principal executive offices are located at 5 North Pleasant Street, New London, New Hampshire 03257, and our telephone number is (603) 526-7800.

#### SUMMARY RISK FACTORS

You should carefully consider, among other factors, the discussion under "Risk Factors" in this prospectus before deciding whether to invest in our common stock. We have summarized below some of these risk factors.

- The volatility of timber prices may reduce our revenues.
- Environmental and endangered species regulations restrict timber harvesting and may otherwise restrict our ability to conduct our business.
- Tax laws do not require us to distribute any cash to you.
- We do not have a significant operating history and we incurred a combined net loss of \$16.4 million in 1998.
- Our management has never operated a REIT or a public company.
- We may not be able to achieve our intended growth.

- Acquisitions of additional timberlands involve numerous risks.

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- We depend on key members of our senior management.
- Our recognition of revenues depends on when buyers harvest timber.
- Our financial results and cash flow will change from season to season.
- Losses of timber from fire and other causes are not insured.
- We will be taxed as a regular corporation if we fail to qualify as a REIT.
- Tax laws and provisions of our organizational documents may delay or prevent a change in our ownership or management that may be in your best interests. These provisions limit ownership of our common stock by one person to 9.8% of all outstanding shares.
- Our actual timber inventory may be less than our current estimates.
- We may invest in timberlands in countries outside the United States, which may be substantially riskier than investments in domestic timberlands.
- By purchasing common stock in this offering, you will incur immediate dilution of \$4.58 per share, based on an initial public offering price of \$20 per share.
- Our common stock has not had a prior trading market and we do not know if one will develop.
- The market price of our common stock could fluctuate significantly.
- Shares available for sale in the future may reduce the market price of our common stock.
- Some members of our management and other continuing investors could have conflicts of interest.
- We may change our investment, financing and other policies without your approval.
- An investment in the common stock involves other tax issues.

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#### STRUCTURE AND FORMATION OF STRATEGIC TIMBER

We formed Strategic Timber and our operating partnership, Strategic Timber Partners, in April 1998 to acquire property in southwest Louisiana that now consists of approximately 82,000 acres of timberland. We financed the

transaction through a combination of bank loans and the issuance of units in our operating partnership to the sellers. In October 1998, companies formed by our initial shareholders acquired Pioneer Resources, LLC, an entity that held approximately 366,000 acres of timberland in the U.S. Pacific Northwest. The acquisition was financed through a combination of bank loans, the issuance of units to the sellers, and an additional equity contribution by a company affiliated with the sellers of the Louisiana property. At the completion of this offering, the companies that acquired Pioneer will be merged into our operating partnership. As a result, our operating partnership will control all of our timberlands.

At the completion of this offering, we will have sold 16,600,000 shares of common stock to the public and received net proceeds of \$306.4 million, based on an initial public offering price of \$20 per share. We will use the net proceeds of this offering, together with borrowings under a new credit facility, primarily to (1) repay in full the amounts that we borrowed to acquire our timberlands and finance our ongoing operations, and (2) redeem \$47.0 million of the existing units held by persons who sold timberland properties to us. See "Use of Proceeds."

As a result of this offering and the transactions described above, our structure will be as follows:

Public Shareholders (96.1%) Continuing Investors (3.9%)		
Strategic Timber Trust, Inc.		
Common Stock (100% of Shares)		Continuing Investors
Strategic Timber Operating Co.	Limited Partner Interest (76.7%)	Limited Partner Interest (22.3%)
General Partner Interest (1.0%)		
Strategic Timber Partners, LP (holds all investment properties)		

The percentages listed above do not reflect the potential issuance of 1,115,000 shares issuable upon the exercise of options we will grant at or before the completion of this offering under our stock incentive plan. See "Principal Shareholders" and "Management -- 1999 Incentive Plan."

SUMMARY OF EQUITY OWNERSHIP OF STRATEGIC TIMBER

After we complete this offering and the formation transactions, the ownership of Strategic Timber will be as follows:

<TABLE>		
<CAPTION>		
	COMMON STOCK	
	PERCENTAGE BEFORE CONVERSION OF UNITS INTO COMMON STOCK	PERCENTAGE ASSUMING CONVERSION OF ALL UNITS INTO COMMON STOCK
	-----	-----
<S>	<C>	<C>
OWNERSHIP OF STRATEGIC TIMBER		
Public Shareholders.....	96.1%	74.7%
Management.....	3.6	7.2
Other Continuing Investors.....	0.3	18.1
	-----	-----
	100.0%	100.0%
	=====	=====

</TABLE>

The percentages listed above do not reflect the potential issuance of 1,115,000 shares issuable upon the exercise of options we will grant at or before the completion of this offering under our stock incentive plan. See "Principal Shareholders" and "Management -- 1999 Incentive Plan."

#### BENEFITS TO RELATED PARTIES

Our executive officers and affiliates will benefit from this offering and the formation transactions as follows:

- Our executive officers will hold shares of common stock and units valued at \$32.1 million, based on an initial public offering price of \$20 per share, as shown below.

<TABLE>

<CAPTION>

	SHARES AND UNITS	VALUE
	-----	-----
<S>	<C>	<C>
C. Edward Broom.....	408,329	\$ 8,166,580
Christopher J. Broom.....	408,329	8,166,580
Thomas P. Broom.....	408,329	8,166,580
T. Yates Exley.....	108,516	2,170,320
Nicholas C. Brunet.....	90,740	1,814,800
Vladimir Harris.....	90,740	1,814,800
Joseph E. Rendini.....	90,740	1,814,800
	-----	-----
Total.....	1,605,723	\$32,114,460
	=====	=====

</TABLE>

- Our executive officers will also receive options to acquire a total of 875,000 shares of our common stock at the initial public offering price. These options will vest in equal amounts over the three years following completion of this offering.
- We have employment agreements with Messrs. C. Edward Broom, Christopher J. Broom, Thomas P. Broom, Kenneth L. Chute, Nicholas C. Brunet, Vladimir Harris and Joseph E. Rendini.
- Louisiana Timber Partners, LLC, the company that sold us the right to acquire the Louisiana property, will receive \$12.9 million in cash in redemption of a portion of its units, and will own 1,762,974 units upon completion of this offering. Hanns A. Pielenz, who has agreed to serve on our Board of Directors, and Larry J. Woodard are the principal owners of Louisiana Timber. The units retained by Louisiana Timber will have a value of \$35.3 million, based on an initial public offering price of \$20 per share. Louisiana Timber acquired its units in exchange for contributing to our operating partnership a contract to acquire the Louisiana property.
- Mach One Partners, LLC, a separate company owned equally by Messrs. Pielenz and Woodard, will receive \$10.0 million in cash and 100,110 units at the completion of this offering in redemption of its interest in Strategic Timber Partners II, LP. Strategic Timber Partners II is one of the

companies that will be merged into our operating partnership. Mach One acquired its interest in Strategic Timber Partners II in exchange for a cash contribution of \$10.0 million that was used to finance our acquisition of Pioneer, and the cash and units it receives will have a value of \$12.0 million, based on an initial public offering price of \$20 per share. Mach One will receive these units in satisfaction of its right

to receive an annual return of 40% on its original investment under the Strategic Timber Partners II limited partnership agreement.

- In connection with our acquisition of Pioneer, we paid \$35.0 million in cash and issued interests in Strategic Timber Partners II to the former members of Pioneer, including Gregory M. Demers. Mr. Demers, together with a company he owns and controls, beneficially owned 76.5% of Pioneer at the time of the acquisition. Upon completion of this offering and the merger of Strategic Timber Partners II into our operating partnership, Mr. Demers and his company will receive \$18.4 million in cash in redemption of a portion of their interests in Strategic Timber Partners II and will beneficially own 1,660,333 units. These units will have a value of \$33.2 million, based on an initial public offering price of \$20 per share.
- In connection with our acquisition of Pioneer, T. Yates Exley, one of the former members of Pioneer and one of our Vice Presidents, received an interest in Strategic Timber Partners II. Mr. Exley will receive \$1.2 million in cash and, as indicated above, 108,516 units in redemption of this interest upon completion of this offering. These units will have a value of \$2.2 million, based on an initial public offering price of \$20 per share.

You should review "Transactions with Related Parties" for additional information concerning benefits to executive officers, directors and other continuing investors.

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#### THE OFFERING

Common stock we are offering.....	16,600,000 shares
Common stock to be outstanding after this offering.....	17,271,770 shares
Common stock and units to be outstanding after this offering.....	22,237,975 shares and units
Use of Proceeds.....	Primarily to repay indebtedness and to redeem the interests of some of the continuing investors.
Proposed Nasdaq symbol.....	We have applied to have the common stock included for quotation on the Nasdaq National Market under the symbol "STTR."

Each unit is redeemable for cash or, at our option, for one share of our common stock. The number of shares of common stock listed above excludes 1,115,000 shares issuable upon the exercise of options we will grant at or before the completion of this offering under our stock incentive plan. See "The Partnership Agreement," "Structure and Formation of Strategic Timber" and "Management -- 1999 Incentive Plan."

#### TAX STATUS

We plan to elect to be taxed as a REIT for federal income tax purposes beginning with our 1998 tax year. Sutherland Asbill & Brennan LLP has acted as our counsel in connection with this offering and our election to be taxed as a REIT. Based on assumptions and factual representations we made to it, Sutherland Asbill & Brennan LLP is of the opinion that we will meet the requirements to qualify as a REIT for federal income tax purposes, and that our proposed method of operation will enable us to continue to meet the requirements for qualification and taxation as a REIT. We have received favorable tax rulings

from the IRS that confirm the opinion of Sutherland Asbill & Brennan LLP that:

- Timberlands and timber qualify as real property and therefore as real estate assets for purposes of the tax rules applicable to REITs; and
- Gross income from the type of timber cutting agreements we will use to sell our timber is qualifying income for purposes of the tax rules applicable to REITs.

As a REIT, we generally will not be subject to federal income taxes on the portion of our net income that we distribute to you. We may, however, be subject to certain federal income taxes and certain state and local taxes on our income and property. See "Risk Factors -- We will be taxed as a regular corporation if we fail to qualify as a REIT," " -- An investment in the common stock involves other tax issues" and "Federal Income Tax Consequences."

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#### SUMMARY SELECTED PRO FORMA FINANCIAL AND OPERATING INFORMATION

In this section, we have provided you with a summary of the unaudited pro forma financial information. The pro forma balance sheet information presents our pro forma financial condition as if the formation transactions and this offering had occurred as of December 31, 1998. The pro forma operating results for the year ended December 31, 1998 present our pro forma operating results as if this offering and the formation transactions had occurred as of January 1, 1998, except as described below. The pro forma operating results include:

- the historical results of Pioneer, our predecessor operation, as adjusted to eliminate the results of operations and related assets and liabilities we did not acquire, and to recognize revenues and costs of Pioneer's sales that were previously eliminated for financial reporting purposes;
- the historical results from our Louisiana property only from April 27, 1998, the date we purchased these timberlands; and
- the historical results from the Coastal forest portion of our Pacific Northwest timberlands only from July 5, 1998, the date Pioneer purchased these timberlands.

The pro forma operating results do not include the historical results of the Louisiana property before we purchased these timberlands. We acquired these timberlands from an unrelated group of families that did not actively manage the property for commercial timber operations. The pro forma operating results also do not include the historical results of the Coastal forest portion of the Pacific Northwest timberlands before the purchase of these timberlands by Pioneer in July 1998. We believe that there is limited continuity between the operation of the Coastal forest before and after Pioneer acquired these timberlands. Because of the lack of continuity of operations before and after these purchases, we believe that inclusion of historical financial information for the Louisiana property and the Coastal forest in the pro forma operating results prior to the dates of acquisition would not be helpful to your understanding of our business or operations.

This section is a summary. We have included more complete pro forma financial information, as well as historical financial information, in other parts of this prospectus. We urge you to read this summary together with "Structure and Formation of Strategic Timber," "Pro Forma Condensed Consolidated Financial Information," "Selected Historical Financial and Operating Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations," as well as with the historical financial statements and accompanying notes located elsewhere in this prospectus.

The pro forma financial information does not necessarily indicate what our

financial condition or results of operations actually would have been if all of our pro forma assumptions were correct. Furthermore, we do not believe that this information is indicative of our financial position and results of operations in the future.

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<TABLE>  
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	PRO FORMA YEAR ENDED DECEMBER 31, 1998 ----- (UNAUDITED) (IN THOUSANDS, EXCEPT PER SHARE AMOUNT)
<S>	<C>
STATEMENT OF OPERATIONS DATA:	
Revenues.....	\$ 47,534
Cost of products sold.....	11,056
Cost of timberland and property sales.....	2,257
Depletion, depreciation and amortization.....	21,954
Selling, general and administrative expenses.....	8,809
Operating income.....	2,994
Interest expense.....	18,437
Minority interest.....	3,456
Loss from continuing operations.....	(11,942)
Basic and diluted loss from continuing operations per share.....	\$ (0.69)
Weighted average number of shares used in the calculation of basic and diluted loss from continuing operations per share.....	17,271,770
BALANCE SHEET DATA (AT PERIOD END):	
Timberlands.....	\$ 607,867
Total assets.....	619,854
Long-term debt.....	269,469
Minority interest.....	62,603
Shareholders' equity.....	282,578
OTHER DATA:	
EBITDDA.....	\$ 27,205
</TABLE>	

EBITDDA is operating income, plus other income (expense), depletion, depreciation and amortization, and cost of timberland and property sales. You should not construe EBITDDA to be an alternative to operating income, as an indicator of our operating performance, or an alternative to cash flow from operating activities, as a measure of our liquidity. EBITDDA is not a financial measure determined in accordance with generally accepted accounting principles and may not be comparable to similarly titled measures of other companies.

EBITDDA is calculated as follows:

<TABLE>  
<CAPTION>

	PRO FORMA YEAR ENDED DECEMBER 31, 1998 ----- (UNAUDITED) (IN THOUSANDS)
<S>	<C>
Operating income.....	\$ 2,994
Other income (expense).....	--
Depletion, depreciation and amortization.....	21,954
Cost of timberland and property sales.....	2,257
	-----
	\$27,205
	=====
</TABLE>	

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## RISK FACTORS

Investing in our common stock involves a high degree of risk. You should carefully consider the following risk factors, as well as the other information presented in this prospectus, in deciding whether to invest in our common stock. Each of these factors could adversely affect the market price of our common stock, our financial results.

## THE VOLATILITY OF TIMBER PRICES MAY REDUCE OUR REVENUES

## CHANGES IN SUPPLY AND DEMAND AFFECT TIMBER PRICES AND OUR REVENUES

The volatile nature of timber prices can reduce our revenues. The market price for timber can change substantially, based on changes in supply and demand, especially for a particular species or in a particular geographic area. Decreases in demand, increases in supply, or both, may reduce prices for our timber, which in turn could reduce our revenues and negatively affect our financial results.

The industries that use wood products drive the demand for timber. The vast majority of our timberlands are stocked with softwood sawtimber. The demand for most softwood sawtimber depends on the level of construction, repair and remodeling activity. Interest rates and other local, national and international economic conditions affect the level of construction, repair and remodeling activity. A slowdown in construction is likely to reduce demand for our timber, which would reduce our revenues. Wood substitutes and products made from lower quality wood increasingly compete with higher quality sawtimber, which may also reduce demand for our timber.

The number of timber sellers and the volume of timber they have available for sale determine the supply of timber. Historically, increases in timber prices have caused owners of timberlands to cut more trees. This increase in supply may reduce the amount of price increases. Some government agencies, principally the United States Forest Service and the Bureau of Land Management, own large amounts of timberlands. If these agencies choose to sell more timber than they have been selling in recent years, timber prices could fall. The supply of timber available for harvest is also affected by, among other things, environmental and other legal restrictions on harvesting, self-imposed restrictions on harvesting attributable to timberland management decisions, and natural events that destroy trees or entire forests, such as insect infestation, severe weather and fire. See "Business and Properties -- Timber Industry Overview -- Timber Demand, Supply and Prices."

## WEAK EXPORT MARKETS MAY REDUCE DEMAND FOR OUR TIMBER

Weak overseas markets for wood and wood products, including weak demand in Asia due to its continuing economic problems, and the resulting increase in domestic supply have reduced and may continue to reduce the prices that we can obtain for our timber.

## ENVIRONMENTAL AND ENDANGERED SPECIES REGULATIONS RESTRICT TIMBER HARVESTING AND MAY OTHERWISE RESTRICT OUR ABILITY TO CONDUCT OUR BUSINESS

## THE PRESENCE OF ENDANGERED OR THREATENED SPECIES RESTRICTS HARVESTING

Federal, state and local laws and regulations intended to protect threatened and endangered species restrict timber harvesting, road building and other activities on our lands. These restrictions apply to activities that would kill, injure or harass a protected species or significantly degrade its habitat. The habitat of a protected species includes areas in which it lives, nests, shelters, breeds, forages or feeds or areas that are for some other reason

necessary for the conservation of the protected species. The size of the area subject to restriction will vary depending on the protected species at issue, the time of year and other factors, but can range from less than one to hundreds of acres. A number of species that naturally live on or near our timberlands, including the red cockaded woodpecker, peregrine falcon, bald eagle, northern spotted owl, marbled murrelet, bull trout and coho salmon, are protected under the federal Endangered Species Act and similar state laws.

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#### OTHER REGULATIONS AND ENVIRONMENTAL RISKS MAY ADVERSELY AFFECT US

Our operations and properties are also subject to laws and regulations governing silvicultural practices, which include forestry operations, the environment, and health and safety. Some of these laws and regulations could impose significant costs, penalties and liabilities on us for violations or existing conditions whether or not we caused or knew about them. Our lands are also subject to laws and regulations designed to protect wetlands, which may restrict future harvesting, road building and other activities. Compliance with, or damages or penalties for violating, current and future laws and regulations could result in significant expense.

Our Louisiana property contains natural gas and oil wells and pipelines that have been and will continue to be operated by third parties. The operation of those wells and pipelines involves hazards such as well blowouts, cratering, explosions, uncontrollable flows of oil or well fluids, fires, formations with abnormal pressures, pollution, pipeline ruptures and spills, releases of toxic gas and other environmental hazards and risks. The occurrence of any of these events could cause us to incur substantial losses and could negatively affect our financial results. In addition, we may be liable for any environmental damage caused by operators of natural gas and oil wells and pipelines on our Louisiana property.

#### WE MAY ACQUIRE PROPERTIES SUBJECT TO ENVIRONMENTAL AND OTHER LIABILITIES

We may acquire timberlands subject to environmental liabilities and certain other existing or potential liabilities. We may not be able to recover any of these liabilities from the sellers of these properties. In addition, we could be subject to claims or losses under environmental laws for conditions that are not revealed by investigations of those properties by environmental consultants.

#### THE NUMBER OF ACRES WE BELIEVE ARE CURRENTLY UNAVAILABLE FOR HARVESTING DUE TO REGULATORY RESTRICTIONS MAY BE UNDERESTIMATED

We have identified approximately 23,000 acres of our timberlands that are subject to harvest restrictions due to federal, state and local laws and regulations intended to protect threatened and endangered species and watersheds on our lands. These restrictions may substantially limit, or could possibly prevent, harvests on some or all of these timberlands. Consistent with what we believe is standard practice in the timber industry, we have included the timber on these acres in our inventory but excluded that timber, to the extent restricted, from our timber sales plans. Our estimates of the number of restricted acres on our Pacific Northwest properties are based on our geographic information systems and surveys performed by ourselves and others. Our estimates of the number of restricted acres on our Louisiana property are also based on our geographic information systems and surveys performed by ourselves and others, but do not reflect property-wide surveys with respect to the presence of threatened or endangered species. Before we authorize harvesting activities on any of our properties, we survey the harvest area for the presence of threatened and endangered species. If we gain additional information regarding the presence of threatened or endangered species on our timberlands or if regulatory agencies change the manner in which they apply related restrictions to our timberlands, the number of our restricted acres could significantly increase.

#### REGULATION IS LIKELY TO BECOME MORE RESTRICTIVE AND REDUCE THE AMOUNT OF OUR TIMBER THAT IS AVAILABLE FOR HARVESTING

During the last ten years, the number of environmental, endangered species and forestry laws and regulations has increased markedly and the enforcement of such regulations has generally intensified. This has resulted in an increase in the number of acres subject to harvest restrictions. We believe that these laws and regulations will become more restrictive over time, possibly resulting in a significant increase in the number of our acres that may not be included in our timber sales plan. For example, the number of species of salmon and other fish designated as threatened or endangered has recently increased. As a result, we anticipate that regulations concerning streams on some of our Pacific Northwest properties may

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become more restrictive. See "Business and Properties -- Federal and State Regulations -- Endangered Species Law."

TAX LAWS DO NOT REQUIRE US TO DISTRIBUTE ANY CASH TO YOU

We anticipate that our ongoing operations will produce net capital gains and net ordinary losses. Unlike most existing REITs, we do not anticipate that we will produce significant ordinary income. Accordingly, we do not anticipate that we will be required to distribute any material amounts of cash to satisfy the tax requirement that a REIT distribute 95% of its ordinary income. As a result, we have more discretion over the amounts of distributions we make than most other REITs. We intend to retain a substantial portion of the cash we generate to acquire additional timberlands.

WE DO NOT HAVE A SIGNIFICANT OPERATING HISTORY, AND WE INCURRED A COMBINED NET LOSS OF \$16.4 MILLION IN 1998

Strategic Timber and our operating partnership were formed in April 1998 and neither entity has any significant operating history. Some of our initial timberlands have relatively short or no operating history under our management and some of our initial timberlands have no operating history at all. For example, before our acquisition of the Louisiana property in April 1998, these timberlands had not been actively managed as a commercial timber property. In addition, before our acquisition of the Pacific Northwest properties in October 1998, these timberlands were managed as part of Pioneer's overall business, which included the operation of mills. Thus, the financial statements contained in this prospectus may not be helpful to your understanding of our business, operations or prospects.

Our businesses incurred combined net losses of approximately \$16.4 million for the period from April 21, 1998 through December 31, 1998 and we expect that we will continue to incur net losses in the near term. You should evaluate an investment in Strategic Timber in light of the risks, expenses and difficulties frequently encountered by companies in their early stages of development. We do not own or operate mills or other timber conversion facilities, so we need to find independent buyers for the timber we want to sell. Our ability to become and stay profitable depends on a number of factors beyond our control, including our ability to find buyers for as much timber as we want to sell.

OUR MANAGEMENT HAS NEVER OPERATED A REIT OR A PUBLIC COMPANY

Although some of our executive officers and directors have substantial experience in the timber industry and managing timberlands held for investment, none of the members of our management has prior experience operating a public company or a REIT.

WE MAY NOT BE ABLE TO ACHIEVE OUR INTENDED GROWTH

Our business plan depends on our acquiring additional timberland properties. Our ability to acquire any property will be subject to a number of

factors beyond our control, such as competition from other purchasers for timber properties, our ability to obtain any financing we need to purchase the property and the overall availability of timber properties.

We compete with traditional paper and forest products companies, other public and private timber investment firms, governmental entities and preservationist groups for U.S. timber properties. Many of our competitors have substantially greater financial resources than we do. Competition for these properties may increase prices and may make it difficult for us to acquire timberlands at prices that are acceptable to us. Similar competitive forces may make international timber properties more expensive. See "Business and Properties -- Competition."

We intend to issue units in our operating partnership as payment for some of our acquisitions because this would allow the sellers to defer taxes on their gain from these sales. Any decrease in the market price of our common stock could make it more difficult or more expensive for us to do this.

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#### ACQUISITIONS OF ADDITIONAL TIMBERLANDS INVOLVE NUMEROUS RISKS

Any acquisition that we make will involve numerous risks, which could include some or all of the following:

- incurrence of additional debt, repayment of which may adversely affect our cash flow and financial results;
- issuance of more common stock or preferred stock or units in our operating partnership, which may dilute the value of our outstanding common stock;
- assumption of liabilities that we are unaware of at the time of the acquisition, such as environmental liabilities;
- uncertainties associated with operating in new markets; and
- difficulties in combining operations of the acquired company or timberlands with our other operations.

Our acquisition strategy includes exploring acquisition opportunities outside the United States, especially in undeveloped or underdeveloped markets. In addition to the risks mentioned above, international acquisitions will involve the risks described under "-- We may invest in timberlands in countries outside the United States, which may be substantially riskier than investments in domestic timberlands."

#### WE DEPEND ON KEY MEMBERS OF OUR SENIOR MANAGEMENT

We depend on the efforts of our executive officers, particularly C. Edward Broom, our Chairman of the Board, President and Chief Executive Officer. If Mr. Broom becomes unable or unwilling to continue to work for us, his lack of participation may hurt our business and financial results. Even though we have employment and non-competition agreements with all of our executive officers, including Mr. Broom, any of them could still stop working for us. See "Management -- Employment and Non-Competition Agreements."

#### OUR RECOGNITION OF REVENUES DEPENDS ON WHEN BUYERS HARVEST OUR TIMBER

We enter into cutting contracts with timber buyers that, within limits, let them choose when to harvest our timber. Contracts longer than one year generally require the buyer to cut minimum amounts of timber each year. Many of the contracts require the buyer to pay us a portion of the expected value of the

timber at the inception of the contract. The advance payments under our current contracts aggregate approximately 16% of the total expected 1999 annual payments for harvests under these contracts, and are offset as the buyer begins to harvest. We do not escrow these advance payments, and are free to use them in our business for any purpose. For accounting purposes, we recognize revenue at the time the buyer cuts and takes title to the timber and not when we receive advance payments under cutting contracts. Therefore, the buyer's discretion as to the timing of its timber harvest affects our recognition of revenue.

Buyers will be entitled to refunds of any remaining advance payments not charged against timber cut if timber, because of fire or other casualty, is not available for harvest. Even if timber is available for harvest, if the buyer fails to cut the amounts it agreed it would cut, we may have to pay a partial refund of any remaining advance payments to the buyer. See "Business and Properties" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

#### OUR FINANCIAL RESULTS AND CASH FLOW WILL CHANGE FROM SEASON TO SEASON

Rain in winter and our fire prevention measures in spring and summer limit timber harvesting on our Louisiana property. Similarly, harvesting in the Pacific Northwest is typically interrupted for periods during the winter and spring due to snow and melting snow and, occasionally, in the late summer due to our fire prevention measures. These seasonal limitations will reduce our revenues during those periods, and may

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restrict our ability to distribute cash to you. If we acquire additional properties in other locations, the seasonality of our operating results may change.

#### LOSSES OF TIMBER FROM FIRE AND OTHER CAUSES ARE NOT INSURED

Fire, insect infestation, severe weather, disease, natural disasters and other causes beyond our control may reduce the volume and value of timber that can be harvested from our timberlands and hurt our financial results and cash flow. As is typical in the industry, we do not maintain insurance for any loss to our timber, including losses due to these causes.

#### WE WILL BE TAXED AS A REGULAR CORPORATION IF WE FAIL TO QUALIFY AS A REIT

We will elect to be taxed as a REIT for federal income tax purposes beginning in 1998. Although we believe that we qualify as a REIT, it is possible that future economic, market, legal, tax or other considerations may cause us to fail to qualify as a REIT or may cause us to elect not to be taxed as a REIT. The IRS could challenge our qualification as a REIT. Qualification as a REIT involves highly technical and complex Internal Revenue Code provisions and there are few authoritative interpretations of these provisions. The complexity of these provisions and of the applicable income tax regulations under the Internal Revenue Code is greater in the case of a REIT that holds its assets through a partnership as we do. In addition, future legislation, regulations, administrative interpretations or court decisions could significantly change the tax laws with respect to qualification as a REIT or the federal income tax consequences of REIT qualification. See "-- An investment in the common stock involves other tax issues" and "Federal Income Tax Consequences."

If we fail to qualify as a REIT in any taxable year, we would not be allowed a deduction for cash distributions to you in computing our taxable income and would owe federal and state income tax on our taxable income at regular corporate rates. The highest federal income tax rate for corporations currently is 35.0%. The highest state income tax rate for corporations in a state in which we currently own timberlands or maintain an office is approximately 8.8%. With some exceptions, we would also be disqualified from treatment as a REIT for the four taxable years after the year we first failed to qualify. As a result, we would have significantly less money available to

purchase additional timberlands or distribute to you in each of the years in which we were disqualified as a REIT, and any net income we could distribute would be taxed as ordinary income to you.

TAX LAWS AND PROVISIONS OF OUR ORGANIZATIONAL DOCUMENTS MAY DELAY OR PREVENT A CHANGE IN OUR OWNERSHIP OR MANAGEMENT THAT MAY BE IN YOUR BEST INTERESTS

Our Articles of Incorporation and Bylaws, the partnership agreement that governs our operating partnership and Georgia law place restrictions on the ownership and transfer of shares of common stock and units. These restrictions are intended in part to ensure we comply with federal tax requirements applicable to REITs, and in part to discourage a change in control of Strategic Timber without the consent of our Board of Directors. These provisions could delay or prevent a change in our ownership or removal of our existing management, even where such a change could be beneficial to or desired by you.

Our Articles of Incorporation prohibit beneficial ownership by any person of more than 9.8% of our outstanding shares of common stock or preferred stock, if any, unless our Board of Directors waives the restriction. In addition, the election of our Board of Directors is staggered over a three-year period, which may have an anti-takeover effect because a potential acquiror cannot obtain immediate control of our Board of Directors. See "Material Provisions of Georgia Law and Strategic Timber's Articles of Incorporation and Bylaws That May Have an Anti-Takeover Effect."

Our Articles of Incorporation authorize the Board of Directors to issue preferred stock with whatever rights and preferences it may choose, without your approval. These rights and preferences could include, for example, dividend rights, liquidation preferences, conversion rights or voting rights or other provisions that could reduce your voting power or other rights. We could use this preferred stock, under certain circumstances, as a method of discouraging, delaying or preventing a change in our ownership or

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management, even when the holders of a majority of our shares of common stock would approve or benefit from the change in control. Although we have no current intention to issue any shares of preferred stock, we may choose to do so in the future. See "Description of Capital Stock -- Preferred Stock."

OUR ACTUAL TIMBER INVENTORY MAY BE LESS THAN OUR CURRENT ESTIMATES

Independent forestry consultants have estimated the total volume of our timber inventories based on sampling techniques that cannot identify with certainty the actual volume of timber on our lands. We believe these estimates are reasonably accurate and we use them to calculate the amount of harvestable timber from our timberlands. Our actual timber inventories may differ from these estimates. If the volume of timber we actually own is less than these estimates, the amount of harvestable timber would be less than we anticipate. This would hurt our financial results and cash flow. See "Business and Properties -- Initial Timberland Properties."

WE MAY INVEST IN TIMBERLANDS IN COUNTRIES OUTSIDE THE UNITED STATES, WHICH MAY BE SUBSTANTIALLY RISKIER THAN INVESTMENTS IN DOMESTIC TIMBERLANDS

Our business strategy includes investing in timberlands located outside the United States when our management believes that these timberlands offer higher potential returns after taking into account the increased risks involved. This strategy may include acquiring timberlands in developed and developing countries in South America, Asia, Eastern Europe and other regions.

The lack of infrastructure in undeveloped and underdeveloped markets increases the risks of acquiring and operating timberlands in those markets. This may include the absence of:

- mills and other timber buyers near the timberlands;
- roads or means of transportation needed to reach the timberlands for harvesting and to ship logs to local mills or export markets; or
- labor to manage the timberlands and harvest timber.

Given the difficulties of evaluating properties outside the United States, the returns on foreign investments may be less than we expect. Future changes in the economic or political conditions in foreign countries in which we may acquire timberlands could affect our ability to retain and sell timber for harvest from those timberlands. Foreign governments may seek to take over or nationalize our timberlands, renegotiate or nullify existing contracts or other rights, or impose laws or regulations that might severely limit the harvesting of timberlands and the import and export of wood and wood products. Foreign governments may impose other policies that might negatively impact our operations, such as production restrictions, price controls, export controls, income and other taxes and environmental regulations. Other political risks, such as changes in governments, civil unrest, war, insurrection, acts of terrorism and diplomatic developments could also adversely affect us.

We may be subject to other financial risks of overseas investment, including inflation, changing fiscal policies, general economic instability and changing currency exchange rates. From time to time, we may attempt to lessen the effect of changes in exchange rates through foreign currency hedging transactions, but we may not be able to do so.

We also cannot predict whether U.S. customs, quotas, duties, taxes or other charges, or changes in U.S. foreign trade and investment laws and regulations, will affect the import and export of forest products in the future, or what effects such actions could have on our financial condition or operations.

YOU WILL INCUR IMMEDIATE DILUTION OF YOUR COMMON STOCK

We are offering our common stock at a price greater than our net tangible book value. Net tangible book value equals the value of our tangible assets minus the amount of our liabilities. Based on an initial public offering price of \$20 per share, our expected net tangible book value immediately following this

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offering is \$15.42 per share. Thus, by purchasing common stock in this offering, you will incur immediate dilution of \$4.58 per share. See "Dilution."

OUR COMMON STOCK HAS NOT HAD A PRIOR TRADING MARKET AND WE DO NOT KNOW IF ONE WILL DEVELOP

Prior to this offering, our common stock has not been traded in any public market. We do not know if investor interest will lead to the development of an active trading market or how quickly you will be able to find a buyer for your shares if you want to sell them.

Together with representatives of the underwriters, we will determine the initial public offering price for the common stock. This initial price may bear no relationship to the price at which the common stock will trade after completion of this offering. See "Underwriting" for a description of the factors we and the underwriters will consider in determining the initial public offering price.

We have applied to have our common stock included for quotation on the Nasdaq National Market. If we are approved for quotation on the Nasdaq National Market, we would be subject to financial and market-related tests established by the Nasdaq National Market to maintain our listing.

#### THE MARKET PRICE OF OUR COMMON STOCK COULD FLUCTUATE SIGNIFICANTLY

The market price of our common stock may fluctuate significantly due to a number of factors, such as:

- changes in timber prices,
- changes in environmental or tax laws,
- the issuance or revisions of securities analysts' estimates regarding us or the timber industry or
- announcements of changes in federal or state timber sales or timber management policies.

The market price of our common stock could also be subject to significant fluctuations in response to market forces, many of which are out of our direct control. For instance, the price of our common stock may decrease if interest rates increase. This could occur because an increase in interest rates could cause some financial instruments, such as U.S. government bonds, to become relatively more attractive investments than our common stock. Additionally, the Nasdaq Stock Market and other stock markets have recently experienced significant and sometimes rapid changes in both price and volume levels.

These and other factors have, from time to time, depressed the market prices of stock in both forest products companies and REITs. Often, these changes occur without regard to these companies' operating performances. These forces could similarly affect the price of our common stock.

#### SHARES ELIGIBLE FOR SALE IN THE FUTURE MAY REDUCE THE MARKET PRICE OF OUR COMMON STOCK

Our Articles of Incorporation authorize the issuance of a total of 200,000,000 shares of common stock without additional shareholder approval. See "Description of Capital Stock." We will offer to the public 16,600,000 shares in this offering. We have reserved a total of 2,224,000 shares of our common stock for issuance under our stock incentive plan. We intend to register all of the shares issuable under this plan for sale in the public market.

One year from the date of the completion of this offering, the continuing investors may exchange their units for cash, or, at our option, for shares of our common stock on a one-for-one basis. See "The Partnership Agreement -- Redemption of Partnership Units." As of that date, we have also agreed to register up to 4,966,205 shares of common stock issuable on redemption of units owned by our continuing investors. See "Shares Available for Future Sale."

We intend to acquire additional timberlands in the future. We anticipate funding these acquisitions through the sale of common stock, the issuance of additional units, the issuance of debt or with cash we

have retained, or a combination of these methods. Efforts to raise additional capital through the sale of common stock or additional units may cause the market price of our common stock to decrease.

If we issue any additional shares of common stock, whether pursuant to existing stock options or otherwise, the value of your common stock and your relative voting power may decrease. Our Articles of Incorporation do not grant you preemptive rights, which would allow you to purchase a pro rata portion of any future common stock or securities convertible into common stock that we issue. The market price of our common stock may decrease if the market perceives that we may issue additional shares of common stock, even if we do not choose to do so.



SOME MEMBERS OF OUR MANAGEMENT AND OTHER CONTINUING INVESTORS COULD HAVE  
CONFLICTS OF INTEREST

Conflicts of interest create a risk that people will put other interests ahead of our interests when making decisions that affect us.

Our President, Chief Executive Officer and Chairman of our Board of Directors, C. Edward Broom, is on the Board of Directors of several privately held timber investment funds. All but one of these funds have been fully invested and no additional timberland investments can be made. The one fund that has not been fully invested could compete with us in acquiring timberlands if we decide to acquire timberlands outside the United States. Under the terms of his employment agreement with us, Mr. Broom has agreed that if we wish to bid on a property and a fund with which he is affiliated is either the seller of the property or also wishes to bid on the property, he will not participate in the transaction on behalf of the fund. We have agreed that Mr. Broom may spend up to 5% of his time working for these timber funds, which will reduce the amount of time he devotes to our business.

Our continuing investors could compete with us in our efforts to sell timber from our timberlands, as well as in our efforts to acquire additional timberlands. Some of the continuing investors are engaged in the timber business. In particular, a company controlled by Mr. Demers currently purchases timber from our Oregon timberlands for use in its sawmills.

WE MAY CHANGE OUR INVESTMENT, FINANCING AND OTHER POLICIES WITHOUT YOUR APPROVAL

Our Board of Directors determines our investment, financing and other significant operating policies. Although the Board of Directors has no present intention to amend or revise these policies, the Board of Directors may do so at any time without your approval. See "Policies with Respect to Certain Activities."

AN INVESTMENT IN THE COMMON STOCK INVOLVES OTHER TAX ISSUES

FEDERAL TAX LAW CHANGES MAY BE UNFAVORABLE

We are one of the first REITs to focus on timberland ownership and sales of timber, and our business plan would not have been feasible before certain changes to the Internal Revenue Code were enacted in 1997. Because the complex REIT rules were not generally designed to accommodate investments in timber properties, there is no established law governing the interplay of the tax rules generally applicable to REITs and those applicable to timber operations. Over time, the IRS, the Treasury Department or various courts may adopt new interpretations governing this interplay, and these interpretations may be unfavorable to us. See "Federal Income Tax Consequences."

STATE TAX LAWS MAY NOT CONFORM TO FEDERAL TAX LAW

Though we expect to qualify as a REIT for federal income tax purposes, our qualification as a REIT under the laws of each individual state will depend, among other things, on that state's conformity with federal tax law.

If you live in a state that does not conform to the federal tax treatment of REITs, even if we do not do business in that state, cash distributions to you will likely be characterized as ordinary income rather

than capital gains for purposes of computing your state taxes. You should consult with your tax advisor concerning the state tax consequences of an investment in our common stock.

CAPITAL GAINS DISTRIBUTIONS TO NON-U.S. SHAREHOLDERS ARE GENERALLY SUBJECT  
TO WITHHOLDING

We anticipate that substantially all of the amounts of cash we pay out to you will generally be treated as either capital gains or a return of capital. Under the provisions of the Foreign Investment in Real Property Tax Act, which apply to non-U.S. shareholders, capital gain distributions are generally subject to withholding at a rate of 35%.

#### FORWARD-LOOKING STATEMENTS

Some statements in this prospectus represent our expectations for Strategic Timber and our common stock. These forward-looking statements are made only as of the date of this prospectus. You can generally identify these forward-looking statements by the use of the words "may," "will," "expects," "intends," "estimates," "anticipates" or "believes" or similar language.

We believe the expectations expressed in all forward-looking statements are reasonable and accurate based on information we currently have. However, our expectations may not prove to be correct. Important factors that could cause actual results to differ from our expectations are disclosed under "Risk Factors," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business and Properties" and in other parts of this prospectus.

#### STRUCTURE AND FORMATION OF STRATEGIC TIMBER

##### OUR STRUCTURE

At the completion of this offering, we will conduct our business through an operating partnership called Strategic Timber Partners, LP, a Delaware limited partnership, and through its wholly owned subsidiary, Pioneer Resources, LLC, an Oregon limited liability company. After we refinance our existing bank credit facility, we will contribute the net proceeds of this offering to Strategic Timber Partners in exchange for a number of its partnership units equal to the number of shares of common stock sold in this offering. Upon the sale of any additional shares of common stock, we will contribute the net proceeds of the sale to Strategic Timber Partners in exchange for a number of partnership units equal to the number of shares sold. For a description of the partnership units, see "The Partnership Agreement." Strategic Timber Operating Co., a Delaware corporation and wholly owned subsidiary of Strategic Timber, is the sole general partner of Strategic Timber Partners.

##### OUR FORMATION

On April 21, 1998, we organized Strategic Timber, Strategic Timber Partners and Strategic Timber Operating Co. to acquire our Louisiana property, which now consists of approximately 82,000 acres of timberland in southwest Louisiana.

Louisiana Timber Partners, LLC, a Georgia limited liability company, contributed to Strategic Timber Partners a contract to acquire the Louisiana property in exchange for a 19.6% limited partnership interest in Strategic Timber Partners. We valued this contract at \$50.0 million, which we believed to be the difference between the value of the property and the purchase price under the contract that Louisiana Timber held. Strategic Timber retained a 79.4% limited partnership interest in the partnership and Strategic Timber Operating Co. retained the remaining one percent general partner interest in the partnership. The partnership then purchased the Louisiana property on April 27, 1998 for \$205.0 million in cash. The partnership funded the purchase price of the Louisiana property and related transaction costs by borrowing \$125.8 million under a \$215.0 million bank revolving credit facility, and with a cash contribution of \$85.0 million by Strategic Timber. Strategic Timber borrowed these funds under a bank bridge loan.

After we acquired the Louisiana property, our structure was:

<TABLE>		
<S>		
-----		
Strategic Timber Trust, Inc.		
-----		
100%	79.4% limited partner interest	
-----		
Strategic Timber Operating Co.		Louisiana Timber Partners, LLC
-----		
1.0% general partner interest		19.6% limited partner interest
-----		
Strategic Timber Partners, LP		
-----		
Louisiana property		
</TABLE>		

19

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Our initial shareholders formed Strategic Timber Trust II, LLC, a Georgia limited liability company, Strategic Timber Two Operating Co., LLC, a Georgia limited liability company, and Strategic Timber Partners II, LP, a Georgia limited partnership, in September 1998. Our initial shareholders formed these entities to acquire Pioneer, which holds approximately 366,000 acres of timberland in the Pacific Northwest.

Strategic Timber Partners II acquired all of the membership interests in Pioneer from its members on October 9, 1998, in exchange for \$35.0 million in cash and a 59.1% interest in Strategic Timber Partners II, which we valued at \$65.0 million. Strategic Timber Partners II funded the cash portion of the purchase price for Pioneer and related transaction costs with a cash contribution of \$35.0 million by Strategic Timber Two Operating Co. in exchange for a 31.8% interest in Strategic Timber Partners II, and a cash contribution of \$10.0 million by Mach One Partners, LLC, an affiliate of Louisiana Timber, in exchange for a 9.1% interest in Strategic Timber Partners II. To fund Strategic Timber Two Operating Co.'s contribution, Strategic Timber II borrowed \$35.0 million under a bank bridge loan. In connection with the acquisition, Pioneer refinanced its existing bank debt, leaving approximately \$255.0 million outstanding under its credit facility.

After Strategic Timber Partners II acquired Pioneer, our structure included the following additional entities:

<TABLE>		
<S>		
-----		
Strategic Timber Trust II, LLC		
-----		
100%		
-----		
Strategic Timber Two Operating Co.	Former Pioneer Members	Mach One Partners, LLC

1.0% general partner interest	30.8% limited partner interest	59.1% limited partner interest	9.1% limited partner interest
-------------------------------	--------------------------------	--------------------------------	-------------------------------

Strategic Timber Partners II, LP

100%

Pioneer Resources, LLC

Pacific Northwest properties

</TABLE>

Upon completion of this offering, Strategic Timber II, Strategic Timber Two Operating Co. and Strategic Timber Partners II will be merged into Strategic Timber Partners, leaving Pioneer as a wholly owned subsidiary of Strategic Timber Partners. In connection with this merger, the owners of the merging entities will receive cash and units in Strategic Timber Partners.

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As of the completion of the offering and the merger of the entities described above into Strategic Timber Partners, and assuming we sell 16,600,000 shares of common stock in the offering at a price of \$20 per share, our structure will be as follows:

<TABLE>

<S>

Public Shareholders (96.1%)  
Continuing Investors (3.9%)

<C>

<C>

<C>

<C>

Strategic Timber Trust, Inc.

Strategic Timber Operating Co. 76.7% limited partner interest

Former Strategic Timber II Members

Louisiana Timber Partners, LLC

Mach One Partners, LLC

Former Pioneer Members

1.0% general partner interest

4.2% limited partner interest

7.9% limited partner interest

0.4% limited partner interest

9.8% limited partner interest

Strategic Timber Partners, LP

100%

Louisiana property

Pioneer Resources, LLC

Pacific Northwest properties

</TABLE>

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The table below summarizes the amounts contributed in connection with the formation transactions, and the amount and value of cash, common stock and partnership units the parties to the formation transactions will receive as of the completion of the offering. Amounts under "Aggregate Value To Be Received at Completion of Offering" are based on an initial public offering price of \$20 per share.

<TABLE>  
<CAPTION>

NAME -----	ORIGINAL CONTRIBUTION -----	ESTIMATED OR AGREED VALUE AT CONTRIBUTION -----	RECEIVED FOR ORIGINAL CONTRIBUTION -----	SHARES/UNITS AND CASH TO BE RECEIVED AT COMPLETION OF OFFERING -----	AGGREGATE VALUE TO BE RECEIVED AT COMPLETION OF OFFERING -----
<S>	<C>	<C>	<C>	<C>	<C>
Louisiana Timber Partners	Purchase contract to acquire the Louisiana property	\$50,000,000	5,000 units of Strategic Timber Partners	1,762,974 units of Strategic Timber Partners \$12,945,000 cash	\$48,204,480
Mach One Partners	\$10,000,000	\$10,000,000	909 units of Strategic Timber Partners II	100,110 units of Strategic Timber Partners \$10,000,000 cash	\$12,002,200
Former Pioneer Members (collectively)	100% of the membership interests in Pioneer	\$100,000,000	5,909 units of Strategic Timber Partners II	2,170,086 units of Strategic Timber Partners	\$67,456,720
Strategic Timber Management and Original Investors (collectively)	Services	Value not determined or specified at time of organization	\$35,000,000 cash 671,770 shares of Strategic Timber 2,810 units of Strategic Timber II	\$24,055,000 cash 671,770 shares of Strategic Timber 933,035 units of Strategic Timber Partners	\$32,096,100

</TABLE>

At or immediately before the closing of this offering:

- We will sell 16,600,000 shares of common stock in the offering.
- Strategic Timber Partners will enter into a new \$375.0 million credit facility.
- We will use the net proceeds of this offering and will borrow approximately \$260.0 million under our new credit facility to repay in full our outstanding bank debt and to redeem a portion of the partnership units held by Louisiana Timber and a portion of the Strategic Timber Partners II partnership units held by the former Pioneer members and Mach One. See "Use of Proceeds."
- Strategic Timber Partners will issue 3,203,231 partnership units to the owners of Strategic Timber II, the former Pioneer members and Mach One.

As a result of the formation transactions described above, Strategic Timber will own 17,271,770 partnership units, which will represent an approximate 77.7% interest in Strategic Timber Partners.

The terms of the formation transactions were determined after arm's-length negotiations between representatives of Strategic Timber, Louisiana Timber, Pioneer, the former Pioneer members and Mach One.

Our executive officers and affiliates will benefit from this offering and the formation transactions as follows:

- Our executive officers will hold shares of common stock and units valued at \$32.1 million, based on an initial public offering price of \$20 per share, as shown below.

<TABLE>

<CAPTION>

	SHARES AND UNITS	VALUE
<S>	<C>	<C>
C. Edward Broom.....	408,329	\$ 8,166,580
Christopher J. Broom.....	408,329	8,166,580
Thomas P. Broom.....	408,329	8,166,580
T. Yates Exley.....	108,516	2,170,320
Nicholas C. Brunet.....	90,740	1,814,800
Vladimir Harris.....	90,740	1,814,800
Joseph E. Rendini.....	90,740	1,814,800
Total.....	1,605,723	\$32,114,460
	=====	=====

</TABLE>

- Our executive officers will also receive options to acquire an aggregate of 875,000 shares of common stock at the initial public offering price. These options will vest in equal amounts over the three years following completion of this offering.
- We have employment and non-competition agreements with Messrs. C. Edward Broom, Christopher J. Broom, Thomas P. Broom, Kenneth L. Chute, Nicholas C. Brunet, Vladimir Harris and Joseph E. Rendini.
- Louisiana Timber will receive \$12.9 million in cash in redemption of a portion of its partnership units, and will own 1,762,974 partnership units upon completion of this offering. Hanns A. Pielenz, who has agreed to serve on our Board of Directors, and Larry J. Woodard are the principal owners of Louisiana Timber. The partnership units retained by Louisiana Timber will have a value of \$35.3 million, based on an initial public offering price of \$20 per share. Louisiana Timber acquired its partnership units in exchange for contributing to Strategic Timber Partners a contract, valued by the parties at \$50.0 million, to acquire the Louisiana property.
- Mach One, which is owned equally by Messrs. Pielenz and Woodard, will receive \$10.0 million in cash and 100,110 partnership units at the completion of this offering in redemption of its interest in Strategic Timber Partners II. Mach One acquired its interest in Strategic Timber Partners II in exchange for a cash contribution of \$10.0 million that was used to finance our acquisition of Pioneer, and the cash and units it receives will have a value of \$12.0 million, based on an initial public offering price of \$20 per share. Mach One will receive these units in satisfaction of its right to receive an annual return of 40% on its original investment under the Strategic Timber Partners II limited partnership agreement.
- In connection with the Pioneer acquisition, Strategic Timber Partners II paid \$35.0 million in cash and issued partnership interests valued by the parties at \$65.0 million to the former Pioneer members, including Gregory M. Demers. Mr. Demers, together with a company he owns and controls, beneficially owned 76.5% of Pioneer at the time of the acquisition. Upon completion of this offering and the merger of Strategic Timber Partners II into Strategic Timber Partners, Mr. Demers and his company will receive \$18.4 million in cash in redemption of a portion of their partnership interests in Strategic Timber Partners II, and will beneficially own 1,660,333 partnership units. These partnership units will have a value of \$33.2 million, based on an initial public offering price of \$20 per share.

- In connection with the Pioneer acquisition, T. Yates Exley, one of the former Pioneer members and a Vice President of Strategic Timber, received a partnership interest in Strategic Timber Partners II. Mr. Exley will receive \$1.2 million in cash and, as indicated above, 108,516 partnership units in redemption of his partnership interest in Strategic Timber Partners II upon the completion

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of this offering. The partnership units will have a value of \$2.2 million, based on an initial public offering price of \$20 per share.

Additional information concerning benefits to executive officers, directors and other continuing investors is set forth under "Management" and "Transactions with Related Parties."

#### DISTRIBUTION POLICY

We have not previously made any cash distributions on our common stock. Our Board of Directors has approved a distribution on our common stock that will occur after completion of the offering. This distribution will be based on a quarterly distribution of \$0.175 per share, but will be prorated for the partial quarter between closing of the offering and the end of the quarter in which the closing occurs. Our Board of Directors, in its sole discretion, will determine whether subsequent distributions will be made. Our Board of Directors will base its determination on our financial results, available cash flow, possible acquisitions and capital requirements, as well as prevailing economic conditions. We intend to retain a substantial portion of the cash we generate from operations to acquire additional timberlands rather than distributing it to you. We do not expect the tax rule that generally requires a REIT to distribute to shareholders 95% of its ordinary income to affect us. We cannot provide any assurance that we will make cash distributions in the future or the amount of any distribution that we may make.

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#### USE OF PROCEEDS

We estimate that we will receive net cash proceeds from this offering of approximately \$306.4 million after deducting estimated underwriting discounts and commissions and estimated offering expenses and based on an initial public offering price of \$20 per share. If the underwriters exercise their over-allotment option in full, we estimate that we will receive net cash proceeds from this offering of approximately \$352.7 million.

We will use the net proceeds of this offering, together with approximately \$260.0 million of borrowings under our new credit facility, as follows:

- approximately \$509.9 million to repay in full debt described in the table below and accrued interest on this debt;
- approximately \$47.0 million to redeem partnership units and other partnership interests held by our continuing investors;
- approximately \$6.8 million for termination fees on interest rate swaps and related debt; and
- \$2.3 million for financing costs on our new credit facility.

See "Structure and Formation of Strategic Timber."

The table below summarizes the debt to be repaid upon completion of this offering, based on principal balances at February 28, 1999. The actual amounts repaid may differ to the extent of any changes in the principal balance of loans occurring subsequent to February 28, 1999.

<TABLE>  
<CAPTION>

	PRINCIPAL BALANCE AT FEBRUARY 28, 1999	INTEREST RATE	MATURITY DATE
	-----	-----	-----
<S>	<C>	<C>	<C>
Strategic Timber Partners credit facility.....	\$133,787,000	7.50%(1)	April 25, 2003
Strategic Timber bridge loan.....	85,000,000	9.00%(1)	October 27, 1999
Pioneer credit facility.....	253,600,000	7.63%(1)	September 30, 2003
Strategic Timber II bridge loan....	35,000,000	9.06%(2)	October 27, 1999
	-----	-----	
Total/Weighted Average...	\$507,387,000	7.92%	
	=====	=====	

</TABLE>

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(1) These loans each bear interest at a floating rate based on LIBOR plus an applicable margin. The rates shown are interest rates at February 28, 1999.

(2) On April 1, 1999, an additional payment of \$3.3 million will become due on the Strategic Timber II bridge loan.

Assuming an initial public offering price of \$20 per share, after this offering, we will have approximately \$260.0 million of debt outstanding under our new credit facility. For a description of the terms of our new credit facility, see "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

If the underwriters exercise in full their over-allotment option to purchase 2,490,000 additional shares of common stock, we expect to use the additional net proceeds of approximately \$46.3 million to reduce amounts outstanding under our new credit facility.

Amounts outstanding under our operating partnership's credit facility, the Strategic Timber bridge loan, the Pioneer credit facility and the Strategic Timber II bridge loan were each incurred within the past year to pay for our initial timberlands and to finance working capital requirements prior to commencing full-scale operations.

Pending the uses described above, we will invest any unused portion of the net proceeds in interest-bearing accounts or short-term, interest-bearing securities, or both, which are consistent with our intention to qualify for taxation as a REIT.

#### CAPITALIZATION

The following table sets forth the combined historical capitalization of Strategic Timber and Strategic Timber II as of December 31, 1998. As described in "Structure and Formation of Strategic Timber," we currently conduct our operations through two separate entities, Strategic Timber and Strategic Timber II. Because these entities will be merged before the completion of this



offering, we believe it is meaningful to present the combined capitalization of these entities as of December 31, 1998. The following table also sets forth our pro forma capitalization as of December 31, 1998 assuming that we completed the formation transactions and this offering and that we used the estimated net proceeds of this offering and borrowings under our new credit facility as set forth under "Use of Proceeds." You should read the following table in conjunction with the financial statements and notes to the financial statements included elsewhere in this prospectus, "Selected Historical Financial and Operating Information," "Pro Forma Condensed Consolidated Financial Information" and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

<TABLE>

<CAPTION>

DECEMBER 31, 1998		
STRATEGIC TIMBER AND STRATEGIC TIMBER II COMBINED		
	ACTUAL	PRO FORMA
(IN THOUSANDS)		
<S>	<C>	<C>
Debt:		
Bridge loans.....	\$120,000	\$ --
Current portion of long-term debt.....	136,287	--
Long-term debt.....	252,500	269,469
Minority interest.....	119,332	62,603
Shareholders' equity:		
Preferred Stock, \$.01 par value(1).....	--	--
Common Stock, \$.01 par value(2).....	1	173
Additional paid-in capital.....	--	312,542
Accumulated deficit.....	(16,367)	(30,137)
Total shareholders' equity (deficit).....	(16,366)	282,578
Total Capitalization.....	\$611,753	\$614,650
	=====	=====

</TABLE>

(1) 50,000,000 shares of preferred stock will be authorized upon completion of this offering. No shares of preferred stock are currently, or at the completion of this offering will be, issued and outstanding.

(2) 200,000,000 shares of common stock will be authorized at the completion of this offering. 671,770 actual shares of common stock are currently issued and outstanding. 17,271,770 shares of common stock will be issued and outstanding at the completion of this offering, excluding (a) 4,966,205 shares of common stock that we may issue to redeem partnership units; (b) 2,490,000 shares of common stock that the underwriters have the option to purchase solely to cover over-allotments; and (c) 1,115,000 shares of common stock issuable upon exercise of options to be granted under our 1999 Incentive Plan upon completion of this offering. We will reserve a total of 2,224,000 shares of common stock for issuance under the 1999 Incentive Plan. See "The Partnership Agreement -- Redemption of Partnership Units," "Underwriting" and "Management -- 1999 Incentive Plan."

#### DILUTION

The assumed initial public offering price of \$20 per share exceeds the net combined tangible book value per share of Strategic Timber and Strategic Timber II. Therefore, if you purchase common stock in this offering, you will incur an immediate dilution in the net tangible book value of your shares. The following table illustrates the dilution to purchasers of shares of common stock sold in this offering.

<TABLE>

<S>	<C>	<C>
Assumed initial public offering price per share.....		\$20.00

Net combined tangible book value per share before this offering(1).....	\$16.20
Decrease in net combined tangible book value per share attributable to this offering.....	(0.78)
	-----
Pro forma net tangible book value per share after this offering(2).....	15.42
	-----
Dilution per share purchased in this offering.....	\$ 4.58
	=====

</TABLE>

-----

(1) Determined by subtracting the total liabilities of Strategic Timber and Strategic Timber II from the total tangible assets of Strategic Timber and Strategic Timber II and dividing the difference by the sum of the total number of shares of common stock issued and outstanding immediately prior to this offering and the number of shares of common stock issuable upon the exchange of all partnership units issued or to be issued in connection with the formation transactions.

(2) Determined by subtracting our total liabilities from our total tangible assets and dividing the difference by the number of shares of common stock and partnership units that will be outstanding after this offering. This calculation is based on our pro forma condensed combined balance sheet.

The following table summarizes the number of shares of common stock we will sell in this offering, the total price to be paid for these shares, the number of shares of common stock and partnership units previously issued or to be issued in the formation transactions, and the net tangible book value of the average contribution per share based on total contributions. All amounts are determined as if this offering and the formation transactions had been completed on December 31, 1998.

<TABLE>  
<CAPTION>

	SHARES SOLD BY STRATEGIC TIMBER AND PARTNERSHIP UNITS ISSUED BY STRATEGIC TIMBER PARTNERS		BOOK VALUE OF CONTRIBUTIONS TO STRATEGIC TIMBER/ STRATEGIC TIMBER PARTNERS		PURCHASE PRICE/ BOOK VALUE OF CONTRIBUTION PER SHARE/UNIT
	NUMBER	PERCENT	AMOUNT	PERCENT	PER SHARE/UNIT
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE/UNIT DATA)				
<S>	<C>	<C>	<C>	<C>	<C>
New investors in this offering.....	16,600,000	74.7%	\$332,000	96.2%	\$20.00
Common stock and partnership units outstanding or to be issued in the formation transactions.....	5,637,975	25.3	13,181	3.8	2.34
Total.....	22,237,975	100.0%	\$345,181	100.0%	
	=====	=====	=====	=====	

</TABLE>

#### SELECTED HISTORICAL FINANCIAL AND OPERATING INFORMATION

The following tables show the selected historical consolidated financial and operating information for Strategic Timber, Strategic Timber II and Pioneer. Pioneer is the predecessor to Strategic Timber II.

Information for Strategic Timber and Strategic Timber II is presented as of and for the period ended December 31, 1998. The information is derived from the audited historical financial statements of Strategic Timber and Strategic Timber II, and should be read in conjunction with those financial statements, which are included elsewhere in this prospectus. The information shown for Strategic Timber reflects the results of operations for the period from April 21, 1998, the date of inception, to December 31, 1998. Information shown for Strategic

Timber II reflects the results of operations for the period from October 9, 1998, the date on which Strategic Timber II acquired Pioneer, to December 31, 1998.

Information is also presented for both Pioneer and its predecessor, Old Pioneer Resources, LLC, which we will refer to as Old Pioneer. Old Pioneer was formed in April 1994 for the purpose of acquiring certain timber-related assets. The assets of Old Pioneer were contributed to Pioneer upon the formation of Pioneer on January 3, 1996.

The selected historical financial and operating information of Pioneer as of and for the years ended December 31, 1996 and December 31, 1997 and for the period from January 1, 1998 to October 8, 1998 is derived from the audited historical financial statements of Pioneer included elsewhere in this prospectus and should be read in conjunction with those financial statements. Information presented for Old Pioneer is derived from the audited historical financial statements of Old Pioneer as of and for the year ended December 31, 1995. Information presented for Old Pioneer as of and for the period from April 15, 1994, the date of inception, to December 31, 1994 is derived from unaudited financial statements that were prepared on the same basis as those that were audited.

The selected historical information presented for Strategic Timber and Strategic Timber II is not comparable to the information presented for Pioneer because the historical financial statements of Pioneer include the results of conversion facilities and aircraft operations that were not acquired by Strategic Timber II. In addition, the historical results of operations of Strategic Timber include one-time start-up costs of approximately \$140,000. See "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The results of operations of Old Pioneer and Pioneer among the periods presented are not comparable to one another because:

- financial information of Old Pioneer was prepared using a different basis of accounting than that of Pioneer;
- financial and operating information of Pioneer were affected by several acquisitions in 1996, 1997 and 1998, including the acquisition of the assets of Old Pioneer on January 3, 1996, each of which was accounted for under the purchase method of accounting; and
- Old Pioneer conducted different operations than Pioneer.

See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the historical financial statements and the accompanying notes to financial statements included elsewhere in this prospectus.

This financial and operating information is historical in nature. Information may not be representative of how we plan to manage our operations after this offering.

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STRATEGIC TIMBER TRUST, INC. AND STRATEGIC TIMBER TRUST II, LLC  
(DOLLARS IN THOUSANDS)

<TABLE>  
<CAPTION>

STRATEGIC TIMBER  
AS OF AND FOR THE  
PERIOD FROM INCEPTION  
(APRIL 21, 1998) TO

STRATEGIC TIMBER II  
AS OF AND FOR THE  
PERIOD FROM INCEPTION  
(OCTOBER 9, 1998) TO

	DECEMBER 31, 1998	DECEMBER 31, 1998
	<C>	<C>
<S>		
STATEMENT OF OPERATIONS DATA:		
Revenues:.....	\$ 507	\$ 9,018
Operating Expenses:		
Cost of timber sold.....	403	5,746
Amortization of deferred financing costs.....	1,743	499
General and administrative expenses.....	1,820	1,738
	-----	-----
Operating income (loss).....	(3,459)	1,035
Other Income (Expense):		
Interest expense.....	(13,781)	(5,657)
Interest income.....	33	12
	-----	-----
Loss before minority interest.....	(17,207)	(4,610)
Minority interest in loss of subsidiary partnership...	2,863	2,587
	-----	-----
Net loss.....	\$ (14,344)	\$ (2,023)
	=====	=====
CASH FLOW AND OTHER DATA:		
EBITDDA(a).....	\$ (1,312)	\$ 7,268
Depletion.....	403	5,703
Depreciation and amortization.....	1,744	530
Cash provided by (used in) operating activities.....	(6,913)	5,268
Cash used in investing activities.....	(205,235)	(295,218)
Cash provided by financing activities.....	212,458	295,793
BALANCE SHEET DATA (AT PERIOD END):		
Working capital (b).....	\$ (226,623)	\$ (38,617)
Timberlands.....	251,597	354,298
Total assets.....	260,878	369,082
Total debt.....	218,787	290,000
Minority interest.....	46,919	72,413
Shareholders'/members' deficit.....	(14,343)	(2,023)
OPERATING DATA (UNAUDITED):		
Timber harvested.....	10,923tons	11,601MBF
Timber sold under timber deed.....	--	19,295MBF
</TABLE>		

-----

- (a) EBITDDA is defined as operating income (loss) plus depletion, depreciation and amortization. You should not construe EBITDDA to be an alternative to operating income, as an indicator of our operating performance, or as an alternative to cash flow from operating activities, as a measure of our liquidity. EBITDDA is not a financial measure determined in accordance with generally accepted accounting principles and may not be comparable to similarly titled measures of other companies.

EBITDDA is calculated as follows:

<TABLE>		
<CAPTION>		
	STRATEGIC TIMBER	STRATEGIC TIMBER II
	<C>	<C>
<S>		
Operating income (loss).....	\$ (3,459)	\$1,035
Depletion.....	403	5,703
Depreciation and amortization.....	1,744	530
	-----	-----
	\$ (1,312)	\$7,268
	=====	=====
</TABLE>		

- (b) The negative working capital of Strategic Timber is caused primarily by the classification of all Strategic Timber debt as current. This classification is due to the inclusion of clauses in the debt agreements that allow the lenders to call the debt prior to its maturity in the event of a "material adverse change" in the business of Strategic Timber. The negative working capital of Strategic Timber II is attributable primarily to debt maturing in less than one year, accrued interest on debt and obligations under interest rate swap agreements.

## PIONEER RESOURCES, LLC

(PREDECESSOR TO STRATEGIC TIMBER II)

(DOLLARS IN THOUSANDS)

	OLD PIONEER		PIONEER		PERIOD FROM JANUARY 1, 1998 TO OCTOBER 8, 1998
	APRIL 15, 1994 TO DECEMBER 31, 1994 (A)	YEAR ENDED DECEMBER 31, 1995 (A)	YEAR ENDED DECEMBER 31, 1996	1997	
	(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF OPERATIONS DATA:					
Revenues:					
Log sales.....	\$ 42	\$ 1,600	\$ 25,901	\$ 39,505	\$ 23,097
Lumber and by-product sales.....	15,115	31,409	36,004	52,623	45,213
Timberland and property sales.....	6,503	1,865	613	6,774	5,901
Total revenues.....	21,660	34,874	62,518	98,902	74,211
Operating Expenses:					
Cost of products sold.....	11,331	22,953	25,897	39,602	45,498
Cost of timberland and property sales.....	2,672	1,330	486	4,292	2,536
Depletion, depreciation and amortization...	2,907	2,982	15,366	25,259	12,966
Selling, general and administrative expenses.....	1,205	2,354	3,144	7,444	7,137
Write down of real estate investments.....	--	--	--	--	583
Operating income.....	3,545	5,255	17,625	22,305	5,491
Other Income (Expense):					
Interest expense.....	(1,871)	(3,062)	(6,070)	(8,722)	(12,505)
Interest income.....	236	46	248	224	56
Other income (expense), net.....	239	343	--	502	(780)
Income (loss) from continuing operations before income taxes and minority interests.....	2,149	2,582	11,803	14,309	(7,738)
Income tax benefit (provision).....	--	--	(978)	355	336
Income (loss) from continuing operations before minority interest.....	2,149	2,582	10,825	14,664	(7,402)
Minority interest in loss of subsidiary.....	--	--	262	51	12
Income (loss) from continuing operations.....	2,149	2,582	11,087	14,715	(7,390)
Discontinued operation, net(b).....	--	--	(48)	(945)	(897)
Income (loss) before extraordinary item.....	2,149	2,582	11,039	13,770	(8,287)
Extraordinary item(c).....	--	--	(780)	--	(2,106)
Net income (loss).....	\$ 2,149	\$ 2,582	\$ 10,259	\$ 13,770	\$ (10,393)
CASH FLOW AND OTHER DATA:					
EBITDDA(d).....	\$ 9,363	\$ 9,910	\$ 33,477	\$ 52,358	\$ 20,213
Cash provided by operating activities.....	(e)	16,451	26,806	24,749	7,767
Cash used in investing activities.....	(e)	(9,612)	(58,110)	(46,515)	(162,297)
Cash provided by (used in) financing activities.....	(e)	(6,492)	35,733	18,699	153,168
BALANCE SHEET DATA (AT PERIOD END):					
Working capital.....	\$ (8,563)	\$ (9,219)	\$ 1,167	\$ 20,127	
Timber, timberlands and timber cutting rights.....	26,603	27,230	86,294	99,126	
Total assets.....	44,892	52,139	132,060	154,430	
Total debt.....	40,456	33,964	96,565	126,941	
Members' equity.....	2,150	5,922	9,740	19,937	

&lt;/TABLE&gt;

<TABLE>  
<CAPTION>

	OLD PIONEER		PIONEER		
	APRIL 15, 1994 TO DECEMBER 31, 1994 (A)	YEAR ENDED DECEMBER 31, 1995 (A)	YEAR ENDED DECEMBER 31, 1996	1997	PERIOD FROM JANUARY 1, 1998 TO OCTOBER 8, 1998
	(UNAUDITED)				
<S>	<C>	<C>	<C>	<C>	<C>
OPERATING DATA (UNAUDITED):					
Fee timber harvested (MMBF).....	35	51	106	125	75
Non-fee timber purchased (MMBF).....	12	15	31	28	36
Lumber production (MMBF).....	22	47	71	106	112

</TABLE>

-----

- (a) Financial and operating data for the period from April 15, 1994 to December 31, 1994 and for the year ended December 31, 1995 for Old Pioneer are not comparable to other periods presented in this table. See the financial statements of Pioneer and accompanying notes included elsewhere in this prospectus for additional information.
- (b) Relates to the plywood operations of Lane Plywood, which were discontinued in 1997.
- (c) In 1996 and 1998, borrowings of Pioneer were refinanced, resulting in the write-off of certain deferred financing costs as extraordinary, non-cash charges.
- (d) EBITDDA is defined as operating income plus other income (expense), depletion, depreciation and amortization and cost of timberland and property sales. You should not construe EBITDDA to be an alternative to operating income, as an indicator of Pioneer's operating performance, or as an alternative to cash flow from operating activities, as a measure of Pioneer's liquidity. EBITDDA is not a financial measure determined in accordance with generally accepted accounting principles and may not be comparable to similarly titled measures of other companies.

EBITDDA is calculated as follows:

<TABLE>  
<CAPTION>

	OLD PIONEER		PIONEER		
	APRIL 15, 1994 TO DECEMBER 31, 1994	YEAR ENDED DECEMBER 31, 1995	YEAR ENDED DECEMBER 31, 1996	1997	PERIOD FROM JANUARY 1, 1998 TO OCTOBER 8, 1998
<S>	<C>	<C>	<C>	<C>	<C>
Operating income.....	\$3,545	\$5,255	\$17,625	\$22,305	\$ 5,491
Other income (expense).....	239	343	--	502	(780)
Depletion, depreciation and amortization.....	2,907	2,982	15,366	25,259	12,966
Cost of timberland and property sales.....	2,672	1,330	486	4,292	2,536
	\$9,363	\$9,910	\$33,477	\$52,358	\$20,213
	=====	=====	=====	=====	=====

</TABLE>

- (e) Information regarding these amounts for the period from April 15, 1994 to December 31, 1994 is not available.

## PRO FORMA CONDENSED CONSOLIDATED

## FINANCIAL INFORMATION

The following tables show, for the periods and dates indicated, pro forma condensed consolidated financial information for Strategic Timber. The Pro Forma Condensed Consolidated Balance Sheet presents our unaudited pro forma financial condition as if the formation transactions and this offering had occurred as of December 31, 1998. The Pro Forma Condensed Consolidated Statement of Operations for the year ended December 31, 1998 presents our unaudited pro forma operating results as if this offering and the formation transactions, except for our acquisitions of the Louisiana property and the Coastal forest portion of the Pacific Northwest properties, had occurred as of January 1, 1998.

The Pro Forma Condensed Consolidated Statement of Operations includes the historical results of Pioneer for the period from January 1, 1998 to October 8, 1998, as this entity represents our predecessor business. These historical results of Pioneer have been adjusted to (1) eliminate results of operations and related assets and liabilities attributable to Pioneer's timber conversion facilities and aircraft operations that we did not acquire and (2) recognize revenues and costs of Pioneer's sales that were previously eliminated for financial reporting purposes.

The Pro Forma Condensed Consolidated Statement of Operations, however, does not include the historical results of the Louisiana property prior to our purchase of these timberlands on April 27, 1998. These timberlands were acquired from an unrelated family group that did not actively manage the property for commercial timber operations. The Pro Forma Condensed Consolidated Statement of Operations also does not include the historical results of the Coastal forest portion of the Pacific Northwest properties prior to the purchase of these timberlands by Pioneer in July 1998. We believe that there is limited continuity between the prior operation of the Coastal forest and Pioneer's actual and our intended forestry activities on these timberlands. Because of the lack of continuity of operations before and after these purchases, we believe that inclusion of historical financial information for the Louisiana property and the Coastal forest in the Pro Forma Condensed Consolidated Statement of Operations prior to the dates of acquisition would not be helpful to your understanding of our business or operations.

The pro forma condensed consolidated financial information does not purport to represent what our financial position or results of operations actually would have been had the formation transactions occurred on the dates indicated. The pro forma condensed consolidated financial information also does not purport to project our financial position or results of operations at any future date or for any future period. This information should be read in conjunction with the following:

- Audited consolidated financial statements of Strategic Timber as of and for the period from inception (April 21, 1998) to December 31, 1998,
- Audited consolidated financial statements of Strategic Timber II as of and for the period from inception (October 9, 1998) to December 31, 1998,
- Audited consolidated financial statements of Pioneer as of and for the years ended December 31, 1996 and 1997 and for the period from January 1, 1998 to October 8, 1998,
- "Management's Discussion and Analysis of Financial Condition and Results of Operations" and

PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1998

(IN THOUSANDS)

(UNAUDITED)

<TABLE>

<CAPTION>

	HISTORICAL STRATEGIC TIMBER -----	HISTORICAL STRATEGIC TIMBER II -----	INTERCOMPANY ELIMINATIONS AND PRO FORMA ADJUSTMENTS (A) -----	PRO FORMA -----
<S>	<C>	<C>	<C>	<C>
ASSETS:				
Current assets				
Cash and cash equivalents.....	\$ 310	\$ 5,843	\$ --	\$ 6,153
Trade accounts receivable.....	57	109	--	166
Prepaid expenses.....	1,312	146	(1,312) (b)	146
Due from affiliate.....	--	1,476	(1,476) (c)	--
	-----	-----	-----	-----
Total current assets.....	1,679	7,574	(2,788)	6,465
Timberlands.....	251,597	354,298	1,972 (d)	607,867
Property and equipment, net.....	16	186	--	202
Land subject to repurchase.....	3,000	--	--	3,000
Deferred financing costs, net.....	4,586	7,024	(11,610) (e)	2,320
	-----	-----	2,320 (e)	-----
Total assets.....	\$260,878	\$369,082	\$ (10,106)	\$619,854
	=====	=====	=====	=====
LIABILITIES:				
Current liabilities				
Bridge loans.....	\$ 85,000	\$ 35,000	\$ (120,000) (e)	\$ --
Current portion of long-term debt.....	133,787	2,500	(136,287) (e)	--
Accounts payable and other accrued liabilities.....	1,688	531	(1,312) (b)	907
Accrued interest.....	2,054	4,845	(6,899) (e)	--
Due to affiliates.....	2,236	--	(1,476) (c)	760
Deferred revenue.....	3,537	--	--	3,537
Obligations under interest rate swaps.....	--	3,316	(3,316) (e)	--
	-----	-----	-----	-----
Total current liabilities.....	228,302	46,192	(269,290)	5,204
Long-term debt.....	--	252,500	(252,500) (e)	269,469
			269,469 (e)	
Minority interest.....	46,919	72,413	(45,028) (d)	62,603
			(3,473) (e)	
			(1,907) (f)	
			(6,321) (g)	
	-----	-----	-----	-----
Total shareholders' equity (deficit).....	(14,344)	(2,023)	298,944	282,578
	-----	-----	-----	-----
Total liabilities and shareholders' equity (deficit).....	\$260,878	\$369,082	\$ (10,106)	\$619,854
	=====	=====	=====	=====

</TABLE>

The accompanying notes to pro forma condensed consolidated balance sheet

are an integral part of this balance sheet.



## NOTES TO PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1998

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

- (a) For purposes of this Pro Forma Condensed Consolidated Balance Sheet, the following proceeds from this offering, and uses of these proceeds, are assumed:

<TABLE>		
<S>		
Proceeds from offering:		<C>
Shares to be issued.....	16,600,000	
Offering price per share.....	\$ 20	
	-----	
Gross proceeds from this offering.....		\$332,000
Borrowings under new credit facility.....		269,469 (e)
		-----
Total proceeds.....		\$601,469
		=====
Uses of proceeds:		
Repayment of existing debt and accrued interest thereon...	\$ 515,686 (e)	
Debt financing costs on new credit facility.....	2,320 (e)	
Early termination payments on Strategic Timber II bridge loan.....	3,300 (e)	
Termination of interest rate swaps.....	7,556 (e)	
Partial redemption of minority interests.....	47,000 (d)	
Fees and expenses associated with this offering.....	25,607 (i)	
	-----	
Total uses of proceeds.....		\$601,469
		=====

&lt;/TABLE&gt;

- (b) Represents the reversal of offering expenses incurred and accrued as of December 31, 1998. The recording of all expenses associated with this offering is shown in note (i).
- (c) Represents the elimination of intercompany receivables and payables.
- (d) As of December 31, 1998, the following units are held by minority unitholders in Strategic Timber Partners and Strategic Timber Partners II, respectively:

<TABLE>		
<CAPTION>		
	UNITS OWNED	% OF TOTAL UNITS
	-----	-----
<S>	<C>	<C>
Strategic Timber Partners		
Louisiana Timber.....	5,000	19.6%
Strategic Timber Partners II		
Former Pioneer Members.....	5,909	59.1%
Mach One.....	909	9.1%

&lt;/TABLE&gt;

In connection with this offering, these minority unitholders will receive \$47,000 representing a partial redemption of their current holdings as shown below:

<TABLE>  
<CAPTION>

	UNITS TO BE REDEEMED	CASH TO BE RECEIVED
	-----	-----
<S>	<C>	<C>
Strategic Timber Partners		
Louisiana Timber.....	1,295	\$12,945
Strategic Timber Partners II		
Former Pioneer Members.....	2,187	24,055
Mach One.....	909	10,000
		-----
		\$47,000
		=====

</TABLE>

This amount represents a \$1,972 premium over the minority unitholders' account balances at December 31, 1998. The premium represents additional consideration related to Strategic Timber's

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NOTES TO PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET -- (CONTINUED)

DECEMBER 31, 1998

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

purchase of the Louisiana property and Strategic Timber II's acquisition of Pioneer. Accordingly, we have reflected this premium as an increase in basis in our timberlands.

The remainder of these unitholders' ownership interests will be converted into units of Strategic Timber Partners. After this conversion, these unitholders will have the following ownership interest in Strategic Timber Partners:

<TABLE>  
<CAPTION>

	UNITS OWNED	% OF TOTAL UNITS
	-----	-----
<S>	<C>	<C>
Louisiana Timber.....	1,762,974	7.9%
Former Pioneer Members.....	2,170,086	9.8%
Mach One.....	100,110 (f)	0.4%
	-----	-----
	4,033,170	18.1%
	=====	=====

</TABLE>

- (e) In conjunction with this offering, we plan to repay all of our outstanding debt and any accrued interest associated with this debt, as shown below:

<TABLE>

<S>	<C>
Strategic Timber and Strategic Timber II bridge loans....	\$120,000
Strategic Timber credit facility and current portion of	
long term debt.....	136,287
Pioneer credit facility.....	252,500
Accrued interest.....	6,899
	-----
	\$515,686

</TABLE>

=====

Concurrently, we plan to enter into a new credit facility that provides for a \$200,000 term loan and a revolving line of credit of up to \$175,000. We expect to immediately borrow \$269,469 on this facility. Of the amount expected to be drawn under this facility, approximately \$200,000 will relate to the term loan bearing interest at a variable rate expected to initially approximate 7.2% and which will be payable in quarterly installments through May 15, 2004. The remaining \$69,469 will relate to a revolving line of credit bearing interest at a variable rate also expected to initially approximate 7.2% and maturing on May 15, 2004. Unused commitment fees on the new credit facility will approximate 0.5%. We expect to incur approximately \$2,320 in debt issuance costs associated with the new credit facility.

In connection with the early extinguishment of our existing debt instruments, we will write-off unamortized debt issuance costs on our existing debt totaling \$11,610 at December 31, 1998. In addition, we will be obligated to pay termination fees of approximately \$3,300 on the early retirement of the Strategic Timber II bridge loan. All other debt may be retired prior to maturity without penalty.

We also anticipate that we will terminate all existing interest rate swaps at the date of this offering and enter into replacement swaps to mitigate interest rate exposures on variable rate borrowings under our new credit facility. We have estimated the cost to terminate these swaps to be \$7,556, which represents the fair value of all outstanding swaps as of December 31, 1998.

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NOTES TO PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET -- (CONTINUED)

DECEMBER 31, 1998

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

As a result of the termination of our existing debt and interest rate swaps, we will record an extraordinary loss from the early extinguishment of debt. This loss is estimated to be approximately \$19,150, of which \$3,473 will be allocated to minority interests, as shown below:

<TABLE>		
<S>	<C>	<C>
Write-off of unamortized debt issuance costs.....		\$11,610
Early termination fees.....		3,300
Termination of interest rate swaps, net of amount applied against obligations under interest rate swaps of \$3,316.....		4,240
		-----
Total extraordinary loss.....		19,150
Multiply by: minority interest percentage.....	18.1%	
	-----	
Portion allocated to minority interests.....	3,473	
	-----	
Extraordinary loss.....		\$15,677
		=====
</TABLE>		

The actual amount of this loss may differ from this estimate.

- (f) Mach One is entitled to a dividend of \$1,907. Mach One has elected to receive 100,110 units in Strategic Timber Partners in lieu of cash payment of this dividend.

- (g) Represents adjustment required to report initial minority interest of a REIT, in accordance with Emerging Issues Task Force Issue 94-2, "Treatment of Minority Interests in Certain Real Estate Investment Trusts."
- (h) Represents 17,271,770 shares of common stock outstanding after this offering with a par value of \$0.01 per share.
- (i) Amount is calculated as follows:

<TABLE>	
<S>	<C>
Proceeds from offering.....	\$332,000 (a)
Less: portion applicable to common stock.....	(172) (h)
Less: Underwriters discounts and commissions.....	(21,082)
Less: Other fees and expenses, including legal, accounting, financial advisory and listing fees and printing costs.....	(4,525)
	-----
	\$306,221
	=====
</TABLE>	

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# PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1998

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

<TABLE>		<CAPTION>										
		HISTORICAL										
		STRATEGIC TIMBER FOR THE PERIOD FROM INCEPTION (APRIL 21, 1998) TO DECEMBER 31, 1998		STRATEGIC TIMBER II FOR THE PERIOD FROM INCEPTION (OCTOBER 9, 1998) TO DECEMBER 31, 1998		PIONEER (PREDECESSOR TO STRATEGIC TIMBER II) FOR THE PERIOD FROM JANUARY 1, 1998 THROUGH OCTOBER 8, 1998		ELIMINATION OF NON-ACQUIRED OPERATIONS (A)	PRO FORMA ADJUSTMENTS (B)	PRO FORMA		
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>		
Revenues:												
Timber and log sales.....	\$	267	\$	9,018	\$	23,097	\$	9,967	\$	--	\$	42,349
Lumber and by-product sales.....		--		--		45,213		(45,213)		--		--
Timberland and property sales and other.....		240		--		5,901		(956)		--		5,185
		-----		-----		-----		-----		-----		-----
Total revenues.....		507		9,018		74,211		(36,202)		--		47,534
Operating Expenses:												
Cost of products sold.....		--		43		45,498		(34,485)		--		11,056
Cost of timberland and property sales.....		7		--		2,536		(957)		671 (c)		2,257
Depletion, depreciation and amortization.....		397		5,734		12,789		(1,726)		4,702 (c) 58 (d)		21,954
Amortization of deferred financing costs.....		1,743		499		177		--		(1,955) (e)		464
Selling, general and administrative												

expenses.....	1,819	1,707	7,137	(1,854)	-- (f)	8,809
Write down of real estate investments.....	--	--	583	(583)	--	--
	-----	-----	-----	-----	-----	-----
Operating income (loss).....	(3,459)	1,035	5,491	3,403	(3,476)	2,994
Other Income (Expense):						
Interest expense.....	(13,781)	(5,657)	(12,505)	--	13,506 (e)	(18,437)
Interest income.....	33	12	56	(56)	--	45
Other income (expense), net.....	--	--	(780)	780	--	--
	-----	-----	-----	-----	-----	-----
Income (loss) from continuing operations before income taxes and minority interest.....	(17,207)	(4,610)	(7,738)	4,127	10,030	(15,398)
Income tax (provision) benefit.....	--	--	336	--	(336) (g)	--
	-----	-----	-----	-----	-----	-----
Income (loss) from continuing operations before minority interest.....	(17,207)	(4,610)	(7,402)	4,127	9,694	(15,398)
Minority interest.....	2,863	2,587	12	(12)	(1,994) (h)	3,456 (h)
	-----	-----	-----	-----	-----	-----
Income (loss) from continuing operations.....	\$ (14,344)	\$ (2,023)	\$ (7,390)	\$ 4,115	\$ 7,700	\$ (11,942)
	=====	=====	=====	=====	=====	=====
Basic and diluted loss from continuing operations per share:						\$ (0.69) (i)
						=====
Weighted average number of shares used in the calculation of basic and diluted loss from continuing operations per share:						17,271,770 (i)
						=====

</TABLE>

The accompanying notes to pro forma condensed consolidated statement of

operations are an integral part of this statement.

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# NOTES TO PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1998

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

(UNAUDITED)

- (a) Amounts represent the elimination of revenues and expenses associated with operations of Pioneer that were not acquired by Strategic Timber II. These operations primarily include Pioneer's timber conversion facilities and aircraft operations. Amounts also reflect the recognition of logging revenues and costs from the sale of timber from Pioneer's timberlands to conversion facilities previously owned by Pioneer. These sales and costs were previously eliminated for financial reporting purposes, as they were intercompany transactions prior to the acquisition of the timberlands business of Pioneer by Strategic Timber II. These sales have been recorded at fair value based upon similar arm's-length transactions.

Certain reclassifications have been made to the historical statements of operations of Strategic Timber and Strategic Timber II to conform with the presentation of the historical Pioneer statement of operations.

- (b) For purposes of this Pro Forma Condensed Consolidated Statement of Operations, the following proceeds from this offering, and uses of these proceeds, are assumed:

<TABLE>		
<S>		
	<C>	<C>
Proceeds from offering:		
Shares to be issued.....	16,600,000	
Offering price per share.....	\$ 20	
	-----	
Gross proceeds from this offering.....		\$332,000
Borrowings under new credit facility.....		269,469 (e)
		-----
Total proceeds.....		\$601,469
		=====
Uses of proceeds:		
Repayment of Strategic Timber II debt and accrued interest thereon.....	\$ 294,845 (e)	
Debt financing costs on new credit facility.....	2,320 (e)	
Early termination payments on Strategic Timber II bridge loan.....	3,300 (e)	
Termination of Strategic Timber II interest rate swaps....	4,763 (e)	
Partial redemption of minority interests.....	47,000	
Fees and expenses associated with this offering.....	25,607	377,835
	-----	-----
Excess cash proceeds.....		\$223,634
		=====
</TABLE>		

Excess cash proceeds arise due to certain assumptions regarding the timing of this offering and the purchase of the Louisiana property. Specifically, the accompanying Pro Forma Condensed Consolidated Statement of Operations assumes that the formation transactions and this offering occur on January 1, 1998, but does not reflect the historical financial results of the Louisiana property until after our acquisition of these timberlands on April 27, 1998. We have assumed the following related to these excess cash proceeds:

- For the period from January 1, 1998 until our acquisition of the Louisiana property on April 27, 1998, we utilized \$69,469 of these excess proceeds to pay down the revolving line of credit portion of the new credit facility initially borrowed in connection with this offering. See note (e).
- On April 27, 1998, we then re-borrowed the \$69,469 in excess proceeds and used this amount, together with the remaining excess cash proceeds, to purchase the Louisiana property.
- We have not recognized any interest income on any excess proceeds as we do not expect to maintain this level of cash after this offering.

- (c) Represents adjustment to reflect additional depletion expense after stepping-up the basis in the timberlands we acquired from Pioneer, resulting from the application of purchase accounting.

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#### NOTES TO PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1998 -- (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)  
(UNAUDITED)

- (d) Amount represents depreciation expense on property and equipment acquired from Pioneer. This property and equipment will be depreciated over periods

ranging from three to five years.

- (e) In conjunction with this offering, we plan to repay all of our outstanding debt and any accrued interest associated with this debt. Concurrently, we plan to enter into a new credit facility that provides for a \$200,000 term loan and a revolving line of credit of up to \$175,000. We expect to immediately borrow \$269,469 on this facility. Of the amount expected to be drawn under this facility, approximately \$200,000 will relate to the term loan bearing interest at a variable rate expected to initially approximate 7.2% and which will be payable in quarterly installments through May 15, 2004. The remaining \$69,469 will relate to a revolving line of credit bearing interest at a variable rate also expected to initially approximate 7.2% and maturing on May 15, 2004. Unused commitment fees on the new credit facility will approximate 0.5%.

Based on expected levels of debt to be outstanding under this facility, expected interest costs would be \$18,437 for the year ended December 31, 1998. The adjustment shown on the accompanying Pro Forma Condensed Consolidated Statement of Operations is calculated as follows:

<TABLE>	
<S>	
Expected interest expense.....	<C> \$ 18,437
Less: previously recognized interest expense of:	
Strategic Timber.....	(13,781)
Strategic Timber II.....	(5,657)
Pioneer.....	(12,505)
	-----
	\$ (13,506)
	=====
</TABLE>	

An increase in the interest rates of 1/8% would yield additional annual interest expense of approximately \$337, based on the level of debt we expect to be outstanding after this offering.

We expect to incur approximately \$2,320 in debt issuance costs associated with the new credit facility. Such costs will be amortized over a period of five years. The adjustment shown on the accompanying Pro Forma Condensed Consolidated Statement of Operations is calculated as follows:

<TABLE>	
<S>	
Pro forma amortization expense.....	<C> \$ 464
Less: previously recognized amortization expense of:	
Strategic Timber.....	(1,743)
Strategic Timber II.....	(499)
Pioneer.....	(177)
	-----
	\$ (1,955)
	=====
</TABLE>	

As a result of the termination of our existing debt and interest rate swaps, we will record an extraordinary loss from the early extinguishment of debt. This loss would approximate \$19,150 using historical amounts reported in the Strategic Timber and Strategic Timber II consolidated financial statements as of December 31, 1998. The actual amount of this loss may differ from this estimate. This loss has not been reflected in the Pro Forma Condensed Consolidated Statement of Operations, which shows only pro forma income (loss) from continuing operations.

- (f) Historical selling, general and administrative expenses have not been adjusted to reflect the reductions in such costs anticipated by management after this offering. Such reductions are anticipated primarily due to:

- expected cost savings from the reduction of personnel due to the consolidation of all current operations, net of additional costs associated with being a public company and

NOTES TO PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31, 1998 -- (CONTINUED)

(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)  
(UNAUDITED)

- changes in the way we plan to operate our Pacific Northwest properties.

(g) Represents the elimination of all historical taxes recorded by Pioneer because we expect to qualify as a REIT and, thus, we expect to be subject only to nominal state taxes.

(h) Represents the minority interest charges, assuming minority ownership in Strategic Timber Partners of 18.1% after the formation transactions and this offering. Amount is calculated as follows:

<TABLE>	
<S>	
Loss from continuing operations before minority interest expense.....	\$ (15,398)
Extraordinary loss.....	(14,172) (j)
	-----
Net loss before minority interest expense.....	(29,570)
Multiply by: minority interest percentage.....	18.1%
Minority interest before dividends.....	5,363
Less: Dividend on minority interests.....	(1,907)
	-----
Minority interest.....	\$ 3,456
	=====
</TABLE>	

One of the minority unitholders, Mach One, will be entitled to a dividend of \$1,907 based upon contractual commitments with the Company. Mach One has elected to receive 100,110 partnership units in lieu of cash payment of this dividend.

(i) For the year ended December 31, 1998, basic loss from continuing operations per share is calculated by dividing loss from continuing operations by the weighted average shares outstanding during the period. It is assumed that 17,271,770 shares were outstanding during the entire reporting period.

Diluted loss from continuing operations per share is calculated by dividing income from continuing operations by the weighted average shares outstanding during the period plus the weighted average of potentially dilutive securities outstanding during the period. Approximately 4,966,205 partnership units, which are convertible on a share for share basis into shares of our common stock, have not been included in this calculation since these potential shares are antidilutive in periods in which a loss from continuing operations is reported. Diluted loss from continuing operations per share also does not include the effects of stock options to be granted under the 1999 Incentive Plan, as such stock options will be granted on the date of this offering with an exercise price equal to the offering price.

(j) As previously noted, the Pro Forma Condensed Consolidated Statement of Operations assumes that the Louisiana property was purchased in April 1998. Accordingly, we have further assumed that this property was purchased using excess proceeds from the offering and, thus, the historical debt used to acquire this property never existed. Accordingly, the extraordinary loss



shown in note (h) does not include any write-off of deferred financing costs associated with early retirement of historical debt used to acquire the Louisiana property. In addition, this loss does not include costs of terminating the interest rate swap related to Strategic Timber debt, as will actually occur. See note (e).

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND  
RESULTS OF OPERATIONS

OVERVIEW

This section contains management's discussion and analysis of the historical financial condition and results of operations of Strategic Timber, Strategic Timber II and Pioneer, the predecessor to Strategic Timber II. The following also presents our pro forma financial condition and results of operations after giving effect to the formation transactions and this offering. See "Structure and Formation of Strategic Timber."

The discussions of historical results are based on the historical financial statements of

- Strategic Timber as of and for the period from inception (April 21, 1998) to December 31, 1998,
- Strategic Timber II as of and for the period from inception (October 9, 1998) to December 31, 1998 and
- Pioneer as of and for the years ended December 31, 1996 and 1997 and for the period from January 1, 1998 to October 8, 1998,

and should be read in conjunction with those financial statements contained elsewhere in this prospectus. Discussions of our plan of operation are based, in part, on information contained in "Pro Forma Condensed Consolidated Financial Information."

The following discussion first addresses our expected operating plan after giving effect to the formation transactions and this offering. Following this section are analyses of the historical operating results of Strategic Timber, Strategic Timber II and Pioneer, and discussions on our historical and anticipated liquidity and capital resources, commitments and contingencies, Year 2000 compliance plans and market risks.

PLAN OF OPERATION

GENERAL

The following discussion is based, in part, on the pro forma information contained in "Pro Forma Condensed Consolidated Financial Information." We believe that the pro forma financial information, as presented, will not be comparable to the results of operations and cash flows that we will derive in 1999 and beyond. The primary reason for this belief is that the pro forma results for the Louisiana property and certain California timberlands, which together represent the majority of our merchantable timber inventory, include only partial years of operations at actual harvest levels that are well below expected future levels.

The pro forma condensed consolidated statements of operations include results of operations of the Louisiana property only for the period from its acquisition on April 27, 1998 to December 31, 1998. The results of operations prior to April 27, 1998 are not included in the Pro Forma Condensed Consolidated Statement of Operations due to a lack of continuity of operations and a fundamental change in the management of the Louisiana property after acquisition. Because the Louisiana property had not been operated as a

commercial forest prior to our acquisition of these timberlands, the age of the timber located on the Louisiana property is disproportionately weighted to over-mature timber that remains standing beyond its economic rotation age -- that is, the age at which the timber should be optimally harvested. In the southern United States, economic rotation age varies by species but generally approximates 30 to 32 years. Starting in 1999, we will actively focus on the sale of this over-mature timber. Accordingly, we expect harvest volumes and revenues to be much greater than historical amounts.

Furthermore, from the date of the acquisition of the Louisiana property through December 31, 1998, we conducted only limited operations on the Louisiana property, while preparing the property for active commercial timber operations. These preparations included conducting a complete timber inventory, detailed mapping, preparation of timber sales plans and initiation of commercial marketing activities. We

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incurred significant one-time preparatory expenses totaling approximately \$140,000 prior to the commencement of the commercial operation of the Louisiana property that will not occur in future periods. These expenses have been recorded as a component of general and administrative expenses in the historical financial statements of Strategic Timber.

The pro forma condensed consolidated financial statements also exclude the historical financial results of certain California timberlands prior to the date of acquisition by Pioneer in July 1998 due to a lack of continuity of operations. These California timberlands, known as the Coastal forest, were managed in a substantially different manner by the prior owners than we expect to manage them. Before Pioneer acquired the Coastal forest, the previous owners held these timberlands primarily to seek capital appreciation. Harvests were conducted at relatively low levels with the objectives of thinning and extraction of hardwood species from softwood tracts. Also, Pioneer postponed planned harvesting of the Coastal forest in anticipation of the eventual sale of Pioneer to Strategic Timber II.

In May 1998, shortly before Pioneer's acquisition of the Coastal forest, the prior owners received approval of an "Option A" timber management plan for the Coastal forest. The Option A timber management plan was developed pursuant to a California permit process that establishes long-term growth and sustainable harvest for a specified timberland. This Option A plan establishes a decade-by-decade harvesting model through which the Coastal forest has been approved for substantial commercial harvesting of softwood species. We intend to manage the property in accordance with the Option A plan and, thus, expect to increase substantially harvest volumes and revenues from the Coastal forest as compared with historical results. See "Business and Properties -- Initial Timberland Properties -- The California Timberlands."

#### REVENUES

In 1999 and beyond, we intend to execute a timber sales plan that will enable us to generate an increasing revenue stream. This plan primarily will involve the harvesting of mature timber on our timberlands. For example, timber on the Louisiana property is weighted to over-mature timber as the prior owners allowed the timber to remain standing beyond its economic rotation age. Similarly, components of the Commander forest in California and the Washington property consist of mature, high-value timber that is at its optimal harvest age. Our timber sales plan for these tracts calls for removing this low-growth timber and replanting with seedlings selected for superior genetic characteristics to increase growth rates. While this plan will involve immediate harvests of over-mature tracts, we believe that it will allow us to develop a sustained yield forestry management approach on a long-term basis. In selecting tracts to be sold for harvesting in a given year, we will evaluate our holdings on an overall basis, taking into account the relative maturity levels and current productivity of tracts available for harvest, the strength of local markets and the desirability of reforesting a particular area so that we can increase the growth rate of our timber and better balance the age class distribution of our holdings. Our timber sales plan will be modified periodically to adjust for changes in growth patterns, future acquisitions of timberlands, unforeseen events and general economic conditions.

We enter into cutting contracts under which the buyer, at its expense, will be required to cut and haul the purchased timber to its own conversion facility, or to another purchaser to whom it is reselling. Our contracts extend for up to six years, and we may enter in longer-term contracts in the future. Contracts with terms of more than one year provide for price adjustments at least annually and typically require the buyer to cut minimum amounts of timber each year. Within these limits, the buyer has discretion as to when it harvests our timber. We recognize revenue at the time the buyer cuts and takes title to the timber. Therefore, the buyer's discretion as to the timing of its timber harvest affects our recognition of revenue.

In addition to cutting contracts, we also expect to derive revenues from several other sources. We will grant hunting, grazing, camping and other rights of access to approved hunting clubs and individuals. These hunting leases and other rights will both produce revenues and provide us with assistance in maintaining and protecting our properties. We expect that approximately \$1.0 million of our 1999 revenues will be derived from the issuance of hunting, grazing, camping and other rights. From time to time, we expect to make incidental sales of portions of its properties that have a higher and better use than the long-term production of timber. See "Business and Properties."

EXPENSES

Our primary operating expense will be depletion, which is a non-cash expense relating to the cost of timber harvested. Depletion will be calculated based on the capitalized cost of the timber harvested, including cost of acquisition and any silvicultural activities, divided by available timber volume based on timber surveys. Timber surveys are expected to be performed annually to assess available merchantable timber volumes. Accordingly, depletion rates will be adjusted at that time and applied prospectively. Based on our projected harvest levels, as well as current depletion rates, our expected 1999 depletion expense will be approximately \$48.8 million.

We expect that 1999 selling, general and administrative costs will be approximately one-third lower than pro forma selling, general and administrative costs for the year ended December 31, 1998. This decline is attributable to the anticipated cost savings from the reduction of personnel due to the consolidation of all current operations, net of additional costs associated with being a public company, as well as changes in the way we plan to operate the Pacific Northwest properties. In the past, Pioneer focused on log sales from the Pacific Northwest properties. Pioneer was responsible for cutting timber and converting it into logs prior to sale. We plan to focus our sales efforts on sales of standing timber, where customers will be responsible for cutting and hauling timber. This change in business strategy will mitigate or eliminate previously incurred administrative costs associated with maintaining sorting areas, log yards and other facilities to convert timber into logs.

SEASONALITY

Rain in winter and our fire prevention measures in spring and summer limit timber harvesting on the Louisiana property. Similarly, harvesting on our timberlands in the Pacific Northwest has been interrupted for periods during the winter and spring due to snow and melting snow, and occasionally in the late summer due to our fire prevention measures. Accordingly, our results of operations may fluctuate on a quarterly basis due to the seasonal nature of our harvesting activities, as follows:

<TABLE>

<CAPTION>

QUARTER	EFFECT
-----	-----
<S>	<C>
First/Fourth	Rain in the southeast and snow in the northwest could affect all harvesting activities.
Second/Third	Our fire prevention measures limit harvesting on our Louisiana property and could limit harvesting on our Pacific Northwest properties.

</TABLE>

EFFECTS OF INFLATION

Prices for our timber will be subject to cyclical fluctuations due to market or other economic conditions, including the level of construction and remodeling activity. Although timber prices in the U.S. have historically risen faster than inflation over the long-term, these prices generally do not directly follow short-term inflationary trends. Costs of forest operations and general and administrative expenses do tend to reflect inflationary trends.

#### RECENT DEVELOPMENTS

To date, we have entered into contracts providing for aggregate 1999 timber harvests valued at \$17.1 million. These include new contracts on our Louisiana property with five separate buyers -- Boise Cascade Corporation, Heath Timber Company, Inc., Hunt Forest Products, Inc., Nash-Co. Industries Forest Products, Inc. and Temple-Inland Inc. -- and provide for harvests of up to 300,000 tons of timber in 1999. The 1999 harvests also include sales of 17.4 million board feet from our Commander forest to Sierra-Pacific Industries, Inc.

We expect to sell more timber in the Pacific Northwest as the effects of winter weather subside.

#### HISTORICAL RESULTS OF OPERATIONS

The following discussion focuses on the historical operating results of Strategic Timber, Strategic Timber II and Strategic Timber II's predecessor, Pioneer. This discussion is historical in nature and may

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not be representative of how we plan to manage our operations after this offering and the formation transactions. See "--- Overview" and "--- Plan of Operation" and "Structure and Formation of Strategic Timber."

#### STRATEGIC TIMBER TRUST, INC.

Strategic Timber and Strategic Timber Partners were formed in April 1998 to acquire the Louisiana property, which now consists of approximately 82,000 acres of timberland. Louisiana Timber contributed to Strategic Timber Partners a contract to acquire the Louisiana property in exchange for a 19.6% limited partnership interest valued at \$50.0 million. This value represented the difference between the fair value of the Louisiana property and the purchase price under the contract contributed by Louisiana Timber. Strategic Timber retained a 79.4% limited partnership interest in Strategic Timber Partners and Strategic Timber Operating Co., Strategic Timber's wholly owned subsidiary, retained the remaining 1.0% general partner interest. The partnership then purchased the Louisiana property on April 27, 1998 for \$205.0 million in cash. The partnership funded the purchase price of the Louisiana property and related transaction costs by borrowing \$125.8 million under a \$215.0 million bank revolving credit facility, and with a cash contribution of \$85.0 million by Strategic Timber. Strategic Timber borrowed these funds under a bank bridge loan.

The historical financial statements of Strategic Timber include the results of operations for the period from inception, April 21, 1998, to December 31, 1998. Since the acquisition of the Louisiana property, Strategic Timber has deferred active harvesting on these timberlands to prepare for full-scale commercial operations. During this time, Strategic Timber conducted a detailed timber inventory, mapped its property, prepared timber sales plans and initiated marketing activities for timber to be sold from the property. The operating results reflect only limited harvesting operations, including the sale of salvage timber and thinning. Expenses incurred relate primarily to interest expense on bank debt, amortization of deferred financing costs and the preparation of the property for active commercial timber operations.

Revenues. During the reporting period, Strategic Timber sold salvage timber and property for approximately \$323,000. In addition, Strategic Timber recognized approximately \$184,000 of revenues related to hunting, grazing and farming leases issued on the Louisiana property.

Expenses. Cost of timber sold of approximately \$403,000 represents depletion on timber harvested. The calculation of depletion is based on the capitalized cost of the harvested timber, including cost of acquisition and any silvicultural activities, divided by available timber volume based on timber surveys. Timber surveys are expected to be performed annually to assess available merchantable timber volumes. Accordingly, depletion rates will be adjusted at that time and applied prospectively.

Amortization of deferred financing costs of approximately \$1.7 million represents the amortization of costs incurred to obtain financing used for our acquisition and working capital requirements. These costs are being amortized over the terms of the underlying debt, ranging from one to five years.

General and administrative expenses of approximately \$1.8 million are composed primarily of consulting and management fees for managing and tracking available timber and corporate salaries. These expenses also include one-time costs totaling \$140,000 associated with preparing the Louisiana property for active commercial timber operations. Such preparations included the conducting of a complete timber inventory, detailed mapping, preparation of harvest plans and implementation of commercial marketing activities.

Interest expense of approximately \$13.8 million represents interest costs on Strategic Timber's existing debt, net of the effects of an interest rate swap used to hedge certain exposures to variable interest rates. See "-- Market Risk."

Minority interest of approximately \$2.9 million is the share of the operating partnership's losses attributable to the minority unitholders of the operating partnership.

Strategic Timber will elect to be treated as a REIT under provisions of the Internal Revenue Code beginning with the tax year ended December 31, 1998. As a result, Strategic Timber is not subject to

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federal income taxes on distributed income but, instead, Strategic Timber's shareholders are taxed. No benefit for income taxes has been provided on the loss since inception, as the benefit is not currently "more likely than not" to be realized by Strategic Timber due to its limited operating history. Strategic Timber's net operating loss is approximately \$15.8 million at December 31, 1998.

#### STRATEGIC TIMBER TRUST II, LLC

Our initial shareholders formed Strategic Timber II in September 1998 to acquire Pioneer, which holds approximately 366,000 acres of timberland in the Pacific Northwest. Strategic Timber II acquired all of the membership interests in Pioneer from its members on October 9, 1998, in exchange for \$35.0 million in cash and a 59.1% interest in Strategic Timber Partners II, which we valued at \$65.0 million. Strategic Timber Partners II funded the cash portion of the purchase price for Pioneer and related transaction costs with a cash contribution of \$35.0 million by Strategic Timber Two Operating Co. in exchange for a 31.8% interest in Strategic Timber Partners II, and a cash contribution of \$10.0 million by Mach One, in exchange for a 9.1% interest in Strategic Timber Partners II. To fund Strategic Timber Two Operating Co.'s contribution, Strategic Timber II borrowed \$35.0 million under a bank bridge loan. In connection with the acquisition, Pioneer refinanced its existing bank debt, leaving approximately \$255.0 million outstanding under its credit facility.

Strategic Timber II accounted for this acquisition under the purchase method of accounting. The following summarizes the fair value of interests held by the former members of Pioneer and Mach One immediately following the application of purchase accounting:

<TABLE> <CAPTION>			
	FAIR VALUE OF INTEREST	NUMBER OF UNITS	FAIR VALUE PER UNIT
	-----	-----	-----
<S>	<C>	<C>	<C>
Former Members of Pioneer.....	\$65,000,000	5,909	\$11,000
Mach One.....	10,000,000	909	11,000
</TABLE>			

The historical financial statements of Strategic Timber II include the results of operations for the period from inception, October 9, 1998, to December 31, 1998. The operating results reflect only limited harvesting activities, as Strategic Timber II primarily focused on transitioning systems and personnel in the months immediately following the acquisition.

Revenues. During the reporting period, Strategic Timber II recorded revenues of approximately \$9.0 million. Approximately \$5.6 million of this amount relates to revenues recognized under a timber deed with Kinzua Resources. See "-- Commitments and Contingencies." The remaining \$3.4 million represents sales of timber from our Commander forest and our Oregon and Washington properties. Excluding amounts harvested under the timber deed, approximately 11.6 million board feet were harvested during the period from inception to December 31, 1998.

Expenses. Cost of timber sold of approximately \$5.7 million primarily represents depletion on timber harvested. The calculation of depletion is based on the capitalized cost of the harvested timber, including cost of acquisition and any silvicultural activities, divided by available timber volume based on timber surveys. Timber surveys are expected to be performed annually to assess available merchantable timber volumes. Accordingly, depletion rates will be adjusted at that time and applied prospectively.

Amortization of deferred financing costs of approximately \$499,000 represent the amortization of costs incurred to obtain financing used for our acquisition and working capital requirements. These costs are being amortized over the terms of the underlying debt, ranging from one to five years.

General and administrative expenses of approximately \$1.7 million are composed primarily of salaries, consulting fees and reimbursement of expenses incurred by an affiliate, Strategic Timber, on Strategic Timber II's behalf. Consulting fees totaling approximately \$261,000 represent fees paid to outside vendors for managing and tracking available timber. Reimbursed costs include Strategic Timber II's portion of certain shared expenses, such as rent, utilities and insurance, which initially were paid by Strategic Timber. Reimbursed costs also represent allocations of Strategic Timber salaries and other expenses for management resources dedicated to the operations of Strategic Timber II. During the period from

inception to December 31, 1998, Strategic Timber II recognized expenses of approximately \$624,000 for reimbursed costs.

Interest expense of approximately \$5.7 million represents interest costs on Strategic Timber II's existing debt, net of the effect of three interest rate swaps used to hedge certain exposures to variable interest rates. See "-- Market Risk."

Minority interest of approximately \$2.6 million is the share of the operating partnership's losses attributable to the minority unitholders of the operating partnership.

#### PIONEER RESOURCES, LLC

The historical financial statements of Pioneer are presented as Pioneer is the predecessor to Strategic Timber II. In addition to the Pacific Northwest properties, these financial statements include the operating results of Pioneer's timber conversion facilities and aircraft operations, neither of which were acquired by Strategic Timber II. See "Pro Forma Condensed Consolidated Financial Information" for a discussion of pro forma adjustments required to be made to the historical Pioneer financial statements to reflect the results of operations that Strategic Timber II acquired.

Introduction. The predecessor to Pioneer, Old Pioneer, was originally formed in 1994. Pioneer and Old Pioneer, directly or through affiliated companies, have completed a number of significant timberland and other asset acquisitions since inception. In addition, Pioneer has engaged, on a small scale, in the sale or disposal of timberlands not integral to its operations. These acquisitions are described in more detail below and in the notes to the financial statements of Pioneer, which are included elsewhere in this prospectus.

Each acquisition by Pioneer was accounted for using the purchase method of accounting. Accordingly, the historical financial and operating results vary significantly as a result of the inclusion in the later periods of the effects of these acquisitions and, therefore, are not necessarily comparable and are not indicative of future results of operations. The following table identifies Pioneer's significant acquisitions. Information regarding acreage and merchantable timber are given as of the date of acquisition.

<TABLE>  
<CAPTION>

ACQUISITION -----	ACREAGE -----	MERCHANTABLE TIMBER (BOARD FEET IN MILLIONS) <C>	SELLER -----	DATE -----	CONSIDERATION ----- (IN MILLIONS) <C>
<S>	<C>	<C>	<C>	<C>	<C>
Kinzua (East Oregon)	175,525	781.7	Kinzua	April 1994	\$130.0
Lane Plywood (West Oregon)	3,130	31.9	Lane Plywood	May 1996	10.0
Pilot Rock (East Oregon)	130,207	188.6	Louisiana Pacific	June 1996	34.0
Commander (California)	43,313	313.7	Louisiana Pacific	September 1997	25.0
Skelly Panther and Swamp Creek (West Oregon)	1,194	14.2	Weyerhaeuser	December 1997	7.4
Riffe Lake (West Washington)	4,899	63.3	Weyerhaeuser	February 1998	15.1
Aloha (West Washington)	5,922	70.5	Weyerhaeuser	May 1998	17.0
Coastal forest (California)	79,026	839.2	Coastal Forest	July 1998	130.0

</TABLE>

Period From January 1, 1998 to October 8, 1998

Effective July 2, 1998, Pioneer completed its acquisitions of the Longview and Willits Woods timberlands in California. Together, these timberlands are referred to as the Coastal forest. Prior to this acquisition, the operations of Pioneer consisted primarily of timberlands and sawmills in Oregon, California and Washington. The Coastal forest acquisition, as with all of Pioneer's other acquisitions, was accounted for under the purchase method of accounting.

Revenues. Revenues for the period ended October 8, 1998 were \$74.2 million. Approximately 61% of revenues were derived from lumber and by-product sales, which due to a backlog of delayed sales deliveries in the second half of 1997, were shipped in the first six months of 1998.

The volume of lumber sold during the period was 112.2 million board feet. The Heppner sawmill increased volume to 63.9 million board feet due to capital improvement projects and productivity gains resulting from an increased work shift that was instituted in the later half of 1997. The Pilot Rock sawmill increased volume to 48.3 million board feet due to productivity gains from capital improvement projects implemented in the later half of 1997. Additionally, sales volumes for both mills were affected by the delay in sales deliveries in the latter half of 1997 discussed above.

Pioneer's average lumber prices for the period from January 1, 1998 to October 8, 1998 decreased by 26% from the comparable period of 1997 due to the industry-wide price declines associated with the Asian export market. Pioneer's average lumber prices were consistent with the lumber market during this time.

Revenues from the sale of logs totaled \$23.1 million on sales volume of 42 million board feet. Revenues from log sales, on an annualized basis, were less than 1997 levels due to a general decrease in the market price of logs compounded with a decrease in the volume of Asian export quality logs harvested from the Western Oregon timberlands. Pioneer's management made the decision in 1997 to harvest the majority of the Western Oregon timberlands acquired in May 1996 from Lane Plywood in anticipation of a declining export log market.

Boise Cascade reduced harvesting on its timber contracts during the period ended October 8, 1998 over prior period levels. The Boise Cascade contracts generated revenues of \$2.3 million for the period ended October 8, 1998 and \$16.2 million for the nine months ended September 30, 1997.

Revenues from the sale of non-strategic parcels of timberland and other property sold during the period was \$5.9 million. During this period, Pioneer's land management staff actively sought higher and better uses for strategic parcels of property.

Expenses. Excluding timber and property sales and depletion, depreciation and amortization, cost of products sold was 67% of net revenues for the period ended October 8, 1998. Annualized gross margin during the period, in dollars and as a percentage of sales, declined from 1997 levels due to a variety of factors, the most important of which was the decrease in lumber prices during the period. For the period ended October 8, 1998, Pioneer's lumber mills experienced an operating loss of \$1.2 million compared to an operating profit of \$5.4 million in the nine month period ended September 30, 1997.

Depletion, depreciation and amortization was \$13.0 million for the period ended October 8, 1998. Depletion, depreciation and amortization, on an annualized basis, declined from 1997 levels due to a small overall decrease in logs harvested and a substantial decrease in the harvest from the more highly valued Western Oregon timberlands acquired from Lane Plywood. In 1998, Pioneer did not harvest any volumes from these timberlands, which have higher depletion rates than those of its other timberlands.

Selling, general, and administrative expenses were \$7.1 million for the period ended October 8, 1998. Selling general and administrative expenses primarily consisted of salary expense and consulting and legal expenses associated with Pioneer's acquisitions and expanded operations.

During the reporting period, Pioneer wrote down the value of one of its real estate investments by \$583,000, based on Pioneer's current assessment of the fair value of this property. This investment was not among the properties purchased by Strategic Timber II as part of its acquisition of Pioneer on October 9, 1998.

Interest expense during the period totaled \$12.5 million, resulting from increased debt associated with Pioneer's timberland acquisitions.



Other expense consisted of \$780,000 in expenses during the period ended October 8, 1998. The majority of this amount relates to land and property Pioneer donated to a trust for public lands.

Income taxes relate to Lane Plywood, the only taxable entity within the combined group, and are not material to the combined results of operations.

Year Ended December 31, 1997 Compared to Year Ended December 31, 1996

Revenues. Revenues for 1997 increased by 58% compared to 1996, from \$62.5 million to \$98.9 million. Revenues from the sale of lumber and by-products increased by 46% from \$36.0 million to \$52.6 million. These increases are due primarily to a full year of operations for the Pilot Rock lumber mill. The Pilot Rock lumber mill operations which Pioneer acquired from Louisiana Pacific in June 1996, generated revenues of \$9.8 million and \$23.8 million respectively, for the years ended December 31, 1996 and 1997.

The volume of lumber sold increased 49% from 71 million board feet to 106 million board feet. This increase in sales volume was due to the full year of operations for the Pilot Rock sawmill facility that had volumes of 20 million board feet in 1996 and 50 million board feet in 1997, respectively. The Heppner sawmill also increased volume from 51 million board feet in 1996 to 56 million board feet in 1997. The increased volumes are due to gains achieved from capital improvement projects and productivity gains resulting from an increased work shift that was instituted in August 1997.

Pioneer's average lumber prices remained approximately the same for both 1996 and 1997, and were consistent with the lumber market during this time. There was an improvement in lumber prices starting in the first part of 1996 which peaked in the first quarter of 1997. By year-end 1997, prices had declined to comparable levels of those at the beginning of 1996.

Revenues from the sale of logs increased by 53% from \$25.9 million to \$39.5 million. The volume of logs sold increased from 56 million board feet in 1996 to 83 million board feet in 1997. The increased volume was a result of Pioneer's decision to increase contracted harvesting with Boise Cascade and to increase harvest volumes of export quality logs. The Boise Cascade contracts generated volumes of 32 million board feet in 1996 and 65 million board feet in 1997. Pioneer decided to increase harvesting on the Western Oregon timberlands acquired in May 1996 from Lane Plywood in anticipation of a declining export log market. The Western Oregon timberland sales volumes were 9 million board feet in 1996 and 18 million board feet in 1997. Pioneer's overall average price of logs sold increased during this period due to an increased mix of the higher valued export quality logs. The export quality logs had an average price decrease of 16% during this period, which was consistent with industry-wide decreases in log prices.

The Boise Cascade contracts generated revenues of \$12.3 million and \$26.6 million, respectively, for the years ended December 31, 1996 and 1997. The Western Oregon timberlands that Pioneer acquired from Lane Plywood generated revenues of \$7.3 million and \$12.3 million, respectively, for the years ended December 31, 1996 and 1997.

Revenues from sales of non-strategic parcels of timberland and other property sold during the period increased significantly from \$0.6 million in 1996 to \$6.8 million in 1997. The increased 1997 revenues were attributed to Pioneer's staffing addition of an experienced land management group that was put in place in late 1996. During 1997, the Company sold a total of 6,222 acres in approximately 20 separate transactions.

Expenses. Excluding timberland and other property sales and depletion,

depreciation and amortization, cost of products sold remained relatively consistent at 42% of net revenues for 1996 and 43% of net revenues in 1997. Both the Pilot Rock and Heppner lumber mills maintained comparable operating margins for both 1996 and 1997.

Depletion, depreciation and amortization increased 64% from \$15.4 million for 1996 to \$25.3 million in 1997 due to several factors affecting depletion. First, Pioneer harvested 19 million board feet more timber in 1997 than in 1996. Second, Pioneer harvested 9 million board feet more timber in 1997 than in 1996 from the Western Oregon timberlands that Pioneer acquired from Lane Plywood. The depletion rate on these export quality timberlands was more than that on the other timberlands. Depreciation and amortization were generally consistent between these periods.

Selling, general and administrative expenses increased 137% from \$3.1 million in 1996 to \$7.4 million in 1997. The increase in selling, general and administrative expenses was due to salary expenses associated

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with staff increases and additional consulting and legal expenses associated with Pioneer's expanded operations.

Interest expense increased 44% from \$6.1 million in 1996 to \$8.7 million in 1997. Most of this increase resulted from the increased debt associated with the 1997 timberland acquisitions.

Other income and expense consisted of \$0.5 million of income in 1997. This income consisted mainly of the gain associated with the sale of an aircraft.

Income taxes are related to Lane Plywood, the only taxable entity within the combined group, and are not material to the combined results of operations.

#### LIQUIDITY AND CAPITAL RESOURCES

##### HISTORICAL

Strategic Timber has financed its operations through commercial loans. At February 28, 1999, Strategic Timber had borrowings under a bridge loan of \$85.0 million. At February 28, 1999, Strategic Timber Partners had borrowings under its revolving credit facility of approximately \$133.8 million. The Strategic Timber bridge loan bears interest at a variable rate based on LIBOR plus an applicable margin (9.00% as of February 28, 1999) and matures on October 27, 1999. The maximum borrowing allowed under the operating partnership credit facility is \$215.0 million, subject to a borrowing base calculation described in the credit agreement. The borrowing base is based on the value of merchantable timber on the Louisiana property, as estimated by Strategic Timber's lenders. The operating partnership credit facility bears interest at a variable rate based on LIBOR plus an applicable margin (7.50% as of February 28, 1999) and terminates on April 25, 2003.

Strategic Timber II has financed its acquisition of the Pacific Northwest properties by issuing \$290.0 million in debt instruments. At February 28, 1999, Strategic Timber II had borrowings under the Strategic Timber II bridge loan in the amount of \$35.0 million, and under the Pioneer credit facility, which consists of a term loan of \$200.0 million and a revolving credit facility for \$53.6 million. The Strategic Timber II bridge loan bears interest at a fixed rate of 9.06% and matures on October 27, 1999. The term loan bears interest at adjusted LIBOR plus an applicable margin (7.57% at February 28, 1999) and matures on September 30, 2003. Term loan payments must be made in quarterly installments and will commence on December 31, 1999. The maximum borrowing allowed under the revolving credit facility is \$70.0 million, of which approximately \$35.0 million can be used for letters of credit. A portion of the revolving credit facility bears interest at LIBOR plus an applicable margin (7.57% at February 28, 1999), while the remaining portion bears interest at the

base rate plus an applicable margin (8.75% at February 28, 1999). The revolving credit facility terminates on September 30, 2003.

Strategic Timber and Strategic Timber II are required to meet certain financial and non-financial covenants under each of the debt instruments, including restrictions on additional borrowings, the maintenance of financial ratios and limitations on capital spending, investments, and asset sales. The bridge loans generally prohibit Strategic Timber and Strategic Timber II from making shareholder distributions while the loans are outstanding. At February 28, 1999, the companies were in compliance with all covenants and expect to remain in compliance in the immediate future. All borrowings are secured by the companies' interests in the operating partnerships, as well as the assets of those partnerships.

Until the completion of the formation transactions and this offering, Strategic Timber and Strategic Timber II expect to finance their on-going operations with cash flows from harvesting activities on their timberlands, as well as by additional borrowings under the Strategic Timber Partners revolving credit facility and the revolving credit facility portion of the Pioneer credit facility. After that time, we plan to extinguish all existing debt using proceeds from this offering as well as funds from a new credit facility.

We will be required to pay additional costs of approximately \$3.3 million in connection with our expected repayment in full of the existing debt agreements. Additionally, assuming that the repayment occurs on May 31, 1999, we expect to recognize an extraordinary loss of approximately \$12.9 million,

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before allocation to minority interests, associated with the extinguishment of existing debt instruments prior to their maturity dates.

In connection with the formation transactions, we have the option to terminate all existing interest rate swaps and to enter into replacement swap agreements required by the new credit facility. We have elected to terminate the existing swaps. Assuming the terminations had occurred on February 28, 1999, we would have recognized a loss of approximately \$3.7 million, before allocation to minority interests, associated with the terminations.

#### NEW CREDIT FACILITY

In connection with this offering, a syndicate of commercial banks and other lending institutions have agreed to provide a new credit facility of \$375.0 million that Strategic Timber and Strategic Timber II will use to repay all existing debt, fund future acquisitions and provide for ongoing working capital requirements.

The new credit facility, to close at the same time as this offering, will include both a single-advance term loan of \$200.0 million and a revolving line of credit of \$175.0 million. Assuming net proceeds from the initial public offering of \$306.4 million, we expect to borrow at the time of closing approximately \$60.0 million under the revolving line of credit and all \$200.0 million of the term loan.

The new credit facility will have a five-year term. No repayment of principal will be required prior to maturity, though the percentage we may borrow against merchantable timber will be reduced on each anniversary of the facility closing. Both the term and revolving line of credit portions of the facility, together with any related interest rate swap obligations, will be secured by first liens on all of our assets.

The amount we will be able to borrow under the \$175.0 million revolving line of credit will be limited to agreed-upon percentages of a borrowing base.

The borrowing base is comprised of the value of merchantable timber and of timber sale contracts containing terms approved by the lenders. Initially, we may borrow up to the sum of 60% of independently valued merchantable timber and 80% of the amounts owed to us under eligible timber sale contracts, less amounts outstanding under the term loan. At each anniversary of the closing of the credit facility, the percentage that we may borrow against merchantable timber will be reduced by 2%, so that during the final year of the five-year loan, we will be able to borrow only 52% of the value of merchantable timber.

Interest rates under the new credit facility and a commitment fee on unused portions of the revolving line of credit will be adjusted each quarter. Adjustment will be based on the ratio of our total debt at the end of the quarter to cash flows achieved in the four-quarter period concluding at the end of the quarter. We will have the option to borrow on the basis of rates tied either to LIBOR or a bank prime rate. Interest rates could vary under the adjustment formulas between a margin of 175 and 300 basis points for advances borrowed on a LIBOR-rate basis. Interest rates could vary between a margin of 25 and 150 basis points for advances borrowed on a prime rate basis. The unused commitment fee could vary between 37.5 and 50 basis points, determined on an annual basis. Interest and commitment fees will be paid quarterly.

Our operations will have to produce a minimum ratio of EBITDDA to interest expense, measured at the end of each fiscal quarter for the prior twelve months. The required minimum EBITDDA to interest ratio is 2.00 to 1 at the end of each fiscal quarter through March 31, 2000, increasing to 2.50 to 1 for each later fiscal-quarter end. We also must maintain a minimum ratio of EBITDDA to the sum of expenditures for interest, shareholder distributions and capital purchases, measured at the end of each fiscal quarter for the prior twelve months. This ratio must exceed 1.00 to 1 at the end of each fiscal quarter through June 30, 2000 and must exceed 1.25 to 1 at the end of later fiscal quarters.

The new credit facility will require us to stay below a maximum ratio of outstanding debt to EBITDDA generated during the prior twelve months. The maximum ratio is 6.00 to 1 at the end of each fiscal quarter through June 30, 2000 and is 5.00 to 1 for each later quarter.

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We expect the provisions of the new credit facility to provide us with significant operating flexibility. There will be no restriction on acquisitions of timberlands within the United States, as long as the acquisitions do not cause us to be out of compliance with borrowing base and financial covenant terms contained in the credit agreement. Timberland acquisitions outside the United States will require lender approval.

The new credit facility will allow us to make shareholder distributions, so long as they do not cause us to default under other terms of the credit agreement. We will be able to make up to \$5.0 million in capital expenditures each year and execute capitalized leases with total payments aggregating less than \$1.0 million annually. There will be no limitation on operating leases we enter into in the ordinary course of business.

Borrowing limitations under the new credit facility will not be as restrictive as those currently applicable to Strategic Timber and Strategic Timber II. We will be able to borrow outside the new credit facility on an equal basis, so long as these borrowings do not contain more restrictive covenants or require principal repayment prior to the five-year maturity of the new credit facility. We expect to be allowed to secure these other borrowings with first liens on certain of our timberland and other properties.

We expect costs of entering into the new credit facility will be approximately \$2.3 million.

We anticipate that our initial working capital, together with anticipated cash flow from operations and anticipated borrowings under the new credit facility, will provide us adequate liquidity to fund our current activities during the five-year term of the new credit facility. However, although we may

have substantial availability under the new credit facility immediately after this offering, we may still need to obtain additional financing. In particular, one of our principal business strategies is to acquire additional timberlands. The implementation of this strategy may require us to obtain external financing in addition to the new credit facility.

#### COMMITMENTS AND CONTINGENCIES

During the period ended December 31, 1998, Strategic Timber entered into a cutting contract whereby the buyer was granted the right to cut approximately 625 acres of timber. Upon closing the contract, Strategic Timber received an advance payment of approximately \$450,000. The contract became effective on December 29, 1998 and expires on December 31, 2000.

Strategic Timber also entered into an agreement in December 1998 with its President and Chief Executive Officer, C. Edward Broom, to sell to Mr. Broom for \$3.0 million approximately 6,700 acres of agricultural land that was acquired as part of the Louisiana property without any separate determination of cost. The sale was effected to provide a source of cash for Strategic Timber to make required payments of bank debt. Mr. Broom and other members of management determined this purchase price to produce the necessary funds to make these payments. The purchase price does not necessarily reflect the price Strategic Timber might have been able to obtain if the property had been fully prepared for sale and exposed to the market for a sufficient period of time to produce the highest price. To protect Strategic Timber's economic interest in the property, Mr. Broom has agreed that Strategic Timber may repurchase the property at any time before December 31, 2000 at the price paid by Mr. Broom, plus a pro rata annual increase at the rate of 8%, compounded annually. See "Transactions with Related Parties."

On December 29, 1998, Strategic Timber II entered into a contract granting Kinzua Resources, LLC the right to harvest timber on a tract in the Pacific Northwest properties (approximately 42,000 acres). The contract is in the form of a timber deed where risk of loss passed to Kinzua Resources for the duration of the contract. The contract expires September 30, 1999. Kinzua Resources may harvest any timber on the defined acreage during the period of the contract. After the contract expires, any standing timber on the tract reverts to Strategic Timber II. Kinzua Resources paid approximately \$5.6 million for these rights, none of which is refundable. Accordingly, Strategic Timber II recognized revenues for the full value of the contract during the period ended December 31, 1998. Kinzua Resources, which operates

sawmills, is controlled by Gregory M. Demers, a continuing investor. See "Transactions with Related Parties."

Revenues, net income and cash flow from our operations will be dependent to a significant extent on our ability to harvest timber at adequate levels. Among other factors, conditions that may restrict harvesting of our timberlands include insect infestation, severe weather, fire, natural disasters and other causes beyond our control. As is typical in the forest products industry we do not, and likely will not, maintain insurance coverage with respect to damage to our timberlands. Even if such insurance was available, the cost would be prohibitive.

The harvesting of timber is also subject to a variety of state and federal laws and regulations, including environmental, threatened and endangered species and habitat for such species, and air and water quality. These laws and regulations are modified from time to time and are subject to judicial and administrative interpretation. Pending regulatory and legal matters or future governmental regulations, legislation or judicial or administrative decisions may have a material adverse effect on our financial position, results of operations or liquidity. See "Risk Factors -- Environmental and endangered species regulations restrict timber harvesting and may otherwise restrict our ability to conduct our business" and "Business and Properties -- Federal and State Regulations."

Strategic Timber and Strategic Timber II have made limited capital expenditures to date. Upon the completion of this offering and the formation transactions, we plan to make capital expenditures in the form of reforestation and silvicultural activities on all of our timberlands. These activities will include thinning, the planned conversion of uneven-aged pine forests to even-aged plantations, road building and maintenance. These expenditures are expected to be approximately \$2.0 million during 1999. In addition, we have engaged Mason, Bruce & Girard, Inc., an independent forestry consultant, for a fee of approximately \$1.3 million to develop an "Option A" timber management plan with respect to our Commander forest to be submitted to the California Department of Forestry and Fire Protection. See "Business and Properties -- Initial Timberland Properties."

#### YEAR 2000

The Year 2000 issue refers to the problems that may arise from the improper processing of dates and date-sensitive calculations by computers and microprocessors embedded in other systems as the year 2000 approaches and is reached. Historically, most computer hardware and software and other systems have used two digits to determine the year in a date. For example, the year 1975 would be identified by 75. Therefore, some systems cannot distinguish dates in the 2000s from dates in the 1900s.

To address this issue, we have taken an inventory of all of our information technology, or IT, systems, such as computer hardware and software, and non-IT systems, such as fire alarms, and have assessed the readiness of these systems for the year 2000.

We use personal computers and personal computer-based applications in our daily operations. Because we purchased most of the hardware and software for these systems during 1998, we believe that most of our IT systems should already be Year 2000 compliant. We have received assurances from the manufacturer that the personal computers we purchased are Year 2000 compliant. To verify this, we have tested our hardware, all of which appears to be Year 2000 compliant. In addition, we have begun to assess the readiness of software packages we use, including our geographic information system, or GIS. In most cases, we have received assurances from the manufacturers of these software packages that the programs are Year 2000 compliant. We are currently in the process of obtaining these assurances in writing. We expect that testing on software applications will be completed by the end of the second quarter of 1999.

Due to our recent formation, and because of Pioneer's historical methods of operations, there are a limited number of non-IT systems requiring assessment. Accordingly, our Year 2000 compliance plans involve assessing and testing IT systems first and non-IT systems second. The Year 2000 compliance of non-IT systems has not yet been assessed. We expect to assess these systems beginning in the second quarter of 1999.

We rely on our customers for revenue and rely on vendors for services, including inventory tracking, reforestation, and other services. Inadequate Year 2000 compliance programs by these parties could have an adverse effect on our operations. For instance, if customers become unable to pay, our receivable balances would increase, affecting cash flows. If vendors provided inaccurate inventory data, our harvest plans would not be optimized. Our most significant vendors are independent scaling bureaus in the Pacific Northwest that measure the volume of timber harvested by our customers. They record and transmit data relating to measured volumes electronically using computer software. If this software is not Year 2000 compliant, measurements could be inaccurate or we would have to rely on manual calculation and delivery of measurement data. We are currently writing to the scaling bureaus and other key vendors, suppliers and customers to determine the status of their Year 2000 compliance programs. We expect to have all responses accumulated by the end of the second quarter. We have not developed any contingency plans in the event any of our key vendors is not compliant at this time. We will develop contingency plans, if needed, after assessing the responses we receive from our vendors and suppliers.

On a combined basis, we have spent less than \$10,000 through December 31, 1998 on our Year 2000 compliance programs. We expect to spend approximately \$15,000 during the remainder of 1999 to address the Year 2000 issue.

We believe that our most reasonably possible worst case scenario related to the Year 2000 issue is that our key information systems, such as the GIS, will not be Year 2000 compliant. We also would have operational difficulties if the parties who measure the volumes of timber harvests, which may be our customers or independent scaling bureaus, are unable to record and transmit data because they are not Year 2000 compliant. If this or any other component of our Year 2000 compliance plan is not adequately completed prior to January 1, 2000, we can operate our businesses manually until such time as all systems become compliant. We do not expect that the short-term manual operation of our businesses would have a material adverse effect on the financial condition or results of operations.

We cannot be certain that we have identified all potential Year 2000 issues or that we will be Year 2000 compliant by January 1, 2000. Non-compliance by us or our key vendors and customers could have a material adverse effect on our future results of operations or financial condition.

#### MARKET RISK

Financial market risk is the risk of loss from adverse changes in financial market prices and rates. Our principal financial market risk is related to changes in interest rates because we borrow money based upon variable rates of interest. Our borrowings as of February 28, 1999 are as follows:

<TABLE>  
<CAPTION>

	AMOUNT	MATURITY DATE	INTEREST RATE
<S>	<C>	<C>	<C>
Fixed Rate Debt:			
Strategic Timber II bridge loan.....	\$ 35,000,000	October 27, 1999	9.06%
Variable Rate Debt:			
Strategic Timber bridge loan.....	85,000,000	October 27, 1999	9.00%
Strategic Timber Partners credit facility.....	133,787,000	April 25, 2003	7.50%
Strategic Timber II term loan.....	200,000,000	September 30, 2003	7.57%
Strategic Timber II revolving credit line.....	53,600,000	September 30, 2003	7.87%
	-----		
	\$507,387,000		
	=====		

</TABLE>

The carrying value of our debt approximates its fair value.

To lessen our risks associated with changing interest rates, we have entered into interest rate swap agreements. Under our swap agreements, we must pay a third party, often called a counterparty, a fixed interest rate on a specific amount of money, or notional amount. In turn, the counterparty pays us interest on the notional amount at a rate that is tied to a fluctuating market rate. The fluctuating rate is calculated

on periodic calculation dates based on a three month maturity of LIBOR. In most instances under our swap agreements, the net amount that we either pay or receive is determined on each calculation date and then we either receive or make a payment three months after the calculation date.

Swap agreements serve to protect us against rising interest rates and the

lender against falling interest rates. If interest rates rise, then the amount that we receive from the counterparty increases. We use this additional amount to pay the increased market rate for borrowings under our credit facility. If interest rates decrease, then the amount that the counterparty would receive from us increases. We would be required to pay the counterparty interest on the notional amount equal to the difference between the higher fixed rate and the lower market rate. The lower market rate of interest on our credit facility would offset our payments to the swap counterparty. Although the swap agreement limits our risk to rising interest rates, it also minimizes our benefit if interest rates decrease.

However, swap agreements do not completely protect us from increases in interest rates. At February 28, 1999, the total notional amount represented by all of our swap agreements was \$200.0 million, although we had \$507.4 million in total borrowings under our debt instruments as of that date. We have provided information about our existing swaps, as of February 28, 1999, in the table below.

<TABLE>

<CAPTION>

NOTIONAL AMOUNT	MATURITY DATE	FIXED RATE	VARIABLE RATE AT FEBRUARY 28, 1999		FAIR VALUE OF SWAP AT FEBRUARY 28, 1999
			RATE	BASED ON	
<S>	<C>	<C>	<C>	<C>	<C>
Strategic Timber \$100,000,000	May 13, 2002	5.99%	5.00%	3 Month LIBOR	(\$1,185,807)
Strategic Timber II \$25,000,000	October 14, 2003	6.69%	5.06%	3 Month LIBOR	(\$1,167,177)
\$25,000,000	October 14, 2003	6.69%	5.06%	3 Month LIBOR	(\$1,098,553)
\$50,000,000	September 30, 2003	5.77%	5.06%	3 Month LIBOR	(\$ 231,098)
					-----
					(\$3,682,635)
					=====

</TABLE>

The fair value of the swap represents the amount that Strategic Timber or Strategic Timber II would have to pay to terminate the swap.

Our new credit facility will require us to enter into swap agreements for at least \$100.0 million in total notional amount. Accordingly, we will terminate our existing swap agreements. Assuming that we terminated these agreements on February 28, 1999, we would have recognized a loss of approximately \$3.7 million before allocation to minority interests. We intend to enter into new swap agreements with terms that are similar to our existing swaps, although we cannot assure you that this will be the case.

It is likely that the total notional amount of new swaps we enter into will be less than the total borrowings under the new credit facility. This means that the interest payments we recover from all counterparties under our swap agreements may be much less than the total amount of any additional interest we must pay to our lenders if interest rates increase. Despite any shortfall in interest rate protection, we would be required to pay the excess interest to the lender whenever a payment is due under the terms of the credit facility.

Our protection under our interest swap agreements may be limited further by the timing of interest rate calculations between the swaps and our credit facility. The floating interest rate under our swap agreements is usually determined three months in advance. However, under our credit facility, our interest rate may be based on the prime lending rate, which is recalculated every day. If interest rates climb in the short term, the interest we pay on the credit facility may increase without any immediate adjustment to the payments we receive from our counterparties under our swap agreements. Ultimately, the expense associated with our swaps may be greater than the benefit. If we desire to terminate them, we may be unable to do so because the terms of our new credit facility will require us to maintain swaps with at least \$100.0 million in notional amount during the life of the facility.



When we enter into swap agreements, we are subject to a risk called counterparty credit risk. This term refers to the risk that the counterparty will not be able to perform its obligations under the swap agreement. We limit our exposure to counterparty credit risk by entering into swap agreements only with recognized dealer banks and financial institutions. We expect these institutions will be able to perform their obligations under our swap agreements.

Borrowers who enter into swap agreements are also subject to the risk that the swap agreement may be legally unenforceable. However, we attempt to minimize this risk by entering into swap agreements governed by state or U.S. law with large U.S. banks. Currently, none of the counterparties to our existing swaps has sold any of them to a third party.

Strategic Timber and Strategic Timber II incurred \$254,827 and \$189,108, respectively, of net interest expense in 1998 relating to swap agreements.

## BUSINESS AND PROPERTIES

Timber industry terms used in this section are defined in "Glossary of Selected Timber Industry Terms" beginning on page 134 of this prospectus. In this section we refer to timber volumes in terms of board feet, which is the standard for measurement in the western United States, and tons, which is the standard in the southeastern United States. To aggregate our holdings, we have in some cases converted board feet or tons to cunits. Each cunit is equal to 100 cubic feet of timber. We convert one thousand board feet of timber to 2.25 cunits, and one ton of timber to 0.3525 cunits.

### OVERVIEW

#### WE OWN AND SELL TIMBER

We acquire, own and manage timberlands and sell timber. We intend to acquire additional timberlands and capitalize on the growing trend toward consolidation of timberland ownership.

We currently own approximately 448,000 acres of timberlands in the states of California, Louisiana, Oregon and Washington. Our timberlands contain a total of approximately 5.7 million cunits, or approximately 2.54 billion board feet, of a variety of species of merchantable timber. Timber is considered merchantable in a particular timber market when it meets the minimum size and usable volume that is suitable for sale for commercial uses in that market. Approximately 92% of our merchantable timber is sawtimber, which is timber that is of sufficient size and quality to be manufactured into lumber or plywood. Sawtimber is more valuable than timber of the same species that can be converted only into pulp, paper products or other wood products.

Our timberlands contain substantial inventories of premium species and grades of timber with a variety of end uses. When we refer to "premium" species of timber, we mean species whose market value is among the highest in the specific geographic area where it is located. This market value is based upon the size, quality and end uses of the species. Approximately 4.0 million cunits, or 70.3% of our total merchantable timber volume, consist of premium softwood species, such as Douglas-fir, second-growth redwood, southern pine, ponderosa pine and cedar. Approximately 18.2% of our merchantable timber volume consists of other softwood species and the remainder consists of hardwood species.

Our timberlands are located near approximately 137 mills, called timber conversion facilities, that convert the timber we sell into wood products, such as lumber, plywood, paper and wood pulp. Some of these mills are owned by forest products companies that also own standing timber. Based on market surveys that independent forest industry consultants have prepared for us, annual total

consumption of timber within the markets that we serve is over 7.2 billion board feet. Over each of the next five years, we plan to sell approximately 3% of this amount from our initial timberlands. Based on these facts, we believe that our timberlands are located in active and competitive markets for timber, including sawtimber.

#### WE FOCUS ON GENERATING CASH

Our revenues will come primarily from the sale of timber. We do not have the cash operating expenses, working capital needs and capital expenditures associated with lumber mills, paper mills or other timber conversion facilities.

As timber is harvested under timber cutting contracts, we will record revenues. Accounting rules require us to reduce recorded income by a non-cash depletion charge against the initial investment in the harvested timber. This depletion charge will materially reduce any income that can be recorded for accounting purposes from the sales of timber in years immediately following our acquisition of timberlands. However, this charge will not reduce cash available to us for distribution or reinvestment. As a result, we believe the cash we generate from our operations will exceed our earnings for accounting purposes.

We will elect to be taxed as a REIT for federal income tax purposes. Because most of our net income will be treated as capital gains, the tax rules that generally require REITs to distribute 95% of their

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ordinary income to shareholders will not affect us. We intend to use this flexibility to retain a substantial part of the cash we generate to acquire additional timberlands.

#### HOW WE OPERATE AND RECOGNIZE REVENUE

We sell standing timber rather than delivered logs, which are the cut segments of the tree. We enter into timber cutting contracts with third parties that require them to harvest and pay for standing timber. These parties include forest products companies and, less frequently, brokers and loggers.

In selecting timber to be sold for harvesting, we evaluate all of our timberlands as a whole. We take into account, among other factors, the relative maturity levels and current productivity of tracts available for harvest, the strength of local markets and the desirability of reforesting a particular area. This approach allows us to increase the overall growth rate of our timber and better balance the age class distribution of our holdings. Once we have identified specific timber tracts to be offered for harvest, we will either seek sealed bids from prospective buyers or negotiate a purchase with one or more buyers. After we have found a suitable buyer, we will enter into a cutting contract with the buyer.

Under cutting contracts, the buyer, at its expense, is required to cut the purchased timber and haul the logs to its own conversion facility, or to another purchaser to whom it is reselling. Our contracts with auction buyers typically range from three to 18 months in length. We currently have negotiated contracts which extend for up to six years, and we may enter into longer term contracts in the future. Contracts with terms of more than one year provide for price adjustments at least annually and typically require the buyer to cut minimum amounts of timber each year. Within these limits, the buyer has discretion as to when it harvests our timber, although buyers typically begin their harvests as soon as practicable after entering into contracts with us. Title to and risk of loss of the timber passes from us to the buyer when the timber is actually removed from the land.

For accounting purposes, we recognize revenue at the time the buyer cuts

and takes title to the timber. Under our cutting contracts, the buyer generally pays us when it cuts the timber. Many of the contracts require the buyer to pay us a portion of the expected value of the timber at the inception of the contract. The advance payments under our current contracts aggregate approximately 16% of the total expected 1999 annual payments for harvests under these contracts, and are offset as the buyer harvests the timber. We do not escrow these advance payments and are free to use them in our business for any purpose. Buyers will be entitled to refunds of any remaining advance payments not charged against timber cut if timber is not available for harvest because of fire, weather, disease or other damage. If timber is available for harvest, but the buyer fails to cut the amounts it agreed it would cut, we may be entitled to damages on account of this breach, but we must refund any remaining balance of advance payments in excess of these damages.

We expect our revenues will be seasonal. Rain in winter and our fire prevention measures in spring and summer limit timber harvesting on the Louisiana property. Similarly, harvesting on the Pacific Northwest properties is typically interrupted for periods during the winter and spring due to snow and melting snow, and occasionally in the late summer due to fire prevention measures. We expect that our financial results in the first and fourth quarters may be materially affected by winter rain and snow. Our financial results in the second and third quarters may be materially affected by the risks of fire.

In addition to cutting contracts, we also expect to derive revenues from several other sources. We will grant hunting, grazing, camping and other rights of access to approved hunting clubs and individuals. These hunting leases and other rights will both produce revenues and help us to maintain and protect our properties. From time to time, we expect to make incidental sales of portions of our properties that have a higher and better use than the long-term production of timber.

After a timber tract has been harvested, we reforest the tract as soon as practicable, generally within the next twelve months. We reforest using independent contractors working under our supervision. The costs of reforestation represent the majority of our capital expenditures.

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#### OUR OPERATING COSTS ARE LOW

We have a low-cost operation because we perform few of the "on the ground" functions required to harvest timber. We sell standing timber and do not cut timber directly or hire third-party loggers to cut our timber. Instead, buyers under cutting contracts are responsible for cutting and transporting timber. By limiting our expenses, we expect to maintain higher operating margins on our timber sales than if we cut and removed timber ourselves.

Most of our operating costs are fixed and consist of employee salaries and benefits and the costs of our facilities and supplies. Until recently, we utilized a third-party forest management firm to manage our Louisiana property. Currently, our employees manage all of our timberlands. However, we may engage third-party forest management firms for consulting services. We believe that our current staffing and facilities are sufficient to manage our current timberland holdings as well as additional timberlands that we may acquire within the next few years.

#### BUSINESS STRATEGY

##### OUR OBJECTIVE IS TO MAXIMIZE LONG-TERM SHAREHOLDER VALUE

We intend to:

- focus on owning timberlands and selling timber for harvest, not on owning or operating lumber mills or other timber conversion facilities;

- acquire additional timberlands that will increase our ability to generate cash and enhance the overall value of our timberlands;
- actively manage our timberlands to enhance timber growth; and
- develop timber selling and reforestation plans to increase the long-term value of our timberland portfolio.

#### WE FOCUS ON OWNING AND SELLING TIMBER

We intend to focus on timberland ownership and selling timber for harvest, which we believe will enable us to:

- avoid the conflicts that frequently arise within the paper and forest products industry between providing consistent timber supplies to captive mills and managing a forest for growth in order to increase timberland value; and
- increase the value realized from our timber resources by selling our timber to the highest bidder in each market in which we participate rather than to captive mills.

#### WE ACQUIRE TIMBERLANDS TO GENERATE CASH AND ENHANCE LONG-TERM VALUE

As an owner of timberlands and a seller of timber, as opposed to an owner or operator of timber conversion facilities, we are a natural acquiror of timberlands from a variety of potential sellers. We believe that U.S. timberland ownership will continue its recent trend of consolidation. Specifically, we believe that timberland ownership will continue to shift from forest products companies that also own mills to companies that solely own and manage timberlands. Furthermore, we expect to see some small landowners sell their timberlands to larger organizations that have greater financial resources and can provide professional management of the timberlands.

We believe that forest products companies frequently view their timberland assets as a means of assuring supply to, and profitability of, their mills without considering separately the current value of their timber resources. We believe that these companies are under increasing pressure to realize the value of their timberland assets by selling or monetizing them. We believe that we may be viewed by these companies as a preferred purchaser of their timberlands because we do not compete with their manufacturing operations.

Smaller private timberland owners who seek to diversify their timberland ownership and obtain liquidity also present us with acquisition opportunities. We believe that small timberland owners lack the scale of operations needed to efficiently manage their timberland assets. Private landowners may be reluctant to make outright sales of their timberlands, even if they would like additional liquidity, because sales may trigger taxes or be inconsistent with their estate plans. These issues can often be compounded by irregular cash flow from smaller timberland tracts.

According to the most recent U.S. Forest Service estimates, approximately 490 million acres of timberlands in the United States are owned by non-government owners. The largest non-government owner holds less than 3% of all U.S. timberlands. We believe this fragmented ownership of timberlands presents us with a wide variety of potential timberland acquisition candidates. We intend to take advantage of these acquisition opportunities by:

- retaining a significant portion of our internally generated cash for timber acquisitions;
- maintaining financial flexibility through a conservative capital structure with a target debt-to-total market capitalization ratio of approximately 40%, which we believe will better enable us to fund acquisitions when opportunities arise;
- using units in our operating partnership as a form of consideration for acquisitions, an approach that will permit the seller to defer taxes and achieve liquidity and professional management; and
- accessing capital markets to provide additional funds for acquisitions.

Through acquisitions of timberlands, we intend to broaden and enhance the value, marketability and diversity of our timber portfolio. We evaluate each proposed acquisition based on the specific characteristics of the property. Our evaluation criteria include:

- volume of merchantable and premerchantable timber on the property;
- productivity of the property's soils;
- growth rates of timber on the property;
- regional market supply and demand factors affecting the property;
- the proportion of sawtimber on the property;
- whether the acquisition will enhance the mix of species or diversify the ages of timber in our timber portfolio; and
- environmental and endangered species conditions, including restrictions on harvesting that could limit the amount of timber that can be cut.

We look for properties that present opportunities to increase cash flow and derive more value from the property than the seller is obtaining. We seek to derive additional cash flow and value by:

- modifying a property's timber selling plan in ways that may not be feasible for the seller given the size and composition of the seller's timber portfolio or the seller's purpose in holding the timberlands -- for example, as a source of raw material supply for a given mill;
- targeting high-value uses for our timber -- for example, selling tall, straight trees to be used for poles rather than for sawtimber or pulp;
- developing an industry brand name based on the size and quality of our timber portfolio;
- implementing cost saving opportunities available by managing the acquired timberlands as a component of our total portfolio; and
- leasing tracts for recreation, grazing, hunting and other activities not related timber production and selling tracts which are suited for better and more valuable uses, such as for residential or commercial development.

Based on the substantial prior timberland acquisition experience of our management, we believe that we can acquire timberland properties on more favorable terms through private negotiations rather than through competitive auctions. Accordingly, we intend to pursue privately negotiated acquisitions as our principal means of acquiring timberlands.

Our principal focus for acquisitions will be on timberlands located within developed markets in the continental United States. Developed markets are areas with a number of independent lumber mills, paper mills or other timber conversion facilities sufficient to create competition for our timber.

We also intend to explore potential timberland acquisition opportunities in Latin America and in other active timber growing regions of the world. We currently intend to limit our ownership of non-U.S. timberlands to no more than 20% of our asset portfolio. We intend to seek non-U.S. timberlands with values that are depressed relative to those in the United States. Prices of non-U.S. timberlands may be depressed due to undeveloped or underdeveloped forestry management plans, markets or infrastructure. Based on the experience of our management, we believe many timberland acquisition opportunities outside of the United States can provide higher risk-adjusted returns due to low-cost labor, land, and energy, fertile soils and favorable climates, in combination with the introduction of modern forestry practices and improved product marketing.

#### WE EMPLOY ACTIVE FOREST MANAGEMENT PRACTICES TO ENHANCE TREE GROWTH

Tree growth is a major driver of timberland returns. We employ advanced forest management practices, also called silviculture, to enhance this growth, improve the quality of our timber and reduce the time required for a tree to be ready for harvesting. The application of silvicultural practices such as choosing seedlings with superior genetic characteristics, fertilizing, pruning, thinning and controlling pests and diseases, can improve both tree growth rates and wood quality. We employ professional forest managers who are experts in applying these silvicultural techniques to our local forests and tree species.

#### WE DEVELOP HARVEST AND REFORESTATION PLANS THAT INCREASE LONG-TERM PORTFOLIO VALUE

We believe that good silvicultural practices will produce both financial and environmental benefits. Our strategy is to design forest management plans to bring each of our forests into a balanced state. A balanced forest contains a roughly equal number of acres of trees of each age class from newly planted seedlings to mature trees. Once a forest reaches a balanced state, we intend to manage it to generate predictable, consistent and sustainable annual timber harvests and cash flow. An additional benefit of active forest management is that the actively managed forest is more resistant to the threats of fire, pests and disease than a forest left purely in its natural state.

We intend to develop operating plans for each of our properties. These operating plans include site-and species-specific harvest and reforestation plans. While we establish plans for our portfolio as a whole, we maintain the flexibility to increase or decrease harvest levels and alter the species mix and location on each of our timberlands in response to local market conditions. Finally, to enhance values in the future, we engage in an active reforestation program, planting species well suited for local soils and markets.

We use a computer system called a geographic information system, or GIS, in the management of our timberlands. Our GIS data, which we will compile over a period of years, will include detailed topographical field maps for all our timberlands describing the characteristics, including age, species, size and other characteristics of our timber.

With the aid of the GIS, we will be able to manage our timberland portfolio actively, track inventory and develop site-specific harvest plans. We will also be able to monitor other critical aspects of our timberlands as required, such as the location of roadways or wildlife nesting areas. We expect to use the GIS to analyze the impact that new legislation may have on our timberlands by modeling the effect of the legislation on our timberland portfolio. We will also use the GIS to evaluate potential acquisition opportunities.

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Many of our competitors and smaller timberland owners do not utilize a GIS, mainly due to the relatively high initial cost and to the length of time necessary to collect sufficient data to optimize its use. Thus, we believe the GIS will give us an advantage over our competitors who do not use this system.

#### OUR COMPETITIVE STRENGTHS

##### WE HAVE EXPERIENCED MANAGEMENT WITH SIGNIFICANT OWNERSHIP

C. Edward Broom, Christopher J. Broom, Thomas P. Broom, Vladimir Harris and Joseph E. Rendini founded Strategic Timber in April 1998. These individuals collectively have substantial experience in acquiring, owning and managing timberland assets. Since 1985, they have collectively participated in a series of timberland investments in the United States, Latin America and New Zealand, as principals, investment managers and investment advisors.

Our founders have hired both former colleagues and advisors with whom they have worked successfully in the past. These individuals have diverse experience and expertise in our key areas of timberland acquisition, operation and management.

Upon completion of this offering, management will beneficially own 1,605,723 shares of common stock and partnership units, representing 7.2% of the shares of common stock and partnership units that will be outstanding. We believe that management's equity ownership in Strategic Timber and Strategic Timber Partners aligns the interests of management and shareholders.

##### WE HAVE A DIVERSIFIED PORTFOLIO OF TIMBERLAND

**Geographic Location.** Our initial portfolio of 448,000 acres of timberlands is well diversified by geographic region. Approximately 35% of our merchantable timber is located in Louisiana, 34% in coastal California, 14% in Oregon, 12% in interior California, and 5% in Washington. We intend to enhance this geographic diversity through acquisitions by increasing our ownership in less dominant regions and expanding to new areas.

**Species.** Our timberlands support a variety of species, including Douglas-fir, southern pine, second-growth redwood, western pine, hemlock, red cedar and hardwood. Southern pine and Douglas-fir each account for about one-quarter of our merchantable timber, and second-growth redwood and ponderosa pine account for approximately 16% and 7% of our merchantable timber, respectively. Other softwood species account for approximately 15% and hardwood accounts for approximately 11% of our total merchantable timber portfolio.

**End Use Market.** We sell timber for a variety of end uses. Our pine sawtimber in Louisiana and Douglas-fir in the western states is usually converted into lumber for construction purposes. Our California and Oregon ponderosa pines are processed into construction lumber, but also are used to make molding, doors, windows and furniture. Second-growth redwoods produce highly durable lumber, which is used for decks and patios. Most of our hardwood inventory is processed into wood pulp and, ultimately, into various paper products. Because our timber can be used in many applications, we can sell our trees to a variety of different timber conversion facilities.

## WE FOCUS ON OWNING AND MANAGING TIMBERLANDS

We own and manage timberlands but do not own or operate timber conversion facilities. Paper and forest products companies, which have substantial timberland holdings, may view us as a preferred purchaser when considering the disposition of their timberlands, because we do not directly compete with their manufacturing operations.

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## OUR REIT STRUCTURE WILL BENEFIT OUR SHAREHOLDERS

We intend to operate as an umbrella partnership real estate investment trust, known as an UPREIT, which means we will own timberlands indirectly through our operating partnership. We believe the UPREIT structure will offer the following benefits to our shareholders:

- TAX EFFICIENCY -- Our REIT structure, coupled with our focus on timberland holdings, will provide substantial tax advantages, including:
  - a single tax on virtually all, if not all, of our taxable income whether or not distributed, rather than a tax at both the corporate and shareholder levels;
  - a substantial timber depletion allowance that will reduce our taxable income, without reducing our cash flow;
  - treatment of distributions to our shareholders either as tax-free return of capital or as capital gain;
  - flexibility to retain and reinvest cash primarily for timber acquisitions, rather than making tax-mandated distributions to shareholders; and
  - generally, no unrelated business taxable income to our tax-exempt shareholders.
- ATTRACTIVE ACQUISITION CURRENCY -- We may be able to structure timber acquisitions in a way that will permit a seller to obtain liquidity by exchanging timberland for operating partnership units without incurring tax at the time of the disposition. This may enhance our ability to complete acquisitions on terms that are more favorable to us.

## TIMBER INDUSTRY OVERVIEW

### TIMBER AS AN ASSET CLASS

We believe that timber represents an attractive asset class for a number of reasons, including the following:

- REGENERATION -- Timber is a growing and renewable asset, unlike natural resources such as minerals, oil and natural gas.
- PREDICTABLE GROWTH -- Trees grow predictably and, as they grow, they become worth more per unit of volume because they have higher value end uses. For example, solidwood products, which are made from larger trees, are a higher value end use for timber as compared to pulp or paper



products, which are typically made from smaller trees.

- HARVEST FLEXIBILITY -- As an independent timberland owner, we have substantial flexibility to enter into new cutting contracts to generate additional timber sales when local timber prices are high. When local timber prices are low, we can avoid entering into new cutting contracts and let our timber continue to grow.
  
- FAVORABLE LONG-TERM WORLDWIDE SUPPLY/DEMAND FUNDAMENTALS -- According to forestry consultant analyses, demand for wood and wood products has historically been correlated to population growth, economic development and standards of living, which are forecast to continue to increase. By contrast, we expect that worldwide timber supplies will be constrained relative to demand.
  
- HISTORICAL REAL PRICE APPRECIATION -- Domestic timber prices have, over the long term, increased at rates in excess of inflation. The U.S. Forest Service estimates that, from 1967 to 1997, prices for Douglas-fir, ponderosa pine and loblolly pine increased at average rates of between 7% and 9% per year, or between 2% and 4% per year after adjusting for inflation.

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## PRODUCTS AND MARKETS

We sell the timber harvested from our timberlands for processing as either sawtimber or pulpwood by facilities located generally in close proximity to our timberlands. Sawtimber typically is converted into lumber, plywood and other solidwood products. The harvested timber that is of insufficient size or quality to be converted into lumber or other solidwood products is sold for conversion into pulp, paper and engineered wood products. The lumber, pulp, paper and other wood products are then distributed in domestic and international markets. Timber markets, while regional in terms of purchasers of timber, are impacted by the availability and cost of timber from other regions and by global economic conditions.

Approximately 92% of our merchantable timber inventory is in the form of sawtimber that can be manufactured into solidwood products. The remaining 8% is timber that we can sell as pulpwood. Our objective is to sell sawtimber instead of pulpwood. We achieve this goal by allowing our trees to mature into sawtimber instead of cutting them for sale as pulpwood. However, we may cut and sell pulpwood as part of our thinning and forest management practices.

## TIMBER DEMAND, SUPPLY AND PRICES

Demand. Demand for timber depends upon the markets for wood products, including lumber, plywood, pulp and engineered wood products. Because these markets are impacted by changes in domestic and international economic conditions, demand for these products can experience significant fluctuations. Regional timber demand can also fluctuate due to changes in operating rates or the number and size of wood conversion facilities within the region.

Our timber portfolio consists primarily of softwood timber. Douglas-fir, southern pine, second-growth redwood, ponderosa and sugar pine, hemlock, cedar and white fir are the most prevalent softwood species on our timberlands. Currently, approximately 11% of the volume of our merchantable timber consists of hardwoods.

A substantial portion of softwood timber is converted into lumber. Demand for lumber is primarily impacted by the home construction, repair and remodeling markets and the industrial construction market. Because of the structural strength and stability of Douglas-fir and southern pine lumber, their most important use is for construction lumber. Douglas-fir is particularly well-known for its appearance and hard surface quality. Sugar and ponderosa pines are used primarily for new construction as well as for decorative purposes such as molding, doors, windows and furniture. These pines are recognized for their strength, durable surface and appearance. Second-growth redwood is also converted into premium-grade lumber used primarily in applications where appearance and durability are important, such as residential porches and decks.

Second-growth redwood is known for its natural beauty, superior ability to retain paints and finishes and resistance to decay, insects and chemicals. As a result, second-growth redwood is not generally used to produce lumber for construction and its price has historically been less volatile than that of other premium softwood species.

The most common applications for hardwood sawtimber include furniture, flooring and moldings. Thus, demand for hardwood sawtimber is generally less susceptible than softwood timber to fluctuations in construction activity. Most of the hardwood timber on our initial timberlands is pulpwood, usable for paper and other commodity applications rather than specialty applications such as furniture.

Some timber species grown on the U.S. west coast, such as Douglas-fir and hemlock, have historically experienced significant demand in the Japanese markets. These products have strength, appearance and stability characteristics that have historically been highly valued in Japan and, as a result, have attracted higher prices than would have been realized if sold in the domestic market.

U.S. log exports have declined steadily over the past eight years, generally a result of increased competition from European producers, and more recently the deteriorating economic and financial conditions in Asia. According to U.S. Forest Service data, log exports from the United States have fallen from approximately 7.5 million cunits in 1989 to approximately 3.3 million cunits in 1997.

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Supply. The Pacific Northwest and the Southeast are the two principal timber producing regions in the United States.

The supply of logs available for purchase in the Pacific Northwest has been significantly affected in recent years by reductions in the volume of timber harvested from public lands. This reduction is primarily a result of increased governmental policy emphasis toward protection of endangered species, habitat preservation, conservation and recreation. According to U.S. Forest Service data, the timber harvested from federal lands in California, Oregon and Washington in 1997 was approximately 1.4 billion board feet, a decline of 80% from the approximately 6.7 billion board feet harvested in 1988. We expect that the amount of timber harvested from federal lands will remain at current levels or continue to decline. This trend changes the supply emphasis to the private sector and thus strengthens our position as a private seller of timber. Timber harvests have declined more in the western United States than in the southeastern United States because public timberland ownership in the west represents a substantially greater proportion of the total than it does in the southeast.

Timber harvests can fluctuate regionally depending upon factors such as changes in weather conditions, harvest strategies of local forest products industry participants and prevailing timber prices. Rising timber prices often lead to increased harvests on private timberlands. Timber prices are also affected by lumber prices, which depend upon a number of factors, including the level of domestic lumber consumption and production, conditions in export markets and lumber imports from Canada and other countries. U.S. imports of wood products have historically been limited by freight costs and, since April 1996, by the five-year United States-Canada lumber trade agreement. However, these limitations on U.S. imports have been partially mitigated by reduced U.S. lumber and log exports and increased lumber imports from Canada, Europe and other regions.

Lumber imports also compete indirectly with timber harvested in the United States. Because a large portion of logs are converted into lumber, imports of lumber into the United States reduce the demand for logs at U.S. conversion facilities. U.S. Forest Service data indicate that lumber imports represented 36% of the United States consumption of softwood lumber in 1997.

According to U.S. Forest Service data, log imports into the United States historically have not been significant. Small volumes of logs are imported from

Canada into the states of Washington and Maine for conversion into lumber and pulp, but the volumes do not materially impact the regional markets. Global log markets can, however, affect the prices paid for U.S. log exports because U.S. exporters face strong competition in their key markets.

Prices. Short term timber prices have historically been cyclical as a result of supply and demand imbalances. However, timber prices have increased at rates above inflation over the long term. The U.S. Forest Service estimates that between 1967 and 1997, timber prices for Douglas-fir, ponderosa pine and loblolly pine timber experienced average annual increases of 7.2%, 8.7% and 7.2%, respectively, compared to an average inflation rate of 5.2%.

The reduction in log supply from public lands that occurred at the beginning of this decade caused prices for logs to increase significantly, reaching peak levels during late 1993 and early 1994. Forest industry publications indicate that, since 1996, exports of Douglas-fir logs and lumber to Japan have been greatly reduced. These trends likely have reduced prices for Douglas-fir and some pine species in the Pacific Northwest. However, strong domestic construction and repair and remodeling markets continue to support softwood log prices.

The graph below illustrates historical price indices for representative species of timber sold in the areas in which we currently operate. Mason, Bruce & Girard, Inc., an independent forestry consultant, has determined the price indices for timber. The price indices for timber are based upon average delivered log prices adjusted to exclude typical logging and transportation costs for timber in those operating areas. The consumer price index, or CPI, is based on data provided by the U.S. Bureau of Labor Statistics.

HISTORICAL PRICE INDICES OF SELECTED TIMBER SPECIES

(1990 = 100)

<TABLE>  
<CAPTION>

	1990	1991	1992	1993	1994	1995	1996	1997	1998
	----	----	----	----	----	----	----	----	----
<S>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>	<C>
California Coastal - Redwood	100.0	88.0	144.0	223.8	252.7	184.8	163.4	146.6	161.0
Louisiana - Pine Sawtimber	100.0	101.2	126.6	143.1	176.6	203.3	173.8	231.3	227.8
Washington - Douglas-fir	100.0	100.6	146.1	210.1	200.2	206.6	217.4	193.6	141.9
CPI	100.0	103.0	105.9	109.0	111.9	114.7	118.5	120.6	122.9

</TABLE>

The table below provides estimated average regional market prices for timber as of December 31, 1998, based on market surveys of similar species conducted by our independent forestry consultants, Mason, Bruce & Girard on the California, Oregon and Washington properties, and Canal Forest Resources, Inc. on the Louisiana property. All prices are expressed in dollars per thousand board feet, except prices for Louisiana pine timber, which are in dollars per ton. These prices are lower than the mill-delivered prices that form the basis for most published timber pricing, because mill-delivered prices include the costs of cutting timber and transporting it to the mill. The difference between mill-delivered prices and standing timber prices will vary based on the terrain and weather on the property and how far the property is from mills.

<TABLE>  
<CAPTION>

	PRICES OF STANDING TREES AS OF DECEMBER 31, 1998 -----
<S>	<C>
CALIFORNIA -- COASTAL FOREST	

Second-growth redwood.....	\$468
Douglas-fir.....	\$228
CALIFORNIA -- COMMANDER FOREST	
Ponderosa pine.....	\$350
Douglas-fir.....	\$250
LOUISIANA	
Pine.....	\$ 46
OREGON	
Ponderosa pine.....	\$294
Douglas-fir.....	\$294
WASHINGTON	
Douglas-fir.....	\$441
Western hemlock.....	\$335
Cedar.....	\$745

</TABLE>

#### INITIAL TIMBERLAND PROPERTIES

We have summarized below the merchantable timber, acreage, and predominant species for our initial timberland portfolio by region.

<TABLE>

<CAPTION>

REGION	ACRES	PREDOMINANT SPECIES	MERCHANTABLE TIMBER	
			LOCAL UNITS (A)	CUNITS (A)
<S>	<C>	<C>	<C>	<C>
California	122,339	Second-growth redwood, Douglas-fir, ponderosa pine, true firs	1,161,000 MBF(b) 5.6 million)	2,613,000
Louisiana	82,009	Slash and loblolly pine	tons(c	1,989,000
Oregon	232,621	Ponderosa pine, Douglas-fir	372,000 MBF(b) (d)	836,000
Washington	10,822	Douglas-fir, western hemlock, cedar	129,000 MBF(b)	290,000
Total	447,791			5,728,000

</TABLE>

(a) Timber inventories are carried and tracked in the units used in local markets. For purposes of summarizing data regarding our portfolio, we convert local units into one common unit, or cunit. One cunit equals 100 cubic feet. We use conversion rates of 0.3525 cunits per ton for timber on the Louisiana property and 2.25 cunits per thousand board feet for timber on the Pacific Northwest properties.

(b) Verified by Mason, Bruce & Girard at the time of purchase of the tracts that make up the Pacific Northwest properties. Mason, Bruce & Girard has subsequently adjusted these volumes for harvest and growth to December 31, 1998.

(c) Verified by Canal Forest Resources, as of December 31, 1998.

(d) Includes approximately 15.3 million board feet, or approximately 34,376 cunits of merchantable timber inventory under Oregon timber deeds. Under these timber deeds, we have the right to sell timber located on lands not belonging to us. All of the land as to which we have timber deeds is owned by private individuals. See " -- Initial Timberland Properties -- The Oregon Timberlands."

Consistent with industry practice, in determining the amount of

merchantable timber in our inventory, we have included approximately 23,000 acres of timberland that are subject to harvest restrictions. These restrictions may substantially limit, or could possibly prevent, harvests on some or all of these timberlands. We have not included timber from these restricted acres in our timber sales plan to the extent these restrictions prohibit harvesting. Our estimates of the number of restricted acres on our Pacific Northwest properties (approximately 18,500 acres) are based on our geographic information systems and surveys performed by ourselves and others. Our estimates of the number of restricted acres on our Louisiana property (approximately 4,500 acres) are also based on our GIS and surveys performed by ourselves and others, but do not reflect property-wide surveys with respect to the presence of threatened or endangered species. Before we authorize harvesting activities on any of our properties, we survey the harvest area for the presence of threatened and endangered species. If we gain additional information regarding the presence of threatened or endangered species on our timberlands or if regulatory agencies change the manner in which they apply related restrictions to our timberlands, the number of our restricted acres could significantly increase. See "Risk Factors -- Environmental and endangered species regulations restrict timber harvesting and may otherwise restrict our ability to conduct our business" and "-- Federal and State Regulations -- Endangered Species Law."

TIMBERLAND MANAGEMENT STRATEGY

Our existing timberland holdings complement one another well. This is exemplified by the fit between the Louisiana property and the Coastal forest in California. A substantial portion of the Louisiana property contains over-mature sawtimber. While these trees are expected to command a premium price in the marketplace due to their size and quality, the overall growth rate of these stands of mature trees is below the potential of the land given the fertile soils and site characteristics. Accordingly, once these slower-growing, mature trees are harvested, and reforestation activities are completed, stand growth on the Louisiana property will substantially increase. By contrast, the Coastal forest is relatively immature and is growing at its peak rate. Our operating plan over the next few years for the two forests calls for substantial harvesting on the Louisiana property to reinvigorate growth and for less harvesting of the Coastal forest in order to maintain the rapidly growing base of timber there. By operating these properties as part of an integrated whole, we anticipate that we can enhance the productivity of our overall portfolio.

Similarly, components of the Commander forest in California and the Washington property consist of mature, high-value timber that is at its optimal harvest age. Our timber selling plan for the Commander and Washington properties calls for removing this low-growth timber and replanting with seedlings selected for superior genetic characteristics to increase the stands' total growth rates. The Eastern Oregon properties consist primarily of uneven-aged stands which contain a significant volume of premerchantable timber. The operating plan for the Eastern Oregon tract includes decreasing harvest levels over the next five years to allow the younger trees to mature and to maintain the property's overall balanced condition.

The table below reflects our approximate planned sales of timber from our initial timberlands from 1999 through 2003 by region, in thousands of cunits. This table shows our current timber sales plan, which is subject to change. Timber cutting contracts that we have and will enter into permit buyers to remove the contracted amount of timber over the life of the contract. Our ability to recognize income from cutting contracts will depend upon the buyer's decision to harvest timber under the terms of these contracts. Because we may not be able to precisely control the timing of timber sales under multiple year cutting contracts, the volume of timber actually harvested in any given year may differ from our sales plan. The contracts provide for specified amounts to be cut in each year of the contract.

TIMBER SALES PLAN  
(THOUSAND CUNITS)

<TABLE>  
<CAPTION>

	1999	2000	2001	2002	2003
	----	----	----	----	----
<S>	<C>	<C>	<C>	<C>	<C>
California.....	150	145	145	145	145
Louisiana.....	215	230	245	245	255
Oregon.....	110	105	95	90	85
Washington.....	30	30	25	25	25

	---	---	---	---	---
Total.....	505	510	510	505	510
	===	===	===	===	===

</TABLE>

Due to a substantial amount of over-mature timber on our timberlands, and consistent with prudent forest management practices, we plan to sell a volume of timber from our initial timberlands from 1999 to 2008 that is materially greater than the volume we plan to sell in subsequent periods. We presently anticipate that the timber sales from our initial timberlands will average approximately 485,000 cunits per year from 1999 to 2008. We expect timber sales from these timberlands for the period from 2009 to 2018 to average approximately 300,000 cunits per year. Under our timber sales plan, we expect the growth on our initial timberlands to increase from approximately 345,000 cunits in 1999 to approximately 420,000 cunits in 2009 and to average approximately 460,000 cunits per year in the ten year period beginning in 2009. We further expect that total timber inventory on these lands will decline from approximately 6.8 million cunits in 1999 to approximately 6.0 million cunits in 2009, but will increase to approximately 7.6 million cunits in 2018. As part of our growth strategy, we intend to acquire additional timberlands in order to augment our current timber sales plan.

To date, we have entered into contracts providing for aggregate 1999 timber harvests valued at \$17.1 million. These include new contracts on our Louisiana property with five separate buyers -- Boise Cascade Corporation, Health Timber Company, Inc., Hunt Forest Products, Inc., Nash-Co. Industries Forest Products, Inc. and Temple-Inland Inc. -- and provide for harvests of up to 300,000 tons of timber in 1999. The 1999 harvests also include sales of 17.4 million board feet from our Commander forest to Sierra-Pacific Industries, Inc.

Some of our timberlands may have greater value if used for ranching, farming or recreational purposes or for residential or commercial development. We will sell these properties to others when it is in our financial interest to do so. We also may exchange lands with significant environmental and recreational values for lands that are more suitable for commercial timber production.

#### THE LOUISIANA PROPERTY

The Louisiana property consists of approximately 82,000 acres located in southwest Louisiana, primarily comprised of high quality softwood timber. Over 79% of the acreage of the Louisiana property contains merchantable timber, with a comparably high component of mature pine. Additionally, these timberlands possess highly productive soils and favorable topography and climate. We believe that, due to the substantial amount of mature timber on the Louisiana property, the property is well suited for immediate harvest and replanting to take advantage of superior growing conditions.

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Timber on the Louisiana property is categorized as set forth below, as verified by Canal Forest Resources as of December 31, 1998:

#### LOUISIANA PROPERTY ACREAGE BY TYPE

<TABLE>		
<CAPTION>		
TYPE	ACRES	PERCENTAGE
----	-----	-----
<S>	<C>	<C>
Merchantable timber.....	64,820	79.0%
Pre-merchantable timber.....	13,754	16.8%
	-----	-----
Total Timberland Acreage.....	78,574	95.8%
Agricultural land.....	473	0.6%
Open/non-forested.....	2,962	3.6%
	-----	-----
Total Acreage.....	82,009	100.0%
	=====	=====
</TABLE>		

Before our acquisition of this property, it was not actively managed for commercial timber production. As a result, it now contains a substantial inventory of mature timber, including approximately 3.8 million tons of pine sawtimber valued for the size and quality of the wood. This pine sawtimber represents over 67% of the property's merchantable timber volume, and approximately 83% of the property's merchantable pine volume. Since most of the timber on this property has been allowed to remain standing past the age that a commercial timber company would normally have harvested it, there is now an abundance of mature timber that is ready for harvest.

Since our acquisition of the Louisiana property, we have conducted only limited harvesting operations there, while preparing the property for active commercial operations. We conducted a complete timber inventory and detailed mapping of the property, prepared timber sales plans and initiated commercial marketing activities for timber to be sold from the property.

Estimated timber volumes on the Louisiana property are as set forth below, as verified by Canal Forest Resources as of December 31, 1998:

LOUISIANA PROPERTY  
MERCHANTABLE TIMBER BY PRODUCT

<TABLE>  
<CAPTION>

TIMBER INVENTORY	AMOUNT	PERCENTAGE
-----	-----	-----
	(TONS)	
<S>	<C>	<C>
Pine sawtimber.....	3,803,050	67.4%
Pine pulpwood.....	785,631	13.9%
Hardwood sawtimber.....	508,151	9.0%
Hardwood pulpwood.....	546,507	9.7%
	-----	-----
Total.....	5,643,339	100.0%
	=====	=====

</TABLE>

Timber buyers in southwest Louisiana predominantly seek quality pine sawtimber used for lumber and plywood. Hardwood sawtimber and both pine and hardwood pulpwood markets exist, but these markets are less competitive. According to a report prepared by independent forestry consultants, there are 50 mills within 170 truck miles of the property that annually consume 13.6 million tons of sawtimber and 16.8 million tons of pulpwood. Our planned 1999 timber sales would represent approximately 2% of this consumption amount. The following map depicts the location of mills near the Louisiana property:

[GRAPHIC DEPICTING LOCATION OF LOUISIANA TIMBERLANDS AND CONVERSION  
FACILITIES IN MARKET REGION OF LOUISIANA TIMBERLANDS APPEARS HERE]

We will consider selling or exchanging parcels from the Louisiana property that may have greater value if not used for timber production. In particular, the Louisiana property includes over 50 individual parcels of less than 200 acres each, which may have a greater value to neighboring landowners than to us. The Louisiana property also includes several parcels that are in close proximity to the Grand Coushatta Casino and Hotel. This parcel may accommodate future commercial development.

We recently sold approximately 6,700 acres of agricultural land from the Louisiana property that had previously been used for rice farming. See "Transactions with Related Parties."

Strategic Timber does not own the mineral rights to the Louisiana property. The owners of the mineral rights operate oil and natural gas wells on the

property. We do not expect the oil and natural gas

operations to interfere with timber harvesting or with our management of the property. See "-- Federal and State Regulations -- Environmental Laws."

THE CALIFORNIA TIMBERLANDS

Our California timberlands consist of two distinct operating areas, the Coastal forest and the Commander forest, which together contain approximately 122,000 acres.

The Coastal forest is located in Mendocino and Sonoma Counties, California, and consists of two blocks. Together, they include approximately 79,000 acres of coastal timberland containing approximately 856 million board feet of merchantable timber, approximately 743 million board feet of which consist of softwood species.

According to Mason, Bruce & Girard, there are 22 mills in the North Coast resource area, the market area for our Coastal forest. These mills consume an estimated 887 million board feet annually. Our planned timber sales in 1999 from our Coastal forest would represent 4.0% of this amount. The following map depicts the location of conversion facilities within this market area:

[GRAPHIC DEPICTING LOCATION OF COASTAL PROPERTY AND CONVERSION FACILITIES IN MARKET REGION OF COASTAL FOREST APPEARS HERE]

The Coastal forest contains a blend of species as shown below, as verified by Mason, Bruce & Girard as of December 31, 1998:

COASTAL FOREST

MERCHANTABLE TIMBER BY SPECIES

<TABLE>

<CAPTION>

SPECIES	BOARD FEET	PERCENTAGE
-----	-----	-----
	(IN THOUSANDS)	
	-----	
<S>	<C>	<C>
Second-growth redwood.....	398,249	46.5%
Douglas-fir.....	276,826	32.3%
Hardwoods.....	113,766	13.3%
Sugar pine.....	52,397	6.1%
Whitewoods.....	15,072	1.8%
	-----	-----
Total.....	856,310	100.0%
	=====	=====

</TABLE>

Second-growth redwood timber is the predominant species in our Coastal forest. Second-growth redwood timber commands a premium price in the market and experiences a lower degree of price volatility than many other softwood species due to its durability, specialty applications, distinctive coloring and its relative scarcity. Second-growth redwood grows exclusively in the climatic conditions unique to the limited coastal range from central California to southernmost Oregon due to the soil characteristics, substantial rainfalls and persistent fog. Approximately 32% of the merchantable inventory on the Coastal forest consists of Douglas-fir, which also grows well under these same conditions and has historically commanded a premium in the marketplace due to



its durability, strength and aesthetic characteristics.

The Coastal forest is managed under an "Option A" timber management plan filed with and approved by the California Department of Forestry and Fire Protection in May 1998. The prior owner of the property, with the assistance of Mason, Bruce & Girard, developed the Option A timber management plan pursuant to a California permit process that establishes long-term growth and sustainable harvest of a specified timberland. This Option A plan established a decade-by-decade harvesting model through which the Coastal forest has been approved for substantial commercial harvesting of softwood species. We intend to manage the property in accordance with the Option A plan and, thus, we expect to increase substantially harvesting and revenues from the Coastal forest as compared with historical results. See "--- Federal and State Regulations -- State Forestry Regulations."

Most of the Coastal forest is productive timberland that we intend to continue to manage for timber production. A portion of the property may be suitable for use as a vineyard, and the former owner has the option to reacquire this portion at a price of \$2,000 per acre. Under the option agreement, we would retain rights to the timber growing on any land we sell.

The Commander forest consists of approximately 43,000 acres and is located in Glenn, Tehama, Lake and Mendocino counties in the coastal range of northern California. The Commander forest is located entirely within the Mendocino National Forest. The merchantable timber inventory in the Commander forest is approximately 45% Douglas-fir and 46% various pine and fir species. We intend to harvest over-mature timber in order to reinvigorate stand growth in the Commander forest.

The Commander forest contains a blend of species as shown below, as verified by Mason, Bruce & Girard as of December 31, 1998:

COMMANDER FOREST  
MERCHANTABLE TIMBER BY SPECIES

<TABLE>  
<CAPTION>  
SPECIES  
-----

	BOARD FEET ----- (IN THOUSANDS)	PERCENTAGE -----
<S>	<C>	<C>
Douglas-fir.....	136,927	44.9%
White fir.....	73,756	24.2%
Ponderosa pine.....	40,234	13.2%
Sugar pine.....	25,271	8.3%
Incense cedar.....	28,350	9.3%
Other pine.....	539	0.1%
	-----	-----
Total.....	305,077 =====	100.0% =====

</TABLE>

We do not expect to sell any significant parcels from the Commander forest for higher and better uses. However, because the property contains a number of tracts of less than 100 acres, there may be opportunities to sell some of these small tracts to recreational or other users.

According to Mason, Bruce & Girard, there are 20 mills in the northern interior and Sacramento resource areas of California, which is the market area for the Company's Commander forest. These mills consume an estimated 1.06 billion board feet of timber annually. Our planned timber sales in 1999 from the Commander forest would represent 2.9% of this amount.

[GRAPHIC DEPICTING LOCATION OF COMMANDER FOREST AND CONVERSION

The Commander forest is currently managed under an annual timber management plan filed with and approved by the California Department of Forestry and Fire Protection. We plan to file an "Option A" timber management plan, similar to the type of plan filed for the Coastal forest, with the California Department of Forestry and Fire Protection by the end of 1999. See "--- Federal and State Regulations -- State Forestry Regulations."

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## THE OREGON TIMBERLANDS

Our Oregon timberlands consist of approximately 233,000 acres located to the east of the Cascade Mountains in Baker, Deschutes, Grant, Klamath, Morrow, Umatilla and Wheeler counties and in Walla Walla County in southeastern Washington. These timberlands contain approximately 357 million board feet of merchantable timber, which can be marketed for many different uses. The predominant species are ponderosa pine and Douglas-fir, representing approximately 40% and 32% of the total merchantable timber volume, respectively, on our Oregon timberlands. We intend to harvest selectively and thin the Oregon timberlands over the next 15 years to allow the substantial inventory of premerchantable trees to grow into higher value age classes.

In addition to the 357 million board feet of timber on land that we own in eastern Oregon, we also own approximately 15.3 million board feet of merchantable timber under timber deeds in Oregon and southeastern Washington. Under our timber deeds, we own timber without owning the land itself. Private individuals own all of the lands relating to our timber deeds.

The Oregon timberlands, including timber we own under timber deeds, contain a blend of species as shown below, as verified by Mason, Bruce & Girard as of December 31, 1998:

OREGON TIMBERLANDS AND TIMBER DEEDS  
MERCHANTABLE TIMBER BY SPECIES

<TABLE> <CAPTION> SPECIES -----		
	BOARD FEET ----- (IN THOUSANDS)	PERCENTAGE -----
<S>	<C>	<C>
Ponderosa pine.....	148,201	39.9%
Douglas-fir.....	119,298	32.1%
White fir.....	62,721	16.9%
Western larch.....	29,944	8.0%
Lodgepole pine.....	9,766	2.6%
Other.....	1,892	0.5%
	-----	-----
Total.....	371,822	100.0%
	=====	=====
</TABLE>		

Throughout the western United States, harvest levels have been reduced from public lands over the past ten years. Private owners of timberland have become the beneficiaries of reduced timber supplies from public lands and the resulting competitive market for timber. Many mills in eastern Oregon have closed during the last decade, mostly due to the drastic reduction of timber sales from federal lands. However, many of the remaining mills have increased capacity through mill improvements. Mill capacity is adjusting to accommodate the available supply of eastern Oregon timber. According to Mason, Bruce & Girard, the current annual log consumption by the 14 mills within the market area of our Oregon timberlands is estimated to be 492 million board feet. Our planned timber sales in 1999 from Oregon timberlands would represent 9.9% of this amount.

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## CONVERSION FACILITIES IN MARKET REGION OF

OREGON TIMBERLANDS APPEARS HERE]

We are currently evaluating our Oregon timberlands to identify parcels that have a higher and better use than growing timber. We have identified over 15,500 acres from our Oregon timberlands that could be sold, consistent with our long-term investment strategy of focusing our activities on timber production. The properties that could be sold include parcels that may be suitable for grazing, recreational uses or for exchange with the Bureau of Land Management for timberland.

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## THE WASHINGTON TIMBERLANDS

Our Washington timberlands are located in Lewis, Grays Harbor and Douglas counties and consist of approximately 11,000 acres containing approximately 129 million board feet of merchantable timber. The timber on the Washington timberlands is in even-aged stands with well-defined harvesting programs in place.

The Washington timberlands contain a blend of species as shown below, as verified by Mason, Bruce & Girard as of December 31, 1998:

## WASHINGTON TIMBERLANDS

## MERCHANTABLE TIMBER BY SPECIES

<TABLE>		
<CAPTION>		
SPECIES	BOARD FEET	PERCENTAGE
-----	-----	-----
	(IN THOUSANDS)	
<S>	<C>	<C>
Western hemlock.....	56,980	44.2%
Douglas-fir.....	30,789	23.9%
Red and incense cedar.....	16,066	12.5%
Other conifers.....	13,168	10.2%
Red alder.....	8,348	6.5%
Other hardwoods.....	3,415	2.7%
	-----	-----
Total.....	128,766	100.0%
	=====	=====
</TABLE>		

Historically, a significant amount of logs produced from privately held timberland in Washington has been sold in the export market, principally due to the demand for Douglas-fir in Asia, and Japan in particular. The export market has weakened considerably since early 1997, however, and many logs that would have previously been exported are now being sold to domestic mills.

According to Mason, Bruce & Girard, there are a total of 31 mills within the market area served by our Washington timberlands, with a total annual log consumption of approximately 979 million board feet. Our planned timber sales from our Washington timberlands in 1999 would represent approximately 1.4% of this amount. Large industrial timberland owners dominate this market. In addition to providing a large portion of the annual timber supply, these companies also generate demand for the resource by operating their own sawmills, export facilities, and, in some cases, pulp mills.

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#### HARVEST METHODS

Harvest methods for our timberlands will vary depending upon geography, topography and soil characteristics. Generally, crawling tractors and wheeled ground skidders will be used on relatively level terrain. Steep terrain will generally dictate the use of more expensive cable or tower logging methods. The Louisiana property, which has comparatively flat terrain, is expected to be harvested using these ground-based skidder and tractor methods. Portions of the Coastal and Commander forests have comparatively steep terrain and are expected to require more cable or tower logging methods. The remaining properties, containing both level and steep terrain, are expected to be harvested using a combination of methods.

On the Louisiana property, we intend to thin the productive pine timberlands, generally twice prior to final harvest. Thinning is employed both to maintain the optimal stocking density and to improve the quality and health of the remaining timber. Thinning will be conducted using either mechanical harvesters or ground crews. We intend to conduct its final harvest of pine plantations when the timber reaches a mature condition, usually between the ages of 26 and 34. These management and harvest guidelines are accepted forestry practice in the southeastern United States and are intended to replicate the natural

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ecological lifecycle of the southern pine. Following final harvest, we will regenerate the site through replanting with appropriate genetically selected seedlings.

On our Pacific Northwest properties, we will employ a variety of management and harvest techniques. Consistent with prudent forest management, commonly accepted forestry practices, and applicable law, harvest practices will include both partial cutting and clear cutting depending on the specific forest characteristics. For example, in western Washington, Douglas-fir timber stands on steeper slopes should be clear-cut and replanted in order to minimize soil damage and encourage the regeneration of a productive forest. However, in the ponderosa pine forests of eastern Oregon or California, a multiple stage partial harvest will encourage natural regeneration of pine, minimize risks (such as insect infestation) and maintain wildlife habitat.

#### ACCESS AND LIMITATIONS ON ACCESS

Substantially all of the timberlands in our timberland portfolio are accessible by a system of established public and private roadways. When maintenance or new roads are needed, third-party road crews typically conduct road and bridge construction under the supervision of our personnel or contracted forest managers. We are also a party to reciprocal road-use and cost-sharing agreements with private landowners and with governmental agencies. See " -- Federal and State Regulations -- Other Regulatory Matters."

#### FEDERAL AND STATE REGULATIONS

##### BACKGROUND AND APPROACH

Our operations are subject to numerous federal, state and local laws and regulations, including those relating to the environment, endangered species, our forestry activities, and health and safety. Endangered species, environmental and other laws restrict our operations and could impose significant delays, costs, damages, penalties and liabilities on us. We expect that endangered species and environmental laws will become more restrictive over time. Due to the significance of regulation to our business, we plan to integrate wildlife, habitat and watershed management into our resource management practices.

Consistent with industry practice, in determining the amount of merchantable timber in our inventory, we have included approximately 23,000 acres of timberland that are subject to harvest restrictions. These restrictions

may substantially limit, or could possibly prevent, harvests on some or all of these timberlands. We have not included timber from these restricted acres in our timber sales plan, to the extent that these restrictions prohibit harvesting. We expect environmental, forestry and wildlife regulations to become more restrictive in the future, possibly resulting in the withdrawal of a significant number of additional acres from our timber sales plan.

#### ENDANGERED SPECIES LAW

The Federal Endangered Species Act and similar state laws and regulations protect wildlife species threatened with possible extinction. A number of species indigenous to the southern and northwestern United States have been, are and in the future will be protected under these laws and regulations. These laws generally prohibit activities that would kill, injure, or harass a protected species or significantly degrade its habitat. The habitat of a protected species includes areas in which it lives, nests, shelters, breeds, forages or feeds or areas that are for some other reason necessary for the conservation of the protected species. Protected species indigenous to the southern United States and currently found on or near our properties include the red cockaded woodpecker, Louisiana black bear and bald eagle. Protected species indigenous to the northwestern United States and currently found on or near our properties include the northern spotted owl, marbled murrelet, bald eagle, American peregrine falcon, northern goshawk, steelhead trout, coho salmon and various other fish species. To the extent required by law, we survey our timberlands for the presence of endangered or threatened species before we harvest any specific tract of timberland. A wildlife biologist reviews the survey and determines whether our harvesting activities will affect any endangered or threatened species. Our harvest plans take into account any potential restrictions

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for endangered or threatened species of which we are aware. If we discover endangered or threatened species on a particular tract, we have the flexibility to adjust our harvest plans in an effort to avoid any significant reduction in yield. We can choose to sell timber from a different tract or have the timber cut at a different time of the year to avoid disturbing the habitat of an endangered or threatened species. We can exercise this flexibility because we harvest only a small percentage of our timberlands each year. Nonetheless, the presence of protected species on or near our timberlands may significantly affect our operations, including restricting or prohibiting timber harvesting, road building, access across federal lands and silvicultural activities on the affected areas of our timberlands.

The states of California, Oregon and Washington have rules and regulations that regulate our timber harvest activities to protect endangered species. The California Forest Practice Rules, the California Endangered Species Act, the Washington Forest Practices Act, the Oregon Forest Practices Act and related regulations all have specific provisions governing habitat protection for the northern spotted owl, bald eagle, marbled murrelet, coho salmon, steelhead trout and other threatened or endangered species. At present, Louisiana has not adopted any endangered species requirements that affect our Louisiana operations.

In 1990, the U.S. Fish and Wildlife Service listed the northern spotted owl as a threatened species throughout its range in Washington, Oregon and California. At the time of the listing, the U.S. Fish and Wildlife Service issued suggested guidelines to be followed by landowners in order to comply with the Endangered Species Act's prohibition against harming or harassing owls. The guidelines recommend several measures, including habitat management and the restriction of harvest activities in areas within a certain proximity of known owl activity centers.

Pacific Northwest Properties. Recent surveys by independent forestry consultants of our Pacific Northwest properties identified the presence of the northern spotted owl, the bald eagle and other endangered or threatened species. We engaged independent forestry consultants to provide information about our timberlands for our lenders. In connection with this process, the consultants surveyed the presence of wildlife on our properties. The surveys conducted in the first quarter of 1998 showed that there were approximately 110 northern spotted owl activity centers that affect our Commander forest, though many of these activity centers are located on adjacent properties. Although there have been incidental observations of bald eagles, American peregrine falcon, and golden eagles in the Commander forest, no nesting or roosting sites have been

found. Steelhead trout and fall chinook salmon have been observed in streams in the Commander forest and it is likely that streams in that forest will be subject to restrictions for these species and for coho salmon. One bald eagle nest was found on our Riffe Lake tract in Washington. The surveys noted that the range of the marbled murrelet and the northern spotted owl include our Riffe Lake tract, though none are currently known to reside on the property.

Our forestry consultants have also conducted surveys as part of our timber harvest planning process on our Coastal forest. These surveys showed that there were approximately 12 pairs or single spotted owls on the Longview tract in California, and that the property is within the range of the bald eagle, peregrine falcon and marbled murrelet. Streams within the Longview tract support coho salmon, steelhead trout, and chinook salmon. We currently comply with restrictions to protect and restore the habitat of these fish. The nature and scope of restrictions to conserve fish populations may increase over time. For example, the size of buffer zones along streams on our property may have to be widened and the number of streams subject to buffer requirements may increase. Road construction and maintenance requirements may also become more burdensome. A similar survey conducted on our Willits Woods/Williams Ranch tract in the Coastal forest showed that there were approximately 10 pairs or single spotted owls and one peregrine falcon nest on the property, and that the property is within the range of the bald eagle, the peregrine falcon and the marbled murrelet. Streams within the Willits Woods/Williams Ranch tract contain coho salmon and steelhead trout. Some chinook salmon have also been reported. We comply with the same protective measures with respect to streams on this tract as with the Longview tract.

Louisiana Property. In connection with our acquisition of the Louisiana property, we conducted a Phase I environmental site assessment in April 1998. This Phase I assessment identified red cockaded

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woodpecker nests that were apparently abandoned on approximately two acres. The Louisiana property has in the past been, and may still be, inhabited by the red cockaded woodpecker, as well as other protected species. Although no endangered species surveys are required prior to harvesting in Louisiana, there are strict regulations requiring us to halt harvest operations in specific areas where evidence of endangered species is observed. If we do observe protected species, we would begin biological studies to determine appropriate responses to protected species present on the property. The presence of any protected species on our timberlands could materially restrict our future harvests.

To the extent required to comply with environmental regulations, we will evaluate each tract of timber designated for thinning, harvesting or another silvicultural operation to determine whether to conduct a field inspection before commencing operations. We also intend to investigate reported sightings of threatened or endangered species to the extent required by industry standards and governmental regulations.

We believe that we are managing our harvesting operations in the areas affected by protected species in compliance with applicable federal and state regulations. We do not believe that the presence of any protected species on our lands will materially restrict our ability to proceed with our current harvest plans and other silvicultural activities and operations. Because we harvest only a small percentage of our merchantable inventory each year, we generally have the flexibility to adjust for the presence of protected species on our timberlands. We can choose to defer harvesting on an affected tract and substitute it with an unaffected tract. The presence of a protected species on a tract does not always permanently remove acreage from harvesting because the protected species may move or restrictions may apply only during limited periods of time -- for example, during a species' breeding or mating seasons. However, additional species on or around our timberlands may receive protected status under the Endangered Species Act or similar state laws.

Protected species may be discovered in significant numbers on or around our timberlands. These species could be or become present on our properties in sufficient numbers to restrict our timber sales plan materially. Additionally, future legislative, administrative or judicial activities related to protected species may adversely affect us, our ability to continue our operations as currently conducted, or our ability to implement our business strategy.

## STATE FORESTRY REGULATIONS

In operating our Pacific Northwest properties, we must comply with state statutes and regulations that regulate forestry operations. These laws address many growing, harvesting and other activities on forest lands. Among other requirements, these laws restrict the size and spacing of harvest units and impose reforestation obligations on the owners of forest lands. State laws and regulations also limit timber slash burning, operations during fire hazard periods, logging activities affecting or utilizing water courses or in proximity to ocean and inland shore lines, water degradation and grading and road construction activities.

The State of Oregon requires a timber owner to provide prior notification before beginning various types of forestry operations, including harvesting.

The States of Washington and California are more restrictive. The State of Washington requires a rigorous regulatory review prior to harvesting, depending upon the environmental and other sensitivities of the proposed logging site. This pre-harvesting review may take from 15 to 30 days or more to complete.

Before a private landowner can harvest timber in California, the landowner must submit a timber harvest plan prepared by a registered professional forester. The plan must comply with California's forestry rules, which are perhaps the most stringent in the United States. The plan must describe in detail how the harvest will be done, the silvicultural methods to be used, stocking methods, and what measures will be taken to prevent erosion, maintain water quality, protect wildlife habitats. The plan must also provide support for the sustainability of other forest resources. A timberland owner like Strategic Timber that owns over 50,000 acres in California must operate under either a sustained yield plan or an "Option A" plan.

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Both of these documents require sophisticated plans detailing inventory methods, planned harvest levels and assurances that growth and harvest are being balanced over time.

Louisiana does not currently have any statutes or regulations we believe would materially restrict our forestry operations.

We may acquire timberlands in jurisdictions with forest practices acts that are considerably more restrictive than the best management practices currently utilized by many foresters. Many states are considering or are expected to consider laws and regulations governing forest practices.

## ENVIRONMENTAL LAWS

Timber operations involve the use and storage of various materials such as herbicides, pesticides, fertilizers and gasoline, and may result in air emissions, releases to soil or groundwater, or discharges of potentially hazardous materials into streams and other bodies of water. Accordingly, we must comply with federal, state and local environmental laws and regulations relating to the protection of the environment. Environmental laws and regulations have changed substantially and rapidly over the last 20 years, and we expect them to become increasingly stringent. Although we believe that we are in substantial compliance with these requirements, these laws and regulations may lead to significant costs, penalties and liabilities, including those related to claims for damages to property or natural resources. These laws and regulations could also impose restrictions on timber harvesting and other silvicultural activities. As of the date of this prospectus, we are not aware of any pending legislative, administrative or judicial action relating to the protection of the environment that we believe could materially and adversely affect us.

Some environmental statutes, such as the Federal Comprehensive Environmental Response, Compensation and Liability Act and comparable state laws, impose strict liability, regardless of the lack of negligence or fault on the part of the person held liable. Under various laws and regulations, an owner or operator of real property may become liable for the costs of removal or remediation of certain hazardous substances released on, from or in its property, often without regard to whether the owner or operator knew of, or was responsible for, the release of the substances. The presence of these substances, or the failure to remediate them properly, may adversely affect the owner's ability to sell contaminated real estate or to use it as collateral.

The Louisiana property contains active and inactive natural gas and oil wells and pipelines, which have been and will continue to be operated by third parties. The operation of natural gas and oil wells involves risks, such as well blowouts, cratering, explosions, uncontrollable flows of oil or well fluids, fires, formations with abnormal pressures, pollution, pipeline ruptures and spills, and releases of toxic gas. The operators of these natural gas and oil wells and pipelines are primarily responsible for any environmental hazards associated with these activities. Other past activities on the Louisiana property are evidenced by an abandoned asphalt plant, an abandoned sawmill and abandoned landfills. We do not believe that these past activities have caused any material environmental impacts.

Our operations involve only owning and selling timberlands, Pioneer and related entities have in the past owned timber processing facilities associated with the Pacific Northwest properties. In some circumstances, past owners may incur environmental liability. Additionally, a property connected with our Oregon timberlands was previously the site of an equipment maintenance operation. Remedial activities have been conducted on this property, and we believe that no material contamination remains at the site. A company affiliated with the sellers of Pioneer has agreed to indemnify us against environmental liabilities arising out of the Pacific Northwest properties relating to conditions that existed at the time of the acquisition.

We may acquire timberlands subject to potential environmental or other liabilities. We are not aware of any activities or any conditions on our initial timberlands that would likely result in our material liability for remediation or other environmental costs. However, we may not know about material environmental conditions on our lands that may have been created by us, a prior owner or operator of our land or an

adjacent landowner. In addition, our operations could result in material liabilities, fines, costs and restrictions under current or future environmental laws and regulations.

The Federal Clean Air Act and Clean Water Act, and their state equivalents, control our on-site preparation activities such as slash burning and regulatory programs designed to reduce runoff discharged into bodies of water. For example, the U.S. Environmental Protection Agency and its state counterpart have designated bodies of water as "water quality impaired," triggering a requirement to establish Total Maximum Daily Loads, or TMDLs, for those bodies of water. The TMDL process could result in additional limitations on harvesting activities in some or all of the states where we operate. Our California timberlands are in watersheds that have been designated as water quality impaired. As the TMDL process is completed for these watersheds, we must take precautions to prevent erosion, and we may need to monitor water quality during our harvesting operations. However, our timber sales plans currently provide measures to protect water quality. Therefore we believe that this designation will have no material effect on our ability to conduct business.

In addition, our business is affected by federal and state laws designed to protect wetlands. The Federal Clean Water Act authorizes the regulation of wetland areas. Access to timberlands located within or beyond a protected wetlands area may be limited, and we may be required to pay for the protection of wetland areas. Alternatively, we may have to stop harvesting in wetland areas. Based on existing governmental surveys and supplemental data that identify wetland areas, we have identified approximately 4,500 acres of wetlands on our Louisiana property. Consistent with local forestry practice, we are



harvesting timber in these wetland areas only to a limited extent.

#### OTHER REGULATORY MATTERS

Our operations will be subject to various other federal and state regulations. For example, the Federal Insecticide, Fungicide, and Rodenticide Act regulates the use of pesticides used in forestry practices. We must also comply with the federal Occupational Safety and Health Act and comparable state statutes relating to the health and safety of employees. We believe that we are in compliance with OSHA regulations, including general industry standards, permissible exposure levels for toxic chemicals and record-keeping requirements.

A portion of our Pacific Northwest properties consists of sections of land that are intermingled with or adjacent to sections of federal land managed by the U.S. Forest Service and the Bureau of Land Management. Removal of trees from those portions of the Pacific Northwest properties requires trucks to carry logs across logging and general purpose roads. In many cases, access is only, or most economically, achieved through a road or roads built across adjacent federal land and available to us pursuant to a reciprocal right-of-way agreement.

Recent litigation not involving us before the U.S. Court of Appeals for the Ninth Circuit held that the Bureau of Land Management was not required to consult with the U.S. Forest and Wildlife Service, the agency that administers the Endangered Species Act, prior to approving a private landowner's proposal to build an access road across federal land pursuant to an existing reciprocal right-of-way entered into prior to the enactment of the Endangered Species Act. The Court found that the Bureau of Land Management did not have discretion to disapprove a road segment due to endangered species concerns. However, future federal law or regulation requiring the Bureau of Land Management to consult with the U.S. Forest and Wildlife Service in connection with a reciprocal right-of-way could prevent us from harvesting the affected portion of the Pacific Northwest properties.

To the extent that we acquire new timberlands that require access through federal lands, we may need to enter into new reciprocal right-of-way agreements with the Bureau of Land Management or other federal agencies which would require consultation with the U.S. Forest and Wildlife Service. In addition, the Bureau of Land Management previously attempted to revise regulations governing reciprocal right-of-way agreements. These regulations attempted to expand the Bureau of Land Management's consideration of environmental and cultural factors in granting, issuing or renewing rights-of-way, provide the Bureau of Land Management with regulatory authority to object to the location of roads because of potential effects

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on threatened or endangered species and allow for the abandonment of rights-of-way under certain circumstances. Future attempts to so revise the applicable regulations, if successful, could affect our ability to harvest timber activities on the Pacific Northwest properties.

#### OUR CUSTOMERS

We currently are in the process of building a customer base for timber from the Louisiana property that will enable us to meet our planned timber sales program. We have entered into and will continue to enter into cutting contracts with respect to the Louisiana property in the ordinary course of our business. We plan to offer timber for sale to major industrial companies, and to develop marketing relationships with timber brokers and independent logging companies in the southeastern United States.

Our eastern Oregon timberlands have historically been a raw material supplier for two previously affiliated sawmills located nearby. Although it is expected that these two mills will continue to be major purchasers of timber from these lands, we have initiated a marketing program to diversify our customer base within the region.

Until mid-1998, our western Washington timberlands had been managed as part of a much larger industrial land base, with the bulk of the harvested timber being converted at affiliated facilities. In the future, we intend to take advantage of the diverse market for timber in the region. These potential new markets include many large industrial timber companies as well as brokers and exporters.

Historically, the previous owner of our Commander forest dealt exclusively with the most prominent lumber producer in northern California with respect to sales of timber from that forest. We intend to develop relationships with other wood users in the region. In the redwood region of northern California, we anticipate doing business with a diverse group of potential timber customers. Currently, we are in the process of building a customer base for timber from our Coastal forest.

To date, we have entered into contracts providing for aggregate 1999 timber harvests valued at \$17.1 million. These include new contracts on our Louisiana property with five separate buyers -- Boise Cascade Corporation, Heath Timber Company, Inc., Hunt Forest Products, Inc., Nash-Co. Industries Forest Products, Inc. and Temple-Inland Inc. -- and provide for harvests of up to 300,000 tons of timber in 1999. The 1999 harvests also include sales of 17.4 million board feet from our Commander forest to Sierra-Pacific Industries, Inc.

We expect to sell more timber in the Pacific Northwest as the effects of winter weather subside.

#### COMPETITION

##### COMPETITION IN TIMBER SALES

Due to transportation costs, domestic timber conversion facilities tend to purchase raw materials within relatively confined geographic areas. Currently in the United States, we and our competitors all benefit from the relatively close proximity of numerous conversion facilities. Additional competitive factors within a market area generally will include species, quality, and consistency in meeting customers' specifications and delivery requirements.

Within the United States, we compete with numerous private timber owners. In addition, we compete with the U.S. Forest Service and other governmental or public agencies with timber holdings. The level of competition will also tend to vary depending upon prevailing timber prices. Rising timber prices often lead to increased harvesting on private timberlands, including lands not previously made available for commercial timber operations.

Internationally, we expect competitive situations and factors similar to those in the United States. Where we seek to develop the timber resource in a growing locality, it may also experience competition for or limitations on labor, energy, skilled professionals or other resources. Relatively new markets and markets

which are not yet fully developed for a particular product may experience sluggish sales due to a lack of market competition, as there may be a limited or undeveloped pool of buyers for a particular product.

Global price fluctuations may adversely affect demand for particular species, grades, or products or could make substitute species, products or materials economically competitive. Price fluctuations could also bring certain supplies of standing timber to market which have until now been unprofitable to harvest. We believe, however, that our current diversified portfolio and our global investment strategy will dampen the negative effects of depressed markets in any given region.

##### COMPETITION FOR TIMBERLAND PROPERTIES

Competition for high-quality timberland within the United States and in certain other countries has intensified, often requiring a flexible approach to identification, negotiation, and completion of successful acquisitions. We believe that our competitive strengths will enhance our success in acquisitions despite the greater financial resources of certain of our competitors. See "Risk Factors -- We may not be able to achieve our intended growth."

#### INSURANCE COVERAGE

Certain types of losses, such as damage to our timberlands and associated lost revenues due to fires, ice storms, pests, disease and other natural disasters, are uninsurable at commercially justifiable rates. Accordingly, as is typical in the industry, we do not carry insurance for these losses. See "Risk Factors -- Losses of timber from fire and other causes are not insured."

#### LEGAL PROCEEDINGS

Although we may, from time to time, be involved in litigation and claims arising out of our operations in the normal course of business, we are not currently a party to any material legal proceedings.

#### EMPLOYEES

Upon the closing of the formation transactions described in "Structure and Formation of Strategic Timber," our employees will include the persons currently employed by Strategic Timber Operating Co. and Strategic Timber Two Operating Co. As of March 15, 1999, these entities employed 27 salaried full-time employees. Of these employees, eight are part of senior management, 13 are in forestry operations and six hold administrative and clerical positions. We expect to hire seven additional forestry operations employees within the next 30 days.

All of our senior management, together with three administrative employees, are located at our headquarters office in New London, New Hampshire.

None of our employees are represented by unions or covered by any collective bargaining agreements. We have not experienced a work stoppage and our management believes that we maintain good relations with our employees.

#### POLICIES WITH RESPECT TO CERTAIN ACTIVITIES

This section summarizes our current investment objectives and policies, disposition and financing policies and policies with respect to other activities. Our Board of Directors established these policies, and it may amend or revise them from time to time without a shareholder vote. However, we cannot affirmatively take any action intended to terminate Strategic Timber's qualification as a REIT without the approval of the holders of a majority of our outstanding common stock.

#### INVESTMENT POLICIES

Our investment objective is to maximize the total return from our entire portfolio consistent with our long-term policy of increasing sustainable yield. We will seek to accomplish our objective primarily through managing our initial portfolio of timberlands and acquiring additional timberlands.

Our initial portfolio of timberlands includes a total of approximately 448,000 acres in California, Louisiana, Oregon and Washington. We intend to acquire additional timberlands in these states, elsewhere within the United States and abroad. Our current policy, however, is to limit investments outside the United States to no more than 20% of the total value of our assets.

We will focus on long-term ownership of timberlands. However, we may

purchase or lease properties for long- or short-term investment. We will finance our investments as described below under "--- Financing Policies." We may cause our operating partnership to hold or sell any or all of its initial portfolio when circumstances warrant, subject to the restrictions on sale in the partnership agreement. We also may participate with other entities in property ownership, through joint ventures or other types of co-ownership. Equity investments may be subject to existing mortgage financing and other indebtedness that has priority over our equity interest in those properties. To enhance the value of timberlands located in undeveloped or underdeveloped markets, we may invest in limited conversion, transport or export facilities to stimulate the growth and competition of local timber markets or provide access to export markets.

While we intend to emphasize equity investments in timberlands, we may, in our sole discretion, invest in forest products-related mortgages, partnerships and other interests in timberlands. We may invest in securities of companies engaged in timberland activities, subject to the gross income and asset tests necessary for REIT qualification. We may acquire securities or assets of other timber owning companies when consistent with our investment policies.

There are currently no other limitations on

- the percentage of our assets that we may invest in any one property, venture or type of security,
- the number of properties in which we may invest or
- the concentration of our investments in a single geographic region.

Our Board of Directors may establish other limitations, and other policies, as it deems appropriate from time to time.

We conduct all of our investment activities through our operating partnership. See "The Partnership Agreement -- Powers of Strategic Timber Operating Co., as General Partner."

#### FINANCING POLICIES

We intend to target a ratio of debt to total market capitalization, assuming the exchange of all partnership units for common stock, of approximately 40%. Our Board of Directors may, however, reconsider this policy from time to time and reduce or increase this ratio accordingly. Assuming an initial offering price of \$20 per share, following the completion of this offering and the use of net proceeds from this offering, we will have approximately \$260.0 million of indebtedness, or \$213.7 million if the underwriters exercise in full their over-allotment option. This will constitute approximately 36.9% of our total market capitalization after giving effect to this offering, or 30.2% if the underwriters exercise in full

their over-allotment option. Before this offering, we have financed our activities primarily through bank loans and equity investments. See "Structure and Formation of Strategic Timber."

Generally, we will determine all of our financing policies in light of then-current economic conditions and timber prices, relative costs of debt and equity capital, market values of properties, growth and acquisition opportunities and other factors. If the Board of Directors determines that additional funding is desirable, we may raise funds through additional equity offerings, debt financings, retention of cash we generate from our operations or a combination of these methods.

If the Board of Directors determines to raise additional equity capital, it has the authority, without your approval, to issue additional shares of authorized common stock or preferred stock on terms it deems appropriate, including in exchange for property. Our then-existing shareholders will have no preemptive right to purchase any of these shares. If the Board of Directors determines to raise additional equity capital, Strategic Timber will contribute funds raised to Strategic Timber Partners in return for additional partnership units. In addition, Strategic Timber may issue additional shares of common stock in redemption of partnership units on the exercise of the limited partners' exchange rights under the partnership agreement. See "The Partnership Agreement."

The Board of Directors, through its control of Strategic Timber Operating Co., also has the authority to cause Strategic Timber Partners to issue additional partnership units in any manner as it deems appropriate, including in exchange for property. See "The Partnership Agreement -- Issuance of Additional Limited Partnership Interests; Additional Capital Contributions." Strategic Timber may also purchase shares of its common stock, subject to restrictions under Georgia law applicable to shareholder distributions. If a holder of partnership units surrenders its units for exchange, Strategic Timber may, at its discretion, cause Strategic Timber Partners to redeem those partnership units for cash rather than common stock. See "The Partnership Agreement."

We anticipate that borrowings will be made through Strategic Timber Partners. Strategic Timber also may incur indebtedness and lend borrowed funds to Strategic Timber Partners on the same or similar terms and conditions on which Strategic Timber borrowed the funds. Debt may be in the form of purchase money obligations to sellers of timberlands to Strategic Timber Partners, publicly or privately placed debt instruments, or financing from banks, institutional investors or other lenders. Any of this debt may be unsecured or may be secured by mortgages or other interests in the assets of Strategic Timber, Strategic Timber Partners or any newly created property-owning partnership. Any number or amount of mortgages may be placed on a particular property. The proceeds from any borrowings may be used for the payment of distributions, for working capital, to pay the exchange price payable for partnership units under the partnership agreement, to refinance indebtedness, to finance acquisitions or for other purposes deemed appropriate by the Board of Directors.

#### WORKING CAPITAL RESERVES

We will maintain working capital reserves in amounts that our Board of Directors determines to be adequate to meet normal contingencies in connection with the operation of our business.

#### CONFLICT OF INTEREST POLICIES

##### EMPLOYMENT AGREEMENTS

C. Edward Broom serves on the Board of Directors, or the equivalent management body, of several privately held timber investment funds arising from his previous employment with Resource Investments, Inc. Only one of these funds has committed funds that have not yet been invested. This fund could compete with us in acquiring timberlands. Because this fund's investment policies are to invest exclusively outside the United States and typically to make larger investments than we plan to make, we do not expect conflicts to arise. In his employment agreement, Mr. Broom has agreed that if we wish to bid on a property and any fund with which he is affiliated is either the seller of the property or also wishes to bid on the property, he will not participate in the transaction on behalf of the fund. Mr. Broom may not

compete against us during the term of his employment and for a period of one year thereafter in North America, Central America and South America, Mr. Broom may not solicit purchasers of our timber or prospective sellers of timberlands with which he had contact during the term of his employment for a period of one year thereafter. Mr. Broom has also agreed to spend no more than 5% of his time devoted to his interests in these timber funds.

We also have an employment and non-competition agreement with each of Messrs. Christopher J. Broom, Thomas P. Broom, Kenneth L. Chute, Nicholas C. Brunet, Vladimir Harris and Joseph E. Rendini effective as of the consummation of this offering. Each of these employment agreements prohibits the employee from competing against us during the term of his employment and for a period of one year thereafter in North America, Central America and South America. It also prohibits the employee from soliciting purchasers of our timber or prospective sellers of timberlands with which he had contact during the term of his employment for a period of one year thereafter. See "Management -- Employment and Non-Competition Agreements."

#### OTHER POLICIES GOVERNING COMPETING WITH STRATEGIC TIMBER

Under Georgia law, each of our directors and executive officers must carry out his duties in a manner he believes in good faith to be in the best interests of Strategic Timber, and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. In addition, under Georgia law, a transaction between Strategic Timber and any of our directors or between Strategic Timber and a corporation, firm or other entity in which one of our directors has a significant interest may not be challenged on the basis of the director's conflicting interest if the transaction is fair to Strategic Timber. This type of transaction also could not be challenged on the basis of the director's conflict of interest if, after the director discloses the material facts concerning his or her interest and the transaction, a majority of our disinterested directors or a majority of our shareholders approves the transaction. For shareholder approval, shares held or controlled by a director with a conflicting interest would not count.

Our policies restrict all employees from investing in timberlands, directly or indirectly, for their own accounts. This policy does not apply to timberlands owned by employees at the time they became our employees. Our non-employee directors may only invest in timberlands, directly or indirectly, if the director first offers the opportunity to us on the same terms and conditions available to the director. The Audit Committee of the Board of Directors administers this policy, and can make exceptions.

Our Articles of Incorporation and Bylaws do not further restrict our directors, officers, shareholders or affiliates from having an interest in investments that we acquire or sell, or acting for their own accounts in investing in timberlands or engaging in other businesses in which we engage.

#### THE PARTNERSHIP AGREEMENT

The partnership agreement gives Strategic Timber Operating Co., as general partner, full and exclusive responsibility to manage and control the business of Strategic Timber Partners, subject to limited exceptions described under "The Partnership Agreement." The limited partners in Strategic Timber Partners have agreed that Strategic Timber Operating Co. is not required to consider the separate interests of the limited partners, including tax consequences to the limited partners, in conducting the partnership's business. Strategic Timber owns all of the equity interests in Strategic Timber Operating Co.

#### REPORTS TO SHAREHOLDERS

We intend to send you annual reports containing audited consolidated financial statements and an independent public accounting firm's opinion on the financial statements. We also intend to send you quarterly reports for the first three quarters of each fiscal year containing unaudited financial information. See "Where You Can Find More Information."

#### OTHER POLICIES

We intend to operate in a manner that will permit Strategic Timber to qualify for taxation as a REIT under the Internal Revenue Code. We could decide

not to operate to qualify as a REIT if the Board of Directors decides that, because of changes in economic circumstances or tax rules, it is no longer in Strategic Timber's best interests to qualify as a REIT, and a majority of our shareholders approves this decision. We also intend to operate in a manner that will not subject Strategic Timber to regulation under the Investment Company Act of 1940, as amended. We have not invested and do not intend to invest in the securities of other issuers, other than Strategic Timber Partners and Strategic Timber Operating Co. and other than in connection with timberland acquisitions, for the purpose of exercising control over those issuers. We have not traded, underwritten or sold securities of other issuers. We do not intend to underwrite securities of other issuers or trade actively in loans or other investments.

We may make investments other than those described above, although we currently do not intend to do so. We may repurchase or otherwise reacquire common stock or any other securities we may issue. We have no present intention to repurchase any of our common stock. If we do repurchase shares, we will only do so in accordance with applicable federal and state laws and the requirements for qualifying as a REIT under the Internal Revenue Code and the Treasury Regulations. We have not issued common stock or any other securities in exchange for property except in connection with our formation transactions. We also have not reacquired any of our common stock or any other securities. See "Structure and Formation of Strategic Timber." We may make loans to third parties, including our officers and directors.

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# MANAGEMENT

## DIRECTORS AND EXECUTIVE OFFICERS

Our Board of Directors will be expanded effective immediately upon completion of this offering to include the director nominees named below, each of whom has been nominated for election and has consented to serve. We believe that an independent Board of Directors, whose interests are aligned with those of the shareholders, is essential to the creation of long-term shareholder value. Therefore, it is expected that upon completion of this offering, four of seven of our directors will not be employed by, or otherwise affiliated with, Strategic Timber.

In connection with the expansion of the Board of Directors, and upon completion of this offering, the Board of Directors will be divided into three classes. The initial terms of the first, second and third classes will expire in 2000, 2001 and 2002, respectively. Beginning in 2000, directors of each class will be chosen for three-year terms upon the expiration of their current terms and each year one class of directors will be elected by the shareholders. We believe that classification of the Board of Directors will help to assure the continuity and stability of our business strategies and policies as determined by the Board of Directors. Holders of common stock will have no right to cumulative voting in the election of directors. Consequently, at each annual meeting of shareholders, the holders of a plurality of shares of common stock will be able to elect all of the successors of the class of directors whose term expires at that meeting.

Information concerning our current directors, director nominees and executive officers is set forth below.

<TABLE>  
<CAPTION>

NAME	AGE	POSITION	TERM EXPIRES (DIRECTORS ONLY)
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<S>	<C>	<C>	<C>
C. Edward Broom.....	70	President, Chief Executive Officer and Chairman of the Board of Directors	2002
Christopher J. Broom.....	38	Executive Vice President, Chief Investment Officer and Director	2001
Thomas P. Broom.....	39	Executive Vice President, Chief Operating Officer and Director	2000
Kenneth L. Chute.....	53	Senior Vice President and Chief Financial Officer	
Nicholas C. Brunet.....	36	Senior Vice President and Director of Forest Operations	
Vladimir Harris.....	42	Senior Vice President and Director of Acquisitions	
Joseph E. Rendini.....	44	Secretary, General Counsel and Vice President	
T. Yates Exley.....	38	Vice President -- Strategy and Development	

Starling W. Childs, II.....	45	Director+	2000
Jay S. Lucas.....	44	Director+	2001
Hanns A. Pielenz.....	59	Director+	2002
Richard P. Urfer.....	62	Director+	2002

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+ Each of these individuals has agreed to serve as a director upon being elected to the Board of Directors. We expect that each of these individuals will be elected as a director upon completion of this offering.

CURRENT DIRECTORS AND EXECUTIVE OFFICERS

C. Edward Broom has been the President and Chief Executive Officer of Strategic Timber since its inception and Chairman of the Board of Directors since January 1999. Mr. Broom is responsible for our overall corporate strategy and direction. Mr. Broom was a co-founder of Resource Investments, Inc., a timberland investment advisory firm, and served as its Chairman and Chief Executive Officer from its

founding in 1983 until the firm was acquired by the Union Bank of Switzerland in 1995. Mr. Broom organized Resource Investments Advisors, Inc. in June 1995 after Resource Investments, Inc. was acquired by the Union Bank of Switzerland, and has served as the President, Chief Executive Officer and controlling shareholder of Resource Investments Advisors since that time. Resource Investments Advisors is a timberland investment management firm that performs some of the same services previously offered by Resource Investments, Inc. In 1997, Mr. Broom co-founded Strategic Timber Investments LLC, which was created as a new timberland investment management firm and succeeded to a portion of the business of Resource Investments Advisors, but was subsequently dissolved when Strategic Timber was formed. Mr. Broom currently serves on the board of directors or management committee of each of Resource Investments, Inc.'s joint ventures.

Christopher J. Broom has served as Executive Vice President and Chief Investment Officer of Strategic Timber since its inception and a Director since January 1999. Mr. Broom has primary responsibility for the development of investment opportunities, capital development, and investor relations. From 1997 to 1998, Mr. Broom served as Executive Vice President and Director of Marketing and Product Development for Strategic Timber Investments, which he co-founded. From 1995 to 1997, he served as a Director of UBS Resource Investments, Inc., the successor to Resource Investments, Inc. after its acquisition by the Union Bank of Switzerland, and had overall responsibility for new product development and marketing of the firm's timberland investment services to institutional investors. Mr. Broom previously served Resource Investments, Inc. as Senior Vice President of New Product Development, Client Services and Marketing and Principal from 1988 to 1995.

Thomas P. Broom has served as Executive Vice President and Chief Operating Officer and a Director of Strategic Timber since its inception. Mr. Broom has primary responsibility for management and administration of our timberland portfolio. From 1997 to 1998, Mr. Broom served as Executive Vice President and Director of Operations and Finance for Strategic Timber Investments, which he co-founded. From 1995 to 1997, he served as Director of Finance and Administration and Fund Manager of UBS Resource Investments, and had responsibility for its administrative matters, including accounting, insurance, auditing, personnel and facilities management. Mr. Broom previously served as Vice President of Administration of Resource Investments, Inc. from 1992 to 1995. During that time, Mr. Broom also served as the fund manager of Resource Investments, Inc.'s Tasman Chile Ltd. joint venture and was responsible for new investment activities for Resource Investments, Inc. in South America.

Kenneth L. Chute has served as Senior Vice President and Chief Financial Officer of Strategic Timber since January 1999, and is responsible for our financial, accounting, treasury and tax functions, credit facilities, information systems, and human resources. Mr. Chute has over 20 years experience in financial management, auditing, accounting systems, mergers, acquisitions, and disposals. From 1979 to 1998, he served as Chief Financial Officer and Vice



President of Finance and Administration for Sprague Energy Corp., a diversified energy company located in Portsmouth, New Hampshire. He began his career as an auditor at Arthur Andersen, LLP. Mr. Chute is a Certified Public Accountant and is a member of the American Institute of CPAs, the New Hampshire Society of CPAs, the Institute of Management Accountants and the Financial Executives Institute.

Nicholas C. Brunet has served as Senior Vice President and Director of Forest Operations of Strategic Timber since June 1998, and is responsible for forestry operations of our timberland holdings. From 1996 until the time he joined us, Mr. Brunet served as Area Manager for Green Crow Corporation, a land investment and log brokerage firm located in Port Angeles, Washington. From 1995 to 1996, Mr. Brunet served as a Vice President of UBS Resource Investments, where he was Fund Manager for U.S. timberlands. From 1990 to 1995, Mr. Brunet served in the same capacity for Resource Investments, Inc., UBS Resource Investments' predecessor.

Vladimir Harris has served as Senior Vice President and Director of Acquisitions of Strategic Timber since its inception. Mr. Harris has primary responsibility for timberland acquisitions. From February to April 1998, Mr. Harris served as Senior Vice President and Chief Investment Officer of Strategic Timber Investments. From June 1988 through January 1998, he was an officer and a Managing Director of

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Baldwin & Clarke Corporate Finance, Inc. and Baldwin & Clarke Capital Markets, Inc., which are affiliated financial advisory and investment banking firms based in Bedford, New Hampshire. In these capacities, he specialized in mergers and acquisitions and served as a consultant to UBS Resource Investments from 1995 to 1997, and to Resource Investments, Inc., UBS Resource Investments' predecessor, from 1990 to 1995.

Joseph E. Rendini has served as Secretary, General Counsel and Vice President of Strategic Timber since its inception. From 1997 to 1998, Mr. Rendini served as Vice President and General Counsel of Strategic Timber Investments. From 1994 to 1997, Mr. Rendini engaged in a private civil litigation practice in Boston, Massachusetts. From 1993 through 1994, Mr. Rendini served as Managing Attorney for United States Fidelity + Guaranty Insurance Company for eastern Massachusetts. Prior to joining USF+G, Mr. Rendini engaged in a private civil litigation practice in Boston, Massachusetts and New York, New York.

T. Yates Exley has served as Vice President -- Strategy and Development of Strategic Timber since October 1998. Mr. Exley is responsible for the development and structure of acquisition vehicles and investment partnerships. Mr. Exley served as Executive Vice President of Pioneer from 1997 to 1998. From 1989 to 1997, he was a Senior Vice President at Dillon, Read & Co., Inc., located in San Francisco, California, where he headed that firm's West Coast forest practice business and worked on a wide range of financings, acquisitions, and divestitures within the forest and paper product sector.

#### DIRECTORS WHO HAVE AGREED TO SERVE AS OF THE COMPLETION OF THIS OFFERING

Starling W. Childs, II will become a director of Strategic Timber upon the completion of this offering. Since 1997, Mr. Childs has served as a Partner and sales representative for Optimum Yield, Incorporated, a distributor of forestry and agricultural soil additives and fertilizers. Since 1988, Mr. Childs has served as the Chairman of the Board of S. W. Childs Management Corporation, a privately-held brokerage firm located in New York, New York, and served as a director of that firm from 1978 to 1988. Since 1988, Mr. Childs has also served as the Principal of Ecological and Environmental Consulting Services, Inc., an environmental, ecological and forest resource consulting firm located in Lyme, Connecticut.

Jay S. Lucas will become a director of Strategic Timber upon the completion of this offering. Since 1991, Mr. Lucas has served as the President and Managing Director of The Lucas Group, a corporate strategy consulting firm located in New London, New Hampshire that he founded in 1991. From 1982 to 1990, Mr. Lucas was

a Vice President and partner at Bain & Company, a leading international corporate strategy consulting firm based in Boston, Massachusetts. Mr. Lucas currently serves as a director of Wolverine (Massachusetts) Corporation, an international manufacturer of industrial ovens, and MIJA Industries, Inc., the leading manufacturer of pressure gauges for the fire protection industry.

Hanns A. Pielenz will become a director of Strategic Timber upon the completion of this offering. Since 1968, Mr. Pielenz has been the Chief Executive Officer and Chairman of Amann Group, a textile manufacturing company based in Germany. Mr. Pielenz also serves as a director of Interglas A.G., a German fiberglass manufacturer. Mr. Pielenz is a resident and citizen of Germany.

Richard P. Urfer will become a director of Strategic Timber upon the completion of this offering. Since 1997, Mr. Urfer has served as the Chief Executive Officer of BW Capital Markets, Inc., the U.S. affiliate of Baden-Württembergische Bank AG, the largest privately held commercial bank in the State of Baden-Württemberg, Germany. From 1995 to 1997, Mr. Urfer served as an Executive Vice President of Resource Investments Advisors. In 1987, Mr. Urfer founded R.P. Urfer & Co., Inc., a corporate finance consulting firm located in Morristown, New Jersey, and served as its Managing Director until 1995. Mr. Urfer currently is a director of Anesta Corp., a pharmaceutical company located in Salt Lake City, Utah, and BW Capital Markets, Inc.

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#### MANAGEMENT RELATIONSHIPS

C. Edward Broom, our President, Chief Executive Officer and Chairman of the Board of Directors, is the father of both Christopher J. Broom, our Executive Vice President, Chief Investment Officer and a Director, and Thomas P. Broom, our Executive Vice President, Chief Operating Officer and a Director.

#### COMMITTEES OF THE BOARD OF DIRECTORS

##### AUDIT COMMITTEE

Promptly following the completion of this offering, our Board of Directors will establish an Audit Committee that will at all times consist of three independent directors. The Audit Committee will make recommendations concerning the engagement of independent public accountants, review with the independent public accountants the plans and results of the audit engagement, approve professional services provided by the independent public accountants, review the independence of the independent public accountants, consider the range of audit and non-audit fees and review the adequacy of our internal accounting controls.

##### EXECUTIVE COMMITTEE

Promptly following the completion of this offering, our Board of Directors will establish an Executive Committee. The Executive Committee will set and execute corporate strategy and policy, and will generally exercise all other powers of the Board of Directors except as prohibited by law. The initial members of the Executive Committee will be Messrs. C. Edward Broom, Christopher J. Broom and Thomas P. Broom.

##### COMPENSATION COMMITTEE

Promptly following the completion of this offering, our Board of Directors will establish a Compensation Committee that will at all times consist of three independent directors. The Compensation Committee will review and make recommendations to the full Board of Directors concerning proposals by management with respect to compensation, bonuses, employment agreements and other benefits and policies respecting such matters for our executive officers. The Compensation Committee will also administer our stock incentive plan and other benefit plans.

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## EXECUTIVE COMPENSATION

The following table shows total compensation paid in 1998 and compensation expected to be paid in 1999 by Strategic Timber to C. Edward Broom, our President and Chief Executive Officer, and our other most highly compensated executive officers. Kenneth L. Chute, our Senior Vice President and Chief Financial Officer, was not with us in 1998, but is included because we expect him to be one of the four most highly compensated executive officers in 1999. Because Strategic Timber was formed in April 1998, no compensation was paid in any prior completed year and the amounts indicated below for 1998 reflect compensation for a partial year. Salaries for 1999 are current annual base salaries.

## SUMMARY COMPENSATION TABLE

&lt;TABLE&gt;

&lt;CAPTION&gt;

NAME AND PRINCIPAL POSITION	YEAR	ANNUAL COMPENSATION		LONG TERM COMPENSATION AWARDS
		SALARY (\$)	BONUS (\$)	SECURITIES UNDERLYING OPTIONS (#)
<S>	<C>	<C>	<C>	<C>
C. Edward Broom.....	1998	\$168,750 (1)	--	--
President and Chief Executive Officer	1999	225,000	(2)	150,000 (3)
Christopher J. Broom.....	1998	\$131,250 (1)	--	--
Executive Vice President and Chief Investment Officer	1999	175,000	(2)	150,000 (3)
Thomas P. Broom.....	1998	\$131,250 (1)	--	--
Executive Vice President and Chief Operating Officer	1999	175,000	(2)	150,000 (3)
Kenneth L. Chute.....	1998	--	--	--
Senior Vice President and Chief Financial Officer	1999	\$150,000	(2)	137,500 (3)
Vladimir Harris.....	1998	\$101,250 (1)	--	--
Senior Vice President and Director of Acquisitions	1999	135,000	(2)	137,500 (3)

&lt;/TABLE&gt;

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(1) Salaries for 1998 include the following amounts that were earned but not paid in 1998: C. Edward Broom, \$18,750; Christopher J. Broom, \$56,250; Thomas P. Broom, \$62,250; and Vladimir Harris, \$33,750. We expect to pay these amounts prior to the completion of this offering.

(2) Bonuses for 1999 will be determined by the Board of Directors in its sole discretion, upon recommendation from the Compensation Committee.

(3) We will grant these options to purchase common stock at the completion of this offering. The exercise price of all of these options will be the initial public offering price. One-third of the options granted will vest on each of the first, second and third anniversaries of the completion of this offering. We did not grant any stock options or stock appreciation rights during 1998, and we do not anticipate granting any stock appreciation rights during 1999.

## COMPENSATION OF DIRECTORS

We will pay our directors who are not employees fees for their services as directors. Each non-employee director will receive an annual retainer of \$12,000. In addition, each non-employee director will receive a fee of \$1,000 for each meeting of the Board of Directors attended in person, \$500 for each such meeting attended by telephone, and \$500 for each committee meeting attended. Each non-employee director will also be reimbursed for all expenses incurred in connection with attending Board of Directors and committee meetings in person. Upon the completion of this offering, each non-employee director will receive options to purchase 10,000 shares of common stock at an exercise price equal to the initial public offering price. These options will vest over a three-year period, with the first vesting to occur on the first anniversary of the completion of this offering. Any future issuance of stock options to non-employee directors will be in accordance with the terms of our stock

## 1999 INCENTIVE PLAN

Prior to the completion of this offering, the Board of Directors will adopt, and the shareholders of Strategic Timber will approve, the 1999 Strategic Timber Trust Omnibus Incentive Plan.

Under the 1999 Incentive Plan, we may grant to employees and non-employee directors stock options, stock appreciation rights, restricted stock and other stock-based awards, as well as cash-based annual and long-term incentive awards. We believe that the 1999 Incentive Plan will form an important part of our overall compensation program. The 1999 Incentive Plan will support our ongoing efforts to attract and retain talented employees and directors and will give us the ability to provide employees with incentives that are directly linked to our profitability and increases in shareholder value.

**Eligibility.** All employees of Strategic Timber, its subsidiaries and its affiliates as well as non-employee directors of Strategic Timber, its subsidiaries, and its affiliates, will be eligible to receive awards under the 1999 Incentive Plan. For convenience, both employees and non-employee directors eligible to receive awards under the 1999 Incentive Plan are referred to as employees.

**Administration.** We currently anticipate that the 1999 Incentive Plan will be administered by the Compensation Committee or a subcommittee. The Compensation Committee will make recommendations to the full Board of Directors as to the individuals to whom awards will be granted and the terms of the awards. The Compensation Committee can delegate its authority under the 1999 Incentive Plan to our officers, subject to approval by the Board of Directors, with respect to employees who are not executive officers. The Board of Directors will determine the terms of any awards to members of the Compensation Committee under the 1999 Incentive Plan.

**Shares Reserved.** 2,224,000 shares of common stock may be issued under the 1999 Incentive Plan, representing, upon the completion of this offering, approximately 10% of the outstanding shares of common stock and partnership units. The shares of common stock subject to any award that terminates, expires or is cashed out without payment being made in the form of common stock will again be available for distribution under the 1999 Incentive Plan.

Options to purchase an aggregate of 1,115,000 shares of common stock will be granted to some of our executive officers, directors and employees as of the completion of this offering, at an exercise price equal to the initial public offering price. These options will vest over a three-year period, with the first vesting to occur on the first anniversary of the completion of this offering. Messrs. C. Edward, Christopher J. and Thomas P. Broom will each receive options to purchase 150,000 shares of common stock, Messrs. Chute and Harris will each receive options to purchase 137,500 shares of common stock, and Messrs. Brunet and Rendini will each receive options to purchase 75,000 shares of common stock.

**Cash-Based Annual and Long-Term Incentive Awards.** Cash-based annual and long-term incentive awards may be granted under the 1999 Incentive Plan. These awards will be earned only if corporate, business unit or individual performance objectives over performance cycles established by or under the direction of the Compensation Committee are met. The performance objectives may vary from participant to participant, group to group and period to period. Performance objectives for awards will be based upon criteria established by the Compensation Committee. No annual incentive award paid to a participant with respect to a performance cycle may exceed \$1,000,000, and no long-term incentive award paid to a participant may exceed \$1,000,000 times the number of years in the performance cycle.

**Stock-Based Awards.** The 1999 Incentive Plan will permit the granting of incentive stock options, which qualify for special tax treatment, and

nonqualified stock options. The exercise price for incentive stock options will not be less than the fair market value of common stock on the date of grant, as determined under the 1999 Incentive Plan. The 1999 Incentive Plan permits the Compensation Committee to cancel an option upon exercise by the holder and pay the holder, in cash or common stock, the difference between the fair market value of the shares covered by the option and the exercise price.

We may also grant stock appreciation rights either singly or in combination with underlying stock options. Stock appreciation rights entitle the holder upon exercise to receive an amount in any combination

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of cash or common stock, as determined by the Compensation Committee, equal in value to the excess of the fair market value of the shares covered by the right over the grant price. The Compensation Committee will determine the grant price and other terms of stock appreciation rights.

We may also award shares of restricted common stock. The restricted stock vests and becomes transferable upon the satisfaction of conditions set forth in the applicable award agreement. Restricted stock awards may be subject to forfeiture if, for example, the recipient's employment terminates before the award vests. Except as specified at the time of grant, holders of restricted stock will have voting rights and the right to receive dividends on their restricted shares.

The 1999 Incentive Plan also provides for other awards that are denominated in, valued by reference to, or otherwise based on or related to common stock. These awards may include performance shares and restricted stock units that entitle the recipient to receive, upon satisfaction of performance goals or other conditions, a specified number of shares of common stock or the cash equivalent.

Under the 1999 Incentive Plan, the total number of shares of restricted common stock and other shares of common stock subject to or underlying incentive stock options, nonqualified stock options, stock appreciation rights and other stock-based awards granted to any plan participant may not exceed 25% of the total shares of common stock that may be issued under the 1999 Incentive Plan.

**Change in Control Provisions.** The 1999 Incentive Plan provides that, in the event of a significant change in our ownership or Board of Directors, the Board of Directors may:

- make all stock options and stock appreciation rights immediately exercisable,
- remove the restrictions applicable to outstanding restricted stock and other stock-based awards,
- cash out the value of outstanding stock options, stock appreciation rights, restricted stock and other stock-based awards on the basis of the highest price paid or offered during the preceding 60-day period, and
- vest all outstanding incentive awards and pay out these awards on a prorated basis, based on the maximum award opportunity of the awards and the number of months elapsed compared with the total number of months in the performance cycle.

**Adjustments for Share Dividends, Mergers and Similar Events.** The Board of Directors will make appropriate adjustments in outstanding awards under the 1999 Incentive Plan to reflect common stock dividends, splits and similar events. In

the event of a merger, liquidation, sale of the business or similar event, the Board of Directors, in its discretion, may provide for substitution or adjustment of outstanding awards, or may terminate all awards with payment of cash or in-kind consideration.

**Amendments and Termination.** The Board of Directors may at any time amend or discontinue the 1999 Incentive Plan. The Compensation Committee may at any time amend outstanding awards for the purpose of satisfying changes in law or for any other lawful purpose. However, no action may be taken that materially and adversely affects any rights under an outstanding award without the holder's consent. Further, amendments to the 1999 Incentive Plan may be subject to approval by our shareholders if and to the extent required by the Internal Revenue Code to preserve the qualified status of incentive stock options or to preserve tax deductibility of compensation earned under options.

#### EMPLOYMENT AND NON-COMPETITION AGREEMENTS

We have employment agreements with each of Messrs. C. Edward Broom, Christopher J. Broom, Thomas P. Broom, Kenneth L. Chute, Nicholas C. Brunet, Vladimir Harris and Joseph E. Rendini effective as of the consummation of this offering.

The employment agreement with C. Edward Broom provides for his employment as President and Chief Executive Officer of Strategic Timber for a period of four years and automatically renews for successive one-year periods. Mr. Broom's employment agreement provides for an initial annual base salary of \$225,000. Mr. Broom's employment agreement contains provisions relating to his involvement in several

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privately held timber investment funds. If we wish to bid on a property and any fund with which Mr. Broom is affiliated is the seller of the property or also wishes to bid on the property, Mr. Broom will not participate in the transaction on behalf of that fund. In addition, Mr. Broom has agreed to spend no more than 5% of his time devoted to his interests in these timber funds. The employment agreement otherwise prohibits Mr. Broom from competing against us during the term of his employment under the agreement and for a period of one year thereafter in North America, Central America and South America, and from soliciting purchasers of our timber or prospective sellers of timberlands with which he had contact during the term of his employment for a period of one year thereafter. The employment agreement may be terminated by mutual agreement, voluntarily by Mr. Broom or by us without cause upon six months' prior written notice during the first two years of the employment term and upon ninety days' notice thereafter, and immediately by us for cause or upon the death or disability of Mr. Broom. Mr. Broom or his heirs are entitled to one year's compensation if Mr. Broom terminates his employment for good reason, or we terminate without cause.

Each of Messrs. Christopher J. Broom, Thomas P. Broom, Chute, Brunet, Harris and Rendini have entered into employment agreements with us on substantially similar terms. Each employment agreement provides for an initial minimum annual base salary for each executive officer as follows: Mr. Christopher J. Broom, \$175,000; Mr. Thomas P. Broom, \$175,000; Mr. Chute, \$150,000; Mr. Brunet, \$90,000; Mr. Harris, \$135,000; and Mr. Rendini, \$100,000. The employment agreement with each executive provides for his employment as an officer of Strategic Timber for a period of four years and automatically renews for successive one-year periods. Each employment agreement prohibits the executive from competing against us during the term of his employment under the agreement and for a period of one year thereafter in North America, Central America and South America, and from soliciting purchasers of our timber or prospective sellers of timberlands with which he had contact during the term of his employment for a period of one year thereafter. The employment agreement may be terminated by mutual agreement, voluntarily by the executive or by us without cause upon six months' prior written notice during the first two years of the employment term and upon ninety days' notice thereafter, and immediately by us for cause or upon the death or disability of the executive. Each executive or his heirs are entitled to one year's compensation if the executive terminates his employment for good reason, or we terminate without cause.

#### COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During 1998, we did not have a compensation committee. Thomas P. Broom, who was our sole director from inception until January 1999 and who is our Executive Vice President and Chief Operating Officer, previously determined compensation of executive officers. C. Edward Broom, our President and Chief Executive Officer, and Christopher J. Broom, our Executive Vice President and Chief Investment Officer, assisted Thomas P. Broom in determining executive officer compensation for 1998.

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#### TRANSACTIONS WITH RELATED PARTIES

In December 1998, we concluded a transaction with our President and Chief Executive Officer, C. Edward Broom, in which Mr. Broom purchased for \$3.0 million approximately 6,700 acres of agricultural land in Louisiana that we had leased to third parties principally for rice farming. This property was included in the purchase of the Louisiana property without any separate determination of cost. We determined that this property was ancillary to our ongoing business of timber production. We sold this property to provide a source of cash to make payments of our bank debt. Mr. Broom and other members of senior management determined this purchase price to produce the necessary funds to make these payments. The purchase price does not necessarily reflect the price we might have been able to obtain if the property had been fully prepared for sale and exposed to the market for a sufficient period of time to produce the highest price. To protect our economic interest in the property, Mr. Broom has agreed that we may repurchase the property at any time before December 31, 2000, at the price paid by Mr. Broom plus a pro-rata annual increase at the rate of 8%, compounded annually.

In December 1998, we sold some of our eastern Oregon timber to Kinzua Resources, LLC, a sawmill company controlled by Gregory M. Demers, a beneficial owner of more than 5% of our common stock, for \$5.6 million. We executed timber deeds conveying approximately 19.3 million board feet of timber, consisting of a variety of species. Kinzua Resources has regularly acquired and used wood from the eastern Oregon timberlands in the past, and we anticipate that we will continue to sell timber from these lands to Kinzua in the ordinary course of business in the future.

Hanns A. Pielenz, who has agreed to serve as a director on or before the completion of this offering, owns a 50% interest in each of Louisiana Timber and Mach One. In April 1998, Louisiana Timber contributed to Strategic Timber Partners a contract to acquire the Louisiana property in exchange for partnership units, which the parties valued at \$50.0 million. In October 1998, Mach One invested \$10.0 million cash in exchange for an interest in Strategic Timber Partners II, in connection with our acquisition of Pioneer. As of the completion of the offering, Louisiana Timber will receive partnership units and cash valued at \$48.2 million, and Mach One will receive partnership units and cash valued at \$12.0 million, in each case assuming an offering price of \$20 per share of common stock.

Before the completion of this offering, we will pay approximately \$760,000 to Broom Resource Investments, LLC. This amount includes reimbursement of approximately \$320,000 in expenses paid on behalf of Strategic Timber and \$440,000 in fees due to BRI in connection with our acquisition of the Louisiana property. BRI's fees relate to the services it performed before the formation of Strategic Timber in acquiring from Louisiana Timber the contract to purchase the Louisiana property. BRI is owned by Messrs. C. Edward Broom, Christopher J. Broom and Thomas P. Broom, who are executive officers and directors of Strategic Timber.

We rent our headquarters office in New London, New Hampshire, from Broom Properties, LLC, a company controlled by Messrs. C. Edward and Thomas P. Broom. We rent this space for \$5,250 per month under a two year lease entered into in January 1999. In 1998, payments to Broom Properties, LLC for this space totaled \$40,000.

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The following table sets forth certain information regarding the beneficial ownership of common stock and partnership units exchangeable for common stock by our directors and prospective directors, our most highly compensated executive officers, all of our directors, prospective directors and executive officers as a group and each person who is known to be the beneficial owner of more than 5% of the outstanding shares of common stock. This table assumes that all of the formation transactions and this offering have been completed and that the underwriters do not exercise their over-allotment option and gives effect to a 36.59-for-1 stock split, which will occur prior to completion of this offering. The second column in the table below assumes that the identified person and no other person redeems all partnership units the identified person beneficially owns for shares of common stock.

&lt;TABLE&gt;

&lt;CAPTION&gt;

NAME AND ADDRESS OF OWNER -----	NUMBER OF SHARES OF COMMON STOCK AND PARTNERSHIP UNITS BENEFICIALLY OWNED -----	PERCENTAGE OF ALL SHARES OF COMMON STOCK -----	PERCENTAGE OF ALL SHARES OF COMMON STOCK AND PARTNERSHIP UNITS -----
<S>	<C>	<C>	<C>
Hanns A. Pielenz..... 740 Manatee Cove Vero Beach, FL 32963	1,863,084	9.7%	8.4%
Larry J. Woodard..... 1089 Lighthouse Two Hilton Head Island, SC 29928	1,863,084	9.7%	8.4%
Gregory M. Demers..... 25310 Jeans Road Veneta, OR 97487	1,660,333	8.8%	7.5%
C. Edward Broom.....	408,329	2.3%	1.8%
Christopher J. Broom.....	408,329	2.3%	1.8%
Thomas P. Broom.....	408,329	2.3%	1.8%
Kenneth L. Chute.....	--	--	--
Vladimir Harris.....	90,740	*	*
Jay S. Lucas.....	--	--	--
Starling W. Childs, II.....	--	--	--
Richard P. Urfer.....	--	--	--
All directors, prospective directors and executive officers as a group (12 persons)...	3,468,807	17.2%	15.6%

&lt;/TABLE&gt;

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\* Less than 1%

Shares and units shown as owned by Hanns A. Pielenz and Larry J. Woodard include 1,762,974 partnership units held of record by Louisiana Timber and 100,110 partnership units held of record by Mach One. Hanns A. Pielenz, a prospective director, and Larry J. Woodard each may be deemed to beneficially own the partnership units held by Louisiana Timber and Mach One.

## DESCRIPTION OF CAPITAL STOCK

The description of our capital stock set forth below and elsewhere in this prospectus does not purport to be complete and is qualified in its entirety by reference to our Amended and Restated Articles of Incorporation and Amended and Restated Bylaws, each of which will be adopted shortly before completion of this offering. Copies of the Amended and Restated Articles of Incorporation and Amended and Restated Bylaws are exhibits to the registration statement of which this prospectus is a part.

## GENERAL

Under the Articles of Incorporation, the Board of Directors has the authority to issue up to 200,000,000 shares of common stock, par value \$.01 per share, and 50,000,000 shares of preferred stock, par value \$.01 per share. Upon completion of this offering, 17,271,770 shares of common stock will be issued



and outstanding and no shares of preferred stock will be issued or outstanding. 19,761,770 shares will be issued and outstanding if the underwriters' over-allotment option is exercised in full.

#### COMMON STOCK

Holders of common stock are entitled to one vote per share on all matters to be voted on by shareholders and are not entitled to cumulative voting in the election of directors. Generally, matters to be approved by shareholders must be voted for by holders of a majority of the shares of common stock represented in person or by proxy at a meeting, subject to any contractual or other rights of security holders, such as any special rights of holders of preferred stock, none of which is currently outstanding. A plurality of the shares of common stock is needed to elect directors. For certain other matters affecting or relating to voting rights of holders of shares of common stock, including election of directors and supermajority voting requirements, see "Material Provisions of Georgia Law and Strategic Timber's Articles of Incorporation and Bylaws That May Have an Anti-Takeover Effect."

Subject to any preferential rights granted by the Board of Directors in connection with the future issuance of preferred stock, holders of shares of common stock are entitled to share ratably in any dividends and distributions Strategic Timber declares and pays and in any distribution to shareholders upon dissolution of Strategic Timber.

Holders of common stock have no preemptive or other subscription or conversion rights, and there are no redemption or sinking fund provisions with respect to these shares. As discussed below, if shares of common stock are converted into shares of excess stock, the rights attributable to the shares will be substantially limited.

#### TRANSFER AGENT AND REGISTRAR

The transfer agent and registrar for our common stock is American Stock Transfer & Trust Company.

#### PREFERRED STOCK

The Board of Directors has the authority, without further shareholder vote, to issue preferred stock in one or more series and to fix its rights, preferences and limitations, including dividend rights, conversion rights, sinking fund provisions, voting rights, rights to elect a specified number of directors, terms and rights of redemption and liquidation preferences. These rights and preferences could include the right to receive specified dividend payments and payments on liquidation prior to any payments being made to the holders of common stock. The Board of Directors could authorize the issuance of preferred stock with terms and conditions that could discourage a takeover or other transaction that holders of common stock might believe to be in their best interests. See "Material Provisions of Georgia Law and Strategic Timber's Articles of Incorporation and Bylaws That May Have an Anti-Takeover Effect -- Preferred Stock." As of the date of this prospectus, no shares of preferred stock are outstanding and we have no current plans to issue any preferred stock.

#### RESTRICTIONS ON OWNERSHIP AND TRANSFER OF SHARES

To qualify as a REIT under the Internal Revenue Code, among other things, not more than 50% in value of our outstanding capital stock may be owned, directly or indirectly, by five or fewer persons during the last half of a taxable year. This "five or fewer" requirement does not apply during the first year for which we elect to be treated as a REIT. Also, shares of our capital stock must be beneficially owned by 100 or more persons during at least 335 days of a taxable year of 12 months, other than the first year or during a proportionate part of a shorter taxable year. See "Federal Income Tax Consequences."

To protect us from losing our status as a REIT and to protect us from a concentration of ownership among our shareholders, the Articles of Incorporation, subject to certain exceptions, provide that no person may beneficially own more than 9.8% of the lesser of the aggregate number or the value of the outstanding shares of common stock or any series of preferred stock. Under the Articles of Incorporation, a person generally beneficially owns shares for this purpose if the person would be treated as an owner of common stock or preferred stock either directly or indirectly under section 542(a)(2) of the Internal Revenue Code, taking into account, for this purpose, applicable constructive ownership rules. When two or more persons act as a partnership or similar group for the purpose of acquiring, holding or disposing of securities, the group is considered a single person under the Articles of Incorporation. The Board of Directors may waive the ownership limit as to any person upon receipt of a ruling from the IRS, an opinion of counsel or other evidence acceptable to the Board that ownership by that person will not cause Strategic Timber to lose its REIT status.

Any transfer of shares of common stock or preferred stock is void, and the intended transferee will acquire no rights to the shares of capital stock, if the transfer would do any of the following:

- cause any person to beneficially own shares of common stock or preferred stock in excess of the ownership limit not otherwise permitted as provided above;
- result in the shares of common stock or preferred stock being beneficially owned by fewer than 100 persons;
- result in Strategic Timber being "closely held" within the meaning of section 856(h) of the Internal Revenue Code;
- result in Strategic Timber constructively owning 10% or more of the ownership interests in a tenant of Strategic Timber within the meaning of section 856(d)(2)(B) of the Internal Revenue Code;
- result in Strategic Timber failing to qualify as a "domestically controlled REIT" within the meaning of section 897(h)(4)(B) of the Internal Revenue Code; or
- otherwise cause Strategic Timber to fail to qualify as a REIT.

These restrictions on transferability and ownership will not apply if the Board of Directors adopts a resolution recommending that Strategic Timber terminate its status as a REIT, and the resolution is approved by the holders of a majority of the outstanding shares of common stock.

If any attempted transfer of common stock or preferred stock or other event resulting in an increase in any holder's percentage interest in common stock or preferred stock would cause a purported transferee or holder to be in violation of any of the restrictions described in the previous paragraph, then the purported transferee or holder will not acquire, or will cease to own, the shares in excess of the highest number of shares that could be held in compliance with these restrictions. The excess stock will be converted automatically into an equal number of shares of stock and transferred automatically, by operation of law, to a trust, the beneficiary of which will be a qualified charitable organization selected by Strategic Timber.

As soon as practical after the transfer of shares to the trust, the trustee of the trust will be required to sell the excess stock to a person or entity who could own the shares without violating the ownership restrictions. In the case of excess stock resulting from a transfer for value, the trustee must distribute to the prohibited owner the lesser of the price paid by the prohibited owner for the shares or the sales

proceeds received by the trust for the shares. In the case of excess stock resulting from any event other than a transfer for value, the trustee will be required to sell the excess stock to a qualified person and distribute to the prohibited owner the lesser of the market price of the excess stock or the sales proceeds received by the trust for the excess stock. Once shares become excess stock, they lose their voting rights until they are held in compliance with the ownership limit in the Articles of Incorporation, subject to any voting rights that may be afforded by Georgia law.

Excess stock held in trust is deemed to be offered for sale to Strategic Timber at the lesser of the price per share in the transaction that created the excess stock, or the market price. Strategic Timber has the right to accept the offer for 90 days.

All certificates representing shares of common stock will bear a legend referring to the restrictions described above.

Any person who beneficially owns more than 5% of the outstanding shares of any class or series of our capital stock is required to provide a written statement to us containing ownership information by January 31 of each year. In addition, upon our request, each record and beneficial owner of common stock or preferred stock is required to disclose to us in writing information we consider necessary to determine our status as a REIT and to ensure compliance with the ownership restrictions in the Articles of Incorporation.

The ownership restrictions described above could have the effect of delaying, deferring or preventing a change of control in which holders of common stock might receive a premium for their shares over the then prevailing market price. For additional matters that could have the effect of delaying, deferring or preventing a change of control, see "Material Provisions of Georgia Law and Strategic Timber's Articles of Incorporation and Bylaws That May Have an Anti-Takeover Effect."

#### NASDAQ NATIONAL MARKET LISTING

Prior to the date of this prospectus, there has been no public trading market for the common stock. We have applied to have the common stock included for quotation on the Nasdaq National Market under the symbol "STTR."

#### MATERIAL PROVISIONS OF GEORGIA LAW AND STRATEGIC TIMBER'S ARTICLES OF INCORPORATION AND BYLAWS THAT MAY HAVE AN ANTI-TAKEOVER EFFECT

This section discusses the material provisions of our Articles of Incorporation and Bylaws, and of Georgia law, that may have an anti-takeover effect. This summary does not purport to be complete and is subject to and qualified in its entirety by reference to the Georgia Business Corporation Code and the Articles of Incorporation and Bylaws. Copies of the Articles of Incorporation and Bylaws have been filed as exhibits to the registration statement of which this prospectus is a part.

Certain provisions of the Georgia Business Corporation Code and the Articles of Incorporation and Bylaws, summarized in the following paragraphs, may discourage a takeover attempt that you might consider to be in your best interest. This could include a takeover that would result in payment of a

premium over the market price of shares.

#### OWNERSHIP LIMIT

The Articles of Incorporation contain restrictions on the number of shares of capital stock that individual shareholders can own. These restrictions are intended to ensure that shareholders do not acquire significant shareholdings in a manner that could jeopardize Strategic Timber's ability to remain qualified as a REIT for tax purposes. Transfers that would disqualify Strategic Timber from REIT status are treated as void. These restrictions and the consequences of violating them are discussed above under "Description of Capital Stock -- Restrictions on Ownership and Transfer of Shares."

#### BUSINESS COMBINATION PROVISIONS OF GEORGIA LAW

Our Bylaws subject us to provisions of the Georgia Code restricting our ability to engage in business combination transactions with significant shareholders. These provisions prohibit business combinations between a corporation and any person who has acquired beneficial ownership of 10% or more of the voting stock of the corporation. The prohibition applies for a period of five years from the date the shareholder acquired the 10% interest. The prohibitions do not apply if:

- prior to the time the shareholder acquired the 10% interest, the Board of Directors of the corporation approved either the business combination or the transaction that resulted in the person becoming an interested shareholder.
- the shareholder became the beneficial owner of at least 90% of the outstanding shares of voting stock of the corporation in the same transaction in which the interested shareholder acquired the 10% interest. In computing the percentage of shares owned by the interested shareholder, shares owned by persons who are directors or officers, their affiliates or associates and by subsidiaries of the corporation and employee stock plans are excluded.
- the shareholder, subsequent to acquiring the 10% interest, became the beneficial owner of at least 90% of the voting stock of the corporation and the business combination was approved by holders of a majority of the voting stock entitled to vote, excluding voting stock beneficially owned by the shareholder or by persons who are directors or officers, their affiliates or associates and by subsidiaries of the corporation and employee stock plans. In computing the percentage of shares owned by the interested shareholder, shares owned by persons who are directors or officers, their affiliates or associates and by subsidiaries of the corporation and employee stock plans are excluded.

Our Bylaws also subject us to "fair price" provisions of the Georgia Code that further restrict business combination transactions with 10% shareholders. These provisions require the consideration paid for stock acquired in the business combination to meet specified tests, which are designed to ensure that shareholders receive at least fair market value for their shares in the business combination. A business combination with a 10% shareholder does not need to meet these tests if either of the following apply:

- The continuing directors unanimously approve the business combination, provided there are at least three continuing directors. A continuing director is any member of the Board of Directors who is

not an affiliate or associate of a 10% shareholder or any of its affiliates, and who was a director prior to the date the 10% shareholder first acquired the 10% interest, or a successor to such a director in certain circumstances.

- Two-thirds of the continuing directors recommend the business combination and a majority of the voting stock entitled to vote approves the business combination. For purposes of this vote, voting stock beneficially owned by the interested shareholder is excluded.

#### THE BOARD OF DIRECTORS

Our Board of Directors is divided into three classes of directors serving staggered three-year terms. The term of office of the first class of directors will expire at the 2000 meeting of shareholders; the term of the second class of directors will expire at the 2001 annual meeting of shareholders; and the term of the third class of directors will expire at the 2002 annual meeting of shareholders. At each annual meeting of shareholders, the class of directors to be elected at the meeting will be elected for a three-year term, and the directors in the other two classes will continue in office. Because shareholders will have no right to cumulative voting for the election of directors, at each annual meeting of shareholders the holders of a plurality of the shares of common stock will be able to elect all of the successors to the class of directors whose term expires at that meeting. Classification of the Board of Directors expands the time required to change the composition of a majority of directors, which may discourage an acquisition proposal. The Articles of Incorporation provide that the number of directors shall be fixed by resolution of the Board of Directors, but shall not be less than three unless the Articles of Incorporation are amended to delete the classification of the Board of Directors.

The Articles of Incorporation also provide that, except for any directors who may be elected by holders of preferred stock, directors may be removed only for cause by the affirmative vote of shareholders holding at least a majority of the votes entitled to be cast by all shareholders in the election of directors. Vacancies on the Board of Directors, however occurring, may be filled only by a majority vote of the remaining directors. Directors elected by the Board of Directors to fill vacancies continue until the next election of the class for which they have been chosen, except for directors elected to fill vacancies resulting from an increase in the number of directors, who continue until the next election of directors by the shareholders. A vote of shareholders holding at least two-thirds of all the votes entitled to be cast is required to amend or repeal these classified board and director removal provisions. These provisions make it more difficult and time-consuming to change majority control of the Board of Directors and make it more difficult for shareholders to remove incumbent directors and fill the vacancies with their own nominees. These provisions may reduce our vulnerability to an unsolicited takeover proposal or the removal of incumbent management.

#### SPECIAL MEETINGS OF SHAREHOLDERS; CONSENTS

The Bylaws provide that special meetings of shareholders may be called only by the Chairman of the Board of Directors, the President, a majority of the Board of Directors or holders of outstanding stock having not less than 75% of the votes entitled to be cast by all of the outstanding shares of our capital stock. Also, shareholders may act without a meeting only by unanimous written consent, which makes shareholder action without a meeting highly unlikely. These provisions make it more difficult for the shareholders to take action without the sanction of our management.

#### PREFERRED STOCK

Under the Articles of Incorporation, the Board of Directors has the power, without a shareholder vote, to establish the preferences and rights of one or more series of preferred stock and to issue these shares. The Board of Directors can grant the holders of any series of preferred stock preferences, powers and rights, voting or otherwise, that have priority over the rights of holders of common stock. The issuance of preferred stock could discourage a change in control or acquisition of Strategic Timber. As of the date of

this prospectus, no shares of preferred stock are outstanding, and we have no current plans to issue any preferred stock.

#### ADVANCE NOTICE OF DIRECTOR NOMINATIONS AND NEW BUSINESS

The Bylaws contain provisions requiring shareholders to notify us in advance of their nominations of candidates for election to the Board of Directors who are not nominated by the Board of Directors, and their proposals for business to be conducted at the annual meeting of shareholders. Without compliance with these provisions, any nominations or business proposed by shareholders without approval by the Board of Directors cannot be considered by the shareholders at a meeting.

#### SUPERMAJORITY VOTE REQUIREMENTS

Under the Articles of Incorporation and the Bylaws, some matters require approval by a two-thirds vote, rather than merely a majority vote. A vote of two-thirds of shareholders is required to amend the provisions of the Articles of Incorporation and the Bylaws concerning classification of the Board of Directors and removal and replacement of directors. A vote of two-thirds of shareholders is required to amend the Articles of Incorporation to permit shareholders to act by majority written consent rather than unanimous written consent. Approval by two-thirds of the continuing directors and a majority of shareholders, excluding certain persons, is required to amend the Bylaws to eliminate the applicability of the provisions of the Georgia Code restricting business combinations between Strategic Timber and significant shareholders.

#### AMENDMENT OF ARTICLES OF INCORPORATION AND BYLAWS

The Articles of Incorporation cannot be amended without the affirmative vote of at least a majority of the shares of outstanding capital stock entitled to vote, voting together as a group. Some provisions of the Articles of Incorporation cannot be amended without the approval of the holders of two-thirds of the shares of outstanding capital stock entitled to vote, voting together as a single class. The Bylaws can generally be amended by the Board of Directors or a majority of the shares cast at a shareholders meeting. Some bylaws may be amended only by the shareholders, and some of those may only be amended by a vote of greater than a majority of shares entitled to vote. See " -- Supermajority Vote Requirements."

#### LIMITATION OF LIABILITY AND INDEMNIFICATION

Our officers and directors are indemnified against liabilities in accordance with Georgia Code, the Articles of Incorporation, the Bylaws and the indemnification agreements described below.

#### GEORGIA BUSINESS CORPORATION CODE

Section 14-2-851 of the Georgia Code empowers a corporation to indemnify a director, including a former director and including a director who is or was serving another entity at the request of the corporation against liability arising from official acts if the director acted in good faith and reasonably believed that his or her conduct was in the best interests of the corporation. For all other acts, the corporation may indemnify a director who acted in good faith and reasonably believed that the conduct was not opposed to the best interests of the corporation. The corporation may indemnify a director with respect to criminal proceedings if the director acted in good faith and had no reasonable cause to believe the conduct was unlawful. A corporation may not indemnify a director adjudged liable for conduct involving receipt of an improper personal benefit.

In addition, section 14-2-856 of the Georgia Code permits the articles of incorporation, bylaws, a contract, or resolution approved by the shareholders to authorize the corporation to indemnify a director against claims to which the director was a party, including claims by the corporation or shareholder derivative actions. However, the corporation may not indemnify the director for liability to the corporation for any appropriation of a corporate opportunity, intentional misconduct or knowing violation of law, unlawful distributions or receipt of an improper benefit.

Section 14-2-852 of the Georgia Code provides for mandatory indemnification

against reasonable expenses incurred by a director who is wholly successful in defending an action to which the director was a party due to his or her status as a director. Section 14-2-854 allows a court, upon application by a director, to order indemnification and advance of expenses if it determines that the director is entitled to indemnification under the Georgia Code or if it determines that indemnification is fair and reasonable even if the director has failed to meet the statutory standard of conduct under section 14-2-851. However, the court may not order indemnification in excess of reasonable expenses for liability to the corporation or for receipt of an improper benefit.

Section 14-2-857 of the Georgia Code permits a corporation to indemnify an officer, including a former officer and including an officer who is or was serving at the request of the corporation as a director, officer, partner, trustee, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan or other enterprise, to the same extent as a director. A corporation may indemnify an officer who is not a director to a further extent by means of articles of incorporation, bylaw, board resolution, or contract. However, the corporation may not indemnify an officer for liability arising from conduct involving appropriation of a corporate opportunity, intentional misconduct or knowing violation of law, unlawful distributions, or receipt of an improper personal benefit. An officer who is not a director is also entitled to mandatory indemnification and may apply for court-ordered indemnification.

Section 14-2-858 of the Georgia Code permits a corporation to purchase and maintain insurance on behalf of directors and officers against liability incurred by them in their capacities or arising out of their status as directors and officers of the corporation, regardless of whether the corporation would have the power to indemnify or advance expenses to the director or officer for the same liability under the Georgia Code.

#### ARTICLES OF INCORPORATION

Article V of the Articles of Incorporation exculpates our directors from personal liability for money damages to us or our shareholders to the fullest extent permitted by the Georgia Code, as it may be amended from time to time. Currently, the directors are exculpated from all liability to us or our shareholders except for liability arising from conduct involving appropriation of a corporate opportunity, intentional misconduct or knowing violation of law, unlawful distributions, or receipt of an improper personal benefit. The Articles of Incorporation also provide that any repeal or modification of Article V of the Articles of Incorporation by the shareholders will not reduce any right or protection of a director existing at the time of the repeal or modification.

#### BYLAWS

Article VI of the Bylaws requires Strategic Timber to indemnify to the fullest extent permitted under the Georgia Code any person who is or was a director or an officer, including a director or an officer who is or was serving another entity at our request.

Repeal or modification of Article VI of the Bylaws or of any relevant provisions of the Georgia Code does not reduce the rights to indemnification under the Bylaws with respect to any previous occurrences. The indemnification and advancement of expenses provided by the Bylaws are not exclusive of any other rights permitted by applicable law to which a person seeking indemnification or advancement of expenses may be entitled. All rights to indemnification under Article VI of the Bylaws continue as to a person who has ceased to be a director or officer.

#### INDEMNIFICATION AGREEMENTS

We intend to enter into indemnification agreements with each of our directors and executive officers prior to completion of this offering, and intend to enter into similar agreements with prospective directors upon completion of this offering. The indemnification agreements require us to indemnify directors and executive officers to the fullest extent permitted by law and advance to the directors and executive officers all related expenses, subject to reimbursement if it is subsequently determined that indemnification is not

permitted. Under these agreements, we must also indemnify and advance all expenses incurred by directors and executive officers seeking to enforce their rights under the indemnification agreements. Although the form of indemnification agreement offers essentially the same scope of coverage afforded by the Georgia Code and the Articles of Incorporation and the Bylaws, it provides greater assurance to directors and executive officers that indemnification will be available, because, as a contract, it cannot be modified unilaterally in the future by the Board of Directors or the shareholders to eliminate the rights it provides.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers or persons controlling Strategic Timber, we have been informed that in the opinion of the SEC this type of indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable.

#### INSURANCE POLICIES

We intend to purchase a policy of insurance providing reimbursement of indemnification payments to officers and directors and reimbursement of liabilities incurred by directors and officers in their capacities as such, to the extent that they are not otherwise indemnified by Strategic Timber.

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#### SHARES AVAILABLE FOR FUTURE SALE

#### GENERAL

Before this offering, there has been no public market for our common stock, and we have no way of knowing what the trading price will be after the offering. As described below, only the shares sold in the offering will be available for sale shortly after the offering due to contractual and legal restrictions on resale of the shares and partnership units outstanding prior to the offering. Nevertheless, sales of substantial amounts of common stock in the public market after the restrictions lapse could cause the prevailing market price of the common stock to drop. Limited partners of Strategic Timber Partners may be entitled under certain circumstances to exchange partnership units for shares of common stock. This could result in a large number of common shares eligible for immediate resale in the public market. See "The Partnership Agreement -- Redemption of Partnership Units."

Upon completion of this offering, we will have 17,271,770 outstanding shares of common stock. We will have 19,761,770 shares of common stock issued and outstanding if the underwriters exercise their over-allotment option in full. The shares of common stock being sold in the offering will be freely tradeable by persons other than our affiliates without restriction or registration under the Securities Act, subject to the limitations on ownership in our Articles of Incorporation. See "Description of Capital Stock -- Restrictions on Ownership and Transfer of Shares." Under the rules of the Securities Act, an "affiliate" is a person that controls, is controlled by, or is under common control with Strategic Timber. Determining who is an affiliate is subjective based on determining "control," but each of our directors and executive officers would generally be considered an affiliate of Strategic Timber. We sold the remaining outstanding shares in private transactions, and these shares are eligible for public sale if registered under the Securities Act or sold in accordance with Securities Act Rule 144.

Holders of our common stock and partnership units have agreed, subject to limited exceptions, that for a period of one year from the completion of this offering, they will not, without the prior written consent of Salomon Smith Barney Inc., dispose of or hedge any shares of common stock or any partnership units or any securities convertible into, or exercisable or exchangeable for, common stock or partnership units.

On and after the first anniversary of the completion of this offering, Strategic Timber Partners will be obligated to exchange each partnership unit at the request of the holder for, at our option, either one share of common stock



or cash equal to the fair market value of one share of common stock at the time of the exchange. See "The Partnership Agreement -- Redemption of Partnership Units."

In general, under Rule 144 as currently in effect, if one year has elapsed since the later of the date of acquisition of privately placed shares from Strategic Timber or any of its affiliates, the holder is entitled to sell within any three-month period a number of shares that does not exceed the greater of 1% of the then outstanding common stock or the average weekly trading volume of the common stock during the four calendar weeks immediately preceding the date on which notice of the sale is filed with the SEC. Sales under Rule 144 are subject to other requirements, in particular that they be made through stock brokers, that a notice of sale be filed by the selling shareholder, and that Strategic Timber have filed with the SEC all of its required public company reports at the time of the sale.

If two years have elapsed since the date of acquisition of privately placed shares from Strategic Timber or from any affiliate of Strategic Timber, and the acquiror or subsequent holder thereof is deemed not to have been an affiliate of Strategic Timber at any time during the three months immediately preceding a sale, such person is entitled to sell these shares in the public market under Rule 144(k) without regard to the volume limitations, manner of sale provisions, public information requirements or notice requirements of Rule 144.

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#### REGISTRATION RIGHTS

We intend to issue options to purchase approximately 1,115,000 shares of common stock to executive officers, directors and employees upon completion of this offering, and have reserved additional shares for future issuance under the 1999 Incentive Plan. We intend to file one or more registration statements under the Securities Act to register the shares of common stock reserved for issuance under the 1999 Incentive Plan. These registration statements will become effective immediately upon filing. Commencing one year after this offering, we will also be obligated to file one or more registration statements under the Securities Act to register the shares of common stock issuable upon redemption of partnership units for shares of common stock. See "Management -- 1999 Incentive Plan" and "The Partnership Agreement -- Redemption of Partnership Units."

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#### THE PARTNERSHIP AGREEMENT

This summary of Strategic Timber Partners' limited partnership agreement describes the material provisions of that agreement as it will be in effect immediately after completion of this offering. This summary and the other descriptions of provisions of the partnership agreement included in this prospectus are qualified in their entirety by reference to the partnership agreement, which is filed as an exhibit to the registration statement of which this prospectus is a part.

The following provisions of the partnership agreement are summarized elsewhere in the prospectus:

- With regard to our management, see "Management."
- With regard to formation, see "Structure and Formation of Strategic Timber."
- With regard to tax allocations and other tax issues, see "Federal Income Tax Consequences."

Upon consummation of this offering, Strategic Timber will hold approximately 76.7% of the limited partnership units in Strategic Timber Partners.

#### POWERS OF STRATEGIC TIMBER OPERATING CO., AS GENERAL PARTNER

Under the partnership agreement, Strategic Timber Operating Co., a wholly owned subsidiary of Strategic Timber, is the sole general partner of Strategic Timber Partners. Strategic Timber Operating Co. generally will have full and exclusive responsibility and discretion in the management, operation and control of Strategic Timber Partners. These powers include the ability to cause Strategic Timber Partners to enter into major transactions, such as cutting contracts, acquisitions and dispositions of timberland. No limited partner may take part in the operation, management or control of the business of Strategic Timber Partners. Under the partnership agreement, the limited partners cannot remove Strategic Timber Operating Co. as the general partner of Strategic Timber Partners.

#### POWER OF ATTORNEY

Each limited partner, and each person who acquires a unit from a holder and executes and delivers a transfer application, grants to the general partner a power of attorney to execute and file documents required for the qualification, continuance or dissolution of Strategic Timber Partners. The power of attorney also grants the authority for the amendment of, and to make consents and waivers under the partnership agreement, as well as other matters incidental to the management of the partnership.

#### TRANSFER OF THE GENERAL PARTNER'S AND STRATEGIC TIMBER'S INTERESTS

Strategic Timber may not transfer, including in connection with mergers and other business combinations involving Strategic Timber, any of its partnership units unless:

- a majority of the units held by the partners, including Strategic Timber, approve the transaction, or
- substantially all of the assets of the other entity are contributed to Strategic Timber Partners.

#### AMENDMENTS TO THE PARTNERSHIP AGREEMENT

Generally, the partnership agreement may be amended by Strategic Timber Operating Co., as general partner. Some amendments that would adversely affect a limited partner's rights must be approved by each partner that would be adversely affected. These include amendments that would

- convert a limited partner's interest into a general partner's interest,
- modify the limited liability of a limited partner,
- alter the interest of any partner in profits or losses or the right to receive distributions other than as a result of dilution to account for additional capital contributions being made by a new or existing partner, or

- alter or modify the redemption right described below.

#### TRANSFER OF PARTNERSHIP UNITS; SUBSTITUTE LIMITED PARTNERS

The partnership agreement provides that the limited partners, other than Strategic Timber, generally may transfer the economic interests in a partnership unit without the consent of any other person. However, a transferee may be substituted as a limited partner only if Strategic Timber Operating Co. consents and the transferee agrees to be bound by the terms and conditions of the partnership agreement. Transfers to family members or trusts for the benefit of a family member and admission of those transferees as limited partners are permitted without consent or agreement. In addition, limited partners may not transfer partnership units in violation of regulatory and other restrictions set forth in the partnership agreement.

#### REDEMPTION OF PARTNERSHIP UNITS

On and after the first anniversary of the completion of this offering, at the request of a holder of partnership units, Strategic Timber Partners will be obligated to redeem each partnership unit for cash equal to the fair market value of one share of common stock at the time of the redemption. However, at its option, Strategic Timber can assume Strategic Timber Partners' obligation and elect to acquire any partnership unit presented for redemption for either one share of common stock or an amount of cash of the same value. With each acquisition of partnership units, Strategic Timber's percentage ownership interest in the partnership will increase.

#### ISSUANCE OF ADDITIONAL LIMITED PARTNERSHIP INTERESTS; ADDITIONAL CAPITAL CONTRIBUTIONS

Generally, Strategic Timber Operating Co., is authorized, without the consent of the limited partners, to cause Strategic Timber Partners to issue additional partnership units to Strategic Timber, to the limited partners or to other persons on terms and conditions determined by Strategic Timber Operating Co.

For additional partnership units to be issued to Strategic Timber by Strategic Timber Partners:

- Strategic Timber must issue additional shares of common stock and contribute to Strategic Timber Partners the entire net proceeds received by Strategic Timber from the issuance, or
- Strategic Timber Partners must issue additional partnership units to all partners in proportion to their respective interests in Strategic Timber Partners.

In addition, Strategic Timber Operating Co., as the general partner, may cause Strategic Timber Partners to issue to Strategic Timber additional partnership units in different series or classes, which may be senior to the partnership units, in conjunction with an offering of securities of Strategic Timber having substantially similar rights, if the net proceeds of the offering are contributed to Strategic Timber Partners. Consideration for additional partnership units may be cash or other assets, including timber assets. No limited partner has preemptive, preferential or similar rights with respect to additional capital contributions to Strategic Timber Partners or the issuance or sale of any partnership units.

Other than as described above with respect to Strategic Timber, no limited partner is required to make any additional capital contributions to Strategic Timber Partners.

#### OTHER COVENANTS

The partnership agreement provides that Strategic Timber Partners cannot effect any transaction that would

- adversely affect the ability of Strategic Timber to qualify as a REIT under the Internal Revenue Code,
- subject Strategic Timber to federal income taxes, other than for capital gains that it has elected to retain, or

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- violate any law or regulation applicable to Strategic Timber or Strategic Timber Partners.

#### EXCULPATION AND INDEMNIFICATION OF STRATEGIC TIMBER AND STRATEGIC TIMBER OPERATING CO.

The partnership agreement generally provides that neither Strategic Timber Operating Co., as general partner of Strategic Timber Partners, nor Strategic Timber will have liability for monetary damages to Strategic Timber Partners or any limited partner for losses sustained or liabilities incurred as a result of any act or omission taken or permitted by Strategic Timber Operating Co. in connection with the partnership's business that is determined by Strategic Timber Operating Co., in good faith, to be in, or not against, Strategic Timber Partners' best interest, unless the act or omission constitutes intentional misconduct, or a knowing violation of law or the partnership agreement. In addition, Strategic Timber Operating Co. and Strategic Timber are not liable for any misconduct or negligence on the part of their agents, provided that the agents were appointed by Strategic Timber Operating Co. in good faith. By executing the partnership agreement, the limited partners have agreed that, in fulfilling the fiduciary duties owed by Strategic Timber Operating Co. to the limited partners, Strategic Timber Operating Co. is not required to consider the separate interests of the limited partners, including tax consequences to them.

The partnership agreement provides for indemnification of Strategic Timber, Strategic Timber Operating Co., and the directors and officers of Strategic Timber, as well as any other persons Strategic Timber Operating Co., as general partner, may designate. Strategic Timber Partners shall indemnify any of these indemnitees against any losses, claims, damages, liabilities, judgments, fines, settlements and expenses arising from the operations of the partnership so long as the indemnitee acted in good faith and in a manner it reasonably believed to be in, or not opposed to, the best interest of Strategic Timber Partners, and in the case of any criminal proceeding, the indemnitee had no reasonable cause to believe that its conduct was unlawful. This indemnification is limited to the assets of Strategic Timber Partners and no partner in the partnership is personally liable for such indemnification. Strategic Timber Partners may reimburse reasonable expenses incurred by any indemnitee in defense of an action relating to the operations of the partnership, if the partnership receives certain written affirmations and undertakings from the indemnitee. Strategic Timber Partners may purchase and maintain insurance on behalf of indemnitees against liabilities incurred by them in connection with the partnership's activities, regardless of whether the partnership would have the power to indemnify the indemnitee for the same liability under the partnership agreement.

#### CASH DISTRIBUTIONS

Strategic Timber Operating Co. will determine the timing and amount of cash distributions made by Strategic Timber Partners. When authorized by Strategic Timber Operating Co., cash will be distributed among the partners in proportion to their ownership interests.

#### TAX MATTERS

Strategic Timber Operating Co. will be the tax matters partner of the

partnership and, as such, will generally have the authority to make tax elections under the Internal Revenue Code on behalf of the partnership. See "Federal Income Tax Consequences -- Tax Aspects of Strategic Timber's Ownership of Interests in Strategic Timber Partners."

#### TERM

Under the partnership agreement, Strategic Timber Partners will continue as a limited partnership until December 31, 2099 or until sooner dissolved as a result of:

- the bankruptcy of Strategic Timber Operating Co., or
- the vote of a majority in interest of the units of Strategic Timber Partners to dissolve including those held by Strategic Timber.

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#### FEDERAL INCOME TAX CONSEQUENCES

This section is a summary of the federal income tax consequences that may be relevant to our shareholders. As described under the heading "Legal Opinions," this section is the opinion of our counsel, Sutherland Asbill & Brennan LLP. In a private letter ruling issued to us, the IRS has confirmed the opinion of counsel on several issues. These issues and the IRS ruling are described below. The IRS ruling is filed as an exhibit to the registration statement of which this prospectus is a part.

This section is based on the Internal Revenue Code, as it is currently in effect, existing, temporary, and currently proposed Treasury Regulations thereunder, the legislative history of the Internal Revenue Code, existing administrative interpretations and practices of the IRS, and judicial decisions. All of these authorities are subject to change either prospectively or retroactively, and any changes in them may adversely affect the tax consequences described below.

The discussion below does not address all federal income tax matters affecting us or our shareholders. It does not address the tax consequences that may be relevant to particular shareholders that are subject to special treatment under the federal income tax laws, such as dealers in securities, banks, insurance companies, tax-exempt organizations or non-United States persons. Tax consequences to tax-exempt organizations and non-U.S. persons are discussed only to a limited extent under the headings "-- Taxation of Tax-Exempt Shareholders of Strategic Timber" and "-- Taxation of Non-U.S. Shareholders of Strategic Timber." The discussion also does not address any consequences arising under the laws of any state, locality or foreign jurisdiction except to the extent discussed under the heading "Other Taxes".

We urge prospective purchasers of shares of common stock to consult their own tax advisors regarding the specific tax consequences to them of the ownership and disposition of these shares in light of their specific tax and investment situations, the specific federal, state, local, and foreign tax laws applicable to them, and the potential changes in applicable tax laws.

#### LEGAL OPINIONS

Sutherland Asbill & Brennan LLP has acted as our counsel in connection with this offering and our election to be taxed as a REIT. Except where indicated, statements as to matters of federal income tax law and legal conclusions contained in this section are the opinion of Sutherland Asbill & Brennan LLP. However, none of the statements in this section concerning any consequences arising under the laws of any state, locality or foreign jurisdiction constitutes an opinion of our counsel. Investors should be aware that an opinion of counsel represents only that counsel's best legal judgment and does not bind the IRS or any court. Thus, the IRS could challenge the statements and opinions in this section, and if this happens a court could reject the statements or opinions.

Based on the accuracy of representations we have made to them and subject to the qualifications set forth in the more detailed discussion that follows, Sutherland Asbill & Brennan LLP is of the opinion that, beginning with our taxable year ending December 31, 1998, we will be organized in conformity with the requirements for qualification as a REIT, and our proposed method of operation will enable us to meet the requirements for qualification and taxation as a REIT.

Sutherland Asbill & Brennan LLP's opinion is based on various assumptions and is conditioned upon representations we have made as to factual matters, including representations regarding the organization, business, properties, operations, and future conduct of the businesses of Strategic Timber, Strategic Timber Partners and Strategic Timber Operating Co. Furthermore, qualification and taxation as a REIT depend upon our ability to meet the various qualification tests discussed below on an ongoing basis through actual annual operating results, distribution levels, and diversity of share ownership. Sutherland Asbill & Brennan LLP will not review these results on a continuing basis and cannot provide any assurance that the actual results of our operations for any particular taxable year will satisfy the qualification tests.

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We have received a private letter ruling from the IRS confirming the opinion of Sutherland Asbill & Brennan LLP that:

- timberlands and the timber thereon constitute real estate assets within the meaning of the asset tests for REIT qualification described in section 856(c)(4) of the Internal Revenue Code. See "-- Taxation of Strategic Timber -- Asset Tests."
- income we receive from timber cutting agreements satisfying the requirements of section 631(b) of the Code will qualify as gain from the sale or other disposition of real property which is not property held primarily for sale to customers in the ordinary course of a trade or business within the meaning of the gross income tests for REIT qualification described in section 856(c)(2) and (3) of the Internal Revenue Code. See "-- Taxation of Strategic Timber -- Income Tests."
- income from section 631(b) timber cutting agreements will not be considered income derived from a prohibited transaction as described in section 857(b)(6) of the Internal Revenue Code.

The opinion of Sutherland Asbill & Brennan LLP contained in this section addresses a number of tax issues that were not a part of the private letter ruling received from the IRS. As noted, an opinion of counsel represents only that counsel's best legal judgment and does not bind the IRS or any court. The IRS could challenge the statements and opinions in this section, and if that happens a court could reject the statements or opinions.

#### TAXATION OF STRATEGIC TIMBER

##### GENERAL

We will elect to be taxed as a REIT beginning with our taxable year ending December 31, 1998. We believe that we will be organized and will operate in such a manner as to qualify and remain qualified to be taxed as a REIT. No assurance can be given, however, that we will operate in a manner so as to qualify, or remain qualified, as a REIT.

As a REIT, we generally will not be subject to federal income taxes on that portion of our ordinary income or capital gain that we currently distribute to shareholders. The Internal Revenue Code generally allows a REIT to deduct

dividends paid to its shareholders. This deduction for dividends paid substantially eliminates the "double taxation" of earnings at the corporation and distributions to the shareholders that generally results from investment in a regular "C" corporation. However, we will be subject to federal income tax as follows:

- We will be taxed at regular corporate rates on any undistributed REIT taxable income, including undistributed net capital gains, although, as explained below, our shareholders will be entitled to a tax credit for their share of the tax we pay with respect to undistributed net capital gains.
- If we have net income from the sale or other disposition of "foreclosure property" that is held primarily for sale to customers in the ordinary course of our trade or business or other nonqualifying income from foreclosure property, we will be subject to tax at the highest corporate rate on such income.
- If we have net income from prohibited transactions, that income will be subject to a 100% tax. Prohibited transactions are, in general, sales or other dispositions of property, other than foreclosure property, held primarily for sale to customers in the ordinary course of a trade or business.
- If we fail to satisfy the 75% gross income test or the 95% gross income test (described below), but nonetheless maintain our qualification as a REIT, we will be subject to a 100% tax on an amount equal to the gross income attributable to the greater of the amount by which we fail the 75% or the 95% gross income test, multiplied by a fraction intended to reflect our profitability.
- If we fail to distribute during each calendar year at least the sum of
  - 85% of our REIT ordinary income for that year,
  - 95% of our REIT capital gain net income for that year, other than capital gain income we elect to retain and pay taxes on and

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- any undistributed taxable income from prior periods, other than capital gains from such years which we elected to retain and pay taxes on,

then we will be subject to a 4% excise tax on the excess of such required distribution over the amounts actually distributed.

- Under certain circumstances, we may be subject to the "alternative minimum tax" on certain items of tax preference.

#### REQUIREMENTS FOR QUALIFICATION

To qualify as a REIT, we must elect to be taxed as a REIT. We also must meet the requirements discussed below relating to our organization, sources of income, nature of assets, and distributions.

#### Organizational Requirements

In order to qualify as a REIT, we must satisfy the following organizational

requirements:

(1) we must be a corporation, trust, or association that is managed by one or more trustees or directors;

(2) our beneficial ownership must be evidenced by transferable shares or by transferable certificates of beneficial interest;

(3) we must be taxable as a domestic corporation but for sections 856 through 859 of the Internal Revenue Code;

(4) we must not be a financial institution or an insurance company;

(5) our beneficial ownership must be held by 100 or more persons; and

(6) during the last half of each taxable year no more than 50% in value of our outstanding stock may be owned directly or indirectly, through the application of attribution rules, by five or fewer individuals (as defined in the Internal Revenue Code to include certain entities).

We must meet requirements (1) through (4) during the entire taxable year. We must meet requirement (5) during at least 335 days of a taxable year of twelve months, or during a proportionate part of a taxable year of less than twelve months. Requirements (5) and (6) will not apply to us until our taxable year ending December 31, 1999.

In the opinion of Sutherland Asbill & Brennan LLP, we have satisfied requirements (1) through (4) above for the taxable year ended December 31, 1998, and, with respect to requirement (5), 100 or more persons have held the beneficial ownership of our stock since December 31, 1998. We further believe that we will have issued in this offering sufficient common stock with sufficient diversity of ownership to allow us to satisfy requirement (6) above (and continue to satisfy requirement (5) above) for our taxable year ending December 31, 1999. In addition, our Articles of Incorporation provide restrictions intended to assist us in continuing to satisfy the share ownership requirements described in (5) and (6) above regarding the transfer and ownership of common stock. These ownership and transfer restrictions are described in "Description of Capital Stock -- Restrictions on Ownership and Transfer of Shares." However, because of the absence of authority on this issue, there is no assurance that the operation of these Articles of Incorporation provisions will, as a matter of law, prevent a concentration of ownership of stock in excess of the ownership limits described in requirements (5) and (6) above. If we fail to satisfy these requirements, our status as a REIT will terminate; however, if we comply with the rules contained in the applicable Treasury Regulations requiring us to attempt to ascertain the actual ownership of our shares, and we do not know, and would not have known through the exercise of reasonable diligence, whether we failed to meet the requirement set forth in condition (6) above, we will be treated as having met such requirement. See "-- Taxation of Strategic Timber -- Failure of the Company to Qualify as a REIT." In rendering its opinion that we are organized in a manner that permits us to qualify as a REIT, Sutherland Asbill & Brennan LLP is relying on our representations that the ownership of our stock (without regard to the "excess stock" provisions of the Articles of Incorporation) satisfies the stock ownership requirements set forth in requirement (6) above.

There are a few additional organizational requirements that we must satisfy in order to be treated as a REIT. Our taxable year must be the calendar year. Also, we must maintain required records and request on an annual basis certain information from our shareholders designed to disclose the actual ownership of our outstanding stock. A REIT's failure to comply with these record-keeping requirements would result in a monetary fine imposed on that REIT, unless it is shown that the failure was due to reasonable cause and not to willful neglect. We intend to comply with all of these requirements.



In order to maintain qualification as a REIT, we must satisfy two gross income requirements each year. First, at least 75% of our gross income for each taxable year must be derived directly or indirectly from investments relating to real property or mortgages on real property or from certain types of temporary investments. Types of qualifying income include "rents from real property" and "gain from the sale or other disposition of real property" other than property held primarily for sale to customers in the ordinary course of a trade or business. Second, at least 95% of our gross income for each taxable year must be derived from such real property investments, dividends, interest and gain from the sale or disposition of stock or securities, or from any combination of these items. For purposes of these tests, "gross income" does not include gross income from any "prohibited transaction," a term defined in section 857(b)(6) of the Internal Revenue Code. A transaction can be a prohibited transaction only if it involves the sale or other disposition of property held primarily for sale to customers in the ordinary course of a trade or business.

In applying the gross income tests and the asset tests to a REIT that is a partner in a partnership, Treasury Regulations provide that the REIT will be deemed to own its proportionate share of the assets of the partnership and will be deemed to be entitled to the income of the partnership attributable to such share. In addition, the character of the assets and gross income of the partnership is the same in the hands of the REIT for purposes of section 856 of the Internal Revenue Code, including satisfying the gross income tests and the asset tests. Thus, our proportionate share of the assets and items of income of Strategic Timber Partners will be treated as assets and items of income of Strategic Timber for purposes of applying the requirements described in this summary. For this reason, references in this summary to our income and assets include our proportionate share of the income and assets of Strategic Timber Partners. A summary of the rules governing the federal income taxation of partnerships and their partners is provided below in "-- Tax Aspects of Strategic Timber's Ownership of Interests in Strategic Timber Partners."

The fact that we own 100% of the outstanding stock of Strategic Timber Operating Co., makes it a "qualified REIT subsidiary." A qualified REIT subsidiary is not treated as a separate corporation for federal income tax purposes, and all assets, liabilities, and items of income, deduction, and credit of a qualified REIT subsidiary are treated as assets, liabilities, and items of Strategic Timber for all purposes of the Internal Revenue Code, including the REIT qualification tests. For this reason, references in this summary to the income and assets of Strategic Timber include the income and assets of Strategic Timber Operating Co. and any other qualified REIT subsidiary.

We plan to dispose of standing timber by granting purchasers cutting rights to timber by contracts that satisfy the requirements of section 631(b) of the Internal Revenue Code. Section 631(b) generally treats a timber owner's gain or loss on a disposal of timber as though it were gain or loss on the sale of such timber if the owner has held the timber for more than one year and disposes of it under a contract pursuant to which the owner retains an economic interest in the timber. Advance payments received under a section 631(b) contract are taxable in the year received, even though the timber to be cut under the contract might be cut in a later year. If we refund advance payments subsequent to the filing of the tax return for the year such advance payments were received, we will be required to amend that tax return and may be required to issue revised statements (Forms 1099 and 2439) to our shareholders, which may necessitate the filing of amended tax returns by the shareholders.

In the opinion of Sutherland Asbill & Brennan LLP, any gain we recognize under timber cutting agreements that satisfy the requirements of section 631(b) will be treated as gain from the sale or other disposition of real property that is not property held primarily for sale to customers in the ordinary course

of business within the meaning of the 75% gross income test and the 95% gross income test. As noted above, we have received a private letter ruling from the IRS confirming this opinion.

It is also the opinion of Sutherland Asbill & Brennan LLP that the income we receive from timber cutting agreements that do not satisfy the requirements of section 631(b) of the Internal Revenue Code solely because we have not held the timber disposed of for more than one year will qualify as "rents from real property" within the meaning of the two gross income tests, provided that those timber cutting agreements also meet the requirements set forth in the following paragraph.

Rents we receive will qualify as "rents from real property" in satisfying the gross income requirements for a REIT only if several conditions are met. First, the amount of rent must not be based in whole or in part on the income or profits of any person. However, an amount received or accrued generally will not be excluded from the term "rents from real property" solely because it is based on a fixed percentage or percentages of receipts or sales. Second, rents received from a person will not qualify as "rents from real property" in satisfying the gross income tests if the REIT, or an actual or constructive owner of 10% or more of the REIT, actually or constructively owns 10% or more of that person. Third, if rent attributable to personal property leased in connection with a lease of real property is greater than 15% of the total rent received under the lease, then the portion of rent attributable to such personal property will not qualify as "rents from real property." Finally, for rents received to qualify as "rents from real property," the REIT generally must not operate or manage the property or furnish or render services to the tenants of such property, other than through an independent contractor who is adequately compensated and from whom the REIT derives no revenue (subject to a 1% de minimis exception).

We anticipate that our only rental income of a material amount from sources other than timber cutting agreements will be from certain real property leases, including hunting leases. In determining that we satisfied the gross income tests for the period ending December 31, 1998, Sutherland Asbill & Brennan LLP reviewed available lease documents, determined which leases would produce qualifying "rents from real property" and which would not, and relied on our representations (i) that each lease that produced qualifying rents that was not reviewed is substantially identical in all material respects to the terms of a particular lease reviewed, (ii) that neither we nor any actual or constructive owner of 10% or more of our common stock owns 10% or more of any lessee and (iii) that specific amounts of our 1998 gross income were derived from specific sources. Based on these representations, it is the opinion of Sutherland Asbill & Brennan LLP that satisfied the gross income tests for the period ending December 31, 1998.

If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we will fail to qualify as a REIT for that year unless we are entitled to relief under the Internal Revenue Code. These relief provisions will generally be available if our failure to meet the gross income tests was due to reasonable cause and not due to willful neglect, we attach a schedule of the sources of our income to our federal income tax return, and any incorrect information on the schedule was not due to fraud with intent to evade tax. We have represented that we will exercise ordinary business care and prudence in attempting to satisfy the gross income tests and will attach a schedule of the sources of our income to our tax return each year. It is not possible, however, to state whether in all circumstances we would be entitled to the benefit of the relief provisions. Furthermore, as discussed above in "-- Taxation of Strategic Timber -- General," even if the relief provisions apply, a 100% tax would be imposed on an amount equal to (a) the gross income attributable to the greater of the amount by which we failed the 75% test or the 95% test, multiplied by (b) a fraction intended to reflect our profitability.

Any net income we realize from the sale or other disposition of property held primarily for sale to customers in the ordinary course of a trade or business will be treated as income from a "prohibited transaction" and will be subject to a 100% penalty tax. Such prohibited transaction income may also have an adverse effect upon our ability to satisfy the income tests for qualification as a REIT. Under existing law, whether property is held primarily for sale to customers in the ordinary course of a trade or business is a question of fact that depends on all the facts and circumstances with respect to the particular transaction. In the opinion of Sutherland Asbill & Brennan LLP, income derived from timber cutting agreements that satisfy the requirements of section 631(b) of the Internal Revenue Code will be treated as

income realized from the disposition of property used in our trade or business and not as income realized from the sale or other disposition of property held primarily for sale to customers in the ordinary course of our trade or business. The IRS has confirmed this conclusion in the private letter ruling we received.

Strategic Timber Partners intends to hold timberlands and other properties for investment with a view to long-term appreciation, to engage in the business of acquiring, developing, owning and operating timberlands and other properties and to make such occasional sales of timberlands (as opposed to dispositions of standing timber) or other properties, including "higher and better use" parcels, as are consistent with its investment objectives. The IRS could contend that one or more of such sales is a prohibited transaction and subject to the 100% penalty tax. In general, the determination of whether property is held primarily for sale to customers in the ordinary course of its trade of business depends on all the facts and circumstances surrounding such property's sale. Therefore, it is not possible for Sutherland Asbill & Brennan LLP to opine whether any future sale of timberlands or other properties, other than a sale of timber meeting the requirements of section 631(b), might be a prohibited transaction.

We intend to satisfy the gross income tests in 1999 and subsequent years. However, there can be no assurance that we will in fact satisfy these requirements every year.

#### Asset Tests

At the close of each calendar quarter, we must satisfy three tests relating to our assets. First, at least 75% of the value of our total assets must be represented by real estate assets, cash, cash items and government securities. Second, not more than 25% of our total assets may be represented by securities other than those in the 75% asset class. Third, of the investments included in the 25% asset class, the value of any one issuer's securities owned by us may not exceed 5% of the value of our total assets, and we may not own more than 10% of any one issuer's outstanding voting securities. This final rule, however, does not apply to our interests in Strategic Timber Partners, any other partnership, any qualified REIT subsidiary, or any other disregarded entity.

In the opinion of Sutherland Asbill & Brennan LLP, timberlands and the timber thereon constitute real estate assets within the meaning of the asset tests. The ruling received from the IRS confirms this conclusion. We met the 75% asset test during 1998 and anticipate that we will always meet this test.

If we should fail to satisfy the asset tests at the end of a calendar quarter, we would lose our REIT status unless (1) we satisfied all of the asset tests at the close of the preceding calendar quarter and (2) the discrepancy between the value of our assets and the asset requirements either did not exist immediately after the acquisition of any particular asset or was not wholly or partly caused by such an acquisition. If the condition described in clause (2) of the preceding sentence were not satisfied, we could still avoid disqualification by eliminating any discrepancy within 30 days after the close of the quarter in which it arose.

#### Distribution Requirements

In order to qualify as a REIT, we must distribute dividends, other than capital gain dividends to our shareholders in an amount at least equal to (1) the sum of (a) 95% of our "REIT taxable income" (computed without regard to the dividends paid deduction and by excluding our net capital gain) and (b) 95% of any after-tax net income from foreclosure property, minus (2) the sum of certain items of non-cash income. We generally must pay these dividends in the taxable year to which they relate. However, we may pay a dividend in the following taxable year if we declare the dividend before timely filing our tax return for the taxable year to which the dividend relates and we pay the dividend on or before the first regular dividend payment date after the declaration. We intend to make timely distributions sufficient to satisfy these distribution requirements.

In the event that we distribute or are treated as having distributed at least 95%, but less than 100%, of our so adjusted "REIT taxable income," we will be subject to tax on the income not distributed at ordinary corporate tax rates.

gain that we do not distribute or are not treated as having distributed. If we fail to distribute during each calendar year at least the sum of (1) 85% of our REIT ordinary income for such year, (2) 95% of our REIT capital gain income for such year, other than capital gain income which we elect to retain and pay tax on as provided below, and (3) any undistributed taxable income from prior periods, other than capital gains from such years which we elected to retain and pay tax on, we would be subject to a 4% excise tax on the excess of such required distribution over the amounts actually distributed.

The Internal Revenue Code allows us to elect to retain rather than distribute all or part of our net capital gains. There are several effects of such an election. First, we are required to pay the tax on such gains at regular corporate tax rates. Second, our shareholders are required to include their proportionate share of the undistributed net capital gain in income. However, the shareholders will receive a credit for their share of the tax we paid, which may result in a tax refund to them. Third, the basis of a shareholder's stock would be increased by the amount of the undistributed net capital gains included in income by the shareholder minus the amount of capital gains tax we paid on the shareholder's behalf. In order for a shareholder to receive the credit or the refund for the taxes we paid on the shareholder's behalf, the shareholder must file the necessary forms with the IRS.

At any given time, it is possible that we may not have sufficient cash or other liquid assets to meet the distribution requirements. This may result from timing or other differences between (1) the actual receipt of income and actual payment of deductible expenses, (2) the inclusion of such income and deduction of such expenses in arriving at our taxable income, or (3) our percentage interest in the Strategic Timber Partners' cash flow and our share of taxable income arising upon a disposition of property contributed to Strategic Timber Partners where the fair market value of such property exceeds its tax basis. If such differences occur, we may, in order to meet the distribution requirements, find it necessary to arrange for borrowings, equity issuances or asset sales, or to pay dividends in the form of taxable stock dividends, or to elect to retain and pay taxes on a portion of our net capital gains.

Under certain circumstances, we may be able to rectify a failure to meet the distribution requirement for a year by paying "deficiency dividends" to shareholders in a later year, which may be included in our deduction for dividends paid for the earlier year. Thus, we may be able to avoid being taxed on amounts distributed as deficiency dividends; however, we would be required to pay interest based upon the amount of any deduction taken for deficiency dividends. It is our intention to meet all distribution requirements for the year in which such requirements arise, so we do not anticipate paying deficiency dividends.

#### FAILURE TO QUALIFY AS A REIT

If we fail to qualify to be taxed as a REIT in any taxable year and if the relief provisions do not apply, we will be subject to tax, including any applicable alternative minimum tax, on our taxable income at regular corporate rates. We could not deduct distributions to our shareholders in any year in which we failed to qualify as a REIT. This would significantly reduce the cash we have available to distribute to our shareholders and would likely reduce the value of our common stock. In addition, if we failed to qualify as a REIT, all distributions to our shareholders would be taxable as ordinary income, to the extent of our current and accumulated earnings and profits. If that happened, subject to certain limitations of the Internal Revenue Code, corporate shareholders might be eligible for the dividends received deduction. Unless entitled to relief under specific statutory provisions, we also would be disqualified from being taxed as a REIT for the next four taxable years. It is not possible to state whether in all circumstances we would be entitled to that statutory relief.

## TAXATION OF TAXABLE U.S. SHAREHOLDERS

We are using the term "U.S. shareholder" to mean a holder of our common stock who, for United States federal income tax purposes, is:

- an individual who is a citizen or resident of the United States;
- an entity that is a corporation or partnership for United States federal income tax purposes and that is created or organized in the United States or under the laws of the United States or any political subdivision thereof although certain partnerships so created or organized may be treated, under regulations not yet published, as not a United States person;
- any estate whose income is includible in gross income for United States federal income tax purposes regardless of its source; or
- a domestic trust. A domestic trust is any trust whose administration is subject to the primary supervision of a court within the United States, and as to which one or more United States fiduciaries have the authority to control all substantial decisions although certain trusts classified for United States federal income tax purposes as a United States person prior to August 20, 1996 may, under regulations not yet published, elect to retain their classification as a domestic trust.

## DISTRIBUTIONS BY STRATEGIC TIMBER

So long as we qualify as a REIT, distributions we make out of our current or accumulated earnings and profits that are not designated as capital gain dividends will constitute dividends taxable to our taxable U.S. shareholders as ordinary income. U.S. shareholders that are corporations will not be eligible for the dividends received deduction with respect to such dividends. Distributions we properly designate as capital gain dividends will, to the extent that they do not exceed our actual net capital gain for the taxable year, be taxable to taxable U.S. shareholders as long-term capital gains without regard to the period for which a U.S. shareholder has held our common stock.

U.S. shareholders that are corporations may, however, be required to treat up to 20% of specified capital gain dividends as ordinary income pursuant to section 291(d) of the Internal Revenue Code. Individuals are generally subject to differing rates of tax on various transactions giving rise to long-term capital gains or losses. In general, the maximum long-term capital gain rate applicable to individuals is 20%.

If we elect to retain and reinvest some or all of our capital gains rather than distributing them, we will pay tax on these gains at the corporate tax rate, which is now 35%. You will be deemed to have received a capital gain dividend equal to your proportionate share of the gain we retained, which you will need to report in your own return. You will, however, be entitled to a tax credit on your proportionate share of the tax we paid on the gain. The maximum capital tax rate applicable to U.S. individuals on this gain is 20% and, depending upon your income, may be less. The difference between the tax we paid on your behalf at the 35% corporate rate and the tax you actually owe on this gain may be used to offset your liability for tax on other items of income, and if your total tax payments exceed your liability, you will be entitled to a tax refund. Tax-exempt organizations who are shareholders will be entitled to a refund of the entire amount of tax we paid on their behalf. Each year, we will report the amount of any retained capital gains to you on IRS Forms 2439, which are similar to a Form 1099, and you may claim the tax credit on your own income tax return, or on Form 990-T in the case of exempt organizations. Your tax basis in the common stock you own will be increased by the amount of the deemed capital gain dividend, less your proportionate share of the tax we paid on your behalf.

To the extent that we make distributions in excess of our current and accumulated earnings and profits, such distributions will be treated first as a tax-free return of capital to each U.S. shareholder. A distribution treated as a return of capital reduces the adjusted basis that the U.S. shareholder has in its common stock for tax purposes by the amount of such distribution (but not below zero), with distributions in excess of a U.S. shareholder's adjusted basis in its common stock taxable as capital gains, provided that

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the common stock has been held as a capital asset. We will be treated as having sufficient earnings and profits to treat as a dividend any distribution up to the amount required to be distributed in order to avoid imposition of the 4% excise tax discussed under "-- Taxation of Strategic Timber -- General" and "-- Taxation of Strategic Timber -- Requirements for Qualification -- Distribution Requirements." As a result, shareholders may be required to treat as taxable dividends specified distributions that would otherwise result in tax-free returns of capital. Moreover, any "deficiency dividend" will be treated as a "dividend," either an ordinary dividend or a capital gain dividend, regardless of our earnings and profits. Dividends declared in October, November, or December of any year and payable to a shareholder of record on a specified date in any such month shall be treated as both paid by us and received by the shareholder on December 31 of that year, provided that we actually pay the dividend on or before January 31 of the following calendar year. Shareholders may not include in their own income tax returns any net operating losses or net capital losses we may incur. We will notify each shareholder after the close of our taxable year as to the portions of the distributions attributable to that year which constitute ordinary income, capital gain or a return of capital.

Income from distributions we pay and gain arising from the sale or exchange by a U.S. shareholder of our common stock will not be treated as passive activity income and, as a result, U.S. shareholders generally will not be able to apply any "passive activity losses" against such income or gain. Dividends we pay to the extent they do not constitute a capital gain dividend or a return of capital, will generally be treated as investment income for purposes of the investment interest limitation. Net capital gain from the sale or other disposition of shares of our common stock and capital gain dividends will generally not be considered investment income for purposes of the investment interest limitation.

#### SALE OF COMMON STOCK

Upon any sale or other taxable disposition of our common stock, a U.S. shareholder will recognize gain or loss for federal income tax purposes in an amount equal to the difference between (1) the amount of cash and the fair market value of any property received on such sale or other disposition and (2) the shareholder's adjusted basis in the common stock for tax purposes. This gain or loss will be capital gain or loss if the common stock has been held as a capital asset and will be long-term gain or loss if the common stock has been held for more than one year. In general, any loss recognized by a U.S. shareholder upon the sale or other taxable disposition of common stock that has been held for six months or less for tax purposes will be treated as a long-term capital loss to the extent of distributions received by the U.S. shareholder from us which were required to be treated as long-term capital gains.

#### WITHHOLDING ON DISTRIBUTIONS

We will report to our U.S. shareholders and to the IRS the amount of dividends paid during each calendar year and the amount of any tax withheld. Under the backup withholding rules, a shareholder may be subject to backup withholding at the rate of 31% with respect to dividends paid unless the shareholder (a) is a corporation or comes within certain other exempt categories and, when required, demonstrates this fact, or (b) provides a taxpayer identification number, certifies as to no loss of exemption from backup withholding, and otherwise complies with applicable requirements of the backup withholding rules. A U.S. shareholder that does not provide us with the correct taxpayer identification number may also be subject to penalties imposed by the IRS. Any amount paid as backup withholding will be creditable against the shareholder's federal income tax liability. In addition, we may be required to

withhold a portion of capital gain distributions to any shareholder who fails to certify his non-foreign status to us. See "--Taxation of Non-U.S. Shareholders of Strategic Timber."

#### TAXATION OF TAX-EXEMPT SHAREHOLDERS OF STRATEGIC TIMBER

Dividends that we pay a tax-exempt shareholder, other than tax-exempt shareholders that fall within the special categories described below, will not be unrelated business taxable income, or "UBTI," unless the tax-exempt shareholder has held its common stock as "debt financed property" within the meaning of the Internal Revenue Code or has otherwise used its common stock in an unrelated trade or business.

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Similarly, a tax-exempt shareholder's income from the sale of common stock will not constitute UBTI unless the tax-exempt shareholder has held the common stock as "debt financed property" within the meaning of the Internal Revenue Code or has used the common stock in an unrelated trade or business.

Dividends we pay tax-exempt shareholders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, and qualified group legal services plans exempt from federal income taxation under Internal Revenue Code sections 501(c)(7), (9), (17) and (20), respectively, will constitute UBTI unless the organization is able properly to deduct amounts set aside or placed in reserve for purposes authorized by the Internal Revenue Code so as to offset this dividend income. Prospective shareholders falling in to one of these categories should consult their own tax advisors concerning these set aside and reserve requirements.

In addition, in some circumstances a pension trust that owns more than 10% of our stock may be required to treat a percentage of the dividends received from us as UBTI. This percentage is the gross income we derived from an unrelated trade or business (determined as if we were a pension trust) divided by our gross income for the year in which the dividends are paid. The rule will apply to a pension trust holding more than 10% of our stock only if (1) the percentage is at least 5%, (2) in order for us to meet the 100 shareholder requirement to qualify as a REIT, it is necessary for us to treat the beneficiaries of the pension trust as holding our shares held by the trust in proportion to their actuarial interests in the pension trust and (3) either one pension trust owns more than 25% of the value of our stock, or a group of pension trusts individually holding more than 10% of the value of our stock collectively owns more than 50% of the value of our stock. Based on the anticipated ownership of the shares of our common stock immediately after this offering, and as a result of the limitations on transfer and ownership of this common stock contained in the Articles of Incorporation, we do not expect this rule to apply to any tax-exempt shareholders of our stock. In addition, we intend to conduct our business in such a way that we would not be treated as deriving gross income from an unrelated trade or business, even if this rule were to apply.

#### TAXATION OF NON-U.S. SHAREHOLDERS OF STRATEGIC TIMBER

The rules governing United States federal income taxation of the ownership and disposition of common stock by persons that are considered to be non-U.S. shareholders for tax purposes are complex, and we will not attempt in this discussion to provide more than a brief summary of these rules. The discussion does not address all aspects of United States federal income tax and does not address state, local or foreign tax consequences that may be relevant to a non-U.S. shareholder in light of its particular circumstances.

#### DISTRIBUTIONS BY STRATEGIC TIMBER

Under the Foreign Investment in Real Property Tax Act, which is commonly referred to as "FIRPTA," distributions to a non-U.S. shareholder that are attributable to gain from sales or exchanges of United States real property

interests will be treated by the non-U.S. shareholders as income effectively connected with a United States trade or business. Gain from dispositions of timber that we have owned for more than one year growing on timberlands within the United States will come within this category. Non-U.S. shareholders would generally be taxed at the same rates applicable to domestic shareholders on this gain, subject to a special alternative minimum tax in the case of nonresident alien individuals. Also, this gain may be subject to a 30% branch profits tax in the hands of a non-U.S. shareholder that is a corporation. Unless a tax treaty between the United States and the country of residence of the non-U.S. shareholder reduces the withholding rate for REIT dividends, we are generally required to withhold 35% of any capital gain distribution. That amount is creditable against the non-U.S. shareholder's United States federal income tax liability and is refundable if the amount withheld exceeds the non-U.S. shareholders' actual U.S. income tax liability. To obtain a refund, the non-U.S. shareholder must file a U.S. income tax return. This 35% withholding tax rate on capital gain dividends is higher than the maximum rate on long-term capital gains of individuals of 20%.

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Distributions we pay to a non-U.S. shareholder that are neither attributable to gain from our sale or exchange of United States real property interests nor designated by us as capital gains dividends will be treated as ordinary income to the extent that they are made out of our current or accumulated earnings and profits. These distributions will be subject to U.S. withholding tax on a gross basis (that is, without allowance of deductions) at a 30% rate, unless the withholding tax rate is reduced under an applicable income tax treaty between the United States and the country of tax residence of the non-U.S. shareholder.

For dividends paid prior to January 1, 2000, we are permitted by the tax rules to rely on a shareholder's address in determining whether the dividend is subject to withholding on the basis of being paid to a non-U.S. person. If a non-U.S. shareholder is relying on a tax treaty to claim a lower withholding rate, we will ask the shareholder to provide an appropriately executed Form 1001 to document this claim.

Recently finalized United States Treasury Regulations applicable to dividends paid after December 31, 1999 set forth presumptions which we may generally rely upon to determine whether, in the absence of certain documentation, a shareholder should be treated as a non-U.S. shareholder for purposes of the withholding tax on non-capital gain dividends. The presumptions would not apply for purposes of granting a reduced rate of withholding under a treaty to a non-U.S. shareholder. To obtain a reduced rate of withholding under a treaty, a non-U.S. shareholder will be required to either (i) provide a Form W-8 certifying such non-U.S. shareholder's entitlement to benefits under a treaty together with, in certain circumstances, additional information, or (ii) satisfy certain other applicable treaty certification requirements. The new regulations also provide special rules to determine whether, for purposes of determining the applicability of a tax treaty, dividends paid to a non-U.S. shareholder that is an entity should be treated as paid to the entity or to those persons or entities holding an interest in the entity.

The 30% withholding tax applicable to non-capital gain dividends will not apply if the dividends are treated as effectively connected with the conduct by the non-U.S. shareholder of a United States trade or business (or, alternatively, where an income tax treaty applies, if the dividend is effectively connected with a permanent establishment maintained within the United States by the non-U.S. shareholder) and the non-U.S. shareholder files appropriate certifications with us. These dividends will be subject to tax on a net basis (that is, after allowance of deductions) at graduated rates, in the same manner as U.S. shareholders. In general, a foreign shareholder will not be considered engaged in a U.S. trade or business solely as a result of its ownership of common stock.

Distributions in excess of our current or accumulated earnings and profits will not be taxable to a non-U.S. shareholder to the extent that they do not exceed the adjusted basis of the shareholder's common stock, but will reduce the adjusted basis of the shareholder's common stock. To the extent that such distributions exceed the adjusted basis of a non-U.S. shareholder's common stock, they will give rise to gain from the sale or exchange of the shareholder's common stock. The tax treatment of this gain is the same as if the non-U.S. shareholder had sold our stock, which is described below.



Gain recognized by a non-U.S. shareholder on the sale or exchange of common stock generally will not be subject to United States taxation unless the shares constitute a "United States real property interest" within the meaning of FIRPTA. Our common stock will not constitute a "United States real property interest" so long as we are a "domestically controlled REIT." We will meet this definition if, at all times during a specified testing period, less than 50% in value of our stock is held directly or indirectly by non-U.S. shareholders. We believe that after this offering we will be a "domestically controlled REIT," and therefore that the sale of common stock will not be subject to taxation under FIRPTA. However, because the common stock is expected to become publicly traded, no assurance can be given that we will continue to meet this definition. Even if we meet this definition, gain from the sale or exchange of common stock not otherwise subject to FIRPTA will be taxable to a non-U.S. shareholder if (i) the non-U.S. shareholder is a nonresident alien individual who is present in the United States for 183 days or more during the taxable year and has a "tax home" in the United States, in which case the nonresident alien

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individual will be subject to a 30% United States withholding tax on the amount of the gain, or (ii) the non-U.S. shareholder's investment in common stock is effectively connected with its U.S. trade or business, in which case the non-U.S. shareholder will be subject to the same treatment as U.S. shareholders with respect to this gain.

If we do not qualify as, or cease to be a "domestically controlled REIT," the determination of whether gain arising from the sale or exchange by a non-U.S. shareholder of common stock would be subject to United States taxation under FIRPTA as a sale of a "United States real property interest" will depend on whether the common stock is "regularly traded" for tax purposes on an established securities market and on the size of the selling non-U.S. shareholder's interest in Strategic Timber. In general, if the common stock is "regularly traded" on an established securities market during the quarter in which the non-U.S. shareholder sells his or her stock and the selling non-U.S. shareholder holds, directly or indirectly, 5% or less of our common stock during the five-year period ending on the date of disposition, then the sale will not be subject to United States taxation under FIRPTA. If gain on the sale or exchange of common stock were subject to taxation under FIRPTA, the non-U.S. shareholder would be subject to regular United States income tax with respect to this gain in the same manner as a U.S. shareholder (subject to any applicable alternative minimum tax, as computed in the case of nonresident alien individuals and foreign corporations and the possible application of the 30% branch profits tax in the case of foreign corporations), and the purchaser of the common stock would be required to withhold and remit to the IRS 10% of the purchase price.

#### BACKUP WITHHOLDING TAX AND INFORMATION REPORTING

We must report annually to the IRS and to each non-U.S. shareholder the amount of dividends paid to, and the tax withheld with respect to, the shareholder, regardless of whether any tax was actually withheld. That information may also be made available to the tax authorities of the country in which a non-U.S. shareholder resides.

Backup withholding tax, which generally is imposed at the rate of 31% on certain payments to persons that fail to furnish certain information under the United States information reporting requirements, will generally not apply:

- if distributions are paid on or prior to December 31, 1999 to a non-U.S. shareholders at an address outside the United States (provided that we do not have actual knowledge that the payee is a United States person),
- if such distributions are subject to the 30% (or lower treaty rate) withholding tax discussed above,

- if the distribution is a capital gains distribution, or
- if the distribution is attributable to gain we realized from the sale or exchange by Strategic Timber of United States real property interests.

For distributions paid after December 31, 1999, the new regulations provide certain presumptions and other rules under which non-U.S. shareholders may be subject to backup withholding and related information reporting in the absence of required certifications. As a general matter, backup withholding and information reporting will not apply to a payment of the proceeds of a sale of common stock by or through a foreign office of a foreign broker. However, information reporting, but not backup withholding, will apply to a payment of the proceeds of a sale of common stock by a foreign office of a broker that (a) is a United States person, (b) derives 50% or more of its gross income for certain periods from the conduct of a trade or business in the United States, (c) is a U.S. "controlled foreign corporation" for United States tax purposes, or (d) effective after December 31, 1999, certain brokers that are foreign partnerships with U.S. partners or that are engaged in a U.S. trade or business, unless in each such case the broker has documentary evidence in its records that the holder is a non-U.S. shareholder and certain other conditions are met, or the shareholder otherwise establishes an exemption. Payment to or through a United States office of a broker of the proceeds of a sale of common stock is subject to both backup

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withholding and information reporting unless the shareholder certifies under penalty of perjury that the shareholder is a non-U.S. shareholder, or otherwise establishes an exemption.

The backup withholding tax is not an additional tax and may be credited against a non-U.S. shareholder's United States federal income tax liability or refunded to the extent excess amounts are withheld, provided that the required information is supplied to the IRS.

#### TAX ASPECTS OF STRATEGIC TIMBER'S OWNERSHIP OF INTERESTS IN STRATEGIC TIMBER PARTNERS

##### GENERAL

All of our assets will be held through Strategic Timber Partners. In general, partnerships are "pass-through" entities which are not subject to federal income tax. Instead, partners are allocated their proportionate shares of the items of income, gain, loss, deduction and credit of a partnership, and are potentially subject to tax on these items, without regard to whether the partners receive a distribution from the partnership. We will include in our income our proportionate share of these partnership items of Strategic Timber Partners for purposes of the various REIT income tests and in the computation of our REIT taxable income. Moreover, for purposes of the REIT asset tests, we will include our proportionate share of assets held through Strategic Timber Partners.

Our interest in Strategic Timber Partners may involve special tax considerations. Those considerations include (1) the allocation of items of income and expense, which could affect the computation of our taxable income, (2) the treatment of Strategic Timber Partners as a partnership for federal income tax purposes, and (3) the taking of actions by Strategic Timber Partners which could adversely affect our qualification as a REIT.

##### ENTITY CLASSIFICATION

An organization formed as a partnership will be treated as a partnership for federal income tax purposes if (1) it is not expressly classified as a corporation under section 301.7701-2(b)(1) through (8) of the Treasury Regulations; (2) it does not elect to be classified as an association taxable as a corporation; and (3) it is not treated as a corporation by virtue of being

classified as a "publicly traded partnership."

Under section 7704 of the Code, a partnership is treated as a corporation for federal income tax purposes if it is a "publicly traded partnership," except in situations in which 90% or more of the partnership's gross income is "qualifying income" within the meaning of section 7704(c)(2) of the Code. "Qualifying income" includes interest, dividends, real property rents, gains from the disposition of real property, and certain income or gains from the exploitation of natural resources, including timber. We expect that more than 90% of the gross income of Strategic Timber Partners each year will be "qualifying income."

We, Strategic Timber Partners, and Strategic Timber Operating Co., the sole general partner of Strategic Timber Partners, have represented to Sutherland Asbill & Brennan LLP that Strategic Timber Partners will timely file a federal income tax return for its initial taxable year ending December 31, 1998, and will not elect to be treated as a corporation for federal income tax purposes. Sutherland Asbill & Brennan LLP is of the opinion that Strategic Timber Partners will be treated as a partnership for federal income tax purposes.

If for any reason Strategic Timber Partners were taxable as a corporation, rather than as a partnership, for federal income tax purposes, we would not be able to satisfy the income and asset requirements for REIT status. See "-- Taxation of Strategic Timber -- Requirements for Qualification -- Income Tests" and "-- Requirements for Qualification -- Asset Tests." In addition, any change in Strategic Timber Partners' status for tax purposes might be treated as a taxable event, in which case we might incur a tax liability without any related cash distribution. See "-- Taxation of Strategic Timber -- Distribution Requirements." Further, items of income and deduction of Strategic Timber Partners would not pass through to its partners, and its partners would be treated as shareholders for tax purposes.

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Consequently, Strategic Timber Partners would be required to pay income tax at corporate tax rates on its net income, and distributions to its partners would constitute dividends that would not be deductible in computing Strategic Timber Partners' taxable income.

#### PARTNERSHIP ALLOCATIONS

Although a partnership agreement will generally determine the allocation of income and loss among partners, those allocations will be disregarded for tax purposes if they do not comply with the provisions of section 704(b) of the Internal Revenue Code and applicable Treasury Regulations. Generally, section 704(b) and the Treasury Regulations require that partnership allocations respect the economic arrangement of the partners.

If an allocation is not recognized for federal income tax purposes, the item subject to the allocation will be reallocated in accordance with the partners' interests in the partnership, which will be determined by taking into account all of the facts and circumstances relating to the economic arrangement of the partners with respect to such item. In the opinion of Sutherland Asbill & Brennan, LLP, the allocation of taxable income and loss contained in the partnership agreement of Strategic Timber Partners complies with the requirements of section 704(b) of the Internal Revenue Code and the applicable Treasury Regulations.

#### TAX ALLOCATIONS WITH RESPECT TO THE PROPERTIES

Pursuant to section 704(c) of the Internal Revenue Code, income, gain, loss and deduction attributable to appreciated or depreciated property which has been contributed to a partnership in exchange for an interest in the partnership must be allocated in a manner such that the contributing partner is charged with, or benefits from, respectively, the unrealized gain or unrealized loss associated with the property at the time of the contribution. The amount of such unrealized gain or unrealized loss is generally equal to the difference between the fair market value of contributed property at the time of contribution and the adjusted tax basis of such property at such time, commonly called a "Book-Tax

Difference." Section 704(c) allocations are solely for federal income tax purposes and do not affect the partners' capital accounts or other economic or legal arrangements among the partners.

All of the current timber assets of Strategic Timber Partners have a Book-Tax Difference. When those assets are disposed of, including as a result of timber dispositions pursuant to a timber cutting agreement, the Book-Tax Difference will be accounted for by income allocations to the respective contributing partners. These income allocations will eliminate the Book-Tax Difference over the life of the partnership. Treasury Regulations under section 704(c) provide partnerships with a choice of several methods of accounting for Book-Tax Differences. We have determined to use the "remedial method" for accounting for Book-Tax Differences with respect to the properties owned by Strategic Timber Partners at the time of this offering.

#### BASIS IN PARTNERSHIP INTEREST

Our adjusted tax basis in our interest in Strategic Timber Partners generally will be equal to the amount of cash and the basis of any other property we contribute to Strategic Timber Partners, will be increased by our allocable share of the partnership's income and indebtedness and will be reduced, but not below zero, by our allocable share of losses incurred by Strategic Timber Partners, by the amount of cash distributed to us by Strategic Timber Partners, and by constructive distributions resulting from a reduction in our share of Strategic Timber Partners' indebtedness.

If our distributive share of Strategic Timber Partners' losses exceeds the adjusted tax basis of our partnership interest, the recognition of such excess loss will be deferred until such time as we have adjusted tax basis in our partnership units against which to deduct the loss. To the extent that the distributions from Strategic Timber Partners, or any decrease in our share of the indebtedness of Strategic Timber Partners (such decreases being considered a cash distribution to the partners), exceeds our adjusted tax basis, such excess distributions constitute taxable income to us. This taxable income will

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normally be characterized as capital gain, and if our interest in the partnership has been held for longer than the long-term capital gain holding period (currently one year), the distributions and constructive distributions will constitute long-term capital gain.

#### OTHER TAXES

We, any of our subsidiaries, Strategic Timber Partners or our shareholders may be subject to foreign, state and local tax in various countries, states and localities, including those countries, states and localities in which we, it or they transact business, own property, or reside. The state, local or foreign tax treatment of any of these parties in such jurisdictions may differ from the federal income tax treatment described above.

Qualification as a REIT under the laws of the individual states will depend, among other things, on the state's conformity with federal tax law. For example, one change made by the Taxpayer Relief Act of 1997, which eliminated percentage limitations on the amount of income a REIT can have from the disposition of assets held for less than four years is critical to the federal income tax treatment described in this prospectus. If a state's tax laws do not conform to this change, our status as a REIT under that state's tax laws would be doubtful.

Louisiana and Oregon conform to this change and otherwise generally follow the federal tax treatment of REITs. New Hampshire does not conform to the federal tax treatment of REITs. Accordingly, the New Hampshire Business Profits Tax will apply to us. The Business Profits Tax is a 7% tax on net business profits with no deduction for dividends distributed to shareholders. The Business Profits Tax is subject to apportionment based on a three-factor formula, so we will not be required to pay the tax on the full amount of our income, but only on that portion that is attributed to New Hampshire through application of the apportionment formula.

We will be subject to a Business and Occupation tax in Washington, which is a tax on gross receipts. However, receipts from the sale of standing timber are exempt from this Washington tax.

Some states in which we are not engaged in business do not conform to the federal tax treatment of REITs. Since we do not do business in those states, we would generally not be subject to taxation by any of those states. However, cash distributions out of our earnings and profits to shareholders in those states would likely be characterized as ordinary income rather than capital gains for purposes of computing their state tax liability. This difference will generally be relevant only in those states where capital gains are taxed at preferential rates, or if a shareholder has a net capital loss carryforward available for state tax purposes.

The state tax treatment of net capital gains we retain will depend on the state tax laws of the states in which both we and our shareholders are subject to tax. It is possible, therefore, that we may pay some state income taxes with respect to our undistributed net capital gains that produce no usable state tax credit for our shareholders. For example, although California otherwise generally conforms to the federal treatment of REITs, it has not adopted the provisions dealing with the treatment of retained capital gains. As a result, we will pay California taxes on our retained capital gains, but shareholders will not receive a credit for the taxes paid by us against their California tax liability, if any.

Prospective investors are urged to consult their own tax advisors regarding the effect of foreign, state and local tax laws upon an investment in our common stock. Again, none of the statements in this discussion concerning matters of foreign, state or local tax law constitutes an opinion of counsel.

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#### ERISA CONSIDERATIONS

##### GENERAL

This section summarizes some important issues under the Employee Retirement Income Security Act of 1974, as amended, or ERISA, and the prohibited transaction provisions of section 4975 of the Internal Revenue Code that you should consider before purchasing our common stock. Even if you are not an employee benefit plan, another tax-qualified retirement plan, or an individual retirement account, or IRA, you should review "-- Status of Strategic Timber and Strategic Timber Partners under ERISA." This section does not deal with all aspects of ERISA or section 4975 of the Internal Revenue Code that may be relevant to you in light of your particular circumstances, especially if you are:

- a plan subject to Title I of ERISA;
- other retirement plan or IRA subject to the prohibited transaction provisions of section 4975 of the Internal Revenue Code; or
- a governmental plan or church plan that is exempt from ERISA and section 4975 of the Internal Revenue Code but that may be subject to state law requirements.

This section is based on current provisions of ERISA and the Internal Revenue Code, existing and currently proposed regulations under ERISA and the Internal Revenue Code, the legislative history of ERISA and the Internal Revenue Code, existing administrative rulings of the Department of Labor and reported judicial decisions. Legislative, judicial or administrative changes may affect the accuracy of any statements in this section, even with respect to transactions entered into or contemplated prior to the effective date of such changes.

IF YOU ARE A FIDUCIARY MAKING A DECISION TO INVEST IN THE COMMON STOCK ON BEHALF OF A PROSPECTIVE PURCHASER THAT IS AN EMPLOYEE BENEFIT PLAN, A TAX-QUALIFIED RETIREMENT PLAN, OR AN IRA, YOU SHOULD CONSULT YOUR OWN LEGAL ADVISOR REGARDING THE SPECIFIC CONSIDERATIONS ARISING UNDER ERISA, SECTION 4975 OF THE INTERNAL REVENUE CODE, AND STATE LAW WITH RESPECT TO THE PURCHASE, OWNERSHIP OR SALE OF THE COMMON STOCK BY A PLAN OR AN IRA.

If you are a fiduciary of a pension, profit-sharing, or other employee benefit plan, or an ERISA plan, that is subject to Title I of ERISA, you should consider carefully whether an investment in the common stock is consistent with your fiduciary responsibilities under ERISA. In particular, the fiduciary requirements of Part 4 of Title I of ERISA require an ERISA plan's investments to be:

- prudent and in the best interests of the ERISA plan, its participants, and its beneficiaries,
- diversified in order to minimize the risk of large losses, unless it is clearly prudent not to do so, and
- authorized under the terms of the ERISA plan's governing documents, provided the documents are consistent with ERISA.

In determining whether an investment in the common stock is prudent for purposes of ERISA, you should consider whether the investment is reasonably designed, as a part of the ERISA plan's portfolio, to meet the objectives of the ERISA plan, taking into consideration the risk of loss and opportunity for gain or other return from the investment, the diversification, cash flow and funding requirements of the ERISA plan's portfolio. You also should take into account the nature of our business, our management, our brief operating history, the fact that certain investment properties may not have been identified yet, the possibility of the recognition of unrelated business taxable income, and any other facts and circumstances that may be relevant to an investment.

If you are a fiduciary of an IRA or of a qualified retirement plan that is not subject to Title I of ERISA because it is a governmental or church plan or because it does not cover common law employees, you should consider that these plans may only make investments that are authorized by the appropriate governing documents and under applicable state law. We refer to these plans as non-ERISA plans.

If you are a fiduciary of an ERISA plan or are making the investment decision for an IRA or other non-ERISA plan, you should consider the application of the prohibited transaction provisions of ERISA

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and the Internal Revenue Code in making your investment decision. A "party in interest" or "disqualified person" with respect to an ERISA plan or with respect to a non-ERISA plan or IRA subject to Internal Revenue Code section 4975 is subject to (1) an initial 15% excise tax on the amount involved in any prohibited transaction involving the assets of the plan or IRA and (2) an additional excise tax equal to 100% of the amount involved if any prohibited transaction is not corrected within the appropriate period. If an IRA is maintained on behalf of a disqualified person who engages in a prohibited transaction, the IRA will lose its tax-exempt status and its assets will be deemed to have been distributed to the disqualified person or his or her beneficiary in a taxable distribution on account of the prohibited transaction, and no excise tax will be imposed. In addition, if you are a fiduciary and you permit an ERISA plan to engage in a transaction that you know or should know is a prohibited transaction, you may be liable to the ERISA plan for any loss the ERISA plan incurs as a result of the transaction or for any profits you earn in the transaction.

This section discusses principles you should apply to determine whether the fiduciary requirements of ERISA and the prohibited transaction provisions of ERISA and the Internal Revenue Code apply to an entity because one or more investors in the equity interests in the entity is:

- an ERISA plan or
- a non-ERISA plan or IRA subject to section 4975 of the Internal Revenue Code.

If you are an ERISA Plan fiduciary, you also should consider the relevance of those principles to:

- ERISA's prohibition on improper delegation of control over or responsibility for "plan assets" and
- ERISA's imposition of co-fiduciary liability on a fiduciary who participates in, permits the occurrence of, or fails to remedy a known breach by another fiduciary.

If our assets are deemed to be "plan assets" under ERISA,

- the prudence standards and other provisions of Part 4 of Title I of ERISA would be applicable to any transactions involving our assets,
- persons who exercise any authority over our assets, or who provide investment advice to us, would be considered fiduciaries of each ERISA plan that acquires common stock, and transactions involving our assets undertaken at their direction or pursuant to their advice might violate their fiduciary responsibilities under ERISA, especially with regard to conflicts of interest,
- a fiduciary exercising his or her investment discretion over the assets of an ERISA plan to cause it to acquire or hold the common stock could be liable under Part 4 of Title I of ERISA for transactions we enter into that do not conform to ERISA standards of prudence and fiduciary responsibility, and
- certain transactions that we might enter into in the ordinary course of its business and operations might constitute "prohibited transactions" under ERISA and the Internal Revenue Code.

Based on the following discussion, we do not believe that our assets will be deemed "plan assets" of any ERISA plan, IRA or non-ERISA plan that invests in the common stock. The Department of Labor or the Treasury Department, however, may reach a contrary conclusion.

Regulations of the Department of Labor defining "plan assets" generally provide that when an ERISA plan or non-ERISA plan or IRA acquires a security that is (1) an equity interest in a company and (2) not a "publicly-offered security," the ERISA plan's, non-ERISA plan's or IRA's assets include both the equity interest and an undivided interest in each of the underlying assets of the issuer of the equity interest, unless one or more exceptions specified in these regulations are satisfied. We refer to these regulations defining plan assets as the plan asset regulations.

The plan asset regulations define a publicly-offered security as a security that is

- widely-held,

- freely transferable, and

- either part of a class of securities registered under the Securities Exchange Act of 1934 or sold pursuant to an effective registration statement under the Securities Act and registered under the Exchange Act within 120 days after the end of the fiscal year of the issuer during which this offering occurred.

We are selling the shares of common stock in an offering registered under the Securities Act and we will register the shares under the Exchange Act.

The plan asset regulations provide that a security is "widely held" only if it is part of a class of securities that is owned by 100 or more investors who are independent from the issuer and one another. If the number independent investors falls below 100 subsequent to the initial public offering as a result of events beyond the issuer's control, the security will still be considered widely held. We anticipate that upon completion of this offering, the common stock will be "widely held."

The plan asset regulations provide that whether a security is "freely transferable" is a factual question to be determined on the basis of all relevant facts and circumstances. When a security is part of an offering in which the minimum investment is \$10,000 or less (as is the case with this offering), the security will ordinarily be deemed to be freely transferable even if there are certain restrictions on transfer. These permissible restrictions on transfer include:

- any restriction on or prohibition against any transfer or assignment that would result in the termination or reclassification of an entity for federal or state tax purposes, or that otherwise would violate any federal or state law or court order,
- any requirement that advance notice of a transfer or assignment be given to the issuer,
- any administrative procedure that establishes an effective date, or an event (such as completion of an offering), prior to which a transfer or assignment will not be effective, and
- any limitation or restriction on transfer or assignment that is not imposed by the issuer or a person acting on behalf of the issuer.

We believe that the common stock will be "freely transferable" in spite of the restrictions imposed under our Articles of Incorporation on the transfer of the common stock. We also are not aware of any other facts or circumstances limiting the transferability of the common stock that are not permitted by the plan asset regulations. We do not intend to impose in the future, or to permit any person to impose on our behalf, any impermissible limitations or restrictions on transfer. The plan asset regulations only establish a



presumption in favor of a finding of free transferability, and the Department of Labor or the Treasury Department may reach a contrary conclusion.

Assuming that the common stock will be "widely held" and that no other facts and circumstances other than those referred to in the preceding paragraph exist that restrict transferability of the common stock, the common stock should be publicly offered securities. Thus, our assets should not be deemed to be "plan assets" of any ERISA plan, IRA, or non-ERISA plan that invests in the common stock.

The plan asset regulations also will apply in determining whether the assets of Strategic Timber Partners will be deemed to be "plan assets." The partnership interests in Strategic Timber Partners will not be publicly-offered securities. Nevertheless, if the shares of common stock constitute publicly-offered securities, your indirect investment in Strategic Timber Partners through your ownership of common stock will not cause the assets of Strategic Timber Partners to be treated as "plan assets" of an ERISA plan, IRA, or a non-ERISA plan subject to section 4975 of the Internal Revenue Code.

UNDERWRITING

Subject to the terms and conditions stated in the underwriting agreement dated the date hereof, each underwriter named below has severally agreed to purchase, and Strategic Timber has agreed to sell to such underwriter, the number of shares set forth opposite the name of such underwriter.

<TABLE>  
<CAPTION>

NAME	NUMBER OF SHARES
----	-----
<S>	<C>
Salomon Smith Barney Inc.....	
Credit Suisse First Boston Corporation.....	
Donaldson, Lufkin & Jenrette Securities Corporation.....	
A.G. Edwards & Sons, Inc.....	
Warburg Dillon Read LLC.....	
ABN AMRO Incorporated.....	
Morgan Keegan & Company, Inc.....	
	-----
Total.....	16,600,000
	=====

</TABLE>

The underwriting agreement provides that the obligations of the several underwriters to purchase the shares included in this offering are subject to approval of certain legal matters by counsel and to certain other conditions. The underwriters are obligated to purchase all the shares (other than those covered by the over-allotment option described below) if they purchase any of the shares.

The underwriters, for whom Salomon Smith Barney Inc., Credit Suisse First Boston Corporation, Donaldson, Lufkin & Jenrette Securities Corporation, A.G. Edwards & Sons, Inc., Warburg Dillon Read LLC, ABN AMRO Incorporated, and Morgan Keegan & Company, Inc. are acting as representatives, propose to offer some of the shares directly to the public at the public offering price set forth on the cover page of this prospectus and some of the shares to certain dealers at the public offering price less a concession not in excess of \$ per share. The underwriters may allow, and such dealers may reallow, a concession not in excess of \$ per share on sales to certain other dealers. If all of the shares are not sold at the initial offering price, the representatives may change the public offering price and the other selling terms. The representatives have advised Strategic Timber that the underwriters do not intend to confirm any sales to any accounts over which they exercise discretionary authority.

Strategic Timber has granted to the underwriters an option, exercisable for 30 days from the date of this prospectus, to purchase up to 2,490,000 additional shares of common stock at the public offering price less the underwriting discount. The underwriters may exercise such option solely for the purpose of

covering over-allotments, if any, in connection with this offering. To the extent such option is exercised, each underwriter will be obligated, subject to certain conditions, to purchase a number of additional shares approximately proportionate to such underwriter's initial purchase commitment.

Strategic Timber will pay an advisory fee of 0.65% of the gross proceeds of this offering, including any exercise of the underwriters' over-allotment option, to Salomon Smith Barney Inc. for advisory services in connection with the evaluation, analysis and structuring of the formation of Strategic Timber and this offering.

Strategic Timber, its officers and directors, and Strategic Timber Partners have agreed that, subject to certain exceptions, for a period of one year from the date of the consummation of this offering, they will not, without the prior written consent of Salomon Smith Barney Inc., dispose of or hedge any shares of common stock or any partnership units or any securities convertible into, or exercisable or exchangeable for, common stock or partnership units. The owners of units and shares received in the formation transactions have agreed not to dispose of or hedge the units or shares for a period of one year after consummation of this offering, without the prior written consent of Salomon Smith Barney Inc. However, Salomon Smith Barney Inc., in its sole discretion, may release any of the securities subject to these lock-up agreements at any time without notice.

Prior to this offering, there has been no public market for the common stock. Consequently, the initial public offering price for the shares will be determined by negotiations between Strategic Timber and the representatives. Among the factors to be considered in determining the initial public offering price are Strategic Timber's record of operations, its current financial condition, its future prospects, its markets, the economic conditions in and future prospects for the industry in which Strategic Timber competes, its management, and currently prevailing general conditions in the equity securities markets, including current market valuations of publicly traded companies considered comparable to Strategic Timber. There can be no assurance, however, that the prices at which the shares will sell in the public market after this offering will not be lower than the price at which they are sold by the underwriters or that an active trading market in the common stock will develop and continue after this offering.

Strategic Timber has applied to have the common stock included for quotation on the Nasdaq National Market under the symbol "STTR."

The following table shows the underwriting discounts and commissions Strategic Timber will pay to the underwriters in connection with this offering. These amounts are shown assuming both no exercise and full exercise of the underwriters' option to purchase additional shares of common stock.

<TABLE>  
<CAPTION>

	PAID BY STRATEGIC TIMBER	
	NO EXERCISE	FULL EXERCISE
<S>	<C>	<C>
Per share.....	\$	\$
Total.....	\$	\$

</TABLE>

In connection with this offering, the representatives, on behalf of the underwriters, may purchase and sell shares of common stock in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves syndicate sales of common stock in excess of the number of shares to be purchased by the underwriters in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of the common stock in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing transactions consist of certain bids or purchases of common stock

made for the purpose of preventing or retarding a decline in the market price of the common stock while this offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when the representatives, in covering syndicate short positions or making stabilizing purchases, repurchase shares originally sold by that syndicate member.

Any of these activities may cause the price of the common stock to be higher than the price that otherwise would exist in the open market in the absence of such transactions. These transactions may be effected on the Nasdaq National Market or in the over-the-counter market, or otherwise and, if commenced, may be discontinued at any time.

Strategic Timber estimates that the total expenses of this offering, including the advisory fee to be paid to Salomon Smith Barney, will be \$4.5 million.

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ABN AMRO Bank, which is affiliated with ABN AMRO Incorporated, one of the representatives, is a lender under Strategic Timber's existing credit facilities and has received customary fees in connection with those credit facilities. The net proceeds of this offering will be used to repay all of Strategic Timber's indebtedness under the credit facilities. Because the amount to be repaid to ABN AMRO Bank under the credit facilities exceeds 10% of the net proceeds of this offering, the offering will be conducted in accordance with Rule 2710(c)(8) of the National Association of Securities Dealers, Inc.'s Conduct Rules. See "Use of Proceeds." ABN AMRO Incorporated is participating in the offering on the same terms as the other underwriters and will not receive any benefit in connection with the offering other than customary managing, underwriting and selling fees. ABN AMRO Bank is also one of the lenders on Strategic Timber's new credit facility.

Strategic Timber and Strategic Timber Partners have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect of any of those liabilities.

#### EXPERTS

The financial statements of:

- Pioneer Resources, LLC as of and for the years ended December 31, 1996 and 1997, and for the period from January 1, 1998 to October 8, 1998,
- Strategic Timber Trust, Inc. as of and for the period from inception (April 21, 1998) to December 31, 1998, and
- Strategic Timber Trust II, LLC as of and for the period from inception (October 9, 1998) to December 31, 1998,

included in this prospectus and elsewhere in this registration statement have been audited by Arthur Andersen LLP, independent public accountants, as indicated in their reports with respect thereto, and are included in this prospectus in reliance upon the authority of Arthur Andersen LLP as experts in accounting and auditing in giving such reports.

Information included in this prospectus relating to our timber inventory, acreage and timber sales plan with respect to the Pacific Northwest properties, and the growth rate and species of our timber on these properties, as well as

historical price indices and current prices in our markets, has been reviewed by Mason, Bruce & Girard, Inc., an independent forest resource consulting firm, and is included in this prospectus in reliance upon the authority of Mason, Bruce & Girard, Inc. as an expert in timber inventory and appraisals. Information included in this prospectus relating to our timber inventory, acreage and timber sales plan with respect to the Louisiana property, and the growth rate and species of our timber on this property, as well as current prices in our markets, has been reviewed by Canal Forest Resources, Inc., an independent forest resource consulting firm, and is included in this prospectus in reliance upon the authority of Canal Forest Resources, Inc. as an expert in timber inventory and appraisals.

#### LEGAL MATTERS

Sutherland Asbill & Brennan LLP, Atlanta, Georgia, will pass upon certain legal matters for Strategic Timber with respect to the validity of the common stock offered by this prospectus. Andrews & Kurth L.L.P., Houston, Texas, will pass upon certain legal matters for the underwriters. In connection with the formation transactions, Sutherland Asbill & Brennan LLP received 46,651 shares of common stock, which are now owned by certain partners of that firm, and 51,617 partnership units in Strategic Timber Partners.

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#### WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form S-11 under the Securities Act to register the common stock we are offering. This prospectus is part of that registration statement and omits some of the information set forth in the registration statement and the exhibits and schedules to the registration statement. For further information about us and our common stock, you should read registration statement and the exhibits and schedules. Statements contained in this prospectus regarding the contents of any contract or other document are not complete. You should read the exhibit for a more complete description of the contract or document included in the exhibit. We qualify each statement contained in this prospectus regarding the contents of any contract or document filed as an exhibit to the registration statement by reference to the exhibit.

Upon completion of this offering, we will file annual, quarterly and special reports, proxy statements and other information with the SEC. You can read and copy any materials we file with the SEC at its Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. You can obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site that contains information we file electronically with the SEC, which you can access over the Internet at <http://www.sec.gov>.

In addition, we have applied to have the common stock included for quotation on the Nasdaq National Market under the symbol "STTR." Once the common stock has been listed on the Nasdaq National Market, you will be able to obtain information about Strategic Timber at the offices of The Nasdaq Stock Market, Inc. at 1735 K Street N.W., Washington, D.C. 20006.

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#### GLOSSARY OF SELECTED TIMBER INDUSTRY TERMS

We have provided you with definitions for some of the timber industry terms we use in this prospectus.

BOARD FOOT (BF)	A standard unit of measure for lumber that is 12 inches square and one inch thick.
CONVERSION	The process of sawing or otherwise processing logs or transforming timber into any other type of wood product.
CONVERSION FACILITY	A sawmill, pulp mill or other facility at which

timber conversion occurs.

CUNIT	A standard unit of measurement of volume equal to one hundred cubic feet.
HARDWOODS	Trees that generally have broad leaves and are deciduous (losing leaves every year).
LOGS	Segments of the main stem of a tree that are cut to specific length and diameter specifications and are utilized as raw materials for lumber, plywood and pulp/paper manufacturers.
LUMBER	Solidwood product that is manufactured from logs. Lumber is produced in standard dimensions and used for a variety of applications, including building construction, furniture and shipping containers.
MBF	One thousand board feet. A common unit of measure for estimating timber volume as well as lumber.
MERCHANTABLE TIMBER	Timber exceeding a minimum size and usable volume that is suitable for sale for commercial uses in the market where the timber is to be sold.
PLANTATION	A timber stand established either through sowing of seeds or by planting seedlings.
PREMERCHANTABLE TIMBER	Trees that have not yet reached a size where they are suitable for sale.
PULPWOOD	Wood that is cut primarily to make wood pulp, which may be manufactured into paper, fiber, paperboard and other paper products.
SAWTIMBER	Trees containing logs of sufficient size and quality to be suitable for conversion into lumber or plywood.
SECOND-GROWTH REDWOODS	Redwoods that have been replanted after the original forest was harvested or regrown after being destroyed by fire; these redwoods may be harvested for commercial purposes.
SEEDLINGS	Live trees less than one inch in diameter at ground level.
SILVICULTURE	The practice of establishing, tending and reproducing forest stands of desired characteristics.
SOFTWOODS	Trees that are usually evergreen, bear cones and have needles or scale-like leaves. They include pines, spruces, firs and cedars.
SOLIDWOOD	A term used to distinguish wood products that are manufactured by sawing or cutting a log, such as lumber or plywood, as opposed to wood products produced from wood pulp, wood fiber or chips.
THINNING	Removal of selected trees, usually to eliminate overcrowding, to remove dying or diseased trees and to promote more rapid growth of desired trees. "Pre-commercial thinning" refers to thinning that does not produce merchantable timber.
TIMBER	A standing tree or group of standing trees. Once cut, a tree is no longer considered timber, but

becomes a log that can then be converted into wood products.

TIMBERLANDS                      Forestland generally capable of producing more than 20 cubic feet of wood per acre per year.

WOOD FIBER                        Generally refers to pulpwood or chips used in the manufacture of pulp and paper.

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## REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Shareholders of  
Strategic Timber Trust, Inc.:

We have audited the accompanying consolidated balance sheet of Strategic Timber Trust, Inc. (a Georgia corporation) and subsidiaries as of December 31, 1998, and the related consolidated statements of operations, changes in shareholders' deficit and cash flows for the period from inception (April 21, 1998) to December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Strategic Timber Trust, Inc. and subsidiaries as of December 31, 1998, and the results of their operations and their cash flows for the period from inception to December 31, 1998 in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Stamford, Connecticut

February 26, 1999

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STRATEGIC TIMBER TRUST, INC. AND SUBSIDIARIES  
(A GEORGIA CORPORATION)

CONSOLIDATED BALANCE SHEET

DECEMBER 31, 1998

<TABLE>		<C>	
<S>			
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents.....	\$	310,284	
Trade accounts receivable.....		56,708	
Prepaid expenses.....		1,311,988	
		-----	
Total current assets.....		1,678,980	
TIMBERLANDS.....		251,597,386	
PROPERTY AND EQUIPMENT:			
Machinery and equipment.....		8,395	
Furniture and fixtures.....		5,918	
Leasehold improvements.....		2,820	
		-----	
		17,133	
Less -- Accumulated depreciation.....		(1,588)	
		-----	
		15,545	
LAND SUBJECT TO REPURCHASE (Note 5).....		3,000,000	
DEFERRED FINANCING COSTS, net.....		4,586,000	
		-----	
Total assets.....		\$260,877,911	
		=====	
LIABILITIES AND SHAREHOLDERS' DEFICIT			
CURRENT LIABILITIES:			
Bridge loan.....	\$	85,000,000	
Revolving line of credit.....		133,787,034	
Accounts payable and other accrued liabilities.....		1,688,260	
Accrued interest.....		2,053,397	
Due to affiliates.....		2,236,244	
Deferred revenue.....		3,537,015	
		-----	
Total current liabilities.....		228,301,950	
MINORITY INTEREST.....		46,919,256	
SHAREHOLDERS' DEFICIT:			
Common stock (\$.01 par value, 200,000,000 shares authorized, 671,770 shares issued and outstanding).....		1,000	
Accumulated deficit.....		(14,344,295)	
		-----	
		(14,343,295)	
		-----	
Total liabilities and shareholders' deficit.....		\$260,877,911	
		=====	
</TABLE>			

The accompanying notes to consolidated financial statements are an integral part of this consolidated balance sheet.

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STRATEGIC TIMBER TRUST, INC. AND SUBSIDIARIES  
(A GEORGIA CORPORATION)

CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE PERIOD FROM INCEPTION (APRIL 21, 1998) TO DECEMBER 31, 1998

<TABLE>	
<S>	
REVENUES:	<C>
Timber and property sales.....	\$ 322,954
Other.....	183,985
	-----
Total revenues.....	506,939
OPERATING EXPENSES:	
Cost of timber sold.....	402,614
Amortization of deferred financing costs.....	1,743,000
General and administrative expenses.....	1,820,288
	-----
Operating loss.....	(3,458,963)
OTHER INCOME (EXPENSE):	
Interest expense.....	(13,781,366)
Interest income.....	33,324
	-----
Loss before minority interest.....	(17,207,005)
MINORITY INTEREST IN LOSS OF SUBSIDIARY PARTNERSHIP.....	2,862,710
	-----
Net loss.....	\$ (14,344,295)
	=====
</TABLE>	

The accompanying notes to consolidated financial statements are an integral part of this consolidated statement.

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STRATEGIC TIMBER TRUST, INC. AND SUBSIDIARIES  
(A GEORGIA CORPORATION)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' DEFICIT

FOR THE PERIOD FROM INCEPTION (APRIL 21, 1998) TO DECEMBER 31, 1998

<TABLE>			
<CAPTION>			
	COMMON STOCK	ACCUMULATED DEFICIT	TOTAL
	-----	-----	-----
<S>	<C>	<C>	<C>
SHAREHOLDERS' EQUITY, April 21, 1998.....	\$ --	\$ --	\$ --
Initial contribution.....	1,000	--	1,000
Net loss.....	--	(14,344,295)	(14,344,295)
	-----	-----	-----
SHAREHOLDERS' DEFICIT, December 31, 1998.....	\$1,000	\$ (14,344,295)	\$ (14,343,295)
	=====	=====	=====
</TABLE>			

The accompanying notes to consolidated financial statements are an integral part of this consolidated statement.

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STRATEGIC TIMBER TRUST, INC. AND SUBSIDIARIES  
(A GEORGIA CORPORATION)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM INCEPTION (APRIL 21, 1998) TO DECEMBER 31, 1998

<TABLE>	
<S>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss.....	\$ (14,344,295)
Adjustments to reconcile net loss to net cash used in operating activities --	
Minority interest in net loss of subsidiary partnership.....	(2,862,710)
Depletion.....	402,614
Depreciation and amortization.....	1,744,458
Non-cash compensation.....	1,000
Changes in assets and liabilities:	
Increase in trade accounts receivable.....	(56,708)
Increase in prepaid expenses.....	(7,223)
Increase in accounts payable and other accrued liabilities.....	383,625
Increase in accrued interest.....	2,053,397
Increase in due to affiliates.....	2,236,244
Increase in deferred revenue.....	3,537,015
	-----
Net cash used in operating activities.....	(6,912,583)
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of timberlands.....	(205,218,034)
Purchases of property and equipment.....	(17,133)
	-----
Net cash used in investing activities.....	(205,235,167)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from bridge loan.....	85,000,000
Proceeds from borrowings under revolving line of credit...	138,787,034
Repayments of revolving line of credit.....	(5,000,000)
Deferred financing costs.....	(6,329,000)
	-----
Net cash provided by financing activities.....	212,458,034
	-----
NET INCREASE IN CASH AND CASH EQUIVALENTS.....	310,284
CASH AND CASH EQUIVALENTS, beginning of period.....	--
	-----
CASH AND CASH EQUIVALENTS, end of period.....	\$ 310,284
	=====
SUPPLEMENTAL CASH FLOW INFORMATION:	
Cash paid for interest.....	\$ 11,727,968
	=====
</TABLE>	

The accompanying notes to consolidated financial statements are an integral part of this consolidated statement.

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STRATEGIC TIMBER TRUST, INC. AND SUBSIDIARIES

(A GEORGIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

ORGANIZATION AND CONTROL --

Strategic Timber Trust, Inc., a Georgia corporation, was organized April 21, 1998 for the purpose of acquiring, owning and managing timberlands. Our

consolidated financial statements include the accounts of our wholly owned subsidiary, Strategic Timber Operating Co., a Delaware corporation, and those of Strategic Timber Partners, LP, a Delaware limited partnership in which we have a 79.4% limited partner interest. Strategic Timber Operating Co. is the sole general partner of Strategic Timber Partners and holds a 1.0% general partner interest. All significant intercompany transactions have been eliminated.

On April 27, 1998, we acquired 88,000 acres of timberland in southwest Louisiana for total consideration valued at \$255,000,000. Louisiana Timber Partners, LLC, a Georgia limited liability company, contributed to Strategic Timber Partners a contract to acquire the Louisiana property in exchange for 5,000 limited partnership units, representing an aggregate of 19.6% of the total partnership units then outstanding. We valued these partnership units at \$50,000,000, which we believed to be the difference between the fair value of the property and the purchase price of the property under the contract Louisiana Timber contributed. Strategic Timber Partners then purchased the Louisiana property on April 27, 1998 for \$205,000,000 in cash. The partnership funded the purchase price of the Louisiana property and related transaction costs by borrowing \$125,800,000 under a \$215,000,000 bank revolving credit facility and with an \$85,000,000 cash contribution made to the partnership by Strategic Timber. Strategic Timber borrowed these funds under a bank bridge loan.

We plan to sell shares of our common stock in an initial public offering during 1999. Shortly before this offering, the timber operations of our affiliate, Strategic Timber Trust II, LLC, will be merged into Strategic Timber Partners. As the entities to be merged are under common ownership, we will account for this merger using the historical carrying amounts of Strategic Timber Trust II, LLC's assets and liabilities.

#### NATURE OF BUSINESS OPERATIONS --

We own and manage timberlands for the purpose of selling standing timber. We negotiate and contract for the sale of our standing timber with buyers who generally cut and pay for the trees during the contract period.

#### CONSOLIDATION --

The accompanying financial statements consolidate the accounts of Strategic Timber and all entities in which Strategic Timber holds a majority and controlling interest. Minority ownership in Strategic Timber Partners is reflected as minority interest expense in the accompanying consolidated statement of operations and minority interest in the accompanying consolidated balance sheet.

#### USE OF ESTIMATES --

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain estimates by our management in determining the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### REVENUE RECOGNITION --

We enter into timber cutting contracts with third parties that require customers to harvest and remove timber at their expense. These contracts may last for periods ranging from three months to six years, or

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

occasionally longer. Contracts that are longer than one year typically require the customer to harvest minimum amounts of timber each year. We recognize revenue and depletion at the time our customer takes title to the timber, which occurs when legal ownership and the risk of loss passes to the purchaser and the quantity sold is determinable. We may receive payments under these contracts in advance of recognition of revenue.

We may enter into timber deeds whereby all cutting rights on a tract of timberland are sold to a buyer. At the end of the contract term, any uncut timber will revert back to us. Risk of loss passes to our customers upon the signing of the deeds. For instance, if a fire destroys or partially destroys the timber subject to a timber deed, the purchaser would not be entitled to a refund of any portion of the purchase price. Accordingly, we will recognize revenues and costs under our timber deeds at the time the contracts close. We do not expect to make outright sales of timber by timber deeds beyond the second quarter of 1999.

CASH AND CASH EQUIVALENTS --

Cash and cash equivalents include cash and short term investments with original maturities of three months or less.

TIMBERLANDS --

We capitalize acquisition costs of land and timber, site preparation and other costs relating to the planting and growing of timber. Such costs are charged to cost of timber sold as depletion at the time timber is harvested, based on the relationship of harvested timber to the estimated volume of currently merchantable timber. Estimates of currently merchantable timber are subject to change based on periodic timber surveys. Depletion is calculated on a property-by-property basis, and further by product category within the property.

Timberlands are stated at the lower of cost, net of depletion, or market value.

PROPERTY AND EQUIPMENT --

Property and equipment consists of furniture and fixtures, machinery and equipment and leasehold improvements. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which range from three to five years. Amortization of leasehold improvements is calculated on a straight-line basis over the lesser of the lease term or the estimated useful lives of the assets.

DEFERRED FINANCING COSTS --

Deferred financing costs consist of fees and expenses incurred in connection with our borrowings. These fees are being amortized over the terms of the related debt agreements ranging from one to five years.

INCOME TAXES --

We intend to elect to be treated as a real estate investment trust, or REIT, under provisions of the Internal Revenue Code. As a result, we will not be subject to federal income taxes on the portion of our income that we currently distribute to our shareholders.

We will be able to generate net operating losses for tax purposes in years in which we do not have taxable income. No benefit for income taxes has been provided on our loss since inception as the benefit is

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STRATEGIC TIMBER TRUST, INC. AND SUBSIDIARIES

(A GEORGIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

not currently "more likely than not" to be realized due to our limited operating history. Our net operating loss carryforwards are approximately \$15.8 million at December 31, 1998.

We may be subject to state and local taxes regardless of whether we distribute some or all of our income to our shareholders. For the period ended December 31, 1998, though, we did not incur any state or local income tax liabilities due to our operating loss.

INTEREST RATE SWAPS --

Interest rate swaps involve the periodic exchange of interest payments without the exchange of underlying principal or notional amounts. Net amounts paid or received on interest rate swaps are recognized as interest expense as incurred in the accompanying consolidated statement of operations.

SHAREHOLDERS' EQUITY --

The accompanying consolidated financial statements have been adjusted to give effect to a 36.59-for-1 stock split that we expect will occur immediately prior to completion of our initial public offering. We have also given effect in the accompanying consolidated financial statements to a planned increase in the number of common shares authorized for issuance to 200,000,000 shares, which is expected to be approved by our board of directors and current shareholders immediately prior to completion of our initial public offering. We also expect to authorize 50,000,000 shares of preferred stock immediately prior to completion of our initial public offering.

After giving effect to the stock split, our common stock account does not contain the required par value. This deficit will be funded with the proceeds from our initial public offering.

2. DEBT:

We have the following debt instruments outstanding as of December 31, 1998:

<TABLE>  
<S>

<C>

Revolving credit line(a).....	\$133,787,034
Bridge loan(b).....	85,000,000
	-----
	\$218,787,034
	=====

</TABLE>

- (a) We have a senior revolving credit line that provides a maximum borrowing of \$215,000,000, subject to formula. The credit line is used to finance our acquisitions of timberlands and for general corporate purposes. The facility bears interest at LIBOR plus an applicable margin rate, 7.75% at December 31, 1998. Interest is payable quarterly. The unused portion of the credit facility is subject to a commitment fee of 50 basis points per annum. This facility expires on April 25, 2003 and is secured by all assets and properties of Strategic Timber Partners, including timberlands.
- (b) The bridge loan was used to finance our initial acquisition of timberlands and matures on October 27, 1999. The loan bears interest at LIBOR plus an applicable margin rate, 9.25% at December 31, 1998. Interest is payable quarterly. The bridge loan is secured by all assets and property of Strategic Timber.

The revolving credit line and the bridge loan have certain financial and non-financial covenants, including restrictions on additional borrowings, the maintenance of certain financial ratios and limitations on capital spending, investments, distributions and asset sales. We believe that we are in compliance with all covenants at December 31, 1998.

All debt has been classified as current in the accompanying consolidated balance sheet. This is due to the inclusion of clauses in the debt agreements that allow our lenders to call the debt prior to its maturity

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STRATEGIC TIMBER TRUST, INC. AND SUBSIDIARIES

(A GEORGIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

in the event of a "material adverse change" in our business. In addition, our intention is to repay all of our outstanding borrowings with the proceeds from our initial public offering and a new credit facility that will be put in place at the time of the offering.

The fair value of the above financial instruments approximate their carrying value at December 31, 1998.

### 3. INTEREST RATE SWAP:

In connection with our revolving line of credit, we have entered into a \$100,000,000 interest rate swap contract with our primary lender to hedge a portion of the variable interest rate exposure on this debt instrument. Under the terms of the swap, we are required to pay interest quarterly to the lender at a fixed rate of 5.99% and receive interest quarterly at the three-month LIBOR rate, which was 5.25% at December 31, 1998. At December 31, 1998, we have recorded a payable of approximately \$77,000 related to the net interest payment due to the lender, with the offsetting charge applied to interest expense. The swap will mature on May 13, 2002.

The fair value of this swap is estimated as the amount payable to the

lender to terminate the agreement as of December 31, 1998. At this date, the fair value of this swap is a payable of approximately \$2,793,378.

The counterparty to our interest rate swap contract is a major financial institution. We do not expect non-performance by this institution, but we periodically monitor the credit quality of this organization. Our credit risk on this derivative financial instrument is limited to the unrealized gain on the contract in the event that the swap has a positive fair value.

#### 4. COMMITMENTS AND CONTINGENCIES:

At the time of our initial public offering, Louisiana Timber will be entitled to receive consideration of approximately \$12,945,000 in cash representing a partial redemption of its interest in Strategic Timber Partners. Louisiana Timber also will own 1,762,974 units in Strategic Timber Partners after the initial public offering.

Our operations and timberlands are subject to federal, state and local laws and regulations, including those related to the environment, endangered species and forestry activities. In addition, our land may become subject to laws and regulations designed to protect wetlands. All of these regulations may cause us to incur significant costs, damages, penalties or other liabilities, and may materially and adversely affect harvesting operations on our timberlands.

We are subject to certain claims and litigation, including unasserted claims, in the normal course of business. While it is not possible to predict with certainty the outcome of these matters, it is our opinion that the ultimate outcome will not have a material adverse effect on the consolidated financial statements of Strategic Timber or our subsidiaries.

As of December 31, 1998, we do not have any material commitments under non-cancelable operating leases.

#### 5. RELATED PARTY TRANSACTIONS:

In December 1998, we entered into a transaction with our President and Chief Executive Officer, C. Edward Broom, in which Mr. Broom purchased for \$3,000,000 approximately 6,700 acres of agricultural land on our Louisiana property. Because we determined that this property was ancillary to our ongoing business, we sold this property to provide a source of cash to make required payments of our bank debt.

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STRATEGIC TIMBER TRUST, INC. AND SUBSIDIARIES

(A GEORGIA CORPORATION)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Mr. Broom and other members of our senior management determined this purchase price to provide the necessary funds to make these required payments.

The purchase price does not necessarily reflect the price we might have been able to obtain if the property had been fully prepared for sale and exposed to the market for a sufficient period of time to produce the highest price. To protect our economic interest in the property, Mr. Broom has agreed that we may repurchase the property at any time before December 31, 2000, at the price paid by Mr. Broom plus a pro-rata annual increase at the rate of 8% compounded annually. Accordingly, we have recorded the proceeds from this sale as deferred

revenue and have classified the underlying property as land held for repurchase in the accompanying consolidated balance sheet. If we decide not to exercise the repurchase option, we will recognize revenue and costs of \$3,000,000 during the year ended December 31, 2000, resulting in no gain or loss on this related party transaction.

We rent office space from a company controlled by two of our executive officers. Rental payments under this lease arrangement are \$5,000 per month and totaled approximately \$40,000 for the period from inception to December 31, 1998.

We also have a payable of \$760,000 to Broom Resource Investments, LLC, an entity whose shareholders are substantially the same as those of Strategic Timber. This amount represents fees and expenses paid by this entity on our behalf in connection with our acquisition of the Louisiana property.

Our management performs services on behalf of our affiliate, Strategic Timber Trust II, LLC. We also pay vendors for certain shared expenses, such as rent, utilities and insurance. During the period ended December 31, 1998, we charged Strategic Timber Trust II, LLC approximately \$624,000 for services provided, and costs paid, on their behalf. All amounts charged by us were paid by Strategic Timber Trust II, LLC prior to year end.

At December 31, 1998, we have a payable of approximately \$1,500,000 to Strategic Timber Trust II, LLC. This amount primarily relates to cash that they advanced to us so that we could make required payments under our debt agreements. We repaid this amount in February 1999.

#### 6. EMPLOYEE BENEFIT PLANS:

We have established a 401(k) plan. All full time employees are eligible to participate in the plan after completing 1,000 hours of service. The plan provides that we may make contributions to the plan on behalf of our employees at the discretion of our Board of Directors. No contributions were made during the period from inception to December 31, 1998.

#### 7. NON-CASH INVESTING AND FINANCING ACTIVITIES:

Our founding shareholders received approximately 15,000 shares of common stock, prior to the 36.59-for-1 stock split, in exchange for services valued at \$1,000. These services were provided in lieu of funding the required initial capital contribution to form Strategic Timber. The value of these services was determined based on the estimated initial fair value of Strategic Timber.

In connection with Strategic Timber's acquisition of the Louisiana property, Louisiana Timber, in lieu of cash consideration, received 5,000 units in Strategic Timber Partners valued at approximately \$50,000,000. The fair value of these units was based on the difference between the fair value of the Louisiana property, \$255,000,000, and the actual cash we paid to purchase this property, \$205,000,000.

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#### 8. MAJOR CUSTOMERS:

As we have recently commenced our timber sales plan on our newly acquired timberlands, we have recognized limited revenues during this reporting period. Accordingly, all of our timber sales during the reporting period were derived from two customers and were limited to salvage operations. We expect that sales to other customers will commence in the near term as we continue to expand the operations of these timberlands.

#### 9. NEW ACCOUNTING PRONOUNCEMENTS:

In June 1998, the Financial Accounting Standards Board released Standard No. 133, Accounting for Derivative Instruments and Hedging Activities. This pronouncement requires the recognition of all derivative instruments on the balance sheet at fair value. Any subsequent changes in fair value are then recognized in earnings unless the derivative qualifies for treatment as a hedge. Strategic Timber is currently assessing the effects, if any, the pronouncement will have on earnings. This pronouncement could lead to increased volatility in our earnings and other comprehensive income.

We do not believe that any other recently issued pronouncements will have a significant effect on our financial condition or results of operation.

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#### REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Members of  
Strategic Timber Trust II, LLC:

We have audited the accompanying consolidated balance sheet of Strategic Timber Trust II, LLC (a Georgia limited liability company) and subsidiaries as of December 31, 1998, and the related consolidated statements of operations, changes in members' deficit and cash flows for the period from inception (October 9, 1998) to December 31, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Strategic Timber Trust II, LLC and subsidiaries as of December 31, 1998 and the results of their operations and their cash flows for the period from inception to December 31, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Stamford, Connecticut

February 26, 1999

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STRATEGIC TIMBER TRUST II, LLC AND SUBSIDIARIES  
(A GEORGIA LIMITED LIABILITY COMPANY)

CONSOLIDATED BALANCE SHEET



<TABLE>		<C>	
<S>			
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents.....		\$	5,842,918
Trade accounts receivable.....			108,857
Prepaid expenses.....			145,837
Due from affiliate.....			1,476,244
			-----
Total current assets.....			7,573,856
TIMBERLANDS.....			354,298,144
PROPERTY AND EQUIPMENT:			
Vehicles.....			123,166
Machinery and equipment.....			93,390
			-----
			216,556
Less -- Accumulated depreciation.....			(30,892)
			-----
			185,664
DEFERRED FINANCING COSTS, net.....			7,024,096
			-----
Total assets.....		\$	369,081,760
			=====
LIABILITIES AND MEMBERS' DEFICIT			
CURRENT LIABILITIES:			
Bridge loan.....		\$	35,000,000
Current portion of long-term debt.....			2,500,000
Accounts payable and other accrued liabilities.....			530,126
Accrued interest.....			4,844,870
Obligations under interest rate swaps.....			3,316,300
			-----
Total current liabilities.....			46,191,296
LONG-TERM DEBT.....			252,500,000
MINORITY INTEREST.....			72,413,153
MEMBERS' DEFICIT.....			(2,022,689)
			-----
Total liabilities and members' deficit.....		\$	369,081,760
			=====
</TABLE>			

The accompanying notes to consolidated financial statements are an integral part of this consolidated balance sheet.

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## STRATEGIC TIMBER TRUST II, LLC AND SUBSIDIARIES

(A GEORGIA LIMITED LIABILITY COMPANY)

## CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE PERIOD FROM INCEPTION (OCTOBER 9, 1998) TO DECEMBER 31, 1998

<TABLE>		<C>	
<S>		<C>	
REVENUES.....		\$ 9,017,504	
OPERATING EXPENSES:			
Cost of timber sold.....		5,746,026	
Amortization of deferred financing costs.....		499,116	
General and administrative expenses.....		1,737,587	
		-----	
Operating income.....		1,034,775	
OTHER INCOME (EXPENSE):			
Interest expense.....		(5,656,745)	
Interest income.....		12,434	
		-----	
Loss before minority interest.....		(4,609,536)	
MINORITY INTEREST IN LOSS OF SUBSIDIARY PARTNERSHIP.....		2,586,847	

Net loss.....	----- \$(2,022,689) =====
---------------	---------------------------------

</TABLE>

The accompanying notes to consolidated financial statements are

an integral part of this consolidated statement.

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STRATEGIC TIMBER TRUST II, LLC AND SUBSIDIARIES

(A GEORGIA LIMITED LIABILITY COMPANY)

CONSOLIDATED STATEMENT OF CHANGES IN MEMBERS' DEFICIT

FOR THE PERIOD FROM INCEPTION (OCTOBER 9, 1998) TO DECEMBER 31, 1998

<TABLE>	
<S>	<C>
MEMBERS' EQUITY, October 9, 1998.....	\$ --
Net loss.....	(2,022,689)
	-----
MEMBERS' DEFICIT, December 31, 1998.....	\$(2,022,689)
	=====
</TABLE>	

The accompanying notes to consolidated financial statements are

an integral part of this consolidated statement.

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STRATEGIC TIMBER TRUST II, LLC AND SUBSIDIARIES

(A GEORGIA LIMITED LIABILITY COMPANY)

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE PERIOD FROM INCEPTION (OCTOBER 9, 1998) TO DECEMBER 31, 1998

<TABLE>	
<S>	<C>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Net loss.....	\$ (2,022,689)
Adjustments to reconcile net loss to net cash provided by operating activities:	
Minority interest in net loss of subsidiary partnership.....	(2,586,847)
Depletion.....	5,703,128
Depreciation and amortization.....	530,008
Changes in assets and liabilities:	
Increase in trade accounts receivable.....	(108,857)
Increase in prepaid expenses.....	(145,837)
Increase in due from affiliate.....	(1,476,244)
Increase in accounts payable and other accrued liabilities.....	530,126
Increase in accrued interest.....	4,844,870

Net cash provided by operating activities.....	5,267,658
CASH FLOWS FROM INVESTING ACTIVITIES:	
Acquisition of Pioneer.....	(295,000,000)
Reforestation activities.....	(101,272)
Purchases of property and equipment.....	(116,556)
Net cash used in investing activities.....	(295,217,828)
CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from bridge loan.....	35,000,000
Proceeds from investment by Mach One.....	10,000,000
Proceeds from revolving line of credit and term loan.....	255,000,000
Deferred financing costs.....	(4,206,912)
Net cash provided by financing activities.....	295,793,088
NET INCREASE IN CASH AND CASH EQUIVALENTS.....	5,842,918
CASH AND CASH EQUIVALENTS, beginning of period.....	--
CASH AND CASH EQUIVALENTS, end of period.....	\$ 5,842,918
SUPPLEMENTAL CASH FLOW INFORMATION:	
Cash paid for interest.....	\$ 811,875

</TABLE>

The accompanying notes to consolidated financial statements are

an integral part of this consolidated statement.

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STRATEGIC TIMBER TRUST II, LLC AND SUBSIDIARIES

(A GEORGIA LIMITED LIABILITY COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

# 1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES:

## ORGANIZATION AND CONTROL --

Strategic Timber Trust II, LLC, a Georgia limited liability company, was organized on October 9, 1998 for the purpose of acquiring, owning and managing timberlands. Our consolidated financial statements include the accounts of our wholly owned subsidiary, Strategic Timber Two Operating Co., LLC, a Georgia limited liability company, and those of Strategic Timber Partners II, LP, a Georgia limited partnership in which we have a 30.8% limited partner interest. Strategic Timber Two Operating Co. is the sole general partner of Strategic Timber Partners II. Our consolidated financial statements also include the accounts of Pioneer Resources, LLC, an Oregon limited liability company that is wholly-owned by Strategic Timber Partners II. All significant intercompany transactions have been eliminated.

On October 9, 1998, Strategic Timber Partners II acquired all of the membership interests in Pioneer from its members for total consideration valued at approximately \$360,000,000. Pioneer holds approximately 366,000 acres of timberland in the U.S. Pacific Northwest. Strategic Timber Partners funded the cash portion of the purchase price and related transaction costs with:

- a \$35,000,000 cash contribution made by Strategic Timber II, in exchange for 3,080 units, or a 30.8% limited partner interest in Strategic Timber Partners II, and
- a \$10,000,000 cash contribution made by Mach One Partners, LLC in exchange for 909 units, or a 9.1% limited partner interest in Strategic Timber Partners II.

To fund our contribution to Strategic Timber Partners II, we borrowed \$35,000,000 under a bank bridge loan.

Strategic Timber Partners II also issued 5,909 units, representing a 59.1% limited partner interest in Strategic Timber Partners II, to the former Pioneer members, which we valued at \$65,000,000. In connection with the acquisition, we retired Pioneer's then existing debt with the proceeds from a new \$255,000,000 term loan and revolving credit line.

The acquisition was accounted for using the purchase method. The purchase price has been allocated to timberlands, property and equipment and certain other assets and liabilities based on an independent third party valuation of the assets acquired. However, the accounting for this transaction is preliminary and may be subject to certain purchase accounting adjustments as additional information becomes available.

The members of Strategic Timber II also own and control Strategic Timber Trust, Inc., an affiliated entity that was organized in April 1998 to acquire, own and manage timberlands. Strategic Timber has a controlling interest in Strategic Timber Partners, LP. Strategic Timber plans to sell shares of its common stock in an initial public offering during 1999. Shortly before the offering, Strategic Timber II, Strategic Timber Two Operating Co. and Strategic Timber Partners II will be merged into Strategic Timber Partners, leaving Pioneer as a wholly owned subsidiary of Strategic Timber Partners. Because the entities to be merged are under common ownership, this merger will be accounted for using the historical carrying amounts of Strategic Timber II's assets and liabilities.

#### NATURE OF BUSINESS OPERATIONS --

We own and manage timberlands for the purpose of selling standing timber. We negotiate and contract for the sale of our standing timber with buyers who generally cut and pay for the trees during the contract period.

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#### STRATEGIC TIMBER TRUST II, LLC AND SUBSIDIARIES

(A GEORGIA LIMITED LIABILITY COMPANY)

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### CONSOLIDATION --

The accompanying financial statements consolidate the accounts of Strategic Timber II and all entities in which Strategic Timber II holds a majority or controlling interest. Strategic Timber II consolidates the results of Strategic Timber Partners II, and its wholly owned subsidiary, Pioneer, as the management and control of this entity is held by Strategic Timber Two Operating Co., Strategic Timber II's wholly-owned subsidiary. Minority ownership in our subsidiaries is reflected as minority interest in the accompanying consolidated balance sheet and minority interest expense in the accompanying consolidated

statement of operations.

#### USE OF ESTIMATES --

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of certain estimates by our management in determining the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### REVENUE RECOGNITION --

We enter into timber cutting contracts with third parties that require customers to harvest and remove timber at their expense. These contracts may last for periods ranging from three months to six years, or occasionally longer. Contracts that are longer than one year typically require the customer to harvest minimum amounts of timber each year. We recognize revenue and depletion at the time our customer takes title to the timber, which occurs when legal ownership and the risk of loss passes to the purchaser and the quantity sold is determinable. We may receive payments under these contracts in advance of recognition of revenue.

We have entered into timber deeds whereby all cutting rights on a tract of timberland are sold to a buyer. At the end of the contract term, any uncut timber will revert back to us. Risk of loss passed to our customers upon the signing of the deeds. For instance, if a fire destroys or partially destroys the timber subject to a timber deed, the purchaser would not be entitled to a refund of any portion of the purchase price. Accordingly, we recognized revenues and costs under our timber deeds at the time the contracts closed. We do not plan to make outright sales of timber by timber deeds on an ongoing basis.

#### CASH AND CASH EQUIVALENTS --

Cash and cash equivalents include cash and short term investments with original maturities of three months or less.

#### TIMBERLANDS --

We capitalize acquisition costs of land and timber, site preparation and other costs relating to the planting and growing of timber. Such costs are charged to cost of timber sold as depletion at the time timber is harvested, based on the relationship of harvested timber to the estimated volume of currently merchantable timber. Estimates of currently merchantable timber are subject to change based on periodic timber surveys. Depletion is calculated on a property-by-property basis, and further by product category within the property.

Timberlands are stated at the lower of cost, net of depletion, or market value.

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STRATEGIC TIMBER TRUST II, LLC AND SUBSIDIARIES

(A GEORGIA LIMITED LIABILITY COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

PROPERTY AND EQUIPMENT --

Property and equipment consists principally of vehicles and machinery and equipment. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, which range from three to five years.

DEFERRED FINANCING COSTS --

Deferred financing costs consist of fees and expenses incurred in connection with our borrowings. These fees are being amortized over the terms of the related debt agreements ranging from one to five years.

INCOME TAXES --

We have not provided for income taxes in the accompanying statement of operations as we are a limited liability corporation. Accordingly, our members will be responsible for any federal or state income tax liabilities resulting from our operations.

INTEREST RATE SWAPS --

Interest rate swaps involve the periodic exchange of interest payments without the exchange of underlying principal or notional amounts. Net amounts paid or received on interest rate swaps are recognized as interest expense as incurred in the accompanying consolidated statement of operations.

2. DEBT:

We have the following debt instruments outstanding as of December 31, 1998:

<TABLE>	
<S>	<C>
Revolving credit line(a).....	\$ 55,000,000
Term loan(b).....	200,000,000
Bridge loan(c).....	35,000,000
	-----
	\$290,000,000
	=====
</TABLE>	

- (a) We have a revolving credit line that provides a maximum borrowing of \$70,000,000, subject to formula. The credit line was used to finance our acquisition of Pioneer and will be used for general corporate purposes. A portion of the facility bears interest at LIBOR plus a margin, 7.85% at December 31, 1998, while the remaining portion bears interest at the base rate plus a margin, 8.75% at December 31, 1998. Interest is payable quarterly. This facility expires on September 30, 2003 and is secured by all assets of Pioneer, including timberlands. We expect that this credit facility will be retired prior to maturity with proceeds from the Strategic Timber initial public offering and a new credit facility that will be put in place at the time of the offering.
- (b) The term loan was used to finance our acquisition of Pioneer and is payable in quarterly installments commencing on December 31, 1999, with the last installment being due on September 30, 2003. We expect that this loan will be retired prior to maturity with the proceeds from the Strategic Timber initial public offering and the new credit facility. The loan bears interest at adjusted LIBOR plus a margin, 7.85% at December 31, 1998. Interest is payable quarterly. The term loan is also secured by all assets

of Pioneer, including timberlands.

- (c) The bridge loan was also used to finance our acquisition of Pioneer and matures on October 27, 1999. Similar to our other debt instruments, we expect that this loan will be retired prior to maturity with the proceeds from the Strategic Timber initial public offering and the new credit facility. The loan

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STRATEGIC TIMBER TRUST II, LLC AND SUBSIDIARIES

(A GEORGIA LIMITED LIABILITY COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

bears interest at a fixed rate of 9.06%. Interest is payable quarterly. The bridge loan is secured by all assets of Strategic Timber II, including our investments in Strategic Timber Partners II and Pioneer.

Under the bridge loan agreement, additional interest will be charged on the principal balance if the loan is not repaid before the beginning of the following periods:

<TABLE>	
<S>	
	<C>
Between January 1, 1999 and March 31, 1999.....	1.5%
Between April 1, 1999 and June 30, 1999.....	4.5%
Between July 1, 1999 and September 30, 1999.....	10.5%
On or after October 1, 1999.....	19.5%
</TABLE>	

Also, we will be required to pay additional compensation upon termination if the bridge loan is not repaid before the beginning of the following periods:

<TABLE>	
<S>	
	<C>
Between January 1, 1999 and March 31, 1999.....	\$ 1,125,000
Between April 1, 1999 and June 30, 1999.....	1,725,000
Between July 1, 1999 and September 30, 1999.....	2,100,000
On or after October 1, 1999.....	2,250,000
</TABLE>	

All instruments described above have certain financial and non-financial covenants, including restrictions on additional borrowings, the maintenance of certain financial ratios and limitations on capital spending, investments, distributions and asset sales. We believe that we are in compliance with all covenants at December 31, 1998.

Contractual maturities of debt as of December 31, 1998 are as follows:

<TABLE>	
<S>	
YEAR ENDED DECEMBER 31,	<C>
1999.....	\$ 37,500,000
2000.....	13,750,000
2001.....	27,500,000
2002.....	36,250,000
2003.....	175,000,000
-----	

&lt;/TABLE&gt;

The fair value of the above financial instruments approximate their carrying value at December 31, 1998.

### 3. INTEREST RATE SWAPS:

We have entered into a series of interest rate swap agreements to hedge a portion of the variable interest rate exposure on our underlying debt instruments. The following table outlines the key terms of each swap:

&lt;TABLE&gt;

&lt;CAPTION&gt;

COUNTERPARTY	NOTIONAL AMOUNT	COMPANY PAYS	COMPANY RECEIVES	RATE RECEIVED AT DECEMBER 31, 1998	FAIR VALUE AT DECEMBER 31, 1998
-----	-----	-----	-----	-----	-----
<S>	<C>	<C>	<C>	<C>	<C>
First Union.....	\$ 25,000,000	6.69%	3 month LIBOR	5.34%	\$(1,700,534)
Bank of America.....	25,000,000	6.69%	3 month LIBOR	5.34%	(1,766,524)
ABN Amro.....	50,000,000	5.77%	3 month LIBOR	5.34%	(1,295,852)
	-----				
	\$100,000,000				
	=====				

&lt;/TABLE&gt;

Net interest payments are to be made quarterly on January 14, April 14, July 14 and October 14, commencing on January 14, 1999, under the terms of each swap. The maturity dates of the swaps range

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### STRATEGIC TIMBER TRUST II, LLC AND SUBSIDIARIES

(A GEORGIA LIMITED LIABILITY COMPANY)

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

from September 30, 2003 to October 14, 2003. At December 31, 1998, we have recorded a payable of approximately \$189,000 related to the net interest payment due, with the offsetting charge applied to interest expense.

We have recorded a payable of \$3,316,000 in the accompanying consolidated financial statements related to the fair value of swaps assumed or entered into in connection with the acquisition of Pioneer.

The counterparties to our interest rate swap contracts consist of major financial institutions. We do not expect non-performance by any of these counterparties but we periodically monitor the credit quality of these institutions. Our credit risk on these derivative financial instruments is limited to the unrealized gain on those contracts with a positive fair value.

### 4. COMMITMENTS AND CONTINGENCIES:

The units held by the former Pioneer members entitle them to certain rights. In the event that the initial public offering of Strategic Timber common stock has not occurred by June 30, 1999, the former Pioneer members will be



entitled to a payment of \$65,000,000 in redemption of their interests, to be paid at the option of the former Pioneer members. In addition, the former Pioneer members will be entitled to 15% simple interest on this \$65,000,000, beginning on June 30, 1999. If the redemption amount is not paid by December 31, 1999, the former Pioneer members will have the right to assume control of Strategic Timber Partners II.

The ownership units held by Mach One in Strategic Timber Partners II entitle Mach One to a dividend of 40% per year on its initial investment of \$10,000,000. Mach One is entitled to \$10,000,000 plus accrued dividends in redemption of its interest if the initial public offering of Strategic Timber common stock has not occurred by June 30, 1999. Dividends are payable at the earlier of the closing of Strategic Timber's initial public offering or redemption of Mach One's ownership interest. Our maximum liability under this dividend would be approximately \$4,900,000, assuming that such payment is made on December 31, 1999. Under a separate agreement with Mach One, the expected payment on this dividend will be made in the form of 100,110 limited partnership units of Strategic Timber Partners.

At the time of the merger of Strategic Timber II and subsidiaries into Strategic Timber Partners, the former Pioneer members and Mach One will be entitled to receive consideration valued at \$67,457,000 and \$12,002,000, respectively, representing a full redemption of their interests in Strategic Timber Partners II. This consideration will be in the form of cash and limited partnership units of Strategic Timber Partners.

We have engaged Mason, Bruce & Girard for a fee of approximately \$1,300,000 to develop an "Option A" timber management plan to be submitted to the California Department of Forestry and Fire Protection. Such payment is expected to be made in 1999.

Our operations and timberlands are subject to federal, state and local laws and regulations, including those related to the environment, endangered species and forestry activities. In addition, our land may become subject to laws and regulations designed to protect wetlands. All of these regulations may cause us to incur significant costs, damages, penalties or other liabilities, and may materially and adversely affect harvesting operations on our timberlands.

We are subject to certain claims and litigation, including unasserted claims, in the normal course of business. While it is not possible to predict with certainty the outcome of these matters, it is our opinion that the ultimate outcome will not have a material adverse effect on our financial statements.

As of December 31, 1998, we do not have any material commitments under non-cancelable operating leases.

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STRATEGIC TIMBER TRUST II, LLC AND SUBSIDIARIES

(A GEORGIA LIMITED LIABILITY COMPANY)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### 5. RELATED PARTY TRANSACTIONS:

In December 1998, we entered into a timber deed with Kinzua Resources, LLC, an entity controlled by Gregory M. Demers, a beneficial owner of more than 5% of the partnership units of Strategic Timber Partners II. Under the terms of the deed, we conveyed approximately 19,300,000 board feet of timber for approximately \$5,600,000. This timber deed will expire in September 1999. In accordance with our accounting policies, we have recognized revenues on the entire value of the contract, as well as related costs, during the period ended December 31, 1998.

The management of our affiliate, Strategic Timber, performs services on our behalf. They also pay vendors for certain shared expenses, such as rent, utilities and insurance. During the period ended December 31, 1998, we recognized expenses of approximately \$624,000 allocated to us by Strategic Timber for services they provided, and costs they paid, on our behalf. We paid all amounts due to Strategic Timber prior to year end.

At December 31, 1998, we have a receivable of approximately \$1,500,000 due from Strategic Timber. This amount primarily relates to cash that we advanced to them so that they could make required payments under their debt agreements. Strategic Timber repaid this amount in February 1999.

#### 6. EMPLOYEE BENEFIT PLANS:

We have established a 401(k) plan. All full time employees are eligible to participate in the plan after completing 1,000 hours of service. The plan document provides that we may make contributions on behalf of our employees at the discretion of our board of directors. No contributions were made for the period ended December 31, 1998.

#### 7. NON-CASH INVESTING AND FINANCING ACTIVITIES:

In connection with our acquisition of Pioneer, the former Pioneer members received 5,909 units, or a 59.1% limited partnership interest, in Strategic Timber Partners II and \$35,000,000 in cash. The limited partnership interest in Strategic Timber Partners II was valued at approximately \$65,000,000.

#### 8. MAJOR CUSTOMERS:

All of our revenues during the reporting period were derived from two customers, including the related party transaction discussed in Note 5. We expect that sales to other customers will commence in the near term as we continue to expand the operations of these timberlands.

#### 9. NEW PRONOUNCEMENTS:

In June 1998, the Financial Accounting Standards Board released Standard No. 133, Accounting for Derivative Instruments and Hedging Activities. This pronouncement requires the recognition of all derivative instruments on the balance sheet at fair value. Any subsequent changes in fair value are then recognized in earnings unless the derivative qualifies for treatment as a hedge. Strategic Timber II is currently assessing the effects, if any, the pronouncement will have on earnings. This pronouncement could lead to increased volatility in our earnings and other comprehensive income.

We do not believe that any other recently issued pronouncements will have a significant effect on our financial condition or results of operations.

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#### REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Members of  
Pioneer Resources, LLC:

We have audited the accompanying consolidated balance sheets of Pioneer Resources, LLC (an Oregon limited liability company and predecessor to Strategic Timber Trust II, LLC) and subsidiaries (the "Company") as of December 31, 1996

and 1997, and the related consolidated statements of operations, changes in members' equity and cash flows for the years then ended and for the period from January 1, 1998 to October 8, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Pioneer Resources, LLC and subsidiaries as of December 31, 1996 and 1997, and the results of their operations and their cash flows for the years then ended and for the period from January 1, 1998 to October 8, 1998, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP

Portland, Oregon

February 26, 1999

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PIONEER RESOURCES, LLC AND SUBSIDIARIES  
(AN OREGON LIMITED LIABILITY COMPANY AND PREDECESSOR TO STRATEGIC TIMBER TRUST  
II, LLC)

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 1996 AND 1997

<TABLE>

<CAPTION>

		DECEMBER 31,	
		1996	1997
		-----	-----
<S>	<C>	<C>	<C>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents.....	\$ 4,429,000	\$ 1,362,000	
Trade accounts receivable.....	2,338,000	3,396,000	
Receivables, related party.....	176,000	256,000	
Inventories.....	11,623,000	12,602,000	
Prepaid expenses and deposits.....	258,000	4,198,000	
Real estate investments.....	1,091,000	2,000,000	
Current portion of notes receivable.....	--	1,522,000	
Net current assets of discontinued operation.....	3,331,000	3,209,000	
	-----	-----	
Total current assets.....	23,246,000	28,545,000	
	-----	-----	
TIMBER, TIMBERLANDS AND TIMBER CUTTING RIGHTS.....	86,294,000	99,126,000	
REAL ESTATE INVESTMENTS.....	5,128,000	7,409,000	
PROPERTY, PLANT AND EQUIPMENT:			
Land.....	1,233,000	1,145,000	
Buildings.....	2,222,000	2,364,000	
Machinery and equipment.....	8,482,000	10,035,000	
Aircraft.....	5,735,000	3,660,000	
	-----	-----	
	17,672,000	17,204,000	
Less -- Accumulated depreciation.....	(1,924,000)	(2,845,000)	
	-----	-----	
Total property, plant and equipment.....	15,748,000	14,359,000	
	-----	-----	
NOTES RECEIVABLE.....	1,420,000	2,546,000	
OTHER ASSETS.....	224,000	2,445,000	
	-----	-----	
Total assets.....	\$132,060,000	\$154,430,000	
	=====	=====	

LIABILITIES AND MEMBERS' EQUITY

CURRENT LIABILITIES:

Current maturities of long-term debt.....	\$ 17,119,000	\$ 2,600,000
Accounts payable.....	1,749,000	3,096,000
Accounts payable -- related party.....	101,000	27,000
Accrued liabilities.....	2,209,000	2,180,000
Deferred income taxes.....	901,000	515,000
	-----	-----
Total current liabilities.....	22,079,000	8,418,000
	-----	-----
DEFERRED INCOME TAXES.....	2,363,000	1,688,000
CUTTING CONTRACT DEPOSIT.....	16,819,000	--
LONG-TERM DEBT, less current maturities.....	79,446,000	124,341,000
NET NONCURRENT LIABILITIES OF DISCONTINUED OPERATION.....	622,000	--
MINORITY INTEREST.....	991,000	46,000
MEMBERS' EQUITY.....	9,740,000	19,937,000
	-----	-----
Total liabilities and members' equity.....	\$132,060,000	\$154,430,000
	=====	=====

</TABLE>

The accompanying notes are an integral part of these consolidated balance sheets.

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PIONEER RESOURCES, LLC AND SUBSIDIARIES  
(AN OREGON LIMITED LIABILITY COMPANY AND PREDECESSOR TO STRATEGIC TIMBER TRUST II, LLC)

CONSOLIDATED STATEMENTS OF OPERATIONS

YEARS ENDED DECEMBER 31, 1996 AND 1997 AND THE PERIOD FROM JANUARY 1, 1998 TO  
OCTOBER 8, 1998

<TABLE>

<CAPTION>

	YEAR ENDED DECEMBER 31,		JANUARY 1, 1998 TO OCTOBER 8, 1998
	1996	1997	
	-----	-----	-----
<S>	<C>	<C>	<C>
REVENUES:			
Log sales.....	\$25,901,000	\$39,505,000	\$ 23,097,000
Lumber and by-product sales.....	36,004,000	52,623,000	45,213,000
Timberland and property sales.....	613,000	6,774,000	5,901,000
	-----	-----	-----
Total revenues.....	62,518,000	98,902,000	74,211,000
OPERATING EXPENSES:			
Cost of products sold.....	25,897,000	39,602,000	45,498,000
Cost of timberland and property sales.....	486,000	4,292,000	2,536,000
Depletion, depreciation and amortization.....	15,366,000	25,259,000	12,966,000
Selling, general and administrative expenses.....	3,144,000	7,444,000	7,137,000
Write down of real estate investments (Note 3).....	--	--	583,000
	-----	-----	-----
Operating income.....	17,625,000	22,305,000	5,491,000
OTHER INCOME (EXPENSE):			
Interest expense.....	(6,070,000)	(8,722,000)	(12,505,000)
Interest income.....	248,000	224,000	56,000
Other income (expense), net.....	--	502,000	(780,000)
	-----	-----	-----
Income (loss) from continuing operations before income taxes and minority interest.....	11,803,000	14,309,000	(7,738,000)
INCOME TAX BENEFIT (PROVISION).....	(978,000)	355,000	336,000
	-----	-----	-----
Income (loss) from continuing operations before minority interest.....	10,825,000	14,664,000	(7,402,000)
MINORITY INTEREST IN LOSS OF SUBSIDIARY.....	262,000	51,000	12,000
	-----	-----	-----
Income (loss) from continuing operations.....	11,087,000	14,715,000	(7,390,000)
DISCONTINUED OPERATION:			
Loss from discontinued plywood operation (less applicable tax benefits of \$30,000 and \$821,000 for 1996 and 1997).....	(48,000)	(1,339,000)	--
Gain (loss) on disposal of discontinued plywood operation (less applicable tax provision of \$241,000 in 1997 and tax benefit of \$550,000 for the period from January 1, 1998 to October 8, 1998).....	--	394,000	(897,000)
	-----	-----	-----

Income (loss) before extraordinary item.....	11,039,000	13,770,000	(8,287,000)
EXTRAORDINARY ITEM:			
Loss on extinguishment of debt.....	(780,000)	--	(2,106,000)
	-----	-----	-----
Net income (loss).....	\$10,259,000	\$13,770,000	\$ (10,393,000)
	=====	=====	=====

</TABLE>

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

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PIONEER RESOURCES, LLC AND SUBSIDIARIES  
(AN OREGON LIMITED LIABILITY COMPANY AND PREDECESSOR TO STRATEGIC TIMBER TRUST  
II, LLC)

CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' EQUITY

YEARS ENDED DECEMBER 31, 1996 AND 1997

AND THE PERIOD FROM JANUARY 1, 1998 TO OCTOBER 8, 1998

<TABLE>	
<S>	<C>
MEMBERS' EQUITY, December 31, 1995.....	\$ --
Member contributions.....	1,159,000
Member distributions.....	(1,678,000)
Net income.....	10,259,000
	-----
MEMBERS' EQUITY, December 31, 1996.....	9,740,000
Member contributions.....	4,075,000
Member distributions.....	(7,648,000)
Net income.....	13,770,000
	-----
MEMBERS' EQUITY, December 31, 1997.....	19,937,000
Member contributions.....	62,000
Member distributions.....	(6,104,000)
Net loss.....	(10,393,000)
	-----
MEMBERS' EQUITY, October 8, 1998.....	\$ 3,502,000
	=====

</TABLE>

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

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PIONEER RESOURCES, LLC AND SUBSIDIARIES  
(AN OREGON LIMITED LIABILITY COMPANY AND PREDECESSOR TO STRATEGIC TIMBER TRUST  
II, LLC)

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 1996 AND 1997

AND THE PERIOD FROM JANUARY 1, 1998 TO OCTOBER 8, 1998

<TABLE>			
<CAPTION>			
	YEAR ENDED DECEMBER 31,		JANUARY 1, 1998
	-----		TO
	1996	1997	OCTOBER 8, 1998
	-----	-----	-----
<S>	<C>	<C>	<C>
CASH FLOWS FROM OPERATING			
ACTIVITIES:			
Net income (loss).....	\$ 10,259,000	\$ 13,770,000	\$ (10,393,000)

Adjustments to reconcile net income (loss) to net cash provided by operating activities --			
Extraordinary loss.....	780,000	--	2,106,000
Write down of assets to estimated realizable value.....	--	--	1,283,000
(Gain)/loss on sale of assets.....	--	(433,000)	212,000
Minority interest in loss of subsidiary.....	(262,000)	(51,000)	(12,000)
Depletion, depreciation, amortization, and cost of timber and property sold.....	15,852,000	29,551,000	15,502,000
Deferred income taxes.....	(387,000)	(1,154,000)	(656,000)
Changes in balance sheet captions, (in 1996, net of effects of businesses acquired during the period) --			
Trade accounts receivable.....	(727,000)	(1,094,000)	(555,000)
Inventories.....	(5,891,000)	136,000	549,000
Related party receivables and payables, net.....	(929,000)	(31,000)	(778,000)
Accounts payable.....	645,000	235,000	195,000
Net advances (reduction) on cutting contract deposit....	7,244,000	(16,819,000)	--
Changes in other asset and liability accounts, net.....	222,000	639,000	314,000
	-----	-----	-----
Net cash provided by operating activities.....	26,806,000	24,749,000	7,767,000
	-----	-----	-----
CASH FLOWS FROM INVESTING ACTIVITIES:			
Cash paid for Lane acquisition.....	(10,062,000)	--	--
Cash paid for Pilot Rock acquisition.....	(30,323,000)	--	--
Cash paid for Pioneer Aviation acquisition.....	(3,725,000)	--	--
Purchase of minority interest in Pioneer Aviation.....	--	(1,173,000)	--
Purchases of timber and timberlands.....	(9,816,000)	(40,308,000)	(162,356,000)
Purchases of real estate investments.....	(1,132,000)	(3,164,000)	(1,414,000)
Purchases of property, plant and equipment.....	(3,359,000)	(4,654,000)	(1,885,000)
Collection (issuances) of notes receivable, net.....	(1,420,000)	(4,541,000)	1,891,000
Proceeds from sale of fixed assets.....	1,051,000	6,156,000	1,467,000
Deposit on timber and timberlands.....	--	1,169,000	--
Contribution of Old Pioneer net assets.....	524,000	--	--
Acquisition of Kinzua net assets.....	152,000	--	--
	-----	-----	-----
Net cash used by investing activities.....	(58,110,000)	(46,515,000)	(162,297,000)
	-----	-----	-----
CASH FLOWS FROM FINANCING ACTIVITIES:			
Members' contributions.....	\$ 10,000	\$ --	\$ 62,000
Long-term borrowings.....	55,531,000	66,281,000	193,700,000
Repayment of borrowings.....	(19,558,000)	(37,212,000)	(32,127,000)
Deferred financing fees incurred.....	(150,000)	(2,722,000)	(2,363,000)
Cash payments for members' distributions.....	(100,000)	(7,648,000)	(6,104,000)
	-----	-----	-----
Net cash provided by financing activities.....	35,733,000	18,699,000	153,168,000
	-----	-----	-----
NET CHANGE IN CASH AND CASH EQUIVALENTS.....	4,429,000	(3,067,000)	(1,362,000)
CASH AND CASH EQUIVALENTS, beginning of period.....	--	4,429,000	1,362,000
	-----	-----	-----
CASH AND CASH EQUIVALENTS, end of period.....	\$ 4,429,000	\$ 1,362,000	\$ --
	=====	=====	=====

</TABLE>

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

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PIONEER RESOURCES, LLC AND SUBSIDIARIES

(AN OREGON LIMITED LIABILITY COMPANY AND PREDECESSOR TO STRATEGIC TIMBER TRUST II, LLC)

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. SALE OF PIONEER RESOURCES, LLC:

Effective October 9, 1998, a significant portion of Pioneer Resources, LLC's (Pioneer) timberland assets were sold to Strategic Timber Partners II, LP. The acquisition was effected by the acquisition of the ownership interests of Pioneer by Strategic Timber Partners II, LP.

Immediately prior to the sale, certain assets and liabilities of Pioneer (including all of the interests in Pioneer's subsidiaries) were conveyed to Frontier Resources, LLC, a newly formed entity with the same ownership structure as Pioneer prior to the transaction.

## 2. BASIS OF PRESENTATION AND NATURE OF OPERATIONS:

### BASIS OF PRESENTATION

Pioneer Resources, LLC and its subsidiaries were formed in December 1995 for the purpose of acquiring certain assets and liabilities of Old Pioneer. Pioneer has three subsidiaries:

- Kinzua Resources, LLC ("Kinzua"), which owns and operates sawmills in Heppner and Pilot Rock, Oregon;
- Pioneer Aviation, LLC ("Pioneer Aviation"), which owns aircraft and related buildings and equipment; and
- Lane Plywood, Inc. ("Lane") owns timber and timberlands and real estate.

Pioneer, Kinzua and Pioneer Aviation are Oregon limited liability companies. Lane is an Oregon C corporation. One member owns a controlling interest in Pioneer. The accompanying consolidated financial statements represent the financial position of Pioneer as of December 31, 1996 and 1997. The consolidated statements of operations, cash flows and members' equity for the period from January 1, 1998 to October 8, 1998 represent results of operations and cash flows for the nine-month period ended September 30, 1998. Activity between October 1, 1998 and October 8, 1998 is insignificant. All significant intercompany transactions and balances have been eliminated.

On January 3, 1996, certain assets and liabilities of Old Pioneer were contributed to Pioneer by noncontrolling members of Old Pioneer and recorded at their historical cost. In addition, Pioneer acquired timber and timberlands from former members of Old Pioneer at fair value. These former members of Old Pioneer collectively represented a controlling ownership in Old Pioneer and did not become members in Pioneer. This acquisition was made with the proceeds from debt financing. Pioneer also acquired 99.5% of the ownership interest in Kinzua. The purchase price of Kinzua approximated Kinzua's book value. Accordingly, the respective assets and liabilities acquired have been recorded at Kinzua's historical cost. This series of transactions is referred to in these notes as the "Transactions". Because of the insignificant activity on January 1 and January 2, 1996, the Transactions have been reflected as if they occurred on January 1, 1996 in the accompanying financial statements.

On November 25, 1996, the owners of Pioneer Merger, Inc. ("PMI"), which became a wholly owned subsidiary of Pioneer on the same date, transferred their ownership interests in Lane to Pioneer. Lane then became a wholly owned subsidiary of Pioneer. This transaction was treated as a reorganization under common control and therefore the historical basis of the assets and liabilities did not change. Lane had been under common ownership and management with Pioneer since its acquisition by PMI on May 1, 1996 (see Note 9). Accordingly, the financial position, results of operations and cash flows of Lane have been included in the accompanying consolidated financial statements. In 1997, the plywood operation of Lane was discontinued and the majority of Lane's plywood-related assets were sold in December 1997. See

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Note 11 for additional discussion of the discontinued plywood operation. Lane continues to manage its timber and timberlands, and real estate investments.

NATURE OF OPERATIONS

Pioneer's primary products are logs and lumber. Pioneer owns timber and timberlands in the western United States, principally Oregon, California and Washington, and sells logs harvested to unrelated third parties or transfers them to its sawmills for conversion to lumber. The sawmills also purchase and convert logs from unrelated third parties. These products are commodities whose price is significantly affected by factors outside of their control. These factors include the availability of logs and lumber from other domestic and foreign markets, the demand for new construction materials, and general economic conditions. Lumber is sold principally to furniture manufacturers and the construction market through wholesalers within the United States. External third party log sales are principally made to other wood products converters in the western United States.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

REVENUE RECOGNITION

Log, lumber and by-product sales are recognized upon shipment or delivery of products to customers.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of highly liquid investments with maturities at date of purchase of 90 days or less.

INVENTORIES

Inventories are valued at the lower of cost or market value, applied on a last-in, first-out (LIFO) basis. The major types of inventories are as follows:

<TABLE>

<CAPTION>

	1996	1997
	-----	-----
<S>	<C>	<C>
Logs.....	\$ 8,794,000	\$ 7,479,000
Lumber.....	4,503,000	6,586,000



Supplies and other.....	14,000	4,000
LIFO reserve.....	(1,688,000)	(1,467,000)
	-----	-----
Total.....	\$11,623,000	\$12,602,000
	=====	=====

</TABLE>

#### TIMBER AND TIMBERLANDS

Pioneer's timber and timberlands consist principally of fee timber located in the western United States. Pioneer uses a composite rate for timber depletion. Depletion rates are based on estimated remaining merchantable volume; these estimates are subject to change based on periodic timber surveys.

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#### PIONEER RESOURCES, LLC AND SUBSIDIARIES

(AN OREGON LIMITED LIABILITY COMPANY AND PREDECESSOR TO STRATEGIC TIMBER TRUST II, LLC)

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### REAL ESTATE INVESTMENTS

Real estate investments consist primarily of undeveloped commercial real estate located in Eugene, Oregon, as well as ranch property. A substantial portion of the commercial real estate was obtained as part of the Lane acquisition (see Note 9). Pioneer monitors the carrying costs of its real estate properties and records reserves to reduce carrying costs to estimated market value when it believes impairment has occurred. During 1998, Pioneer wrote down the value of one of its real estate investments by \$583,000 based on Pioneer's current assessment of the fair value of this property.

Pioneer anticipates selling a portion of its commercial real estate within one year of the balance sheet date. Accordingly, the cost basis associated with parcels anticipated to be sold within one year has been reflected as a current asset in the accompanying consolidated balance sheets.

#### PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment consists principally of land, buildings, machinery and equipment located on the Heppner and Pilot Rock sawmill sites. Aircraft consists of planes and a helicopter owned by Pioneer Aviation and used by Pioneer as part of its business and timber management activities. Depreciation is computed on a straight-line basis over the estimated useful lives of the assets, approximately 5 to 15 years for manufacturing equipment, 15 to 40 years for buildings and 5 to 10 years for vehicles and aircraft.

#### OTHER ASSETS

Other assets consist principally of unamortized deferred financing fees. Deferred financing fees are being amortized over the term of the underlying debt.

#### TIMBER AND TIMBERLAND PURCHASES

Pioneer purchased the Coastal tract in July 1998 for approximately \$131,000,000. The Coastal tract consists primarily of timber located in northern California. Other significant properties purchased in 1998 were the Riffe Lake tract in January 1998 for approximately \$15,000,000, and the Aloha tract in March 1998 for approximately \$17,000,000.

#### FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying value of the Pioneer's cash and cash equivalents, accounts receivable, accounts payable and debt instruments approximates market value as of December 31, 1996 and 1997.

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#### PIONEER RESOURCES, LLC AND SUBSIDIARIES

(AN OREGON LIMITED LIABILITY COMPANY AND PREDECESSOR TO STRATEGIC TIMBER TRUST II, LLC)

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

#### STATEMENTS OF CASH FLOWS

Supplemental cash flow information and significant noncash transactions are included as follows:

	YEAR ENDED DECEMBER 31,		JANUARY 1,
	1996	1997	1998 TO OCTOBER 8, 1998
<S>	<C>	<C>	<C>
SUPPLEMENTAL CASH FLOW INFORMATION:			
Cash paid for interest.....	\$ 5,059,000	\$8,497,000	\$12,153,000
Cash paid for income taxes.....	258,000	960,000	173,000
SIGNIFICANT NONCASH TRANSACTIONS:			
Distributions declared but not paid.....	--	--	--
Reduction of member notes receivable in consideration for timber and timberlands.....	10,862,000	--	--
Issuance of long-term debt in consideration for timber and timberlands.....	23,000,000	--	--
Reduction of member notes receivable in consideration of ownership interest in Kinzua.....	969,000	--	--
Issuance of note payable to seller in connection with Pilot Rock acquisition.....	5,000,000	--	--
Reduction of member note receivable in consideration for interest in Pioneer Aviation.....	1,300,000	--	--
Reduction of member note receivable in lieu of member's distribution.....	1,578,000	--	--
Reduction of member note receivable in consideration for real estate investments.....	980,000	--	--
Contribution of timber deposit and equipment for equity interest.....	--	4,075,000	--
Application of timber deposit to purchase of timber.....	--	--	3,793,000

#### RECLASSIFICATIONS

Certain reclassifications have been made to the prior year financial statements to conform to the current period's presentation.

4. LONG-TERM DEBT AND SUBSEQUENT REFINANCING:

On February 26, 1998, Pioneer refinanced a substantial portion of its outstanding debt as of December 31, 1997. The current portion of long-term debt in the accompanying consolidated balance sheet as of December 31, 1997 reflects the terms of the new agreement with the Bank of Montreal (the Lending Commitment). The debt outstanding as of December 31, 1997 consists of \$125,232,000 of borrowings pursuant to a Credit Agreement with the Bank of Montreal and certain other banks. As a part of the refinancing, unamortized deferred financing fees of \$2,106,000 related to refinanced borrowings were written off in 1998.

LENDING COMMITMENT TERMS

The Lending Commitment provides for a senior secured revolving Credit Facility of up to \$350,000,000 for a term of seven years. The Lending Commitment will allow Pioneer to refinance the majority of its outstanding debt and, under conditions defined in the Lending Commitment, will allow Pioneer to borrow additional funds for acquisitions or other general business purposes. The amount

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PIONEER RESOURCES, LLC AND SUBSIDIARIES

(AN OREGON LIMITED LIABILITY COMPANY AND PREDECESSOR TO STRATEGIC TIMBER TRUST II, LLC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

available for borrowing is based on the value of Pioneer's assets, computed in accordance with terms set forth in the Lending Commitment.

Interest rates will be based on either a base rate, computed as the higher of the Federal Funds rate plus 0.5% or the Bank of Montreal's prime commercial lending rate, or LIBOR, plus a margin. The margin is contingent upon Pioneer's EBITDDA, calculated as earnings before interest, taxes, depletion, depreciation and amortization, to debt ratio.

The amount available for borrowing will be permanently reduced, on a quarterly basis, according to the following schedule:

<TABLE>  
<CAPTION>

YEAR	TOTAL ANNUAL COMMITMENT REDUCTION	CUMULATIVE REDUCTION
----	-----	-----
<S>	<C>	<C>
2002.....	15%	15%
2003.....	20%	35%
2004.....	30%	65%
2005.....	35%	100%

</TABLE>

In addition, all payments received related to the timber harvesting contract discussed in Note 5 must be applied against the principal portion of outstanding borrowings.

The Lending Commitment contains covenants that require Pioneer to maintain certain financial ratios. Pioneer was in compliance with these covenants based

on the consolidated financial statement balances as of December 31, 1997. The Lending Commitment is collateralized by essentially all assets of Pioneer.

#### OTHER DEBT

Other debt consists of the following:

<TABLE> <CAPTION>		
	1996	1997
	-----	-----
<S>	<C>	<C>
Term note, payable in monthly installments of approximately \$31,000 including interest. Interest is variable (8.25% as of December 31, 1997). Debt is secured by aviation equipment.....	\$2,450,000	\$ --
Term note, payable in annual installments of \$250,000, including interest at 8.0%. Debt is secured by real property.....	1,000,000	830,000
Term note, payable in annual installments of \$81,000, including interest at 5.0%. Debt is secured by timber and timberlands.....	323,000	242,000
Term note, payable in monthly installments of \$6,100, including interest. Interest is variable (8.12% as of December 31, 1997). Debt is secured by aviation equipment.....	--	497,000
Other term notes with varying maturities and interest rates. Debt is secured by timber and timberlands.....	--	140,000
</TABLE>		

#### REPAYMENT SCHEDULE

The following debt payout schedule is computed based on the terms of the Lending Commitment with the Bank of Montreal, as well as the repayment terms of the debt instruments not refinanced.

These amounts include principal payments required by the sale of timber under the long-term cutting contract as discussed above and in Note 5, which totaled \$2,300,000 for 1998. These principal amounts are in addition to the regularly scheduled payments required by the Lending Commitment. As this long-term

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#### PIONEER RESOURCES, LLC AND SUBSIDIARIES

(AN OREGON LIMITED LIABILITY COMPANY AND PREDECESSOR TO STRATEGIC TIMBER TRUST II, LLC)

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

cutting contract expires in 1998, no payments for periods beyond 1998 are included in the debt repayment schedule.

Principal payments due on long-term debt as of December 31, 1997, considering the effect of the subsequent refinancing and including the impact of 1998 harvest levels as previously discussed, are as follows:

<TABLE> <S>	
	<C>
1998.....	\$ 2,600,000

1999.....	615,000
2000.....	336,000
2001.....	275,000
2002.....	16,153,000
Thereafter.....	106,962,000
	-----
	\$126,941,000
	=====

</TABLE>

On October 9, 1998, Pioneer's outstanding balance under the Credit Facility was paid off as a part of the sale of a significant portion of Pioneer's timberland assets to Strategic Timber Partners II, LP. This sale is discussed in Note 1.

#### INTEREST RATE SWAPS

To hedge its exposure to adverse fluctuations in interest rates, Pioneer entered into loan swap arrangements with two financial institutions in 1997. The interest rate differential on interest rate swap contracts used to hedge underlying debt obligations is reflected as an adjustment to interest expense over the life of the swaps.

Pursuant to these arrangements, Pioneer swapped a portion of its variable rate debt for fixed rate debt. The notional amount swapped totaled \$70,000,000, which consists of \$50,000,000 expiring in 2000 and \$20,000,000 expiring in 2002. \$40,000,000 of the swaps maturing in 2000 can be extended to 2002 at the financial institutions' option.

#### 5. LONG-TERM CUTTING CONTRACT:

Pioneer has rights to a cutting contract with an unrelated third party customer. This contract requires periodic advance deposits to Pioneer prior to harvesting the timber. The purchase price of timber removed under this contract is applied against the advance at the time of harvest according to prices specified in the agreement. During 1997, the deposit balance was fully utilized and the customer began paying Pioneer for volume removed on a current basis. As discussed in Note 4, these payments were applied as principal payments against Pioneer's long-term debt.

#### 6. INCOME TAXES:

Pioneer, Kinzua and Pioneer Aviation are limited liability companies. As owners of a limited liability company, members of Pioneer, Kinzua and Pioneer Aviation are taxed on their respective share of income and there is no entity level tax. Accordingly, no income tax accounts for Pioneer, Kinzua and Pioneer Aviation have been reflected in the accompanying consolidated financial statements.

PMI and Lane are C corporations and are, therefore, subject to income taxes. Both companies account for deferred tax assets and liabilities based on the temporary differences between the financial statement and tax bases of assets and liabilities as measured by the enacted tax rates for the years in which the taxes are expected to be paid. As discussed further in Note 11, the plywood operations of Lane

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were discontinued in September 1997. The components of deferred taxes related to the continuing operations of PMI and Lane included in Pioneer's consolidated balance sheets as of December 31, 1996 and 1997 are as follows:

<TABLE>		
<CAPTION>		
	1996	1997
	-----	-----
<S>	<C>	<C>
Current liabilities:		
Land.....	\$ 901,000	\$ 515,000
	=====	=====
Long-term liabilities:		
Timber.....	\$1,284,000	\$ 483,000
Land.....	1,079,000	1,205,000
	-----	-----
	\$2,363,000	\$1,688,000
	=====	=====
</TABLE>		

Deferred tax liabilities of \$93,000 and \$301,000, respectively, related to temporary differences between the financial statement and tax bases of Lane's inventory are included in net current assets of discontinued operation in the accompanying consolidated balance sheets as of December 31, 1996 and 1997.

On a stand-alone basis, Lane's effective tax rate was approximately 38% for the period from acquisition (May 1, 1996) through December 31, 1996, the year ended December 31, 1997 and the period from January 1, 1998 to October 8, 1998. This rate differs from the federal statutory rate due primarily to state taxes. Lane's tax benefit (provision) has been allocated between continuing and discontinued operations in the statements of operations for the period from acquisition (May 1, 1996) through December 31, 1996, the year ended December 31, 1997 and the period from January 1, 1998 to October 8, 1998.

#### 7. MEMBERS' EQUITY AND RELATED PARTY TRANSACTIONS:

The liability of the individual members of Pioneer is limited to the balances of their respective members' equity accounts.

The members of Pioneer were actively involved in managing the company and paid regular salaries which are included in selling, general and administrative expenses in the accompanying consolidated statements of operations. Prior to the sale of Pioneer as described in Note 1, Greg Demers owned or controlled a majority of the Pioneer's ownership interest and five other individuals or entities owned the balance.

Pioneer has had transactions with several of its members and entities affiliated with its members. Related party receivables and payables as of December 31, 1996 and 1997 consist primarily of receivables and payables to members or to entities affiliated with members.

#### MINORITY INTEREST

Greg Demers owns the 0.5% ownership interest in Kinzua not owned by Pioneer. This ownership is reflected as minority interest in the accompanying consolidated financial statements.

#### OTHER RELATED PARTY TRANSACTIONS

Various related parties have used the services of Pioneer Aviation's aircraft and have been charged accordingly for such services at a rate that approximates fair market value. These charges totaled \$571,000, \$258,000 and \$71,000 in 1996 and 1997, and the period from January 1, 1998 to October 8, 1998, respectively.

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PIONEER RESOURCES, LLC AND SUBSIDIARIES

(AN OREGON LIMITED LIABILITY COMPANY AND PREDECESSOR TO STRATEGIC TIMBER TRUST II, LLC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Beginning in 1996, Pioneer engaged a forest products trading company to market its lumber products. One of Pioneer's members also has an ownership interest in the trading company. Sales commissions paid to this entity, which approximated market value, were \$248,000, \$700,000 and \$324,000 in 1996, 1997 and the period from January 1, 1998 to October 8, 1998, respectively.

8. COMMITMENTS AND CONTINGENCIES:

LAND OWNERSHIP DISPUTE

In 1994, Old Pioneer filed a lawsuit against an unrelated third party for \$6,000,000, alleging that this party was erroneously deeded certain tracts of timber and timberlands valued at \$6,000,000 in April 1994. The other party then counter-sued Old Pioneer for \$6,000,000. Discovery and trial proceedings occurred through 1997.

In January 1998, an Oregon Circuit/District Court ruled in Old Pioneer's favor and ordered that the other party reconvey the timber and timberlands to Old Pioneer and compensate Old Pioneer for the value of timber harvested during the period the disputed property was under the other party's control. The other party's claims were denied.

As Pioneer believes the other party is likely to appeal the Court's decision, and as Pioneer has not yet assumed possession of the property or collected damages, Pioneer has not recorded the gain contingency in the accompanying consolidated financial statements. Any ultimate recoveries from the lawsuit will be allocated among the owners of Old Pioneer at the time of the related transaction. Pioneer's share of any recoveries would be approximately 27% of total recoveries received by Old Pioneer.

OTHER CLAIMS

Pioneer is subject to ongoing litigation and claims as part of its normal business operations. In the opinion of management, none of these claims will have a material adverse effect on the business or results of operations of Pioneer.

9. ACQUISITIONS:

Three acquisitions have been reflected in the accompanying consolidated financial statements. In May 1996, Lane was acquired by a group of investors who

also have ownership interests in Pioneer. The investors' ownership interests were transferred to Pioneer in November 1996. In June 1996, Pioneer and Kinzua acquired timber and timberlands and a sawmill in Pilot Rock, Oregon. In August 1996, Pioneer acquired a majority ownership interest in Pioneer Aviation.

LANE PLYWOOD ACQUISITION

Lane was formed in 1952. PMI was formed in 1996 by members of Pioneer for the purpose of acquiring Lane. Lane was acquired by PMI on May 1, 1996. Lane's operating assets principally consisted of timber-related operations and a plywood operation. The acquisition was accounted for using the purchase method of accounting; the purchase price was \$10,100,000. The results of operations of Lane are included in the accompanying consolidated financial statements for all periods beginning May 1, 1996. As discussed in Note 11, Lane's plywood operation was discontinued in 1997. Thus, the results of the plywood operation are reflected as discontinued for all periods presented in the consolidated financial statements.

On November 25, 1996, the ownership of PMI was transferred to Pioneer. This transaction was accounted for as a reorganization of entities under common control and, accordingly, the carrying values of Lane's accounts were not adjusted as a result of the ownership transfer to Pioneer.

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PIONEER RESOURCES, LLC AND SUBSIDIARIES

(AN OREGON LIMITED LIABILITY COMPANY AND PREDECESSOR TO STRATEGIC TIMBER TRUST II, LLC)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table presents the unaudited pro forma results of discontinued operations for the year ended December 31, 1996 as if the Lane acquisition had been consummated at the beginning of the period. The pro forma results were prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the Lane acquisition been consummated at the beginning of the period.

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31, 1996 ----- (UNAUDITED)
<S>	<C>
Revenue from discontinued operation.....	\$39,363,000
Loss from discontinued operation.....	(142,000)

</TABLE>

PILOT ROCK ACQUISITION

In June 1996, Kinzua acquired a sawmill in Pilot Rock, Oregon ("Pilot Rock") for \$5,500,000. Concurrently, Pioneer purchased timber and timberlands in northeastern Oregon from the same seller for \$28,500,000. The acquisition was accounted for using the purchase method of accounting. Results of operations of the acquired sawmill and timber operations for the period from July 1, 1996 through December 31, 1996, the year ended December 31, 1997 and the period from January 1, 1998 to October 8, 1998 are included in the accompanying consolidated financial statements.

The following table presents the unaudited pro forma revenue and income from continuing operations for the year ended December 31, 1996 as if the Pilot



Rock acquisition had been consummated at the beginning of the period. The pro forma results were prepared for comparative purposes only and do not purport to be indicative of what would have occurred had the Pilot Rock acquisition been consummated at the beginning of the period.

<TABLE>  
<CAPTION>

	YEAR ENDED DECEMBER 31, 1996 ----- (UNAUDITED)
<S>	<C>
Revenue.....	\$74,355,000
Income from continuing operations.....	8,649,000

</TABLE>

#### PIONEER AVIATION ACQUISITION

As discussed in Note 2, Pioneer Aviation was a related entity to Pioneer prior to Pioneer acquiring a majority interest in Pioneer Aviation in August 1996. Through a series of purchases, capital contributions and ownership exchanges in 1996 and 1997, Pioneer acquired all of the ownership interest in Pioneer Aviation. The combined total of capital contributions, purchases of other owners' interests and ownership exchanges totaled \$5,000,000 and \$1,246,000 in 1996 and 1997, respectively. These acquisitions were accounted for by the purchase method of accounting, except exchanges that have been recorded at historical cost. Results of operations have been included in the accompanying consolidated financial statements for each of the periods presented.

#### 10. SEGMENT AND SIGNIFICANT CUSTOMER INFORMATION:

Pioneer operates in two industry segments - timber operations and lumber operations. The timber operations segment consists of sales of logs to both outside customers and to the lumber operations segment. The lumber operations segment consists of lumber and by-products produced by Pioneer's two sawmills. Operating income from the timber operations segment includes timberland and property sales of \$613,000, \$6,774,000 and \$5,901,000 in 1996, 1997, and the period from January 1, 1998 to October 8, 1998, respectively.

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#### PIONEER RESOURCES, LLC AND SUBSIDIARIES

(AN OREGON LIMITED LIABILITY COMPANY AND PREDECESSOR TO STRATEGIC TIMBER TRUST II, LLC)

#### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The following table presents Pioneer's sales to certain customers as a percentage of total sales for the applicable period. Other than as reflected in the table, there were no other customers with sales equal to or in excess of 10% of total sales for the years ended December 31, 1996, 1997 and for the period from January 1 to October 8, 1998.

<TABLE>  
<CAPTION>

	1996 ----	1997 ----
<S>	<C>	<C>
Customer A.....	33%	29%
Customer B.....	13%	--

</TABLE>

While many of Pioneer's logs and lumber products are of export quality, Pioneer does not directly export any logs or other products.

Segment information for the years ended December 31, 1996, 1997 and for the period from January 1, 1998 to October 8, 1998 are as follows:

<TABLE>

<CAPTION>

	YEAR ENDED DECEMBER 31,		JANUARY 1, 1998 TO OCTOBER 8, 1998
	1996	1997	
<S>	<C>	<C>	<C>
Revenues:			
Timber operations.....	\$34,244,000	\$60,304,000	\$38,965,000
Lumber operations.....	36,004,000	52,623,000	45,213,000
Intersegment sales to lumber operations.....	(7,730,000)	(14,025,000)	(9,967,000)
	\$62,518,000	\$98,902,000	\$74,211,000
	=====	=====	=====
Operating income (loss):			
Timber operations.....	\$13,618,000	\$18,771,000	\$ 8,788,000
Lumber operations.....	4,007,000	3,534,000	(3,297,000)
	\$17,625,000	\$22,305,000	\$ 5,491,000
	=====	=====	=====
Depreciation, depletion and amortization:			
Timber operations.....	\$13,809,000	\$23,171,000	\$11,152,000
Lumber operations.....	639,000	781,000	610,000
General corporate assets.....	918,000	1,307,000	1,204,000
	\$15,366,000	\$25,259,000	\$12,966,000
	=====	=====	=====
Capital expenditures (a):			
Lumber operations.....	\$ 350,000	\$ 917,000	\$ 1,524,000
General corporate assets.....	3,009,000	3,737,000	361,000
	\$ 3,359,000	\$ 4,654,000	\$ 1,885,000
	=====	=====	=====

</TABLE>

(a) Capital expenditures do not include the cost of acquiring additional timber and timberland properties.

Balance sheet segment information as of December 31, 1996 and 1997 is as follows:

<TABLE>

<CAPTION>

	1996	1997
<S>	<C>	<C>
Identifiable Assets:		
Timber operations.....	\$ 92,625,000	\$108,690,000
Lumber operations.....	22,614,000	25,442,000
General corporate assets.....	16,821,000	20,298,000
	\$132,060,000	\$154,430,000
	=====	=====

</TABLE>

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PIONEER RESOURCES, LLC AND SUBSIDIARIES

(AN OREGON LIMITED LIABILITY COMPANY AND PREDECESSOR TO STRATEGIC TIMBER TRUST II, LLC)

## 11. DISCONTINUED OPERATION:

In September 1997, Pioneer decided to dispose of its plywood manufacturing operation, as owned and operated by Lane. This operation ceased in November 1997.

The net losses of the plywood operation for all periods presented are included in the consolidated statements of operations under discontinued operation. Revenues from the plywood operation were \$27,788,000 in 1996 and \$36,818,000 in 1997. Except for certain receivables, inventories, and other current assets carried at a total estimated net realizable value of \$3,209,000, all assets of the plywood operation were disposed of prior to December 31, 1997.

The gain in 1997 on disposal of the discontinued operation reflected in the consolidated statement of operations includes gains on the sale of equipment used in the plywood operation, less estimated closure-related costs, net of tax provision on the gain. The loss in the period from January 1, 1998 to October 8, 1998 related to the disposal of this operation principally represents costs incurred in excess of those estimated in 1997 for closure-related expenses.

## 12. SUBSEQUENT EVENT:

As discussed in Note 1, Pioneer's interest in Kinzua was conveyed to Frontier Resources. In January 1999, Frontier decided to permanently close the Heppner, Oregon sawmill operated by Kinzua. Based on an initial assessment, Frontier believes that closure costs related to the plant shutdown will not be significant.

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[INSIDE BACK COVER]

[PHOTO A]

Mid-rotation, intensively-managed  
Southern pine plantation.

Life Cycle of A Tree

Strategic Timber owns and manages a diversified portfolio of  
commercial timber, a renewable natural resource.

&lt;TABLE&gt;

&lt;S&gt;

[PHOTO B]

Fast-growing 5 year-old Southern  
pine plantation in Louisiana.

&lt;C&gt;

[PHOTO C]

Mature Southern pine ready for  
harvest. Clear, straight and  
large diameter sawtimber has  
many high-value end uses.

&lt;/TABLE&gt;

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16,600,000 SHARES

STRATEGIC TIMBER TRUST, INC.

COMMON STOCK

[LOGO]

-----  
PROSPECTUS

, 1999

-----  
SALOMON SMITH BARNEY

CREDIT SUISSE FIRST BOSTON

DONALDSON, LUFKIN & JENRETTE

A.G. EDWARDS & SONS, INC.

WARBURG DILLON READ LLC

ABN AMRO ROTHSCHILD

A DIVISION OF ABN AMRO INCORPORATED

MORGAN KEEGAN & COMPANY, INC.

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-----  
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PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Unless otherwise defined, all capitalized terms contained in this Part II shall have the meanings ascribed to them in the prospectus which forms a part of this Registration Statement. Strategic Timber is sometimes referred to herein as the "Registrant."

ITEM 31. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table sets forth the various expenses expected to be incurred by Strategic Timber in connection with the sale and distribution of the securities being registered hereby, other than underwriting discounts and commissions. All amounts are estimated except the Securities and Exchange Commission registration fee and the National Association of Securities Dealers, Inc. filing fee.

<TABLE>	
<S>	<C>
SEC registration fee.....	\$ 111,448
National Association of Securities Dealers, Inc. filing fee.....	30,500
Nasdaq National Market listing fee.....	*
Blue Sky fees and expenses.....	5,000
Accounting fees and expenses.....	800,000
Legal fees and expenses.....	*
Financial advisory fee.....	2,158,000
Printing and engraving expenses.....	250,000
Registrar and Transfer Agent's fees.....	15,500
Directors' and Officers' liability insurance.....	162,000
Miscellaneous fees and expenses.....	\$ 300,000
	-----
Total.....	*
	=====
</TABLE>	

-----  
\* To be provided by amendment.

ITEM 32. SALES TO SPECIAL PARTIES.

In connection with the formation transactions, the following sales of Strategic Timber's and Strategic Timber Partners' securities have occurred within the past six months or will occur upon the completion of this offering:

(i) In accordance with the terms of the Strategic Timber Partners II partnership units held by the former members of Pioneer and the Strategic Timber Partners II partnership units held by Mach One, the former members of Pioneer will receive \$24.1 million in cash and 2,170,086 Strategic Timber Partners partnership units having a value of \$43.4 million, based on an initial public offering price of \$20 per share, and Mach One will receive \$10.0 million in cash and 100,110 Strategic Timber Partners partnership units having a value of \$2.0 million, based on the initial public offering price of \$20 per share, in connection with the merger of Strategic Timber Partners II into Strategic Timber Partners. The Strategic Timber Partners II partnership units will be canceled in the merger. The former members of Pioneer acquired their Strategic Timber Partners II partnership units in connection with Strategic Timber Partners II's acquisition of Pioneer. Mach One acquired its interest in Strategic Timber Partners II in exchange for \$10.0 million cash to Strategic Timber Partners II that was used to finance Strategic Timber Partners II's acquisition of Pioneer.

(ii) In accordance with the terms of the Strategic Timber Partners partnership units held by Louisiana Timber, Louisiana Timber will receive \$12.9 million in cash and will own 1,762,974 Strategic Timber Partners partnership units having a value of \$35.3 million, based on an initial public offering price of \$20 per share, as of the completion of the offering. Louisiana Timber acquired its Strategic Timber Partners partnership units in exchange for the contribution to Strategic Timber Partners of a contract (valued by the parties at \$50.0 million) to acquire the Louisiana property.

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(iii) At the completion of this offering, the shareholders of Strategic Timber who formed Strategic Timber II will receive 933,035 Strategic Timber Partners partnership units in connection with the merger of Strategic Timber II, Strategic Timber Partners II and Strategic Timber Two Operating Co. into Strategic Timber Partners. The Strategic Timber Partners II partnership units will be canceled in the merger.

#### ITEM 33. RECENT SALES OF UNREGISTERED SECURITIES.

In addition to the issuances described in Item 32, Strategic Timber and Strategic Timber Partners have issued the following securities:

(i) In April 1998, Strategic Timber issued an aggregate of 16,065 (or 587,798 shares adjusted for Strategic Timber's 36.59-for-1 stock split) shares of common stock to six individuals for services rendered as employees of Strategic Timber: C. Edward Broom, Christopher J. Broom, Thomas P. Broom, Charles W. Godfrey, Vladimir Harris and Joseph E. Rendini. Based on an initial public offering price of \$20 per share, these shares are worth approximately \$11.8 million.

(ii) In April 1998, Strategic Timber Partners issued 500 Class B partnership units and 4,500 Class C partnership units to Louisiana Timber in exchange for assignment to Strategic Timber Partners of a contract to acquire the Louisiana property. The parties valued the contract at \$50.0 million. In connection with the completion of this offering, these units will be converted into an aggregate of 1,762,974 partnership units and \$12.9 million in cash. Based on an initial public offering price of \$20 per share, these units are worth approximately \$35.3 million.

(iii) In April 1998, Strategic Timber issued 1,275 shares (or 46,651 shares adjusted for the stock split) of common stock to Sutherland Asbill & Brennan LLP in consideration of legal services rendered to Strategic Timber. Based on an initial public offering price of \$20 per share, these shares are worth approximately \$933,000.

(iv) In June 1998, Strategic Timber issued 1,020 (or 37,321 shares adjusted for the stock split) shares of common stock to Nicholas C. Brunet for services rendered as an employee of Strategic Timber. Based on an initial public offering price of \$20 per share, these shares are worth approximately \$746,000.

With respect to the issuances of common stock, options and partnership units convertible into common stock described in Item 32 above and in this Item 33, Strategic Timber relied upon the exemption provided by section 4(2) of the Securities Act, and in all but the issuance of shares to Mr. Brunet, Regulation D, Rule 506, promulgated thereunder.

Each recipient of the securities described above and in Item 32 represented his or its intention to acquire the securities for investment only and not with a view to distribution thereof. Appropriate legends were affixed to the stock certificates issued in such transactions. Each recipient had adequate access to information about Strategic Timber.

#### ITEM 34. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

##### GEORGIA BUSINESS CORPORATION CODE

Section 14-2-851 of the GBCC empowers a corporation to indemnify a director (including a former director and including a director who is or was serving at the request of the corporation as a director, officer, partner, trustee, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan or other enterprise) against liability arising from official acts if the director acted in good faith and reasonably believed that his or her conduct was in the best interests of the corporation. For all other acts, the corporation may indemnify a director who acted in good faith and reasonably believed that the conduct was not opposed to the best interests of the corporation. The corporation may indemnify a director with respect to criminal proceedings if the director acted in good

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faith and had no reasonable cause to believe the conduct was unlawful. A corporation may not indemnify a director adjudged liable for conduct involving receipt of an improper personal benefit.

In addition, section 14-2-856 of the GBCC permits the articles of incorporation, bylaws, a contract, or resolution approved by the shareholders to authorize the corporation to indemnify a director against claims to which the director was a party, including claims by the corporation or in the right of the corporation (e.g., a shareholder derivative action). However, the corporation may not indemnify the director for liability to the corporation for any appropriation of a corporate opportunity, intentional misconduct or knowing violation of law, unlawful distributions or receipt of an improper benefit.

Section 14-2-852 of the GBCC provides for mandatory indemnification against reasonable expenses incurred by a director who is wholly successful in defending an action to which the director was a party due to his or her status as a director of the corporation on the merits or otherwise. Section 14-2-854 allows a court, upon application by a director, to order indemnification and advancement of expenses if it determines that the director is entitled to indemnification under the GBCC or if it determines that indemnification is fair and reasonable even if the director has failed to meet the statutory standard of conduct under section 14-2-851. However, the court may not order indemnification in excess of reasonable expenses for liability to the corporation or for receipt of an improper benefit.

Section 14-2-857 of the GBCC permits a corporation to indemnify an officer (including a former officer and including an officer who is or was serving at the request of the corporation as a director, officer, partner, trustee, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan or other enterprise) to the same extent as a director. A corporation may indemnify an officer who is not a director to a further extent by means of articles of incorporation, bylaw, board resolution, or contract. However, the corporation may not indemnify an officer for liability arising from conduct involving appropriation of a corporate opportunity, intentional misconduct or knowing violation of law, unlawful distributions, or receipt of an improper personal benefit. An officer who is not a director is also entitled to mandatory indemnification and may apply for court-ordered

indemnification.

Section 14-2-858 of the GBCC permits a corporation to purchase and maintain insurance on behalf of directors and officers against liability incurred by them in their capacities or arising out of their status as directors and officers of the corporation, regardless of whether the corporation would have the power to indemnify or advance expenses to the director or officer for the same liability under the GBCC.

#### ARTICLES OF INCORPORATION

Article V of the Articles of Incorporation exculpates the directors of Strategic Timber from personal liability for money damages to Strategic Timber or its shareholders to the fullest extent permitted by the GBCC, as it may be amended from time to time. Currently, the directors are exculpated from all liability to Strategic Timber or its shareholders except for liability arising from conduct involving appropriation of a corporate opportunity, intentional misconduct or knowing violation of law, unlawful distributions, or receipt of an improper personal benefit. The Articles of Incorporation also provide that any repeal or modification of Article V of the Articles of Incorporation by the shareholders of Strategic Timber shall not adversely affect any right or protection of a director of Strategic Timber existing at the time of such repeal or modification.

#### BYLAWS

Article VI of Strategic Timber's Bylaws provides that Strategic Timber shall indemnify to the fullest extent permitted under the GBCC any person who is or was a director or an officer of Strategic Timber, including a director or an officer who is or was serving at the request of Strategic Timber as a director, officer, partner, trustee, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan or other enterprise.

No amendment, termination, or other elimination of Article VI of the Bylaws or of any relevant provisions of the GBCC or of any other applicable law shall affect or diminish in any way the rights to

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indemnification under the Bylaws with respect to any action, suit or proceeding arising out of, or relating to, any event or act or omission occurring or fact or circumstance existing prior to such amendment, termination or other elimination. The indemnification and advancement of expenses provided by, or granted pursuant to, Strategic Timber's Bylaws are not exclusive of any other rights permitted by applicable law to which a person seeking indemnification or advancement of expenses may be entitled, whether by contract or otherwise. All rights to indemnification under Article VI of the Bylaws continue as to a person who has ceased to be a director or officer and shall be deemed to be a contract between Strategic Timber and each such person.

#### INDEMNIFICATION AGREEMENTS

Strategic Timber will enter into indemnification agreements with each of its directors and executive officers prior to completion of this offering, and intends to enter into similar agreements with its prospective directors upon completion of the offering. The indemnification agreements provide for indemnification to the fullest extent permitted by applicable law, the Articles of Incorporation, the Bylaws and any resolutions of the Board of Directors and shareholders of Strategic Timber as in effect on the date of execution of each such indemnification agreement, and to such greater extent as applicable law may thereafter from time to time permit. The terms of these indemnification agreements are consistent with the terms of Article VI of Strategic Timber's Bylaws and Article V of the Articles of Incorporation.

#### INSURANCE

Strategic Timber intends to purchase a policy of insurance providing reimbursement of indemnification payments to officers and directors of Strategic Timber and reimbursement of certain liabilities incurred by directors and officers of Strategic Timber in their capacities as such, to the extent that they are not otherwise indemnified by Strategic Timber.

#### UNDERWRITING AGREEMENT

The Underwriting Agreement (Exhibit 1.1) provides for indemnification by the underwriters of Strategic Timber, its directors and its officers, and by Strategic Timber of the underwriters, for certain liabilities, including liabilities arising under the Securities Act, and affords certain rights of contribution with respect thereto.

#### PARTNERSHIP AGREEMENT

The Partnership Agreement (Exhibit 3.5.4) provides for indemnification of Strategic Timber, Strategic Timber Operating Co., and the directors and officers of Strategic Timber, as well as any other persons Strategic Timber Operating Co., as general partner, may designate. Strategic Timber Partners shall indemnify any of these indemnitees against any losses, claims, damages, liabilities, judgments, fines, settlements and expenses arising from the operations of Strategic Timber Partners so long as the indemnitee acted in good faith and in a manner it reasonably believed to be in, or not opposed to, the best interest of Strategic Timber Partners, and in the case of any criminal proceeding, the indemnitee had no reasonable cause to believe that its conduct was unlawful. This indemnification is limited to the assets of Strategic Timber Partners and no partner in Strategic Timber Partners shall be personally liable for such indemnification. Strategic Timber Partners may reimburse reasonable expenses incurred by any such indemnitee in defense of an action relating to the operations of Strategic Timber Partners, if Strategic Timber Partners receives certain written affirmations and undertakings from the indemnitee. Strategic Timber Partners may purchase and maintain insurance on behalf of such indemnitees against liabilities incurred by them in connection with Strategic Timber Partners' activities, regardless of whether Strategic Timber Partners would have the power to indemnify the indemnitee for the same liability under the Partnership Agreement.

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#### ITEM 35. TREATMENT OF PROCEEDS FROM STOCK BEING REGISTERED.

Not applicable.

#### ITEM 36. FINANCIAL STATEMENTS AND EXHIBITS.

##### (a) Financial Statements

See Index to Financial Statements on page F-1 of the prospectus which forms a part of this Registration Statement.

##### (b) Exhibits

<TABLE>

<CAPTION>

EXHIBIT NO. -----	DESCRIPTION OF EXHIBIT -----
<C>	<S>
1.1	Form of Underwriting Agreement
2.1.1+**	Contract for the Purchase and Sale of Real Property, dated April 15, 1998, by and between Griffin Logging, Inc. and Louisiana Timber Partners, LLC
2.1.2+**	Partial Assignment and Assumption of Contract, dated April 23, 1998, by and between Louisiana Timber Partners, LLC and Strategic Timber Partners, LP
2.1.3+**	Contribution Agreement, dated April 23, 1998, by and among Strategic Timber Partners, LP, Strategic Timber Operating Co., the Registrant and Louisiana Timber Partners, LLC
2.2+**	Acquisition and Contribution Agreement, dated October 9, 1998, by and among Strategic Timber Trust II, LLC, Strategic Timber Two Operating Co., LLC, Strategic Timber Partners II, LP, Frontier Resources, LLC and all of the former owners of the membership interests of Pioneer Resources, LLC
2.3	Plan and Agreement of Merger with respect to the Merger of Strategic Timber Trust II, LLC, Strategic Timber Two Operating Co., LLC, and Strategic Timber Partners II, LP with and into Strategic Timber Partners, LP, dated as of January 25, 1999
3.1.1**	Articles of Incorporation of the Registrant
3.1.2	Form of Amended and Restated Articles of Incorporation of the Registrant to be effective on or prior to the consummation of this offering
3.2.1**	Bylaws of the Registrant
3.2.2	Form of Amended and Restated Bylaws of the Registrant to be effective on or prior to the consummation of this offering



3.3**	Certificate of Incorporation of Strategic Timber Operating Co.
3.4**	Bylaws of Strategic Timber Operating Co.
3.5.1**	Agreement of Limited Partnership of Strategic Timber Partners, LP
3.5.2**	First Amended and Restated Agreement of Limited Partnership of Strategic Timber Partners, LP
3.5.3**	First Amendment to First Amended and Restated Agreement of Limited Partnership of Strategic Timber Partners, LP
3.5.4**	Form of Second Amended and Restated Agreement of Limited Partnership of Strategic Timber Partners, LP, to be effective on or prior to the consummation of this offering
3.6.1**	Agreement of Limited Partnership of Strategic Timber Partners II, LP
3.6.2**	First Amended and Restated Agreement of Limited Partnership of Strategic Timber Partners II, LP
3.7**	Operating Agreement of Strategic Timber Trust II, LLC
3.8**	Operating Agreement of Strategic Timber Two Operating Co., LLC

</TABLE>

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<TABLE>

<CAPTION>

EXHIBIT NO. -----	DESCRIPTION OF EXHIBIT -----
<C>	<S>
3.9**	Fourth Amended and Restated Operating Agreement of Pioneer Resources, LLC
4.1*	Form of Common Stock Certificate
5.1*	Opinion of Sutherland Asbill & Brennan LLP as to certain matters regarding the shares of Common Stock offered hereby
8.1	Opinion of Sutherland Asbill & Brennan LLP as to tax matters (included in the prospectus that forms part of this Registration Statement under "Federal Income Tax Consequences")
8.2	Private Letter Ruling issued to the Registrant, dated March 19, 1999
10.1	Form of 1999 Strategic Timber Trust Omnibus Incentive Plan
10.2	Form of Indemnification Agreement to be executed between Registrant and certain of its officers and directors
10.3	Form of Stock Option Agreement
10.4	Form of Stock Option Agreement for Outside Directors
10.5+**	Replacement Credit Agreement, dated October 9, 1998, by and among Pioneer Resources, LLC, First Union National Bank, ABN AMRO Bank N.V., NationsBank, N.A., and the other lenders which are or become parties thereto
10.6+**	Loan Agreement, dated April 27, 1998, by and among Strategic Timber Partners, LP, ABN AMRO Bank N.V., and the other lenders which are or become parties thereto
10.7+**	Bridge Loan Agreement, dated April 27, 1998, by and among the Registrant, ABN AMRO Bank N.V. and the lenders named therein
10.8+**	Bridge Loan Agreement, dated October 9, 1998, by and among Strategic Timber Trust II, LLC, ABN AMRO Bank N.V. and the lenders named therein
10.9.1	Timber Purchase Agreement, dated December 29, 1998, between Kinzua Resources, LLC and Pioneer Resources, LLC
10.9.2	Statutory Bargain and Sale Timber Deed between Kinzua Resources, LLC and Pioneer Resources, LLC, dated December 29, 1998
10.10	Employment and Non-Competition Agreement between the Registrant and C. Edward Broom
10.11	Employment and Non-Competition Agreement between the Registrant and Christopher J. Broom
10.12	Employment and Non-Competition Agreement between the Registrant and Thomas P. Broom
10.13	Employment and Non-Competition Agreement between the Registrant and Kenneth L. Chute
10.14	Employment and Non-Competition Agreement between the Registrant and Vladimir Harris
10.15	Employment and Non-Competition Agreement between the Registrant and Nicholas C. Brunet
10.16	Employment and Non-Competition Agreement between the Registrant and Joseph E. Rendini
21.1**	Subsidiaries of the Registrant
23.1	Consent of Arthur Andersen LLP
23.2	Consent of Sutherland Asbill & Brennan LLP
23.3	Consent of Mason, Bruce & Girard, Inc.
23.4	Consent of Canal Forest Resources, Inc.

</TABLE>

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<TABLE>

<CAPTION>

EXHIBIT NO. -----	DESCRIPTION OF EXHIBIT -----
<C>	<S>
24.1**	Power of Attorney
27.1	Financial Data Schedule
99.1**	Consent of Prospective Director Starling W. Childs, II
99.2**	Consent of Prospective Director Jay S. Lucas
99.3**	Consent of Prospective Director Hanns A. Pielenz
99.4**	Consent of Prospective Director Richard P. Urfer

</TABLE>

-----  
\* To be filed by amendment.

\*\* Previously filed.

+ Schedules and similar attachments to this exhibit have been omitted. A list of these omitted schedules has been provided in this exhibit, and the Registrant agrees to furnish supplementally to the Commission a copy of any omitted schedule upon request.

ITEM 37. UNDERTAKINGS.

Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of Strategic Timber pursuant to the foregoing provisions, or otherwise, Strategic Timber has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by Strategic Timber of expenses incurred or paid by a director, officer or controlling person of Strategic Timber in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, Strategic Timber will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Act, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by Strategic Timber pursuant to Rule 424(b)(1) or (4) or 497(h) under the Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Act, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and this offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(3) It will provide to the underwriters at the closing(s) specified in the underwriting agreement certificates in such denominations and registered in such names as required by the underwriters to permit prompt delivery to each purchaser.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-11 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of New London, State of New Hampshire, on the 26th day of March, 1999.

STRATEGIC TIMBER TRUST, INC.

By: /s/ C. EDWARD BROOM

C. Edward Broom  
President and Chief Executive  
Officer

Pursuant to the requirements of the Securities Act of 1933, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
-----	-----	----
<C>	<S>	<C>
/s/ C. EDWARD BROOM	President, Chief Executive Officer and Chairman of the Board of Directors (Principal Executive Officer)	March 26, 1999
-----		
C. Edward Broom		
*	Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)	March 26, 1999
-----		
Kenneth L. Chute		
*	Executive Vice President, Chief Investment Officer and Director	March 26, 1999
-----		
Christopher J. Broom		
*	Executive Vice President, Chief Operating Officer and Director	March 26, 1999
-----		
Thomas P. Broom		
*By: /s/ C. EDWARD BROOM		
-----		
C. Edward Broom		
Attorney-in-fact		

</TABLE>

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#### EXHIBIT INDEX

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<TABLE>

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27.1	Financial Data Schedule

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<TABLE>

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\* To be filed by amendment.

\*\* Previously filed.

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STRATEGIC TIMBER TRUST, INC.  
 16,600,000 Shares(1)  
 Common Stock  
 (\$.01 par value)

Underwriting Agreement

New York, New York  
 , 1999

Salomon Smith Barney  
 Credit Suisse First Boston Corporation  
 Donaldson, Lufkin & Jenrette Securities Corporation  
 A.G. Edwards & Sons, Inc.  
 Warburg Dillon Read LLC  
 ABN AMRO Incorporated  
 Morgan Keegan & Company, Inc.  
 As Representatives of the several Underwriters,  
 c/o Salomon Smith Barney Inc.  
 388 Greenwich Street  
 New York, New York 10013

Ladies and Gentlemen:

Strategic Timber Trust, Inc., a corporation organized under the laws of the State of Georgia (the "Company"), proposes to sell to the several underwriters named in Schedule I hereto (the "Underwriters"), for whom you (the "Representatives") are acting as representatives, 16,600,000 shares of Common Stock, \$.01 par value ("Common Stock"), of the Company (said shares to be issued and sold by the Company being hereinafter called the "Underwritten Securities"). The Company also proposes to grant to the Underwriters an option to purchase up to 2,490,000 additional shares of Common Stock to cover over-allotments (the "Option Securities"; the Option Securities, together with the Underwritten Securities, being hereinafter called the "Securities"). To the extent there are no additional Underwriters listed on Schedule I other than you, the term Representatives as used herein shall mean you, as Underwriters, and the terms Representatives and Underwriters shall mean either the singular or plural as the context requires. Certain terms used herein are defined in Section 17 hereof.

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- (1) Plus an option to purchase from the Company, up to 2,490,000 additional Securities to cover over-allotments.

As part of the offering contemplated by this Agreement, Salomon Smith Barney ("Salomon Smith Barney") has agreed to reserve out of the Securities set forth opposite its name on the Schedule I to this Agreement, up to \_\_\_\_\_ shares, for sale to the Company's employees, officers and directors (collectively, "Participants") (the "Directed Share Program"). The Shares to be sold by Salomon Smith Barney pursuant to the Directed Share Program (the "Directed Shares") will be sold by Salomon Smith Barney pursuant to this Agreement at the public offering price. Any Directed Shares not orally confirmed for purchase by any Participants by the end of the business day on which this Agreement is executed will be offered to the public by Salomon Smith Barney as set forth in the Prospectus.

At or prior to the Closing Date (as defined herein), the Company,

Strategic Timber Partners, LP, a Delaware limited partnership (the "Partnership"), and certain predecessor entities will complete a series of transactions described in the Prospectus under the caption "Structure and Formation of Strategic Timber". As part of these transactions, (i) the Partnership will obtain ownership, directly or through Pioneer Resources, LLC, an Oregon limited liability company ("Pioneer"), of approximately 448,000 acres of timberlands (the "Timberlands") and certain other properties (together with the Timberlands, the "Properties"), (ii) certain members of the Company's management and certain other investors (the "Continuing Investors") will receive an aggregate of 4,966,205 limited partnership interests ("Units") in the Partnership and an aggregate of 671,770 shares of Common Stock and approximately \$47 million in cash, (iii) Strategic Timber Partners II, LP, a Georgia limited partnership ("STP2"), Strategic Timber Trust II, LLC, a Georgia limited liability company ("STT2"), and Strategic Timber Two Operating Co., LLC, a Georgia limited liability company ("STTOC"), will be merged into the Partnership, leaving Pioneer as a wholly owned subsidiary of the Partnership, (iv) the Company will sell 16,600,000 shares of Common Stock and contribute approximately \$186.4 million of the net proceeds in exchange for 76.7% of the limited partnership Units in the Partnership and approximately 1.0% of the general partnership Units in the Partnership which will be held by Strategic Timber Operating Co., a corporation organized under the laws of the State of Delaware ("STOC"), (v) the Company will apply approximately \$120 million of the net proceeds from the sale of the Securities to the payment of outstanding indebtedness and (vi) the Partnership will apply the remainder of the net proceeds, together with amounts drawn under its new credit facility to be implemented as of the Closing Date (the "New Credit Facility"), as described under the caption "Use of Proceeds" in the Prospectus. To the extent any portion of the over-allotment option is exercised at the Closing Date, the relevant share numbers and percentages set forth in this paragraph will be adjusted accordingly. Additionally, to the extent any portion of the over-allotment option is exercised subsequent to the Closing Date, the Company will contribute the proceeds from the sale of the Option Securities to the Partnership in exchange for an equivalent number of Units. As used herein, the term "Formation Transactions" shall mean the occurrence of the events described in this paragraph and the transactions related thereto.

1. Representations and Warranties. Each of the Company and the Partnership, jointly and severally, represents and warrants to, and agrees with, each Underwriter as set forth below in this Section 1.

(a) The Company has prepared and filed with the Commission a registration statement (file number 333-71291) on Form S-11, including a related preliminary prospectus, for registration under the Act of the offering and sale of the Securities. The Company may have filed one or more amendments thereto, including a related preliminary prospectus, each of which has previously been furnished to you. The Company will file with the Commission either (1) prior to the Effective Date of such registration statement, a further amendment to such registration statement (including the form of final prospectus) or (2) after the Effective Date of such registration statement, a final prospectus in accordance with Rules 430A and 424(b). In the case of clause (2), the Company has included in such registration statement, as amended at the Effective Date, all information (other than Rule 430A Information) required by the Act and the rules thereunder to be included in such registration statement and the Prospectus. As filed, such amendment and form of final prospectus, or such final prospectus, shall contain all Rule 430A Information, together with all other such required information, and, except to the extent the Representatives shall agree in writing to a modification, shall be in all substantive respects in the form furnished to you prior to the Execution Time or, to the extent not completed at the Execution Time, shall contain only such specific

additional information and other changes (beyond that contained in the latest Preliminary Prospectus) as the Company has advised you, prior to the Execution Time, will be included or made therein.

(b) On the Effective Date, the Registration Statement did or will, and when the Prospectus is first filed (if required) in accordance with Rule 424(b) and on the Closing Date and on any date on which Option Securities are purchased, if such date is not the Closing Date (a "Settlement Date"), the Prospectus (and any supplements thereto) will, comply in all material respects with the applicable requirements of the Act and the rules thereunder; on the Effective Date and at the Execution Time, the Registration Statement did not or will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; and, on the Effective Date, the Prospectus, if not filed pursuant to Rule 424(b), will not, and on the date of any filing pursuant to Rule 424(b) and on the Closing Date and any Settlement Date, the Prospectus (together with any supplement thereto) will not, include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the Company makes no representations or warranties as to the information contained in or omitted from the Registration Statement, or the Prospectus (or any supplement thereto) in reliance upon and in conformity with information furnished in writing to the Company by or on behalf of any Underwriter through the Representatives specifically for inclusion in the Registration Statement or the Prospectus (or any supplement thereto).

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(c) Each of the Company and STOC has been duly organized and is validly existing as a corporation in good standing under the laws of the jurisdiction in which it is chartered with full corporate power and authority to own or lease, as the case may be, and to operate its properties and conduct its business as described in the Prospectus, and is duly qualified to do business as a foreign corporation and is in good standing under the laws of each jurisdiction where it owns or leases material properties or conducts material business and where the failure to be so qualified would, individually or in the aggregate, have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company or STOC. Except with respect to the Partnership and STOC, the Company owns no material amounts of stock or other beneficial interest in any corporation, partnership, joint venture or other business entity.

(d) Each of Pioneer, STT2 and STTOC has been duly organized and is validly existing as a limited liability company in good standing under the laws of the jurisdiction in which it is organized with full limited liability company power and authority to own or lease, as the case may be, and to operate its properties and conduct its business as described in the Prospectus, and is duly qualified to do business as a foreign company and is in good standing under the laws of each jurisdiction where it owns or leases material properties or conducts material business and where the failure to be so qualified would, individually or in the aggregate, have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of Pioneer, STT2 or STTOC, as the case may be. Upon consummation of the Formation Transactions, the Partnership will own all of the member interests in Pioneer and such member interests will have been duly authorized and validly issued and will be fully paid and nonassessable and will be owned by the Partnership, free and clear of any perfected security interest or any other security interests,



claims, liens or encumbrances.

(e) The Second Amended and Restated Agreement of Limited Partnership of the Partnership (the "Partnership Agreement") has been duly and validly authorized, executed and delivered by STOC and the Company and is a valid and binding agreement of STOC and the Company enforceable in accordance with its terms. The Partnership has been duly formed and is validly existing as a limited partnership in good standing under the laws of the State of Delaware with full partnership power and authority to own or lease, as the case may be, and to operate its properties and conduct its business as described in the Prospectus and is duly qualified or registered as a foreign partnership and is in good standing in each jurisdiction where it owns or leases material properties or conducts material business and where the failure to be so qualified would, individually or in the aggregate, have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Partnership. STOC is, and, immediately after the Closing Date, will be, the sole general partner of the Partnership. Immediately after the Closing Date, the Company, directly or through STOC, will be the holder of approximately 77.7% of the Units, if the over-allotment option is not exercised. The Partnership has no subsidiaries other than Pioneer.

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(f) All the outstanding shares of capital stock of STOC have been duly and validly authorized and issued and are fully paid and nonassessable, and are owned by the Company free and clear of any perfected security interest or any other security interests, claims, liens or encumbrances.

(g) The Company's authorized equity capitalization is as set forth in the Prospectus; the capital stock of the Company conforms in all material respects to the description thereof contained in the Prospectus; the outstanding shares of Common Stock have been duly and validly authorized and issued and are fully paid and nonassessable; the Securities have been duly and validly authorized, and, when issued and delivered to and paid for by the Underwriters pursuant to this Agreement, will be fully paid and nonassessable; the Securities are duly listed, and admitted and authorized for quotation, subject to official notice of issuance and evidence of satisfactory distribution, on the NASDAQ National Market; the certificates for the Securities are in valid and sufficient form; the Company has duly reserved a sufficient number of shares of Common Stock for issuance upon exchange of outstanding Units in the Partnership; the holders of outstanding shares of capital stock of the Company are not entitled to preemptive or other rights to subscribe for the Securities; and, except as set forth in the Prospectus, no options, warrants or other rights to purchase, agreements or other obligations to issue, or rights to convert any obligations into or exchange any securities for, shares of capital stock or Units of or ownership interests in the Company or the Partnership are outstanding.

(h) The Units to be issued in connection with the Formation Transactions, including, without limitation, the Units to be issued to the Company and STOC, have been duly authorized for issuance by the Partnership to the holders or prospective holders thereof, and on the Closing Date will be validly issued, fully paid, nonassessable and owned in the percentage amounts set forth in the Prospectus by the Company and STOC and by the entities or persons described in the Prospectus, free and clear of any perfected security interest or any other security interests, claims, liens or encumbrances. Immediately after the Closing Date and not including any Units issued in exchange for proceeds received by the Company in connection with the sale of the

Option Securities, 22,237,975 Units will be issued and outstanding. The Units have been and will be offered and sold at or prior to the Closing Date in compliance with all applicable laws (including, without limitation, federal and state securities laws).

(i) Consummation of each of the Formation Transactions and compliance by the Company, Pioneer, STOC, STT2, STTOC, STP2, the Partnership and the Continuing Investors with their respective obligations under each of the documents relating to the Formation Transactions (collectively, the "Transaction Documents") have been duly authorized by all necessary corporate, partnership or limited liability company action, as the case may be, and did not and will not violate or conflict with or constitute a breach of, or default under, or result in the creation or imposition of any lien, charge or encumbrance upon any of the Properties or any other properties or assets of the Company, Pioneer, STOC, STT2, STTOC, STP2, the Partnership or the Continuing Investors

pursuant to any indenture, contract, lease, mortgage, deed of trust, note agreement, loan agreement or other agreement, obligation, condition, covenant or instrument, including, without limitation, any partnership agreement to which the Company, Pioneer, STOC, STT2, STTOC, STP2, the Partnership or any of the Continuing Investors is or was a party or by which it or any of them may be bound or affected, or to which any of the Properties or any other properties or assets of the Company, Pioneer, STOC, STT2, STTOC, STP2, the Partnership or any of the Continuing Investors is subject, except pursuant to indentures, contracts, leases, mortgages, deeds of trust, note agreements, loan agreements or other agreements, obligations, conditions, covenants or instruments which shall be paid in full or terminated as of the Closing Date; none of the Formation Transactions resulted or will result in the violation of any provisions of the charter, bylaws, articles of organization or operating agreement of the Company, Pioneer, STOC, STT2, STTOC, or any Continuing Investor or any agreement, certificate of limited partnership or other governing document of the Partnership, STP2 or any Continuing Investor or any applicable law, administrative regulation or administrative or court decree; and all authorizations, consents and approvals necessary to consummate the Formation Transactions were, or as of the Closing Date will be, timely obtained; and the offer, issuance and exchange of the general and limited partnership interests in the Partnership will be exempt from the registration requirements of the Act and applicable state securities and blue sky laws. On or prior to the Closing Date, each of the Formation Transactions will have occurred in the manner described in the Prospectus under the caption "Structure and Formation of Strategic Timber."

(j) Each of the Transaction Documents to which the Company, the Partnership, any Continuing Investor, Pioneer, STOC, STT2, STTOC, STP2 or any affiliate of any such entity is a party has been duly authorized, executed and delivered by such party and constitutes the binding agreement of such party, enforceable against such party in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting creditors' rights generally and by general principles of equity.

(k) The Company will be organized in conformity with the requirements for qualification as a real estate investment trust under the Internal Revenue Code of 1986, as amended (the "Code"), and its operations to date and proposed method of operation will enable it to meet the requirements for taxation as a real estate investment trust

under the Code commencing with the Company's taxable year ending December 31, 1998.

(l) The Company, STOC, Pioneer and the Partnership own, possess, license or have other rights to use, on reasonable terms, all patents, patent applications, trade and service marks, trade and service mark registrations, trade names, copyrights, licenses, inventions, trade secrets, technology, know-how and other intellectual property (collectively, the "Intellectual Property") necessary for the conduct of their respective businesses as now conducted or as proposed in the Prospectus to be conducted. There is no pending or threatened action, suit, proceeding or claim by others challenging the rights

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of the Company, STOC, Pioneer or the Partnership in or to any such Intellectual Property, and neither the Company nor the Partnership is aware of any facts which would form a reasonable basis for any such claim. There is no pending or threatened action, suit, proceeding or claim by others challenging the validity or scope of any such Intellectual Property, and neither the Company nor the Partnership is aware of any facts which would form a reasonable basis for any such claim. There is no pending or threatened action, suit, proceeding or claim by others that the Company, STOC, Pioneer or the Partnership infringes or otherwise violates any patent, trademark, copyright, trade secret or other proprietary rights of others, and neither the Company nor the Partnership is aware of any other fact which would form a reasonable basis for any such claim.

(m) There is no franchise, contract or other document of a character required to be described in the Registration Statement or Prospectus, or to be filed as an exhibit thereto, which is not described or filed as required; and the statements in the Prospectus under the headings "Federal Income Tax Consequences," "ERISA Considerations," "Description of Capital Stock of the Strategic Timber," "Policies With Respect to Certain Activities," "Structure and Formation of the Strategic Timber," "Transactions with Related Parties," "The Partnership Agreement," "Certain Provisions of Georgia Law and Strategic Timber's Articles of Incorporation and Bylaws That May Have an Anti-Takeover Effect," "Shares Available For Future Sale" and "Business and Properties - Federal and State Regulations" and "-Legal Proceedings" fairly summarize the matters therein described.

(n) This Agreement has been duly authorized, executed and delivered by each of the Company and the Partnership and constitutes a valid and binding obligation of the Company and the Partnership enforceable in accordance with its terms.

(o) None of the Company, Pioneer, STOC or the Partnership is, and, after giving effect to the offering and sale of the Securities and the application of the proceeds thereof as described in the Prospectus, none of the Company, Pioneer, STOC or the Partnership will be, an "investment company" or an entity "controlled by" an "investment company" as defined in the Investment Company Act of 1940, as amended.

(p) No consent, approval, authorization, filing with or order of any court or governmental agency or body is required in connection with the transactions contemplated herein, except such as have been obtained under the Act and such as may be required under the blue sky laws of any jurisdiction in connection with the purchase and distribution of the Securities by the Underwriters in the manner contemplated herein and in the Prospectus.

(q) Neither the issue and sale of the Securities nor the

consummation of any other of the transactions herein contemplated nor the fulfillment of the terms hereof will conflict with, result in a breach or violation or imposition of any lien, charge or encumbrance upon any property or assets of the Company, STOC, Pioneer or the Partnership pursuant to, (i) the charter or by-laws of the Company or STOC or the articles

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of organization or operating agreement of Pioneer, (ii) the Partnership Agreement, (iii) the terms of any indenture, contract, lease, mortgage, deed of trust, note agreement, loan agreement or other agreement, obligation, condition, covenant or instrument to which the Company, STOC, Pioneer or the Partnership is a party or bound or to which its or their property is subject, or (iv) any statute, law, rule, regulation, judgment, order or decree applicable to the Company, Pioneer, STOC or the Partnership of any court, regulatory body, administrative agency, governmental body, arbitrator or other authority having jurisdiction over the Company, Pioneer, STOC or the Partnership or any of their properties.

(r) No holders of securities of the Company or the Partnership have rights to the registration of such securities except as set forth in the Prospectus.

(s) The financial statements and schedules included in the Prospectus and the Registration Statement present fairly in all material respects the financial condition, results of operations and cash flows of the respective entity or entities therein as of the dates and for the periods indicated, comply as to form with the applicable accounting requirements of the Act and have been prepared in conformity with generally accepted accounting principles applied on a consistent basis throughout the periods involved. The selected financial information set forth under the caption "Selected Historical Financial and Operating Information" in the Prospectus and Registration Statement fairly presents, on the basis stated in the Prospectus and the Registration Statement, the information included therein. The pro forma financial statements included in the Prospectus and the Registration Statement include assumptions that provide a reasonable basis for presenting the significant effects directly attributable to the transactions and events described therein, and the related pro forma adjustments give appropriate effect to those assumptions. The pro forma financial statements included in the Prospectus and the Registration Statement comply as to form in all material respects with the applicable accounting requirements of Regulation S-X under the Act and the pro forma adjustments have been properly applied to the historical amounts in the compilation of those statements.

(t) No action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company, the Partnership, STOC or Pioneer or its or their property is pending or, to the best knowledge of the Company and the Partnership, threatened that (i) could reasonably be expected to have a material adverse effect on the performance of this Agreement or the consummation of any of the transactions contemplated hereby or (ii) could reasonably be expected to have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company, the Partnership, STOC or Pioneer, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(u) Neither the Company nor STOC is in violation or default of any provision of its charter or bylaws; Pioneer is not in violation or

or operating agreement; and the Partnership is not in violation of the Partnership Agreement. None of the Company, STOC, Pioneer or the Partnership is in violation or default of (i) the terms of any indenture, contract, lease, mortgage, deed of trust, note agreement, loan agreement or other agreement, obligation, condition, covenant or instrument to which it is a party or bound or to which its property is subject, or (ii) any statute, law, rule, regulation, judgment, order or decree of any court, regulatory body, administrative agency, governmental body, arbitrator or other authority having jurisdiction over the Company, STOC, Pioneer or the Partnership or any of their respective properties, as applicable, which violations or defaults would have a material adverse effect on the condition (financial or otherwise), prospects, business, earnings or properties of the Company, STOC, Pioneer or the Partnership.

(v) Arthur Andersen LLP, who have certified certain financial statements and delivered their report with respect to such audited consolidated financial statements and schedules included in the Prospectus, are independent public accountants within the meaning of the Act and the applicable published rules and regulations thereunder.

(w) There are no transfer taxes or other similar fees or charges under federal law or the laws of any state, or any political subdivision thereof, required to be paid in connection with the execution and delivery of this Agreement or the issuance by the Company or sale by the Company of the Securities.

(x) Each of the Company, STOC, the Partnership and Pioneer has filed all foreign, federal, state and local tax returns that are required to be filed or has requested extensions thereof (except in any case in which the failure so to file would not have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company, STOC, Pioneer and the Partnership, taken as a whole, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto) and has paid all taxes required to be paid by it and any other assessment, fine or penalty levied against it, to the extent that any of the foregoing is due and payable, except for any such assessment, fine or penalty that is currently being contested in good faith or as would not have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company, STOC, Pioneer and the Partnership, taken as a whole, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(y) No labor problem or dispute with the employees of the Company, Pioneer or the Partnership exists or is threatened or imminent, and neither the Partnership nor the Company is aware of any existing or imminent labor disturbance by the employees of any of the principal suppliers, contractors or customers of the Company, the Partnership or Pioneer, that could have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company, STOC, Pioneer

and the Partnership, taken as a whole, whether or not arising from transactions in the ordinary course of business, except as set forth in

or contemplated in the Prospectus (exclusive of any supplement thereto).

(z) The Company, Pioneer, STOC and the Partnership are insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which they are engaged; all policies of insurance insuring the Company, Pioneer, STOC or the Partnership or their respective businesses, assets, employees, officers and directors and managers are in full force and effect; the Company, Pioneer, STOC and the Partnership are in compliance with the terms of such policies and instruments in all material respects; and there are no claims by the Company, Pioneer, STOC or the Partnership under any such policy or instrument as to which any insurance company is denying liability or defending under a reservation of rights clause; none of the Company, Pioneer, STOC or the Partnership has been refused any insurance coverage sought or applied for; and none of the Company, Pioneer, STOC or the Partnership has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers as may be necessary to continue its business at a cost that would not have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company, Pioneer, STOC and the Partnership, taken as a whole, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(aa) None of Pioneer, the Partnership or STOC is currently prohibited, directly or indirectly, from paying any dividends to the Company, from making any other distribution on its membership interests, partnership interests or capital stock, from repaying to the Company any loans or advances to Pioneer or the Partnership or STOC from the Company or from transferring any of their property or assets to the Company or any other subsidiary of the Company, except as described in or contemplated by the Prospectus.

(bb) The Company, STOC, Pioneer and the Partnership possess, and operate in compliance in all material respects with, all licenses, certificates, permits and other authorizations issued by the appropriate federal, state or foreign regulatory authorities necessary to conduct their respective businesses, and none of the Company, STOC, Pioneer or the Partnership has received any notice of proceedings relating to the revocation or modification of any such certificate, authorization or permit which, singly or in the aggregate, if the subject of an unfavorable decision, ruling or finding, would have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company, STOC, Pioneer and the Partnership, taken as a whole, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(cc) The Company, STOC, Pioneer, STT2 and the Partnership maintain a system of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with the

existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(dd) None of the Continuing Investors, the Partnership or the Company or any of its officers, directors or controlling persons has taken, directly or indirectly, any action designed to or which has constituted or which might reasonably be expected to cause or result, under the Exchange Act or otherwise, in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities.

(ee) The Company, Pioneer, STOC, STT2, STTOC, STP2 and the Partnership are (i) in compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants ("Environmental Laws"), (ii) have received and are in compliance with all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and (iii) have not received notice of any actual or potential liability for the investigation or remediation of any disposal or release of hazardous or toxic substances or wastes, pollutants or contaminants, except where such non-compliance with Environmental Laws, failure to receive required permits, licenses or other approvals, or liability would not, individually or in the aggregate, have a material adverse change in the condition (financial or otherwise), prospects, earnings, business or properties of the Company, Pioneer, the Partnership and STOC, taken as a whole, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto). None of the Company, the Partnership, Pioneer, STOC, STT2, STTOC, STP2 or any of the Continuing Investors has been named as a "potentially responsible party" under the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended.

(ff) In the ordinary course of its business, the Company and the Partnership periodically review the effect of Environmental Laws on the business, operations and properties of the Company, STOC, Pioneer and the Partnership, in the course of which they identify and evaluate associated costs and liabilities (including, without limitation, any capital or operating expenditures required for clean-up, closure of properties or compliance with Environmental Laws, or any permit, license or approval, any related constraints on operating activities and any potential liabilities to third parties). On the basis of such review, the Company and the Partnership have reasonably concluded that such associated costs and liabilities would not, singly or in the aggregate, have a material

adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company, STOC, Pioneer and the Partnership, taken as a whole, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(gg) (i) Upon consummation of the Formation Transactions, the Partnership and Pioneer will have good and marketable title in fee simple to all real property and improvements to be transferred to them pursuant to the Transaction Documents, including, but not limited to, the Properties, in each case free and clear of all liens, encumbrances and defects other than those that are described in the Prospectus or those which do not and will not materially affect the value of such property or materially interfere with the use made and proposed to be made of such property by the Partnership or Pioneer; (ii) all liens, charges, encumbrances, claims, or restrictions on or affecting the properties and assets to be held by the Partnership and Pioneer

pursuant to the Transaction Documents which are required to be disclosed in the Prospectus are disclosed therein; (iii) any real property and buildings held under lease by the Company, Pioneer, STOC or the Partnership are held under valid, subsisting and enforceable leases with such exceptions as are not material and do not interfere with the use made and proposed to be made of such property and buildings by the Company, Pioneer, STOC or the Partnership;

(hh) The Partnership or Pioneer has title insurance on all properties and assets described in the Prospectus as owned by the Partnership or Pioneer in an amount at least equal to the cost of acquisition of such property or assets.

(ii) None of the Company, the Partnership, Pioneer or STOC maintains, or has at any time maintained, any "plan" (as defined in Section 3(3) of the United States Employee Retirement Income Security Act of 1974 ("ERISA") and the regulations and published interpretations thereunder) that is subject to the minimum funding standards of Section 302 of ERISA.

(jj) The Partnership, Pioneer, STOC and the Company have implemented a comprehensive, detailed program to analyze and address the risk that their computer hardware and software may be unable to recognize and properly execute date-sensitive functions involving certain dates prior to and any dates after December 31, 1999 (the "Year 2000 Problem") and have determined that their computer hardware and software are and will be able to process all date information prior to and after December 31, 1999 without any errors, abortions, delays or other interruptions in operations associated with the Year 2000 Problem; and the Partnership and the Company believe, after due inquiry, that each supplier, vendor, customer or financial service organization used or serviced by the Company, STOC, Pioneer or the Partnership has remedied or will remedy on a timely basis the Year 2000 Problem, except to the extent that a failure to remedy by any such supplier, vendor, customer or financial service organization would have a material adverse effect on the Company, the Partnership and their subsidiaries, taken as a whole. The Company, the Partnership, STOC

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and Pioneer are in compliance with the Commission's Release dated July 29, 1998 related to Year 2000 compliance, as amended to date.

(kk) None of the environmental engineering firms or individuals who prepared environmental inspection reports with respect to the Timberlands, was employed for such purpose on a contingent basis or has any interest in the Company, the Partnership, STOC or Pioneer; none of them and none of their directors, officers or employees is connected with the Company, the Partnership or Pioneer as a promoter, selling agent, voting trustee, director, officer or employee.

(ll) The Company has not offered, or caused the Underwriters to offer, Securities to any person pursuant to the Directed Share Program with the specific intent to unlawfully influence (i) a customer or supplier of the Company, Pioneer or the Partnership to alter the customer's or supplier's level or type of business with the Company, Pioneer or the Partnership or (ii) a trade journalist or publication to write or publish favorable information about the Company, Pioneer or the Partnership or their properties.

Furthermore, the Company represents and warrants to Salomon Smith Barney that (i) the Registration Statement, the Prospectus and any preliminary prospectus comply, and any further amendments or supplements thereto will comply, with any applicable laws or regulations of foreign jurisdictions in which the Prospectus or any preliminary prospectus, as amended or supplemented, if applicable, are distributed in connection with the Directed Share Program, and that (ii) no authorization, approval, consent, license, order, registration



or qualification of or with any government, governmental instrumentality or court, other than such as have been obtained, is necessary under the securities laws and regulations of foreign jurisdictions in which the Directed shares are offered outside the United States.

Any certificate signed by any officer of the Company, STOC, Pioneer or the Partnership and delivered to the Representatives or counsel for the Underwriters in connection with the offering of the Securities shall be deemed a representation and warranty by the Company, STOC, Pioneer or the Partnership, respectively, as to matters covered thereby, to each Underwriter.

2. Purchase and Sale. (a) Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, the Company agrees to sell to each Underwriter, and each Underwriter agrees, severally and not jointly, to purchase from the Company, at a purchase price of \$ per share, the number of the Underwritten Securities set forth opposite such Underwriter's name in Schedule I hereto.

(b) Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, the Company hereby grants an option to the several Underwriters to purchase, severally and not jointly, up to 2,490,000 Option Securities at the same purchase price per share as the Underwriters shall pay for the Underwritten Securities. Said option may be exercised only to cover over-allotments in the sale of the Underwritten Securities by the Underwriters. Said option may be exercised in whole or in part at any time

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(but not more than once) on or before the 30th day after the date of the Prospectus upon written or telegraphic notice by the Representatives to the Company setting forth the number of shares of the Option Securities as to which the several Underwriters are exercising the option and the settlement date. The number of Option Securities to be purchased by each Underwriter shall be the same percentage of the total number of shares of the Option Securities to be purchased by the several Underwriters as such Underwriter is purchasing of the Underwritten Securities, subject to such adjustments as you in your absolute discretion shall make to eliminate any fractional shares.

3. Delivery and Payment. Delivery of and payment for the Underwritten Securities and the Option Securities (if the option provided for in Section 2(b) hereof shall have been exercised on or before the third Business Day prior to the Closing Date) shall be made at 10:00 AM, New York City time, on \_\_\_\_\_, 1999, or at such time on such later date not more than three Business Days after the foregoing date as the Representatives shall designate, which date and time may be postponed by agreement between the Representatives and the Company or as provided in Section 9 hereof (such date and time of delivery and payment for the Securities being herein called the "Closing Date"). Delivery of the Securities shall be made to the Representatives for the respective accounts of the several Underwriters against payment by the several Underwriters through the Representatives of the purchase price thereof to or upon the order of the Company by wire transfer payable in same-day funds to an account specified by the Company. Delivery of the Underwritten Securities and the Option Securities shall be made through the facilities of The Depository Trust Company unless the Representatives shall otherwise instruct.

If the option provided for in Section 2(b) hereof is exercised after the third Business Day prior to the Closing Date, the Company will deliver the Option Securities (at the expense of the Company) to the Representatives, at 388 Greenwich Street, New York, New York, on the date specified by the Representatives (which shall be within three Business Days after exercise of said option) for the respective accounts of the several Underwriters, against payment by the several Underwriters through the Representatives of the purchase price thereof to or upon the order of the Company by wire transfer payable in same-day funds to an account specified by the Company. If settlement for the Option Securities occurs after the Closing Date, the Company will deliver to the Representatives on the settlement date for the Option Securities, and the

obligation of the Underwriters to purchase the Option Securities shall be conditioned upon receipt of, supplemental opinions, certificates and letters confirming as of such date the opinions, certificates and letters delivered on the Closing Date pursuant to Section 6 hereof.

4. Offering by Underwriters. It is understood that the several Underwriters propose to offer the Securities for sale to the public as set forth in the Prospectus.

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5. Agreements. Each of the Partnership and the Company agrees with the several Underwriters that:

(a) The Company will use its best efforts to cause the Registration Statement, if not effective at the Execution Time, and any amendment thereof, to become effective. Prior to the termination of the offering of the Securities, the Company will not file any amendment of the Registration Statement or supplement to the Prospectus or any Rule 462(b) Registration Statement unless the Company has furnished you a copy for your review prior to filing and will not file any such proposed amendment or supplement to which you reasonably object. Subject to the foregoing sentence, if the Registration Statement has become or becomes effective pursuant to Rule 430A, or filing of the Prospectus is otherwise required under Rule 424(b), the Company will cause the Prospectus, properly completed, and any supplement thereto to be filed with the Commission pursuant to the applicable paragraph of Rule 424(b) within the time period prescribed and will provide evidence satisfactory to the Representatives of such timely filing. The Company will promptly advise the Representatives (1) when the Registration Statement, if not effective at the Execution Time, shall have become effective, (2) when the Prospectus, and any supplement thereto, shall have been filed (if required) with the Commission pursuant to Rule 424(b) or when any Rule 462(b) Registration Statement shall have been filed with the Commission, (3) when, prior to termination of the offering of the Securities, any amendment to the Registration Statement shall have been filed or become effective, (4) of any request by the Commission or its staff for any amendment of the Registration Statement, or any Rule 462(b) Registration Statement, or for any supplement to the Prospectus or for any additional information, (5) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the institution or threatening of any proceeding for that purpose and (6) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Securities for sale in any jurisdiction or the institution or threatening of any proceeding for such purpose. The Company will use its best efforts to prevent the issuance of any such stop order or the suspension of any such qualification and, if issued, to obtain as soon as possible the withdrawal thereof.

(b) If, at any time when a prospectus relating to the Securities is required to be delivered under the Act, any event occurs as a result of which the Prospectus as then supplemented would include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein in the light of the circumstances under which they were made not misleading, or if it shall be necessary to amend the Registration Statement or supplement the Prospectus to comply with the Act or the rules thereunder, the Company promptly will (1) notify the Representatives of any such event, (2) prepare and file with the Commission, subject to the second sentence of paragraph (a) of this Section 5, an amendment or supplement which will correct such statement or omission or effect such compliance; and (3) supply any supplemented Prospectus to you in such quantities as you may reasonably request.

(c) As soon as practicable, the Company will make generally available to its security holders and to the Representatives an earnings statement or statements of the Company and its subsidiaries which will satisfy the provisions of Section 11(a) of the Act and Rule 158 under the Act.

(d) The Company will furnish to the Representatives and counsel for the Underwriters copies of the signed Registration Statement (including exhibits thereto) and to each other Underwriter a copy of the Registration Statement (without exhibits thereto) and, so long as delivery of a prospectus by an Underwriter or dealer may be required by the Act, as many copies of each Preliminary Prospectus and the Prospectus and any supplement thereto as the Representatives may reasonably request.

(e) The Company will arrange, if necessary, for the qualification of the Securities for sale under the laws of such jurisdictions as the Representatives may designate and will maintain such qualifications in effect so long as required for the distribution of the Securities; provided that in no event shall the Company be obligated to qualify to do business in any jurisdiction where it is not now so qualified or to take any action that would subject it to service of process in suits, other than those arising out of the offering or sale of the Securities, in any jurisdiction where it is not now so subject.

(f) Neither the Company nor the Partnership will, without the prior written consent of Salomon Smith Barney, for a period of one year from the Closing Date, offer, sell or contract to sell, or otherwise dispose of (or enter into any transaction which is designed to result in the disposition (whether by actual disposition or effective economic disposition due to cash settlement or otherwise) by the Company or the Partnership or any affiliate of the Company or the Partnership or any person in privity with the Company or the Partnership or any affiliate of the Company or the Partnership) directly or indirectly, or announce the offering of, any other shares of Common Stock or Units or any securities convertible into, or exchangeable for, shares of Common Stock or Units; provided, however, that (i) the Company may issue and sell Common Stock and issue options to purchase Common Stock pursuant to any employee stock option plan or stock ownership plan of the Company in effect at the Execution Time, and (ii) the Partnership may issue Units as partial or full payment for the acquisition of properties.

(g) Neither the Company nor the Partnership nor any of their officers, directors or controlling persons has taken or will take, directly or indirectly, any action designed to or which has constituted or which might reasonably be expected to cause or result, under the Exchange Act or otherwise, in stabilization or manipulation of the price of any security of the Company or the Partnership to facilitate the sale or resale of the Securities.

(h) The Company agrees to pay the costs and expenses relating to the following matters: (i) the preparation, printing or reproduction and filing with the Commission of the Registration Statement (including financial statements and exhibits thereto), each Preliminary Prospectus, the Prospectus, and each amendment or supplement to any of them;

(ii) the printing (or reproduction) and delivery (including postage, air freight charges and charges for counting and packaging) of such copies of the Registration Statement, each Preliminary Prospectus, the Prospectus, and all amendments or supplements to any of them, as may, in each case, be reasonably requested for use in connection with the offering and sale of the Securities; (iii) the preparation, printing, authentication, issuance and delivery of certificates for the Securities, including any stamp or transfer taxes in connection with the original issuance and sale of the Securities; (iv) the printing (or reproduction) and delivery of this Agreement, any blue sky memorandum and all other agreements or documents printed (or reproduced) and delivered in connection with the offering of the Securities; (v) the registration of the Securities under the Exchange Act and the listing of the Securities on the NASDAQ National Market; (vi) any registration or qualification of the Securities for offer and sale under the securities or blue sky laws of the several states (including filing fees and the reasonable fees and expenses of counsel for the Underwriters relating to such registration and qualification); (vii) any filings required to be made with the National Association of Securities Dealers, Inc. (the "NASD"), including filing fees and the reasonable fees and expenses of counsel for the Underwriters relating to such filings; (viii) the transportation and other expenses incurred by or on behalf of Company representatives in connection with presentations to prospective purchasers of the Securities; (ix) the fees and expenses of the Company's accountants and the fees and expenses of counsel for the Company; (x) all fees and disbursements of counsel incurred by the Underwriters in connection with the Directed Share Program and stamp duties, similar taxes or duties or other taxes, if any, incurred by the Underwriters in connection with the Directed Share Program; and (xi) all other costs and expenses incident to the performance by the Company and the Partnership of their obligations hereunder.

(i) The Company and the Partnership will use the net proceeds from the sale of the Securities, together with amounts drawn under the New Credit Facility, in the manner specified in the Prospectus under the caption "Use of Proceeds."

(j) The Company will use its best efforts to meet the requirements to qualify, commencing with the tax year ending December 31, 1998, as a "real estate investment trust" under the Code.

(k) In connection with the Directed Share Program, the Company will ensure that the Directed Shares will be restricted to the extent required by the NASD or the NASD rules from sale, transfer, assignment, pledge or hypothecation for a period of three months following the date of the effectiveness of the Registration Statement. Salomon Smith Barney will notify the Company as to which Participants will need to be so restricted. The Company will direct the transfer restrictions upon such period of time.

Furthermore, the Company covenants with Salomon Smith Barney that the Company will comply with all applicable securities and other applicable laws, rules and regulations in each foreign jurisdiction in which the Directed Shares are offered in connection with the Directed Share Program.

6. Conditions to the Obligations of the Underwriters. The obligations of the Underwriters to purchase the Underwritten Securities and the Option Securities, as the case may be, shall be subject to the accuracy of the representations and warranties on the part of the Company and the Partnership contained herein as of the Execution Time, the Closing Date and any Settlement Date pursuant to Section 3 hereof, to the accuracy of the statements of the Company and the Partnership made in any certificates pursuant to the provisions hereof, to the performance by the Company and the Partnership of their

obligations hereunder and to the following additional conditions:

(a) If the Registration Statement has not become effective prior to the Execution Time, unless the Representatives agree in writing to a later time, the Registration Statement will become effective not later than (i) 6:00 PM New York City time on the date of determination of the public offering price, if such determination occurred at or prior to 3:00 PM New York City time on such date or (ii) 9:30 AM on the Business Day following the day on which the public offering price was determined, if such determination occurred after 3:00 PM New York City time on such date; if filing of the Prospectus, or any supplement thereto, is required pursuant to Rule 424(b), the Prospectus, and any such supplement, will be filed in the manner and within the time period required by Rule 424(b); and no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been instituted or threatened.

(b) The Company shall have requested and caused Sutherland Asbill & Brennan LLP, counsel for the Company, to have furnished to the Representatives their opinion, dated the Closing Date and addressed to the Representatives, to the effect that:

(i) Each of the Company and STOC has been duly incorporated and is validly existing as a corporation in good standing under the laws of the jurisdiction in which it is chartered or organized, with full corporate power and authority to own or lease, as the case may be, and to operate its properties and conduct its business as described in the Prospectus, and is duly qualified to do business as a foreign corporation and is in good standing under the laws of each jurisdiction wherein it owns or leases material properties or conducts material business and where the failure to be so qualified would, individually or in the aggregate, have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company, STOC, Pioneer and the Partnership, taken as a whole, whether or not arising from transactions in the ordinary course of business. Notwithstanding the foregoing, each of the Company and STOC is duly qualified to do business as a foreign corporation and is in good standing under the laws of [California, Washington, Oregon, Louisiana and New Hampshire.]

(ii) All the outstanding shares of capital stock of STOC have been duly and validly authorized and issued and are fully paid and nonassessable, and are owned by the Company free and clear of any perfected security interest and, to the

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knowledge of such counsel, after due inquiry, any other security interest, claim, lien or encumbrance.

(iii) Pioneer has been duly organized and is validly existing as a limited liability company in good standing under the laws of the jurisdiction in which it is organized, with full limited liability company power and authority to own or lease, as the case may be, and to operate its properties and conduct its business as described in the Prospectus, and is duly qualified to do business as a foreign company and is in good standing under the laws of each jurisdiction wherein it owns or leases material properties or conducts material business and where the failure to be so qualified would, individually or in the aggregate, have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company, STOC, Pioneer and the Partnership, taken as a whole, whether or not arising

from transactions in the ordinary course of business. Notwithstanding the foregoing, Pioneer is duly qualified to do business as a foreign company and is in good standing under the laws of [California, Washington and New Hampshire]. Upon consummation of the Formation Transactions, the Partnership will own all of the member interests in Pioneer and such member interests will have been duly authorized and validly issued and will be fully paid and nonassessable and will be owned by the Partnership, free and clear of any perfected security interest and, to the knowledge of such counsel, after due inquiry, any other security interest, claim, lien or encumbrance.

(iv) The Partnership Agreement has been duly and validly authorized, executed and delivered by STOC and the Company and is a valid and binding agreement of STOC and the Company enforceable in accordance with its terms. The Partnership has been duly formed and is validly existing as a limited partnership in good standing under the laws of the State of Delaware, with all requisite limited partnership power and authority to own or lease, as the case may be, and to operate its properties and conduct the business in which it is engaged or proposes to engage as described in the Prospectus and is duly qualified or registered as a foreign partnership and is in good standing in each jurisdiction wherein it owns or leases material properties or conducts material business and where the failure to be so qualified would, individually or in the aggregate, have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company, STOC, Pioneer and the Partnership, taken as a whole, whether or not arising from transactions in the ordinary course of business. Notwithstanding the foregoing, the Partnership is duly qualified to do business as a foreign limited partnership and is in good standing under the laws of [California, Washington, Oregon, Louisiana and New Hampshire.] STOC is, and immediately after the Closing Date, will be, the sole general partner of the Partnership. The Partnership has no subsidiaries other than Pioneer.

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(v) All of the issued and outstanding Units have been duly authorized and validly issued, are fully paid and nonassessable and are owned by the Company, STOC and the entities or persons described in the Prospectus, free and clear of any perfected security interest and, to the knowledge of such counsel, after due inquiry, any other security interest, claim, lien or encumbrance. The Units were offered and sold at or prior to the Closing Date in compliance with all applicable laws (including, without limitation, federal securities laws).

(vi) The Company's authorized equity capitalization is as set forth in the Prospectus; the capital stock of the Company conforms in all material respects to the description thereof contained in the Prospectus; the outstanding shares of Common Stock have been duly and validly authorized and issued and are fully paid and nonassessable; the Securities have been duly and validly authorized, and, when issued and delivered to and paid for by the Underwriters pursuant to this Agreement, will be fully paid and nonassessable; the certificates for the Securities are in valid and sufficient form under Georgia law and the rules of the NASDAQ National Market; the Company has duly reserved a sufficient number of shares of Common Stock for issuance upon exchange of outstanding Units in the

Partnership; the holders of outstanding shares of capital stock of the Company are not entitled to preemptive or other rights to subscribe for the Securities; and, except as set forth in the Prospectus, no options, warrants or other rights to purchase, agreements or other obligations to issue, or rights to convert any obligations into or exchange any securities for, shares of capital stock or Units of or ownership interests in the Company or the Partnership are outstanding.

(vii) To the knowledge of such counsel, there is no pending or threatened action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving the Company, the Partnership, STOC or Pioneer or its or their property of a character required to be disclosed in the Registration Statement which is not adequately disclosed in the Prospectus, and there is no franchise, contract or other document of a character required to be described in the Registration Statement or Prospectus, or to be filed as an exhibit thereto, which is not described or filed as required; and the statements included in the Prospectus under the headings "Federal Income Tax Consequences," "ERISA Considerations," "Description of Capital Stock of the Company," "Transactions with Related Parties," "The Partnership Agreement," "Certain Provisions of Georgia Law and Strategic Timber's Articles of Incorporation and Bylaws That May Have an Anti-Takeover Effect," "Shares Available for Future Sale," "Business and Properties - Federal and State Regulations" and "- Legal Proceedings", to the extent they include descriptions of agreements or other legal documents or include summaries of law, are accurate and fair summaries.

(viii) The Registration Statement has become effective under the Act; any required filing of the Prospectus, and any supplements thereto, pursuant to

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Rule 424(b) has been made in the manner and within the time period required by Rule 424(b); and to the knowledge of such counsel, no stop order suspending the effectiveness of the Registration Statement has been issued, no proceedings for that purpose have been instituted or threatened and the Registration Statement and the Prospectus (other than the financial statements and other financial information contained therein, as to which such counsel need express no opinion) comply as to form in all material respects with the applicable requirements of the Act and the rules thereunder.

(ix) This Agreement has been duly authorized, executed and delivered by the Company and the Partnership.

(x) None of the Company, Pioneer, STOC or the Partnership is, and, after giving effect to the offering and sale of the Securities and the application of the proceeds thereof as described in the Prospectus, none of the Company, Pioneer, STOC or the Partnership will be, an "investment company" or an entity "controlled" by an "investment company" as such terms are defined in the Investment Company Act of 1940, as amended.

(xi) No consent, approval, authorization, filing with or order of any court or governmental agency or body is required in connection with the transactions contemplated herein, except such as have been obtained under the Act and such as may be required under the blue sky laws of any jurisdiction in connection with the purchase and distribution

of the Securities by the Underwriters in the manner contemplated in this Agreement and in the Prospectus and such other approvals (specified in such opinion) as have been obtained.

(xii) The Company has all legal right, power and authority necessary to qualify as a "real estate investment trust" under the Code; the Company has been duly organized in conformity with the requirements for qualification and taxation as a real estate investment trust under the Code, and its proposed method of operation will enable it to meet the requirements for taxation as a real estate investment trust under the Code, commencing with the Company's taxable year ending December 31, 1998.

(xiii) Neither the issue and sale of the Securities, nor the consummation of any other of the transactions herein contemplated nor the fulfillment of the terms hereof will conflict with, result in a breach or violation of or imposition of any lien, charge or encumbrance upon any property or assets of the Company, STOC, Pioneer or the Partnership pursuant to, (i) the charter or by-laws of the Company or STOC, or the articles of organization or operating agreement of Pioneer, (ii) the Partnership Agreement, (iii) the terms of any indenture, contract, lease, mortgage, deed of trust, note agreement, loan agreement or other agreement, obligation, condition, covenant or instrument to which the Company, STOC, Pioneer or the Partnership is a party or

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bound or to which its or their property is subject, or (iv) any statute, law, rule, regulation, judgment, order or decree known to such counsel to be applicable to the Company, STOC, Pioneer or the Partnership of any court, regulatory body, administrative agency, governmental body, arbitrator or other authority having jurisdiction over the Company, STOC, Pioneer or the Partnership or any of its or their properties, which violation or default would, in the case of clauses (iii) and (iv) above, either individually or in the aggregate with all other violations and defaults referred to in this paragraph (xiii) (if any), have a material adverse effect on the condition (financial or otherwise), prospects, earnings, business or properties of the Company, STOC, Pioneer and the Partnership, taken as a whole, whether or not arising from transactions in the ordinary course of business.

(xiv) Consummation of each of the Formation Transactions and compliance by the Company, Pioneer, STOC, STT2, STTOC, STP2, the Partnership and the Continuing Investors with their respective obligations under each of the Transaction Documents have been duly authorized by all necessary corporate, partnership or limited liability company action, as the case may be, and did not and will not violate or conflict with or constitute a breach of, or default under, or result in the creation or imposition of any lien, charge or encumbrance upon any of the Properties or any other properties or assets of the Company, Pioneer, STOC, STT2, STTOC, STP2, the Partnership or the Continuing Investors pursuant to any indenture, contract, lease, mortgage, deed of trust, note agreement, loan agreement or other agreement, obligation, condition, covenant or instrument, including, without limitation, any partnership agreement to which the Company, Pioneer, STOC, STT2, STTOC, STP2, the Partnership or any of the Continuing Investors is or was a party or by which it or any of them may be bound or affected, or to which any of the Properties or any other properties or assets of the Company, Pioneer, STOC, STT2,



STTOC, STP2, the Partnership or any of the Continuing Investors is subject, except pursuant to indentures, contracts, leases, mortgages, deeds of trust, note agreements, loan agreements or other agreements, obligations, conditions, covenants or instruments which shall be paid in full or terminated as of the Closing Date; none of the Formation Transactions resulted or will result in the violation of any provisions of the charter, bylaws, articles of organization or operating agreement of the Company, Pioneer, STOC, STT2, STTOC, or any Continuing Investor or any agreement, certificate of limited partnership or other governing document of the Partnership, STP2 or any Continuing Investor or any applicable law, administrative regulation or administrative or court decree; and all authorizations, consents and approvals necessary to consummate the Formation Transactions were timely obtained; and the offer, issuance and exchange of the general and limited partnership interests in the Partnership are exempt from the registration requirements of the Act and applicable state securities and blue sky laws.

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(xv) Each of the Transaction Documents, to which the Company, the Partnership, any Continuing Investor, Pioneer, STOC, STT2, STTOC, STP2 or any affiliate of any such entity is a party has been duly authorized, executed and delivered by such party and constitutes the binding agreement of such party, enforceable against such party in accordance with its terms, except as such enforceability may be limited by bankruptcy, insolvency, reorganization or other similar laws affecting creditors' rights generally and by general principles of equity.

(xvii) No holders of securities of the Company or the Partnership have rights to the registration of such securities except as set forth in the Prospectus.

Such counsel shall also confirm that such counsel has no reason to believe that on the Effective Date or at the Execution Time the Registration Statement contained any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus as of its date and on the Closing Date included or includes any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading (in each case, other than the financial statements and other financial and statistical information contained therein, as to which such counsel need express no opinion).

In rendering such opinion, such counsel may rely (A) as to matters involving the application of laws of any jurisdiction other than the laws of the State of Georgia, the General Corporation Laws and the Limited Partnership Act of the State of Delaware or the Federal laws of the United States, to the extent they deem proper and specified in such opinion, upon the opinion of other counsel of good standing whom they believe to be reliable and who are satisfactory to counsel for the Underwriters and (B) as to matters of fact, to the extent they deem proper, on certificates of responsible officers of the Company and public officials. References to the Prospectus in this paragraph (b) include any supplements thereto at the Closing Date.

(c) The Representatives shall have received from Andrews & Kurth L.L.P., counsel for the Underwriters, such opinion or opinions, dated the Closing Date and addressed to the Representatives, with respect to the issuance and sale of the Securities, the Registration Statement, the Prospectus (together with any supplement thereto) and other related matters as the Representatives may reasonably require,

and the Company shall have furnished to such counsel such documents as they reasonably request for the purpose of enabling them to pass upon such matters.

(d) The Company and the Partnership shall have furnished to the Representatives a certificate of such parties, signed by the President and Chief Executive Officer and the Senior Vice President and Chief Financial Officer of the Company, and by the general partner of the Partnership, dated the Closing Date, to the effect that the signers of such

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certificates have carefully examined the Registration Statement, the Prospectus, any supplements to the Prospectus and this Agreement and that:

(i) the representations and warranties of the Company and the Partnership in this Agreement are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date and each of the Company and the Partnership has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing Date;

(ii) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or, to the Company's knowledge, threatened; and

(iii) since the date of the most recent financial statements included in the Prospectus (exclusive of any supplement thereto), there has been no material adverse change in the condition (financial or otherwise), prospects, earnings, business or properties of the Partnership, Pioneer, STOC, STT2, STTOC, STP2 and the Company, taken as a whole, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(e) The Company shall have requested and caused Arthur Andersen LLP to have furnished to the Representatives, at the Execution Time and at the Closing Date, letters, dated respectively as of the Execution Time and as of the Closing Date, in form and substance satisfactory to the Representatives, and substantially in the form heretofore approved by the Representatives.

(f) Subsequent to the Execution Time or, if earlier, the dates as of which information is given in the Registration Statement (exclusive of any amendment thereof) and the Prospectus (exclusive of any supplement thereto), there shall not have been (i) any change in total assets or in stockholders' equity of the Company or any change in Partners' capital of the Partnership or any increase in long-term debt or short-term debt of the Company or the Partnership or any change in net income or EBITDDA from that set forth or contemplated in the Prospectus or (ii) any change, or any development involving a prospective change, in or affecting the condition (financial or otherwise), earnings, business or properties of Pioneer, the Partnership, the Company and STOC, taken as a whole, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto) the effect of which, in any case referred to in clause (i) or (ii) above, is, in the sole judgment of the Representatives, so material and adverse as to make it impractical or inadvisable to proceed with the offering or delivery of the Securities as contemplated by the Registration Statement (exclusive of any amendment thereof) and the Prospectus (exclusive of any supplement thereto).

(g) Prior to the Closing Date, the Company shall have furnished to the Representatives such further information, certificates and documents as the Representatives may reasonably request.

(h) At or prior to the Closing Date, the Securities shall have been listed and admitted and authorized for quotation on the NASDAQ National Market, and satisfactory evidence of such actions shall have been provided to the Representatives.

(i) At the Execution Time, the Company shall have furnished to the Representatives a letter substantially in the form of Exhibit A hereto from each officer and director of the Company and Louisiana Timber Partners LLC, Mach One Partners LLC, Gregory M. Demers and Old Pioneer, LLC.

(j) At or prior to the Closing Date, each of the Formation Transactions shall have occurred.

(k) On the Closing Date, the Company shall have paid in full the Bridge Loan, the STT2 Bridge Loan, the Old Partnership Credit Facility and the Pioneer Credit Facility (as such terms are used in the Prospectus).

(l) At or prior to the Execution Time, each of Mason Bruce & Girard, Inc. and Canal Forest Resources, Inc. shall have furnished a letter addressed to the Representatives, dated on or before the Execution Time, and substantially in the form heretofore approved by the Representatives.

(m) On or prior to the Closing Date, the New Credit Facility shall have been executed and delivered and become effective in substantially the form filed as an exhibit to the Registration Statement.

If any of the conditions specified in this Section 6 shall not have been fulfilled in all material respects when and as provided in this Agreement, or if any of the opinions and certificates mentioned above or elsewhere in this Agreement shall not be in all material respects reasonably satisfactory in form and substance to the Representatives and counsel for the Underwriters, this Agreement and all obligations of the Underwriters hereunder may be canceled at, or at any time prior to, the Closing Date by the Representatives. Notice of such cancellation shall be given to the Company in writing or by telephone or facsimile confirmed in writing.

The documents required to be delivered by this Section 6 shall be delivered at the office of Sutherland Asbill & Brennan, counsel for the Company, at 999 Peachtree Street, NE, Atlanta, Georgia 30309, on the Closing Date.

7. Reimbursement of Underwriters' Expenses. If the sale of the Securities provided for herein is not consummated because any condition to the obligations of the Underwriters set forth in Section 6 hereof is not satisfied, because of any termination pursuant to Section 10

hereof or because of any refusal, inability or failure on the part of the Company or the Partnership to perform any agreement herein or comply with any provision hereof other than by reason of a default by any of the Underwriters, the Company will reimburse the Underwriters severally through Salomon Smith Barney on demand for all out-of-pocket expenses (including reasonable fees and disbursements of counsel) that shall have been incurred by them in connection with the proposed purchase and sale of the Securities.

8. Indemnification and Contribution. (a) Each of the Partnership and the Company, jointly and severally, agrees to indemnify and hold harmless each Underwriter, the directors, officers, employees and agents of each Underwriter and each person who controls any Underwriter within the meaning of either the Act or the Exchange Act against any and all losses, claims, damages or liabilities, joint or several, to which they or any of them may become subject under the Act, the Exchange Act or other Federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the registration statement for the registration of the Securities as originally filed or in any amendment thereof, or in any Preliminary Prospectus or the Prospectus, or in any amendment thereof or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and agrees to reimburse each such indemnified party, as incurred, for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company and the Partnership will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made therein in reliance upon and in conformity with written information furnished to the Company by or on behalf of any Underwriter through the Representatives specifically for inclusion therein. This indemnity agreement will be in addition to any liability which the Company or the Partnership may otherwise have.

(b) Each of the Partnership and the Company, jointly and severally, agrees to indemnify and hold harmless Salomon Smith Barney and each person, if any, who controls Salomon Smith Barney within the meaning of either Section 15 of the Securities Act or Section 20 of the Exchange Act ("Salomon Smith Barney Entities"), from and against any and all losses, claims, damages and liabilities (including, without limitation, any legal or other expenses reasonably incurred in connection with defending or investigating any such action or claim) (i) caused by any untrue statement or alleged untrue statement of a material fact contained in the prospectus wrapper material prepared by or with the consent of the Company or the Partnership for distribution in foreign jurisdictions in connection with the Directed Share Program attached to the Prospectus or any preliminary prospectus, or caused by any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statement therein, when considered in conjunction with the Prospectus or any applicable preliminary prospectus, not misleading; (ii) caused by the failure of the Participant to pay for and accept delivery of the shares which immediately following the effectiveness of the Registration Statement, were subject to a properly confirmed agreement to purchase; or (iii) related to, arising out of, or in connection with the

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Directed Share Program, provided that, the Company and the Partnership shall be not responsible under this subparagraph (iii) for any losses, claims, damages or liabilities (or expenses relating thereto) that are finally judicially determined to have resulted from the bad faith or gross negligence of Salomon Smith Barney Entities.

(c) Each Underwriter severally and not jointly agrees to indemnify and hold harmless the Company and the Partnership, each of their directors, each of their officers who signs the Registration Statement, and each person who controls the Company and the Partnership within the meaning of either the Act or the Exchange Act, to the same extent as the foregoing indemnity from the Company and the Partnership to each Underwriter, but only with reference to written information relating to such Underwriter furnished to the Company by or on behalf of such Underwriter through the Representatives specifically for inclusion in the documents referred to in the foregoing indemnity. This indemnity agreement will be in addition to any liability which any Underwriter may otherwise have. The Company and the Partnership acknowledge that the

statements set forth in the last paragraph of the cover page regarding delivery of the Securities, and under the heading "Underwriting", (i) the list of Underwriters and their respective participation in the sale of the Securities, (ii) the sentences relating to concessions and reallowances and (iii) the paragraph relating to stabilization, syndicate covering transactions and penalty bids in any Preliminary Prospectus and the Prospectus constitute the only information furnished in writing by or on behalf of the several Underwriters for inclusion in any Preliminary Prospectus or the Prospectus.

(d) Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party in writing of the commencement thereof; but the failure so to notify the indemnifying party (i) will not relieve it from liability under paragraph (a), (b) or (c) above unless and to the extent it did not otherwise learn of such action and such failure results in the forfeiture by the indemnifying party of substantial rights and defenses and (ii) will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraph (a) or (b) above. The indemnifying party shall be entitled to appoint counsel of the indemnifying party's choice at the indemnifying party's expense to represent the indemnified party in any action for which indemnification is sought (in which case the indemnifying party shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the indemnified party or parties except as set forth below); provided, however, that such counsel shall be satisfactory to the indemnified party. Notwithstanding the indemnifying party's election to appoint counsel to represent the indemnified party in an action, the indemnified party shall have the right to employ separate counsel (including local counsel), and the indemnifying party shall bear the reasonable fees, costs and expenses of such separate counsel if (i) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel with a conflict of interest, (ii) the actual or potential defendants in, or targets of, any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, (iii) the indemnifying party

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shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of the institution of such action or (iv) the indemnifying party shall authorize the indemnified party to employ separate counsel at the expense of the indemnifying party. Notwithstanding anything contained herein to the contrary, if indemnity may be sought pursuant to Section 8(b) hereof in respect of such action or proceeding, then in addition to such separate firm for the indemnified parties, the indemnifying party shall be liable for the reasonable fees and expenses of not more than one separate firm (in addition to any local counsel) for Salomon Smith Barney for the defense of any losses, claims, damages and liabilities arising out of the Directed Share Program, and all persons, if any, who control Salomon Smith Barney within the meaning of either Section 15 of the Act or Section 20 of the Exchange Act. An indemnifying party will not, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding.

(d) In the event that the indemnity provided in paragraph (a), (b) or (c) of this Section 8 is unavailable to or insufficient to hold harmless an indemnified party for any reason, the Company and the Partnership and the Underwriters severally agree to contribute to the aggregate losses, claims, damages and liabilities (including legal or other expenses reasonably incurred

in connection with investigating or defending same) (collectively "Losses") to which the Company and the Partnership and one or more of the Underwriters may be subject in such proportion as is appropriate to reflect the relative benefits received by the Company and the Partnership on the one hand and by the Underwriters on the other from the offering of the Securities; provided, however, that in no case shall any Underwriter (except as may be provided in any agreement among underwriters relating to the offering of the Securities) be responsible for any amount in excess of the underwriting discount or commission applicable to the Securities purchased by such Underwriter hereunder. If the allocation provided by the immediately preceding sentence is unavailable for any reason, the Company and the Partnership and the Underwriters severally shall contribute in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company and the Partnership on the one hand and of the Underwriters on the other in connection with the statements or omissions which resulted in such Losses as well as any other relevant equitable considerations. Benefits received by the Company and the Partnership shall be deemed to be equal to the total net proceeds from the offering (before deducting expenses) received by the Company, and benefits received by the Underwriters shall be deemed to be equal to the total underwriting discounts and commissions, in each case as set forth on the cover page of the Prospectus. Relative fault shall be determined by reference to, among other things, whether any untrue or any alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information provided by the Company or the Partnership on the one hand or the Underwriters on the other, the intent of the parties and their relative knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. The Company, the Partnership and the Underwriters agree that it would not be just and equitable if contribution were determined by pro rata allocation or any other method of allocation which does not take

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account of the equitable considerations referred to above. Notwithstanding the provisions of this paragraph (d), no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this Section 8, each person who controls an Underwriter within the meaning of either the Act or the Exchange Act and each director, officer, employee and agent of an Underwriter shall have the same rights to contribution as such Underwriter, and each person who controls the Company or the Partnership within the meaning of either the Act or the Exchange Act, each officer of the Company who shall have signed the Registration Statement and each director of the Company shall have the same rights to contribution as the Company or the Partnership, subject in each case to the applicable terms and conditions of this paragraph (d). For purposes of this paragraph (d), the Company and the Partnership shall be deemed one party jointly and severally liable for any obligations hereunder.

9. Default by an Underwriter. If any one or more Underwriters shall fail to purchase and pay for any of the Securities agreed to be purchased by such Underwriter or Underwriters hereunder and such failure to purchase shall constitute a default in the performance of its or their obligations under this Agreement, the remaining Underwriters shall be obligated severally to take up and pay for (in the respective proportions which the amount of Securities set forth opposite their names in Schedule I hereto bears to the aggregate amount of Securities set forth opposite the names of all the remaining Underwriters) the Securities which the defaulting Underwriter or Underwriters agreed but failed to purchase; provided, however, that in the event that the aggregate amount of Securities which the defaulting Underwriter or Underwriters agreed but failed to purchase shall exceed 10% of the aggregate amount of Securities set forth in Schedule I hereto, the remaining Underwriters shall have the right to purchase all, but shall not be under any obligation to purchase any, of the Securities, and if such nondefaulting Underwriters do not purchase all the Securities, this Agreement will terminate without liability to any nondefaulting Underwriter or the Company. In the event of a default by any Underwriter as set forth in this Section 9, the Closing Date shall be postponed for such period, not exceeding

five Business Days, as the Representatives shall determine in order that the required changes in the Registration Statement and the Prospectus or in any other documents or arrangements may be effected. Nothing contained in this Agreement shall relieve any defaulting Underwriter of its liability, if any, to the Company and any nondefaulting Underwriter for damages occasioned by its default hereunder.

10. Termination. This Agreement shall be subject to termination in the absolute discretion of the Representatives, by notice given to the Company prior to delivery of and payment for the Securities, if at any time prior to such time (i) trading in the Company's Common Stock shall have been suspended by the Commission or the New York Stock Exchange or trading in securities generally on the New York Stock Exchange shall have been suspended or limited or minimum prices shall have been established on such Exchange, (ii) a banking moratorium shall have been declared either by Federal or New York State authorities or (iii) there shall have occurred any outbreak or escalation of hostilities, declaration by the United States of a national emergency or war, or other calamity or crisis the effect of which on financial markets is such as to make it, in the sole judgment of the Representatives, impractical or inadvisable to proceed with the offering or delivery of the Securities as contemplated by the Prospectus (exclusive of any supplement thereto).

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11. Representations and Indemnities to Survive. The respective agreements, representations, warranties, indemnities and other statements of the Company or the Partnership or their officers and of the Underwriters set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation made by or on behalf of any Underwriter or the Company or the Partnership or any of the officers, directors or controlling persons referred to in Section 8 hereof, and will survive delivery of and payment for the Securities. The provisions of Sections 7 and 8 hereof shall survive the termination or cancellation of this Agreement.

12. Notices. All communications hereunder will be in writing and effective only on receipt, and, if sent to the Representatives, will be mailed, delivered or telefaxed to the Salomon Smith Barney General Counsel (fax no.: (212) 816-7912) and confirmed to the General Counsel, Salomon Smith Barney, at 388 Greenwich Street, New York, New York, 10013, Attention: General Counsel; or, if sent to the Company or the Partnership, will be mailed, delivered or telefaxed to the General Counsel of Strategic Timber Trust, Inc. (fax no: (603) 526-7811) and confirmed to it at 5 North Pleasant Street, New London, NH 03257, Attention: General Counsel.

13. Successors. This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and the officers and directors and controlling persons referred to in Section 8 hereof, and no other person will have any right or obligation hereunder.

14. Applicable Law. This Agreement will be governed by and construed in accordance with the laws of the State of New York applicable to contracts made and to be performed within the State of New York.

15. Counterparts. This Agreement may be signed in one or more counterparts, each of which shall constitute an original and all of which together shall constitute one and the same agreement.

16. Headings. The section headings used herein are for convenience only and shall not affect the construction hereof.

17. Definitions. The terms which follow, when used in this Agreement, shall have the meanings indicated.

"Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations of the Commission promulgated thereunder.

"Business Day" shall mean any day other than a Saturday, a Sunday or a legal holiday or a day on which banking institutions or

trust companies are authorized or obligated by law to close in New York City.

"Commission" shall mean the Securities and Exchange Commission.

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"Effective Date" shall mean each date and time that the Registration Statement, any post-effective amendment or amendments thereto and any Rule 462(b) Registration Statement became or become effective.

"Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Commission promulgated thereunder.

"Execution Time" shall mean the date and time that this Agreement is executed and delivered by the parties hereto.

"Preliminary Prospectus" shall mean any preliminary prospectus referred to in paragraph 1(a) above and any preliminary prospectus included in the Registration Statement at the Effective Date that omits Rule 430A Information.

"Prospectus" shall mean the prospectus relating to the Securities that is first filed pursuant to Rule 424(b) after the Execution Time or, if no filing pursuant to Rule 424(b) is required, shall mean the form of final prospectus relating to the Securities included in the Registration Statement at the Effective Date.

"Registration Statement" shall mean the registration statement referred to in paragraph 1(a) above, including exhibits and financial statements, as amended at the Execution Time (or, if not effective at the Execution Time, in the form in which it shall become effective) and, in the event any post-effective amendment thereto or any Rule 462(b) Registration Statement becomes effective prior to the Closing Date, shall also mean such registration statement as so amended or such Rule 462(b) Registration Statement, as the case may be. Such term shall include any Rule 430A Information deemed to be included therein at the Effective Date as provided by Rule 430A.

"Rule 424", "Rule 430A" and "Rule 462" refer to such rules\ under the Act.

"Rule 430A Information" shall mean information with respect to the Securities and the offering thereof permitted to be omitted from the Registration Statement when it becomes effective pursuant to Rule 430A.

"Rule 462(b) Registration Statement" shall mean a registration statement and any amendments thereto filed pursuant to Rule 462(b) relating to the offering covered by the registration statement referred to in Section 1(a) hereof.

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If the foregoing is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicate hereof, whereupon this letter and your acceptance shall represent a binding agreement among the Company, the Partnership and the several Underwriters.



Very truly yours,

Strategic Timber Trust, Inc.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Strategic Timber Partners, LP

By Strategic Timber Operating Co., as

General Partner of Strategic Timber Partners, LP

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

The foregoing Agreement is hereby  
confirmed and accepted as of  
the date first above written.

Salomon Smith Barney Inc.

Credit Suisse First Boston Corporation

Donaldson, Lufkin & Jenrette Securities Corporation

A.G. Edwards & Sons, Inc.

Warburg Dillon Read LLC

ABN AMRO Incorporated

Morgan Keegan & Company, Inc.

By: Salomon Smith Barney Inc.

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

For themselves and the other  
several Underwriters named in  
Schedule I to the foregoing  
Agreement.

SCHEDULE I

<TABLE>  
<CAPTION>

NUMBER OF UNDERWRITTEN

<S>  
 Salomon Smith Barney Inc.....  
 Credit Suisse First Boston Corporation.....  
 Donaldson, Lufkin & Jenrette Securities Corporation.....  
 A.G. Edwards & Sons, Inc.....  
 Warburg Dillon Read LLC.....  
 ABN AMRO Bank.....  
 Morgan Keegan & Company, Inc.....

<C>

Total.....

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 16,600,000  
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</TABLE>

EXHIBIT A

[LETTERHEAD OF OFFICER, DIRECTOR OR MAJOR SHAREHOLDER OF  
 CORPORATION OR MAJOR UNITHOLDER OF THE PARTNERSHIP]

Strategic Timber Trust, Inc.  
 Public Offering of Common Stock

, 1999

Salomon Smith Barney Inc.  
 Credit Suisse First Boston Corporation  
 Donaldson, Lufkin & Jenrette Securities Corporation  
 A.G. Edwards & Sons, Inc.  
 Warburg Dillon Read LLC  
 ABN AMRO Incorporated  
 Morgan Keegan & Company, Inc.  
 As Representatives of the several Underwriters,  
 c/o Salomon Smith Barney Inc.  
 388 Greenwich Street  
 New York, New York 10013

Ladies and Gentlemen:

This letter is being delivered to you in connection with the

proposed Underwriting Agreement (the "Underwriting Agreement"), among Strategic Timber Trust, Inc., a Georgia corporation (the "Company"), Strategic Timber Partners, LP, a Delaware limited partnership (the "Partnership"), and you as representatives of a group of Underwriters named therein, relating to an underwritten public offering of Common Stock, \$.01 par value (the "Common Stock"), of the Company.

In order to induce you and the other Underwriters to enter into the Underwriting Agreement, the undersigned will not, without the prior written consent of Salomon Smith Barney Inc., offer, sell, contract to sell, pledge or otherwise dispose of, or file (or participate in the filing of) a registration statement with the Securities and Exchange Commission in respect of, or establish or increase a put equivalent position or liquidate or decrease a call equivalent position within the meaning of Section 16 of the Securities Exchange Act of 1934, as amended, and the rules and regulations of the Securities and Exchange Commission promulgated thereunder with respect to, any shares of capital stock of the Company or any limited partnership interests of the Partnership ("Units") or any securities convertible into or exercisable or exchangeable for such capital stock or Units, or publicly announce an intention to effect any such transaction, for a period of one year after the Closing Date (as defined in the Underwriting Agreement), other than:

(a) shares of Common Stock or Units disposed of as bona fide gifts approved by Salomon Smith Barney Inc. where each of the transferees (i) is an "accredited investor" within the meaning of Rule 501(a) of Regulation D under the Securities Act of 1933, as amended, and (ii) agrees to be bound by the terms of this letter;

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(b) shares of Common Stock or Units transferred to members of the undersigned's family (spouse, parents, children or siblings), or to trusts, family limited partnerships or family limited liability companies for the benefit of any of them, so long as the undersigned or the undersigned's family members retain the entire beneficial interest in the Common Stock or Units, and where (i) each of the transferees is an "accredited investor" and agrees to be bound by the terms of this letter, and (ii) the undersigned has notified Salomon Smith Barney Inc.; and

(c) shares of Common Stock or Units disposed of pursuant to a pledge, grant of security interest or other encumbrance effected in a bona fide transaction approved by Salomon Smith Barney Inc. with an unrelated and unaffiliated pledgee where (i) the pledgee is an "accredited investor" and agrees to be bound by the terms of this agreement and (ii) the pledgee agrees that its will under not circumstances foreclose with respect to such shares or Units until after one year from the Closing date.

If for any reason the Underwriting Agreement shall be terminated prior to the Closing Date (as defined in the Underwriting Agreement), the agreement set forth above shall likewise be terminated.

Yours very truly,

[SIGNATURE OF OFFICER, DIRECTOR OR  
MAJOR STOCKHOLDER OR MAJOR UNITHOLDER]

[NAME AND ADDRESS OF OFFICER, DIRECTOR OR MAJOR  
STOCKHOLDER OR MAJOR UNITHOLDER]

PLAN AND AGREEMENT OF MERGER  
WITH RESPECT TO THE MERGER OF  
STRATEGIC TIMBER TRUST II, LLC,  
STRATEGIC TIMBER TWO OPERATING CO., LLC, AND  
STRATEGIC TIMBER PARTNERS II, LP, WITH AND INTO  
STRATEGIC TIMBER PARTNERS, LP

THIS IS A PLAN AND AGREEMENT OF MERGER (this "Plan and Agreement of Merger") by and among Strategic Timber Trust, Inc., a Georgia corporation ("STT"), Strategic Timber Trust II, LLC, a Georgia limited liability company ("STT2"), Strategic Timber Operating Co., a Delaware corporation ("STOC"), Strategic Timber Two Operating Co., LLC, a Georgia limited liability company ("STOC2"), Strategic Timber Partners, LP, a Delaware limited partnership ("STP"), Strategic Timber Partners II, LP, a Georgia limited partnership ("STP2"), the general and limited partners of each of STP (the "STP Partners") and STP2 (the "STP2 Partners"), and the sole manager and members of STT2 (the "STT2 Members"). Each of STT2, STOC2 and STP2 is hereinafter sometimes referred to individually as a "Merging Entity" and collectively as the "Merging Entities." STP is hereinafter sometimes referred to as the "Surviving Entity." The Merging Entities, the Surviving Entity, STT and STOC are referred to herein collectively as the "Constituent Entities."

BACKGROUND STATEMENT

This Plan and Agreement of Merger is being entered into in contemplation of STT's initial underwritten offering of its common stock (the "STT Stock") to the public pursuant to a registration statement to be filed with the United States Securities and Exchange Commission (the "IPO"), and will amend in its entirety and supersede the Plan and Agreement of Merger previously approved by the parties hereto and included as Exhibit H to the First Amended and Restated Agreement of Limited Partnership of STP2, dated as of October 9, 1998 (the "STP2 LP Agreement") insofar as such prior Plan and Agreement of Merger relates to the contemplated IPO. The parties hereto, by executing this Plan and Agreement of Merger, intend that it shall amend the STP2 LP Agreement and the First Amended and Restated Agreement of Limited Partnership of STP, dated as of April 23, 1998 and amended as of October 9, 1998 (the "STP LP Agreement") to the extent inconsistent therewith or otherwise necessary to give full effect to the terms of this Plan and Agreement of Merger.

STATEMENT OF AGREEMENT

In consideration of the mutual promises and the terms and conditions set forth below and in the STP LP Agreement and the STP2 LP Agreement, and other good and valuable consideration (the mutuality, adequacy and sufficiency of which are hereby acknowledged), the parties hereto hereby agree as follows with respect to the merger of STT2, STOC2 and STP2 with and into STP (the "Merger") and the other matters set forth herein:

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1. Background; Approvals. The Merger is to be effected pursuant to the Georgia Limited Liability Company Act (the "GLLCA"), the Delaware Revised Uniform Limited Partnership Act (the "DRULPA") and the Georgia Revised Uniform Limited Partnership Act (the "GRULPA"). The board of directors of STT and STOC, the management committee and sole member of STOC2, and, by executing this Plan and Agreement of Merger, the general partner and limited partners of STP and STP2 and the manager and the STT2 Members, have adopted this Plan and Agreement of Merger in accordance with applicable law and their constituent documents. As contemplated by the STP2 LP Agreement, the Merger is to be consummated shortly before the consummation of the IPO. Prior to the consummation of the Merger, the outstanding shares of STT Stock are to be split through a stock dividend or otherwise. Schedule 1 hereto sets forth a list of (a) the STT2 Members and their respective membership interests in STT2, (b) the limited partners of STP2 and their respective partnership interests in STP2, (c) the limited partners of STP and their respective partnership interests in STP, and (d) the shareholders of STT and the number of shares of STT Stock that each of them now holds. Such Schedule 1 also reflects the number of shares and units contemplated to be held by the respective parties hereto, giving effect to the split of the STT Stock and the Merger (subject to the potential adjustments set forth in subsection 5(i) as of the IPO.

2. The Merger and Surviving Entity. In accordance with the terms of this Plan and Agreement of Merger: (a) the Constituent Entities shall make appropriate filings with the Secretary of State of the States of Delaware and Georgia, and (b) at the Merger Effective Time (as hereinafter defined), the

Merging Entities shall be merged with and into the Surviving Entity as provided herein.

3. Merger Effective Time. The Merger shall be effective upon the filing of articles or a certificate of merger with the Secretary of State of the States of Delaware and Georgia, or such other time as the Constituent Entities to such Merger may agree, as reflected in the articles or certificate of merger as filed (the "Merger Effective Time"). In connection with the consummation of the IPO, the Constituent Entities shall cause the Merger Effective Time to be, to the extent reasonably practicable, contemporaneous with the consummation of the IPO. If the IPO does not occur prior to June 30, 1999, then, thereafter, STT, in its discretion, may either (i) abandon the IPO or (ii) if it intends to complete the IPO, provide written notice (the "Completion Notice") to each of the parties hereto, which Completion Notice must be received on or before the fifteenth (15th) day prior to the Merger Effective Time, that it intends to complete the IPO. Upon receipt of a Completion Notice, either or both of the holders of at least seventy-five percent (75%) of the Class B and Class C Partnership Units of STP2, or the holders of at least seventy-five percent (75%) of the Class B and Class C Partnership Units of STP, in their respective individual discretion, may singly terminate the Plan and Agreement of Merger by providing written notice of such termination to and for receipt by all other parties within ten (10) days of the date on which all holders providing the notice of termination received the Completion Notice. In any event, if the IPO has not been consummated on or before December 31, 1999, this Plan and Agreement of Merger shall terminate as of 12:01 a.m. on January 1, 2000 and shall then be of no further force and effect; provided, however, that if the IPO is abandoned in advance of such date by STT, this Plan and Agreement of Merger shall terminate as of such abandonment and shall then be of no further force and effect.

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4. Effect of Mergers. At the Merger Effective Time: (a) STT2, STOC2 and STP2 will merge with and into STP; (b) the separate existence of the Merging Entities will cease; (c) the ownership interests of the Merging Entities and of the Surviving Entity will be converted as provided in this Plan and Agreement of Merger; and (d) the Merger will otherwise have the effect provided under the applicable laws of the States of Delaware and Georgia.

5. Consideration for Merger; Surviving Entity Partnership Certificate; Etc. At the Merger Effective Time:

(a) Subject to subsection 5(i) below, as to each member of STT2, the outstanding membership interests held by such member shall, in the aggregate, be converted into the number of partnership units (or successor class of units) of STP, the Surviving Entity, which partnership units shall reflect the rights of the single class of limited partners of the Surviving Entity (the "Surviving Partnership Units"), shown next to such member's name on Schedule 1 hereto.

(b) The membership interests of STOC2 will be converted into the right to receive an aggregate of \$100.00 in cash.

(c) Each Class A Partnership Unit of STP2 will be canceled and no consideration shall be paid in exchange therefor.

(d) Subject to subsection 5(i) below, as to each Class B Limited Partner of STP2, the outstanding Class B Partnership Units of STP2 held by such Class B Limited Partner shall, in the aggregate, be converted into the number of Surviving Partnership Units and the amount of cash shown next to such Class B Limited Partner's name on Schedule 1 hereto.

(e) Subject to subsection 5(i) below, as to the Class C Limited Partner of STP2, the outstanding Class C Partnership Units of STP2 held by the Class C Limited Partner shall, in the aggregate, be converted into the number of Surviving Partnership Units and the amount of cash shown next to the Class C Limited Partner's name on Schedule 1 hereto.

(f) As to the Class A General Partner and Class A Limited Partner of STP, the outstanding Class A Partnership Units of STP held by such Class A General Partner and Class A Limited Partner shall, in the aggregate, be converted into the number of Surviving Partnership Units shown next to the name of the Class A General Partner and the Class A Limited Partner on Schedule 1 hereto.

(g) Subject to subsection 5(i) below, as to the Class B Limited Partner of STP, the outstanding Class B Partnership Units of STP held by the Class B Limited Partner shall, in the aggregate, be converted into the number of Surviving Partnership Units shown next to the Class B Limited Partner's name on Schedule 1 hereto.

(h) Subject to subsection 5(i) below, as to the Class C Limited Partner of STP, the outstanding Class C Partnership Units of STP held by the Class C Limited Partner shall, in the

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aggregate, be converted into the number of Surviving Partnership Units and the amount of cash shown next to the Class C Limited Partner's name on Schedule 1 hereto.

(i) If in the IPO the initial price to the public per share of STT Stock (the "IPO Price") is less than \$19, then, subject to Section 8 below:

(i) The number of Surviving Partnership Units to be issued to all of the STT2 Members pursuant to subsection (a) above and to the Class B Limited Partner of STP pursuant to subsection (g) above shall, in the aggregate, be reduced by an amount (the "Adjustment Amount") equal to the quotient obtained by dividing

1) the product obtained by multiplying [x] the difference between the IPO Price and \$19 by [y] the total number of Surviving Partnership Units which, but for the application of this subsection 5(i), would be issued pursuant to subsections 5(d), (e) and (h) above, by

2) the IPO Price,

and rounding the quotient so obtained to the nearest whole number of Surviving Partnership Units.

The number of Surviving Partnership Units to be issued to each of the STT2 Members and the Class B Limited Partner of STP shall be reduced by such person's pro rata portion of the Adjustment Amount, calculated based on the number of Surviving Partnership Units which, but for the application of this subsection 5(i), would be issued to such person pursuant to subsection 5(a) or (g), as the case may be, over the total number of Surviving Partnership Units which, but for the application of this subsection 5(i), would be issued to all of such persons pursuant to subsections 5(a) and (g). The allocation of a pro rata portion of the Adjustment Amount to each such person shall be rounded to the nearest tenth of a Surviving Partnership Unit.

(ii) The number of Surviving Partnership Units to be issued to the Class C Partner of STP and to all Class B and Class C Partners of STP2 pursuant to subsections 5(d), (e) and (h) above shall in the aggregate be increased by the Adjustment Amount. The number of Surviving Partnership Units to be issued to each such person shall be increased by such person's pro rata portion of the Adjustment Amount, calculated based on the number of Surviving Partnership Units which, but for the application of this subsection 5(i), would be issued to such person pursuant to subsection 5(d), (e) or (h), as the case may be, over the total number of Surviving Partnership Units which, but for the application of this subsection 5(i), would be issued to all of such persons pursuant to subsections 5(d), (e) and (h) above. The allocation of a pro rata portion of the Adjustment Amount to each such person shall be rounded to the nearest tenth of a Surviving Partnership Unit.

As an illustration of the foregoing, if the IPO Price of STT Stock is \$18, and STT in its discretion determines to proceed with the IPO, and the total number of Surviving Partnership Units

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to be issued to the Class C Partner of STP and to all Class B and Class C Partners of STP2 is (for purposes of this illustration only) 3,800,000, then the Adjustment Amount would be computed as follows: (i) \$19 minus \$18 equals \$1 difference, multiplied by 3,800,000 equals 3,800,000 adjustment value, divided by (ii) \$18 IPO Price, results in an Adjustment Amount of 211,111.11, which would be rounded to 211,111. The aggregate number of Surviving Partnership Units to be issued to all of the STT2 members and the Class B Limited Partner of STP would be proportionately reduced by this amount, while the aggregate number to be issued to the Class C Limited Partner of STP and the Class B and Class C Limited Partners of STP2 would be proportionately increased by the same amount.

(j) The certificate of limited partnership of STP, as in effect immediately prior to the Merger Effective Time, shall continue to be the STP's certificate of limited partnership at and after the Merger Effective Time until amended in accordance with applicable law.

(k) The limited partnership agreement of STP, as in effect immediately prior to the Merger Effective Time, shall continue to be STP's limited partnership agreement at and after the Merger Effective Time until amended in accordance with the DRULPA.

(l) STOC shall continue to be STP's general partner at and after the Merger Effective Time until changed in accordance with STP's limited partnership agreement.

6. Merging Entity Interests. As of the Merger Effective Time, each certificate or other evidence of ownership of an interest (whether common stock, membership interest or partnership interest) in any Merging Entity shall be deemed to represent only the consideration into which such interest has been converted pursuant to this Plan and Agreement of Merger, and may be surrendered for such consideration immediately following the Merger Effective Time in accordance with such procedures as established by the Surviving Entity, in its reasonable discretion. No interest shall be accrued or paid on any portion of the consideration paid or payable pursuant to this Plan and Agreement of Merger.

7. Lock-up and Registration Rights Agreement. Prior to the Merger Effective Time, STT and STP will enter into a Lock-up and Registration Rights Agreement with the parties to this Plan and Agreement of Merger who are to receive Surviving Partnership Units, which agreement will be in substantially the form set forth on Schedule 2 hereto, with such further changes as the parties may agree, consistent with the customary terms of similar Lock-up and Registration Rights Agreements executed in connection with public offerings of shares of real estate investment trusts.

8. HSR Filing; Other Consents; Election of STT to Proceed Under Certain Circumstances. Consummation of the Merger shall be conditioned upon compliance with the requirements of the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended, if applicable, and to the obtaining of any other material consents or approvals of any governmental authority or third party that are required in connection with the consummation of the Merger. In addition, consummation of the Merger shall be conditioned upon the determination by STT that, based on its judgment, the closing of the IPO is imminent. Nothing contained herein obligates STT

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to consummate the IPO, and STT may in its discretion decide not to do so for any reason whatsoever, including, without limitation, dissatisfaction as to the IPO Price.

9. Amendment. This Plan and Agreement of Merger may be amended at any time prior to the Merger Effective time by the Constituent Entities without the prior authorization of their respective boards of directors, management committees, stockholders, members or limited partners, provided that any amendment will be subject to any applicable restrictions imposed by the DRULPA, the GLLCA, the GRULPA, applicable securities laws or their respective constituent documents requiring further organizational approval. No amendment of any provision of this Agreement and Plan of Merger shall be valid unless the same shall be in writing and signed by all of the Constituent Entities.

10. Further Assurances. Upon the execution of this Plan and Agreement of Merger and thereafter, each of the parties hereto agrees to do such things as may be reasonably requested by any other party in order to more effectively consummate or document the transactions contemplated by this Plan and Agreement of Merger. If at any time the Surviving Entity shall consider or be advised that any further assignments or assurances or any things are necessary or desirable to vest in the Surviving Entity, in accordance with the terms of this Plan and Agreement of Merger, the title of any property or rights of any Merging Entity, then the last acting general partner or officer of such Merging Entity or the corresponding general partner or officer of the Surviving Entity shall execute and make all such proper assignments and assurances and do all things necessary or proper to vest title in such property or rights in the Surviving Entity, or otherwise to carry out the purposes of this Plan and Agreement of Merger or the Merger.

11. Number; Gender; Captions; Certain Definitions. Whenever the context so requires, the singular number includes the plural, the plural includes the singular, and the gender of any pronoun includes the other genders. Titles and captions of or in this Plan and Agreement of Merger are inserted only as a matter of convenience and for reference and in no way affect the scope of

this Plan and Agreement of Merger or the intent of its provisions. The parties agree: (a) that "applicable law" means all provisions of any constitution, statute, law, rule, regulation, decision, order, decree, judgment, release, license, permit, stipulation or other official pronouncement enacted, promulgated or issued by any governmental authority or arbitrator or arbitration panel; (b) that "governmental authority" means any legislative, executive, judicial, quasi-judicial or other public authority, agency, department, bureau, division, unit, court or other public body, person or entity; and (c) that "including" and other words or phrases of inclusion, if any, shall not be construed as terms of limitation, so that references to "included" matters shall be regarded as non-exclusive, non-characterizing illustrations.

12. Copies; Counterparts; Facsimile Signatures. This Plan and Agreement of Merger may be executed in two or more copies, each of which shall be deemed an original, and it shall not be necessary in making proof of this Plan and Agreement of Merger or its terms to produce or account for more than one of such copies. This Plan and Agreement of Merger may be executed in counterparts, in which event each counterpart shall reflect the signatures of all the parties hereto. Execution of this Plan and Agreement of Merger may be by facsimile signature, which shall have the same force and effect as an original signature.

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13. Controlling Agreement. To the extent the provisions of this Plan and Agreement of Merger are inconsistent with the provisions of the STP LP Agreement or the STP2 LP Agreement, the provisions of this Agreement shall control, and shall be deemed to amend such inconsistent provisions.

[signatures on following pages]

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DULY EXECUTED and delivered by each of the Constituent Entities, the STP Partners, the STP2 Partners and the STT2 Members, as of January 25, 1999.

<TABLE>

<CAPTION>

THE CONSTITUENT ENTITIES:  
-----

STRATEGIC TIMBER TRUST, INC.

<S>

<C>

By: /s/ Joseph E. Rendini

Name: Joseph E. Rendini

Title:

STRATEGIC TIMBER TRUST II, LLC

By: /s/ Joseph E. Rendini

Name: Joseph E. Rendini

Title:

STRATEGIC TIMBER OPERATING CO.

By: /s/ Joseph E. Rendini

Name: Joseph E. Rendini

Title:

STRATEGIC TIMBER TWO OPERATING  
CO., LLC



By: /s/ Joseph E. Rendini  
-----  
Name: Joseph E. Rendini  
-----  
Title: \_\_\_\_\_  
-----

</TABLE>

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STRATEGIC TIMBER PARTNERS, LP

By: Strategic Timber Operating Co.,  
its General Partner

By: /s/ Joseph E. Rendini  
-----  
Name: Joseph E. Rendini  
-----  
Title: \_\_\_\_\_  
-----

STRATEGIC TIMBER PARTNERS II, LP

By: Strategic Timber Two Operating Co.,  
LLC, its General Partner

By: /s/ Joseph E. Rendini  
-----  
Name: Joseph E. Rendini  
-----  
Title: \_\_\_\_\_  
-----

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THE STP PARTNERS:

<TABLE>  
<CAPTION>  
General Partner:  
-----

STRATEGIC TIMBER OPERATING CO.

<S>

<C>

By: /s/ Joseph E. Rendini  
-----  
Name: Joseph E. Rendini  
-----  
Title: \_\_\_\_\_  
-----

Limited Partners:

STRATEGIC TIMBER TRUST, INC.

By: /s/ Joseph E. Rendini  
-----  
Name: Joseph E. Rendini  
-----  
Title: \_\_\_\_\_  
-----

LOUISIANA TIMBER PARTNERS, LLC

By: /s/ Larry J. Woodard  
-----  
Name: Larry J. Woodard  
-----

</TABLE>

Title:	Manager
	-----

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11

THE STP2 PARTNERS:

<TABLE>	
<CAPTION>	
General Partner:	STRATEGIC TIMBER TWO OPERATING CO., LLC
-----	
<S>	<C>

By:	/s/ Joseph E. Rendini
	-----
Name:	Joseph E. Rendini
	-----
Title:	
	-----

Limited Partners:

STRATEGIC TIMBER TWO OPERATING CO., LLC

By:	/s/ Joseph E. Rendini
	-----
Name:	Joseph E. Rendini
	-----
Title:	
	-----

	/s/ Gregory M. Demers
	-----
	Gregory M. Demers

OLD PIONEER, LLC

By:	/s/ Gregory M. Demers
	-----
Name:	Gregory M. Demers
	-----
Title:	President
	-----

	/s/ T. Yates Exley
	-----
	T. Yates Exley

KING INVESTMENT GROUP, INC.

By:	/s/ Ed King
	-----
Name:	Ed King
	-----
Title:	President
	-----

</TABLE>

- 11 -

12

<TABLE>

<S>

<C>
/s/ Darrick Salyers
-----
Darrick Salyers

/s/ James A. Youel  
-----  
James A. Youel

MACH ONE PARTNERS, LLC

By: /s/ H. A. Pielenz  
-----  
Name: H. A. Pielenz  
-----  
Title:  
-----

THE STT2 SOLE MANAGER AND  
MEMBERS:

Sole Manager: /s/ Thomas P. Broom  
-----  
Thomas P. Broom, Manager

</TABLE>

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<TABLE>  
<S>  
Members:

<C>  
/s/ C. Edward Broom  
-----  
C. Edward Broom

/s/ Christopher J. Broom  
-----  
Christopher J. Broom

/s/ Thomas P. Broom  
-----  
Thomas P. Broom

/s/ Nicholas C. Brunet  
-----  
Nicholas C. Brunet

/s/ Vladimir Harris  
-----  
Vladimir Harris

/s/ Joseph E. Rendini  
-----  
Joseph E. Rendini

SUTHERLAND, ASBILL & BRENNAN LLP

By: /s/ William H. Bradley  
-----  
William H. Bradley, Partner

</TABLE>

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# Schedule 1 to Plan and Agreement of Merger

## Part A

STOCKHOLDERS OF STT AND NUMBER OF SHARES OF STT STOCK TO BE HELD FOLLOWING  
STOCK SPLIT

<TABLE>  
<CAPTION>

Name of Shareholder -----	Number of Shares Now -----	Number of Shares to be -----
------------------------------	-------------------------------	---------------------------------

	Held ----	Held After Split -----
<S>	<C>	<C>
E. Broom	4,590	167,942
T. Broom	4,590	167,942
C. Broom	4,590	167,942
Harris	1,020	37,321
Rendini	1,020	37,321
Godfrey	255	9,330
Brunet	1,020	37,321
Partners of SAB as a group	1,275	46,651

</TABLE>

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## Part B

MEMBERS AND PARTNERS OF STT2, STP2 AND STP AND, SUBJECT TO SUBSECTION 5(I),  
MERGER CONSIDERATION TO EACH

<TABLE> <CAPTION>				
Name of Member or -----	Type of Interest -----	Interest Pre- -----	Merger ----- Consideration: No. of Surviving Partnership Units -----	Merger ----- Consideration: Cash -----
Partner -----	Held ----	Merger -----		
<S>	<C>	<C>	<C>	<C>
E. Broom	STT2 Member	712.4576	240,387	0
T. Broom	STT2 Member	712.4576	240,387	0
C. Broom	STT2 Member	712.4576	240,387	0
Harris	STT2 Member	158.3239	53,419	0

</TABLE>

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<TABLE> <S>				
	<C>	<C>	<C>	<C>
Rendini	STT2 Member	158.3239	53,419	0
Brunet	STT2 Member	158.3239	53,419	0
SAB	STT2 Member	197.9049	51,617	0
Demers	Class B STP2	726	266,685	\$ 2,956,191
Salysers	Class B STP2	573	210,495	\$ 2,333,335
Exley	Class B STP2	296	108,516	\$ 1,202,750
Youel	Class B STP2	118	43,398	\$ 481,100
Old Pioneer	Class B STP2	3,795	1,393,648	\$15,448,289
King Investment	Class B STP2	401	147,344	\$ 1,633,335
Mach One	Class C STP2	909	100,110	\$10,000,000
STOC	Class A STP (General Partner)	255	222,380	0
STT	Class A STP (Limited Partner)	20,245	449,390	0
Louisiana Timber	Class B STP	500	160,224	0
Louisiana Timber	Class C STP	4,500	1,602,750	\$12,945,00

</TABLE>

\* \* \* \* \*

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Schedule 2 to Plan and Agreement of Merger

Form of Lock-up and Registration Rights Agreement

[FORM OF STT LOCK-UP AND REGISTRATION RIGHTS AGREEMENT]

STRATEGIC TIMBER TRUST, INC.  
LOCK-UP AND REGISTRATION RIGHTS AGREEMENT

This Lock-up and Registration Rights Agreement (this "Agreement") is entered into as of \_\_\_\_\_, 1999 by and among Strategic Timber Trust, Inc., a Georgia corporation (the "Company"), Strategic Timber Partners, LP, a Delaware limited partnership (the "Partnership"), and the parties identified as "Holders" on the signature pages hereto (each a "Holder" and collectively, the "Holders").

WHEREAS, the Holder may receive shares of common stock of the Company, \$.01 par value ("Common Shares"), and has received or will receive units of limited partnership interest ("Units") in the Partnership, in each case issued or to be issued without registration under the Securities Act of 1933, as amended (the "Securities Act") in connection with the consummation of an initial public offering of the Common Shares (the "IPO");

WHEREAS, the agreements of the parties contained herein are in contemplation of the IPO, and are conditioned upon the consummation of the IPO;

NOW, THEREFORE, in consideration of the foregoing, the mutual promises and agreements set forth herein, and other valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

14. Certain Definitions.

As used in this Agreement, in addition to the other terms defined herein, the following capitalized defined terms shall have the following meanings:

"NASD" means the National Association of Securities Dealers, Inc.

"Person" means an individual, partnership, corporation, limited liability company, trust, or unincorporated organization, or a government or agency or political subdivision thereof.

"Registrable Shares" means the Shares of the Holder, excluding (i) Shares for which a Registration Statement relating to the sale thereof shall have become effective under the Securities Act and which have been issued or disposed of under such Registration Statement, (ii) Shares sold pursuant to Rule 144 or Rule 144A, or (iii) Shares eligible for sale pursuant to Rule 144(k) (or any successor provision).

"Registration Expenses" means any and all expenses incident to performance of or compliance with this Agreement, including, without limitation: (i) all SEC, stock exchange

or NASD registration and filing fees; (ii) all fees and expenses incurred in connection with compliance with state securities or "blue sky" laws (including reasonable fees and disbursements of counsel in connection with "blue sky" qualification of any of the Registrable Shares and the preparation of a Blue Sky Memorandum) and compliance with the rules of the NASD; (iii) all expenses of any Person in preparing or assisting in preparing, word processing, printing and distributing any Registration Statement, any Prospectus, certificates and other documents relating to the performance of and compliance with this Agreement; (iv) all fees and expenses incurred in connection with the listing, if any, of any of the Registrable Shares on any securities exchange or exchanges on which the Common Shares are listed; and (v) the fees and disbursements of counsel for the Company and of the independent public accountants of the Company, including the expenses of any special audit or "cold comfort" letters required by or incident to such performance and compliance. Registration Expenses shall specifically exclude underwriting discounts and commissions relating to the sale or disposition of Registrable Shares by the Holder, the fees

and disbursements of counsel representing the Holder in connection therewith as provided in Section 5, and transfer taxes, if any, relating to the sale or disposition of Registrable Shares by the Holder, all of which shall be borne by the Holder in all cases.

"Registration Statement" means any registration statement of the Company which covers the issuance or resale of any of the Registrable Shares on an appropriate form, and all amendments and supplements to such registration statement, including post-effective amendments, in each case including the Prospectus contained therein, all exhibits thereto and all materials incorporated by reference therein.

"Rule 144" means Rule 144 (or any successor provision) under the Securities Act.

"Rule 144A" means Rule 144A (or any successor provision) under the Securities Act.

"SEC" means the Securities and Exchange Commission.

"Shares" means any Common Shares issued or to be issuable to the Holder upon redemption or in exchange for Units held by the Holder.

15. Lock-up Agreement. [To Be Modeled After SSB Lock-up Letter Agreement]
16. Registration.

(a) Registration Statement Covering Issuance of Common Shares. If permitted by applicable law and the rules and policies of the SEC, the Company shall cause to be filed on the first business day after one year following consummation of the IPO, or as soon thereafter as practicable, a registration statement (the "Issuance Registration Statement") under Rule 415 under the Securities Act relating to the issuance to the Holders of Common Shares upon the redemption of Units or in exchange for Units. Thereupon, the Company shall use reasonable efforts to cause such Registration Statement to be declared effective by the SEC for all Common Shares covered thereby. The Company agrees to use reasonable efforts to keep the Issuance Registration Statement

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continuously effective, with respect to the Registrable Shares of the Holders, until the date on which the Holders have redeemed or exchanged all of their Units for Common Shares, but in no event later than six months after the effectiveness of such registration statement. In the event that the Company, despite its reasonable good faith efforts, is unable to cause such Issuance Registration Statement to be declared effective by the SEC within 90 days of the first anniversary of the IPO or (except as otherwise permitted by Sections 8(b) and 9) is unable to keep such Issuance Registration Statement effective until the date on which the Holders have redeemed or exchanged the all of their Units for Common Shares (but in no event later than six months after the effectiveness of such registration statement) then the rights of the Holders set forth in Section 3(b) below shall apply.

(b) Demand Registration. Subject to the conditions set forth in this Agreement, if the Company is unable under applicable law and the rules and policies of the SEC to file an Issuance Registration Statement, at any time after one (1) year from the date of the IPO, the Company shall, at the written request of a Holder who is unable to sell its Registrable Shares pursuant to Rule 144(k) under the Securities Act, cause to be filed as soon as practicable after the date of such request by such Holder a Registration Statement under Rule 415 under the Securities Act relating to the sale by the Holder of all or any integral multiple of 100,000 shares of the Registrable Shares held by such Holder in accordance with the terms hereof, and shall use reasonable efforts to cause such Registration Statement to be declared effective by the SEC as soon as practicable thereafter; provided, however, that the Company shall not be required to effect more than two demand registrations pursuant to this Section 3(b). The Company may, in its sole discretion, elect to file a Registration Statement with respect to any or all of the Shares before receipt of notice from any Holder, and to combine sales by more than one Holder into any single Registration Statement. The Company agrees to use reasonable efforts to keep each Registration Statement continuously effective until the earlier of (i) six months thereafter, or (ii) the date on which such Holder no longer holds any Registrable Shares. Notwithstanding the foregoing provisions of this Section 3(b), during any period of time which the Company has a Registration Statement in effect under the provisions of Rule 415 of the Securities Act relating to the original issuance by the Company of shares of Common Stock in connection with the redemption of Holders' Units, such Holders will not have the right to request the registration of Registrable Shares under the provisions of this Section 3(b).

(c) Notification and Distribution of Materials. The Company shall notify each Holder of the effectiveness of any Registration Statement applicable to the Shares of such Holder and shall furnish to such Holder such number of copies of the Registration Statement (including any amendments, supplements and exhibits), the Prospectus contained therein (including each preliminary prospectus and all related amendments and supplements) and any documents incorporated by reference in the Registration Statement and such other documents as the Holder may reasonably request in order to facilitate its sale of the Registrable Shares in the manner described in the Registration Statement.

(d) Amendments and Supplements. The Company shall prepare and file with the SEC from time to time such amendments and supplements to the Registration Statement and Prospectus used in connection therewith as may be necessary to keep the Registration Statement effective and to comply with the provisions of the Securities Act with respect to the disposition of

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all the Registrable Shares until the earlier of (a) such time as all of the Registrable Shares have been issued in accordance with the intended method of issuance by the Company (in the case of a Registration Statement filed pursuant to Section 3(a) hereof) or disposed of in accordance with the intended methods of disposition by the Holder (in the case of a Registration Statement filed pursuant to Section 3(b) hereof) or (b) the date on which the Registration Statement ceases to be effective in accordance with the terms of this Section 3. Upon 20 business days' notice, the Company shall file any supplement or post-effective amendment to the Registration Statement with respect to the plan of distribution or a Holder's ownership interests in its Registrable Shares that is reasonably necessary to permit the sale of a Holder's Registrable Shares pursuant to the Registration Statement. The Company shall file any necessary listing applications or amendments to the existing applications to cause the Shares registered under any Registration Statement to be then listed or quoted on the primary exchange or quotation system on which the Common Shares are then listed or quoted.

(e) Notice of Certain Events. The Company shall promptly notify the Holders of, and confirm in writing, the filing of the Registration Statement or any Prospectus, amendment or supplement related thereto or any post-effective amendment to the Registration Statement and the effectiveness of any post-effective amendment. At any time when a Prospectus relating to the Registration Statement is required to be delivered under the Securities Act by a Holder to a transferee, the Company shall immediately notify such Holder of the happening of any event as a result of which the Prospectus included in such Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. In such event, the Company shall promptly prepare and furnish to such Holder a reasonable number of copies of a supplement to or an amendment of such Prospectus as may be necessary so that, as thereafter delivered to the purchasers of Registrable Shares, sold under the Prospectus, such Prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they are made, not misleading. The Company will, if necessary, promptly amend the Registration Statement of which such Prospectus is a part to reflect such amendment or supplement.

17. State Securities Laws. Subject to the conditions set forth in this Agreement, the Company shall, in connection with the filing of any Registration Statement hereunder, file such documents as may be necessary to register or qualify the Registrable Shares under the securities or "Blue Sky" laws of such states as the Holders may reasonably request, and the Company shall use all reasonable efforts to cause such filings to become effective in a timely manner; provided, however, that the Company shall not be obligated to qualify as a foreign corporation to do business under the laws of any such state in which it is not then qualified or to file any general consent to service of process in any such state. Once effective, the Company shall use all reasonable efforts to keep such filings effective until the earlier of (a) such time as all of the Registrable Shares have been disposed of in accordance with the intended methods of disposition by the Holders as set forth in the Registration Statement, (b) in the case of a particular state, the applicable Holder has notified the Company that it no longer requires an effective filing in such state in accordance with its original request for filing or (c) the date on which the Registration Statement ceases to be effective.

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18. Expenses. The Company shall bear all Registration Expenses incurred in connection with the registration of the Registrable Shares pursuant to this Agreement, except that each Holder shall be responsible for any brokerage or underwriting commissions and taxes of any kind (including, without limitation, transfer taxes) with respect to any disposition, sale or transfer of Registrable Shares sold by it and for any legal, accounting and other expenses incurred by it.

19. Indemnification by the Company. The Company agrees to indemnify each Holder and its officers, directors, employees, agents, representatives and affiliates, and each person or entity, if any, that controls the Holder within the meaning of the Securities Act, and each other person or entity, if any, subject to liability because of his, her or its connection with the Holder (each, an "Indemnitee"), against any and all losses, claims, damages, actions, liabilities, costs and expenses (including without limitation reasonable fees, expenses and disbursements of attorneys and other professionals), joint or several, arising out of or based upon any violation by the Company of any rule or regulation promulgated under the Securities Act applicable to the Company and relating to action or inaction required of the Company in connection with any Registration Statement or Prospectus, or upon any untrue or alleged untrue statement of material fact contained in the Registration Statement or any Prospectus, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, that the Company shall not be liable to such Indemnitee or any person who participates as an underwriter in the offering or sale of Registrable Shares or any other person, if any, who controls such underwriter within the meaning of the Securities Act, in any such case to the extent that any such loss, claim, damage, liability (or action or proceeding in respect thereof) or expense arises out of or is based upon (i) an untrue statement or alleged untrue statement or omission or alleged omission made in such Registration Statement or in any such Prospectus in reliance upon and in conformity with information regarding such Indemnitee or its plan of distribution or ownership interests which was furnished in writing to the Company for use in connection with the Registration Statement or the Prospectus contained therein by such Indemnitee or (ii) the Holder's failure to send or give a copy of the final, amended or supplemented prospectus furnished to the Holder by the Company at or prior to the time such action is required by the Securities Act to the selling broker for delivery to the person claiming an untrue statement or alleged untrue statement or omission or alleged omission if such statement or omission was corrected in such final amended or supplemented prospectus.

20. Covenants of the Holders. Each Holder hereby agrees (a) to cooperate with the Company and to furnish to the Company all such information concerning its plan of distribution and ownership interests with respect to its Registrable Shares in connection with the preparation of a Registration Statement with respect to the Holder's Registrable Shares and any filings with any state securities commissions as the Company may reasonably request, (b) to deliver to the selling broker or to otherwise cause delivery of the Prospectus contained in such Registration Statement (other than an Issuance Registration Statement) to any purchaser of the shares covered by such Registration Statement from the Holder and (c) to indemnify the Company, its officers, directors, employees, agents, representatives and affiliates, and each person, if any, who controls the Company within the meaning of the Securities Act, and each other person, if any, subject to liability because of his connection with the Company, against any and all losses, claims, damages, actions, liabilities, costs and expenses arising out of or based upon (i) any untrue statement or alleged untrue statement of

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material fact contained in either such Registration Statement or the Prospectus contained therein, or any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading, if and to the extent that such statement or omission occurs from reliance upon and in conformity with written information regarding the Holder, its plan of distribution or its ownership interests, which was furnished to the Company by the Holder for use therein unless such statement or omission was corrected in writing to the Company not less than three business days prior to the date of the final prospectus (as supplemented or amended, as the case may be) or (ii) the failure by the Holder to deliver to the selling broker or to otherwise cause to be delivered the Prospectus contained in such Registration Statement (as amended or supplemented, if applicable) furnished by the Company to the Holder to any purchaser of the shares covered by such Registration



Statement from the Holder through no fault of the Company.

21. Suspension of Registration Requirement; Restriction on Sales.

(a) The Company shall promptly notify each Holder of, and confirm in writing, the issuance by the SEC of any stop order suspending the effectiveness of a Registration Statement with respect to the Holder's Registrable Shares or the initiation of any proceedings for that purpose. The Company shall use all reasonable efforts to obtain the withdrawal of any order suspending the effectiveness of such a Registration Statement at the earliest possible moment.

(b) Notwithstanding anything else to the contrary set forth in this Agreement, the Company's obligation under this Agreement to cause a Registration Statement and any filings with any state securities commission to become effective or to amend or supplement a Registration Statement shall be suspended in the event and during such period as unforeseen circumstances exist (including without limitation (i) an underwritten primary offering by the Company if the Company is advised in writing by the underwriters that the sale of Registrable Shares under the Registration Statement would impair the pricing or commercial practicality of the primary offering or (ii) pending negotiations relating to, or consummation of, a transaction or the occurrence of an event that would require additional disclosure of material information by the Company in the Registration Statement or such filing, as to which the Company has a bona fide business purpose for preserving confidentiality or which renders the Company unable to comply with SEC requirements) (such unforeseen circumstances being hereinafter referred to as a "Suspension Event") that would make it impractical or unadvisable to cause the Registration Statement or such filings to become effective or to amend or supplement the Registration Statement, but such suspension shall continue only for so long as such event or its effect is continuing. The Company shall notify the Holders of the existence and, in the case of circumstances referred to in clause (i) of this Section 8(b), nature of any Suspension Event.

(c) Each Holder agrees if requested in writing by the Company in the case of a Company-initiated nonunderwritten offering or by the managing underwriter or underwriters in a Company-initiated underwritten offering, not to effect any public sale or distribution of any of the securities of the Company, including a sale pursuant to Rule 144 or Rule 144A, during the 15-day period prior to, and during the 60-day period beginning on, the date of effectiveness of the registration statement relating to such Company-initiated offering.

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22. Black-Out Period. Each Holder agrees that, following the effectiveness of any Registration Statement relating to the sale of Registrable Shares of the Holder, the Holder will not effect any sales of the Registrable Shares pursuant to the Registration Statement or any filings with any state securities commission at any time after the Holder has received notice from the Company to temporarily suspend sales as a result of the occurrence or existence of any Suspension Event so that the Company promptly may correct or update the Registration Statement or such filing. Each Holder may recommence effecting sales of the Shares pursuant to the Registration Statement or such filings following further notice to such effect from the Company, which notice shall be given by the Company promptly after the conclusion of any such Suspension Event.

23. Additional Shares. The Company, at its option, may register, under any Registration Statement and any filings with any state securities commissions filed pursuant to this Agreement, any number of unissued Common Shares of the Company or any Common Shares of the Company owned by any other shareholder or shareholders of the Company.

24. Contribution. If the indemnification provided for in Sections 6 and 7 is unavailable to an indemnified party with respect to any losses, claims, damages, actions, liabilities, costs or expenses referred to therein or is insufficient to hold the indemnified party harmless as contemplated therein, then the indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, actions, liabilities, costs or expenses in such proportion as is appropriate to reflect the relative fault of the Company, on the one hand, and the Indemnatee, on the other hand, in connection with the statements or omissions which resulted in such losses, claims, damages, actions, liabilities, costs or expenses as well as any other relevant equitable considerations. The relative fault of the Company, on the one hand, and of the Indemnatee, on the other hand, shall be determined by reference to, among other factors, whether the untrue or alleged untrue statement of a material fact or omission to state a material fact relates to information supplied by the Company or in writing by the Indemnatee and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or

omission; provided, however, that in no event shall the obligation of any indemnifying party to contribute under this Section 11 exceed the amount that such indemnifying party would have been obligated to pay by way of indemnification if the indemnification provided for under Sections 6 or 7 hereof had been available under the circumstances. The Company and the Holders agree that it would not be just and equitable if contribution pursuant to this Section 11 were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to in the immediately preceding paragraph. Notwithstanding the provisions of this Section 11, no Holder shall be required to contribute any amount in excess of the amount by which the gross proceeds from the sale of Shares exceeds the amount of any damages that such Holder has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission. No indemnified party guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any indemnifying party who was not guilty of such fraudulent misrepresentation.

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25. No Other Obligation to Register. Except as otherwise expressly provided in this Agreement, the Company shall have no obligation to any Holder to register the Registrable Shares under the Securities Act.

26. Amendments and Waivers. The provisions of this Agreement may not be amended, modified, or supplemented or waived without the prior written consent of the Company and the affected Holder.

27. Notices. Except as set forth below, all notices and other communications provided for or permitted hereunder shall be in writing and shall be deemed to have been duly given when and if delivered personally or sent by telecopier (with respect to notice by telecopier, on a business day between the hours of 8:00 a.m. and 5:00 p.m., Eastern time), five business days after being sent if mailed by registered or certified mail (return receipt requested), postage prepaid, or upon receipt if sent by courier or overnight delivery service to the respective parties at the following addresses (or at such other address for any party as shall be specified by like notice, provided that notices of a change of address shall be effective only upon receipt thereof), and further provided that in case of directions to amend the Registration Statement pursuant to Section 3(d) or Section 7, the Holder must confirm such notice in writing by overnight express delivery with confirmation of receipt:

If to the Company or the Partnership:

Strategic Timber Trust, Inc.  
5 North Pleasant Street  
New London, New Hampshire 03257  
Attention: President  
Telecopy: (603) 526-7800

with a copy to:

Sutherland Asbill & Brennan LLP  
999 Peachtree Street, N.E.  
Atlanta, Georgia 30309-3996  
Attention: William H. Bradley  
Telecopy: (404) 853-8806

If to a Holder:

As listed on the Holder Signature Pages hereto.

28. Successors and Assigns. This Agreement shall be binding upon the parties hereto and their respective successors and assigns and shall inure to the benefit of the parties hereto and their respective successors and assigns. This Agreement may not be assigned by any Holder and any attempted assignment hereof by a Holder will be void and of no effect and the Holder shall indemnify the Company and the Partnership against any and all losses, claims, damages, actions, liabilities, costs and expenses (including without limitation reasonable fees, expenses and

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disbursements of attorneys and other professionals), arising out of or based upon such attempted assignment.

29. Counterparts. This Agreement may be executed in any number of counterparts and by the parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

30. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Georgia applicable to contracts made and to be performed wholly within said State.

31. Severability. In the event that any one or more of the provisions contained herein, or the application thereof in any circumstances, is held invalid, illegal or unenforceable in any respect for any reason, the validity, legality and enforceability of any such provision in every other respect and of the remaining provisions contained herein shall not be in any way impaired thereby, it being intended that all of the rights and privileges of the parties hereto shall be enforceable to the fullest extent permitted by law.

32. Entire Agreement. This Agreement is intended by the parties as a final expression of their agreement and intended to be the complete and exclusive statement of the agreement and understanding of the parties hereto in respect of the subject matter contained herein. There are no restrictions, promises, warrants or undertakings, other than those set forth or referred to herein, with respect to such subject matter. This Agreement supersedes all prior agreements and understandings between the parties with respect to such subject matter.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the date first written above.

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<CAPTION>

COMPANY:	STRATEGIC TIMBER TRUST, INC.
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By:

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Name:

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Title:

PARTNERSHIP:

STRATEGIC TIMBER PARTNERS, LP

By: Strategic Timber Operating Co.  
Its General Partner

By:

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Name:

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Title:

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- 9 -

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HOLDERS:	ADDRESSES FOR NOTICES:
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FORM OF  
AMENDED AND RESTATED ARTICLES OF INCORPORATION  
OF  
STRATEGIC TIMBER TRUST, INC.

Strategic Timber Trust, Inc., a corporation organized and existing under the Georgia Business Corporation Code (the "Corporation"), certifies that these Amended and Restated Articles of Incorporation (these "Articles of Incorporation") were duly adopted by the Board of Directors of the corporation on \_\_\_\_\_, 1999, and duly approved by the shareholders of the corporation in accordance with Section 14-2-1003 of the Georgia Business Corporation Code on \_\_\_\_\_, 1999, and that the Articles of Incorporation of the Corporation are hereby amended and restated to read in their entirety as follows:

ARTICLE I.

The name of the Corporation is:

Strategic Timber Trust, Inc.

ARTICLE II.

The purpose of the Corporation is to engage in any lawful act or activity for which corporations may be organized under the Georgia Business Corporation Code (the "GBCC").

ARTICLE III.

The total number of shares which the Corporation is authorized to issue is Two Hundred Fifty Million (250,000,000) shares, of which Two Hundred Million (200,000,000) are common shares (the "Common Shares") and Fifty Million (50,000,000) are preferred shares (the "Preferred Shares"), all of which shares shall have a par value of \$.01 per share. The designations, preferences, limitations and relative rights of or on the Common Shares and the Preferred Shares are as set forth below and are otherwise subject to applicable law. The Common Shares (a) shall be one and the same class, (b) subject to the rights of the holders of Preferred Shares, if any, shall have full and unlimited voting rights (with each share having one vote on each matter submitted to shareholders for vote), and (c) subject to the rights of the holders of Preferred Shares, if any, shall have equal rights of participation in dividends and distributions and shall be entitled to receive the net assets of the Corporation ratably upon dissolution. The Board of Directors is authorized, by causing appropriate articles of amendment to be filed pursuant to the applicable law of the State of Georgia, to divide the Preferred Shares into series and to determine the preferences, limitations and relative rights thereof, including but not limited

to dividend rights, dividend rates, conversion rights, voting rights (including, without limitation, the election of a specified number of directors by the holders of one or more such series), redemption rights, and liquidation preferences; and to fix the number of shares

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constituting any such series and the designation thereof; and to increase or decrease the number of shares of any such series (but not below the number of shares thereof then issued).

No holder of shares of any class or series shall as such holder have any preemptive or preferential right to purchase or subscribe to (i) any shares of any class or series of the Corporation, whether now or hereafter authorized, (ii) any warrants, rights or options to purchase any such shares or (iii) any obligations convertible into any such shares or into warrants, rights or options to purchase any such shares.

#### ARTICLE IV.

In furtherance and not in limitation of the powers conferred by statute, the Board of Directors and shareholders are expressly authorized to adopt, amend or repeal the Bylaws of the Corporation as provided in the Bylaws and the GBCC.

#### ARTICLE V.

A director of the Corporation shall not be personally liable to the Corporation or to its shareholders for monetary damages for any action taken, or any failure to take any action, as a director, except liability: (a) for any appropriation, in violation of his or her duties, of any business opportunity of the Corporation, (b) for acts or omissions which involve intentional misconduct or a knowing violation of law, (c) for the types of liability set forth in section 14-2- 832 of the GBCC, or (d) for any transaction from which the director received an improper personal benefit. If the GBCC is hereafter amended to further eliminate or limit the personal liability of directors, then the liability of a director of the Corporation shall be eliminated or limited to the fullest extent permitted by the GBCC, as so amended. Any repeal or modification of this Article V by the shareholders of the Corporation shall not adversely affect any right or protection of a director of the Corporation existing at the time of such repeal or modification.

#### ARTICLE VI.

The Board of Directors shall consist of such number of directors as is fixed or changed from time to time by the Board of Directors and shall be divided into three classes: Class I, Class II and Class III, which shall be as

nearly equal in number as possible. Each director shall serve for a term ending on the date of the third annual meeting of shareholders following the annual meeting at which such director was elected; provided, however, that each initial director in Class I shall hold office until the 2000 annual meeting of shareholders; each initial director in Class II shall hold office until the 2001 annual meeting of shareholders; and each initial director in Class III shall hold office until the 2002 annual meeting of shareholders. Each director shall serve until his successor is elected and qualified or until his earlier death, resignation or removal. Any director may be removed from office only for cause by the affirmative vote of holders of at least a majority of the votes entitled to be cast by all of the outstanding shares of the Corporation in the election of directors. The number of directors may be increased or decreased from time to time by resolution of the Board of Directors; provided, however, that the total number of directors at any time shall not be less than three. Subject to the rights, if any, of the holders of

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any series of Preferred Shares, when the number of directors is increased or decreased, the Board of Directors shall determine the class or classes to which the increased or decreased number of directors shall be apportioned, provided that no decrease in the number of directors shall shorten the term of any incumbent director. Any vacancies in the Board of Directors for any reason, and any directorships resulting from any increase in the authorized number of directors, shall be filled solely by the Board of Directors, acting by a majority of the directors then in office, even if less than a quorum, and any directors chosen to fill a vacancy shall hold office until the next election of the class for which such directors shall have been chosen and until their successors shall be elected and qualified, and any directors chosen by reason of an increase in the number of directors or by removal of any director by the shareholders shall hold office until the next election of directors by the shareholders and until their successors shall be elected and qualified. Subject to the foregoing and the GBCC, at each annual meeting of shareholders the successors to the class of directors whose term shall then expire shall be elected to hold office for a term expiring at the third succeeding annual meeting.

Notwithstanding the foregoing, whenever, pursuant to the provisions of Article III, hereof, the holders of any one or more series of Preferred Shares shall have the right, voting separately as a series or together with holders of other such series, to elect directors at an annual or special meeting of shareholders, the election, term of office, filling of vacancies, rights of removal and other features of such directorships shall be governed by the terms of these Articles of Incorporation, including any Articles of Amendment creating such Preferred Shares applicable thereto.



In addition to any other vote required by these Articles of Incorporation or the GBCC, the affirmative vote of holders of at least two-thirds of the votes entitled to be cast by all of the outstanding shares of the Corporation shall be required to amend or repeal this Article VI.

#### ARTICLE VII.

In discharging the duties of their respective positions and in determining what is believed to be in the best interests of the Corporation, the Board of Directors, committees of the Board of Directors and individual directors, in addition to considering the effects of any action on the Corporation or its shareholders, may consider the interests of the employees, customers, suppliers and creditors of the Corporation and its subsidiaries, the communities in which offices or other establishments and properties of the Corporation and its subsidiaries are located, and all other factors such directors consider pertinent; provided, however, that this Article VII shall be deemed solely to grant discretionary authority to the directors and shall not be deemed to provide any constituency any right to be considered.

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#### ARTICLE VIII.

The shareholders of the Corporation shall have the right to take action in lieu of a meeting only by one or more consents in writing signed by all of the shareholders entitled to vote on such action.

In addition to any other vote required by these Articles of Incorporation or the GBCC, the affirmative vote of holders of at least two-thirds of the votes entitled to be cast by all of the outstanding shares of the Corporation shall be required to amend or repeal this Article VIII in a manner that would permit the shareholders of the Corporation to take action by written consent signed by less than all of the shareholders entitled to vote on such action.

#### ARTICLE IX.

Any shares of the Corporation reacquired by the Corporation shall become treasury shares.

#### ARTICLE X

##### Section 10.1 Definitions.

"Acquire" means the acquisition of Beneficial Ownership of Equity

Shares by any means whatsoever including, without limitation, (i) the acquisition of direct ownership of shares by any Person, including through the exercise of any option, warrant, pledge, security interest or similar right to acquire Equity Shares, and (ii) the acquisition of indirect ownership of Equity Shares (taking into account the constructive ownership rules of Section 544 of the Code, as modified by Section 856(h)(1)(B) of the Code) by a Person who is an individual within the meaning of Section 542(a)(2) of the Code, including through the acquisition by any Person of any option, warrant, pledge, security interest or similar right to acquire Equity Shares.

"Beneficial Ownership" means ownership of Equity Shares by a Person who would be treated as an owner of Equity Shares either directly or indirectly under Section 542(a)(2) of the Code, taking into account, for this purpose, constructive ownership determined under Section 544 of the Code, as modified by Section 856(h)(1)(B) of the Code (except where expressly provided otherwise). The terms "Beneficial Owner," "Beneficially Owns" and "Beneficially Owned" shall have correlative meanings. In determining the number of Equity Shares Beneficially Owned by a Person, no Equity Shares attributed to that Person shall be counted more than once.

"Beneficiary" means, with respect to any Trust, one or more organizations described in each of Section 170(b)(1)(A) (other than clauses (vii) and (viii) thereof) and Section 170(c)(2) of the Code that are named by the Corporation as the beneficiary or beneficiaries of such Trust.

"Code" means the Internal Revenue Code of 1986, as amended.

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"Constructive Ownership" means ownership of Equity Shares by a Person who is or would be treated as a direct or indirect owner of such Equity Shares through the application of Section 318 of the Code, as modified by Section 856(d)(5) of the Code. The terms "Constructive Owner," "Constructively Owns" and "Constructively Owned" shall have correlative meanings.

"Equity Shares" means the Common Shares and the Preferred Shares of the Corporation.

"Excess Shares" means Equity Shares acquired by any Beneficial Owner in violation of Section 10.2, rounded up to the nearest whole share.

"Exchange Act" means the Securities Exchange Act of 1934, as amended.

"Initial Public Offering" means the initial sale of Common Shares to the public pursuant to the Corporation's first effective registration statement for such Common Shares filed under the Securities Act of 1933, as amended.

"Market Price" of Equity Shares on any date means the average of the closing price for such Equity Shares for the five consecutive Trading Days ending on the Trading Day immediately prior to such date. The "Closing Price" on any date shall mean the last quoted sales price or, if no such sale takes place on such day, the average of the high bid and low asked prices as reported on The Nasdaq Stock Market's National Market System or, if the Equity Shares are not quoted on The Nasdaq Stock Market's National Market System, as reported in the principal consolidated transaction reporting system with respect to securities listed on the principal national securities exchange on which the Equity Shares are listed or admitted to trading or, if the Equity Shares are not listed or admitted to trading on any national securities exchange, the last quoted price, or if not so quoted, the average of the high bid and low asked prices, in the over-the-counter market, as reported by The Nasdaq Stock Market or, if such system is no longer in use, the principal other automated quotation system that may be in use or, if the Equity Shares are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker selected by the Board of Directors making a market in the Equity Shares.

"Non-Transfer Event" means an event other than a purported Transfer that would cause or result in an increase in the percentage of any Person's Beneficial Ownership of the outstanding Equity Shares.

"Ownership Limit" means, (i) with respect to the Common Shares, 9.8% of the lesser of (a) the total number, or (b) the value of, the outstanding Common Shares or (ii) with respect to Preferred Shares, 9.8% of the lesser of (a) the total number, or (b) the value of, the outstanding Preferred Shares (or such other number or value of Preferred Shares as the Board of Directors may determine in fixing the terms of the Preferred Shares).

"Partnership" means Strategic Timber Partners, LP, a Delaware limited partnership formed pursuant to the Partnership Agreement, and any successor thereto.

"Partnership Agreement" means the agreement of limited partnership establishing the Partnership, as the same may be amended, supplemented or restated from time to time.

"Partnership Units" shall have the meaning set forth in the Partnership Agreement, as in effect at the time of the Initial Public Offering.

"Permitted Transferee" means any Person designated as a Permitted Transferee in accordance with the provisions of Section 10.7.

"Person" means (a) an individual or any corporation, partnership, limited liability company, estate, trust, association, private foundation, joint stock company or any other entity and (b) a "group" as the term is used for purposes of Section 13(d)(3) of the Exchange Act; but shall not include an underwriter that participates in a public offering of Equity Shares for a period of 90 days following purchase by such underwriter of such Equity Shares.

"Prohibited Owner" means, with respect to any purported Transfer or Non-Transfer Event, any Person who is prevented from becoming or remaining the owner of record title to Equity Shares by the provisions of Section 10.6.

"Purported Beneficial Transferee" means, with respect to any purported Transfer of Beneficial Ownership of Equity Shares that results in the automatic conversion of such shares into Excess Shares, the purported transferee of Beneficial Ownership of such shares if such purported Transfer had been valid under Section 10.2.

"Purported Record Transferee" means, with respect to any purported Transfer of Beneficial Ownership of Equity Shares that results in the automatic conversion of such shares into Excess Shares, the purported record transferee of such shares if such purported Transfer had been valid under Section 10.2.

"REIT" means a real estate investment trust under Section 856 et seq. of the Code.

"Restriction Termination Date" means such time as (i) the Board of Directors has adopted a resolution recommending that the Corporation terminate its status as a REIT, (ii) the Board of Directors presents a resolution to terminate the Corporation's status as a REIT at an annual or special meeting of shareholders of the Corporation, and (iii) such resolution is approved by a majority of the issued and outstanding Common Shares.

"Subsidiary" means any Person in which the Corporation beneficially owns, directly or indirectly, more than 50% of the voting power of the outstanding voting equity securities.

"Trading Day" means a day on which the principal national securities exchange or stock market on which any of the Equity Shares are listed or admitted to trading is open for the transaction of business or, if none of the Equity Shares are listed or admitted to trading on any national securities exchange or stock market, any day other than a Saturday, a Sunday or a day on

which banking institutions in the State of New York are authorized or obligated

by law or executive order to close.

"Transfer" (as a noun) means any sale, transfer, gift, assignment, devise or other disposition of Beneficial Ownership of shares of capital stock, whether voluntary or involuntary and whether by operation of law or otherwise.

"Transfer" (as a verb) shall have the correlative meaning.

"Trust" means any separate trust created and administered in accordance with the terms of Section 10.7, for the exclusive benefit of any Beneficiary.

"Trustee" means any Person, unaffiliated with both the Corporation and any Prohibited Owner (and, if different than the Prohibited Owner, the Person who would have had Beneficial Ownership of the shares that would have been owned of record by the Prohibited Owner), designated by the Corporation to act as trustee of any Trust, or any successor trustee thereof.

## Section 10.2 Restrictions on Ownership and Transfer of Equity Shares.

(a) Except as provided in Section 10.3, from and after the date of the Initial Public Offering and until the Restriction Termination Date:

(i) no Person shall Beneficially Own Equity Shares in excess of the Ownership Limit;

(ii) no Person shall Acquire any Equity Shares if such would result in the Corporation being "closely held" within the meaning of Section 856(h) of the Code;

(iii) no Person shall Acquire any Equity Shares if such would cause the Corporation to Constructively Own 10% or more of the ownership interests in a tenant of the real property of the Corporation (or of any direct or indirect subsidiary of the Corporation), within the meaning of Section 856(d)(2)(B) of the Code;

(iv) no Person shall Acquire any Equity Shares if such acquisition would result in Equity Shares being Beneficially Owned by fewer than 100 persons within the meaning of Section 856(a)(5) of the Code;

(v) no Person shall Acquire any Equity Shares if such acquisition would result in the failure of the Corporation to qualify as a "domestically controlled REIT" within the meaning of Section 897(h)(4)(B) of the Code; and

(vi) no Person shall Acquire any Equity Shares if such acquisition would cause the Corporation to fail to qualify as a REIT.

(b) Any purported Transfer (whether or not the result of a transaction entered into through the facilities of The Nasdaq Stock Market, The New York Stock Exchange or any other national securities exchange or stock market, or any other automated quotation system) of Equity Shares that, if effective, would result in a violation of the restrictions in Section 10.2(a) shall be void ab initio as to the Transfer of that number of Equity Shares that would cause the violation of the applicable restriction, and the intended transferee shall acquire no rights in such Equity Shares, and such shares shall be converted into Excess Shares pursuant to Section 10.6(b).

Section 10.3 Owners Required to Provide Information. From the date of the Initial Public Offering to the Restriction Termination Date:

(a) Every Beneficial Owner of more than 5%, or such lower percentage as is then required pursuant to regulations under the Code, of the outstanding shares of any class or series of Equity Shares of the Corporation shall, no later than January 31 of each year, provide to the Corporation a written statement or affidavit stating the name and address of such Beneficial Owner, the number of Equity Shares Beneficially Owned by such Beneficial Owner and a description of how such shares are held. Each such Beneficial Owner shall provide to the Corporation such additional information as the Corporation may request in order to determine the effect, if any, of such Beneficial Ownership on the Corporation's status as a REIT and to ensure compliance with the Ownership Limit.

(b) Each Person who is a Beneficial Owner of Equity Shares and each Person (including the shareholder of record) who is holding Equity Shares for a Beneficial Owner shall provide to the Corporation a written statement or affidavit stating such information as the Corporation may request in order to determine the Corporation's status as a REIT and to ensure compliance with the Ownership Limit.

Section 10.4 Modification of Ownership Limit. The Board of Directors, upon receipt of a ruling from the Internal Revenue Service or an opinion of counsel or other evidence or undertakings acceptable to it, may, in its sole discretion, waive the application of the Ownership Limit to a Person subject to such limit, provided that (a) the Board of Directors obtains such representations and undertakings from such Person as are reasonably necessary to ascertain that such Person's Beneficial Ownership or Constructive Ownership of Equity Shares will now and in the future (i) not result in the Corporation being "closely held" within the meaning of Section 856(h) of the Code, (ii) not cause the Corporation to Constructively Own 10% or more of the ownership interests in

a tenant of the real property of the Corporation (or of any direct or indirect subsidiary of the Corporation) within the meaning of Section 856(d)(2)(b) of the Code, (iii) not result in the Equity Shares of the Corporation being beneficially owned by fewer than 100 persons within the meaning of Section 856(a)(5) of the Code, and (iv) not result in the Corporation failing to qualify as a "domestically controlled REIT" within the meaning of Section 897(h)(4)(B) of the Code, and (b) such Person agrees in writing that any violation or attempted violation of any other limitations, restrictions and conditions that the Board of Directors may in its sole discretion impose at the time of such waiver with respect to such Person will result, as of

the time of such violation even if discovered after such violation, in the conversion of such shares in excess of the original limit applicable to such Person into Excess Shares pursuant to Section 10.6(b).

Section 10.5 Exchange Settlement Not Precluded. Notwithstanding any provision contained herein to the contrary, nothing in these Articles of Incorporation shall preclude the settlement of any transaction entered into through the facilities of The Nasdaq Stock Market or any other automated quotation system or The New York Stock Exchange or any other national securities exchange. In no event shall the existence or application of the preceding sentence have the effect of deterring or preventing the conversion of Equity Shares into Excess Shares as contemplated herein.

#### Section 10.6 Remedies for Breach.

(a) If, notwithstanding the other provisions contained in this Article X, the Board of Directors or a committee thereof shall at any time determine in good faith that there has occurred a purported Transfer or Non-Transfer Event that falls within the scope of Section 10.2(b) or that would result in a violation of Section 10.2(a), then the Board of Directors or a committee thereof shall take such action as it or they deem advisable to refuse to give effect to or to prevent such Transfer or Non-Transfer Event, including, but not limited to, refusing to give effect to such Transfer or Non-Transfer Event on the books of the Corporation or instituting proceedings to enjoin such Transfer or Non-Transfer Event.

(b) Without limiting Section 10.6(a), and except as otherwise provided in Section 10.4, if the Board of Directors or a committee thereof determines that there is a purported Transfer or Non-Transfer Event that would result in a violation of Section 10.2, then (i) the Purported Record Transferee (and the Purported Beneficial Transferee, if different) shall acquire no right or interest (or, in the case of a



Non-Transfer Event, the Person holding record title to the Equity Shares Beneficially Owned by such Beneficial Owner shall cease to own any right or interest) in such number of Equity Shares as are acquired in violation of Section 10.2; (ii) such number of Equity Shares (rounded up to the nearest whole share) acquired in violation of Section 10.2 shall be automatically converted into an equal number of Excess Shares and transferred to a Trust in accordance with Section 10.7 and (iii) such Purported Record Transferee (and such Purported Beneficial Transferee, if different) or, in the case of a Non-Transfer Event, the Person who, immediately prior to such automatic conversion, was the holder of record title to the Equity Shares automatically converted, shall submit the certificates representing such number of Equity Shares to the Corporation, accompanied by all requisite and duly executed assignments of Transfer thereof, for registration in the name of the Trustee of the Trust. Such conversion into Excess Shares and Transfer to a Trust shall be effective as of the close of trading on the Trading Day prior to the date of the purported Transfer or Non-Transfer Event, as the case may be, even though the certificates representing the Equity Shares so converted may be submitted to the Corporation at a later date.

(c) If the Corporation, or its designees, shall at any time determine in good faith that a Transfer has taken place in violation of Section 10.2 or that a Person intends to acquire or has attempted to acquire Beneficial Ownership or Constructive Ownership of any Equity Shares in violation of Section 10.2, the Corporation shall take such action as it deems advisable to refuse to give effect to or to prevent such Transfer or acquisition, including, but not limited to, refusing to give effect to such Transfer on the stock transfer books of the Corporation or instituting proceedings to enjoin such Transfer or acquisition, but the failure to take any such action shall not affect the automatic conversion of Equity Shares into Excess Shares pursuant to this Section 10.6 or their Transfer to a Trust pursuant to Section 10.7.

(d) Any Person who acquires or attempts to acquire Equity Shares in violation of Section 10.2 shall immediately give written notice to the Corporation of such event and shall provide to the Corporation such other information as the Corporation may request in order to determine the effect, if any, of such Transfer or Non-Transfer Event, as the case may be, on the Corporation's status as a REIT.

Section 10.7 Creation of Trust; Disposition of Excess Shares.



(a) Upon any purported Transfer or Non-Transfer Event that results in Excess Shares, (i) the Corporation shall create, or cause to be created, a Trust, and shall designate a Trustee and name a Beneficiary thereof; and (ii) such Excess Shares shall be automatically transferred to such Trust to be held for the exclusive benefit of the Beneficiary. Any conversion of Equity Shares into Excess Shares and transfer to a Trust shall be effective as of the close of trading on the Trading Day prior to the date of the purported Transfer or Non-Transfer Event that results in the conversion. Excess Shares so held in trust shall be issued and outstanding shares of the Corporation.

(b) Excess Shares shall be entitled to the same dividends and distributions (as to both timing and amount) as may be declared by the Board of Directors of the Corporation with respect to the Equity Shares which were converted into such Excess Shares. The Trustee, as record holder of the Excess Shares, shall be entitled to receive all dividends and distributions and shall hold all such dividends or distributions in trust for the benefit of the Beneficiary. The Prohibited Owner with respect to such Excess Shares shall repay to the Trust the amount of any dividends or distributions received by it (i) that are attributable to any Equity Shares that have been converted into Excess Shares and (ii) the record date of which was on or after the date that such shares were converted into Excess Shares. The Corporation shall take all measures that it determines are reasonably necessary to recover the amount of any such dividend or distribution paid to a Prohibited Owner, including, if necessary, withholding any portion of future dividends or distributions payable on Equity Shares Beneficially Owned by the Person who, but for the provisions of this Article X, would Constructively Own or Beneficially Own the Equity Shares that were converted into Excess Shares; and, as soon as reasonably practicable following the Corporation's receipt or withholding thereof, shall pay over to

the Trust for the benefit of the Beneficiary the dividends so received or withheld, as the case may be.

(c) In the event of any voluntary or involuntary liquidation of, or winding up of, or any distribution of the assets of, the Corporation, each holder of Excess Shares shall be entitled to receive, ratably with each other holder of the same class and series of Equity Shares which was converted into such Excess Shares, that portion of the assets of the Corporation that is available for distribution to the holders of the same class and series of Equity Shares which was converted into such Excess Shares. The Trust shall distribute to the

Prohibited Owner the amounts received upon such liquidation, dissolution, or winding up, or distribution; provided, however, that the Prohibited Owner shall not be entitled to receive amounts in excess of, in the case of a purported Transfer in which the Prohibited Owner gave value for Equity Shares and which Transfer resulted in the conversion of such Equity Shares into Excess Shares, the product of (i) the price per share, if any, such Prohibited Owner paid for the Equity Shares and (ii) the number of Equity Shares which were so converted into Excess Shares, and, in the case of a Non-Transfer Event or purported Transfer in which the Prohibited Owner did not give value for such shares (e.g., if the shares were received through a gift or devise) and which Non-Transfer Event or purported Transfer, as the case may be, resulted in the conversion of the shares into Excess Shares, the product of (x) the price per share equal to the Market Price on the date of such Non-Transfer Event or purported Transfer and (y) the number of Equity Shares which were so converted into Excess Shares. Any remaining amount in such Trust shall be distributed to the Beneficiary.

(d) Excess Shares shall entitle the holder to no voting rights other than those voting rights which accompany a class of capital stock under Georgia law. The Trustee, as record holder of the Excess Shares, shall be entitled to vote all Excess Shares. Any vote by a Prohibited Owner as a purported holder of Equity Shares prior to the discovery by the Corporation that such Equity Shares have been converted into Excess Shares shall, subject to applicable law, be rescinded and shall be void ab initio with respect to such Excess Shares.

(e) As soon as practicable after the Trustee acquires Excess Shares and complies with the last sentence of this Section 10.7(e), but in an orderly fashion so as not to materially and adversely affect the trading price of the same class and series of Equity Shares from which such Excess Shares was converted, the Trustee shall designate one or more Persons as Permitted Transferees and sell to such Permitted Transferees any Excess Shares held by the Trustee; provided, however, that (i) any Permitted Transferee so designated purchases for valuable consideration (whether in a public or private sale) the Excess Shares and (ii) any Permitted Transferee so designated may acquire the shares of the same class and series of Equity Shares from which such Excess Shares was converted without violating any of the restrictions set forth in Section 10.2 and without such acquisition resulting in the conversion of such Equity Shares into Excess Shares and the Transfer of such shares to a Trust pursuant to Section 10.7. The Trustee shall have the exclusive and absolute right to designate Permitted Transferees of any and all Excess

Shares. Prior to any Transfer by the Trustee of Excess Shares to a Permitted Transferee, the Trustee shall give not less than five Trading Days' prior written notice to the Corporation of such intended Transfer and the Corporation must have waived in writing its purchase rights under Section 10.7(i) if such intended Transfer would occur during the 90-day period referred to therein.

(f) Upon the designation by the Trustee of a Permitted Transferee in accordance with the provisions of this Section 10.7, the Trustee shall cause to be Transferred to the Permitted Transferee Excess Shares acquired by the Trustee. Upon such Transfer of Excess Shares to the Permitted Transferee, such Excess Shares shall be automatically converted into an equal number of Equity Shares of the same class and series from which such Excess Shares was converted. The Trustee shall (i) cause to be recorded on the stock transfer books of the Corporation that the Permitted Transferee is the holder of record of such number of Equity Shares, and (ii) distribute to the Beneficiary any and all amounts held with respect to such Excess Shares after making payment to the Prohibited Owner pursuant to Section 10.7(h).

(g) If the Transfer of Excess Shares to a purported Permitted Transferee would or does violate any of the transfer restrictions set forth in Section 10.2, such Transfer shall be void ab initio as to that number of Excess Shares that cause the violation of any such restriction when such shares are converted into Equity Shares (as described in Section 10.7(f) above) and the purported Permitted Transferee shall be deemed to be a Prohibited Owner and shall acquire no rights in such Excess Shares or Equity Shares. Such Equity Shares shall be automatically converted into Excess Shares and transferred to the Trust from which they were originally Transferred. Such conversion and transfer to the Trust shall be effective as of the close of trading on the Trading Day prior to the date of the Transfer to the purported Permitted Transferee and the provisions of this Article X shall apply to such shares, including, without limitation, the provisions of Sections 10.7(e) - (i) with respect to any future transfer of such shares by the Trust.

(h) Any Prohibited Owner shall be entitled (following acquisition of the Excess Shares and subsequent designation of and sale of Excess Shares to a Permitted Transferee or following the acceptance of the offer to the Corporation to purchase such shares in accordance with Section 10.7(i)) to receive from the Trustee following the sale or other disposition of such Excess Shares the lesser of:

(i) in the case of a purported Transfer in which the Prohibited Owner gave value for Equity Shares and which Transfer resulted in the conversion of such shares into Excess Shares, the product of (1) the price per share, if any, such Prohibited Owner paid for the Equity Shares and (2) the number of Equity Shares which were so converted into Excess Shares, or in the case of a Non-Transfer Event or

purported Transfer in which the Prohibited Owner did not give value for such shares (e.g., if the shares were received through a gift or devise) and which Non-Transfer Event or purported Transfer, as the case may be, resulted in the conversion of such shares into Excess Shares, the product of (1) a price per share equal to the Market Price on the date of such Non-Transfer Event or

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purported Transfer and (2) the number of Equity Shares which were so converted into Excess Shares; or

(ii) the proceeds received by the Trustee from the sale or other disposition of such Excess Shares in accordance with Section 10.7(e) or Section 10.7(i).

Any amounts received by the Trustee in respect of such Excess Shares which are in excess of such amounts to be paid to the Prohibited Owner pursuant to this Section 10.7(h) shall be distributed to the Beneficiary in accordance with the provisions of Section 10.7(f). The Trustee and the Trust shall not be liable for, and each Beneficiary and Prohibited Owner shall be deemed to have irrevocably waived, any claim by a Beneficiary or Prohibited Owner arising out of the disposition of Excess Shares, except for claims arising out of the gross negligence or willful misconduct of, or any failure to make payments in accordance with this Section 10.7 by, such Trustee.

(i) Excess Shares shall be deemed to have been offered for sale to the Corporation, or its designee, at a price per share equal to the lesser of (a) the price per share in the transaction that created such Excess Shares (or, in the case of a Non-Transfer Event or Transfer in which the Prohibited Owner did not give value for the shares (e.g., if the shares were received through a gift or devise), the Market Price on the date of such Non Transfer Event or Transfer in which the Prohibited Owner did not give value for the shares) or (b) the Market Price on the date the Corporation, or its designee, accepts such offer. The Corporation shall have the right to accept such offer for a period of 90 days following the later of (x) the date of the Non-Transfer Event or purported Transfer which results in such Excess Shares or (y) the date the Board of Directors of the Corporation first determined that a Transfer or Non-Transfer Event resulting in Excess Shares has occurred, if the Corporation does not receive a notice of such Transfer or Non-Transfer Event pursuant to Section 10.6(d).

Section 10.8 Remedies Not Limited.

Except as set forth in Section 10.5, nothing contained in this Article X shall limit the authority of the Corporation to take such other action as it deems necessary or advisable to protect the Corporation and the interests of its shareholders by preservation of the Corporation's status as a REIT and to ensure compliance with the Ownership Limit.

#### Section 10.9 Ambiguity.

In the case of an ambiguity in the application of any of the provisions of this Article X, the Board of Directors shall have the power to determine the application of the provisions of this Article X with respect to any situation based on the facts known to it and any such determination made in good faith shall be binding on all shareholders of the Corporation.

#### Section 10.10 Legend.

Each certificate for Equity Shares shall bear the following legend:

"The shares of Strategic Timber Trust, Inc. (the "Corporation") represented by this certificate are subject to restrictions set forth in the Corporation's Articles of Incorporation which prohibit in general (a) any Person from Beneficially Owning Equity Shares in excess of the Ownership Limit and (b) any Person from acquiring or maintaining any ownership interest in the capital stock of the Corporation that is inconsistent with (i) the requirements of the Code pertaining to real estate investment trusts or (ii) the Articles of Incorporation of the Corporation, and the holder of this certificate by his acceptance hereof consents to be bound by such restrictions. Any purported transfer of Equity Shares in violation of such restrictions shall be void ab initio and the Equity Shares transferred in violation of such restrictions, whether as a result of a Transfer or the Non-Transfer Event, shall be automatically converted into Excess Shares and transferred to a Trust for disposition as provided in the Articles of Incorporation. Capitalized terms used in this paragraph and not defined herein are defined in the Corporation's Articles of Incorporation. The Corporation will furnish without charge, to each shareholder who so requests, a copy of the Articles of Incorporation of the Corporation, containing, among other things, a statement of the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof that the Corporation is authorized to issue and the qualifications, limitations or restrictions of such preferences and/or rights. Any such request shall be addressed to the Secretary of the Corporation.

Section 10.11 Termination of REIT Status. The Board of Directors shall take no action to terminate the Corporation's status as a REIT or to amend the provisions of this Article 10 until such time as (a) the Board of Directors adopts a resolution recommending that the Corporation terminate its status as a REIT or amend this Article 10, as the case may be, (b) the Board of Directors presents the resolution at an annual or special meeting of the shareholders and (c) such resolution is approved by holders of a majority of the issued and outstanding Common Shares.

Section 10.12 Severability. Each provision of this Article X shall be severable and any such provision determined to be invalid by a court having jurisdiction shall in no way affect the validity of any other provision.

\* \* \* \* \*

DULY EXECUTED and delivered by the undersigned on \_\_\_\_\_, 1999.

STRATEGIC TIMBER TRUST, INC.

By: \_\_\_\_\_

FORM OF  
AMENDED AND RESTATED  
BYLAWS  
OF  
STRATEGIC TIMBER TRUST, INC.  
(a Georgia corporation)

ARTICLE I  
Definitions

The following terms used in these Bylaws shall have the meanings set forth below:

- a) "Articles of Incorporation" means the Amended and Restated Articles of Incorporation of the Company as amended from time to time.
- b) "Board" means the Board of Directors of the Company.
- c) "Bylaws" means these Bylaws as amended from time to time.
- d) "Company" means Strategic Timber Trust, Inc.
- e) "GBCC" means the Georgia Business Corporation Code or any successor law of the State of Georgia and a reference to a particular section of the GBCC shall refer to successor sections of such law or successor law.
- f) "Shareholders" means the shareholders of the Company.

For purposes of the Bylaws: (i) titles and captions in, and the table of contents of, the Bylaws are inserted only as a matter of convenience and for reference and in no way define, limit, extend or describe the scope of the Bylaws or the intent of any of their provisions; and (ii) "including" and other words or phrases of inclusion, if any, shall not be construed as terms of limitation, so that references to "included" matters shall be regarded as non-exclusive, non-characterizing illustrations.

## ARTICLE II

### Shareholders

Section 1. Annual Meeting. The annual meeting of the shareholders shall be held on such date, at such time and at such place as shall be set by the Board for the purpose of electing directors and for the transaction of such other business as may come before the meeting.

Section 2. Special Meetings. Special meetings of the shareholders, for any purpose, unless otherwise prescribed by statute, may be called by the Chairman of the Board (if any), the President, the Board, and by the written demand (which demand shall state the purposes for such meeting) of holders of outstanding shares having not less than seventy-five percent of the votes entitled to be cast by all of the outstanding shares of the Company.

Section 3. Place of Meeting. The Board may designate any place as the place for any annual meeting or for any special meeting of shareholders. If no designation is made the place of the meeting shall be the principal office of the Company.

Section 4. Notice of Meeting.

(a) Written or printed notice stating the place, day and hour of the meeting, and, in case of a special meeting, the purpose for which the meeting is called, shall be delivered not less than ten nor more than sixty days before the date of the meeting, either personally or by mail, by or at the direction of the Chairman of the Board (if any), the President or the Secretary to each shareholder of record entitled to vote at such meeting. If mailed, the notice shall be deemed to be delivered to a shareholder when deposited in the United States mail addressed to such shareholder at his address as it appears on the share transfer books of the Company, with first-class postage thereon prepaid, or, if the Corporation has more than 500 shareholders of record entitled to vote at a meeting, and if the notice is mailed not less than 30 days before the date of the meeting, with postage thereon prepaid for any other class of United States mail.

(b) Notwithstanding anything herein to the contrary, notice of a meeting of shareholders need not be given to any shareholder who waives notice of such meeting in accordance with Section 14-2-706 of the GBCC.

Section 5. Quorum. Except as otherwise provided by the Articles of Incorporation or the GBCC, a majority of the votes entitled to be cast on a matter by a voting group, represented in person or by proxy, shall constitute a quorum at a meeting of shareholders. If less than a quorum is represented at a meeting, the meeting may be adjourned without further notice if the time and place thereof are announced at the meeting at which the adjournment is taken, provided, however, that the period shall not exceed thirty days for any one adjournment. At such adjourned meeting at which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally called.



Section 6. Voting Requirements. If a quorum is present, action on a matter (other than the election of directors) is approved if the votes cast favoring the action exceed the votes cast opposing the action, unless the GBCC, the Articles of Incorporation or a bylaw adopted by the shareholders under Section 14-2-1021 of the GBCC requires a greater number of affirmative votes. Unless otherwise provided in the Articles of Incorporation, directors of the Company shall be elected by a plurality of the votes cast by the shares entitled to vote in the election at a meeting at which a quorum is present.

Section 7. Proxies. At all meetings of shareholders, a shareholder may vote by proxy authorized by the shareholder or his duly authorized attorney in fact in any manner authorized by the GBCC. Such proxy shall be filed with the Secretary of the Company before or at the time of the meeting. No proxy shall be valid after eleven months from the date of its execution, unless otherwise provided in the proxy.

Section 8. Voting of Shares. Each outstanding share shall be entitled to one vote on each matter submitted to a vote at a meeting of the shareholders except as otherwise provided in the Articles of Incorporation or the GBCC. Cumulative voting shall not be allowed in the election of directors.

Section 9. Action Without a Meeting. Unless otherwise provided in the Articles of Incorporation, any action required to be taken or which may be taken at a meeting of shareholders may be taken without a meeting, without prior notice and without a vote, if a consent or consents in writing, setting forth the action so taken and bearing the date of signature, shall be signed by all of the shareholders entitled to vote on such action.

Section 10. Notice of Shareholder Business. At any annual meeting of the shareholders only such business shall be conducted as shall have been brought before the meeting (a) by or at the direction of the Board or (b) by any shareholder of the Company entitled to vote at the meeting who complies with the notice procedures set forth in this section and Section 12. In addition to any other applicable requirements, for business to be properly brought before a meeting by a shareholder, the shareholder must have given timely notice thereof in writing to the Secretary of the Company in accordance with Section 12 hereof. A shareholder's notice to the Secretary shall set forth as to each matter the shareholder proposes to bring before the meeting (a) a brief description of the business desired to be brought before the meeting and the reasons for conducting such business at the meeting, (b) the name and address, as they appear on the Company's books, of the shareholder proposing such business, (c) the class and number of shares which are owned (beneficially or of record) by the shareholder, (d) any material interest of the shareholder in such business, (e) a description of all arrangements or understandings

between the shareholder and any other persons (including their names) in connection with the proposal and (f) any other information as would be required to be included in a proxy statement filed pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended ("Regulation 14A"). Notwithstanding anything in these Bylaws to the contrary, no business shall be conducted at any meeting except in accordance with the procedures set forth in this section. The chairman of the meeting shall, if the facts warrant, determine and declare to the meeting that any business proposed at the meeting was not properly brought before the meeting in accordance with the provisions of this section, and if he or she should

so determine and declare, such business shall not be transacted. Nothing in this section shall limit the applicability of requirements of Regulation 14A, other applicable laws or regulations, or the rules of any stock exchange on which the Company's securities are listed for trading.

Section 11. Notice of Shareholder Nominees. Only persons who are nominated in accordance with the procedures set forth in this section shall be eligible for election as directors. Nominations of persons for election to the Board may be made at a meeting of shareholders (a) by or at the direction of the Board or (b) by any shareholder of the Company entitled to vote for the election of directors at the meeting who has complied with the notice procedures set forth in this section and Section 12. Such nominations, other than those made by or at the direction of the Board, shall be made pursuant to timely notice in writing to the Secretary of the Company in accordance with Section 12 hereof. A shareholder's notice to the Secretary shall set forth (a) as to each person whom the shareholder proposes to nominate for election or re-election as a director, all information relating to such person that is required to be disclosed in solicitations or proxies for election of directors pursuant to Regulation 14A (including such person's written consent to being named in the proxy statement as a nominee and to serving as a director if elected); and (b) as to the shareholder giving the notice (i) the name and address, as they appear on the Company's books, of such shareholder, (ii) the class and number of shares which are owned (beneficially or of record) by such shareholder, (iii) a description of all arrangements or understandings between the shareholder and each proposed nominee or any other persons (including their names) pursuant to which the nominations are to be made by the shareholder; and (iv) any other information relating to the shareholder as would be required to be included in a proxy statement filed pursuant to Regulation 14A. The Company may require any person nominated for election as a director to furnish to the Secretary of the Company such other information as may reasonably be required by the Company to determine such person's eligibility to serve as a director. No person shall be eligible for election as a director of the Company unless nominated in accordance with the procedures set forth in this section. In connection with a shareholders' meeting, the Chairman of the Board (or such

other person presiding at such meeting in accordance with these Bylaws) shall, if the facts warrant, determine and declare to the meeting that a nomination was not made in accordance with the provisions of this section, and if he or she should so determine and declare, the nomination shall be disregarded.

Section 12. Timely Notice of Shareholder Business or Nominees. To be timely, a shareholder's notice under Section 10 or 11 must be delivered to or mailed and received at the principal executive offices of the Company, addressed to the attention of the Secretary of the Company, not less than 90 days nor more than 120 days prior to the one year anniversary of the date on which the Company first mailed its proxy materials for the immediately preceding annual meeting of shareholders; provided, however, that if the annual meeting is not within 30 days of the anniversary date of the immediately preceding annual meeting of shareholders, then a shareholder's notice must be so received not less than ten days following the day on which notice of the date of the annual meeting was mailed or public disclosure of the date of the annual meeting was made, whichever occurs first.

Section 13. List of Shareholders. The Company shall keep or cause to be kept a complete list of its shareholders, arranged in alphabetical order, showing the address of each shareholder and

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the number, class and series, if any, of shares held by each. After fixing a record date for a meeting, the Company shall prepare, or cause to be prepared, an alphabetical list of the names of all shareholders entitled to notice of the meeting. The list shall show the address of and number of shares held by each shareholder, and shall comply in all other respects with applicable law. The list of shareholders shall be produced and kept at the time and place of the meeting during the whole time thereof, and may be inspected by any shareholder who is present.

Section 14. Inspectors. The Company shall appoint one or more inspectors (who may be officers or employees of the Company) to act at each meeting of shareholders and make a written report of the inspectors' determinations. Each inspector shall take and sign an oath faithfully to execute the duties of inspector with strict impartiality and according to the best of the inspector's ability. The inspectors shall: (1) ascertain the number of shares outstanding and the voting power of each; (2) determine the shares represented at a meeting; (3) determine the validity of proxies and ballots; (4) count all votes; and (5) determine the result.

### ARTICLE III

#### Board

## Section 1.

### Number and Election and Term of Board; Vacancies.

The Board shall consist of such number of directors as is fixed or changed from time to time by the Board, and shall be divided into three classes: Class I, Class II and Class III, which shall be as nearly equal in number as possible. Each director shall serve for a term ending on the date of the third annual meeting of shareholders following the annual meeting at which such director was elected; provided, however, that each initial director in Class I shall hold office until the 2000 annual meeting of shareholders; each initial director in Class II shall hold office until the 2001 annual meeting of shareholders; and each initial director in Class III shall hold office until the 2002 annual meeting of shareholders. Each director shall serve until his successor is elected and qualified or until his earlier death, resignation or removal. The number of directors may be increased or decreased from time to time by resolution of the Board; provided, however, that the total number of directors at any time shall not be less than three. Subject to the rights, if any, of the holders of any series of preferred shares, when the number of directors is increased or decreased, the Board shall determine the class or classes to which the increased or decreased number of directors shall be apportioned, provided that no decrease in the number of directors shall shorten the term of any incumbent director. Any vacancies in the Board for any reason, and any directorships resulting from any increase in the authorized number of directors, shall be filled by the Board, acting by a majority of the directors then in office, although less than a quorum. Any director chosen to fill a vacancy shall hold office until the next election of the class for which such director shall have been chosen and until his or her successor shall be elected and qualified. Any directors chosen by reason of an increase in the number of directors or by removal of any director by the shareholders shall hold office until the next election of directors by the shareholders and until their successors shall be elected and qualified. Subject to the foregoing and the GBCC, at each annual meeting of shareholders the successors to the class of directors whose term shall then expire shall be elected to hold office for a term expiring at the third succeeding annual meeting.

## Section 2.

### Resignation and Removal.

(a) Resignation. Any director may resign at any time by giving written notice to the Board, the Chairman of the Board, or to the Secretary of the Company. Such resignation shall take effect at the time delivered unless a later date is specified therein and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective.

(b) Removal. Any director may be removed by the shareholders only for cause, by a majority of votes entitled to be cast in the election of directors. A director may be removed only at a meeting called for

the purpose of removing the director, and the notice of such meeting must state that the purpose (or one of the purposes) of the meeting is removal of the director. A vacancy resulting from the removal of a director by the shareholders may only be filled as described in Section 1 of this Article III.

Section 3. Powers. Except as otherwise provided by the Articles of Incorporation, these Bylaws or any lawful agreement among shareholders, the property, business and affairs of the company shall be managed and directed by the Board.

Section 4. Regular Meetings. A regular meeting of the Board shall be held without notice immediately after and at the same place as the annual meeting of shareholders. The Board may adopt a resolution as to the time and place for the holding of additional regular meetings without notice other than such resolution.

Section 5. Special Meetings. Special meetings of the Board may be called by or at the request of the Chairman of the Board (if any), the President or any two directors. The person or persons authorized to call special meetings of the Board may fix any place as the place for holding any special meeting of the Board called by him or them.

Section 6. Notice of Special Meetings. Notice of the date, time and place of any special meeting of the Board shall be given at least two days prior thereto by written notice delivered personally or mailed (first class mail) to each director at his business address or by notice given by facsimile to such address. Notice shall be deemed to be delivered at the time specified in Section 14- 2-141 of the GBCC; provided that if notice is given by facsimile, such notice shall be deemed to be delivered upon printed statement of receipt by the transmitting facsimile machine. Any director may waive notice of any meeting. The attendance of a director at a meeting shall constitute a waiver of notice of such meeting unless the director at the beginning of the meeting (or promptly upon his or her arrival) objects to holding the meeting or transacting business at the meeting and does not thereafter vote for or assent to action taken at the meeting. Neither the business to be transacted at nor the purpose of any regular or special meeting of the Board need be specified in the notice or waiver of notice of such meeting.

Section 7. Quorum. A majority of the total number of directors shall constitute a quorum for the transaction of business at any meeting of the Board. If less than a majority is present at a meeting, a majority of the directors present may adjourn the meeting from time to time without further notice.

Section 8. Manner of Action. Except as otherwise provided in

the Articles of Incorporation, the vote of the majority of the directors present at a meeting at which a quorum is present shall be the act of the Board.

Section 9. Presumption of Assent. A director of the Company who is present at a meeting of the Board at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless (i) he or she objects at the beginning of the meeting to holding or transacting business at such meeting and does not vote in favor of the action, (ii) his or her dissent or abstention shall be entered in the minutes of the meeting or (iii) he or she files a written notice of dissent or abstention to such action with the presiding officer of the meeting before the adjournment thereof or shall forward such dissent to the Company immediately after the adjournment of the meeting. Such right to dissent or abstain shall not apply to a director who voted in favor of such action.

Section 10. Expenses; Compensation. The Company shall pay the actual out-of-pocket expenses incurred by each director in connection with attending the meetings of the Board and any committee thereof; provided, that the Company shall not be obligated to pay for any of such expenses that are significantly in excess of the customary out-of-pocket expenses that would have been incurred for travel to such meetings from such director's home or office. In addition to the payment of such expenses, each director may, by resolution of the Board, be paid a fixed sum for attendance at each meeting or a stated annual amount or be provided other compensation in cash, shares or other property for service as a director. No director shall be precluded from serving the Company in any other capacity and receiving compensation therefor; provided, however, that directors who are serving the Corporation as employees and who receive compensation for their services as such shall not receive any salary or other compensation for their services as directors of the Corporation.

Section 11. Meeting by Conference Telephone. Members of the Board may participate in a meeting by means of a conference telephone or similar communications equipment by which all persons participating in a meeting can hear each other during the meeting. Such participation shall constitute presence in person at the meeting.

Section 12. Action Without a Meeting. Any action required or permitted to be taken at a meeting of the Board may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the directors and filed with the minutes of the proceedings of the Board. Such consent shall have the same force and effect as a unanimous vote of the directors.

Section 13. Committees. The Board may, by resolution passed by a majority of the whole Board, appoint an executive committee and any other committee of the Board, the composition of each of which shall consist of one or more directors of the Company, and may delegate to any such committee any of the authority of the Board, however conferred, other than the power or authority to (i) approve or propose to shareholders action that the GBCC

requires be approved by shareholders; (ii) fill vacancies on the Board or any of its committees; (iii) amend the Articles of Incorporation pursuant to Section 14-2-1002 of the GBCC; (iv) adopt, amend or repeal the Bylaws of the Company; or (v) approve a plan of merger not requiring shareholder approval. Each such

committee shall serve at the pleasure of the Board. The Board may designate one or more directors as alternate members of the committee, who may replace any absent or disqualified member at any meeting of the committee. Any such committee shall keep written minutes of its meetings and report the same to the Board at the next regular meeting of the Board. Sections 6 through 12 of this Article III shall also apply to any committees and their members, unless otherwise provided by the Articles of Incorporation, these Bylaws or applicable law.

## ARTICLE IV

### Officers and Agents

Section 1. General. The officers of the Company shall be a President, one or more Vice Presidents, a Secretary, and a Treasurer. The Board may elect a Chairman of the Board (who must be a director), and the Board, the Chairman of the Board (if any) or the President may elect or appoint such other officers, assistant officers and agents, including assistant secretaries and assistant treasurers, as they may consider necessary, who shall be chosen in such a manner and hold their offices for such terms and have such authority and duties as from time to time may be determined by the person or persons so electing or appointing. The salaries for all the officers of the Company shall be fixed by the Board or by a committee or officer acting with the authority of the Board. Any number of offices may be held by the same person. In all cases where duties of any officer, agent or employee are not prescribed by the Bylaws or by the Board, such officer, agent or employee shall follow the orders and instructions of the President.

Section 2. Election and Term of Office. The officers of the Company shall be elected by the Board annually at the first meeting of the Board held after each annual meeting of the shareholders. Each officer shall hold office until his successor is elected and qualified or until his earlier death, resignation or removal.

Section 3. Removal. Any officer or agent may be removed by the Board, with or without cause, whenever in its judgment the best interests of the Company will be served thereby.

Section 4. Vacancies. A vacancy in any office, however



occurring, may be filled by the Board.

Section 5. Chairman of the Board. The Chairman of the Board (if any) shall preside at all meetings of the Board and of the shareholders, and may delegate such authority to any other director or to an officer of the Company. The Chairman of the Board (if any) may exercise any powers, authorities or functions, granted or designated, to be performed by the President under the Bylaws or by law.

Section 6. President. The President, subject to the direction of the Board and the Chairman of the Board (if any), shall be responsible for the administration of the Company (including the general supervision of the policies of the Company, the general and active management of the financial affairs of the Company, and the supervision and direction of the actions

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of the other officers of the Company), shall have the power to sign and deliver agreements, certificates and other instruments on behalf of the Company, and shall have all such other duties and powers that are incident to his office or that are from time to time assigned by the Board or the Chairman of the Board. Unless the Board assigns the title of Chief Executive Officer to the Chairman of the Board, the President shall be the chief executive officer of the Company. In the absence of the Chairman of the Board, if the President has not delegated such authority, the President shall preside at meetings of the shareholders and, if the President is a director, at meetings of the Board.

Section 7. Vice Presidents. Each Vice President shall perform such duties and exercise such powers as the Chairman of the Board (if any), the President or the Board shall request or delegate and, unless the Board or the President otherwise provides, shall perform such other duties as are generally performed by vice presidents with equivalent restrictions, if any, on title. In the absence of the President or in the event of his death or inability or refusal to act, the Vice Presidents shall perform the duties of the President, and when so acting, shall have all the powers of and be subject to all the restrictions upon the President; provided, however, that if there is more than one Vice President, any Vice President shall have the authority to execute agreements, certificates and other instruments on behalf of the Company, subject to all the restrictions upon the President relating to such functions, but all other duties of the President shall be performed by the Vice President designated to perform such duties at the time of his appointment, or in the absence of any designation, then by the Vice President with the most seniority in office (or if more than one Vice President is appointed at the same meeting, by the Vice President first listed in the action appointing them), and when so acting shall have all the powers of and be subject to all the restrictions upon the President.



Section 8. Secretary. The Secretary shall attend and prepare minutes of all meetings of the shareholders of the Company and the Board, shall have charge of the minute books, share records and seal of the Company, shall be authorized to affix the seal to any document requiring it, shall authenticate records of the Company, and shall perform such other duties and have such other powers that are from time to time assigned by the Chairman of the Board (if any), the President or the Board.

Section 9. Treasurer. Unless the Board assigns the title of Chief Financial Officer to another officer, the Treasurer shall be the chief financial officer of the Company. The Treasurer shall be charged with the management of the financial affairs of the Company. The Treasurer shall perform all of the duties incident to such office and such other duties that are from time to time assigned by the Chairman of the Board (if any), the President or the Board.

Section 10. Voting Securities of Corporation. Unless otherwise ordered by the Board, the President shall have full power and authority on behalf of the Company to attend and to act and vote at any meetings of security holders of corporations or other organizations in which the Company may hold securities, and at such meetings shall possess and may exercise any and all rights and powers incident to the ownership of such securities which the Company might have possessed and exercised if it had been present. The Board by resolution from time to time may confer like powers upon any other person or persons.

## ARTICLE V

### Shares

Section 1. Direct Registration of Shares. The Company may, with the approval of the Board, participate in a direct registration system approved by the Securities and Exchange Commission and by the Nasdaq Stock Market or any securities exchange on which the shares of the Company may from time to time be traded, whereby shares of capital stock of the Company may be registered in the holder's name in uncertificated, book-entry form on the books of the Company.

Section 2. Share Issuance and Signatures. Except in the case of shares represented in book-entry form pursuant to Section 1 of this Article V, share certificates shall be issued in consecutive order to all holders of fully-paid shares, shall be in a form or forms prescribed by the Board and shall be numbered in the order in which they are issued. They shall be signed by (i) the Chairman of the Board (if any), the President or a Vice President and (ii) the Secretary or an Assistant Secretary, and if there is a seal of the Company, such seal (or a facsimile of it) shall be affixed to share

certificates. Signatures on a share certificate may be facsimiles but in such case the certificate must be countersigned by a transfer agent or registered by a registrar other than the Company or an employee of the Company.

### Section 3. Transfers of Shares.

(a) Except in the case of shares represented in book-entry form pursuant to Section 1 of this Article V, and subject to the restrictions on transfer of shares described in Article X of the Articles of Incorporation, transfers of shares shall be made in the share records of the Company upon surrender of the certificate for such shares signed by the person in whose name the certificate is registered or on his behalf by a person legally authorized so to sign (or accompanied by a separate stock transfer power so signed) and otherwise in accordance with applicable law, and subject to such other requirements as may be imposed by the Company.

(b) The Company shall be entitled to recognize the exclusive right of a person registered on its books as the owner of shares to receive dividends, and to vote as such owner, and for all other purposes, and shall not be bound to recognize any equitable or other claim to or interest in such share or shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by law.

(c) Except in the case of shares represented in book-entry form pursuant to Section 1 of this Article V, shares of capital stock may be transferred by delivery of the certificates therefor, accompanied either by an assignment in writing on the back of the certificates or by separate written power of attorney to sell, assign and transfer the same, signed by the record holder thereof, or by such holder's duly authorized attorney-in-fact, but no transfer shall affect the right of the Company to pay any dividend upon the shares to the holder of record as the holder in fact thereof

for all purposes, and no transfer shall be valid, except between the parties thereto, until such transfer shall have been made upon the books of the Company as herein provided.

Section 4. Lost Certificates. The Company may issue a new share certificate in place of any certificate previously issued by the Company and alleged to have been lost, stolen or destroyed upon the making of an affidavit of that fact by the person claiming the certificate to be lost, stolen or destroyed. If the Company deems it appropriate, it may require such person to deliver a commercial indemnity bond issued by a company approved by the Company in such sum as the Company may direct as indemnity against any claim that may be made against the Company with respect to the certificate alleged to have

been lost, stolen or destroyed. The Company may also authorize the Company's transfer agent or registrar, if any, to issue replacement certificates on such terms and conditions as the Company specifies.

Section 5. Regulations, Transfer Agents and Registrars. The Board may make all such rules and regulations as it may deem expedient concerning the issuance, transfer, conversion, registration and cancellation of share certificates not inconsistent with applicable law, the Articles of Incorporation or the Bylaws of the Company. The Board may appoint one or more transfer agents or registrars, or both, and may require all share certificates to bear the signature of a transfer agent or registrar or both.

## ARTICLE VI

### Indemnification of Officers and Directors

Section 1. General. Pursuant to Section 14-2-859(a) of the GBCC the Company shall indemnify, and shall advance funds to pay for or reimburse expenses to, each person who:

(a) is or was a director or officer of the Company (including the heirs, executors, administrators or estate of such person); or

(b) while holding a status described in (a) above, is or was serving at the request of the Company as a director, officer, partner, trustee, employee or agent of another foreign or domestic corporation, partnership, joint venture, trust, employee benefit plan or other enterprise to the fullest extent permitted under, and in accordance with the procedures required by, the GBCC.

Section 2. Non-Officer/Non-Director Agents and Employees. The Board may authorize the Company to indemnify, or advance expenses in connection with a proceeding that may be the subject of indemnification to, a non-officer, non-director agent or employee of the Company if, to the extent and on such terms as the Board may from time to time determine, in accordance with the Articles of Incorporation, these Bylaws and the GBCC.

Section 3. Subsequent Amendment. No amendment, termination or other elimination of this Article VI or of any relevant provisions of the GBCC or of any other applicable law shall affect or diminish in any way the rights to indemnification under this Article VI with respect to any

action, suit or proceeding arising out of, or relating to, any event or act or omission occurring or fact or circumstance existing prior to such amendment, termination or other elimination.

Section 4. Other Rights; Indemnification Agreements. The indemnification and advancement of expenses provided by, or granted pursuant to, this Article VI shall not be deemed exclusive of any other rights permitted by applicable law to which a person seeking indemnification or advancement of expenses may be entitled, whether by contract or otherwise. Nothing contained in this Article VI shall be deemed to prohibit, and the Company is specifically authorized to enter into, agreements which provide indemnification rights and procedures permitted by the GBCC.

Section 5. Continuation of Right to Indemnification. All rights to indemnification under this Article VI (including those arising pursuant to Section 4 above) shall continue as to a person who has ceased to be a director or officer, shall inure to the benefit of heirs, executors, administrators and the estate of such person, and shall be deemed to be a contract between the Company and each such person or entity. This Article VI shall be binding upon any successor corporation to the Company, whether by way of merger, consolidation, liquidation, dissolution or otherwise.

Section 6. Savings Clause. If this Article VI or any portion of it shall be invalidated on any ground by any court of competent jurisdiction, then the Company shall nevertheless indemnify persons specified in this Article VI to the full extent permitted by any applicable portion of this Article VI that shall not have been invalidated and to the full extent permitted by applicable law.

Section 7. Insurance. The Company may purchase and maintain insurance on behalf of an individual who is a director, officer, employee, or agent of the Company or who, while a director, officer, employee, or agent of the Company, serves at the Company's request as a director, officer, partner, trustee, employee or agent of another domestic or foreign corporation, partnership, joint venture, trust, employee benefit plan, or other entity against liability asserted against or incurred by him or her in that capacity or arising from his or her status as a director, officer, employee, or agent, whether or not the Company would have the power to indemnify or advance expenses to him or her against the same liability under these Bylaws and the GBCC.

## ARTICLE VII

### Business Combinations

Section 1. Business Combinations with Interested Shareholders. All of the requirements of Part 3 (Business Combinations with Interested Shareholders) of Article 11 (Merger and Share Exchange) of the GBCC shall be applicable to the Company.

Section 2. Repeal of Business Combinations with Interested Shareholders Bylaw. Sections 1 and 2 of this Article VII may only be repealed by the affirmative vote of at least two-thirds of the continuing directors (as defined in Section 14-2-1110 of the GBCC) and a majority of the votes entitled

to be cast by the voting shares of the Company other than shares beneficially owned by an interested shareholder (as defined in Section 14-2-1110 of the GBCC), in addition to any other vote required by the Articles of Incorporation or these Bylaws. Any action to repeal

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Section 1 or 2 of this Article VII shall not be effective until 18 months after the shareholder vote to effect such repeal and shall not apply to any business combination (as defined in Section 14-2-1110 of the GBCC) between the Company and any person who became an interested shareholder of the Company on or prior to such repeal.

Section 3. Fair Price Requirements. All of the requirements of Part 2 (Fair Price Requirements) of Article 11 (Merger and Share Exchange) of the GBCC shall be applicable to the Company.

Section 4. Repeal of Fair Price Requirements Bylaw. Sections 3 and 4 of this Article VII may only be repealed by the affirmative vote of at least two-thirds of the continuing directors (as defined in Section 14-2-1110 of the GBCC) and a majority of the votes entitled to be cast by the voting shares of the Company other than shares beneficially owned by an interested shareholder and affiliates and associates of an interested shareholder (each as defined in Section 14-2-1110 of the GBCC), in addition to any other vote required by the Article of Incorporation or these Bylaws.

## ARTICLE VIII

### Amendments

Subject to the Articles of Incorporation, these Bylaws and the GBCC, these Bylaws may be amended (or repealed and new bylaws adopted) by the shareholders of the Company or by a majority of the whole Board. The shareholders of the Company may provide expressly that any bylaws adopted, amended or repealed by them shall not be amended or repealed by the Board. A provision of the Bylaws limiting the authority of the Board or establishing staggered terms for directors may only be adopted, amended or repealed by the shareholders of the Company. Sections 1 or 2 of Article III of these Bylaws may be amended or repealed by the shareholders if and only if two-thirds of all votes entitled to be cast on such matters are cast favoring the action.

\* \* \* \* \*



INTERNAL REVENUE SERVICE

DEPARTMENT OF THE TREASURY

Index Number: 856.01-00

Washington, DC 20224

William H. Bradley, Esq.  
Sutherland, Asbill & Brennan LLP  
999 Peachtree Street N.E., #2300  
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Contact Person:  
Mr. Bernard P. Harvey 50-03134  
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(202) 622-3110  
In Reference to:  
CC:DOM:P&SI:6 -- PLR-112420-98  
Date:  
March 19, 1999

LEGEND:

Taxpayer	=	Strategic Timber Trust, Inc. EIN: 02-0499201
Partnership	=	Strategic Timber Partners, L.P. EIN: 02-0499203
Operating	=	Strategic Timber Operating Co. EIN: 02-0499202

Dear Mr. Bradley:

This letter responds to a request for a private letter ruling filed on behalf of Taxpayer dated June 10, 1998. You requested a ruling that gross income derived from the disposal of timber pursuant to cutting agreements will constitute gross income derived from gain from the sale or disposition of real property (or interests in real property) which is not property described in ss. 1221(1) of the Internal Revenue Code, for purposes of ss. 856(c)(2)(D) and ss. 856(c)(3)(C), and that such income will not be treated as prohibited transaction income under ss. 857(b)(6).

Taxpayer is a domestic corporation that is a limited partner of Partnership. Taxpayer intends to qualify and elect treatment as a REIT. Operating is a corporate general partner of Partnership, and a wholly-owned subsidiary of Taxpayer. It is represented that Operating will be treated as a qualified REIT subsidiary pursuant to ss. 856(i), and the income and assets of Operating will thus be treated as the income and assets of Taxpayer. It is anticipated that Partnership, Taxpayer, and Operating will operate in an umbrella partnership REIT format with

timberland assets being held by Partnership.

Partnership will invest and reinvest funds contributed by its partners in interests in timber, timberlands, and such other assets as appropriate to establish proper portions of liquid assets for the partnership. Partnership will maintain, manage, and dispose of the timber growing on the timberlands held by Partnership. Partnership will acquire timber tracts for investment purposes with the expectation of holding and managing those tracts for investment. When Operating, as general partner, determines that it is in the best interest of Partnership to dispose of standing timber, Partnership will enter into agreements calling for the cutting and removal of timber pursuant to a cutting contract. Partnership may, on occasion, also sell or otherwise dispose of timberland itself.

Taxpayer and Partnership anticipate that substantially all of their income from disposals of timber will be generated by the disposal of timber under contracts pursuant to which Partnership will retain an economic interest in the timber. It is intended that the tax treatment of the timber disposals under the contracts will be governed by ss. 631(b). Income from the disposals will be based upon an agreed amount per unit of timber ultimately harvested. Taxpayer anticipates that substantially all of its income will be derived from contracts qualifying under ss. 631(b) pursuant to which the purchaser, rather than Taxpayer or Partnership, will harvest the timber. Consequently, Taxpayer represents that Partnership will retain an economic interest in the timber disposed of pursuant to the contracts, and Partnership and Taxpayer will receive passive income measured by the quantity of timber actually cut by the purchaser. Partnership will not engage either in cutting timber or merchandising the logs cut from the timber.

#### LAW AND ANALYSIS

Section 856(c)(2) provides that at least 95 percent of a REIT's gross income (excluding gross income from prohibited transactions) must be derived from, among other sources, gain from the sale or other disposition of stock, securities, and real property (including interests in real property and interests in mortgages on real property) which is not property described in ss. 1221(1).

Section 856(c)(3) provides that at least 75 percent of a REIT's gross income (excluding gross income from prohibited transactions) must be derived from, among other sources, gain from the sale or other disposition of real property (including interests in real property and interests in mortgages on real property) which is not property described in ss. 1221(1).

Section 856(c)(4)(A) provides that at the close of each quarter of its



tax year, at least 75 percent of the value of a REIT's total assets must be represented by real estate assets, cash and cash items (including receivables), and Government securities. Section 856(c)(4)(B) provides

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that not more than 25 percent of the value of a REIT's total assets may be represented by securities (other than those includible under subparagraph (A)), for purposes of this calculation limited in respect of any one issuer to an amount not greater than 5 percent of the value of the total assets of the REIT and to not more than 10 percent of the outstanding voting securities of the issuer.

Section 856(c)(5)(B) provides that the term "real estate assets" means real property (including interests in real property and interests in mortgages on real property) and shares (or transferable certificates of beneficial interest) in other qualifying REITs. Section 856(c)(5)(C) defines the term "interests in real property" to include fee ownership and co-ownership of land or improvements thereon, leaseholds of land or improvements thereon, options to acquire land or improvements thereon, and options to acquire leaseholds of land or improvements thereon, but does not include mineral, oil, or gas royalty interests. Section 1.856-3(d) of the Income Tax Regulations provides that local law definitions will not be controlling for purposes of determining the meaning of the term "real property" as used in ss. 856 and the regulations thereunder.

Section 856(c)(5)(A) provides that "value" means, with respect to securities for which market quotations are readily available, the market value of those securities; and with respect to other securities and assets, fair value as determined in good faith by the trustees, except that in the case of securities of REITs, the fair value shall not exceed market value or asset value, whichever is higher.

Under ss. 1.856-3(g), a REIT that is a partner in a partnership is deemed to own its proportionate share of each of the assets of the partnership and to be entitled to the income of the partnership attributable to that share. For purposes of ss. 856, the interest of a partner in the partnership's assets shall be determined in accordance with the partner's capital interest in the partnership. The character of the various assets in the hands of the partnership and items of gross income of the partnership shall retain the same character in the hands of the partners for all purposes of ss. 856.

It is a long-standing principle of law that standing timber is treated as real property for federal income tax purposes. In *Hutchins v. King*, 68 U.S. 53, 59 (1863) the Supreme Court stated that "timber growing upon the land constituted a portion of the realty." More recently, the court in *Laird v. United States*, 115 F. Supp. 931, 933 (W.D. Wis. 1953) stated that growing timber under the common law and the law of . . . the United States, has always

been considered a portion of the real property, and the owner of that timber had an interest in so much of the soil as was necessary to sustain it. Also, the Service ruled in Rev. Rul. 72-515, 1972-2 C.B. 466, that timber growing on the land is part of the land and that an exchange of timberlands of different qualities nevertheless constitutes a like kind exchange because both are land held for investment.

Accordingly, we conclude that timberlands and the standing timber thereon constitute real property and, therefore, real estate assets within the meaning of ss. 856(c)(5)(B) and ss. 856(c)(4)(A).

Section 631(b) provides that in the case of the disposal of timber held for more than one year before the disposal, by the owner thereof under any form or type of contract by virtue of which the owner retains an economic interest in the timber, the difference between the amount realized from the disposal of the timber and the adjusted depletion basis thereof, shall be considered as though it were a gain or loss, as the case may be, on the sale of the timber. The date of the disposal of the timber shall be deemed to be the date the timber is cut, but if payment is made to the owner under the contract before the timber is cut, the owner may elect to treat the date of payment as the date of disposal of the timber. For purposes of this section, the term "owner" means any person who owns an interest in the timber, including a sublessor and a holder of a contract to cut timber.

Section 1.631-2(a)(2) provides that in the case of a disposal of timber with a retained economic interest, the provisions of ss. 1231 apply and such timber shall be considered property used in the trade or business for the tax year in which it is considered to have been sold, along with other property of the taxpayer used in the trade or business as defined in ss. 1231(b), whether or not such timber is property held by the taxpayer for sale to customers in the ordinary course of the taxpayer's trade or business.

In order for there to be a disposal of timber under a contract for purposes of section 631(b), the lessee must have a contractual obligation to cut specified timber. See, e.g., Rev. Rul. 77-229, 1977-2 C.B. 210 (citing *Ah Pah Redwood Co. v. Commissioner*, 251 F.2d 163 (9th Cir. 1957); *Jantzer v. Commissioner*, 284 F.2d 348 (9th Cir. 1960); *Patterson v. Belcher*, 302 F.2d 289 (5th Cir. 1962), opinion amended and reh. den., 305 F.2d 557, cert. denied, 371 U.S. 921 (1962). Section 1.631-2(e)(2) provides that in order to be the owner of timber a taxpayer must have a right to cut timber for sale on its own account or for use in its trade or business.

Neither ss. 631(b) nor the regulations thereunder provide guidance on what constitutes a retained economic interest. Section 1.611-1(b)(1), however,

provides that an economic interest is possessed when the taxpayer has acquired by investment any interest in standing timber and secures, by any form of legal relationship, income derived from the severance of the timber, to which the taxpayer must look for a return of capital. In other words, an owner retains an economic interest under a timber cutting contract if the amount of the payment for the timber depends solely on the actual quantity of timber cut.

Section 1231(a) generally provides that gain or loss on the sale or exchange of property

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used in a trade or business will be treated as gain or loss from the sale or exchange of a capital asset. Section 1231(b) (2) provides that property used in a trade or business includes timber to which ss. 631 applies.

Section 857(b) (6) (A) provides that a tax will be imposed upon a REIT equal to 100 percent of the net income derived by the REIT from prohibited transactions. Section 857(b) (6) (B) (iii) defines the term "prohibited transaction" as a sale or other disposition of property described in ss. 1221(1) which is not foreclosure property.

If it is determined that the timber cutting agreements entered into by Taxpayer are governed by ss. 631(b), the standing timber disposed of pursuant to the agreements will be treated as property used in a trade or business under ss. 1231, which section does not include property held for sale in the ordinary course of business as described in ss. 1221(1). Therefore, the sale of timber by Taxpayer pursuant to the agreements will not satisfy the definition of a prohibited transaction.

Accordingly, provided that the timber cutting agreements entered into by Taxpayer are governed by ss. 631(b), gross income derived from the disposal of timber pursuant to those cutting agreements will constitute gross income derived from gain from the sale or disposition of real property (or interests in real property) which is not property described in ss. 1221(1), for purposes of ss. 856(c) (2) (D) and ss. 856(c) (3) (C). Also, such income will not be treated as prohibited transaction income under ss. 857(b) (6).

No opinion is expressed or implied as to the federal tax consequences of this transaction under any provision not specifically addressed herein. Furthermore, no opinion is expressed concerning whether Taxpayer will otherwise qualify as a REIT under subchapter M, part II of Chapter 1. In addition, no opinion is expressed concerning the federal tax consequences of Partnership's disposal of standing timber on the timberlands other than by timber cutting contracts governed by ss. 631(b). Further, no opinion is expressed concerning whether the relationship between Taxpayer and any other party to a timber cutting contract entered into by Taxpayer will cause Taxpayer to fail to

satisfy the 10 percent voting securities requirement of ss. 856 (c) (4) (B).

This ruling is directed only to the taxpayer who requested it. Section 6110(k) (3) of the Code provides that it may not be used or cited as precedent.

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A copy of the letter is being forwarded to the District Director, New England District.

Sincerely yours,

/s/ Harold E. Burghart  
HAROLD E. BURGHART  
Assistant to the Chief, Branch 5  
Office of the Assistant Chief Counsel  
(Passthroughs and Special Industries)

Enclosures: 2  
Copy of this letter  
Copy for section 6110 purposes

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cc: Joseph E. Rendini  
VP & Secretary  
Strategic Timber Trust, Inc.  
5 North Pleasant Street  
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District Director, New England District  
Chief, Examination Division

1999 STRATEGIC TIMBER TRUST  
OMNIBUS INCENTIVE PLAN

1. PURPOSE; DEFINITIONS.

The purpose of the Plan is to support the Company's ongoing efforts to develop and retain leaders of exceptional talent and to provide the Company with the ability to provide incentives more directly linked to the profitability of the Company's business and to increases in shareholder value.

For purposes of the Plan, the following terms are defined as set forth below:

"Annual Incentive Award" means an Incentive Award made pursuant to Section 5(a)(v) with a Performance Cycle of one year or less.

"Awards" mean grants under this Plan of Incentive Awards, Stock Options, Stock Appreciation Rights, Restricted Stock or Other Stock-Based Awards.

"Board" means the Board of Directors of the Company.

"Change in Control" is defined in Section 6 below.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor thereto.

"Commission" means the Securities and Exchange Commission or any successor agency.

"Committee" means the Compensation Committee of the Board or a subcommittee thereof, any successor thereto or such other committee or subcommittee as may be designated by the Board to administer the Plan.

"Common Stock" or "Stock" means the Common Stock of the Company.

"Company" means Strategic Timber Trust, Inc., a corporation organized under the laws of the State of Georgia, or any successor thereto.

"Exercise Period" means the 60-day period from and after a Change in Control.

"Exchange Act" means the Securities Exchange Act of 1934, as amended from time to time, and any successor thereto.

"Fair Market Value" means, as of any given date, the mean between the highest and lowest

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reported sales prices of the Common Stock on the Nasdaq Stock Market or, if no such sale of Common Stock is reported on such date, the fair market value of the Stock as determined by the Committee in good faith.

"Incentive Award" means any Award that is either an Annual Incentive Award or a Long-Term Incentive Award.

"Incentive Stock Option" means any Stock Option that complies with Section 422 of the Code.

"Long-Term Incentive Award" means an Incentive Award made pursuant to Section 5(a)(v) with a Performance Cycle of more than one year.

"Nonqualified Stock Option" means any Stock Option that is not an Incentive Stock Option.

"Other Stock-Based Award" means an Award made pursuant to Section 5(a)(iv).

"Performance Cycle" means the period selected by the Committee during which the performance of the Company or any subsidiary, affiliate or unit thereof or any individual is measured for the purpose of determining the extent to which an Award subject to Performance Goals has been earned.

"Performance Goals" mean the objectives for the Company or any subsidiary or affiliate or any unit thereof or any individual that may be established by the Committee for a Performance Cycle with respect to any performance-based Awards contingently awarded under the Plan. The Performance Goals for Awards that are intended to constitute "performance-based" compensation within the meaning of Section 162(m) of the Code shall be based on such criteria as are established by the Committee which may include, but are not limited to the following: earnings per share, total shareholder return, funds from operations, operating income, net income, cash flow, return on equity, return on capital, and earnings before interest, taxes, depreciation, depletion and amortization ("EBITDDA").

"Plan" means this 1999 Strategic Timber Trust Omnibus Incentive Plan, as amended from time to time.

"Restricted Period" means the period during which an Award may not be sold, assigned, transferred, pledged or otherwise encumbered.

"Restricted Stock" means an Award of shares of Common Stock pursuant to Section 5(a)(iii).

"Spread Value" means, with respect to a share of Common Stock subject to an Award, an amount equal to the excess of the Fair Market Value, on the date such value is determined, over the

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Award's exercise or grant price, if any.

"Stock Appreciation Right" or "SAR" means a right granted pursuant to Section 5(a)(ii).

"Stock Option" means an option granted pursuant to Section 5(a)(i).

In addition, the terms "Business Combination," "Change in Control," "Change in Control Price," "Incumbent Board," "Outstanding Company Common Stock," "Outstanding Company Voting Securities" and "Person" have the meanings set forth in Section 6.

## 2. ADMINISTRATION.

The Plan shall be administered by the Committee, which shall have the power to interpret the terms and intent of the Plan and to adopt such rules and guidelines for carrying out the Plan as it may deem appropriate. The Committee shall have the authority to adopt such modifications, procedures and subplans as may be necessary or desirable to comply with the laws, regulations, compensation practices and tax and accounting principles of the countries in which the Company, a subsidiary or an affiliate may operate to assure the viability of the benefits of Awards made to individuals employed in such countries and to meet the objectives of the Plan.

Subject to the terms of the Plan, the Committee shall have the authority to determine those individuals eligible to receive Awards and the amount, type and terms of each Award and to establish and administer any Performance Goals applicable to such Awards, but, at the discretion of the Board, such determinations may be made subject to ratification by the Board.

The Committee may delegate its authority and power under the Plan to one or more officers of the Company, subject to guidelines prescribed by the Committee and approved by the Board, with respect to participants who are not subject to Section 16 of the Exchange Act.

Any determination made by the Committee or pursuant to delegated

authority in accordance with the provisions of the Plan with respect to any Award shall be made in the sole discretion of the Committee or such delegate, and all decisions made by the Committee or any appropriately designated officer pursuant to the provisions of the Plan shall be final and binding on all persons, including the Company and Plan participants, but subject to ratification by the Board if the Board so provides.

### 3. ELIGIBILITY.

All employees of the Company, its subsidiaries and affiliates, as well as non-employee members of the Board of Directors of the Company, its subsidiaries or affiliates are eligible to be granted Awards under the Plan.

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### 4. COMMON STOCK SUBJECT TO PLAN.

The total number of shares of Common Stock reserved and available for distribution pursuant to the Plan shall be 2,224,000 shares, all of which may be issued pursuant to the exercise of Stock Options awarded under the Plan. If any Award is exercised, cashed out or terminates or expires without a payment being made to the participant in the form of Common Stock, the shares subject to such Award, if any, shall again be available for distribution in connection with Awards under the Plan.

In the event of any merger, reorganization, consolidation, recapitalization, stock dividend, stock split, split-up or other change in corporate structure affecting the Common Stock after adoption of the Plan by the Board, the Board is authorized to make substitutions or adjustments in the aggregate number and kind of shares reserved for issuance under the Plan, in the number, kind and price of shares subject to outstanding Awards and in the Award limits set forth in Section 5; provided, however, that any such substitutions or adjustments shall be, to the extent deemed appropriate by the Board, consistent with the treatment of shares of Common Stock not subject to the Plan, and that the number of shares subject to any Award shall always be a whole number.

### 5. AWARDS.

(a) General. The types of Awards that may be granted under the Plan are set forth below. Awards may be granted singly, in combination or in tandem with other Awards.

(i) Stock Options. A Stock Option represents the right to



purchase a share of Stock at a predetermined grant price. Stock Options granted under this Plan may be in the form of Incentive Stock Options or Nonqualified Stock Options, as specified in the Award agreement. The term of each Stock Option shall be set forth in the Award agreement, but no Incentive Stock Option shall be exercisable more than ten years after the grant date. The grant price per share of Common Stock purchasable under an Incentive Stock Option shall not be less than 100% of the Fair Market Value on the date of grant. Subject to the applicable Award agreement, Stock Options may be exercised, in whole or in part, by giving written notice of exercise to the Company specifying the number of shares to be purchased. Such notice shall be accompanied by payment in full of the purchase price by certified or bank check or such other instrument as the Company may accept (including a copy of instructions to a broker or bank acceptable to the Company to deliver promptly to the Company an amount of sale or loan proceeds sufficient to pay the purchase price). As determined by the Committee, payment in full or in part may also be made in the form of Common Stock already owned by the optionee valued at the Fair Market Value on the date the Stock Option is exercised; provided, however, that such Common Stock shall not have been acquired within the preceding six months upon the exercise of a Stock Option or stock unit or similar Award granted under the Plan or any other plan maintained at any time by the Company or any subsidiary.

(ii) Stock Appreciation Rights. An SAR represents the right to receive a payment, in cash, shares of Common Stock or both (as determined by the Committee), equal to the Spread Value on the date the SAR is exercised. The grant price of an SAR shall be set forth in the applicable Award agreement. Subject to the terms of the applicable Award agreement, an SAR shall be exercisable, in whole or in part, by giving written notice of exercise to the Company.

(iii) Restricted Stock. Shares of Restricted Stock are shares of Common Stock that are awarded to a participant and that during the Restricted Period may be forfeitable to the Company upon such conditions as may be set forth in the applicable Award agreement. Restricted Stock may not be sold, assigned, transferred, pledged or otherwise encumbered during the Restricted Period. Except as provided in this subsection (iii) and in the applicable Award agreement, a participant shall have all the rights of a holder of Common Stock,

including the rights to receive dividends and to vote during the Restricted Period. Dividends with respect to Restricted Stock that are payable in Common Stock shall be paid in the form of Restricted Stock.

(iv) Other Stock-Based Awards. Other Stock-Based Awards are Awards, other than Stock Options, SARs or Restricted Stock, that are denominated in, valued in whole or in part by reference to, or otherwise based on or related to, Common Stock. The purchase, exercise, exchange or conversion of Other Stock-Based Awards granted under this subsection (iv) shall be on such terms and conditions and by such methods as shall be specified by the Committee.

(v) Incentive Awards. Incentive Awards are performance-based Awards that are expressed in U.S. currency. Incentive Awards shall either be Annual Incentive Awards or Long-Term Incentive Awards.

(b) Maximum Awards. The total number of shares of Restricted Stock and other shares of Common Stock subject to or underlying Stock Options, SARs and Other Stock-Based Awards awarded to any participant during the term of this Plan shall not exceed 25% of the shares of Common Stock originally reserved for distribution pursuant to the Plan. An Annual Incentive Award paid to a participant with respect to any Performance Cycle shall not exceed \$1,000,000. A Long-Term Incentive Award paid to a participant with respect to any Performance Cycle shall not exceed \$1,000,000 times the number of years in the Performance Cycle.

(c) Performance-Based Awards. Any Awards granted pursuant to the Plan may be in the form of performance-based Awards through the application of Performance Goals and Performance Cycles.

## 6. CHANGE IN CONTROL PROVISIONS.

Notwithstanding any other provision of the Plan to the contrary, if approved by the Board, in the event of a Change in Control:

(a) All Stock Options and Stock Appreciation Rights outstanding as of the date such Change in Control occurs shall become fully vested and exercisable.

(b) The restrictions and other conditions applicable to any Restricted Stock or Other Stock-Based Awards, including vesting requirements, shall lapse, and such Awards shall become free of all restrictions and fully vested.

(c) The value of all outstanding Stock Options, Stock Appreciation Rights, Restricted Stock and Other Stock-Based Awards shall, unless otherwise determined by the Board of Directors at or after grant, be cashed out on the basis of the "Change in Control Price," as defined in Section 6(e), as of the date such Change in Control occurs or such other date as the Committee may determine prior to the Change in Control.

(d) Any Incentive Awards relating to Performance Cycles prior to the Performance Cycle in which the Change in Control occurs that have been earned but not paid shall become immediately payable in cash. In addition, each participant who has been awarded an Incentive Award shall be deemed to have earned a pro rata Incentive Award equal to the product of (y) such participant's maximum award opportunity for such Performance Cycle, and (z) a fraction, the numerator of which is the number of full or partial months that have elapsed since the beginning of such Performance Cycle to the date on which the Change in Control occurs, and the denominator of which is the total number of months in such Performance Cycle.

(e) A "Change in Control" means the happening, subsequent to completion of the initial public offering of shares of Stock of the Company, of any of the following events:

(i) The acquisition, other than in a transaction approved by the Incumbent Board, by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act (a "Person")) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (A) the then outstanding shares of Common Stock (the "Outstanding Company Common Stock") or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that the following acquisitions shall not constitute a Change in Control: (1) any acquisition directly from the Company, (2) any acquisition by the Company, (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or

any corporation controlled by the Company or (4) any acquisition by any Person pursuant to a transaction described in clauses (A), (B) and (C) of paragraph (iii) of this Section 6(e); or

(ii) Individuals who, as of the effective date of the Plan, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to such effective date whose election, or nomination for election by the stockholders of the Company, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board; or

(iii) Approval by the stockholders of the Company of a reorganization, merger, share exchange or consolidation (a "Business Combination"), unless, in each case following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation resulting from such Business Combination (including, without limitation, a corporation that as a result of such transaction owns the Company through one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Business Combination of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any employee benefit plan (or related trust) of the Company or such corporation resulting from such Business Combination) beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to

the extent that such Person owned 20% or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities prior to the Business Combination and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(iv) Approval by the stockholders of the Company of (A) a complete liquidation or dissolution of the Company or (B) the sale or other disposition of all or substantially all of the assets of the Company, other than to a corporation with respect to which, following such sale or other disposition, (1) more than 50% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Common Stock and Outstanding Company Voting Securities immediately prior to such sale or other disposition in substantially the same proportion as their ownership, immediately prior to such sale or other disposition, of the Outstanding Company Common Stock and Outstanding Company Voting Securities, as the case may be, (2) less than 20% of, respectively, the then outstanding shares of common stock of such corporation and the combined voting power of the then outstanding voting securities of such corporation entitled to vote generally in the election of directors is then beneficially owned, directly or indirectly, by any Person (excluding any employee benefit plan (or related trust) of the Company or such corporation), except to the extent that such Person owned 20% or more of the Outstanding Company Common Stock or Outstanding Company Voting Securities prior to the sale or disposition and (3) at least a majority of the members of the board of directors of such corporation were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such sale or other disposition of assets of the Company or

were elected, appointed or nominated by the Board.

(f) "Change in Control Price" means the highest price per share paid in any transaction reported on the Nasdaq Stock Market or paid or offered in any bona fide transaction related to a potential or actual Change in Control of the Company at any time during the preceding 60-day period as determined by the Committee, except that, in the case of Incentive Stock Options, unless the Committee otherwise provides, such price shall be based only on transactions reported for the date on which such Incentive Stock Options are cashed out.

(g) Notwithstanding any other provision of this Plan, upon a Change in Control, unless the Committee shall determine otherwise at grant, or after grant but before the Change in Control, an Award recipient shall have the right, by giving notice to the Company within the Exercise Period, to elect to surrender all or part of the Stock Option, SAR or Other Stock-Based Award to the Company and to receive in cash, within 30 days of such notice, an amount equal to the amount by which the "Change in Control Price" on the date of such notice exceeds the exercise or grant price under such Award, multiplied by the number of shares of Stock as to which the right granted under this Section 6 shall have been exercised.

(h) Notwithstanding the foregoing, if any right granted pursuant to this Section 6 would make a Change in Control transaction ineligible for pooling of interests accounting under generally accepted accounting principles that but for this Section 6 would otherwise be eligible for such accounting treatment, the Committee shall have the ability to substitute the cash payable pursuant to this Section 6 with Common Stock with a Fair Market Value equal to the cash that would otherwise be payable hereunder.

## 7. PLAN AMENDMENT AND TERMINATION.

The Board may amend or terminate the Plan at any time, provided that no such amendment shall be made without stockholder approval if such approval is required under applicable law, or if such amendment would increase the total number of shares of Common Stock that may be distributed under the Plan.

Except as set forth in any Award agreement, no amendment or termination of the Plan may materially and adversely affect any outstanding Award under the Plan without the Award recipient's consent.

8. PAYMENTS AND PAYMENT DEFERRALS.

Payment of Awards may be in the form of cash, Stock, other Awards or combinations thereof as the Committee shall determine, and with such restrictions as it may impose. The Committee, either at the time of grant or by subsequent amendment, may require or permit deferral of the payment of Awards under such rules and procedures as it may establish. It also may provide that deferred settlements include the payment or crediting of interest or other earnings on the deferred amounts, or the payment or crediting of dividend equivalents when the deferred amounts are denominated in Common Stock equivalents.

9. DIVIDENDS AND DIVIDEND EQUIVALENTS.

The Committee may provide that any Awards under the Plan earn dividends or dividend equivalents. Such dividends or dividend equivalents may be paid currently or may be credited to a participant's Plan account. Any crediting of dividends or dividend equivalents may be subject to such restrictions and conditions as the Committee may establish, including reinvestment in additional shares of Common Stock or Common Stock equivalents.

10. TRANSFERABILITY.

Except to the extent permitted by the Award agreement, either initially or by subsequent amendment, Awards shall not be transferable or assignable other than by will or the laws of descent and distribution and shall be exercisable during the lifetime of the recipient only by him.

11. AWARD AGREEMENTS.

Each Award under the Plan shall be evidenced by a written agreement (which need not be signed by the recipient unless otherwise specified by the Committee) that sets forth the terms, conditions and limitations for each Award. Such terms may include, but are not limited to, the term of the Award, vesting and forfeiture provisions, and the provisions applicable in the event the recipient's employment terminates. The Committee may amend an Award agreement, provided that no such amendment may materially and adversely affect an Award without the Award recipient's consent.

12. UNFUNDED STATUS OF PLAN.



It is presently intended that the Plan constitute an "unfunded" plan for incentive and deferred compensation. The Committee may authorize the creation of trusts or other arrangements to meet the obligations created under the Plan to deliver Common Stock or make payments; provided, however, that, unless the Committee otherwise determines, the existence of such trusts or other arrangements is consistent with the "unfunded" status of the Plan.

13. GENERAL PROVISIONS.

(a) The Committee may require each person acquiring shares of Common Stock pursuant to an Award to represent to and agree with the Company in writing that such person is acquiring the shares without a view to the distribution thereof. The certificates for such shares may include any legend that the Committee deems appropriate to reflect any restrictions on vesting and transfer.

All certificates for shares of Common Stock or other securities delivered under the Plan shall be subject to such stock transfer orders and other restrictions as the Committee may deem advisable under the rules, regulations and other requirements of the Commission, any stock exchange upon which the Common Stock is then listed and any applicable Federal, state or foreign securities law, and the Committee may cause a legend or legends to be placed on any such certificates to make appropriate reference to such restrictions.

(b) Nothing contained in this Plan shall prevent the Company, a subsidiary or an affiliate from adopting other or additional compensation arrangements for its employees or directors.

(c) The adoption of the Plan shall not confer upon any employee any right to continued employment nor shall it interfere in any way with the right of the Company, a subsidiary or an affiliate to terminate the employment of any employee at any time.

(d) No later than the date as of which an amount first becomes includible in the gross income of the participant for Federal income tax purposes with respect to any Award under the Plan, the participant shall pay to the Company, or make arrangements satisfactory to the Company regarding the payment of, any Federal, state, local or foreign taxes of any kind required by law to be withheld with respect to such amount. Unless otherwise determined by the Committee, withholding



obligations arising from an Award may be settled with Common Stock, including Common Stock that is part of, or is received upon exercise or conversion of, the Award that gives rise to the withholding requirement. The obligations of the Company under the Plan shall be conditional on such payment or arrangements, and the Company, its subsidiaries and its affiliates shall, to the extent permitted by law, have the right to deduct any such taxes from any payment otherwise due to the participant. The Committee may establish such procedures as it deems appropriate, including the making of irrevocable elections, for the settling of withholding obligations with Common Stock.

(e) On receipt of written notice of exercise, the Committee may elect to cash out all or a portion of the shares of Common Stock for which a Stock Option is being exercised by paying the optionee an amount, in cash or Common Stock, equal to the Spread Value of such shares on the date such notice of exercise is received.

(f) The Plan and all Awards made and actions taken thereunder shall be governed by and construed in accordance with the laws of the State of Georgia.

(g) If any provision of the Plan is held invalid or unenforceable, the invalidity or unenforceability shall not affect the remaining parts of the Plan, and the Plan shall be enforced and construed as if such provision had not been included.

(h) The Plan shall be effective on the date of the closing of the Company's initial public offering of Common Stock pursuant to an effective registration statement under the Securities Act of 1933, as amended. Except as otherwise provided by the Board, no Awards shall be granted after the date that is ten years thereafter, but any Awards granted theretofore may extend beyond that date.

\* \* \* \* \*

STRATEGIC TIMBER TRUST, INC.  
DIRECTOR INDEMNIFICATION AGREEMENT

THIS AGREEMENT is made on this \_\_\_\_\_ day of \_\_\_\_\_ 1999, by and between Strategic Timber Trust, Inc., a Georgia corporation ("STT"), and the undersigned ("Director").

WITNESSETH:

WHEREAS, Director is currently serving or intends to serve as a director of STT and in such capacity performs a valuable service for STT;

WHEREAS, the Georgia Business Corporation Code, as now in effect or hereafter amended (the "GBCC") as well as STT's Bylaws (the "Bylaws") specifically provide that the indemnification provided thereunder is not exclusive of any other rights with respect to indemnification or otherwise to which those seeking indemnification may be entitled under any contract or resolution approved or ratified by the shareholders by a majority of the votes entitled to be cast;

WHEREAS, the GBCC and the Bylaws contemplate that contracts may be entered into between STT and its directors with respect to indemnification of such directors;

WHEREAS, in order to encourage Director to continue his service or begin to serve as a director of STT, STT has determined and agreed to enter into this Agreement with Director;

NOW, THEREFORE, in consideration of Director's service or continued service to STT as a director from and after the date hereof, the parties hereby agree as follows:

1. INDEMNITY OF DIRECTOR. STT shall defend, hold harmless and indemnify Director to the full extent permitted by the provisions of the GBCC, as currently in effect or as it may hereafter be amended, or by the provisions of any other applicable statute authorizing or permitting such indemnification, whether currently in effect or hereafter adopted.

2. INSURANCE POLICIES.

(a) STT represents that it has purchased and presently maintains a policy of directors' and officers' liability insurance ("D&O Insurance") with \_\_\_\_\_ in the amount of \$ \_\_\_\_\_. Subject to the provisions of Section 2(b) hereof, for so long as Director shall continue in such capacity

and thereafter if Director shall then be subject to any threatened, pending or completed action, suit or proceeding (whether civil, criminal, administrative or investigative), by reason of

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the fact that Director was a director of STT, STT will use reasonable efforts to maintain in effect for the benefit of Director one or more policies of D&O Insurance providing coverage comparable to that presently in effect.

(b) STT shall not be required to maintain said policy or policies of D&O Insurance in effect if said insurance is not reasonably available or if, in the reasonable business judgment of the then directors of STT, the premium cost for such insurance is disproportionate to the amount or extent of coverage.

3. ADDITIONAL INDEMNITY. Subject to the provisions of Section 4 hereof and without limiting the Bylaws, STT shall defend, hold harmless and indemnify Director:

(a) in any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative (other than an action, suit or proceeding by or in the right of STT), by reason of the fact that he is or was a director of STT, or is or was serving at the request of STT as a director, officer, partner, trustee, employee, or agent of another domestic or foreign corporation, partnership, joint venture, trust, employee benefit plan or other entity, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding, if he conducted himself in good faith and reasonably believed: (i) in the case of conduct in his official capacity, that such conduct was in the best interests of STT; (ii) in all other cases, that such conduct was at least not opposed to the best interests of STT; and (iii) in the case of any criminal proceeding, that he had no reasonable cause to believe such conduct was unlawful. The termination of any action, suit or proceeding by judgment, order, settlement, or conviction, or upon a plea of nolo contendere or its equivalent is not, of itself, determinative that Director met the standard of conduct under this Section 3(a); and

(b) in any threatened, pending or completed action, suit or proceeding by or in the right of STT to procure a judgment in its favor, by reason of the fact he is or was a director of STT or is or was serving at the request of STT as a director, officer, partner,

trustee, employee, or agent of another domestic or foreign corporation, partnership, joint venture, trust, employee benefit plan or other entity, against expenses (including attorneys' fees), judgments, fines and amounts paid in settlement actually and reasonably incurred by him in connection with such action, suit or proceeding, if he acted in a manner he believed in good faith to be in or not opposed to the best interests of STT. The termination of any action, suit or proceeding by judgment, order or settlement shall not, of itself, create a presumption that Director did not act in a manner which he believed in good faith to be in or not opposed to the best interests of STT.

4. LIMITATIONS ON ADDITIONAL INDEMNITY. No indemnity pursuant to Section 3 hereof shall be paid by STT:

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(a) to the extent it would reduce or eliminate any payments under any D&O Insurance covering Director;

(b) to the extent of any liability for which Director is indemnified pursuant to Sections 1 and 2 of this Agreement or pursuant to any D&O Insurance carried by STT;

(c) on account of any claim against Director for an accounting of profits made from the purchase or sale of securities of STT pursuant to the provisions of Section 16(b) of the Securities Exchange Act of 1934 and amendments thereto or the similar provisions of any other applicable law;

(d) on account of any claim against Director arising out of the trading of STT stock while possessing material non-public information, whether pursuant to the Insider Trading Sanctions Act of 1984 or otherwise;

(e) if a final judgment or other final adjudication by a court having jurisdiction in the matter shall determine that such indemnity is not lawful;

(f) in respect to remuneration paid to Director if a final judgment or other final adjudication by a court having jurisdiction in the matter shall determine that such remuneration was not lawful;

(g) for any appropriation, in violation of his duties, of any business opportunity of STT;

(h) for acts or omissions which involve intentional misconduct or a knowing violation of law;

(i) for unlawful distributions as set forth in GBCC s. 14-2-832 (or any successor provision); or

(j) for any transaction from which he received an improper personal benefit.

5. NOTIFICATION AND DEFENSE OF CLAIM.

(a) Promptly after receipt by Director of notice of the commencement of any action, suit or proceeding, Director will, if a claim in respect thereto is to be made against STT under this Agreement, notify STT of the commencement thereof, but the failure to so notify STT will not relieve it from any liability which it may have to Director otherwise than under this Agreement. With respect to any such action, suit or proceeding as to which Director so notifies STT:

(i) STT will be entitled to participate therein at its own expense; and

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(ii) except as otherwise provided below, to the extent that it may wish, STT may assume the defense thereof.

(b) After notice from STT to Director of its election to assume the defense thereof, STT will not be liable to Director under this Agreement or otherwise for any legal or other expenses subsequently incurred by Director in connection with the defense thereof other than reasonable costs of investigation or as otherwise provided below. Director shall have the right to employ counsel of his choosing in such action, suit or proceeding but the fees and expenses of such counsel incurred after notice from STT of its assumption of the defense thereof shall be at the expense of Director unless (i) the employment of counsel by Director has been authorized in writing by STT, (ii) STT and Director shall have reasonably concluded that there may be a conflict of interest between STT and Director in the conduct of the defense of such action, or (iii) STT shall not in fact have employed counsel to assume the defense of such action, in each of which cases the reasonable fees and expenses of Director's counsel shall be paid by STT.

(c) STT shall not be liable to Director under this Agreement for any amounts paid in settlement of any threatened or

pending action, suit or proceeding without its prior written consent. STT shall not settle any such action, suit or proceeding in any manner which would impose any penalty or limitation on Director without Director's prior written consent. Neither STT nor Director will unreasonably withhold his or its consent to any proposed settlement.

6. PREPAYMENT OF EXPENSES. Unless Director otherwise elects, expenses incurred in defending any civil or criminal action, suit or proceeding will be paid by STT in advance of the final disposition of such action, suit or proceeding upon receipt of a written agreement from Director in form and substance satisfactory to STT (i) affirming the Director's good faith belief that his conduct does not constitute behavior of the kind described in Sections 4(c) through (j) of this Agreement, and (ii) agreeing to repay any advances if it shall be ultimately determined that he is not entitled to be indemnified by STT under this Agreement.

7. CONTINUATION OF INDEMNITY. All agreements and obligations of STT contained in this Agreement shall continue during the period Director is a member of the Board of Directors of STT and shall continue thereafter so long as Director shall be subject to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of the fact that Director was a director of STT, or is or was serving at the request of STT as a director, officer, partner, trustee, employee, or agent of another domestic or foreign corporation, partnership, joint venture, trust, employee benefit plan or other enterprise.

8. ALLOWANCE FOR COMPLIANCE WITH SEC REQUIREMENTS. Director acknowledges that the Securities and Exchange Commission ("SEC") has expressed the opinion that indemnification of directors and officers from liabilities under the Securities Act of 1933 (the "Act") is against public policy and therefore unenforceable. Director hereby agrees

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that it will not be a breach of this Agreement for STT to agree with the SEC in connection with the registration for sale of any stock or other securities of STT from time to time that, in the event a claim for indemnification against such liabilities (other than the payment by STT of expenses incurred or paid by a director or officer of STT in the successful defense of any action, suit or proceeding) is asserted in connection with such stock or other securities being registered, STT will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of competent jurisdiction the question of whether or not such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue. Director further agrees that such submission to a court of competent jurisdiction shall not be a breach of this Agreement.

9. RELIANCE. STT has entered into this Agreement in order to induce Director to serve or continue as a member of the Board of Directors of STT, and acknowledges that Director is relying upon this Agreement with respect thereto.

10. SEPARABILITY. Each of the provisions of this Agreement is a separate and distinct agreement and independent of the others, so that if any provision hereof shall be held to be invalid or unenforceable for any reason, such invalidity or unenforceability shall not affect the validity or enforceability of the other provisions hereof.

11. GOVERNING LAW; ASSIGNMENT; BINDING EFFECT; AMENDMENT AND TERMINATION; GENDER.

(a) This Agreement shall be governed by and construed in accordance with the laws of the State of Georgia applicable to agreements made and to be performed entirely within such State.

(b) Neither this Agreement nor any rights or obligations hereunder shall be assigned or transferred by Director.

(c) This Agreement shall be binding upon Director and upon STT, its successors and assigns, including successors by merger or consolidation, and shall inure to the benefit of Director, his heirs, personal representatives and permitted assigns and to the benefit of STT, its successors and assigns.

(d) No amendment, modification or termination of this Agreement shall be effective unless in writing signed by both parties hereto.

(e) References herein to the male gender herein shall include references to the female gender.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement on and as of the day and year first above written.

-5-

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

\_\_\_\_\_  
[NAME OF DIRECTOR], Director



## [FORM OF STOCK OPTION AGREEMENT -- OFFICERS AND EMPLOYEES]

STRATEGIC TIMBER TRUST, INC.  
NON-QUALIFIED STOCK OPTION AGREEMENT

THIS NON-QUALIFIED STOCK OPTION AGREEMENT (this "Agreement") is made and entered into between Strategic Timber Trust, Inc., a Georgia corporation (the "Company"), and \_\_\_\_\_ ("Optionee").

## THE PARTIES AGREE AS FOLLOWS:

## 1. Grant of Option and Effective Date.

1.1 Grant. The Company hereby grants to Optionee pursuant to the Company's 1999 Omnibus Incentive Plan, as amended (the "Plan"), a stock option (the or this "Option") to purchase all or any part of an aggregate of \_\_\_\_\_ (\_\_\_\_\_) of the Company's \$.01 par value common shares ("Common Stock") on the terms and conditions set forth herein and in the Plan as in effect on the Effective Date (as defined below), a copy of which is attached hereto as Exhibit A and incorporated in this Agreement. This Option shall not be treated as an incentive stock option under Section 422 of the Internal Revenue Code (the "Code"), and all provisions of this Agreement shall be construed to effect such intent.

1.2 Effective Date. The date this Option is granted is \_\_\_\_\_ ("Effective Date").

2. Exercise Price. The exercise price for the shares of Common Stock covered by this Option shall be \_\_\_\_\_ (\$\_\_\_\_\_) per share ("Exercise Price"), which shall be not less than the fair market value of a share of Common Stock on the Effective Date.

3. Adjustment and Termination of Options. Subject to the other restrictions in the Plan and this Agreement, the Company shall adjust the number and kind of shares and the Exercise Price thereof proportionately for any increase or decrease in the number of issued shares of Common Stock resulting from a subdivision or combination of shares or the payment of a stock dividend in shares of Common Stock to holders of outstanding shares of Common Stock or any other increase or decrease in the number of such shares effected without receipt of consideration by the Company. If the Company shall be the surviving corporation in any merger or consolidation (other than as a subsidiary of another corporation), recapitalization, reclassification of shares or similar reorganization, the Optionee shall be entitled to purchase, at the same times

and upon the same terms and conditions as are provided in this Agreement, the number and class of shares of stock or other securities to which a holder of the number of shares of Common Stock subject to the Stock Option

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at the time of such transaction would have been entitled to receive as a result of such transaction. In the event of a dissolution or liquidation of the Company, a sale of all or substantially all of the stock or all or substantially all of the assets of the Company, a direct or indirect merger or consolidation in which the Company is not the surviving corporation or survives only as a subsidiary of another corporation, or any other transaction having a similar result or effect, each outstanding Option shall terminate except to the extent that another corporation assumes such Option or substitutes another option or stock incentive therefor.

#### 4. Exercise of Options.

##### 4.1 When Exercisable.

(a) Rate of Exercise. Optionee shall not be vested with the right to exercise this Option to purchase any shares of Common Stock ("Shares") until \_\_\_\_\_ after the Effective Date. Subject to the other restrictions in the Plan and this Agreement, Optionee shall acquire the vested right to exercise this Option to purchase:

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(b) Partial Exercise. Subject to the other restrictions in the Plan and this Agreement, this Option may be exercised for all or a part of the Shares with respect to which this Option is exercisable under Section 4.1(a).

4.2 Method of Exercise; Withholding. Subject to Section 4.1 and the other restrictions in the Plan and this Agreement, this Option is exercisable from time to time by the Optionee, who shall complete, execute and deliver to the Company a Form of Exercise of Stock Option (the "Form") in a form established by the Company from time to time. Except as otherwise provided in the Plan, the Form shall be accompanied by payment in full for the stock to be purchased. Payment of the purchase price may be made by delivery of Common Stock valued at its fair market value on the date of delivery. Upon due exercise of the Option, subject to the terms and conditions in this Agreement and the Plan,

the Company shall issue in the name of Optionee and deliver to him certificate(s) for the Shares in respect of which the Option shall have been exercised, but no Shares will be issued until arrangements satisfactory to the Company have been made for appropriate income tax withholding.

4.3 Exercise After Termination of Employment. Upon any termination of employment of Optionee for any reason other than for cause (as defined below), death or disability, this Option may, to the extent exercisable, be exercised within three months after the date of such employment termination. Upon any termination of employment of Optionee by reason of disability,

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within the meaning of Section 22(e)(3) of the Code or any successor provision, this Option may, to the extent exercisable, be exercised within twelve months after the date of such employment termination. If Optionee dies, this Option may, to the extent exercisable, be exercised by a legatee or legatees of the Optionee under the Optionee's last will, or by the Optionee's personal representatives or distributees, within twelve months after the Optionee's death. This Section 4.3 shall not extend the term of this Option specified in Section 4.4. For purposes of this Section 4.3, the employment of Optionee shall not be deemed terminated so long as Optionee is employed by the Company, by a subsidiary of the Company or by another corporation (or a parent or subsidiary corporation of such other corporation) which has assumed this Option in a transaction to which Section 424(a) of the Code or any successor provision is applicable. For purposes of this Section 4.3, the extent to which this Option is exercisable shall be determined as of the date of termination of employment.

#### 4.4 Option Term.

(a) Termination for Cause. The Option shall terminate immediately upon termination by the Company or any subsidiary of the Company of the employment of Optionee for "cause." For purposes of this Agreement, the term "cause" shall be deemed to mean (i) habitual neglect by Optionee of his employment-related duties, with "habitual neglect" meaning neglect which occurs again after one written warning from the Company or any subsidiary of the Company specifying such neglect and after Optionee's failure within a reasonable time (defined for the purposes of this Section 4.4(a) as the earlier of two weeks or 10 business days) thereafter to correct the problem; (ii) habitual use of alcohol or drugs; or (iii) indictment for a felony or for a misdemeanor or other illegal conduct involving dishonesty or fraud.

(b) Termination for Breach. The Option shall terminate upon the expiration of a 30-day period from the date of written notice to Optionee of a material breach or default by him of any provision of any

agreement between Optionee and the Company or any subsidiary of the Company unless such breach or default is remedied within such 30- day period, and no Option shall be exercisable during any period within which any such material breach or default is unremedied.

(c) Other Termination. In addition to the foregoing provisions of this Section 4.4, the Option shall not be exercisable after the earliest of (i) a dissolution or liquidation of the Company, a sale of all or substantially all of the stock or all or substantially all of the assets of the Company, a direct or indirect merger or consolidation in which the Company is not the surviving corporation or survives only as a subsidiary of another corporation, or any other transaction having a similar result or effect, except to the extent that another corporation assumes the Option or substitutes another option therefor; or (ii) ten years from the Effective Date.

5. Non-transferability of Options. The Option shall not be transferable or assignable except upon Optionee's death by will or the laws of descent and distribution and shall be exercisable, during Optionee's lifetime, only by Optionee.

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6. Purchase for Investment; Other Representations of Optionee; Legends. If the offering of Shares with respect to which the Option is being exercised is not registered under the Securities Act of 1933, as amended (the "Act"), but an exemption is available that requires an investment representation or other representation, Optionee, if electing to purchase Shares, will be required to represent that such Shares are being acquired for investment and not with a view to distribution thereof, and to make such other representations as are deemed necessary by counsel to the Company. Stock certificates evidencing such unregistered Shares that are acquired upon exercise of the Option shall bear restrictive legends in substantially the following form and such other restrictive legends as are required or advisable under the provisions of any applicable laws:

The shares represented by this stock certificate have not been registered under the Securities Act of 1933, as amended (the "Act"), nor under any state securities laws and shall not be transferred at any time in the absence of (i) an effective registration statement under the Act and applicable state securities laws with respect to such Shares at such time; or (ii) an opinion of counsel satisfactory to the Company and its counsel, to the effect that such transfer at such time will not violate the Act or any applicable state securities laws.

7. Restriction on Issuance of Shares. The Company shall not be

obligated to sell or issue any Shares pursuant to this Agreement if such issuance would result in the violation of any laws, including the Act or any applicable state securities laws. If at any time the Company shall determine that the listing, registration or qualification of the Shares upon any securities exchange or under any state or federal law is necessary or desirable as a condition of or in connection with the purchase or delivery of the Shares, the delivery of any or all Shares may be withheld unless and until such listing, registration or qualification shall have been effected.

8. Rights as a Stockholder. Optionee shall have no rights as a stockholder with respect to any Shares covered by the Option until the date of issuance of a stock certificate for such Shares. Subject to Section 3, no adjustment shall be made by reason of any dividends, distributions or other rights granted to stockholders for which the record date is prior to the date such stock certificate is issued.

9. No Employment Rights. This Agreement shall not confer upon Optionee any right with respect to the continuance of employment by the Company or any subsidiary.

10. Severability. In the event that any court of competent jurisdiction shall determine that any provision of this Agreement is invalid, such determination shall not affect the validity of any other provision of this Agreement, which shall remain in full force and effect and which shall be construed as to be valid under applicable law.

11. Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of Georgia.

12. Notices. All notices and other communications under this Agreement shall be in

writing, and shall be deemed to have been duly given on the date of delivery if delivered personally or when received if mailed to the party to whom notice is to be given, by certified mail, return receipt requested, postage prepaid, to the following address, or any other address specified by notice duly given:

To Optionee at:

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To the Company at: Strategic Timber Trust, Inc.  
5 North Pleasant Street  
New London, New Hampshire 03257  
Attention: President

13. Counterparts; Copies. This Agreement may be signed by each party upon a separate copy and in such case one counterpart of this Agreement shall consist of enough copies to reflect the signature of each party to this Agreement. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement or its terms to produce or account for more than one of such counterparts.

DULY EXECUTED and delivered by the parties to this Agreement, effective as set forth above.

STRATEGIC TIMBER TRUST, INC.

By: \_\_\_\_\_

Title: \_\_\_\_\_

OPTIONEE:

\_\_\_\_\_  
[Signature of Optionee]

Name: \_\_\_\_\_

[Please Print]

## [FORM OF STOCK OPTION AGREEMENT -- OUTSIDE DIRECTORS]

STRATEGIC TIMBER TRUST, INC.  
NON-QUALIFIED STOCK OPTION AGREEMENT

THIS NON-QUALIFIED STOCK OPTION AGREEMENT (this "Agreement") is made and entered into between Strategic Timber Trust, Inc., a Georgia corporation (the "Company"), and \_\_\_\_\_ ("Optionee").

## THE PARTIES AGREE AS FOLLOWS:

## 1. Grant of Option and Effective Date.

1.1 Grant. The Company hereby grants to Optionee pursuant to the Company's 1999 Omnibus Incentive Plan, as amended (the "Plan"), a stock option (the or this "Option") to purchase all or any part of an aggregate of \_\_\_\_\_ (\_\_\_\_\_) of the Company's \$.01 par value common shares ("Common Stock") on the terms and conditions set forth herein and in the Plan as in effect on the Effective Date (as defined below), a copy of which is attached hereto as Exhibit A and incorporated in this Agreement. This Option shall not be treated as an incentive stock option under Section 422 of the Internal Revenue Code (the "Code"), and all provisions of this Agreement shall be construed to effect such intent.

1.2 Effective Date. The date this Option is granted is \_\_\_\_\_ ("Effective Date").

2. Exercise Price. The exercise price for the shares of Common Stock covered by this Option shall be \_\_\_\_\_ (\$\_\_\_\_\_) per share ("Exercise Price"), which shall be not less than the fair market value of a share of Common Stock on the Effective Date.

3. Adjustment and Termination of Options. Subject to the other restrictions in the Plan and this Agreement, the Company shall adjust the number and kind of shares and the Exercise Price thereof proportionately for any increase or decrease in the number of issued shares of Common Stock resulting from a subdivision or combination of shares or the payment of a stock dividend in shares of Common Stock to holders of outstanding shares of Common Stock or any other increase or decrease in the number of such shares effected without receipt of consideration by the Company. If the Company shall be the surviving corporation in any merger or consolidation (other than as a subsidiary of another corporation), recapitalization, reclassification of shares or similar

reorganization, the Optionee shall be entitled to purchase, at the same times and upon the same terms and conditions as are provided in this Agreement, the number and class of shares of stock or other

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securities to which a holder of the number of shares of Common Stock subject to the Stock Option at the time of such transaction would have been entitled to receive as a result of such transaction. In the event of a dissolution or liquidation of the Company, a sale of all or substantially all of the stock or all or substantially all of the assets of the Company, a direct or indirect merger or consolidation in which the Company is not the surviving corporation or survives only as a subsidiary of another corporation, or any other transaction having a similar result or effect, each outstanding Option shall terminate except to the extent that another corporation assumes such Option or substitutes another option or stock incentive therefor.

#### 4. Exercise of Options.

##### 4.1 When Exercisable.

(a) Rate of Exercise. Optionee shall not be vested with the right to exercise this Option to purchase any shares of Common Stock ("Shares") until \_\_\_\_\_ after the Effective Date. Subject to the other restrictions in the Plan and this Agreement, Optionee shall acquire the vested right to exercise this Option to purchase:

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(b) Partial Exercise. Subject to the other restrictions in the Plan and this Agreement, this Option may be exercised for all or a part of the Shares with respect to which this Option is exercisable under Section 4.1(a).

4.2 Method of Exercise; Withholding. Subject to Section 4.1 and the other restrictions in the Plan and this Agreement, this Option is exercisable from time to time by the Optionee, who shall complete, execute and deliver to the Company a Form of Exercise of Stock Option (the "Form") in a form established by the Company from time to time. Except as otherwise provided in the Plan, the Form shall be accompanied by payment in full for the stock to be purchased. Payment of the purchase price may be made by delivery of Common Stock



valued at its fair market value on the date of delivery. Upon due exercise of the Option, subject to the terms and conditions in this Agreement and the Plan, the Company shall issue in the name of Optionee and deliver to him certificate(s) for the Shares in respect of which the Option shall have been exercised, but no Shares will be issued until arrangements satisfactory to the Company have been made for appropriate income tax withholding.

4.3 Exercise After Termination of Directorship. Upon any termination of Optionee's status as a director of the Company, this Option may, to the extent exercisable, be exercised within three months after the date of such termination. If Optionee dies, this Option may,

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to the extent exercisable, be exercised by a legatee or legatees of the Optionee under the Optionee's last will, or by the Optionee's personal representatives or distributees, within twelve months after the Optionee's death. This Section 4.3 shall not extend the term of this Option specified in Section 4.4.

#### 4.4 Option Term.

(a) Termination for Breach. The Option shall terminate upon the expiration of a 30-day period from the date of written notice to Optionee of a material breach or default by him of any provision of any agreement between Optionee and the Company or any subsidiary of the Company unless such breach or default is remedied within such 30-day period, and no Option shall be exercisable during any period within which any such material breach or default is unremedied.

(b) Other Termination. In addition to the foregoing provisions of this Section 4.4, the Option shall not be exercisable after the earliest of (i) a dissolution or liquidation of the Company, a sale of all or substantially all of the stock or all or substantially all of the assets of the Company, a direct or indirect merger or consolidation in which the Company is not the surviving corporation or survives only as a subsidiary of another corporation, or any other transaction having a similar result or effect, except to the extent that another corporation assumes the Option or substitutes another option therefor; or (ii) ten years from the Effective Date.

5. Non-transferability of Options. The Option shall not be transferable or assignable except upon Optionee's death by will or the laws of descent and distribution and shall be exercisable, during Optionee's lifetime, only by Optionee.

6. Purchase for Investment; Other Representations of Optionee; Legends. If the offering of Shares with respect to which the Option is being exercised is not registered under the Securities Act of 1933, as amended (the "Act"), but an

exemption is available that requires an investment representation or other representation, Optionee, if electing to purchase Shares, will be required to represent that such Shares are being acquired for investment and not with a view to distribution thereof, and to make such other representations as are deemed necessary by counsel to the Company. Stock certificates evidencing such unregistered Shares that are acquired upon exercise of the Option shall bear restrictive legends in substantially the following form and such other restrictive legends as are required or advisable under the provisions of any applicable laws:

The shares represented by this stock certificate have not been registered under the Securities Act of 1933, as amended (the "Act"), nor under any state securities laws and shall not be transferred at any time in the absence of (i) an effective registration statement under the Act and applicable state securities laws with respect to such Shares at such time; or (ii) an opinion of counsel satisfactory to the Company and its counsel, to the effect that such transfer at such time will not violate the Act or any applicable state securities laws.

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7. Restriction on Issuance of Shares. The Company shall not be obligated to sell or issue any Shares pursuant to this Agreement if such issuance would result in the violation of any laws, including the Act or any applicable state securities laws. If at any time the Company shall determine that the listing, registration or qualification of the Shares upon any securities exchange or under any state or federal law is necessary or desirable as a condition of or in connection with the purchase or delivery of the Shares, the delivery of any or all Shares may be withheld unless and until such listing, registration or qualification shall have been effected.

8. Rights as a Stockholder. Optionee shall have no rights as a stockholder with respect to any Shares covered by the Option until the date of issuance of a stock certificate for such Shares. Subject to Section 3, no adjustment shall be made by reason of any dividends, distributions or other rights granted to stockholders for which the record date is prior to the date such stock certificate is issued.

9. Severability. In the event that any court of competent jurisdiction shall determine that any provision of this Agreement is invalid, such determination shall not affect the validity of any other provision of this Agreement, which shall remain in full force and effect and which shall be construed as to be valid under applicable law.

10. Governing Law. This Agreement shall be governed and construed in accordance with the laws of the State of Georgia.

11. Notices. All notices and other communications under this Agreement shall be in writing, and shall be deemed to have been duly given on the date of delivery if delivered personally or when received if mailed to the party to whom notice is to be given, by certified mail, return receipt requested, postage prepaid, to the following address, or any other address specified by notice duly given:

To Optionee at: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

To the Company at: Strategic Timber Trust, Inc.  
5 North Pleasant Street  
New London, New Hampshire 03257  
Attention: President

12. Counterparts; Copies. This Agreement may be signed by each party upon a separate copy and in such case one counterpart of this Agreement shall consist of enough copies to reflect the signature of each party to this Agreement. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement or its terms to produce or account for more than one of such counterparts.

DULY EXECUTED and delivered by the parties to this Agreement, effective as set forth above.

STRATEGIC TIMBER TRUST, INC.

By: \_\_\_\_\_  
Title: \_\_\_\_\_

OPTIONEE:

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[Signature of Optionee]

Name:

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[Please Print]

## TIMBER PURCHASE AGREEMENT

By this Agreement, executed as of the 29th day of December, 1998, KINZUA RESOURCES, LLC ("Kinzua"), an Oregon Limited Liability Company, and PIONEER RESOURCES, LLC ("Pioneer"), an Oregon limited liability company, agree as follows:

1. PURCHASE AND SALE. Kinzua hereby purchases from Pioneer and Pioneer hereby sells to Kinzua "the Timber" (as defined in Section 2, below) on the real property described on Exhibit A attached hereto, which is approximately 42,420 acres situated in Wheeler, Morrow, Umatilla and Grant Counties, Oregon (hereinafter "the Premises").

2. THE TIMBER. The term "the Timber" shall mean the merchantable timber standing or lying on the Premises during the term of this Agreement which is included in the following description:

2.1 VOLUME. 19,295 MBF, net short log Scribner scale, to be selected by Kinzua from the timber located on the Premises in accordance with the logging plan described in Section 12.2 below.

2.2 SPECIES. Ponderosa pine, Douglas fir, western larch, white fir, Engelmann spruce, and lodgepole pine.

2.3 SIZE. For standing trees, tree segments which will produce a 16' log to a minimum 6" top, inside bark diameter. For down trees, tree segments which will produce an 8' log to a minimum 6" top, inside bark diameter.

3. PRICE. The purchase price for the Timber is Five Million Five Hundred Fifty-Six Thousand Nine Hundred Sixty Dollars (\$5,556,960). Kinzua shall account for and report to Pioneer, in accordance with Sections 6 and 7 of this Agreement, all volumes of the Timber harvested from the Premises and all volumes of timber in excess of 19,295 MBF harvested from the Premises. Kinzua shall pay Pioneer, in addition to said purchase price, the following stumpage price for any excess volumes of timber incidentally cut or removed by Kinzua: \$288/MBF, net short log Scribner scale, all species, camp run. However, nothing in the two preceding sentences shall be construed to allow Kinzua to cut or remove any volume of timber substantially in excess of the volume set forth in Section 2.1, above, or unilaterally to make any material variance in the logging plan approved by Pioneer pursuant to the provisions of Section 12.2, below.

4. REMOVAL SCHEDULE. Subject to unusual weather conditions or other events of force majeure, Kinzua will use its best efforts to complete harvest and removal of the Timber not later than September 30, 1999. Kinzua will promptly notify and confer with Pioneer as soon as Kinzua knows of circumstances that may prevent compliance with the schedule set forth above. Notwithstanding any such unusual weather conditions or other events of force majeure, the

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period within which Kinzua shall be required to harvest and remove the Timber shall not extend beyond December 31, 1999.

#### 5. TERMS OF PAYMENT.

5.1 On execution of this Agreement, Kinzua will pay to Pioneer Five Million Five Hundred Fifty-Six Thousand Nine Hundred Sixty Dollars (\$5,556,960) in full satisfaction of the purchase price for the Timber. Upon receipt of the \$5,556,960, Pioneer shall deliver to Kinzua a Timber Deed in the form attached hereto as Exhibit B.

5.2 If, for any reason, the volume of merchantable logs removed from the Premises is less than 19,295 MBF, the purchase price shall not be adjusted and no portion thereof shall be refundable or rebatable, it being understood and agreed that Kinzua shall have all risk with respect to existing and future volumes of timber on the Premises and all risk of loss.

5.3 Unless directed otherwise in writing, Kinzua shall make payments to Pioneer at its address set forth in this Agreement for the purpose of providing notice.

6. UTILIZATION STANDARDS. Kinzua shall remove from the Premises any merchantable log manufactured from severed timber. Merchantable logs shall be those logs containing 5 board feet or more of sound, usable wood, and having

a minimum log diameter of 6" inside the bark at the small end and having a minimum of 8 feet in length. Any log containing less than one-third net merchantable volume that is inadvertently transported to a log yard shall be the property of Kinzua, but Kinzua shall have no obligation to pay for such culls.

7. SCALING.

7.1 All loads shall be weighed at the Kinzua log yards with a scale ticket that notes gross, tare, and net weights. All mixed species loads will be 100 percent rollout scaled. Loads sorted by species shall be scaled one in five on a random basis to determine the applicable board foot per pound conversion factor to be used to calculate the volume of those loads weighed, but not scaled. Scaling will follow the rules and procedures identified under the U.S. Forest Service Handbook, FSH2409.11, and/or the "Official Rules" of the Columbia River Log Scaling and Grading Bureau, January 1, 1982 Edition, Reprinted January 1, 1995. All scaling will be done at the expense of Kinzua and through an independent third party log scaling and grading bureau using one of the above identified procedures.

7.2 Kinzua shall provide Pioneer monthly with copies of volume reports showing the amount of Timber removed from the Premises during the preceding month and the amount of any timber in excess of 19,295 MBF so removed. Each such volume report shall be accompanied by payment from Kinzua to Pioneer for any such excess timber.

8. TERM.

8.1 Kinzua shall have from the date hereof until September 30, 1999 (the

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"Termination Date"), to cut and remove the Timber from the Premises, provided that in the case of an event of force majeure the Termination Date shall be extended for the period of delay caused by such event of force majeure, but in no event shall such Termination Date be extended beyond December 31, 1999. Thereafter, all right, title, and interest to the Timber shall revert to Pioneer. Upon the expiration of the term of this Agreement or any earlier termination of this Agreement, Kinzua shall execute and deliver to Pioneer a recordable termination and release of all rights, titles, interests, powers and privileges of Kinzua under this Agreement, in form and substance reasonably acceptable to Pioneer.

8.2 Pioneer acknowledges that Kinzua will finance all or a portion of the purchase price with a secured loan from U.S. Bank. Should Kinzua default on its loan payments to U.S. Bank pursuant to said secured loan, such that U.S. Bank or a Successor (as hereinafter defined) by the terms of U.S. Bank's security agreement with Kinzua commences action to succeed to Kinzua's rights under this Agreement, then and only then the Termination Date shall be extended for the benefit of U.S. Bank or such Successor to the extent reasonably necessary to cut and remove the balance of the Timber not yet cut and removed by Kinzua from the Premises, but in any event not later than September 30, 2000; provided, however, if U.S. Bank or such Successor shall at any time discontinue or abandon such action to succeed, then the extension pursuant to this Section 8.2 shall be deemed to be rescinded and no longer effective. For purposes of this Section 8.2, the term "Successor" shall mean any successor or assignee of U.S. Bank other than Kinzua or Greg Demers or any person or entity affiliated with or related to Kinzua or Greg Demers.

8.3 During the term of this Agreement as defined in Sections 8.1 and 8.2, above, Pioneer will not cut or remove any merchantable timber standing on the Premises.

9. PIONEER'S TITLE. Pioneer hereby warrants that it has not granted or created any liens, claims, and encumbrances of any kind against the Timber or the Premises since October 9, 1998, except those specified on Exhibit C, attached hereto and by this reference made a part hereof.

10. PASSAGE OF TITLE; RISK OF LOSS. Title to the Timber shall pass to Kinzua upon Pioneer's execution and delivery of the Timber Deed. Kinzua assumes all risk of loss, damage, or injury to the Timber by fire, windstorm, pestilence, act of God, act of government or other casualty not caused by Pioneer's negligence.

11. TAXES. Pioneer shall pay all taxes levied against the Premises, including fire patrol tax, during the term hereof, and Kinzua shall pay all taxes levied by reason of Kinzua's harvest and removal of the Timber and any excess timber, including without limitation, the harvest, severance and

privilege tax.

12. HARVEST PRACTICES. Kinzua shall conduct its logging operations on the Premises in an efficient, workmanlike manner, in accordance with standard good logging practices as the same prevail in eastern Oregon and pursuant to the provisions of the Oregon Forest Practices Act and in accordance with the following special provisions:

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12.1 Kinzua shall at Kinzua's expense perform all requirements of the Oregon Forest Practices Act applicable to Kinzua's activity on the Premises, including filing and delivering all notices to the State Forester required by the Oregon Forest Practices Act.

12.2 Kinzua shall prepare a logging plan for each of the operations listed in Exhibit A. These plans must be submitted to and approved by Pioneer prior to commencement of any activity pursuant to this Agreement and Pioneer shall not withhold approval unreasonably. These plans shall include, among other things, the names, addresses, and telephone numbers of the logging contractor and his field representatives, type of logging equipment to be used, roads to be used, and dates for cutting, yarding, hauling, and current brush piling and cleanup operations. The plan shall conform to the terms of this Agreement. A breach of any logging plan approved by Pioneer pursuant to this Section shall be considered a breach of this Agreement.

12.3 Felling of merchantable trees shall be done so as to minimize breakage and waster.

12.4 Kinzua shall pay all costs of labor and materials and shall keep the properties of Pioneer free from liens and encumbrances.

12.5 Pioneer may temporarily suspend Kinzua's operations in periods of extreme fire danger or whenever, in Pioneer's reasonable judgment, they might cause excessive damage to lands, water quality, roads or forest soils because of weather conditions during extreme wet periods.

12.6 Upon completion of all logging operations under this Agreement, Kinzua shall promptly remove all equipment, refuse, wire rope, litter, scrap and trash brought onto the Premises or deposited along access roads by Kinzua, its agents, contractors or employees. All lunch-box garbage, empty oil and grease containers, empty cans or anything of a nonbiodegradable nature shall be removed from the Premises on a daily basis.

12.7 Kinzua shall be responsible for any trespass outside the Premises boundary marked on the ground by Pioneer.

12.8 In the event any fuel oil, petroleum products, or other hazardous wastes are deposited on any part of the Premises or along any access roads as a result of any activities of Kinzua or Kinzua's contractors, Kinzua shall promptly notify Pioneer of such fact and shall also immediately remove and clean up the same in full compliance with all provisions of State and Federal law. Kinzua shall defend, indemnify and save harmless Pioneer against any and all losses, expenses, damages, claims, fines, charges, liens, liabilities, actions, causes of action or proceedings of any kind relating to the environmental condition of the Premises and arising directly or indirectly out of or in connection with the acts or omissions of Kinzua or any of its agents, contractors or employees.

13. ROAD CONSTRUCTION, USE AND MAINTENANCE. Kinzua agrees to and shall comply

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with the following terms and provisions in constructing, using and maintaining all logging roads:

13.1 Kinzua shall have the right to build such temporary roads upon the Premises as may be necessary to log the Premises. No road shall be constructed, and no existing road shall be used, until such planned construction or use has been disclosed to and approved by Pioneer as part of the logging plan. In constructing any road, Kinzua shall abide by applicable State and Federal laws.

13.2 Pioneer shall be responsible for deferred maintenance charges assessed under the Cooperative Maintenance Agreement with the US Forest Service for any volume hauled over costs share roads. Kinzua shall be responsible for any other current maintenance or for paying for maintenance of roads used in performing this Agreement except that if there are other users for commercial hauling, performance of or payment for maintenance will be a responsibility shared in proportion to use with such other users. Road maintenance shall include keeping culverts, culvert catch basins, and ditches free of debris, grading the road surface, and adding of rock to maintain road surface during periods of log hauling. Within a reasonable period of time after termination of log hauling, Kinzua shall leave roads in a condition equal to or better than existed prior to Kinzua's logging and hauling operations. Kinzua shall pay all costs in connection with maintenance work attributable to Kinzua's use of the roads.

14. PRESERVATION OF SURVEY MONUMENTS. Kinzua is responsible for preservation of survey monuments. Should Kinzua destroy or damage any said monument during Kinzua's operations, Kinzua shall have the monuments replaced by a registered professional land surveyor licensed in Oregon, and shall effect the appropriate filing of the resurvey with the County Surveyor.

15. DAMAGE TO RESERVED TREES. Reserved trees are those on or off the Premises, including wildlife trees, not to be cut by Kinzua. If Kinzua's activities result in damage to reserved trees as determined by Pioneer, Kinzua shall take such trees and pay for such trees as liquidated damages double the fair market value therefor. If the State Forest Practices Officer determines that Kinzua has damaged wildlife trees or logs, then Kinzua will be required to remedy the problem in accordance with the State's instructions at Kinzua's expense.

16. SLASH DISPOSAL. Kinzua will be responsible for disposal of slash as required by the Oregon Forest Practice Rules and Statutes except for burning. Pioneer will be responsible for burning.

17. REFORESTATION. Pioneer shall be responsible for reforestation work and costs complying with State requirements except in situations where a violation of the logging plans (referenced in paragraph 12.2) by Kinzua or its contractor has created a reforestation liability. In that case Kinzua is liable for the costs of reforestation to a level acceptable to Pioneer in its reasonable discretion.

18. FIRE PRECAUTIONS AND SUPPRESSION. During the time that this Agreement remains in force, Kinzua shall independently make every reasonable effort to prevent and

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suppress forest fires on the Premises. Kinzua shall be responsible for any expense, liability, or claims of liability resulting from any default by Kinzua in performance of its obligations under this Section 18. Kinzua shall defend, indemnify and hold harmless Pioneer from all liability to governmental authorities or to public or private parties arising out of Kinzua's violation of law, or from fire resulting from Kinzua's negligent acts or omissions or willful misconduct.

19. ASSUMPTION OF RISKS AND INDEMNITY.

19.1 Pioneer has made no representations as to the present or future conditions of or on its property or the character or amount of traffic on any access roads. Kinzua assumes all risks of personal injury or property damage to itself and its employees, agents and contractors in connection with operations under this Agreement.

19.2 Kinzua shall pay for all damage to Pioneer's property and to the property of any third parties resulting directly or indirectly from negligent acts or omissions or willful misconduct by Kinzua, its employees, agents, or contractors in performing this Agreement.

19.3 Kinzua shall defend, indemnify and save harmless Pioneer against any and all losses, expenses, damages, claims, fines, charges, liens, liabilities, actions, causes of action or proceeding of any kind whatsoever (whether or not arising on account of damage to or loss of property, or injury to or death of any person) arising directly or indirectly out of or in connection with the acts or omissions of Kinzua or any of its agents, contractors or employees, except those caused solely by Pioneer's negligence. The foregoing indemnification in favor of Pioneer includes, without limitations, any claim for injury to persons or property, nuisance, mechanics' and materialmen' liens, workers' compensation or unemployment taxes, fines and penalties, and any environmental damages. Kinzua shall perform all its



obligations and carry on all its operations and activities hereunder as an independent contractor and entirely at its own risk and responsibility. Kinzua shall be responsible for activities of its subcontractors. Kinzua will reimburse Pioneer for all costs reasonably incurred by Pioneer to defend against such claims through attorneys of Pioneer's choice.

19.4 Pioneer expressly disclaims, and Kinzua expressly acknowledges such disclaimer, making or giving any warranty regarding the costs or feasibility of logging such timber; Kinzua acknowledges relying solely upon Kinzua's own estimates of said costs and feasibility.

20. INSURANCE. At all times during the period of this Agreement and any extension thereof or until all work required by this Agreement is completed, Kinzua shall have in effect comprehensive property damage and personal injury liability insurance, including coverage for motor vehicles, as required by this section. The insurance shall be in the amounts specified and shall afford the coverage as described below.

Kinzua shall have worker's compensation insurance meeting statutory requirements for all Kinzua's employees, and shall require Kinzua's contractors and subcontractors to have worker's compensation insurance covering all employees involved in operations hereunder.

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Kinzua shall furnish to Pioneer certificates of insurance evidencing that the required insurance has been issued to Kinzua or to its contractors or subcontractors, as the case may be, and is in force on the date of the certificates. The insurance shall be written by a company or companies authorized to do business in the State of Oregon. The issuing company or companies shall agree on the certificate or an attachment thereto that Pioneer shall be given thirty (30) days prior written notice of intended cancellation of the insurance. Pioneer, its agents, owners and employees shall be named as additional insured parties under all said property damage, comprehensive and personal injury liability insurance policies. Kinzua shall at all times during the period of this Agreement and any extension thereof or until all work required by this Agreement is completed have in effect loggers broad form property damage and public liability insurance coverage, with the contractual liability exclusion deleted, in the amounts specified below:

Bodily Injury or Death:	
Each Person	\$2,000,000
Each Occurrence	\$2,000,000
Property Damage:	
Any One Occurrence	\$2,000,000

If any said policy shall lapse or shall be canceled at any time during the life of this Agreement, Pioneer shall have the right immediately to suspend all of Kinzua's logging activities hereunder until insurance requirements are fully met by Kinzua.

21. EXAMINATION OF LOCATIONS AND CONDITIONS. It is understood that Kinzua, before signing this Agreement, has made a careful examination thereof and an analysis of all requirements and specifications set forth herein; that Kinzua has independently evaluated the character of the work required, and has not relied upon estimates by Pioneer, and that Kinzua has made a careful examination of the Premises and the location and conditions of work. Pioneer in no case will be responsible for any loss or cost that may be suffered by Kinzua as a result of the failure of Kinzua to be so informed.

22. AUTHORIZED REPRESENTATIVE; INSPECTION. Pioneer and its designated field representative or representatives shall have the right to inspect progress of work, and to issue instructions in regard to required compliance with the terms of this Agreement. Pioneer, through its authorized and designated representative or representatives, shall at all times be allowed access to all parts of the logging operations and work locations of Kinzua, and shall be furnished such information and assistance by Kinzua, or the designated representative or representatives of Kinzua, as may be required to make a complete and detailed inspection.

23. ARBITRATION. Any controversy or claim arising out of or relating to this Agreement shall be settled by arbitration, except any claim for injunctive relief pursuant to Section 24.2.1 below or any action in equity to enforce specific performance pursuant to Section 24.2.3 below. Arbitration shall take place before a panel of three arbitrators, one chosen by Pioneer, one by Kinzua and the third chosen by the first two. The arbitration shall be held in

such place in the metropolitan Portland, Oregon area as may be specified by the arbitrators or a majority of them and shall be conducted in accordance with the Commercial Arbitration Rules of the American Arbitration Association. The decision of the panel shall be final and binding and may be enforced, if necessary, in any court of competent jurisdiction. The determination of which party (or combination of them) bears the costs and expenses incurred in connection with any such arbitration proceeding shall be determined by the panel. The panel shall have no power or jurisdiction to consider evidence with respect to or to render any award of or judgment for punitive damages

24. DEFAULT.

24.1 Time and strict performance hereunder are the essence of this Agreement, and it is agreed that any one of the following shall constitute an event of default:

24.1.1 Failure by Kinzua to pay any amount owing to Pioneer under this Agreement on or before the due date thereof.

24.1.2 Failure by either party to keep and perform any agreement, covenant or condition hereunder (other than a payment default by Kinzua under Section 24.1.1), if such failure shall continue for a period of thirty (30) days after written notice thereof from the other party, provided, however, if such failure to perform is not curable within such 30-day period, it shall not be an event of default if the non-performing party, promptly after such notice, commences such actions as shall be necessary to cure such failure, diligently pursues such curative action and completes the cure of such failure as soon as reasonably possible.

24.2 In the event Kinzua defaults in any manner set forth herein, Pioneer shall have the right to exercise any one or more of the following rights, powers, and remedies, which shall, to the full extent permitted by law, be cumulative and not alternative:

24.2.1 to obtain injunctive relief with respect to any breach of or default under this Agreement; provided, however, Pioneer shall not have the right to enjoin harvest practices which comply with the provisions of this Agreement; and provided further, no injunction against Kinzua with respect to a breach or default by Kinzua shall be effective against the Bank or a Successor (as defined in Section 8.2), but nothing in this section shall prevent Pioneer from obtaining an injunction against the Bank or such Successor for its own acts or omissions in breach or violations of this Agreement.

24.2.2 to recover damages from Kinzua's breach of contract;

24.2.3 to specifically enforce this Agreement by suit in equity.

24.3 Nothing contained in this Section 24 shall be deemed or construed to extend the Termination Date as determined under Section 8 above.

25. ATTORNEY'S FEE. In the event any arbitration, suit or action is filed by either party

hereto to enforce any of the terms, covenants or provisions of this Agreement, or to rescind the same, the party prevailing in any such proceeding, or any appeal therefrom, shall be entitled to reasonable attorney's fees at the trial level and on appeal or review to be established by the arbitration panel or Court, and expert witness fees, together with all costs otherwise recoverable under Oregon law, from the non-prevailing party.

26. ACCESS. Pioneer makes no representations or warranties, express or implied, with respect to rights of access to any portion of the Premises.

Pioneer hereby assigns to Kinzua, which assignment shall terminate upon the expiration or earlier termination of this Agreement, Pioneer's rights in any easements, permits, or licenses granting Pioneer ingress and egress to the Premises over or through land owned by third parties, provided that such

assignment shall be non-exclusive and Pioneer shall continue to have and may also exercise all such rights.

27. ASSIGNMENT. Pioneer shall have the right to assign this Agreement, in whole or in part, without the consent of Kinzua. Kinzua shall not have the right, without Pioneer's prior written consent, to assign this Agreement, in whole or in part, either voluntarily or by operation of law; except that Pioneer agrees that it will not unreasonably withhold its consent to (i) Kinzua's assignment of a security interest in its interest in this Agreement and the Timber to its bank; and (ii) Kinzua's assignment of its interest in this Agreement and in the Timber to a purchaser(s) of Kinzua's manufacturing facilities.

28. REPRESENTATIONS. Each party represents that: it is a limited liability company duly organized, and validly existing, and in good standing under the laws of Oregon and is qualified and licensed to do business in Oregon; it has full power and authority to execute and perform this Agreement and that all action necessary to confirm such authority has been duly and lawfully taken, except that, with respect to Pioneer, the consent and/or subordination of Pioneer's lenders may be necessary; upon execution hereof, this Agreement shall constitute its valid, legally binding obligation; neither execution nor performance of this Agreement will violate the terms of any provision of its Articles of Incorporation, Bylaws, Operating Agreement or any note, loan agreement, commitment agreement, lease or other material contract or agreement to which it is a party, except that, with respect to Pioneer, the consent and/or subordination of Pioneer's lenders may be necessary. Each party shall delivery to the other a certified copy of a resolution of its Management Committee authorizing the execution of this Agreement or such other evidence of authority that is reasonably acceptable to the other.

29. NOTICES. Any notice or demand required or permitted to be given under the terms of this Agreement shall be deemed to have been duly given or made if given by any of the following methods:

29.1 Deposited in the United States mail, in a sealed envelope, postage prepaid, by registered or certified mail, return receipt requested, or hand delivered, respectively addressed as follows:

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If to Pioneer: James A. Mehrwein  
Pioneer Resources, LLC  
65 N. Bertelsen Road  
Eugene, OR 97402

If to Kinzua Greg Demers  
Kinzua Resources, LLC  
25310 Jeans Road  
Veneta, OR 97487

29.2 Sent to the above address via an established national overnight delivery service (such as Federal Express) charges prepaid; or

29.3 Sent via any electronic communications method, provided the sender obtains written confirmation of receipt of the communications by the electronic communication equipment at the office of the addressee listed above; provided also that, if this method is used, the party shall immediately follow such notice with a second notice in one of the methods set forth in subsections 29.1 or 29.2 above.

Notices shall be effective three business days after mailing if sent by United States mail, one business day after dispatch is sent by overnight delivery service, and upon receipt if hand delivered or sent by an electronic communications method.

30. MODIFICATION. No modification of this Agreement shall be valid unless made in writing and duly executed by Pioneer and Kinzua.

31. NO WAIVER. The failure of either party to insist upon prompt and strict performance of any of the terms or conditions in this Agreement shall not constitute a waiver of such party's right to insist upon strict performance thereafter or in other instances.

32. GOVERNING LAW. This Agreement shall be governed by and interpreted in accordance with the laws of the state of Oregon, except for its rules pertaining to conflicts of laws.

33. COUNTERPARTS, EXECUTION BY FACSIMILE. This Agreement may be

executed in several counterparts, each of which will be deemed to be an original and all of which will together constitute one in the same instrument.

Delivery of an executed copy of this Agreement by facsimile transmission will be deemed to be an execution and delivery of this Agreement on the date of such transmission by the party so delivering such a copy, provided that the party so delivering such a copy via facsimile transmission shall deliver the executed original of this Agreement to the other party herein within three (3) days of the date of delivery of the copy sent via the facsimile transmission.

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34. ENTIRE AGREEMENT; SUCCESSORS AND ASSIGNS. This document constitutes the entire agreement between the parties and merges and replaces all prior negotiations, discussions, representations, warranties, and agreements of the parties with respect to the subject matter hereof. Because this Agreement has been the subject of negotiation between the parties, the rule of construction that any ambiguity is to be construed against the drafter shall not apply. This Agreement shall be binding upon and inure to the benefit of the respective successors and permitted assigns of the parties. In the event of any conflict between this Agreement and any exhibit attached hereto, the terms of this Agreement shall be controlling.

35. CLOSING.

35.1 This transaction shall close in escrow at Oregon Title Insurance Company, Eugene, Oregon, on or before December 29, 1998, provided that if (a) the conditions set forth in Section 35.2 have not been satisfied or waived by Kinzua and (b) Pioneer has not unconditionally received the \$5,556,960 purchase price in cash, both on or before December 30, 1998, then this Agreement shall be deemed automatically terminated and neither party shall have any further rights or obligations hereunder.

35.2 Kinzua's obligations to close are subject to and conditioned upon written approval from its Lender, U.S. Bank, of (i) this Agreement, (ii) the Timber Deed attached hereto as Exhibit B, (iii) the Subordination Agreement to be provided by Pioneer's Lender, First Union National Bank, and (iv) a commitment from a title insurance company to insure the first lien of U.S. Bank's security interest in the Timber, subject only to exceptions to title which U.S. Bank shall approve.

35.3 Kinzua shall pay all title insurance costs, recording fees and other closing costs in connection with such closing.

Executed as of the date first set forth above.

PIONEER RESOURCES, LLC

KINZUA RESOURCES, LLC

By: /s/ James A. Mehrwein

By: /s/ Greg Demers

Name: James A. Mehrwein

Name:

Title: Vice President

Title: President

Schedule of Exhibits:

A: Legal Description of Premises  
B: \$5,556,960 Timber Deed  
C: Exceptions to Title

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<TABLE>  
<CAPTION>

EXHIBIT A  
LEGAL DESCRIPTION OF PREMISES  
(THE PORTIONS OF THE FOLLOWING DESCRIBED PROPERTIES OWNED BY PIONEER RESOURCES, LLC)

PIONEER RESOURCES, LLC STUMPAGE CONTRACT TO KINZUA RESOURCES, LLC

UNIT	BLOCK	SALE NAME	LEGAL DESCRIPTION	ACRES
<S>	<C>	<C>	<C>	<C>
Pilot Rock	Desolation	Bomber	T7S, R32E, Sec 35	640
Pilot Rock	Desolation	Starveout	T8S, R32E, Secs 1, 2, 11, 12	1,500
Pilot Rock	Desolation	Spring	T6S, R33E, Sec 6; T8S, R32E, Sec 1 (portion Northeast of Desolation Creek)	380
Pilot Rock	Buckaroo	Horn, Hunter, No Name, Rush, Snake	T6S, R30E, Secs 1-5, 8-17, 20-24, 26-29; T6S, R31E, Secs 5-9	16,920
Pilot Rock	Wilkins	Wilkins	T5S, R30E, Secs 24, 25, 36; T5S, R31E, Secs 19, 29-32	4,360
Heppner	Area 3	Brown	T6S, R24E, Secs 13, 22-26, 36	2,760
Heppner	Area 3	Camas	T6S, R25E, Secs 5, 7, 8, 16-23, 26-33, 34 (North half), 35 (North of 21 road)	9,300
Heppner	Area 3	Porter	T6S, R25E, Secs 34 (South half), 35 (South of 21 road)	600
Heppner	Area 3	Hollywood	T5S, R26E, Secs 23-26, 35, 36	2,600
Heppner	Area 3	Thorn Creek	T5S, R27E, Secs 5-9, 16-18, 20	3,360
GRAND TOTAL				42,420

</TABLE>

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EXHIBIT B

STATUTORY BARGAIN AND SALE TIMBER DEED

PIONEER RESOURCES, LLC, an Oregon limited liability company ("Grantor") conveys to KINZUA RESOURCES, LLC, an Oregon limited liability company ("Grantee"), without any covenants or warranties of title except as expressly set forth below, all of the "Timber" (as defined below) on those certain parcels of land situated in Wheeler, Morrow, Umatilla and Grant Counties, Oregon, described below:

SEE EXHIBIT A ATTACHED HERETO  
AND INCORPORATED HEREIN (the "Land")

Together with the rights to enter upon the Land, to cut and remove the Timber and to build, maintain and repair roads, all subject to and in accordance with the provisions of the Timber Purchase Agreement, which is defined below.

The true consideration for this conveyance is the sum of \$5,556,960.

As used herein, the term "Timber" shall mean the merchantable timber standing or lying on the Land during the term of this Deed which is included in the definition of "Timber" set forth in the Timber Purchase Agreement.

Grantee shall have until September 30, 1999 (the "Termination Date") to cut and remove the Timber. Provided however, at the election of Grantee, the Termination Date shall be extended for the period of any delay(s) in Grantee's harvest and removal of the Timber due to acts of God, acts of government, labor disputes, strikes, weather conditions or other events of force majeure beyond the reasonable control of Grantee. If any such extension shall apply, Grantee shall use its best efforts to complete its full performance hereunder as soon as possible thereafter. Notwithstanding the foregoing, in no event shall the Termination Date be extended beyond December 31, 1999; provided, however, the Termination Date may be extended under certain other limited circumstances, to the extent expressly provided in the Timber Purchase Agreement, to a date not later than September 30, 2000.

On the Termination Date, all right, title and interest in and to any remaining Timber shall revert automatically to the Grantor herein, its successors and assigns, without the requirement of any action by any party hereto.

Grantor hereby warrants to Grantee that Grantor has not granted or created any liens, claims, and encumbrances of any kind against the Timber or

the Land since October 9, 1998, except those specified on EXHIBIT B attached hereto and incorporated herein.

This Timber Deed has been executed and delivered, and accepted, subject to the terms and provisions of that certain Timber Purchase Agreement dated as of December 29, 1998 between Grantor and Grantee ("Timber Purchase Agreement"), which by this reference is hereby incorporated herein.

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EXECUTED as of the 29th day of December, 1998.

GRANTOR:

PIONEER RESOURCES, LLC, an Oregon  
limited liability company

By: \_\_\_\_\_

Name: James A. Mehrwein  
Its: Vice President

STATE OF \_\_\_\_\_ )  
\_\_\_\_\_) ss.  
County of \_\_\_\_\_ )  
\_\_\_\_\_)

This instrument was acknowledged before me on December \_\_\_, 1998, by James A. Mehrwein, Vice President of PIONEER RESOURCES, LLC, an Oregon limited liability company.

-----  
NOTARY PUBLIC FOR OREGON  
My Commission Expires: \_\_\_\_\_

[NOTARIAL SEAL]

Upon recording return to:

Kinzua Resources, LLC  
25310 Jeans Road  
Veneta, OR 97487

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EXHIBIT C  
TO TIMBER PURCHASE AGREEMENT

Exceptions to Title

1. Deed of Trust, Fixture Filing and Security Agreement With Assignment of Rents, dated as of October 9, 1998, from Pioneer Resources, LLC ("Grantor") to Oregon Title Insurance Company, as Trustee ("Trustee"), in trust for the benefit of First Union National Bank, as Administrative Agent for the Lenders referred to therein ("Beneficiary"), as recorded in the public records of Wheeler County, Oregon.
2. Deed of Trust, Fixture Filing and Security Agreement With Assignment of Rents, dated as of October 9, 1998, from Pioneer Resources, LLC ("Grantor") to Oregon Title Insurance Company, as Trustee ("Trustee"),

in trust for the benefits of First Union National Bank, as  
Administrative Agent for the Lenders referred to therein  
("Beneficiary"), as recorded in the public records of Morrow County,  
Oregon.

3. Deed of Trust, Fixture Filing and Security Agreement With Assignment of  
Rents, dated as of October 9, 1998, from Pioneer Resources, LLC  
("Grantor") to Oregon Title Insurance Company, as Trustee ("Trustee"),  
in trust for the benefit of First Union National Bank, as  
Administrative Agent for the Lenders referred to therein  
("Beneficiary"), as recorded in the public records of Umatilla County,  
Oregon.
4. Deed of Trust, Fixture Filing and Security Agreement With Assignment of  
Rents, dated as of October 9, 1998, from Pioneer Resources, LLC  
("Grantor") to Oregon Title Insurance Company, as Trustee ("Trustee"),  
in trust for the benefit of First Union National Bank, as  
Administrative Agent for the Lenders referred to therein  
("Beneficiary"), as recorded in the public records of Grant County,  
Oregon.

## STATUTORY BARGAIN AND SALE TIMBER DEED

PIONEER RESOURCES, LLC, an Oregon limited liability company ("Grantor") conveys to KINZUA RESOURCES, LLC, an Oregon limited liability company ("Grantee"), without any covenants or warranties of title except as expressly set forth below, all of the "Timber" (as defined below) on those certain parcels of land situated in Wheeler, Morrow, Umatilla and Grant Counties, Oregon, described below:

SEE EXHIBIT A ATTACHED HERETO  
AND INCORPORATED HEREIN (the "Land")

Together with the rights to enter upon the Land, to cut and remove the Timber and to build, maintain and repair roads, all subject to and in accordance with the provisions of the Timber Purchase Agreement, which is defined below.

The true consideration for this conveyance is the sum of \$5,556,960.

As used herein, the term "Timber" shall mean the merchantable timber standing or lying on the Land during the term of this Deed which is included in the definition of "Timber" set forth in the Timber Purchase Agreement.

Grantee shall have until September 30, 1999 (the "Termination Date") to cut and remove the Timber. Provided however, at the election of Grantee, the Termination Date shall be extended for the period of any delay(s) in Grantee's harvest and removal of the Timber due to acts of God, acts of government, labor disputes, strikes, weather conditions or other events of force majeure beyond the reasonable control of Grantee. If any such extension shall apply, Grantee shall use its best efforts to complete its full performance hereunder as soon as possible thereafter. Notwithstanding the foregoing, in no event shall the Termination Date be extended beyond December 31, 1999, provided, however, the Termination Date may be extended under certain other limited circumstances, to the extent expressly provided in the Timber Purchase Agreement, to a date not later than September 30, 2000.

On the Termination Date, all right, title and interest in and to any remaining Timber shall revert automatically to the Grantor herein, its successors and assigns, without the requirement of any action by any party hereto.

Grantor hereby warrants to Grantee that Grantor has not granted or created any liens, claims, and encumbrances of any kind against the Timber or the Land since October 9, 1998, except those specified on EXHIBIT B attached hereto and incorporated herein.

This Timber Deed has been executed and delivered, and accepted, subject to the terms and provisions of that certain Timber Purchase Agreement dated as of December 29, 1998 between Grantor and Grantee ("Timber Purchase Agreement"), which by this reference is hereby incorporated herein.

EXECUTED as of the 29th day of December, 1998.

GRANTOR:

PIONEER RESOURCES, LLC, an Oregon  
limited liability company

By: /s/ James A. Mehrwein

-----  
Name: James A. Mehrwein  
Its: Vice President

STATE OF                    Oregon                    )  
-----  
County of                    Lane                    ) ss.  
-----

This instrument was acknowledged before me on December 30, 1998, by



/s/ Gayle Beare  
-----  
NOTARY PUBLIC FOR OREGON  
My Commission Expires: 8/26/2001  
-----

[NOTARIAL SEAL]

Upon recording return to:  
  
Kinzua Resources, LLC  
25310 Jeans Road  
Veneta, OR 97487

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<TABLE>  
<CAPTION>

EXHIBIT A  
LEGAL DESCRIPTION OF PREMISES  
(THE PORTIONS OF THE FOLLOWING DESCRIBED PROPERTIES OWNED BY PIONEER RESOURCES, LLC)

PIONEER RESOURCES, LLC STUMPAGE CONTRACT TO KINZUA RESOURCES, LLC				
UNIT	BLOCK	SALE NAME	LEGAL DESCRIPTION	ACRES
<S>	<C>	<C>	<C>	<C>
Pilot Rock	Desolation	Bomber	T7S, R32E, Sec 35	640
Pilot Rock	Desolation	Starveout	T8S, R32E, Secs 1, 2, 11, 12	1,500
Pilot Rock	Desolation	Spring	T6S, R33E, Sec 6; T8S, R32E, Sec 1 (portion Northeast of Desolation Creek)	380
Pilot Rock	Buckaroo	Horn, Hunter, No Name, Rush, Snake	T6S, R30E, Secs 1-5, 8-17, 20-24, 26-29; T6S, R31E, Secs 5-9	16,920
Pilot Rock	Wilkins	Wilkins	T5S, R30E, Secs 24, 25, 36; T5S, R31E, Secs 19, 29-32	4,360
Heppner	Area 3	Brown	T6S, R24E, Secs 13, 22-26, 36	2,760
Heppner	Area 3	Camas	T6S, R25E, Secs 5, 7, 8, 16-23, 26-33, 34 (North half), 35 (North of 21 road)	9,300
Heppner	Area 3	Porter	T6S, R25E, Secs 34 (South half), 35 (South of 21 road)	600
Heppner	Area 3	Hollywood	T5S, R26E, Secs 23-26, 35, 36	2,600
Heppner	Area 3	Thorn Creek	T5S, R27E, Secs 5-9, 16-18, 20	3,360
GRAND TOTAL				42,420

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EXHIBIT "A"

Oregon:

Section 24: All.

Section 25: All.

Section 36: All.

SUBJECT TO any and all water rights of way and roads.

Township 5 South, Range 31, East of the Willamette Meridian, Umatilla County,  
Oregon:

Section 19: West Half of East Half. East Half of West Half. Lots 1, 2, 3, and 4.

Section 29: Southwest Quarter of Northeast Quarter. Southwest Quarter of  
Northwest Quarter. Southwest Quarter.

Section 30: Northwest Quarter of Northeast Quarter. South Half of Northeast  
Quarter. East Half of West Half. Lots 1, 2, 3, and 4. Southeast Quarter.

Section 31: All.

Section 32: West Half. West Half of East Half.

SUBJECT TO any and all water rights of way and roads.

Township 6 South, Range 30, East of the Willamette Meridian, Umatilla County,  
Oregon:

Section 1: All.

Section 2: All.

Section 3: All.

Section 4: All.

Section 5: All.

Exhibit "A", Pg 2 of 5

Section 8: All.

Section 9: All.

Section 10: All.

Section 11: All.

Section 12: All.

Section 13: Northeast Quarter of Southeast Quarter.

Section 14: All.

Section 15: All.

Section 16: All.

Section 17: All.

Section 20: All.

Section 21: All.

Section 22: All.

Section 23: All.

Section 24: All.

Section 26: Northeast Quarter. Northwest Quarter of Northwest Quarter. Southwest  
Quarter of Southwest Quarter. East Half of Southwest Quarter. Southeast Quarter.

Section 27: All.

Section 28: All.

Section 29: All.

SUBJECT TO any and all water rights of way and roads.

Township 6 South, Range 31, East of the Willamette Meridian, Umatilla County, Oregon:

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Exhibit "A", Pg 3 of 5

Section 5: Lots 1, 2, 3, and 4. South Half of North Half. Southwest Quarter. West Half of Southeast Quarter.

Section 6: All.

Section 7: North Half. Southwest Quarter. West Half of Southeast Quarter. Northeast Quarter of Southeast Quarter.

Section 8: West Half of Northeast Quarter. Northwest Quarter. Northwest Quarter. North Half of Southwest Quarter. Southeast Quarter of Southwest Quarter. West Half of Southeast Quarter.

Section 9: South 1/2 of Southeast 1/4

SUBJECT TO any and all water rights of way and roads.

GRANT COUNTY, OREGON:

Township 7 South, Range 32 East, Willamette Meridian, Grant County, Oregon:

Section 35: All.  
(Portion of Tax Acct. 17 7-32 700, Ref. 63611)

Township 8 South, Range 32 East, Willamette Meridian, Grant County, Oregon:

Section 1            Lots 1, 2, 3, and 4; S1/2N1/2; S1/2.  
Section 2:           Lots 1, 2, 3, and 4; S1/2N1/2; S1/2.  
Section 11:           N1/2NW1/2; SE1/4NW1/4; NE1/4.  
Section 12:           N1/2NW1/4; SW1/4NW1/4; NW1/4NE1/4.  
(Tax Accts. 17 8-32 100 & 300; Refs. 6474 & 8437)

Township 8 South, Range 33 East, Willamette Meridian, Grant County, Oregon:

Section 6: Lots 3, 4, and 5; SE1/4NW1/4.  
(Tax Acct. 17 8-33 200; Ref. 6477)

Located in WHEELER COUNTY, OREGON:

Township 6 South, Range 24 East of the Willamette Meridian:

Section 13: E1/2SE1/4.  
Section 22: S1/2NE1/4; SE1/4SW1/4; SE1/4; Lot 4.  
Section 23: Lots 2, 3, 4; SE1/4NW1/4; E1/2SW1/4; SE1/4.

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Section 24: E1/2NE1/4; Lot 4; SE1/4.

Section 25: ALL.

Section 26: Lot 1; NE1/4NW1/4; E1/2.

Section 36: ALL.

MORROW COUNTY, OREGON:

In Township 5 South, Range 26 East, of the Willamette Meridian:

Section 23:           NE 1/4 SW 1/4; NW 1/4 SE 1/4.  
Section 24:           SE 1/4 NE 1/4; E 1/2 SE 1/4; SW 1/4 SE 1/4.  
Section 25:           ALL.  
Section 26:           ALL.

Section 35: E 1/2; N 1/2 NW 1/4; SE 1/4 SW 1/4.  
Section 36: ALL.

In Township 5 South, Range 27 East, of the Willamette Meridian:

Section 5: E 1/2 SE 1/4.  
Section 6: SE 1/4 SW 1/4.  
Section 7: Lot 2; W 1/2 NE 1/4; SE 1/4 NE 1/4; E 1/2 NW 1/4;  
NE 1/4 SW 1/4; SE 1/4.  
Section 8: E 1/2; W 1/2 W 1/2; NE 1/4 SW 1/4.  
Section 9: S 1/2 NE 1/4; NW 1/4 NE 1/4; NW 1/4; S 1/2.  
Section 16: ALL.  
Section 17: NE 1/4; SW 1/4; W 1/2 SE 1/4; SE 1/4 SE 1/4.  
Section 18: Lots 2, 3 and 4; NE 1/4; E 1/2 W 1/2; N 1/2 SE 1/4.  
  
Section 20: W 1/2 NW 1/4.

In Township 6 South, Range 25 East, of the Willamette Meridian:

Section 5: SW 1/4 SE 1/4.  
Section 7: Lots 2, 3 and 4; SW 1/4 NE 1/4; SE 1/4 NW 1/4;  
E 1/2 SW 1/4; W 1/2 SE 1/4; SE 1/4 SE 1/4.  
Section 8: NW 1/4 NE 1/4; E 1/2 W 1/2; SW 1/4 NW 1/4; SW 1/4  
SW 1/4.  
Section 16: W 1/2 SW 1/4.  
Section 17: S 1/2 NE 1/4; W 1/2; SE 1/4.  
Section 18: ALL.  
Section 19: Lots 1 and 2; E 1/2; E 1/2 NW 1/4; NE 1/4 SW 1/4.  
Section 20: ALL.  
Section 21: W 1/2.  
Section 22: S 1/2 SE 1/4; NE 1/4 SE 1/4.

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Section 23: NE 1/4; E 1/2 NW 1/4; S 1/2 SW 1/4; E 1/2 SE 1/4.  
Section 26: ALL.  
Section 27: E 1/2; W 1/2 W 1/2; E 1/2 SW 1/4; SE 1/4 NW 1/4.  
Section 28: E 1/2; S 1/2 NW 1/4; SW 1/4.  
Section 29: W 1/2; W 1/2 NE 1/4; SE 1/4.  
Section 30: Lots 1, 2, 3 and 4; E 1/2 E 1/2; SW 1/4 NE 1/4;  
SE 1/4 NW 1/4; E 1/2 SW 1/4; W 1/2 SE 1/4.  
Section 31: ALL.  
Section 32: ALL.  
Section 33: N 1/2 NE 1/4; SW 1/4 NE 1/4; W 1/2; SW 1/4 SE 1/4.  
Section 34: N 1/2; E 1/2 SW 1/4; SW 1/4 SW 1/4; SE 1/4.  
Section 35: ALL.

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EXHIBIT B  
to Statutory Bargain and Sale Timber Deed

Exceptions to Title

1. Deed of Trust, Fixture Filing and Security Agreement With Assignment of Rents, dated as of October 9, 1998, from Pioneer Resources, LLC ("Grantor") to Oregon Title Insurance Company, as Trustee ("Trustee"), in trust for the benefit of First Union National Bank, as Administrative Agent for the Lenders referred to therein ("Beneficiary"), as recorded in the public records of Wheeler County, Oregon.
2. Deed of Trust, Fixture Filing and Security Agreement With Assignment of Rents, dated as of October 9, 1998, from Pioneer Resources, LLC ("Grantor") to Oregon Title Insurance Company, as Trustee ("Trustee"), in trust for the benefits of First Union National Bank, as Administrative Agent for the Lenders referred to therein ("Beneficiary"), as recorded in the public records of Morrow County, Oregon.
3. Deed of Trust, Fixture Filing and Security Agreement With Assignment of Rents, dated as of October 9, 1998, from Pioneer Resources, LLC

("Grantor") to Oregon Title Insurance Company, as Trustee ("Trustee"), in trust for the benefit of First Union National Bank, as Administrative Agent for the Lenders referred to therein ("Beneficiary"), as recorded in the public records of Umatilla County, Oregon.

4. Deed of Trust, Fixture Filing and Security Agreement With Assignment of Rents, dated as of October 9, 1998, from Pioneer Resources, LLC ("Grantor") to Oregon Title Insurance Company, as Trustee ("Trustee"), in trust for the benefit of First Union National Bank, as Administrative Agent for the Lenders referred to therein ("Beneficiary"), as recorded in the public records of Grant County, Oregon.

State of Oregon            )  
                              )  
County of Umatilla        )  
This instrument was  
received and recorded on  
01-05-99 at 12:45 In the  
record of document code  
type DE-TI

Location                   R343-0222  
Document number 1999-3430222  
Fee                        45.00

Office of County Records

Received by               /s/ Jean Hempkiss

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Records Officer

STRATEGIC TIMBER TRUST, INC.  
EMPLOYMENT AND NONCOMPETITION AGREEMENT

Strategic Timber Trust, Inc., a Georgia corporation (hereinafter "STT" or "Employer") and C. Edward Broom ("Executive") hereby agree as follows:

1. EMPLOYMENT

This Agreement is entered into by STT and Executive in contemplation of a registered initial public offering of STT's common stock ("the IPO"). Executive acknowledges that he has special knowledge, expertise, contacts and other information with respect to the Restricted Business (as defined below), that he will be provided with confidential information (as defined below) and that STT's employment of Executive upon the consummation of the IPO is in consideration of the promises and agreements contained in this Agreement. This Agreement shall govern the employment of Executive as an officer of STT.

2. EFFECTIVENESS OF AGREEMENT; TERM

This Agreement shall become effective on the consummation of the IPO ("the Effective Date"), but shall be void and of no further effect if the IPO has not been consummated by December 31, 1999. The term of Executive's employment pursuant to this Agreement shall be for the period from and including the Effective Date until and including the fourth anniversary of the Effective Date, and for additional, consecutive one-year periods thereafter, all unless earlier terminated as provided in Section 8, below.

3. DUTIES AND RESPONSIBILITIES

During Executive's employment pursuant to this Agreement, Executive shall hold such office or offices as he shall be elected to by the Board of Directors of STT, shall perform the duties of such office or offices pursuant to the direction of the Board of Directors of STT (or any committee thereof), shall perform such duties to the best of his ability, shall use his good faith efforts to promote the success of the business of STT, shall devote substantially all of his business time to the affairs of STT and shall not engage in any other business activity or occupation during normal business hours for gain, profit, or other pecuniary advantage; provided, however, that the foregoing shall not be construed as preventing Executive from investing or trading for his own benefit or for that of the members of his family in stocks, bonds, securities or other similar forms of investment in public securities markets, serving as a director of another corporation or engaging in any family enterprise or in charitable, civic or other similar pursuits, so long as they do not materially interfere with Executive's performance of his duties under this Agreement. Further, and notwithstanding any of the foregoing to the contrary, it is acknowledged that

Executive serves and may continue to serve on the board of directors, advisory board, or in a similar capacity for one or more timber investment funds which are engaged in the acquisition and management of timberlands located outside the

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United States (each an "Other Fund"), and that STT's timberland ownership may expand to include ownership of timberlands outside the United States. Therefore, if STT wishes to bid on a property and any Other Fund is the seller of the property or also wishes to bid on the property, Executive will not participate in the transaction on behalf of such Other Fund. In addition, Executive agrees that he will devote no more than five percent (5%) of his business time to his interest in Other Funds.

#### 4. COMPENSATION AND RELATED MATTERS

- (a) BASIC: During the Executive's employment pursuant to this Agreement, STT:
  - (i) shall pay Executive a minimum salary of \$ 225,000.00 per annum in accordance with STT's normal and usual payroll schedule ("Salary), and
  - (ii) shall include Executive in all retirement plans, insurance plans and other fringe benefits and arrangements that may be authorized and adopted for the benefit of executives of STT generally. ("Benefits" ).
- (b) RAISES AND BONUSES: STT's Board of Directors, acting directly or through its Compensation Committee, may, in its sole discretion and for any reason, increase Executive's salary and/or grant Executive additional compensation as a bonus (a "Bonus") .
- (c) VACATIONS, HOLIDAYS AND SICK LEAVE: Executive shall be entitled to vacation, holidays and sick days with pay as determined by STT.
- (d) NO DIVESTMENT: No termination of Executive's employment shall divest Executive of his right to receive all or any unpaid portion or installment of any of his Salary or Bonus to which he is otherwise entitled pursuant to the terms of this Agreement.

#### 5. NONCOMPETITION; NO INTERFERENCE

- (a) CERTAIN DEFINED TERMS: For purposes of this Agreement, the

following words and phrases have the meanings set forth below:

- (i) "CUSTOMER" means any purchaser of timber from Employer, and any potential purchaser solicited by Employer, with which Executive had contact during the term of his employment hereunder.
- (ii) "PROPERTY OWNERS" means persons and entities with whom Employer has contracted for, or with whom Employer has undertaken any phase of negotiation regarding, the acquisition of timberlands, timber cutting rights, timber deeds, or any other types of property rights, with which Executive had contact during the term of his employment hereunder.

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- (iii) "RESTRICTED BUSINESS" means the business of owning timberland, selling or purchasing timberland, and selling timber or cut logs, or any of the foregoing, whether undertaken directly or indirectly.
- (iv) "TERRITORY" means North America, Central America and South America.
- (v) "RESTRICTED PERIOD" means the period of Executive's employment with STT pursuant to this Agreement (i.e., the period extending from the Effective Date until the Termination Date, as defined in paragraph no. 8(b)(vi), below) plus one year from the Termination Date.
- (vi) "EMPLOYER," for purposes of this Section 5 only, means STT, Strategic Timber Operating Co. ("STOC"), Strategic Timber Partners, LP ("STP") and their subsidiaries and affiliates which were in existence on the Effective Date or which came into existence during the term of this Agreement as set forth in Section 2, above, up to and including the Termination Date.

(b) NONCOMPETITION: During the Restricted Period, Executive shall not, either directly or indirectly:

- (i) have any ownership interest (whether as proprietor, partner, stockholder or otherwise) in, or
- (ii) be an officer, director or general or managing



partner of, or hold a similar position in, or

- (iii) act as agent, broker or distributor for, or advisor or consultant to, or
- (iv) be employed in an executive or management position with

any business however organized or conducted which is engaged or which Executive knows or reasonably should know plans to become engaged in the Restricted Business in the Territory without the permission of the disinterested members of STT's Board of Directors. Further, any ownership interest held by Executive at the time of the execution of this Agreement shall be deemed so permitted. However, notwithstanding any of the foregoing, the ownership by Executive of less than one percent (1%) of the shares of the capital stock of a publicly held entity shall in no event be deemed a violation of any provision of this paragraph.

(c) NO INTERFERENCE WITH CUSTOMERS OR PROPERTY OWNERS: During the Restricted Period, Executive will not in any way, directly or indirectly:

- (i) call upon, compete for, solicit, divert or take away, or attempt to solicit, divert or take away, from Employer the business of any Customer; or

- (ii) attempt or seek to cause any Customer to refrain, in any respect, from doing business with Employer, or intentionally interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between Employer and Customer; or
- (iii) call upon, compete for, solicit, divert or take away, or attempt to solicit, divert or take away, any pending or contemplated acquisition of timberlands, timber cutting rights, timber deeds, or any other type of property rights, from a Property Owner; or
- (iv) attempt or seek to cause any Property Owner to refrain from consummating any pending or contemplated transaction with Employer, or intentionally interfere with, disrupt or attempt to disrupt the relationship,

contractual or otherwise, between Employer and any Property Owner.

- (d) NO INTERFERENCE WITH EMPLOYEES. During the Restricted Period, Executive will not in any way, directly or indirectly, request or induce any other employee of Employer to terminate his employment with Employer.
- (e) NO EFFECT OF TERMINATION OF EMPLOYMENT. The termination of Executive's employment with STT shall not limit or otherwise affect the agreements set forth in this Section 5, which shall continue and expressly survive the termination of Executive's employment and this Agreement.

## 6. RECORDS/NONDISCLOSURE/COMPANY POLICIES

- (a) GENERAL: All records, financial statements and similar documents obtained, reviewed or compiled by Executive as part of the performance of his services for or duties to Employer pursuant to this Agreement shall be the exclusive property of Employer, and Executive shall have no rights in such documents on or after the earlier of Executive's Termination Date (as defined in paragraph no. 8(b)(vi), below) or the last day of the term of this Agreement as set forth in Section 2, above.
- (b) CONFIDENTIAL INFORMATION AND TRADE SECRETS: Executive will not disclose to any person or entity or use for his own benefit or gain, any confidential information or trade secrets of the Employer obtained by him incident to his employment with STT. Executive shall take all reasonable steps to safeguard any confidential information and trade secrets and to protect same against disclosure, misuse, loss or theft. The term "Confidential Information" includes, without limitation, financial information, business plans, prospects and opportunities which have been discussed or considered by the management of Employer, but does not include any information which has become part of the public domain by means other than Executive's failure to observe his obligations hereunder. However, nothing in this paragraph shall be construed as prohibiting, restricting or preventing Executive from making any disclosure required by applicable law, the rules of the New York Stock Exchange or of any other securities market on which STT's securities are listed, or which are otherwise called for in connection with

the performance of his duties and responsibilities thereunder or pursuant to this Agreement.

- (c) SURVIVAL: The agreements set forth in this Section 6 shall survive beyond the term of Executive's employment, as set forth in Section 2, above, and shall remain in full force and effect for seven (7) years thereafter.

## 7. CERTAIN GENERAL PROVISIONS

- (a) REPRESENTATIONS AND WARRANTIES: Executive represents and warrants to STT:
  - (i) that, excluding any statutory or case law generally applicable to all persons or entities, he is not subject to any decision, order, decree or judgment issued by any governmental authority or arbitrator or arbitration panel involving noncompetition, nonsolicitation, rights to inventions, work product or intellectual property;
  - (ii) that he will not use in his employment pursuant to this Agreement, disclose to Employer or induce Employer to use any trade secrets or proprietary or confidential information or materials belonging to others.
- (b) REMEDIES: Any violation of any provision of the foregoing Sections 5 and 6 may cause irreparable harm to Employer, and damages may not be an adequate remedy. Employer shall therefore be entitled to seek injunctive relief from any court of competent jurisdiction in the United States of America enjoining, prohibiting and restraining Executive from the continuance of any such violation. However, should Employer seek injunctive relief in any such court, Executive may then elect to have any or all controversies or claims, including any claim for injunctive relief, arising out of or relating to this Agreement or the breach thereof heard and determined by such court or by any other court of competent jurisdiction in the United States of America or to have any or all such controversies or claims settled by arbitration pursuant to the provisions of paragraph no. 10(b), below.
- (c) NOTICE TO OTHERS: Executive hereby agrees that, notwithstanding any other provision of this Agreement, Employer may disclose the prohibitions contained in Sections 5 and 6 hereof to any person or entity, including one that at the time employs or is considering employing Executive.
- (d) MODIFICATION: Should any provision of the foregoing Section 5

or 6 be deemed too broad to permit enforcement to its full extent, then it shall be enforced to the maximum extent permitted by law, and its scope may be judicially modified accordingly in any proceeding brought to enforce such restriction.

8. TERMINATION

(a) CERTAIN DEFINED TERMS

(i) CHANGE OF CONTROL: A "Change of Control" shall be deemed to have occurred when any of the following events occurs:

(A) Any "person" (other than (1) any employee plan established by STT, (2) STT, (3) an underwriter temporarily holding securities pursuant to an offering of such securities, or (4) a corporation owned, directly or indirectly, by stockholders of STT in substantially the same proportions as their ownership of STT) is or becomes the beneficial owner, directly or indirectly, of securities of STT representing 50% or more of the combined voting power of STT's then outstanding voting securities [as used in this paragraph, "person" shall have the same meaning as that term does as used in Sections 13(d) and 14(d) (2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")]; or

(B) During any period of two consecutive years, individuals who at the beginning of such period constituted the Board and any new director (other than an individual whose nomination for election is in connection with an actual or threatened election contest relating to the election of the directors of STT, as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act) whose appointment, election, or nomination for election by STT's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at

the beginning of the period or whose appointment, election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board; or

- (C) There is consummated a merger or consolidation of STT with or into any other corporation or other entity, or a transaction having a similar result or effect, other than a merger, consolidation, or other transaction which would result in the holders of the voting securities of STT outstanding immediately prior thereto holding securities which represent immediately after such merger or consolidation more than 65% of the combined voting power of the voting securities of either STT or the other entity which survives such merger or consolidation or the parent of the entity which survives such merger or consolidation; or
- (D) There is consummated a sale or disposition by STT of all or substantially all of STT's assets.

- (ii) **DISABILITY:** The term "disabled" and variations of it mean a physical condition of Executive which is of a nature and duration sufficient to require payment under the provisions of STT's long-term disability insurance covering Executive, if such a policy is in effect at the time the disability commences, and, if no such policy is then in effect, a disability determined by a physician mutually agreed upon by STT and the Executive to substantially interfere with the Executive's ability to perform the essential duties of his employment.
- (iii) **FOR CAUSE:** The phrase "for cause" and variations of it mean because of:
  - (A) willful failure (other than by reason of disability) to perform any of the duties or

to fulfill any of the obligations set forth in the provisions of Sections 3, 5 or 6, above;

- (B) willful failure (other than by reason of disability) to respond to a request by the Board of Directors or Chief Executive Officer of STT which is reasonable in light of Executive's duties as described in Section 3 and of the resources and support provided to him by Employer after notice and reasonable opportunity to cure or comply;
- (C) willful disclosure to any of Employer's then or prospective competitors of any trade secrets or confidential or proprietary information of Employer; or Executive's giving any such competitor material assistance in the conduct of such competitor's business;
- (D) willfully giving any of Employer's then or prospective competitors material assistance in the conduct of its business;
- (E) willfully engaging in any act that constitutes a material conflict of interest with Employer, except as is expressly permitted under this Agreement with respect to Other Funds;
- (F) willful usurpation of a material business opportunity of Employer;
- (G) willful misappropriation of a material amount of Employer's funds or property;
- (H) willfully attempting to secure any personal profit in connection with any transaction entered into on behalf of Employer, except as is expressly permitted under this Agreement with respect to Other Funds;
- (I) conviction of or the entering of a guilty plea in any court of competent jurisdiction in the United States of America with respect to fraud, theft, embezzlement or any other felony demonstrated to have a direct, material, adverse financial effect on Employer or on a customer or property owner; or

(J) conviction of or the entering of a guilty plea in any court of competent jurisdiction in the United States of America with respect to a felony which demonstrably and materially impairs or harms Employer's ability to conduct its business.

(iv) FOR GOOD REASON: For purposes of this Agreement, the phrase "for good reason" and variations of it shall mean because of:

(A) Employer's assignment of Executive, without his consent, to a position, responsibilities or duties of any materially lesser status or degree of responsibility or authority than his position, responsibilities or duties at the Effective Date; or

(B) Employer's diminution of, or refusal to pay when due, Executive's Salary under paragraph no. 4(a)(i), above, or any Bonus awarded to Executive under paragraph no. 4(b), above, (provided that, in the case of any such Bonus only, any conditions placed upon the payment of same have been satisfied); or

(C) Employer's material diminution of the aggregate of Executive's Benefits under paragraph no. 4(a)(ii), above, or of the aggregate of Executive's vacations, holidays and sick leave under paragraph no. 4(c), above;

(D) Employer's material reduction or diminution of the conditions of Executive's employment including, without limitation, Employer's failure to provide Executive with office, secretarial services and such other facilities and support services as are reasonably appropriate and necessary for the performance of Executive's duties under this Agreement.

(E) Any Change in Control as defined in paragraph no. 8(a)(i), above.

(b) EVENTS: Executive's employment pursuant to this Agreement shall terminate upon the first to occur of any of the following events:

- (i) TERMINATION BY EXECUTIVE: Executive may terminate his employment pursuant to this Agreement for any reason or "for good reason" (as defined above) upon prior written notice to STT, and such termination shall be effective upon the expiration of the time period in such notice (or such earlier time as STT and Executive may agree). For purposes of this paragraph, the time period for said prior written notice shall be six months, if said notice is given during the first two years of the term of this Agreement, and ninety days if given thereafter.
- (ii) TERMINATION WITHOUT CAUSE BY STT: STT may terminate Executive's employment pursuant to this Agreement without cause upon prior written notice to Executive, and such termination shall be effective upon the expiration of the time period in such notice (or such earlier time as STT and Executive may agree). For

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purposes of this paragraph, the time period for said prior written notice shall be six months, if said notice is given during the first two years of the term of this Agreement, and ninety days if given thereafter.

- (iii) WITH CAUSE BY STT: STT may immediately terminate Executive's employment pursuant to this Agreement for cause upon written notice to Executive, and such termination shall be effective upon the giving of such notice.
- (iv) TERMINATION ON ACCOUNT OF DEATH OR DISABILITY: Upon the death or disability of Executive, Executive's employment pursuant to this Agreement shall terminate, and such termination shall be effective on the date upon which the death or disability of



executive occurs.

- (v) NON-RENEWAL OF TERM: Should Executive give STT written notice at least thirty (30) days prior to the expiration of either the original four-year term of his employment or any of the subsequent, consecutive one-year terms set forth in Section 2, above, Executive's employment pursuant to this Agreement shall terminate upon the last day of said term and such termination shall be effective on said day.
  - (vi) "TERMINATION DATE" means the date upon which Executive's termination becomes effective.
- (c) TERMINATION PAY: Effective upon the termination of Executive's employment pursuant to this Agreement, STT shall be obligated to pay Executive (or in the event of his death, his estate, or in the event a personal representative is appointed, his personal representative) only such compensation as is provided in this paragraph no. 8(c). ("Termination Pay"):
- (i) COMPENSATION UPON TERMINATION BY EXECUTIVE OTHER THAN FOR GOOD REASON: If Executive terminates his employment pursuant to this Agreement other than for good reason, then STT shall pay Executive all his compensation owed him under Section 4, above, through and including the Termination Date only.
  - (ii) COMPENSATION UPON TERMINATION BY STT WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD REASON: If STT terminates Executive's employment pursuant to this Agreement without cause, or if Executive terminates said employment for good reason, then STT shall pay Executive (A) his Salary for the remainder of the Restricted Period, at the rate at which it was paid at the Termination Date, and (B) an amount equal to either (i) the amount of his target Bonus in respect of the fiscal year in which the Termination Date occurs, if the amount of such target Bonus has been established as of the Termination Date, or (ii) if the amount of such target Bonus has not been determined as of the Termination Date, the amount of the Bonus he received in respect of the immediately preceding fiscal year, and STT shall continue to provide Executive with the medical Benefits he received as of the Termination Date through the last day of the Restricted Period only.

- (iii) COMPENSATION UPON TERMINATION BY STT FOR CAUSE: If STT terminates Executive's employment pursuant to this Agreement for cause, then STT shall pay Executive all his compensation owed him under Section 4, above, through and including the Termination Date only.
  - (iv) COMPENSATION UPON TERMINATION BY DEATH OR DISABILITY: If Executive's employment pursuant to this Agreement is terminated by reason of the death or disability of Executive, then STT shall pay Executive or his estate, as appropriate, all his compensation owed him under Section 4, above, through and including the Termination Date only.
  - (V) COMPENSATION UPON NON-RENEWAL OF TERM: If Executive's employment is terminated by non-renewal of its term under paragraph no. 8(b)(v), above, STT shall, in its sole discretion, determine whether Executive shall thereafter be subject to the restrictions set forth in paragraphs nos. 5(b), 5(c) and 5(d), above, for a period of up to but not exceeding one (1) year from the Termination Date. If STT determines that Executive shall be subject to said restrictions, then it shall pay him as if he were terminated without good cause or for good reason as specified in paragraph no. 8(b)(ii), above, during whatever period STT determines said restrictions shall apply. If STT determines that Executive shall not be subject to any such restrictions, then it shall pay him all his compensation owed him under Section 4, above, through and including the Termination Date only.
  - (VI) AWARDS UNDER STT INCENTIVE PLANS: Executive shall receive all rights and benefits granted to Executive under STT's 1999 Omnibus Incentive Plan and any other incentive plans of STT in which Executive participates, and any agreements with Executive pursuant thereto. The vesting and exercise of any stock options and the forfeitability of any stock-based grants held by Executive shall be governed by the terms of such plans and the related agreements between Executive and STT rather than this Agreement.
- (d) TIMING OF TERMINATION PAY:
- (i) FOR GOOD REASON: If Executive terminates his

employment pursuant to this Agreement for Good Reason (except for any Change in Control, in which case the provisions of the following paragraph shall control) or Executive's employment hereunder is terminated by reason of death, then the full amount of any Termination Pay owed to Executive or his estate pursuant to the provisions of this Section shall become due and payable upon the Termination Date. Employer shall make payment at the time(s) and in the manner(s) specified by Executive, or by the executor of his estate, as appropriate, in written notice to Employer. Executive, or the executor of his estate, as appropriate, shall have the right to specify whether payment of the Termination Pay shall be made in whole or in part, and the specification of the payment of any part shall not waive or limit Executive's or his estate's right to receive the remainder of the whole.

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(ii) FOR OTHER REASON: If Executive or STT terminates his employment pursuant to this Agreement for any reason other than than set forth in the preceding paragraph, then any Termination Pay owed to Executive or to his estate shall be paid in accordance with STT's normal payroll schedule.

(e) RELEASE AND WAIVER OF OTHER CAUSES OF ACTION: Payment by STT of the full amount of any Termination Pay owed Executive pursuant to this Agreement shall be made promptly by STT upon receipt of a full and final release and waiver by Executive, in form and substance reasonably satisfactory to STT, of any and every claim and cause of action which Executive may have against STT, STOC, STP or any of their affiliates and subsidiaries arising out of or relating to his employment pursuant to this Agreement, whether such action is at equity or common law or arises out of any federal, state or local statute or regulation (including, but not limited to, the termination of such employment. Further, as long as STT makes timely payment of any portions or installments of Executive's Termination Pay pursuant to the provisions of paragraph no. 8(d), above, Executive shall not commence any such claim or action in any court or before any administrative body or arbitration panel. However, nothing in this paragraph shall be construed to limit Executive's right to bring an action arising out of the breach of any provision of this Agreement

in any appropriate court or before any appropriate arbitration panel, consistent with the terms otherwise set forth herein.

9. LITIGATION AND REGULATORY COOPERATION AFTER TERMINATION

- (a) EXTENT OF COOPERATION: After the termination of Executive's employment hereunder, Executive shall reasonably cooperate with STT in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of STT and which relate to events or occurrences that transpired while Executive was employed by STT, but if and only if such cooperation shall not materially and adversely affect Executive or expose Executive to an increased probability of civil or criminal litigation. Executive's cooperation in connection with such claims or action shall include being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of STT at mutually convenient times. After Executive's employment, Executive also shall cooperate fully with STT in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while Executive was employed by STT, but if and only if such cooperation shall not materially and adversely affect Executive or expose Executive to an increased probability of civil or criminal litigation. However, notwithstanding any of the foregoing, nothing in this paragraph shall be construed to require Executive to cooperate or provide any services to, on or on behalf of STT in excess of four (4) hours in any one day or for a total of more than twenty (20) hours, nor to require Executive to travel more than fifty (50) miles from his home in order to render such cooperation, nor to provide any cooperation under this paragraph after seven (7) years from Executive's Termination Date.

- (b) COMPENSATION FOR COOPERATION: STT shall compensate Executive for all cooperation or other services rendered pursuant to this Section 9 by paying him the greater of (i) a sum equal to all of his lost salary, earnings and profits attributable to his provision of such cooperation and services, or (ii) compensation on an hourly basis calculated at his final hourly Salary rate. STT shall also reimburse Executive for all costs and expenses incurred in connection with his performance under this Section 9, including, without limitation, all reasonable attorneys' fees and costs.

- (a) GOOD FAITH EFFORTS; FURTHER ASSURANCES; COOPERATION: The parties shall in good faith undertake to perform their agreements in this Agreement, to satisfy all conditions and to cause the purposes of this Agreement to be accomplished promptly in accordance with its terms.
- (b) ARBITRATION: Any controversy or claim arising out of or relating to this Agreement or the breach thereof not subject to paragraph no. 7(b), above, shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Said arbitration shall be before a panel of three arbitrators. Executive shall choose one arbitrator, STT shall choose one arbitrator and the two arbitrators so chosen shall choose the third arbitrator. Said arbitration shall take place in the state of New Hampshire within sixty days of notice by one party to the other, unless they shall mutually agree to a longer or shorter time. Judgment upon the award rendered by the panel may be entered by any court of competent jurisdiction. Executive and STT shall each pay fifty percent (50%) of the panel's fees. The panel shall award reasonable interest, attorneys' fees and costs to the prevailing party but shall have no power to award punitive damages.
- (c) NOTICES: Each notice, communication and delivery under this Agreement:
- (i) shall be made in writing signed by the party giving it;
  - (ii) shall specify the section of this Agreement pursuant to which it is given;
  - (iii) shall either be delivered in person, by any form of United States Mail if a return receipt is provided therewith, by telecopier or by a nationally recognized next business day delivery service (such as Federal Express, United Parcel Service, DHL or any other similar delivery service provider);
  - (iv) shall be given to the address specified below;
  - (v) shall be deemed to be given:
    - (A) if delivered in person, on the date delivered, or

- (B) if sent by telecopier, on the date of confirmation of receipt, by telephone or otherwise, or
- (C) if sent by a nationally recognized next business day courier service with all costs paid, on the date of confirmation of receipt.

The addresses are as follows:

If to Executive, to:

339 Rt 103 A  
New London, NH 03257  
Telecopier:  
Confirm:

If to STT:

Strategic Timber Trust, Inc.  
5 North Pleasant Street  
New London, New Hampshire 03257  
Attn: Secretary  
Telecopier: 603/526-7811  
Confirm: 603/526-7800

Such notice shall be given to such other representatives or at such other addresses as a party may furnish to the other parties pursuant to the foregoing. If notice is given pursuant to this Section of a permitted successor or assign of a party, then notice shall thereafter be given as set forth above also to such successor or assign of such party.

- (d) COMPUTATION OF TIME: Whenever the last day for the exercise of any privilege or the discharge of any duty under this Agreement shall fall upon Saturday, Sunday or any public or legal holiday, whether federal or of a state in which the person or entity having such privilege or duty resides or has its principal place of business, the party to this Agreement having such privilege or duty shall have until 5:00 p.m. (Eastern time) on the next succeeding regular business day to exercise such privilege or to discharge such duty.
- (e) ASSIGNMENT; SUCCESSOR IN INTEREST:

(i) BY STT: Except with the prior written consent of Executive, no assignment, transfer or delegation by STT of any of its rights and obligations under this Agreement may be made to any other entity, except that STT may make any such assignment, transfer or delegation:

(A) to STOC or STP or any of STT's affiliates or subsidiaries; and

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(B) if STT is merged into or acquired by another business entity such that there is a Change in Control, to the business entity into which STT is merged or by which it is acquired.

(ii) BY EXECUTIVE: Executive (or, under appropriate circumstances, the executor of Executive's estate) may transfer or assign any of his rights to receive Executive's Total Compensation or any component of Executive's Total Compensation, in whole or in part, to any of Executive's heirs, devisees, legatees or beneficiaries upon written notice to STT. No other transfer or assignment may be made to any party by Executive of any of his rights or obligations under this Agreement.

(f) BINDING NATURE: This Agreement shall be binding upon the parties to this Agreement and their respective legal representatives, heirs, devisees, legatees, beneficiaries and successors and assigns; shall inure to the benefit of the parties to this Agreement and their respective permitted legal representatives, heirs, devisees, legatees, beneficiaries and other permitted successors and assigns (and to or for the benefit of no other person or entity, whether an employee or otherwise, whatsoever); and upon a permitted assignment, any reference to a party to this Agreement shall also be a reference to a permitted successor or assign.

(g) REMEDIES CUMULATIVE: The rights and remedies specified in any provision of this Agreement shall be in addition to all other rights and remedies a party may have under any other agreement or applicable law, including any right to equitable relief and

any right to sue for damages as a result of a breach of this Agreement (whether or not it elects to terminate this Agreement), and all such rights and remedies shall be cumulative.

- (h) DEFENSE/INDEMNIFICATION/HOLD HARMLESS: STT shall, to the greatest extent allowed by applicable law, provide Executive a defense, indemnify Executive and hold Executive harmless from any civil or criminal claim, award or judgment which arises out of Executive's acts performed or omissions committed in the course of, or which Executive reasonably believed he performed or committed in the course of, the performance of his duties pursuant to this Agreement. However, nothing in this paragraph shall require STT to provide Executive a defense, indemnify Executive or hold Executive harmless from any such claim, award or judgment which arises out of any such act or omission which, at the time of same, Executive knew or reasonably should have known constituted cause for termination as set forth in paragraph no. 8(a)(iii), above.
- (i) INSURANCE: STT shall cause Executive to appear as an additional named insured on any policy of Directors' and Officers' Liability Insurance which STT procures on behalf of itself and/or on behalf of any of its Executive Officers. Should Executive not appear as an additional named insured on any such policy, STT shall be liable to Executive for the full amount of insurance coverage which Executive would have had pursuant to such policy had STT fulfilled its obligation under this paragraph.

- (j) EXPENSES OF ENFORCING THIS AGREEMENT: Subject to the provisions of paragraph no. 10(b), above, any expense incurred in enforcing any or all of the provisions of this Agreement shall be reimbursed to the prevailing party.
- (k) INTEGRATION; AMENDMENT: This Agreement:
  - (i) supersedes all prior negotiations, agreements and understandings between the parties to this Agreement with respect to its subject matter, and
  - (ii) constitutes the entire agreement between the parties to this Agreement with respect to its subject matter, and



- (iii) may not be altered or amended, nor may any material provision be waived, except in writing signed by Executive and STT.
- (l) WAIVER: No waiver by any party of any provision (or of a breach of any provision) of this Agreement, whether by conduct or otherwise, in any one or more instances shall be deemed or construed either as a further or continuing waiver of any such provision or breach or as a waiver of any other provision (or of a breach of any other provision) of this Agreement
- (m) CONTROLLING LAW: This Agreement is governed by, and shall be construed and enforced in accordance with, the laws of the State of New Hampshire (except the laws of that jurisdiction that would render such choice of laws ineffective).
- (n) COPIES: This Agreement may be executed in two or more copies, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement or its terms to produce or account for more than one of such copies.
- (o) COUNTERPARTS: This Agreement may be executed in one or more counterparts (one counterpart reflecting the signatures of all parties), each of which shall be deemed to be an original, and it shall not be necessary in making proof of this Agreement or its terms to account for more than one of such counterparts. This Agreement may be executed by each party upon a separate copy, and one or more execution pages may be detached from one copy of this Agreement and attached to another copy in order to form one or more counterparts.
- (p) RESIGNATIONS: Upon Executive's Termination Date, Executive shall be deemed to have resigned from any and all offices he may have held and from any employment he had with STT, STOC, STP and any and all subsidiaries and affiliates of STT, STOC or STP which were in existence on the Effective Date or which came into existence during the term of this Agreement as set forth in Section 2, above, up to and including the Termination Date.
- (q) INDEPENDENT: The agreements set forth above (or any part of them) are, shall be deemed and shall be construed as separate and independent agreements. If any such

agreement or any part of such agreement is held invalid, void or unenforceable by any court or arbitration panel of competent jurisdiction, such holding shall in no way render invalid, void or unenforceable any other part or provision thereof or any separate agreement.

DULY EXECUTED and delivered by the parties to this Agreement as of the dates set forth below.

Executive:

/s/ C. Edward Broom

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Name: C. Edward Broom  
Title: Chairman, President & CEO  
Date: 3/20/99

STT:

STRATEGIC TIMBER TRUST, INC.

By: /s/ Joseph E. Rendini

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Name: Joseph E. Rendini  
Title: Secretary and Vice President  
Date: 3/24/99

STRATEGIC TIMBER TRUST, INC.  
EMPLOYMENT AND NONCOMPETITION AGREEMENT

Strategic Timber Trust, Inc., a Georgia corporation (hereinafter "STT" or "Employer") and Christopher J. Broom ("Executive") hereby agree as follows:

1. EMPLOYMENT

This Agreement is entered into by STT and Executive in contemplation of a registered initial public offering of STT's common stock ("the IPO"). Executive acknowledges that he has special knowledge, expertise, contacts and other information with respect to the Restricted Business (as defined below), that he will be provided with confidential information (as defined below) and that STT's employment of Executive upon the consummation of the IPO is in consideration of the promises and agreements contained in this Agreement. This Agreement shall govern the employment of Executive as an officer of STT.

2. EFFECTIVENESS OF AGREEMENT; TERM

This Agreement shall become effective on the consummation of the IPO ("the Effective Date"), but shall be void and of no further effect if the IPO has not been consummated by December 31, 1999. The term of Executive's employment pursuant to this Agreement shall be for the period from and including the Effective Date until and including the fourth anniversary of the Effective Date, and for additional, consecutive one-year periods thereafter, all unless earlier terminated as provided in Section 8, below.

3. DUTIES AND RESPONSIBILITIES

During Executive's employment pursuant to this Agreement, Executive shall hold such office or offices as he shall be elected to by the Board of Directors of STT, shall perform the duties of such office or offices pursuant to the direction of the Board of Directors of STT (or any committee thereof) or of the Chief Executive Officer of STT, shall perform such duties to the best of his ability, shall use his good faith efforts to promote the success of the business of STT, shall devote his entire business time to the affairs of STT and shall not engage in any other business activity or occupation during normal business hours for gain, profit, or other pecuniary advantage; provided, however, that the foregoing shall not be construed as preventing Executive from investing or trading for his own benefit or for that of the members of his family in stocks, bonds, securities or other similar forms of investment in public securities markets, serving as a director of another corporation or engaging in any family enterprise or in charitable, civic or other similar pursuits, so long as they do not materially interfere with Executive's performance of his duties under this Agreement.

#### 4. COMPENSATION AND RELATED MATTERS

- (a) BASIC: During the Executive's employment pursuant to this Agreement, STT:
  - (i) shall pay Executive a minimum salary of \$ 175,000.00 per annum in accordance with STT's normal and usual payroll schedule ("Salary), and
  - (ii) shall include Executive in all retirement plans, insurance plans and other fringe benefits and arrangements that may be authorized and adopted for the benefit of executives of STT generally. ("Benefits" ).
- (b) RAISES AND BONUSES: STT's Board of Directors, acting directly or through its Compensation Committee, may, in its sole discretion and for any reason, increase Executive's salary and/or grant Executive additional compensation as a bonus (a "Bonus") .
- (c) VACATIONS, HOLIDAYS AND SICK LEAVE: Executive shall be entitled to vacation, holidays and sick days with pay as determined by STT.
- (d) NO DIVESTMENT: No termination of Executive's employment shall divest Executive of his right to receive all or any unpaid portion or installment of any of his Salary or Bonus to which he is otherwise entitled pursuant to the terms of this Agreement.

#### 5. NONCOMPETITION; NO INTERFERENCE

- (a) CERTAIN DEFINED TERMS: For purposes of this Agreement, the following words and phrases have the meanings set forth below:
  - (i) "CUSTOMER" means any purchaser of timber from Employer, and any potential purchaser solicited by Employer, with which Executive had contact during the term of his employment hereunder.
  - (ii) "PROPERTY OWNERS" means persons and entities with whom Employer has contracted for, or with whom Employer has undertaken any phase of negotiation regarding, the acquisition of timberlands, timber

cutting rights, timber deeds, or any other types of property rights, with which Executive had contact during the term of his employment hereunder.

- (iii) "RESTRICTED BUSINESS" means the business of owning timberland, selling or purchasing timberland, and selling timber or cut logs, or any of the foregoing, whether undertaken directly or indirectly.
- (iv) "TERRITORY" means North America, Central America and South America.

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- (v) "RESTRICTED PERIOD" means the period of Executive's employment with STT pursuant to this Agreement (i.e., the period extending from the Effective Date until the Termination Date, as defined in paragraph no. 8(b)(vi), below) plus one year from the Termination Date.
- (vi) "EMPLOYER," for purposes of this Section 5 only, means STT, Strategic Timber Operating Co. ("STOC"), Strategic Timber Partners, LP ("STP") and their subsidiaries and affiliates which were in existence on the Effective Date or which came into existence during the term of this Agreement as set forth in Section 2, above, up to and including the Termination Date.

(b) NONCOMPETITION: During the Restricted Period, Executive shall not, either directly or indirectly:

- (i) have any ownership interest (whether as proprietor, partner, stockholder or otherwise) in, or
- (ii) be an officer, director or general or managing partner of, or hold a similar position in, or
- (iii) act as agent, broker or distributor for, or advisor or consultant to, or
- (iv) be employed in an executive or management position with

any business however organized or conducted which is engaged or which Executive knows or reasonably should know plans to

become engaged in the Restricted Business in the Territory without the permission of the disinterested members of STT's Board of Directors. Further, any ownership interest held by Executive at the time of the execution of this Agreement shall be deemed so permitted. However, notwithstanding any of the foregoing, the ownership by Executive of less than one percent (1%) of the shares of the capital stock of a publicly held entity shall in no event be deemed a violation of any provision of this paragraph.

- (c) NO INTERFERENCE WITH CUSTOMERS OR PROPERTY OWNERS: During the Restricted Period, Executive will not in any way, directly or indirectly:
- (i) call upon, compete for, solicit, divert or take away, or attempt to solicit, divert or take away, from Employer the business of any Customer; or
  - (ii) attempt or seek to cause any Customer to refrain, in any respect, from doing business with Employer, or intentionally interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between Employer and Customer; or
  - (iii) call upon, compete for, solicit, divert or take away, or attempt to solicit, divert or take away, any pending or contemplated acquisition of timberlands, timber cutting rights, timber deeds, or any other type of property rights, from a Property Owner; or
  - (iv) attempt or seek to cause any Property Owner to refrain from consummating any pending or contemplated transaction with Employer, or intentionally interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between Employer and any Property Owner.
- (d) NO INTERFERENCE WITH EMPLOYEES. During the Restricted Period, Executive will not in any way, directly or indirectly, request or induce any other employee of Employer to terminate his employment with Employer.
- (e) NO EFFECT OF TERMINATION OF EMPLOYMENT. The termination of Executive's employment with STT shall not limit or otherwise

affect the agreements set forth in this Section 5, which shall continue and expressly survive the termination of Executive's employment and this Agreement.

6. RECORDS/NONDISCLOSURE/COMPANY POLICIES

- (a) GENERAL: All records, financial statements and similar documents obtained, reviewed or compiled by Executive as part of the performance of his services for or duties to Employer pursuant to this Agreement shall be the exclusive property of Employer, and Executive shall have no rights in such documents on or after the earlier of Executive's Termination Date (as defined in paragraph no. 8(b)(vi), below) or the last day of the term of this Agreement as set forth in Section 2, above.
- (b) CONFIDENTIAL INFORMATION AND TRADE SECRETS: Executive will not disclose to any person or entity or use for his own benefit or gain, any confidential information or trade secrets of the Employer obtained by him incident to his employment with STT. Executive shall take all reasonable steps to safeguard any confidential information and trade secrets and to protect same against disclosure, misuse, loss or theft. The term "Confidential Information" includes, without limitation, financial information, business plans, prospects and opportunities which have been discussed or considered by the management of Employer, but does not include any information which has become part of the public domain by means other than Executive's failure to observe his obligations hereunder. However, nothing in this paragraph shall be construed as prohibiting, restricting or preventing Executive from making any disclosure required by applicable law, the rules of the New York Stock Exchange or of any other securities market on which STT's securities are listed, or which are otherwise called for in connection with the performance of his duties and responsibilities thereunder or pursuant to this Agreement.

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- (c) SURVIVAL: The agreements set forth in this Section 6 shall survive beyond the term of Executive's employment, as set forth in Section 2, above, and shall remain in full force and effect for seven (7) years thereafter.

7. CERTAIN GENERAL PROVISIONS

- (a) REPRESENTATIONS AND WARRANTIES: Executive represents and warrants to STT:

- (i) that, excluding any statutory or case law generally applicable to all persons or entities, he is not subject to any decision, order, decree or judgment issued by any governmental authority or arbitrator or arbitration panel involving noncompetition, nonsolicitation, rights to inventions, work product or intellectual property;
  - (ii) that he will not use in his employment pursuant to this Agreement, disclose to Employer or induce Employer to use any trade secrets or proprietary or confidential information or materials belonging to others.
- (b) REMEDIES: Any violation of any provision of the foregoing Sections 5 and 6 may cause irreparable harm to Employer, and damages may not be an adequate remedy. Employer shall therefore be entitled to seek injunctive relief from any court of competent jurisdiction in the United States of America enjoining, prohibiting and restraining Executive from the continuance of any such violation. However, should Employer seek injunctive relief in any such court, Executive may then elect to have any or all controversies or claims, including any claim for injunctive relief, arising out of or relating to this Agreement or the breach thereof heard and determined by such court or by any other court of competent jurisdiction in the United States of America or to have any or all such controversies or claims settled by arbitration pursuant to the provisions of paragraph no. 10(b), below.
- (c) NOTICE TO OTHERS: Executive hereby agrees that, notwithstanding any other provision of this Agreement, Employer may disclose the prohibitions contained in Sections 5 and 6 hereof to any person or entity, including one that at the time employs or is considering employing Executive.
- (d) MODIFICATION: Should any provision of the foregoing Section 5 or 6 be deemed too broad to permit enforcement to its full extent, then it shall be enforced to the maximum extent permitted by law, and its scope may be judicially modified accordingly in any proceeding brought to enforce such restriction.



(a) CERTAIN DEFINED TERMS

- (i) CHANGE OF CONTROL: A "Change of Control" shall be deemed to have occurred when any of the following events occurs:
- (A) Any "person" (other than (1) any employee plan established by STT, (2) STT, (3) an underwriter temporarily holding securities pursuant to an offering of such securities, or (4) a corporation owned, directly or indirectly, by stockholders of STT in substantially the same proportions as their ownership of STT) is or becomes the beneficial owner, directly or indirectly, of securities of STT representing 50% or more of the combined voting power of STT's then outstanding voting securities [as used in this paragraph, "person" shall have the same meaning as that term does as used in Sections 13(d) and 14(d) (2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")]; or
  - (B) During any period of two consecutive years, individuals who at the beginning of such period constituted the Board and any new director (other than an individual whose nomination for election is in connection with an actual or threatened election contest relating to the election of the directors of STT, as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act) whose appointment, election, or nomination for election by STT's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose appointment, election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board; or
  - (C) There is consummated a merger or consolidation of STT with or into any other corporation or other entity, or a transaction having a similar result or effect, other than a merger, consolidation, or other transaction which would result in

the holders of the voting securities of STT outstanding immediately prior thereto holding securities which represent immediately after such merger or consolidation more than 65% of the combined voting power of the voting securities of either STT or the other entity which survives such merger or consolidation or the parent of the entity which survives such merger or consolidation; or

- (D) There is consummated a sale or disposition by STT of all or substantially all of STT's assets.

- (ii) **DISABILITY:** The term "disabled" and variations of it mean a physical condition of Executive which is of a nature and duration sufficient to require payment under the provisions of STT's long-term disability insurance covering Executive, if such a policy is in effect at the time the disability commences, and, if no such policy is then in effect, a disability determined by a physician mutually agreed upon by STT and the Executive to substantially interfere with the Executive's ability to perform the essential duties of his employment.

- (iii) **FOR CAUSE:** The phrase "for cause" and variations of it mean because of:

- (A) willful failure (other than by reason of disability) to perform any of the duties or to fulfill any of the obligations set forth in the provisions of Sections 3, 5 or 6, above;

- (B) willful failure (other than by reason of disability) to respond to a request by the Board of Directors or Chief Executive Officer of STT which is reasonable in light of Executive's duties as described in Section 3 and of the resources and support provided to him by Employer after notice and reasonable opportunity to cure or comply;

- (C) willful disclosure to any of Employer's then or prospective competitors of any trade secrets or confidential or proprietary information of Employer; or Executive's giving any such competitor material assistance in the conduct of such competitor's business;
- (D) willfully giving any of Employer's then or prospective competitors material assistance in the conduct of its business;
- (E) willfully engaging in any act that constitutes a material conflict of interest with Employer;
- (F) willful usurpation of a material business opportunity of Employer;
- (G) willful misappropriation of a material amount of Employer's funds or property;
- (H) willfully attempting to secure any personal profit in connection with any transaction entered into on behalf of Employer;
- (I) conviction of or the entering of a guilty plea in any court of competent jurisdiction in the United States of America with respect to fraud, theft, embezzlement or any other felony demonstrated to have a direct, material, adverse financial effect on Employer or on a customer or property owner; or

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- (J) conviction of or the entering of a guilty plea in any court of competent jurisdiction in the United States of America with respect to a felony which demonstrably and materially impairs or harms Employer's ability to conduct its business.

(iv) FOR GOOD REASON: For purposes of this Agreement, the phrase "for good reason" and variations of it shall

mean because of:

- (A) Employer's assignment of Executive, without his consent, to a position, responsibilities or duties of any materially lesser status or degree of responsibility or authority than his position, responsibilities or duties at the Effective Date; or
- (B) Employer's diminution of, or refusal to pay when due, Executive's Salary under paragraph no. 4(a)(i), above, or any Bonus awarded to Executive under paragraph no. 4(b), above, (provided that, in the case of any such Bonus only, any conditions placed upon the payment of same have been satisfied); or
- (C) Employer's material diminution of the aggregate of Executive's Benefits under paragraph no. 4(a)(ii), above, or of the aggregate of Executive's vacations, holidays and sick leave under paragraph no. 4(c), above;
- (D) Employer's material reduction or diminution of the conditions of Executive's employment including, without limitation, Employer's failure to provide Executive with office, secretarial services and such other facilities and support services as are reasonably appropriate and necessary for the performance of Executive's duties under this Agreement.
- (E) Any Change in Control as defined in paragraph no. 8(a)(i), above.

(b) EVENTS: Executive's employment pursuant to this Agreement shall terminate upon the first to occur of any of the following events:

- (i) TERMINATION BY EXECUTIVE: Executive may terminate his employment pursuant to this Agreement for any reason or "for good reason" (as defined above) upon prior written notice to STT, and such termination shall be effective upon the expiration of the time period in such notice (or such earlier time as STT and Executive may agree). For purposes of this paragraph, the time period for said prior written notice shall be six months, if said notice is given during the first two years of the term of this Agreement, and

ninety days if given thereafter.

- (ii) TERMINATION WITHOUT CAUSE BY STT: STT may terminate Executive's employment pursuant to this Agreement without cause upon prior written notice to Executive, and such termination shall be effective upon the expiration of the time period in such notice (or such earlier time as STT and Executive may agree). For purposes of this paragraph, the time period for said prior written notice shall be six

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months, if said notice is given during the first two years of the term of this Agreement, and ninety days if given thereafter.

- (iii) WITH CAUSE BY STT: STT may immediately terminate Executive's employment pursuant to this Agreement for cause upon written notice to Executive, and such termination shall be effective upon the giving of such notice.
- (iv) TERMINATION ON ACCOUNT OF DEATH OR DISABILITY: Upon the death or disability of Executive, Executive's employment pursuant to this Agreement shall terminate, and such termination shall be effective on the date upon which the death or disability of executive occurs.
- (v) NON-RENEWAL OF TERM: Should Executive give STT written notice at least thirty (30) days prior to the expiration of either the original four-year term of his employment or any of the subsequent, consecutive one-year terms set forth in Section 2, above, Executive's employment pursuant to this Agreement shall terminate upon the last day of said term and such termination shall be effective on said day.
- (vi) "TERMINATION DATE" means the date upon which Executive's termination becomes effective.

- (c) TERMINATION PAY: Effective upon the termination of Executive's employment pursuant to this Agreement, STT shall be obligated to pay Executive (or in the event of his death, his estate, or in the event a personal representative is appointed, his

personal representative) only such compensation as is provided in this paragraph no. 8(c). ("Termination Pay"):

- (i) COMPENSATION UPON TERMINATION BY EXECUTIVE OTHER THAN FOR GOOD REASON: If Executive terminates his employment pursuant to this Agreement other than for good reason, then STT shall pay Executive all his compensation owed him under Section 4, above, through and including the Termination Date only.
- (ii) COMPENSATION UPON TERMINATION BY STT WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD REASON: If STT terminates Executive's employment pursuant to this Agreement without cause, or if Executive terminates said employment for good reason, then STT shall pay Executive (A) his Salary for the remainder of the Restricted Period, at the rate at which it was paid at the Termination Date, and (B) an amount equal to either (i) the amount of his target Bonus in respect of the fiscal year in which the Termination Date occurs, if the amount of such target Bonus has been established as of the Termination Date, or (ii) if the amount of such target Bonus has not been determined as of the Termination Date, the amount of the Bonus he received in respect of the immediately preceding fiscal year, and STT shall continue to provide Executive with the medical Benefits he received as of the Termination Date through the last day of the Restricted Period only.

- (iii) COMPENSATION UPON TERMINATION BY STT FOR CAUSE: If STT terminates Executive's employment pursuant to this Agreement for cause, then STT shall pay Executive all his compensation owed him under Section 4, above, through and including the Termination Date only.
- (iv) COMPENSATION UPON TERMINATION BY DEATH OR DISABILITY: If Executive's employment pursuant to this Agreement is terminated by reason of the death or disability of Executive, then STT shall pay Executive or his estate, as appropriate, all his compensation owed him under Section 4, above, through and including the Termination Date only.

(v) COMPENSATION UPON NON-RENEWAL OF TERM: If Executive's employment is terminated by non-renewal of its term under paragraph no. 8(b)(v), above, STT shall, in its sole discretion, determine whether Executive shall thereafter be subject to the restrictions set forth in paragraphs nos. 5(b), 5(c) and 5(d), above, for a period of up to but not exceeding one (1) year from the Termination Date. If STT determines that Executive shall be subject to said restrictions, then it shall pay him as if he were terminated without good cause or for good reason as specified in paragraph no. 8(b)(ii), above, during whatever period STT determines said restrictions shall apply. If STT determines that Executive shall not be subject to any such restrictions, then it shall pay him all his compensation owed him under Section 4, above, through and including the Termination Date only.

(vi) AWARDS UNDER STT INCENTIVE PLANS: Executive shall receive all rights and benefits granted to Executive under STT's 1999 Omnibus Incentive Plan and any other incentive plans of STT in which Executive participates, and any agreements with Executive pursuant thereto. The vesting and exercise of any stock options and the forfeitability of any stock-based grants held by Executive shall be governed by the terms of such plans and the related agreements between Executive and STT rather than this Agreement.

(d) TIMING OF TERMINATION PAY:

(i) FOR GOOD REASON: If Executive terminates his employment pursuant to this Agreement for Good Reason (except for any Change in Control, in which case the provisions of the following paragraph shall control) or Executive's employment hereunder is terminated by reason of death, then the full amount of any Termination Pay owed to Executive or his estate pursuant to the provisions of this Section shall become due and payable upon the Termination Date. Employer shall make payment at the time(s) and in the manner(s) specified by Executive, or by the executor of his estate, as appropriate, in written notice to Employer. Executive, or the executor of his estate, as appropriate, shall have the right to specify whether payment of the Termination Pay shall be made in whole or in part, and the specification of the payment of any part shall not waive or limit Executive's or his estate's right to receive the

(ii) FOR OTHER REASON: If Executive or STT terminates his employment pursuant to this Agreement for any reason other than than set forth in the preceding paragraph, then any Termination Pay owed to Executive or to his estate shall be paid in accordance with STT's normal payroll schedule.

(e) RELEASE AND WAIVER OF OTHER CAUSES OF ACTION: Payment by STT of the full amount of any Termination Pay owed Executive pursuant to this Agreement shall be made promptly by STT upon receipt of a full and final release and waiver by Executive, in form and substance reasonably satisfactory to STT, of any and every claim and cause of action which Executive may have against STT, STOC, STP or any of their affiliates and subsidiaries arising out of or relating to his employment pursuant to this Agreement, whether such action is at equity or common law or arises out of any federal, state or local statute or regulation (including, but not limited to, the termination of such employment. Further, as long as STT makes timely payment of any portions or installments of Executive's Termination Pay pursuant to the provisions of paragraph no. 8(d), above, Executive shall not commence any such claim or action in any court or before any administrative body or arbitration panel. However, nothing in this paragraph shall be construed to limit Executive's right to bring an action arising out of the breach of any provision of this Agreement in any appropriate court or before any appropriate arbitration panel, consistent with the terms otherwise set forth herein.

## 9. LITIGATION AND REGULATORY COOPERATION AFTER TERMINATION

(a) EXTENT OF COOPERATION: After the termination of Executive's employment hereunder, Executive shall reasonably cooperate with STT in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of STT and which relate to events or occurrences that transpired while Executive was employed by STT, but if and only if such cooperation shall not materially and adversely affect Executive or expose Executive to an increased probability of civil or criminal litigation. Executive's cooperation in connection with such claims or action shall include being available to meet with counsel to



prepare for discovery or trial and to act as a witness on behalf of STT at mutually convenient times. After Executive's employment, Executive also shall cooperate fully with STT in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while Executive was employed by STT, but if and only if such cooperation shall not materially and adversely affect Executive or expose Executive to an increased probability of civil or criminal litigation. However, notwithstanding any of the foregoing, nothing in this paragraph shall be construed to require Executive to cooperate or provide any services to, on or on behalf of STT in excess of four (4) hours in any one day or for a total of more than twenty (20) hours, nor to require Executive to travel more than fifty (50) miles from his home in order to render such cooperation, nor to provide any cooperation under this paragraph after seven (7) years from Executive's Termination Date.

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- (b) COMPENSATION FOR COOPERATION: STT shall compensate Executive for all cooperation or other services rendered pursuant to this Section 9 by paying him the greater of (i) a sum equal to all of his lost salary, earnings and profits attributable to his provision of such cooperation and services, or (ii) compensation on an hourly basis calculated at his final hourly Salary rate. STT shall also reimburse Executive for all costs and expenses incurred in connection with his performance under this Section 9, including, without limitation, all reasonable attorneys' fees and costs.

#### 10. MISCELLANEOUS

- (a) GOOD FAITH EFFORTS; FURTHER ASSURANCES; COOPERATION: The parties shall in good faith undertake to perform their agreements in this Agreement, to satisfy all conditions and to cause the purposes of this Agreement to be accomplished promptly in accordance with its terms.
- (b) ARBITRATION: Any controversy or claim arising out of or relating to this Agreement or the breach thereof not subject to paragraph no. 7(b), above, shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Said arbitration shall be before a panel of three arbitrators. Executive shall choose

one arbitrator, STT shall choose one arbitrator and the two arbitrators so chosen shall choose the third arbitrator. Said arbitration shall take place in the state of New Hampshire within sixty days of notice by one party to the other, unless they shall mutually agree to a longer or shorter time. Judgment upon the award rendered by the panel may be entered by any court of competent jurisdiction. Executive and STT shall each pay fifty percent (50%) of the panel's fees. The panel shall award reasonable interest, attorneys' fees and costs to the prevailing party but shall have no power to award punitive damages.

(c) NOTICES: Each notice, communication and delivery under this Agreement:

- (i) shall be made in writing signed by the party giving it;
- (ii) shall specify the section of this Agreement pursuant to which it is given;
- (iii) shall either be delivered in person, by any form of United States Mail if a return receipt is provided therewith, by telecopier or by a nationally recognized next business day delivery service (such as Federal Express, United Parcel Service, DHL or any other similar delivery service provider);
- (iv) shall be given to the address specified below;
- (v) shall be deemed to be given:
  - (A) if delivered in person, on the date delivered, or

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- (B) if sent by telecopier, on the date of confirmation of receipt, by telephone or otherwise, or
- (C) if sent by a nationally recognized next business day courier service with all costs paid, on the date of confirmation of receipt.

The addresses are as follows:

If to Executive, to:

5 Morgan Lane  
Post Office Box 903  
New London, NH 03257  
Telecopier:  
Confirm:

If to STT:

Strategic Timber Trust, Inc.  
5 North Pleasant Street  
New London, New Hampshire 03257  
Attn: Secretary  
Telecopier: 603/526-7811  
Confirm: 603/526-7800

Such notice shall be given to such other representatives or at such other addresses as a party may furnish to the other parties pursuant to the foregoing. If notice is given pursuant to this Section of a permitted successor or assign of a party, then notice shall thereafter be given as set forth above also to such successor or assign of such party.

- (d) COMPUTATION OF TIME: Whenever the last day for the exercise of any privilege or the discharge of any duty under this Agreement shall fall upon Saturday, Sunday or any public or legal holiday, whether federal or of a state in which the person or entity having such privilege or duty resides or has its principal place of business, the party to this Agreement having such privilege or duty shall have until 5:00 p.m. (Eastern time) on the next succeeding regular business day to exercise such privilege or to discharge such duty.

- (e) ASSIGNMENT; SUCCESSOR IN INTEREST:

- (i) BY STT: Except with the prior written consent of Executive, no assignment, transfer or delegation by STT of any of its rights and obligations under this Agreement may be made to any other entity, except that STT may make any such assignment, transfer or delegation:

- (A) to STOC or STP or any of STT's affiliates or subsidiaries; and

- (B) if STT is merged into or acquired by another business entity such that there is a Change in Control, to the business entity into which STT is merged or by which it is acquired.
- (ii) BY EXECUTIVE: Executive (or, under appropriate circumstances, the executor of Executive's estate) may transfer or assign any of his rights to receive Executive's Total Compensation or any component of Executive's Total Compensation, in whole or in part, to any of Executive's heirs, devisees, legatees or beneficiaries upon written notice to STT. No other transfer or assignment may be made to any party by Executive of any of his rights or obligations under this Agreement.
- (f) BINDING NATURE: This Agreement shall be binding upon the parties to this Agreement and their respective legal representatives, heirs, devisees, legatees, beneficiaries and successors and assigns; shall inure to the benefit of the parties to this Agreement and their respective permitted legal representatives, heirs, devisees, legatees, beneficiaries and other permitted successors and assigns (and to or for the benefit of no other person or entity, whether an employee or otherwise, whatsoever); and upon a permitted assignment, any reference to a party to this Agreement shall also be a reference to a permitted successor or assign.
- (g) REMEDIES CUMULATIVE: The rights and remedies specified in any provision of this Agreement shall be in addition to all other rights and remedies a party may have under any other agreement or applicable law, including any right to equitable relief and any right to sue for damages as a result of a breach of this Agreement (whether or not it elects to terminate this Agreement), and all such rights and remedies shall be cumulative.
- (h) DEFENSE/INDEMNIFICATION/HOLD HARMLESS: STT shall, to the greatest extent allowed by applicable law, provide Executive a defense, indemnify Executive and hold Executive harmless from any civil or criminal claim, award or judgment which arises out of Executive's acts performed or omissions committed in the course of, or which Executive reasonably believed he performed or committed in the course of, the performance of his duties pursuant to this Agreement. However, nothing in this paragraph shall require STT to provide Executive a defense, indemnify Executive or hold Executive harmless from

any such claim, award or judgment which arises out of any such act or omission which, at the time of same, Executive knew or reasonably should have known constituted cause for termination as set forth in paragraph no. 8(a)(iii), above.

- (i) INSURANCE: STT shall cause Executive to appear as an additional named insured on any policy of Directors' and Officers' Liability Insurance which STT procures on behalf of itself and/or on behalf of any of its Executive Officers. Should Executive not appear as an additional named insured on any such policy, STT shall be liable to Executive for the full amount of insurance coverage which Executive would have had pursuant to such policy had STT fulfilled its obligation under this paragraph.

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- (j) EXPENSES OF ENFORCING THIS AGREEMENT: Subject to the provisions of paragraph no. 10(b), above, any expense incurred in enforcing any or all of the provisions of this Agreement shall be reimbursed to the prevailing party.
- (k) INTEGRATION; AMENDMENT: This Agreement:
  - (i) supersedes all prior negotiations, agreements and understandings between the parties to this Agreement with respect to its subject matter, and
  - (ii) constitutes the entire agreement between the parties to this Agreement with respect to its subject matter, and
  - (iii) may not be altered or amended, nor may any material provision be waived, except in writing signed by Executive and STT.
- (l) WAIVER: No waiver by any party of any provision (or of a breach of any provision) of this Agreement, whether by conduct or otherwise, in any one or more instances shall be deemed or construed either as a further or continuing waiver of any such provision or breach or as a waiver of any other provision (or of a breach of any other provision) of this Agreement
- (m) CONTROLLING LAW: This Agreement is governed by, and shall be construed and enforced in accordance with, the laws of the State of New Hampshire (except the laws of that jurisdiction

that would render such choice of laws ineffective).

- (n) COPIES: This Agreement may be executed in two or more copies, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement or its terms to produce or account for more than one of such copies.
- (o) COUNTERPARTS: This Agreement may be executed in one or more counterparts (one counterpart reflecting the signatures of all parties), each of which shall be deemed to be an original, and it shall not be necessary in making proof of this Agreement or its terms to account for more than one of such counterparts. This Agreement may be executed by each party upon a separate copy, and one or more execution pages may be detached from one copy of this Agreement and attached to another copy in order to form one or more counterparts.
- (p) RESIGNATIONS: Upon Executive's Termination Date, Executive shall be deemed to have resigned from any and all offices he may have held and from any employment he had with STT, STOC, STP and any and all subsidiaries and affiliates of STT, STOC or STP which were in existence on the Effective Date or which came into existence during the term of this Agreement as set forth in Section 2, above, up to and including the Termination Date.
- (q) INDEPENDENT: The agreements set forth above (or any part of them) are, shall be deemed and shall be construed as separate and independent agreements. If any such agreement or any part of such agreement is held invalid, void or unenforceable by any court or arbitration panel of competent jurisdiction, such holding shall in no way render invalid, void or unenforceable any other part or provision thereof or any separate agreement.

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DULY EXECUTED and delivered by the parties to this Agreement as of the dates set forth below.

Executive:

/s/ Christopher J. Broom

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Name: Christopher J. Broom

Title: Executive Vice President

Date: March 24, 1999

STT:

STRATEGIC TIMBER TRUST, INC.

By: /s/ Joseph E. Rendini

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Name: Joseph E. Rendini

Title: Secretary & VP

Date: 3/24/99

STRATEGIC TIMBER TRUST, INC.  
EMPLOYMENT AND NONCOMPETITION AGREEMENT

Strategic Timber Trust, Inc., a Georgia corporation (hereinafter "STT" or "Employer") and Thomas P. Broom ("Executive") hereby agree as follows:

1. EMPLOYMENT

This Agreement is entered into by STT and Executive in contemplation of a registered initial public offering of STT's common stock ("the IPO"). Executive acknowledges that he has special knowledge, expertise, contacts and other information with respect to the Restricted Business (as defined below), that he will be provided with confidential information (as defined below) and that STT's employment of Executive upon the consummation of the IPO is in consideration of the promises and agreements contained in this Agreement. This Agreement shall govern the employment of Executive as an officer of STT.

2. EFFECTIVENESS OF AGREEMENT; TERM

This Agreement shall become effective on the consummation of the IPO ("the Effective Date"), but shall be void and of no further effect if the IPO has not been consummated by December 31, 1999. The term of Executive's employment pursuant to this Agreement shall be for the period from and including the Effective Date until and including the fourth anniversary of the Effective Date, and for additional, consecutive one-year periods thereafter, all unless earlier terminated as provided in Section 8, below.

3. DUTIES AND RESPONSIBILITIES

During Executive's employment pursuant to this Agreement, Executive shall hold such office or offices as he shall be elected to by the Board of Directors of STT, shall perform the duties of such office or offices pursuant to the direction of the Board of Directors of STT (or any committee thereof) or of the Chief Executive Officer of STT, shall perform such duties to the best of his ability, shall use his good faith efforts to promote the success of the business of STT, shall devote his entire business time to the affairs of STT and shall not engage in any other business activity or occupation during normal business hours for gain, profit, or other pecuniary advantage; provided, however, that the foregoing shall not be construed as preventing Executive from investing or trading for his own benefit or for that of the members of his family in stocks, bonds, securities or other similar forms of investment in public securities markets, serving as a director of another corporation or engaging in any family enterprise or in charitable, civic or other similar pursuits, so long as they do not materially interfere with Executive's performance of his duties under this Agreement.



4. COMPENSATION AND RELATED MATTERS

- (a) BASIC: During the Executive's employment pursuant to this Agreement, STT:
- (i) shall pay Executive a minimum salary of \$ 175,000.00 per annum in accordance with STT's normal and usual payroll schedule ("Salary"), and
  - (ii) shall include Executive in all retirement plans, insurance plans and other fringe benefits and arrangements that may be authorized and adopted for the benefit of executives of STT generally. ("Benefits" ).
- (b) RAISES AND BONUSES: STT's Board of Directors, acting directly or through its Compensation Committee, may, in its sole discretion and for any reason, increase Executive's salary and/or grant Executive additional compensation as a bonus (a "Bonus") .
- (c) VACATIONS, HOLIDAYS AND SICK LEAVE: Executive shall be entitled to vacation, holidays and sick days with pay as determined by STT.
- (d) NO DIVESTMENT: No termination of Executive's employment shall divest Executive of his right to receive all or any unpaid portion or installment of any of his Salary or Bonus to which he is otherwise entitled pursuant to the terms of this Agreement.

5. NONCOMPETITION; NO INTERFERENCE

- (a) CERTAIN DEFINED TERMS: For purposes of this Agreement, the following words and phrases have the meanings set forth below:
- (i) "CUSTOMER" means any purchaser of timber from Employer, and any potential purchaser solicited by Employer, with which Executive had contact during the term of his employment hereunder.
  - (ii) "PROPERTY OWNERS" means persons and entities with whom Employer has contracted for, or with whom Employer has undertaken any phase of negotiation regarding, the acquisition of timberlands, timber

cutting rights, timber deeds, or any other types of property rights, with which Executive had contact during the term of his employment hereunder.

- (iii) "RESTRICTED BUSINESS" means the business of owning timberland, selling or purchasing timberland, and selling timber or cut logs, or any of the foregoing, whether undertaken directly or indirectly.
- (iv) "TERRITORY" means North America, Central America and South America.

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- (v) "RESTRICTED PERIOD" means the period of Executive's employment with STT pursuant to this Agreement (i.e., the period extending from the Effective Date until the Termination Date, as defined in paragraph no. 8(b)(vi), below) plus one year from the Termination Date.
- (vi) "EMPLOYER," for purposes of this Section 5 only, means STT, Strategic Timber Operating Co. ("STOC"), Strategic Timber Partners, LP ("STP") and their subsidiaries and affiliates which were in existence on the Effective Date or which came into existence during the term of this Agreement as set forth in Section 2, above, up to and including the Termination Date.

(b) NONCOMPETITION: During the Restricted Period, Executive shall not, either directly or indirectly:

- (i) have any ownership interest (whether as proprietor, partner, stockholder or otherwise) in, or
- (ii) be an officer, director or general or managing partner of, or hold a similar position in, or
- (iii) act as agent, broker or distributor for, or advisor or consultant to, or
- (iv) be employed in an executive or management position with

any business however organized or conducted which is engaged

or which Executive knows or reasonably should know plans to become engaged in the Restricted Business in the Territory without the permission of the disinterested members of STT's Board of Directors. Further, any ownership interest held by Executive at the time of the execution of this Agreement shall be deemed so permitted. However, notwithstanding any of the foregoing, the ownership by Executive of less than one percent (1%) of the shares of the capital stock of a publicly held entity shall in no event be deemed a violation of any provision of this paragraph.

(c) NO INTERFERENCE WITH CUSTOMERS OR PROPERTY OWNERS: During the Restricted Period, Executive will not in any way, directly or indirectly:

- (i) call upon, compete for, solicit, divert or take away, or attempt to solicit, divert or take away, from Employer the business of any Customer; or
- (ii) attempt or seek to cause any Customer to refrain, in any respect, from doing business with Employer, or intentionally interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between Employer and Customer; or

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- (iii) call upon, compete for, solicit, divert or take away, or attempt to solicit, divert or take away, any pending or contemplated acquisition of timberlands, timber cutting rights, timber deeds, or any other type of property rights, from a Property Owner; or
- (iv) attempt or seek to cause any Property Owner to refrain from consummating any pending or contemplated transaction with Employer, or intentionally interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between Employer and any Property Owner.

(d) NO INTERFERENCE WITH EMPLOYEES. During the Restricted Period, Executive will not in any way, directly or indirectly, request or induce any other employee of Employer to terminate his employment with Employer.

(e) NO EFFECT OF TERMINATION OF EMPLOYMENT. The termination of Executive's employment with STT shall not limit or otherwise

affect the agreements set forth in this Section 5, which shall continue and expressly survive the termination of Executive's employment and this Agreement.

6. RECORDS/NONDISCLOSURE/COMPANY POLICIES

- (a) GENERAL: All records, financial statements and similar documents obtained, reviewed or compiled by Executive as part of the performance of his services for or duties to Employer pursuant to this Agreement shall be the exclusive property of Employer, and Executive shall have no rights in such documents on or after the earlier of Executive's Termination Date (as defined in paragraph no. 8(b)(vi), below) or the last day of the term of this Agreement as set forth in Section 2, above.
- (b) CONFIDENTIAL INFORMATION AND TRADE SECRETS: Executive will not disclose to any person or entity or use for his own benefit or gain, any confidential information or trade secrets of the Employer obtained by him incident to his employment with STT. Executive shall take all reasonable steps to safeguard any confidential information and trade secrets and to protect same against disclosure, misuse, loss or theft. The term "Confidential Information" includes, without limitation, financial information, business plans, prospects and opportunities which have been discussed or considered by the management of Employer, but does not include any information which has become part of the public domain by means other than Executive's failure to observe his obligations hereunder. However, nothing in this paragraph shall be construed as prohibiting, restricting or preventing Executive from making any disclosure required by applicable law, the rules of the New York Stock Exchange or of any other securities market on which STT's securities are listed, or which are otherwise called for in connection with the performance of his duties and responsibilities thereunder or pursuant to this Agreement.

- (c) SURVIVAL: The agreements set forth in this Section 6 shall survive beyond the term of Executive's employment, as set forth in Section 2, above, and shall remain in full force and effect for seven (7) years thereafter.

7. CERTAIN GENERAL PROVISIONS

- (a) REPRESENTATIONS AND WARRANTIES: Executive represents and

warrants to STT:

- (i) that, excluding any statutory or case law generally applicable to all persons or entities, he is not subject to any decision, order, decree or judgment issued by any governmental authority or arbitrator or arbitration panel involving noncompetition, nonsolicitation, rights to inventions, work product or intellectual property;
  - (ii) that he will not use in his employment pursuant to this Agreement, disclose to Employer or induce Employer to use any trade secrets or proprietary or confidential information or materials belonging to others.
- (b) REMEDIES: Any violation of any provision of the foregoing Sections 5 and 6 may cause irreparable harm to Employer, and damages may not be an adequate remedy. Employer shall therefore be entitled to seek injunctive relief from any court of competent jurisdiction in the United States of America enjoining, prohibiting and restraining Executive from the continuance of any such violation. However, should Employer seek injunctive relief in any such court, Executive may then elect to have any or all controversies or claims, including any claim for injunctive relief, arising out of or relating to this Agreement or the breach thereof heard and determined by such court or by any other court of competent jurisdiction in the United States of America or to have any or all such controversies or claims settled by arbitration pursuant to the provisions of paragraph no. 10(b), below.
- (c) NOTICE TO OTHERS: Executive hereby agrees that, notwithstanding any other provision of this Agreement, Employer may disclose the prohibitions contained in Sections 5 and 6 hereof to any person or entity, including one that at the time employs or is considering employing Executive.
- (d) MODIFICATION: Should any provision of the foregoing Section 5 or 6 be deemed too broad to permit enforcement to its full extent, then it shall be enforced to the maximum extent permitted by law, and its scope may be judicially modified accordingly in any proceeding brought to enforce such restriction.

## (a) CERTAIN DEFINED TERMS

- (i) CHANGE OF CONTROL: A "Change of Control" shall be deemed to have occurred when any of the following events occurs:
- (A) Any "person" (other than (1) any employee plan established by STT, (2) STT, (3) an underwriter temporarily holding securities pursuant to an offering of such securities, or (4) a corporation owned, directly or indirectly, by stockholders of STT in substantially the same proportions as their ownership of STT) is or becomes the beneficial owner, directly or indirectly, of securities of STT representing 50% or more of the combined voting power of STT's then outstanding voting securities [as used in this paragraph, "person" shall have the same meaning as that term does as used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")]; or
  - (B) During any period of two consecutive years, individuals who at the beginning of such period constituted the Board and any new director (other than an individual whose nomination for election is in connection with an actual or threatened election contest relating to the election of the directors of STT, as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act) whose appointment, election, or nomination for election by STT's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose appointment, election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board; or
  - (C) There is consummated a merger or consolidation of STT with or into any other corporation or other entity, or a transaction having a similar result or

effect, other than a merger, consolidation, or other transaction which would result in the holders of the voting securities of STT outstanding immediately prior thereto holding securities which represent immediately after such merger or consolidation more than 65% of the combined voting power of the voting securities of either STT or the other entity which survives such merger or consolidation or the parent of the entity which survives such merger or consolidation; or

- (D) There is consummated a sale or disposition by STT of all or substantially all of STT's assets.

- (ii) **DISABILITY:** The term "disabled" and variations of it mean a physical condition of Executive which is of a nature and duration sufficient to require payment under the provisions of STT's long-term disability insurance covering Executive, if such a policy is in effect at the time the disability commences, and, if no such policy is then in effect, a disability determined by a physician mutually agreed upon by STT and the Executive to substantially interfere with the Executive's ability to perform the essential duties of his employment.

- (iii) **FOR CAUSE:** The phrase "for cause" and variations of it mean because of:

- (A) willful failure (other than by reason of disability) to perform any of the duties or to fulfill any of the obligations set forth in the provisions of Sections 3, 5 or 6, above;
- (B) willful failure (other than by reason of disability) to respond to a request by the Board of Directors or Chief Executive Officer of STT which is reasonable in light of Executive's duties as described in Section 3 and of the resources and support

provided to him by Employer after notice and reasonable opportunity to cure or comply;

- (C) willful disclosure to any of Employer's then or prospective competitors of any trade secrets or confidential or proprietary information of Employer; or Executive's giving any such competitor material assistance in the conduct of such competitor's business;
- (D) willfully giving any of Employer's then or prospective competitors material assistance in the conduct of its business;
- (E) willfully engaging in any act that constitutes a material conflict of interest with Employer;
- (F) willful usurpation of a material business opportunity of Employer;
- (G) willful misappropriation of a material amount of Employer's funds or property;
- (H) willfully attempting to secure any personal profit in connection with any transaction entered into on behalf of Employer;
- (I) conviction of or the entering of a guilty plea in any court of competent jurisdiction in the United States of America with respect to fraud, theft, embezzlement or any other felony demonstrated to have a direct, material, adverse financial effect on Employer or on a customer or property owner; or

- (J) conviction of or the entering of a guilty plea in any court of competent jurisdiction in the United States of America with respect to a felony which demonstrably and materially impairs or harms Employer's ability to conduct its business.



(iv) FOR GOOD REASON: For purposes of this Agreement, the phrase "for good reason" and variations of it shall mean because of:

- (A) Employer's assignment of Executive, without his consent, to a position, responsibilities or duties of any materially lesser status or degree of responsibility or authority than his position, responsibilities or duties at the Effective Date; or
- (B) Employer's diminution of, or refusal to pay when due, Executive's Salary under paragraph no. 4(a)(i), above, or any Bonus awarded to Executive under paragraph no. 4(b), above, (provided that, in the case of any such Bonus only, any conditions placed upon the payment of same have been satisfied); or
- (C) Employer's material diminution of the aggregate of Executive's Benefits under paragraph no. 4(a)(ii), above, or of the aggregate of Executive's vacations, holidays and sick leave under paragraph no. 4(c), above;
- (D) Employer's material reduction or diminution of the conditions of Executive's employment including, without limitation, Employer's failure to provide Executive with office, secretarial services and such other facilities and support services as are reasonably appropriate and necessary for the performance of Executive's duties under this Agreement.
- (E) Any Change in Control as defined in paragraph no. 8(a)(i), above.

(b) EVENTS: Executive's employment pursuant to this Agreement shall terminate upon the first to occur of any of the following events:

- (i) TERMINATION BY EXECUTIVE: Executive may terminate his employment pursuant to this Agreement for any reason or "for good reason" (as defined above) upon prior written notice to STT, and such termination shall be effective upon the expiration of the time period in such notice (or such earlier time as STT and Executive may agree). For purposes of this paragraph,

the time period for said prior written notice shall be six months, if said notice is given during the first two years of the term of this Agreement, and ninety days if given thereafter.

- (ii) TERMINATION WITHOUT CAUSE BY STT: STT may terminate Executive's employment pursuant to this Agreement without cause upon prior written notice to Executive, and such termination shall be effective upon the expiration of the time period in such notice (or such earlier time as STT and Executive may agree). For purposes of this paragraph, the time period for said prior written notice shall be six

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months, if said notice is given during the first two years of the term of this Agreement, and ninety days if given thereafter.

- (iii) WITH CAUSE BY STT: STT may immediately terminate Executive's employment pursuant to this Agreement for cause upon written notice to Executive, and such termination shall be effective upon the giving of such notice.
- (iv) TERMINATION ON ACCOUNT OF DEATH OR DISABILITY: Upon the death or disability of Executive, Executive's employment pursuant to this Agreement shall terminate, and such termination shall be effective on the date upon which the death or disability of executive occurs.
- (v) NON-RENEWAL OF TERM: Should Executive give STT written notice at least thirty (30) days prior to the expiration of either the original four-year term of his employment or any of the subsequent, consecutive one-year terms set forth in Section 2, above, Executive's employment pursuant to this Agreement shall terminate upon the last day of said term and such termination shall be effective on said day.
- (vi) "TERMINATION DATE" means the date upon which Executive's termination becomes effective.

- (c) TERMINATION PAY: Effective upon the termination of Executive's

employment pursuant to this Agreement, STT shall be obligated to pay Executive (or in the event of his death, his estate, or in the event a personal representative is appointed, his personal representative) only such compensation as is provided in this paragraph no. 8(c). ("Termination Pay"):

- (i) COMPENSATION UPON TERMINATION BY EXECUTIVE OTHER THAN FOR GOOD REASON: If Executive terminates his employment pursuant to this Agreement other than for good reason, then STT shall pay Executive all his compensation owed him under Section 4, above, through and including the Termination Date only.
- (ii) COMPENSATION UPON TERMINATION BY STT WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD REASON: If STT terminates Executive's employment pursuant to this Agreement without cause, or if Executive terminates said employment for good reason, then STT shall pay Executive (A) his Salary for the remainder of the Restricted Period, at the rate at which it was paid at the Termination Date, and (B) an amount equal to either (i) the amount of his target Bonus in respect of the fiscal year in which the Termination Date occurs, if the amount of such target Bonus has been established as of the Termination Date, or (ii) if the amount of such target Bonus has not been determined as of the Termination Date, the amount of the Bonus he received in respect of the immediately preceding fiscal year, and STT shall continue to provide Executive with the medical Benefits he received as of the Termination Date through the last day of the Restricted Period only.

- (iii) COMPENSATION UPON TERMINATION BY STT FOR CAUSE: If STT terminates Executive's employment pursuant to this Agreement for cause, then STT shall pay Executive all his compensation owed him under Section 4, above, through and including the Termination Date only.
- (iv) COMPENSATION UPON TERMINATION BY DEATH OR DISABILITY: If Executive's employment pursuant to this Agreement is terminated by reason of the death or disability of Executive, then STT shall pay Executive or his

estate, as appropriate, all his compensation owed him under Section 4, above, through and including the Termination Date only.

(v) COMPENSATION UPON NON-RENEWAL OF TERM: If Executive's employment is terminated by non-renewal of its term under paragraph no. 8(b)(v), above, STT shall, in its sole discretion, determine whether Executive shall thereafter be subject to the restrictions set forth in paragraphs nos. 5(b), 5(c) and 5(d), above, for a period of up to but not exceeding one (1) year from the Termination Date. If STT determines that Executive shall be subject to said restrictions, then it shall pay him as if he were terminated without good cause or for good reason as specified in paragraph no. 8(b)(ii), above, during whatever period STT determines said restrictions shall apply. If STT determines that Executive shall not be subject to any such restrictions, then it shall pay him all his compensation owed him under Section 4, above, through and including the Termination Date only.

(vi) AWARDS UNDER STT INCENTIVE PLANS: Executive shall receive all rights and benefits granted to Executive under STT's 1999 Omnibus Incentive Plan and any other incentive plans of STT in which Executive participates, and any agreements with Executive pursuant thereto. The vesting and exercise of any stock options and the forfeitability of any stock-based grants held by Executive shall be governed by the terms of such plans and the related agreements between Executive and STT rather than this Agreement.

(d) TIMING OF TERMINATION PAY:

(i) FOR GOOD REASON: If Executive terminates his employment pursuant to this Agreement for Good Reason (except for any Change in Control, in which case the provisions of the following paragraph shall control) or Executive's employment hereunder is terminated by reason of death, then the full amount of any Termination Pay owed to Executive or his estate pursuant to the provisions of this Section shall become due and payable upon the Termination Date. Employer shall make payment at the time(s) and in the manner(s) specified by Executive, or by the executor of his estate, as appropriate, in written notice to Employer. Executive, or the executor of his estate, as appropriate, shall have the right to specify whether payment of the Termination Pay shall be made

in whole or in part, and the specification of the payment of any part shall not waive or limit Executive's or his estate's right to receive the remainder of the whole.

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(ii) FOR OTHER REASON: If Executive or STT terminates his employment pursuant to this Agreement for any reason other than than set forth in the preceding paragraph, then any Termination Pay owed to Executive or to his estate shall be paid in accordance with STT's normal payroll schedule.

(e) RELEASE AND WAIVER OF OTHER CAUSES OF ACTION: Payment by STT of the full amount of any Termination Pay owed Executive pursuant to this Agreement shall be made promptly by STT upon receipt of a full and final release and waiver by Executive, in form and substance reasonably satisfactory to STT, of any and every claim and cause of action which Executive may have against STT, STOC, STP or any of their affiliates and subsidiaries arising out of or relating to his employment pursuant to this Agreement, whether such action is at equity or common law or arises out of any federal, state or local statute or regulation (including, but not limited to, the termination of such employment. Further, as long as STT makes timely payment of any portions or installments of Executive's Termination Pay pursuant to the provisions of paragraph no. 8(d), above, Executive shall not commence any such claim or action in any court or before any administrative body or arbitration panel. However, nothing in this paragraph shall be construed to limit Executive's right to bring an action arising out of the breach of any provision of this Agreement in any appropriate court or before any appropriate arbitration panel, consistent with the terms otherwise set forth herein.

## 9. LITIGATION AND REGULATORY COOPERATION AFTER TERMINATION

(a) EXTENT OF COOPERATION: After the termination of Executive's employment hereunder, Executive shall reasonably cooperate with STT in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of STT and which relate to events or occurrences that transpired while Executive was employed by STT, but if and only if such cooperation shall not materially and adversely affect Executive or expose Executive to an

increased probability of civil or criminal litigation. Executive's cooperation in connection with such claims or action shall include being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of STT at mutually convenient times. After Executive's employment, Executive also shall cooperate fully with STT in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while Executive was employed by STT, but if and only if such cooperation shall not materially and adversely affect Executive or expose Executive to an increased probability of civil or criminal litigation. However, notwithstanding any of the foregoing, nothing in this paragraph shall be construed to require Executive to cooperate or provide any services to, on or on behalf of STT in excess of four (4) hours in any one day or for a total of more than twenty (20) hours, nor to require Executive to travel more than fifty (50) miles from his home in order to render such cooperation, nor to provide any cooperation under this paragraph after seven (7) years from Executive's Termination Date.

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- (b) COMPENSATION FOR COOPERATION: STT shall compensate Executive for all cooperation or other services rendered pursuant to this Section 9 by paying him the greater of (i) a sum equal to all of his lost salary, earnings and profits attributable to his provision of such cooperation and services, or (ii) compensation on an hourly basis calculated at his final hourly Salary rate. STT shall also reimburse Executive for all costs and expenses incurred in connection with his performance under this Section 9, including, without limitation, all reasonable attorneys' fees and costs.

#### 10. MISCELLANEOUS

- (a) GOOD FAITH EFFORTS; FURTHER ASSURANCES; COOPERATION: The parties shall in good faith undertake to perform their agreements in this Agreement, to satisfy all conditions and to cause the purposes of this Agreement to be accomplished promptly in accordance with its terms.
- (b) ARBITRATION: Any controversy or claim arising out of or relating to this Agreement or the breach thereof not subject to paragraph no. 7(b), above, shall be settled by arbitration

in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Said arbitration shall be before a panel of three arbitrators. Executive shall choose one arbitrator, STT shall choose one arbitrator and the two arbitrators so chosen shall choose the third arbitrator. Said arbitration shall take place in the state of New Hampshire within sixty days of notice by one party to the other, unless they shall mutually agree to a longer or shorter time. Judgment upon the award rendered by the panel may be entered by any court of competent jurisdiction. Executive and STT shall each pay fifty percent (50%) of the panel's fees. The panel shall award reasonable interest, attorneys' fees and costs to the prevailing party but shall have no power to award punitive damages.

- (c) NOTICES: Each notice, communication and delivery under this Agreement:
- (i) shall be made in writing signed by the party giving it;
  - (ii) shall specify the section of this Agreement pursuant to which it is given;
  - (iii) shall either be delivered in person, by any form of United States Mail if a return receipt is provided therewith, by telecopier or by a nationally recognized next business day delivery service (such as Federal Express, United Parcel Service, DHL or any other similar delivery service provider);
  - (iv) shall be given to the address specified below;
  - (v) shall be deemed to be given:
    - (A) if delivered in person, on the date delivered, or

- (B) if sent by telecopier, on the date of confirmation of receipt, by telephone or otherwise, or
- (C) if sent by a nationally recognized next business day courier service with all costs

paid, on the date of confirmation of receipt.

The addresses are as follows:

If to Executive, to:

Thomas P. Broom  
101 Mountain Road  
New London, NH 03257  
Telecopier:  
Confirm: (603) 529-5854

If to STT:

Strategic Timber Trust, Inc.  
5 North Pleasant Street  
New London, New Hampshire 03257  
Attn: Secretary  
Telecopier: 603/526-7811  
Confirm: 603/526-7800

Such notice shall be given to such other representatives or at such other addresses as a party may furnish to the other parties pursuant to the foregoing. If notice is given pursuant to this Section of a permitted successor or assign of a party, then notice shall thereafter be given as set forth above also to such successor or assign of such party.

- (d) COMPUTATION OF TIME: Whenever the last day for the exercise of any privilege or the discharge of any duty under this Agreement shall fall upon Saturday, Sunday or any public or legal holiday, whether federal or of a state in which the person or entity having such privilege or duty resides or has its principal place of business, the party to this Agreement having such privilege or duty shall have until 5:00 p.m. (Eastern time) on the next succeeding regular business day to exercise such privilege or to discharge such duty.

- (e) ASSIGNMENT; SUCCESSOR IN INTEREST:

- (i) BY STT: Except with the prior written consent of Executive, no assignment, transfer or delegation by STT of any of its rights and obligations under this Agreement may be made to any other entity, except that STT may make any such assignment, transfer or delegation:

- (A) to STOC or STP or any of STT's affiliates or subsidiaries; and



- (B) if STT is merged into or acquired by another business entity such that there is a Change in Control, to the business entity into which STT is merged or by which it is acquired.
- (ii) BY EXECUTIVE: Executive (or, under appropriate circumstances, the executor of Executive's estate) may transfer or assign any of his rights to receive Executive's Total Compensation or any component of Executive's Total Compensation, in whole or in part, to any of Executive's heirs, devisees, legatees or beneficiaries upon written notice to STT. No other transfer or assignment may be made to any party by Executive of any of his rights or obligations under this Agreement.
- (f) BINDING NATURE: This Agreement shall be binding upon the parties to this Agreement and their respective legal representatives, heirs, devisees, legatees, beneficiaries and successors and assigns; shall inure to the benefit of the parties to this Agreement and their respective permitted legal representatives, heirs, devisees, legatees, beneficiaries and other permitted successors and assigns (and to or for the benefit of no other person or entity, whether an employee or otherwise, whatsoever); and upon a permitted assignment, any reference to a party to this Agreement shall also be a reference to a permitted successor or assign.
- (g) REMEDIES CUMULATIVE: The rights and remedies specified in any provision of this Agreement shall be in addition to all other rights and remedies a party may have under any other agreement or applicable law, including any right to equitable relief and any right to sue for damages as a result of a breach of this Agreement (whether or not it elects to terminate this Agreement), and all such rights and remedies shall be cumulative.
- (h) DEFENSE/INDEMNIFICATION/HOLD HARMLESS: STT shall, to the greatest extent allowed by applicable law, provide Executive a defense, indemnify Executive and hold Executive harmless from any civil or criminal claim, award or judgment which arises out of Executive's acts performed or omissions committed in the course of, or which Executive reasonably believed he

performed or committed in the course of, the performance of his duties pursuant to this Agreement. However, nothing in this paragraph shall require STT to provide Executive a defense, indemnify Executive or hold Executive harmless from any such claim, award or judgment which arises out of any such act or omission which, at the time of same, Executive knew or reasonably should have known constituted cause for termination as set forth in paragraph no. 8(a)(iii), above.

- (i) INSURANCE: STT shall cause Executive to appear as an additional named insured on any policy of Directors' and Officers' Liability Insurance which STT procures on behalf of itself and/or on behalf of any of its Executive Officers. Should Executive not appear as an additional named insured on any such policy, STT shall be liable to Executive for the full amount of insurance coverage which Executive would have had pursuant to such policy had STT fulfilled its obligation under this paragraph.

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- (j) EXPENSES OF ENFORCING THIS AGREEMENT: Subject to the provisions of paragraph no. 10(b), above, any expense incurred in enforcing any or all of the provisions of this Agreement shall be reimbursed to the prevailing party.
- (k) INTEGRATION; AMENDMENT: This Agreement:
  - (i) supersedes all prior negotiations, agreements and understandings between the parties to this Agreement with respect to its subject matter, and
  - (ii) constitutes the entire agreement between the parties to this Agreement with respect to its subject matter, and
  - (iii) may not be altered or amended, nor may any material provision be waived, except in writing signed by Executive and STT.
- (l) WAIVER: No waiver by any party of any provision (or of a breach of any provision) of this Agreement, whether by conduct or otherwise, in any one or more instances shall be deemed or construed either as a further or continuing waiver of any such provision or breach or as a waiver of any other provision (or of a breach of any other provision) of this Agreement

- (m) CONTROLLING LAW: This Agreement is governed by, and shall be construed and enforced in accordance with, the laws of the State of New Hampshire (except the laws of that jurisdiction that would render such choice of laws ineffective).
- (n) COPIES: This Agreement may be executed in two or more copies, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement or its terms to produce or account for more than one of such copies.
- (o) COUNTERPARTS: This Agreement may be executed in one or more counterparts (one counterpart reflecting the signatures of all parties), each of which shall be deemed to be an original, and it shall not be necessary in making proof of this Agreement or its terms to account for more than one of such counterparts. This Agreement may be executed by each party upon a separate copy, and one or more execution pages may be detached from one copy of this Agreement and attached to another copy in order to form one or more counterparts.
- (p) RESIGNATIONS: Upon Executive's Termination Date, Executive shall be deemed to have resigned from any and all offices he may have held and from any employment he had with STT, STOC, STP and any and all subsidiaries and affiliates of STT, STOC or STP which were in existence on the Effective Date or which came into existence during the term of this Agreement as set forth in Section 2, above, up to and including the Termination Date.

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- (q) INDEPENDENT: The agreements set forth above (or any part of them) are, shall be deemed and shall be construed as separate and independent agreements. If any such agreement or any part of such agreement is held invalid, void or unenforceable by any court or arbitration panel of competent jurisdiction, such holding shall in no way render invalid, void or unenforceable any other part or provision thereof or any separate agreement.

DULY EXECUTED and delivered by the parties to this Agreement as of the dates set forth below.

Executive:

/s/ Thomas P. Broom

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Name: Thomas P. Broom  
Title: EVP  
Date: 3/24/99

STT:

STRATEGIC TIMBER TRUST, INC.

By: /s/ Joseph E. Rendini

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Name: Joseph E. Rendini  
Title: Secretary and Vice President  
Date: 3/24/99

STRATEGIC TIMBER TRUST, INC.  
EMPLOYMENT AND NONCOMPETITION AGREEMENT

Strategic Timber Trust, Inc., a Georgia corporation (hereinafter "STT" or "Employer") and Kenneth L. Chute ("Executive") hereby agree as follows:

1. EMPLOYMENT

This Agreement is entered into by STT and Executive in contemplation of a registered initial public offering of STT's common stock ("the IPO"). Executive acknowledges that he has special knowledge, expertise, contacts and other information with respect to the Restricted Business (as defined below), that he will be provided with confidential information (as defined below) and that STT's employment of Executive upon the consummation of the IPO is in consideration of the promises and agreements contained in this Agreement. This Agreement shall govern the employment of Executive as an officer of STT.

2. EFFECTIVENESS OF AGREEMENT; TERM

This Agreement shall become effective on the consummation of the IPO ("the Effective Date"), but shall be void and of no further effect if the IPO has not been consummated by December 31, 1999. The term of Executive's employment pursuant to this Agreement shall be for the period from and including the Effective Date until and including the fourth anniversary of the Effective Date, and for additional, consecutive one-year periods thereafter, all unless earlier terminated as provided in Section 8, below.

3. DUTIES AND RESPONSIBILITIES

During Executive's employment pursuant to this Agreement, Executive shall hold such office or offices as he shall be elected to by the Board of Directors of STT, shall perform the duties of such office or offices pursuant to the direction of the Board of Directors of STT (or any committee thereof) or of the Chief Executive Officer of STT, shall perform such duties to the best of his ability, shall use his good faith efforts to promote the success of the business of STT, shall devote his entire business time to the affairs of STT and shall not engage in any other business activity or occupation during normal business hours for gain, profit, or other pecuniary advantage; provided, however, that the foregoing shall not be construed as preventing Executive from investing or trading for his own benefit or for that of the members of his family in stocks, bonds, securities or other similar forms of investment in public securities markets, serving as a director of another corporation or engaging in any family enterprise or in charitable, civic or other similar pursuits, so long as they do not materially interfere with Executive's performance of his duties under this Agreement.

4. COMPENSATION AND RELATED MATTERS

- (a) BASIC: During the Executive's employment pursuant to this Agreement, STT:
  - (i) shall pay Executive a minimum salary of \$ 150,000.00 per annum in accordance with STT's normal and usual payroll schedule ("Salary"), and
  - (ii) shall include Executive in all retirement plans, insurance plans and other fringe benefits and arrangements that may be authorized and adopted for the benefit of executives of STT generally. ("Benefits").
- (b) RAISES AND BONUSES: STT's Board of Directors, acting directly or through its Compensation Committee, may, in its sole discretion and for any reason, increase Executive's salary and/or grant Executive additional compensation as a bonus (a "Bonus") .
- (c) VACATIONS, HOLIDAYS AND SICK LEAVE: Executive shall be entitled to vacation, holidays and sick days with pay as determined by STT.
- (d) NO DIVESTMENT: No termination of Executive's employment shall divest Executive of his right to receive all or any unpaid portion or installment of any of his Salary or Bonus to which he is otherwise entitled pursuant to the terms of this Agreement.

5. NONCOMPETITION; NO INTERFERENCE

- (a) CERTAIN DEFINED TERMS: For purposes of this Agreement, the following words and phrases have the meanings set forth below:
  - (i) "CUSTOMER" means any purchaser of timber from Employer, and any potential purchaser solicited by Employer, with which Executive had contact during the term of his employment hereunder.
  - (ii) "PROPERTY OWNERS" means persons and entities with whom Employer has contracted for, or with whom Employer has undertaken any phase of negotiation regarding, the acquisition of timberlands, timber

cutting rights, timber deeds, or any other types of property rights, with which Executive had contact during the term of his employment hereunder.

- (iii) "RESTRICTED BUSINESS" means the business of owning timberland, selling or purchasing timberland, and selling timber or cut logs, or any of the foregoing, whether undertaken directly or indirectly.
- (iv) "TERRITORY" means North America, Central America and South America.

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- (v) "RESTRICTED PERIOD" means the period of Executive's employment with STT pursuant to this Agreement (i.e., the period extending from the Effective Date until the Termination Date, as defined in paragraph no. 8(b)(vi), below) plus one year from the Termination Date.
- (vi) "EMPLOYER," for purposes of this Section 5 only, means STT, Strategic Timber Operating Co. ("STOC"), Strategic Timber Partners, LP ("STP") and their subsidiaries and affiliates which were in existence on the Effective Date or which came into existence during the term of this Agreement as set forth in Section 2, above, up to and including the Termination Date.

(b) NONCOMPETITION: During the Restricted Period, Executive shall not, either directly or indirectly:

- (i) have any ownership interest (whether as proprietor, partner, stockholder or otherwise) in, or
- (ii) be an officer, director or general or managing partner of, or hold a similar position in, or
- (iii) act as agent, broker or distributor for, or advisor or consultant to, or
- (iv) be employed in an executive or management position with

any business however organized or conducted which is engaged

or which Executive knows or reasonably should know plans to become engaged in the Restricted Business in the Territory without the permission of the disinterested members of STT's Board of Directors. Further, any ownership interest held by Executive at the time of the execution of this Agreement shall be deemed so permitted. However, notwithstanding any of the foregoing, the ownership by Executive of less than one percent (1%) of the shares of the capital stock of a publicly held entity shall in no event be deemed a violation of any provision of this paragraph.

(c) NO INTERFERENCE WITH CUSTOMERS OR PROPERTY OWNERS: During the Restricted Period, Executive will not in any way, directly or indirectly:

- (i) call upon, compete for, solicit, divert or take away, or attempt to solicit, divert or take away, from Employer the business of any Customer; or
- (ii) attempt or seek to cause any Customer to refrain, in any respect, from doing business with Employer, or intentionally interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between Employer and Customer; or

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- (iii) call upon, compete for, solicit, divert or take away, or attempt to solicit, divert or take away, any pending or contemplated acquisition of timberlands, timber cutting rights, timber deeds, or any other type of property rights, from a Property Owner; or
- (iv) attempt or seek to cause any Property Owner to refrain from consummating any pending or contemplated transaction with Employer, or intentionally interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between Employer and any Property Owner.

(d) NO INTERFERENCE WITH EMPLOYEES. During the Restricted Period, Executive will not in any way, directly or indirectly, request or induce any other employee of Employer to terminate his employment with Employer.

(e) NO EFFECT OF TERMINATION OF EMPLOYMENT. The termination of



Executive's employment with STT shall not limit or otherwise affect the agreements set forth in this Section 5, which shall continue and expressly survive the termination of Executive's employment and this Agreement.

6. RECORDS/NONDISCLOSURE/COMPANY POLICIES

- (a) GENERAL: All records, financial statements and similar documents obtained, reviewed or compiled by Executive as part of the performance of his services for or duties to Employer pursuant to this Agreement shall be the exclusive property of Employer, and Executive shall have no rights in such documents on or after the earlier of Executive's Termination Date (as defined in paragraph no. 8(b)(vi), below) or the last day of the term of this Agreement as set forth in Section 2, above.
- (b) CONFIDENTIAL INFORMATION AND TRADE SECRETS: Executive will not disclose to any person or entity or use for his own benefit or gain, any confidential information or trade secrets of the Employer obtained by him incident to his employment with STT. Executive shall take all reasonable steps to safeguard any confidential information and trade secrets and to protect same against disclosure, misuse, loss or theft. The term "Confidential Information" includes, without limitation, financial information, business plans, prospects and opportunities which have been discussed or considered by the management of Employer, but does not include any information which has become part of the public domain by means other than Executive's failure to observe his obligations hereunder. However, nothing in this paragraph shall be construed as prohibiting, restricting or preventing Executive from making any disclosure required by applicable law, the rules of the New York Stock Exchange or of any other securities market on which STT's securities are listed, or which are otherwise called for in connection with the performance of his duties and responsibilities thereunder or pursuant to this Agreement.

- (c) SURVIVAL: The agreements set forth in this Section 6 shall survive beyond the term of Executive's employment, as set forth in Section 2, above, and shall remain in full force and effect for seven (7) years thereafter.

7. CERTAIN GENERAL PROVISIONS

- (a) REPRESENTATIONS AND WARRANTIES: Executive represents and

warrants to STT:

- (i) that, excluding any statutory or case law generally applicable to all persons or entities, he is not subject to any decision, order, decree or judgment issued by any governmental authority or arbitrator or arbitration panel involving noncompetition, nonsolicitation, rights to inventions, work product or intellectual property;
  - (ii) that he will not use in his employment pursuant to this Agreement, disclose to Employer or induce Employer to use any trade secrets or proprietary or confidential information or materials belonging to others.
- (b) REMEDIES: Any violation of any provision of the foregoing Sections 5 and 6 may cause irreparable harm to Employer, and damages may not be an adequate remedy. Employer shall therefore be entitled to seek injunctive relief from any court of competent jurisdiction in the United States of America enjoining, prohibiting and restraining Executive from the continuance of any such violation. However, should Employer seek injunctive relief in any such court, Executive may then elect to have any or all controversies or claims, including any claim for injunctive relief, arising out of or relating to this Agreement or the breach thereof heard and determined by such court or by any other court of competent jurisdiction in the United States of America or to have any or all such controversies or claims settled by arbitration pursuant to the provisions of paragraph no. 10(b), below.
- (c) NOTICE TO OTHERS: Executive hereby agrees that, notwithstanding any other provision of this Agreement, Employer may disclose the prohibitions contained in Sections 5 and 6 hereof to any person or entity, including one that at the time employs or is considering employing Executive.
- (d) MODIFICATION: Should any provision of the foregoing Section 5 or 6 be deemed too broad to permit enforcement to its full extent, then it shall be enforced to the maximum extent permitted by law, and its scope may be judicially modified accordingly in any proceeding brought to enforce such restriction.

## (a) CERTAIN DEFINED TERMS

- (i) CHANGE OF CONTROL: A "Change of Control" shall be deemed to have occurred when any of the following events occurs:
- (A) Any "person" (other than (1) any employee plan established by STT, (2) STT, (3) an underwriter temporarily holding securities pursuant to an offering of such securities, or (4) a corporation owned, directly or indirectly, by stockholders of STT in substantially the same proportions as their ownership of STT) is or becomes the beneficial owner, directly or indirectly, of securities of STT representing 50% or more of the combined voting power of STT's then outstanding voting securities [as used in this paragraph, "person" shall have the same meaning as that term does as used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")]; or
  - (B) During any period of two consecutive years, individuals who at the beginning of such period constituted the Board and any new director (other than an individual whose nomination for election is in connection with an actual or threatened election contest relating to the election of the directors of STT, as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act) whose appointment, election, or nomination for election by STT's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose appointment, election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board; or
  - (C) There is consummated a merger or consolidation of STT with or into any other corporation or other entity, or a transaction having a similar result or

effect, other than a merger, consolidation, or other transaction which would result in the holders of the voting securities of STT outstanding immediately prior thereto holding securities which represent immediately after such merger or consolidation more than 65% of the combined voting power of the voting securities of either STT or the other entity which survives such merger or consolidation or the parent of the entity which survives such merger or consolidation; or

- (D) There is consummated a sale or disposition by STT of all or substantially all of STT's assets.

- (ii) **DISABILITY:** The term "disabled" and variations of it mean a physical condition of Executive which is of a nature and duration sufficient to require payment under the provisions of STT's long-term disability insurance covering Executive, if such a policy is in effect at the time the disability commences, and, if no such policy is then in effect, a disability determined by a physician mutually agreed upon by STT and the Executive to substantially interfere with the Executive's ability to perform the essential duties of his employment.

- (iii) **FOR CAUSE:** The phrase "for cause" and variations of it mean because of:

- (A) willful failure (other than by reason of disability) to perform any of the duties or to fulfill any of the obligations set forth in the provisions of Sections 3, 5 or 6, above;
- (B) willful failure (other than by reason of disability) to respond to a request by the Board of Directors or Chief Executive Officer of STT which is reasonable in light of Executive's duties as described in Section 3 and of the resources and support

provided to him by Employer after notice and reasonable opportunity to cure or comply;

- (C) willful disclosure to any of Employer's then or prospective competitors of any trade secrets or confidential or proprietary information of Employer; or Executive's giving any such competitor material assistance in the conduct of such competitor's business;
- (D) willfully giving any of Employer's then or prospective competitors material assistance in the conduct of its business;
- (E) willfully engaging in any act that constitutes a material conflict of interest with Employer;
- (F) willful usurpation of a material business opportunity of Employer;
- (G) willful misappropriation of a material amount of Employer's funds or property;
- (H) willfully attempting to secure any personal profit in connection with any transaction entered into on behalf of Employer;
- (I) conviction of or the entering of a guilty plea in any court of competent jurisdiction in the United States of America with respect to fraud, theft, embezzlement or any other felony demonstrated to have a direct, material, adverse financial effect on Employer or on a customer or property owner; or

- (J) conviction of or the entering of a guilty plea in any court of competent jurisdiction in the United States of America with respect to a felony which demonstrably and materially impairs or harms Employer's ability to conduct its business.

(iv) FOR GOOD REASON: For purposes of this Agreement, the phrase "for good reason" and variations of it shall mean because of:

- (A) Employer's assignment of Executive, without his consent, to a position, responsibilities or duties of any materially lesser status or degree of responsibility or authority than his position, responsibilities or duties at the Effective Date; or
- (B) Employer's diminution of, or refusal to pay when due, Executive's Salary under paragraph no. 4(a)(i), above, or any Bonus awarded to Executive under paragraph no. 4(b), above, (provided that, in the case of any such Bonus only, any conditions placed upon the payment of same have been satisfied); or
- (C) Employer's material diminution of the aggregate of Executive's Benefits under paragraph no. 4(a)(ii), above, or of the aggregate of Executive's vacations, holidays and sick leave under paragraph no. 4(c), above;
- (D) Employer's material reduction or diminution of the conditions of Executive's employment including, without limitation, Employer's failure to provide Executive with office, secretarial services and such other facilities and support services as are reasonably appropriate and necessary for the performance of Executive's duties under this Agreement.
- (E) Any Change in Control as defined in paragraph no. 8(a)(i), above.

(b) EVENTS: Executive's employment pursuant to this Agreement shall terminate upon the first to occur of any of the following events:

- (i) TERMINATION BY EXECUTIVE: Executive may terminate his employment pursuant to this Agreement for any reason or "for good reason" (as defined above) upon prior written notice to STT, and such termination shall be effective upon the expiration of the time period in such notice (or such earlier time as STT and Executive may agree). For purposes of this paragraph,

the time period for said prior written notice shall be six months, if said notice is given during the first two years of the term of this Agreement, and ninety days if given thereafter.

- (ii) TERMINATION WITHOUT CAUSE BY STT: STT may terminate Executive's employment pursuant to this Agreement without cause upon prior written notice to Executive, and such termination shall be effective upon the expiration of the time period in such notice (or such earlier time as STT and Executive may agree). For purposes of this paragraph, the time period for said prior written notice shall be six

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months, if said notice is given during the first two years of the term of this Agreement, and ninety days if given thereafter.

- (iii) WITH CAUSE BY STT: STT may immediately terminate Executive's employment pursuant to this Agreement for cause upon written notice to Executive, and such termination shall be effective upon the giving of such notice.
- (iv) TERMINATION ON ACCOUNT OF DEATH OR DISABILITY: Upon the death or disability of Executive, Executive's employment pursuant to this Agreement shall terminate, and such termination shall be effective on the date upon which the death or disability of executive occurs.
- (v) NON-RENEWAL OF TERM: Should Executive give STT written notice at least thirty (30) days prior to the expiration of either the original four-year term of his employment or any of the subsequent, consecutive one-year terms set forth in Section 2, above, Executive's employment pursuant to this Agreement shall terminate upon the last day of said term and such termination shall be effective on said day.
- (vi) "TERMINATION DATE" means the date upon which Executive's termination becomes effective.

- (c) TERMINATION PAY: Effective upon the termination of Executive's

employment pursuant to this Agreement, STT shall be obligated to pay Executive (or in the event of his death, his estate, or in the event a personal representative is appointed, his personal representative) only such compensation as is provided in this paragraph no. 8(c). ("Termination Pay"):

- (i) COMPENSATION UPON TERMINATION BY EXECUTIVE OTHER THAN FOR GOOD REASON: If Executive terminates his employment pursuant to this Agreement other than for good reason, then STT shall pay Executive all his compensation owed him under Section 4, above, through and including the Termination Date only.
- (ii) COMPENSATION UPON TERMINATION BY STT WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD REASON: If STT terminates Executive's employment pursuant to this Agreement without cause, or if Executive terminates said employment for good reason, then STT shall pay Executive (A) his Salary for the remainder of the Restricted Period, at the rate at which it was paid at the Termination Date, and (B) an amount equal to either (i) the amount of his target Bonus in respect of the fiscal year in which the Termination Date occurs, if the amount of such target Bonus has been established as of the Termination Date, or (ii) if the amount of such target Bonus has not been determined as of the Termination Date, the amount of the Bonus he received in respect of the immediately preceding fiscal year, and STT shall continue to provide Executive with the medical Benefits he received as of the Termination Date through the last day of the Restricted Period only.

- (iii) COMPENSATION UPON TERMINATION BY STT FOR CAUSE: If STT terminates Executive's employment pursuant to this Agreement for cause, then STT shall pay Executive all his compensation owed him under Section 4, above, through and including the Termination Date only.
- (iv) COMPENSATION UPON TERMINATION BY DEATH OR DISABILITY: If Executive's employment pursuant to this Agreement is terminated by reason of the death or disability of Executive, then STT shall pay Executive or his



estate, as appropriate, all his compensation owed him under Section 4, above, through and including the Termination Date only.

(v) COMPENSATION UPON NON-RENEWAL OF TERM: If Executive's employment is terminated by non-renewal of its term under paragraph no. 8(b)(v), above, STT shall, in its sole discretion, determine whether Executive shall thereafter be subject to the restrictions set forth in paragraphs nos. 5(b), 5(c) and 5(d), above, for a period of up to but not exceeding one (1) year from the Termination Date. If STT determines that Executive shall be subject to said restrictions, then it shall pay him as if he were terminated without good cause or for good reason as specified in paragraph no. 8(b)(ii), above, during whatever period STT determines said restrictions shall apply. If STT determines that Executive shall not be subject to any such restrictions, then it shall pay him all his compensation owed him under Section 4, above, through and including the Termination Date only.

(vi) AWARDS UNDER STT INCENTIVE PLANS: Executive shall receive all rights and benefits granted to Executive under STT's 1999 Omnibus Incentive Plan and any other incentive plans of STT in which Executive participates, and any agreements with Executive pursuant thereto. The vesting and exercise of any stock options and the forfeitability of any stock-based grants held by Executive shall be governed by the terms of such plans and the related agreements between Executive and STT rather than this Agreement.

(d) TIMING OF TERMINATION PAY:

(i) FOR GOOD REASON: If Executive terminates his employment pursuant to this Agreement for Good Reason (except for any Change in Control, in which case the provisions of the following paragraph shall control) or Executive's employment hereunder is terminated by reason of death, then the full amount of any Termination Pay owed to Executive or his estate pursuant to the provisions of this Section shall become due and payable upon the Termination Date. Employer shall make payment at the time(s) and in the manner(s) specified by Executive, or by the executor of his estate, as appropriate, in written notice to Employer. Executive, or the executor of his estate, as appropriate, shall have the right to specify whether payment of the Termination Pay shall be made

in whole or in part, and the specification of the payment of any part shall not waive or limit Executive's or his estate's right to receive the remainder of the whole.

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(ii) FOR OTHER REASON: If Executive or STT terminates his employment pursuant to this Agreement for any reason other than set forth in the preceding paragraph, then any Termination Pay owed to Executive or to his estate shall be paid in accordance with STT's normal payroll schedule.

(e) RELEASE AND WAIVER OF OTHER CAUSES OF ACTION: Payment by STT of the full amount of any Termination Pay owed Executive pursuant to this Agreement shall be made promptly by STT upon receipt of a full and final release and waiver by Executive, in form and substance reasonably satisfactory to STT, of any and every claim and cause of action which Executive may have against STT, STOC, STP or any of their affiliates and subsidiaries arising out of or relating to his employment pursuant to this Agreement, whether such action is at equity or common law or arises out of any federal, state or local statute or regulation (including, but not limited to, the termination of such employment. Further, as long as STT makes timely payment of any portions or installments of Executive's Termination Pay pursuant to the provisions of paragraph no. 8(d), above, Executive shall not commence any such claim or action in any court or before any administrative body or arbitration panel. However, nothing in this paragraph shall be construed to limit Executive's right to bring an action arising out of the breach of any provision of this Agreement in any appropriate court or before any appropriate arbitration panel, consistent with the terms otherwise set forth herein.

## 9. LITIGATION AND REGULATORY COOPERATION AFTER TERMINATION

(a) EXTENT OF COOPERATION: After the termination of Executive's employment hereunder, Executive shall reasonably cooperate with STT in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of STT and which relate to events or occurrences that transpired while Executive was employed by STT, but if and only if such cooperation shall not materially and adversely affect Executive or expose Executive to an increased probability of civil or criminal litigation.

Executive's cooperation in connection with such claims or action shall include being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of STT at mutually convenient times. After Executive's employment, Executive also shall cooperate fully with STT in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while Executive was employed by STT, but if and only if such cooperation shall not materially and adversely affect Executive or expose Executive to an increased probability of civil or criminal litigation. However, notwithstanding any of the foregoing, nothing in this paragraph shall be construed to require Executive to cooperate or provide any services to, on or on behalf of STT in excess of four (4) hours in any one day or for a total of more than twenty (20) hours, nor to require Executive to travel more than fifty (50) miles from his home in order to render such cooperation, nor to provide any cooperation under this paragraph after seven (7) years from Executive's Termination Date.

- (b) COMPENSATION FOR COOPERATION: STT shall compensate Executive for all cooperation or other services rendered pursuant to this Section 9 by paying him the greater of (i) a sum equal to all of his lost salary, earnings and profits attributable to his provision of such cooperation and services, or (ii) compensation on an hourly basis calculated at his final hourly Salary rate. STT shall also reimburse Executive for all costs and expenses incurred in connection with his performance under this Section 9, including, without limitation, all reasonable attorneys' fees and costs.

10. MISCELLANEOUS

- (a) GOOD FAITH EFFORTS; FURTHER ASSURANCES; COOPERATION: The parties shall in good faith undertake to perform their agreements in this Agreement, to satisfy all conditions and to cause the purposes of this Agreement to be accomplished promptly in accordance with its terms.
- (b) ARBITRATION: Any controversy or claim arising out of or relating to this Agreement or the breach thereof not subject to paragraph no. 7(b), above, shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the

American Arbitration Association. Said arbitration shall be before a panel of three arbitrators. Executive shall choose one arbitrator, STT shall choose one arbitrator and the two arbitrators so chosen shall choose the third arbitrator. Said arbitration shall take place in the state of New Hampshire within sixty days of notice by one party to the other, unless they shall mutually agree to a longer or shorter time. Judgment upon the award rendered by the panel may be entered by any court of competent jurisdiction. Executive and STT shall each pay fifty percent (50%) of the panel's fees. The panel shall award reasonable interest, attorneys' fees and costs to the prevailing party but shall have no power to award punitive damages.

- (c) NOTICES: Each notice, communication and delivery under this Agreement:
- (i) shall be made in writing signed by the party giving it;
  - (ii) shall specify the section of this Agreement pursuant to which it is given;
  - (iii) shall either be delivered in person, by any form of United States Mail if a return receipt is provided therewith, by telecopier or by a nationally recognized next business day delivery service (such as Federal Express, United Parcel Service, DHL or any other similar delivery service provider);
  - (iv) shall be given to the address specified below;
  - (v) shall be deemed to be given:
    - (A) if delivered in person, on the date delivered, or

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- (B) if sent by telecopier, on the date of confirmation of receipt, by telephone or otherwise, or
- (C) if sent by a nationally recognized next business day courier service with all costs paid, on the date of confirmation of receipt.

The addresses are as follows:

If to Executive, to:

Kenneth L. Chute  
4 Gerrish Drive  
Durham, NH 03824  
Telecopier:  
Confirm: (603) 68-7028

If to STT:

Strategic Timber Trust, Inc.  
5 North Pleasant Street  
New London, New Hampshire 03257  
Attn: Secretary  
Telecopier: 603/526-7811  
Confirm: 603/526-7800

Such notice shall be given to such other representatives or at such other addresses as a party may furnish to the other parties pursuant to the foregoing. If notice is given pursuant to this Section of a permitted successor or assign of a party, then notice shall thereafter be given as set forth above also to such successor or assign of such party.

- (d) COMPUTATION OF TIME: Whenever the last day for the exercise of any privilege or the discharge of any duty under this Agreement shall fall upon Saturday, Sunday or any public or legal holiday, whether federal or of a state in which the person or entity having such privilege or duty resides or has its principal place of business, the party to this Agreement having such privilege or duty shall have until 5:00 p.m. (Eastern time) on the next succeeding regular business day to exercise such privilege or to discharge such duty.

- (e) ASSIGNMENT; SUCCESSOR IN INTEREST:

- (i) BY STT: Except with the prior written consent of Executive, no assignment, transfer or delegation by STT of any of its rights and obligations under this Agreement may be made to any other entity, except that STT may make any such assignment, transfer or delegation:

- (A) to STOC or STP or any of STT's affiliates or subsidiaries; and

- (B) if STT is merged into or acquired by another business entity such that there is a Change in Control, to the business entity into which STT is merged or by which it is acquired.
- (ii) BY EXECUTIVE: Executive (or, under appropriate circumstances, the executor of Executive's estate) may transfer or assign any of his rights to receive Executive's Total Compensation or any component of Executive's Total Compensation, in whole or in part, to any of Executive's heirs, devisees, legatees or beneficiaries upon written notice to STT. No other transfer or assignment may be made to any party by Executive of any of his rights or obligations under this Agreement.
- (f) BINDING NATURE: This Agreement shall be binding upon the parties to this Agreement and their respective legal representatives, heirs, devisees, legatees, beneficiaries and successors and assigns; shall inure to the benefit of the parties to this Agreement and their respective permitted legal representatives, heirs, devisees, legatees, beneficiaries and other permitted successors and assigns (and to or for the benefit of no other person or entity, whether an employee or otherwise, whatsoever); and upon a permitted assignment, any reference to a party to this Agreement shall also be a reference to a permitted successor or assign.
- (g) REMEDIES CUMULATIVE: The rights and remedies specified in any provision of this Agreement shall be in addition to all other rights and remedies a party may have under any other agreement or applicable law, including any right to equitable relief and any right to sue for damages as a result of a breach of this Agreement (whether or not it elects to terminate this Agreement), and all such rights and remedies shall be cumulative.
- (h) DEFENSE/INDEMNIFICATION/HOLD HARMLESS: STT shall, to the greatest extent allowed by applicable law, provide Executive a defense, indemnify Executive and hold Executive harmless from any civil or criminal claim, award or judgment which arises out of Executive's acts performed or omissions committed in the course of, or which Executive reasonably believed he performed or committed in the course of, the performance of

his duties pursuant to this Agreement. However, nothing in this paragraph shall require STT to provide Executive a defense, indemnify Executive or hold Executive harmless from any such claim, award or judgment which arises out of any such act or omission which, at the time of same, Executive knew or reasonably should have known constituted cause for termination as set forth in paragraph no. 8(a)(iii), above.

- (i) INSURANCE: STT shall cause Executive to appear as an additional named insured on any policy of Directors' and Officers' Liability Insurance which STT procures on behalf of itself and/or on behalf of any of its Executive Officers. Should Executive not appear as an additional named insured on any such policy, STT shall be liable to Executive for the full amount of insurance coverage which Executive would have had pursuant to such policy had STT fulfilled its obligation under this paragraph.

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- (j) EXPENSES OF ENFORCING THIS AGREEMENT: Subject to the provisions of paragraph no. 10(b), above, any expense incurred in enforcing any or all of the provisions of this Agreement shall be reimbursed to the prevailing party.
- (k) INTEGRATION; AMENDMENT: This Agreement:
  - (i) supersedes all prior negotiations, agreements and understandings between the parties to this Agreement with respect to its subject matter, and
  - (ii) constitutes the entire agreement between the parties to this Agreement with respect to its subject matter, and
  - (iii) may not be altered or amended, nor may any material provision be waived, except in writing signed by Executive and STT.
- (l) WAIVER: No waiver by any party of any provision (or of a breach of any provision) of this Agreement, whether by conduct or otherwise, in any one or more instances shall be deemed or construed either as a further or continuing waiver of any such provision or breach or as a waiver of any other provision (or of a breach of any other provision) of this Agreement

- (m) CONTROLLING LAW: This Agreement is governed by, and shall be construed and enforced in accordance with, the laws of the State of New Hampshire (except the laws of that jurisdiction that would render such choice of laws ineffective).
- (n) COPIES: This Agreement may be executed in two or more copies, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement or its terms to produce or account for more than one of such copies.
- (o) COUNTERPARTS: This Agreement may be executed in one or more counterparts (one counterpart reflecting the signatures of all parties), each of which shall be deemed to be an original, and it shall not be necessary in making proof of this Agreement or its terms to account for more than one of such counterparts. This Agreement may be executed by each party upon a separate copy, and one or more execution pages may be detached from one copy of this Agreement and attached to another copy in order to form one or more counterparts.
- (p) RESIGNATIONS: Upon Executive's Termination Date, Executive shall be deemed to have resigned from any and all offices he may have held and from any employment he had with STT, STOC, STP and any and all subsidiaries and affiliates of STT, STOC or STP which were in existence on the Effective Date or which came into existence during the term of this Agreement as set forth in Section 2, above, up to and including the Termination Date.

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- (q) INDEPENDENT: The agreements set forth above (or any part of them) are, shall be deemed and shall be construed as separate and independent agreements. If any such agreement or any part of such agreement is held invalid, void or unenforceable by any court or arbitration panel of competent jurisdiction, such holding shall in no way render invalid, void or unenforceable any other part or provision thereof or any separate agreement.

DULY EXECUTED and delivered by the parties to this Agreement as of the dates set forth below.

Executive:

/s/ Kenneth L. Chute

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Name: Kenneth L. Chute



Title: Senior Vice President and CFO  
Date: 3/24/99

STT: STRATEGIC TIMBER TRUST, INC.

By: /s/ Joseph E. Rendini

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Name: Joseph E. Rendini  
Title: Secretary and VP  
Date: 3/24/99

STRATEGIC TIMBER TRUST, INC.  
EMPLOYMENT AND NONCOMPETITION AGREEMENT

Strategic Timber Trust, Inc., a Georgia corporation (hereinafter "STT" or "Employer") and Vladimir Harris ("Executive") hereby agree as follows:

1. EMPLOYMENT

This Agreement is entered into by STT and Executive in contemplation of a registered initial public offering of STT's common stock ("the IPO"). Executive acknowledges that he has special knowledge, expertise, contacts and other information with respect to the Restricted Business (as defined below), that he will be provided with confidential information (as defined below) and that STT's employment of Executive upon the consummation of the IPO is in consideration of the promises and agreements contained in this Agreement. This Agreement shall govern the employment of Executive as an officer of STT.

2. EFFECTIVENESS OF AGREEMENT; TERM

This Agreement shall become effective on the consummation of the IPO ("the Effective Date"), but shall be void and of no further effect if the IPO has not been consummated by December 31, 1999. The term of Executive's employment pursuant to this Agreement shall be for the period from and including the Effective Date until and including the fourth anniversary of the Effective Date, and for additional, consecutive one-year periods thereafter, all unless earlier terminated as provided in Section 8, below.

3. DUTIES AND RESPONSIBILITIES

During Executive's employment pursuant to this Agreement, Executive shall hold such office or offices as he shall be elected to by the Board of Directors of STT, shall perform the duties of such office or offices pursuant to the direction of the Board of Directors of STT (or any committee thereof) or of the Chief Executive Officer of STT, shall perform such duties to the best of his ability, shall use his good faith efforts to promote the success of the business of STT, shall devote his entire business time to the affairs of STT and shall not engage in any other business activity or occupation during normal business hours for gain, profit, or other pecuniary advantage; provided, however, that the foregoing shall not be construed as preventing Executive from investing or trading for his own benefit or for that of the members of his family in stocks, bonds, securities or other similar forms of investment in public securities markets, serving as a director of another corporation or engaging in any family enterprise or in charitable, civic or other similar pursuits, so long as they do not materially interfere with Executive's performance of his duties under this

4. COMPENSATION AND RELATED MATTERS

- (a) BASIC: During the Executive's employment pursuant to this Agreement, STT:
  - (i) shall pay Executive a minimum salary of \$ 135,000.00 per annum in accordance with STT's normal and usual payroll schedule ("Salary), and
  - (ii) shall include Executive in all retirement plans, insurance plans and other fringe benefits and arrangements that may be authorized and adopted for the benefit of executives of STT generally. ("Benefits" ).
- (b) RAISES AND BONUSES: STT's Board of Directors, acting directly or through its Compensation Committee, may, in its sole discretion and for any reason, increase Executive's salary and/or grant Executive additional compensation as a bonus (a "Bonus") .
- (c) VACATIONS, HOLIDAYS AND SICK LEAVE: Executive shall be entitled to vacation, holidays and sick days with pay as determined by STT.
- (d) NO DIVESTMENT: No termination of Executive's employment shall divest Executive of his right to receive all or any unpaid portion or installment of any of his Salary or Bonus to which he is otherwise entitled pursuant to the terms of this Agreement.

5. NONCOMPETITION; NO INTERFERENCE

- (a) CERTAIN DEFINED TERMS: For purposes of this Agreement, the following words and phrases have the meanings set forth below:
  - (i) "CUSTOMER" means any purchaser of timber from Employer, and any potential purchaser solicited by Employer, with which Executive had contact during the term of his employment hereunder.
  - (ii) "PROPERTY OWNERS" means persons and entities with whom Employer has contracted for, or with whom

Employer has undertaken any phase of negotiation regarding, the acquisition of timberlands, timber cutting rights, timber deeds, or any other types of property rights, with which Executive had contact during the term of his employment hereunder.

- (iii) "RESTRICTED BUSINESS" means the business of owning timberland, selling or purchasing timberland, and selling timber or cut logs, or any of the foregoing, whether undertaken directly or indirectly.
- (iv) "TERRITORY" means North America, Central America and South America.

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- (v) "RESTRICTED PERIOD" means the period of Executive's employment with STT pursuant to this Agreement (i.e., the period extending from the Effective Date until the Termination Date, as defined in paragraph no. 8(b)(vi), below) plus one year from the Termination Date.
  - (vi) "EMPLOYER," for purposes of this Section 5 only, means STT, Strategic Timber Operating Co. ("STOC"), Strategic Timber Partners, LP ("STP") and their subsidiaries and affiliates which were in existence on the Effective Date or which came into existence during the term of this Agreement as set forth in Section 2, above, up to and including the Termination Date.
- (b) NONCOMPETITION: During the Restricted Period, Executive shall not, either directly or indirectly:
- (i) have any ownership interest (whether as proprietor, partner, stockholder or otherwise) in, or
  - (ii) be an officer, director or general or managing partner of, or hold a similar position in, or
  - (iii) act as agent, broker or distributor for, or advisor or consultant to, or
  - (iv) be employed in an executive or management position with

any business however organized or conducted which is engaged

or which Executive knows or reasonably should know plans to become engaged in the Restricted Business in the Territory without the permission of the disinterested members of STT's Board of Directors. Further, any ownership interest held by Executive at the time of the execution of this Agreement shall be deemed so permitted. However, notwithstanding any of the foregoing, the ownership by Executive of less than one percent (1%) of the shares of the capital stock of a publicly held entity shall in no event be deemed a violation of any provision of this paragraph.

(c) NO INTERFERENCE WITH CUSTOMERS OR PROPERTY OWNERS: During the Restricted Period, Executive will not in any way, directly or indirectly:

- (i) call upon, compete for, solicit, divert or take away, or attempt to solicit, divert or take away, from Employer the business of any Customer; or
- (ii) attempt or seek to cause any Customer to refrain, in any respect, from doing business with Employer, or intentionally interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between Employer and Customer; or

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- (iii) call upon, compete for, solicit, divert or take away, or attempt to solicit, divert or take away, any pending or contemplated acquisition of timberlands, timber cutting rights, timber deeds, or any other type of property rights, from a Property Owner; or
- (iv) attempt or seek to cause any Property Owner to refrain from consummating any pending or contemplated transaction with Employer, or intentionally interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between Employer and any Property Owner.

(d) NO INTERFERENCE WITH EMPLOYEES. During the Restricted Period, Executive will not in any way, directly or indirectly, request or induce any other employee of Employer to terminate his employment with Employer.

(e) NO EFFECT OF TERMINATION OF EMPLOYMENT. The termination of

Executive's employment with STT shall not limit or otherwise affect the agreements set forth in this Section 5, which shall continue and expressly survive the termination of Executive's employment and this Agreement.

6. RECORDS/NONDISCLOSURE/COMPANY POLICIES

- (a) GENERAL: All records, financial statements and similar documents obtained, reviewed or compiled by Executive as part of the performance of his services for or duties to Employer pursuant to this Agreement shall be the exclusive property of Employer, and Executive shall have no rights in such documents on or after the earlier of Executive's Termination Date (as defined in paragraph no. 8(b)(vi), below) or the last day of the term of this Agreement as set forth in Section 2, above.
- (b) CONFIDENTIAL INFORMATION AND TRADE SECRETS: Executive will not disclose to any person or entity or use for his own benefit or gain, any confidential information or trade secrets of the Employer obtained by him incident to his employment with STT. Executive shall take all reasonable steps to safeguard any confidential information and trade secrets and to protect same against disclosure, misuse, loss or theft. The term "Confidential Information" includes, without limitation, financial information, business plans, prospects and opportunities which have been discussed or considered by the management of Employer, but does not include any information which has become part of the public domain by means other than Executive's failure to observe his obligations hereunder. However, nothing in this paragraph shall be construed as prohibiting, restricting or preventing Executive from making any disclosure required by applicable law, the rules of the New York Stock Exchange or of any other securities market on which STT's securities are listed, or which are otherwise called for in connection with the performance of his duties and responsibilities thereunder or pursuant to this Agreement.

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- (c) SURVIVAL: The agreements set forth in this Section 6 shall survive beyond the term of Executive's employment, as set forth in Section 2, above, and shall remain in full force and effect for seven (7) years thereafter.

7. CERTAIN GENERAL PROVISIONS

- (a) REPRESENTATIONS AND WARRANTIES: Executive represents and warrants to STT:

- (i) that, excluding any statutory or case law generally applicable to all persons or entities, he is not subject to any decision, order, decree or judgment issued by any governmental authority or arbitrator or arbitration panel involving noncompetition, nonsolicitation, rights to inventions, work product or intellectual property;
  - (ii) that he will not use in his employment pursuant to this Agreement, disclose to Employer or induce Employer to use any trade secrets or proprietary or confidential information or materials belonging to others.
- (b) REMEDIES: Any violation of any provision of the foregoing Sections 5 and 6 may cause irreparable harm to Employer, and damages may not be an adequate remedy. Employer shall therefore be entitled to seek injunctive relief from any court of competent jurisdiction in the United States of America enjoining, prohibiting and restraining Executive from the continuance of any such violation. However, should Employer seek injunctive relief in any such court, Executive may then elect to have any or all controversies or claims, including any claim for injunctive relief, arising out of or relating to this Agreement or the breach thereof heard and determined by such court or by any other court of competent jurisdiction in the United States of America or to have any or all such controversies or claims settled by arbitration pursuant to the provisions of paragraph no. 10(b), below.
- (c) NOTICE TO OTHERS: Executive hereby agrees that, notwithstanding any other provision of this Agreement, Employer may disclose the prohibitions contained in Sections 5 and 6 hereof to any person or entity, including one that at the time employs or is considering employing Executive.
- (d) MODIFICATION: Should any provision of the foregoing Section 5 or 6 be deemed too broad to permit enforcement to its full extent, then it shall be enforced to the maximum extent permitted by law, and its scope may be judicially modified accordingly in any proceeding brought to enforce such restriction.

- (i) CHANGE OF CONTROL: A "Change of Control" shall be deemed to have occurred when any of the following events occurs:
- (A) Any "person" (other than (1) any employee plan established by STT, (2) STT, (3) an underwriter temporarily holding securities pursuant to an offering of such securities, or (4) a corporation owned, directly or indirectly, by stockholders of STT in substantially the same proportions as their ownership of STT) is or becomes the beneficial owner, directly or indirectly, of securities of STT representing 50% or more of the combined voting power of STT's then outstanding voting securities [as used in this paragraph, "person" shall have the same meaning as that term does as used in Sections 13(d) and 14(d) (2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")]; or
  - (B) During any period of two consecutive years, individuals who at the beginning of such period constituted the Board and any new director (other than an individual whose nomination for election is in connection with an actual or threatened election contest relating to the election of the directors of STT, as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act) whose appointment, election, or nomination for election by STT's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose appointment, election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board; or
  - (C) There is consummated a merger or consolidation of STT with or into any other corporation or other entity, or a transaction having a similar result or effect, other than a merger, consolidation, or other transaction which would result in the holders of the voting securities of STT



outstanding immediately prior thereto holding securities which represent immediately after such merger or consolidation more than 65% of the combined voting power of the voting securities of either STT or the other entity which survives such merger or consolidation or the parent of the entity which survives such merger or consolidation; or

- (D) There is consummated a sale or disposition by STT of all or substantially all of STT's assets.

(ii) **DISABILITY:** The term "disabled" and variations of it mean a physical condition of Executive which is of a nature and duration sufficient to require payment under the provisions of STT's long-term disability insurance covering Executive, if such a policy is in effect at the time the disability commences, and, if no such policy is then in effect, a disability determined by a physician mutually agreed upon by STT and the Executive to substantially interfere with the Executive's ability to perform the essential duties of his employment.

(iii) **FOR CAUSE:** The phrase "for cause" and variations of it mean because of:

(A) willful failure (other than by reason of disability) to perform any of the duties or to fulfill any of the obligations set forth in the provisions of Sections 3, 5 or 6, above;

(B) willful failure (other than by reason of disability) to respond to a request by the Board of Directors or Chief Executive Officer of STT which is reasonable in light of Executive's duties as described in Section 3 and of the resources and support provided to him by Employer after notice and reasonable opportunity to cure or comply;

- (C) willful disclosure to any of Employer's then or prospective competitors of any trade secrets or confidential or proprietary information of Employer; or Executive's giving any such competitor material assistance in the conduct of such competitor's business;
- (D) willfully giving any of Employer's then or prospective competitors material assistance in the conduct of its business;
- (E) willfully engaging in any act that constitutes a material conflict of interest with Employer;
- (F) willful usurpation of a material business opportunity of Employer;
- (G) willful misappropriation of a material amount of Employer's funds or property;
- (H) willfully attempting to secure any personal profit in connection with any transaction entered into on behalf of Employer;
- (I) conviction of or the entering of a guilty plea in any court of competent jurisdiction in the United States of America with respect to fraud, theft, embezzlement or any other felony demonstrated to have a direct, material, adverse financial effect on Employer or on a customer or property owner; or

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- (J) conviction of or the entering of a guilty plea in any court of competent jurisdiction in the United States of America with respect to a felony which demonstrably and materially impairs or harms Employer's ability to conduct its business.

(iv) FOR GOOD REASON: For purposes of this Agreement, the phrase "for good reason" and variations of it shall mean because of:

- (A) Employer's assignment of Executive, without his consent, to a position, responsibilities or duties of any materially lesser status or degree of responsibility or authority than his position, responsibilities or duties at the Effective Date; or
- (B) Employer's diminution of, or refusal to pay when due, Executive's Salary under paragraph no. 4(a)(i), above, or any Bonus awarded to Executive under paragraph no. 4(b), above, (provided that, in the case of any such Bonus only, any conditions placed upon the payment of same have been satisfied); or
- (C) Employer's material diminution of the aggregate of Executive's Benefits under paragraph no. 4(a)(ii), above, or of the aggregate of Executive's vacations, holidays and sick leave under paragraph no. 4(c), above;
- (D) Employer's material reduction or diminution of the conditions of Executive's employment including, without limitation, Employer's failure to provide Executive with office, secretarial services and such other facilities and support services as are reasonably appropriate and necessary for the performance of Executive's duties under this Agreement.
- (E) Any Change in Control as defined in paragraph no. 8(a)(i), above.

(b) EVENTS: Executive's employment pursuant to this Agreement shall terminate upon the first to occur of any of the following events:

- (i) TERMINATION BY EXECUTIVE: Executive may terminate his employment pursuant to this Agreement for any reason or "for good reason" (as defined above) upon prior written notice to STT, and such termination shall be effective upon the expiration of the time period in such notice (or such earlier time as STT and Executive may agree). For purposes of this paragraph, the time period for said prior written notice shall be six months, if said notice is given during the first two years of the term of this Agreement, and ninety days if given thereafter.

- (ii) TERMINATION WITHOUT CAUSE BY STT: STT may terminate Executive's employment pursuant to this Agreement without cause upon prior written notice to Executive, and such termination shall be effective upon the expiration of the time period in such notice (or such earlier time as STT and Executive may agree). For purposes of this paragraph, the time period for said prior written notice shall be six

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months, if said notice is given during the first two years of the term of this Agreement, and ninety days if given thereafter.

- (iii) WITH CAUSE BY STT: STT may immediately terminate Executive's employment pursuant to this Agreement for cause upon written notice to Executive, and such termination shall be effective upon the giving of such notice.
- (iv) TERMINATION ON ACCOUNT OF DEATH OR DISABILITY: Upon the death or disability of Executive, Executive's employment pursuant to this Agreement shall terminate, and such termination shall be effective on the date upon which the death or disability of executive occurs.
- (v) NON-RENEWAL OF TERM: Should Executive give STT written notice at least thirty (30) days prior to the expiration of either the original four-year term of his employment or any of the subsequent, consecutive one-year terms set forth in Section 2, above, Executive's employment pursuant to this Agreement shall terminate upon the last day of said term and such termination shall be effective on said day.
- (vi) "TERMINATION DATE" means the date upon which Executive's termination becomes effective.

- (c) TERMINATION PAY: Effective upon the termination of Executive's employment pursuant to this Agreement, STT shall be obligated to pay Executive (or in the event of his death, his estate, or in the event a personal representative is appointed, his personal representative) only such compensation as is provided in this paragraph no. 8(c). ("Termination Pay"):

- (i) COMPENSATION UPON TERMINATION BY EXECUTIVE OTHER THAN FOR GOOD REASON: If Executive terminates his employment pursuant to this Agreement other than for good reason, then STT shall pay Executive all his compensation owed him under Section 4, above, through and including the Termination Date only.
- (ii) COMPENSATION UPON TERMINATION BY STT WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD REASON: If STT terminates Executive's employment pursuant to this Agreement without cause, or if Executive terminates said employment for good reason, then STT shall pay Executive (A) his Salary for the remainder of the Restricted Period, at the rate at which it was paid at the Termination Date, and (B) an amount equal to either (i) the amount of his target Bonus in respect of the fiscal year in which the Termination Date occurs, if the amount of such target Bonus has been established as of the Termination Date, or (ii) if the amount of such target Bonus has not been determined as of the Termination Date, the amount of the Bonus he received in respect of the immediately preceding fiscal year, and STT shall continue to provide Executive with the medical Benefits he received as of the Termination Date through the last day of the Restricted Period only.

- (iii) COMPENSATION UPON TERMINATION BY STT FOR CAUSE: If STT terminates Executive's employment pursuant to this Agreement for cause, then STT shall pay Executive all his compensation owed him under Section 4, above, through and including the Termination Date only.
- (iv) COMPENSATION UPON TERMINATION BY DEATH OR DISABILITY: If Executive's employment pursuant to this Agreement is terminated by reason of the death or disability of Executive, then STT shall pay Executive or his estate, as appropriate, all his compensation owed him under Section 4, above, through and including the Termination Date only.
- (v) COMPENSATION UPON NON-RENEWAL OF TERM: If Executive's employment is terminated by non-renewal of its term under paragraph no. 8(b)(v), above, STT shall, in its

sole discretion, determine whether Executive shall thereafter be subject to the restrictions set forth in paragraphs nos. 5(b), 5(c) and 5(d), above, for a period of up to but not exceeding one (1) year from the Termination Date. If STT determines that Executive shall be subject to said restrictions, then it shall pay him as if he were terminated without good cause or for good reason as specified in paragraph no. 8(b)(ii), above, during whatever period STT determines said restrictions shall apply. If STT determines that Executive shall not be subject to any such restrictions, then it shall pay him all his compensation owed him under Section 4, above, through and including the Termination Date only.

(vi) AWARDS UNDER STT INCENTIVE PLANS: Executive shall receive all rights and benefits granted to Executive under STT's 1999 Omnibus Incentive Plan and any other incentive plans of STT in which Executive participates, and any agreements with Executive pursuant thereto. The vesting and exercise of any stock options and the forfeitability of any stock-based grants held by Executive shall be governed by the terms of such plans and the related agreements between Executive and STT rather than this Agreement.

(d) TIMING OF TERMINATION PAY:

(i) FOR GOOD REASON: If Executive terminates his employment pursuant to this Agreement for Good Reason (except for any Change in Control, in which case the provisions of the following paragraph shall control) or Executive's employment hereunder is terminated by reason of death, then the full amount of any Termination Pay owed to Executive or his estate pursuant to the provisions of this Section shall become due and payable upon the Termination Date. Employer shall make payment at the time(s) and in the manner(s) specified by Executive, or by the executor of his estate, as appropriate, in written notice to Employer. Executive, or the executor of his estate, as appropriate, shall have the right to specify whether payment of the Termination Pay shall be made in whole or in part, and the specification of the payment of any part shall not waive or limit Executive's or his estate's right to receive the remainder of the whole.

(ii) FOR OTHER REASON: If Executive or STT terminates his employment pursuant to this Agreement for any reason other than than set forth in the preceding paragraph, then any Termination Pay owed to Executive or to his estate shall be paid in accordance with STT's normal payroll schedule.

(e) RELEASE AND WAIVER OF OTHER CAUSES OF ACTION: Payment by STT of the full amount of any Termination Pay owed Executive pursuant to this Agreement shall be made promptly by STT upon receipt of a full and final release and waiver by Executive, in form and substance reasonably satisfactory to STT, of any and every claim and cause of action which Executive may have against STT, STOC, STP or any of their affiliates and subsidiaries arising out of or relating to his employment pursuant to this Agreement, whether such action is at equity or common law or arises out of any federal, state or local statute or regulation (including, but not limited to, the termination of such employment. Further, as long as STT makes timely payment of any portions or installments of Executive's Termination Pay pursuant to the provisions of paragraph no. 8(d), above, Executive shall not commence any such claim or action in any court or before any administrative body or arbitration panel. However, nothing in this paragraph shall be construed to limit Executive's right to bring an action arising out of the breach of any provision of this Agreement in any appropriate court or before any appropriate arbitration panel, consistent with the terms otherwise set forth herein.

## 9. LITIGATION AND REGULATORY COOPERATION AFTER TERMINATION

(a) EXTENT OF COOPERATION: After the termination of Executive's employment hereunder, Executive shall reasonably cooperate with STT in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of STT and which relate to events or occurrences that transpired while Executive was employed by STT, but if and only if such cooperation shall not materially and adversely affect Executive or expose Executive to an increased probability of civil or criminal litigation. Executive's cooperation in connection with such claims or action shall include being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of STT at mutually convenient times. After Executive's employment, Executive also shall cooperate fully with STT in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while Executive was employed by STT, but if and only if such

cooperation shall not materially and adversely affect Executive or expose Executive to an increased probability of civil or criminal litigation. However, notwithstanding any of the foregoing, nothing in this paragraph shall be construed to require Executive to cooperate or provide any services to, on or on behalf of STT in excess of four (4) hours in any one day or for a total of more than twenty (20) hours, nor to require Executive to travel more than fifty (50) miles from his home in order to render such cooperation, nor to provide any cooperation under this paragraph after seven (7) years from Executive's Termination Date.

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- (b) COMPENSATION FOR COOPERATION: STT shall compensate Executive for all cooperation or other services rendered pursuant to this Section 9 by paying him the greater of (i) a sum equal to all of his lost salary, earnings and profits attributable to his provision of such cooperation and services, or (ii) compensation on an hourly basis calculated at his final hourly Salary rate. STT shall also reimburse Executive for all costs and expenses incurred in connection with his performance under this Section 9, including, without limitation, all reasonable attorneys' fees and costs.

#### 10. MISCELLANEOUS

- (a) GOOD FAITH EFFORTS; FURTHER ASSURANCES; COOPERATION: The parties shall in good faith undertake to perform their agreements in this Agreement, to satisfy all conditions and to cause the purposes of this Agreement to be accomplished promptly in accordance with its terms.
- (b) ARBITRATION: Any controversy or claim arising out of or relating to this Agreement or the breach thereof not subject to paragraph no. 7(b), above, shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Said arbitration shall be before a panel of three arbitrators. Executive shall choose one arbitrator, STT shall choose one arbitrator and the two arbitrators so chosen shall choose the third arbitrator. Said arbitration shall take place in the state of New Hampshire within sixty days of notice by one party to the other, unless they shall mutually agree to a longer or shorter time. Judgment upon the award rendered by the panel may be entered



by any court of competent jurisdiction. Executive and STT shall each pay fifty percent (50%) of the panel's fees. The panel shall award reasonable interest, attorneys' fees and costs to the prevailing party but shall have no power to award punitive damages.

(c) NOTICES: Each notice, communication and delivery under this Agreement:

- (i) shall be made in writing signed by the party giving it;
- (ii) shall specify the section of this Agreement pursuant to which it is given;
- (iii) shall either be delivered in person, by any form of United States Mail if a return receipt is provided therewith, by telecopier or by a nationally recognized next business day delivery service (such as Federal Express, United Parcel Service, DHL or any other similar delivery service provider);
- (iv) shall be given to the address specified below;
- (v) shall be deemed to be given:
  - (A) if delivered in person, on the date delivered, or

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- (B) if sent by telecopier, on the date of confirmation of receipt, by telephone or otherwise, or
- (C) if sent by a nationally recognized next business day courier service with all costs paid, on the date of confirmation of receipt.

The addresses are as follows:

If to Executive, to:

154 Packers Falls Rd.  
Durham, NH 03824  
Telecopier:  
Confirm:

If to STT:

Strategic Timber Trust, Inc.  
5 North Pleasant Street  
New London, New Hampshire 0325  
Attn: Secretary  
Telecopier: 603/526-7811  
Confirm: 603/526-7800

Such notice shall be given to such other representatives or at such other addresses as a party may furnish to the other parties pursuant to the foregoing. If notice is given pursuant to this Section of a permitted successor or assign of a party, then notice shall thereafter be given as set forth above also to such successor or assign of such party.

- (d) COMPUTATION OF TIME: Whenever the last day for the exercise of any privilege or the discharge of any duty under this Agreement shall fall upon Saturday, Sunday or any public or legal holiday, whether federal or of a state in which the person or entity having such privilege or duty resides or has its principal place of business, the party to this Agreement having such privilege or duty shall have until 5:00 p.m. (Eastern time) on the next succeeding regular business day to exercise such privilege or to discharge such duty.

- (e) ASSIGNMENT; SUCCESSOR IN INTEREST:

- (i) BY STT: Except with the prior written consent of Executive, no assignment, transfer or delegation by STT of any of its rights and obligations under this Agreement may be made to any other entity, except that STT may make any such assignment, transfer or delegation:

- (A) to STOC or STP or any of STT's affiliates or subsidiaries; and

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- (B) if STT is merged into or acquired by another business entity such that there is a Change in Control, to the business entity into which STT is merged or by which it is acquired.

- (ii) BY EXECUTIVE: Executive (or, under appropriate

circumstances, the executor of Executive's estate) may transfer or assign any of his rights to receive Executive's Total Compensation or any component of Executive's Total Compensation, in whole or in part, to any of Executive's heirs, devisees, legatees or beneficiaries upon written notice to STT. No other transfer or assignment may be made to any party by Executive of any of his rights or obligations under this Agreement.

- (f) **BINDING NATURE:** This Agreement shall be binding upon the parties to this Agreement and their respective legal representatives, heirs, devisees, legatees, beneficiaries and successors and assigns; shall inure to the benefit of the parties to this Agreement and their respective permitted legal representatives, heirs, devisees, legatees, beneficiaries and other permitted successors and assigns (and to or for the benefit of no other person or entity, whether an employee or otherwise, whatsoever); and upon a permitted assignment, any reference to a party to this Agreement shall also be a reference to a permitted successor or assign.
- (g) **REMEDIES CUMULATIVE:** The rights and remedies specified in any provision of this Agreement shall be in addition to all other rights and remedies a party may have under any other agreement or applicable law, including any right to equitable relief and any right to sue for damages as a result of a breach of this Agreement (whether or not it elects to terminate this Agreement), and all such rights and remedies shall be cumulative.
- (h) **DEFENSE/INDEMNIFICATION/HOLD HARMLESS:** STT shall, to the greatest extent allowed by applicable law, provide Executive a defense, indemnify Executive and hold Executive harmless from any civil or criminal claim, award or judgment which arises out of Executive's acts performed or omissions committed in the course of, or which Executive reasonably believed he performed or committed in the course of, the performance of his duties pursuant to this Agreement. However, nothing in this paragraph shall require STT to provide Executive a defense, indemnify Executive or hold Executive harmless from any such claim, award or judgment which arises out of any such act or omission which, at the time of same, Executive knew or reasonably should have known constituted cause for termination as set forth in paragraph no. 8(a)(iii), above.
- (i) **INSURANCE:** STT shall cause Executive to appear as an additional named insured on any policy of Directors' and Officers' Liability Insurance which STT procures on behalf of itself and/or on behalf of any of its Executive Officers. Should Executive not appear as an additional named insured on

any such policy, STT shall be liable to Executive for the full amount of insurance coverage which Executive would have had pursuant to such policy had STT fulfilled its obligation under this paragraph.

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- (j) EXPENSES OF ENFORCING THIS AGREEMENT: Subject to the provisions of paragraph no. 10(b), above, any expense incurred in enforcing any or all of the provisions of this Agreement shall be reimbursed to the prevailing party.
- (k) INTEGRATION; AMENDMENT: This Agreement:
  - (i) supersedes all prior negotiations, agreements and understandings between the parties to this Agreement with respect to its subject matter, and
  - (ii) constitutes the entire agreement between the parties to this Agreement with respect to its subject matter, and
  - (iii) may not be altered or amended, nor may any material provision be waived, except in writing signed by Executive and STT.
- (l) WAIVER: No waiver by any party of any provision (or of a breach of any provision) of this Agreement, whether by conduct or otherwise, in any one or more instances shall be deemed or construed either as a further or continuing waiver of any such provision or breach or as a waiver of any other provision (or of a breach of any other provision) of this Agreement
- (m) CONTROLLING LAW: This Agreement is governed by, and shall be construed and enforced in accordance with, the laws of the State of New Hampshire (except the laws of that jurisdiction that would render such choice of laws ineffective).
- (n) COPIES: This Agreement may be executed in two or more copies, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement or its terms to produce or account for more than one of such copies.
- (o) COUNTERPARTS: This Agreement may be executed in one or more counterparts (one counterpart reflecting the signatures of all parties), each of which shall be deemed to be an original, and it shall not be necessary in making proof of this Agreement or its terms to account for more than one of such counterparts.

(p) RESIGNATIONS: Upon Executive's Termination Date, Executive shall be deemed to have resigned from any and all offices he may have held and from any employment he had with STT, STOC, STP and any and all subsidiaries and affiliates of STT, STOC or STP which were in existence on the Effective Date or which came into existence during the term of this Agreement as set forth in Section 2, above, up to and including the Termination Date.

(q) INDEPENDENT: The agreements set forth above (or any part of them) are, shall be deemed and shall be construed as separate and independent agreements. If any such

(p) RESIGNATIONS: Upon Executive's Termination Date, Executive shall be deemed to have resigned from any and all offices he may have held and from any employment he had with STT, STOC, STP and any and all subsidiaries and affiliates of STT, STOC or STP which were in existence on the Effective Date or which came into existence during the term of this Agreement as set forth in Section 2, above, up to and including the Termination Date.

(q) INDEPENDENT: The agreements set forth above (or any part of them) are, shall be deemed and shall be construed as separate and independent agreements. If any such

agreement or any part of such agreement is held invalid, void or unenforceable by any court or arbitration panel of competent jurisdiction, such holding shall in no way render invalid, void or unenforceable any other part or provision thereof or any separate agreement.

DULY EXECUTED and delivered by the parties to this Agreement  
as of the dates set forth below.

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Executive: /s/ Vladimir Harris
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Name: Vladimir Harris
Title: Senior Vice President and Director of
Acquisitions
Date: 3/23/99
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STT: STRATEGIC TIMBER TRUST, INC.

By: /s/ Joseph E. Rendini  
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Name: Joseph E. Rendini  
Title: Secretary and VP  
Date: 3/24/99



STRATEGIC TIMBER TRUST, INC.  
EMPLOYMENT AND NONCOMPETITION AGREEMENT

Strategic Timber Trust, Inc., a Georgia corporation (hereinafter "STT" or "Employer") and Nicolas C. Brunet ("Executive") hereby agree as follows:

1. EMPLOYMENT

This Agreement is entered into by STT and Executive in contemplation of a registered initial public offering of STT's common stock ("the IPO"). Executive acknowledges that he has special knowledge, expertise, contacts and other information with respect to the Restricted Business (as defined below), that he will be provided with confidential information (as defined below) and that STT's employment of Executive upon the consummation of the IPO is in consideration of the promises and agreements contained in this Agreement. This Agreement shall govern the employment of Executive as an officer of STT.

2. EFFECTIVENESS OF AGREEMENT; TERM

This Agreement shall become effective on the consummation of the IPO ("the Effective Date"), but shall be void and of no further effect if the IPO has not been consummated by December 31, 1999. The term of Executive's employment pursuant to this Agreement shall be for the period from and including the Effective Date until and including the fourth anniversary of the Effective Date, and for additional, consecutive one-year periods thereafter, all unless earlier terminated as provided in Section 8, below.

3. DUTIES AND RESPONSIBILITIES

During Executive's employment pursuant to this Agreement, Executive shall hold such office or offices as he shall be elected to by the Board of Directors of STT, shall perform the duties of such office or offices pursuant to the direction of the Board of Directors of STT (or any committee thereof) or of the Chief Executive Officer of STT, shall perform such duties to the best of his ability, shall use his good faith efforts to promote the success of the business of STT, shall devote his entire business time to the affairs of STT and shall not engage in any other business activity or occupation during normal business hours for gain, profit, or other pecuniary advantage; provided, however, that the foregoing shall not be construed as preventing Executive from investing or trading for his own benefit or for that of the members of his family in stocks, bonds, securities or other similar forms of investment in public securities markets, serving as a director of another corporation or engaging in any family

enterprise or in charitable, civic or other similar pursuits, so long as they do not materially interfere with Executive's performance of his duties under this Agreement.

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#### 4. COMPENSATION AND RELATED MATTERS

- (a) BASIC: During the Executive's employment pursuant to this Agreement, STT:
  - (i) shall pay Executive a minimum salary of \$ 90,000.00 per annum in accordance with STT's normal and usual payroll schedule ("Salary), and
  - (ii) shall include Executive in all retirement plans, insurance plans and other fringe benefits and arrangements that may be authorized and adopted for the benefit of executives of STT generally. ("Benefits" ).
- (b) RAISES AND BONUSES: STT's Board of Directors, acting directly or through its Compensation Committee, may, in its sole discretion and for any reason, increase Executive's salary and/or grant Executive additional compensation as a bonus (a "Bonus") .
- (c) VACATIONS, HOLIDAYS AND SICK LEAVE: Executive shall be entitled to vacation, holidays and sick days with pay as determined by STT.
- (d) NO DIVESTMENT: No termination of Executive's employment shall divest Executive of his right to receive all or any unpaid portion or installment of any of his Salary or Bonus to which he is otherwise entitled pursuant to the terms of this Agreement.

#### 5. NONCOMPETITION; NO INTERFERENCE

- (a) CERTAIN DEFINED TERMS: For purposes of this Agreement, the following words and phrases have the meanings set forth below:
  - (i) "CUSTOMER" means any purchaser of timber from Employer, and any potential purchaser solicited by Employer, with which Executive had contact during the term of his employment hereunder.



- (ii) "PROPERTY OWNERS" means persons and entities with whom Employer has contracted for, or with whom Employer has undertaken any phase of negotiation regarding, the acquisition of timberlands, timber cutting rights, timber deeds, or any other types of property rights, with which Executive had contact during the term of his employment hereunder.
- (iii) "RESTRICTED BUSINESS" means the business of owning timberland, selling or purchasing timberland, and selling timber or cut logs, or any of the foregoing, whether undertaken directly or indirectly.
- (iv) "TERRITORY" means North America, Central America and South America.

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- (v) "RESTRICTED PERIOD" means the period of Executive's employment with STT pursuant to this Agreement (i.e., the period extending from the Effective Date until the Termination Date, as defined in paragraph no. 8(b)(vi), below) plus one year from the Termination Date.
  - (vi) "EMPLOYER," for purposes of this Section 5 only, means STT, Strategic Timber Operating Co. ("STOC"), Strategic Timber Partners, LP ("STP") and their subsidiaries and affiliates which were in existence on the Effective Date or which came into existence during the term of this Agreement as set forth in Section 2, above, up to and including the Termination Date.
- (b) NONCOMPETITION: During the Restricted Period, Executive shall not, either directly or indirectly:
- (i) have any ownership interest (whether as proprietor, partner, stockholder or otherwise) in, or
  - (ii) be an officer, director or general or managing partner of, or hold a similar position in, or
  - (iii) act as agent, broker or distributor for, or advisor or consultant to, or
  - (iv) be employed in an executive or management position with

any business however organized or conducted which is engaged or which Executive knows or reasonably should know plans to become engaged in the Restricted Business in the Territory without the permission of the disinterested members of STT's Board of Directors. Further, any ownership interest held by Executive at the time of the execution of this Agreement shall be deemed so permitted. However, notwithstanding any of the foregoing, the ownership by Executive of less than one percent (1%) of the shares of the capital stock of a publicly held entity shall in no event be deemed a violation of any provision of this paragraph.

- (c) NO INTERFERENCE WITH CUSTOMERS OR PROPERTY OWNERS: During the Restricted Period, Executive will not in any way, directly or indirectly:
- (i) call upon, compete for, solicit, divert or take away, or attempt to solicit, divert or take away, from Employer the business of any Customer; or
  - (ii) attempt or seek to cause any Customer to refrain, in any respect, from doing business with Employer, or intentionally interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between Employer and Customer; or
  - (iii) call upon, compete for, solicit, divert or take away, or attempt to solicit, divert or take away, any pending or contemplated acquisition of timberlands, timber cutting rights, timber deeds, or any other type of property rights, from a Property Owner; or
  - (iv) attempt or seek to cause any Property Owner to refrain from consummating any pending or contemplated transaction with Employer, or intentionally interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between Employer and any Property Owner.
- (d) NO INTERFERENCE WITH EMPLOYEES. During the Restricted Period, Executive will not in any way, directly or indirectly, request or induce any other employee of Employer to terminate his employment with Employer.
- (e) NO EFFECT OF TERMINATION OF EMPLOYMENT. The termination of

Executive's employment with STT shall not limit or otherwise affect the agreements set forth in this Section 5, which shall continue and expressly survive the termination of Executive's employment and this Agreement.

6. RECORDS/NONDISCLOSURE/COMPANY POLICIES

- (a) GENERAL: All records, financial statements and similar documents obtained, reviewed or compiled by Executive as part of the performance of his services for or duties to Employer pursuant to this Agreement shall be the exclusive property of Employer, and Executive shall have no rights in such documents on or after the earlier of Executive's Termination Date (as defined in paragraph no. 8(b)(vi), below) or the last day of the term of this Agreement as set forth in Section 2, above.
- (b) CONFIDENTIAL INFORMATION AND TRADE SECRETS: Executive will not disclose to any person or entity or use for his own benefit or gain, any confidential information or trade secrets of the Employer obtained by him incident to his employment with STT. Executive shall take all reasonable steps to safeguard any confidential information and trade secrets and to protect same against disclosure, misuse, loss or theft. The term "Confidential Information" includes, without limitation, financial information, business plans, prospects and opportunities which have been discussed or considered by the management of Employer, but does not include any information which has become part of the public domain by means other than Executive's failure to observe his obligations hereunder. However, nothing in this paragraph shall be construed as prohibiting, restricting or preventing Executive from making any disclosure required by applicable law, the rules of the New York Stock Exchange or of any other securities market on which STT's securities are listed, or which are otherwise called for in connection with the performance of his duties and responsibilities thereunder or pursuant to this Agreement.

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- (c) SURVIVAL: The agreements set forth in this Section 6 shall survive beyond the term of Executive's employment, as set forth in Section 2, above, and shall remain in full force and effect for seven (7) years thereafter.

7. CERTAIN GENERAL PROVISIONS

- (a) REPRESENTATIONS AND WARRANTIES: Executive represents and warrants to STT:

- (i) that, excluding any statutory or case law generally applicable to all persons or entities, he is not subject to any decision, order, decree or judgment issued by any governmental authority or arbitrator or arbitration panel involving noncompetition, nonsolicitation, rights to inventions, work product or intellectual property;
  - (ii) that he will not use in his employment pursuant to this Agreement, disclose to Employer or induce Employer to use any trade secrets or proprietary or confidential information or materials belonging to others.
- (b) REMEDIES: Any violation of any provision of the foregoing Sections 5 and 6 may cause irreparable harm to Employer, and damages may not be an adequate remedy. Employer shall therefore be entitled to seek injunctive relief from any court of competent jurisdiction in the United States of America enjoining, prohibiting and restraining Executive from the continuance of any such violation. However, should Employer seek injunctive relief in any such court, Executive may then elect to have any or all controversies or claims, including any claim for injunctive relief, arising out of or relating to this Agreement or the breach thereof heard and determined by such court or by any other court of competent jurisdiction in the United States of America or to have any or all such controversies or claims settled by arbitration pursuant to the provisions of paragraph no. 10(b), below.
- (c) NOTICE TO OTHERS: Executive hereby agrees that, notwithstanding any other provision of this Agreement, Employer may disclose the prohibitions contained in Sections 5 and 6 hereof to any person or entity, including one that at the time employs or is considering employing Executive.
- (d) MODIFICATION: Should any provision of the foregoing Section 5 or 6 be deemed too broad to permit enforcement to its full extent, then it shall be enforced to the maximum extent permitted by law, and its scope may be judicially modified accordingly in any proceeding brought to enforce such restriction.

## (a) CERTAIN DEFINED TERMS

- (i) CHANGE OF CONTROL: A "Change of Control" shall be deemed to have occurred when any of the following events occurs:
- (A) Any "person" (other than (1) any employee plan established by STT, (2) STT, (3) an underwriter temporarily holding securities pursuant to an offering of such securities, or (4) a corporation owned, directly or indirectly, by stockholders of STT in substantially the same proportions as their ownership of STT) is or becomes the beneficial owner, directly or indirectly, of securities of STT representing 50% or more of the combined voting power of STT's then outstanding voting securities [as used in this paragraph, "person" shall have the same meaning as that term does as used in Sections 13(d) and 14(d)(2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")]; or
  - (B) During any period of two consecutive years, individuals who at the beginning of such period constituted the Board and any new director (other than an individual whose nomination for election is in connection with an actual or threatened election contest relating to the election of the directors of STT, as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act) whose appointment, election, or nomination for election by STT's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose appointment, election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board; or
  - (C) There is consummated a merger or consolidation of STT with or into any other corporation or other entity, or a transaction having a similar result or

effect, other than a merger, consolidation, or other transaction which would result in the holders of the voting securities of STT outstanding immediately prior thereto holding securities which represent immediately after such merger or consolidation more than 65% of the combined voting power of the voting securities of either STT or the other entity which survives such merger or consolidation or the parent of the entity which survives such merger or consolidation; or

- (D) There is consummated a sale or disposition by STT of all or substantially all of STT's assets.

- (ii) **DISABILITY:** The term "disabled" and variations of it mean a physical condition of Executive which is of a nature and duration sufficient to require payment under the provisions of STT's long-term disability insurance covering Executive, if such a policy is in effect at the time the disability commences, and, if no such policy is then in effect, a disability determined by a physician mutually agreed upon by STT and the Executive to substantially interfere with the Executive's ability to perform the essential duties of his employment.

- (iii) **FOR CAUSE:** The phrase "for cause" and variations of it mean because of:

- (A) willful failure (other than by reason of disability) to perform any of the duties or to fulfill any of the obligations set forth in the provisions of Sections 3, 5 or 6, above;
- (B) willful failure (other than by reason of disability) to respond to a request by the Board of Directors or Chief Executive Officer of STT which is reasonable in light of Executive's duties as described in Section 3 and of the resources and support

provided to him by Employer after notice and reasonable opportunity to cure or comply;

- (C) willful disclosure to any of Employer's then or prospective competitors of any trade secrets or confidential or proprietary information of Employer; or Executive's giving any such competitor material assistance in the conduct of such competitor's business;
- (D) willfully giving any of Employer's then or prospective competitors material assistance in the conduct of its business;
- (E) willfully engaging in any act that constitutes a material conflict of interest with Employer;
- (F) willful usurpation of a material business opportunity of Employer;
- (H) willful misappropriation of a material amount of Employer's funds or property;
- (H) willfully attempting to secure any personal profit in connection with any transaction entered into on behalf of Employer;
- (I) conviction of or the entering of a guilty plea in any court of competent jurisdiction in the United States of America with respect to fraud, theft, embezzlement or any other felony demonstrated to have a direct, material, adverse financial effect on Employer or on a customer or property owner; or

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- (J) conviction of or the entering of a guilty plea in any court of competent jurisdiction in the United States of America with respect to a felony which demonstrably and materially impairs or harms Employer's ability to conduct its business.

(iv) FOR GOOD REASON: For purposes of this Agreement, the

phrase "for good reason" and variations of it shall mean because of:

- (A) Employer's assignment of Executive, without his consent, to a position, responsibilities or duties of any materially lesser status or degree of responsibility or authority than his position, responsibilities or duties at the Effective Date; or
  - (B) Employer's diminution of, or refusal to pay when due, Executive's Salary under paragraph no. 4(a)(i), above, or any Bonus awarded to Executive under paragraph no. 4(b), above, (provided that, in the case of any such Bonus only, any conditions placed upon the payment of same have been satisfied); or
  - (C) Employer's material diminution of the aggregate of Executive's Benefits under paragraph no. 4(a)(ii), above, or of the aggregate of Executive's vacations, holidays and sick leave under paragraph no. 4(c), above;
  - (D) Employer's material reduction or diminution of the conditions of Executive's employment including, without limitation, Employer's failure to provide Executive with office, secretarial services and such other facilities and support services as are reasonably appropriate and necessary for the performance of Executive's duties under this Agreement.
  - (E) Any Change in Control as defined in paragraph no. 8(a)(i), above.
- (b) EVENTS: Executive's employment pursuant to this Agreement shall terminate upon the first to occur of any of the following events:
- (i) TERMINATION BY EXECUTIVE: Executive may terminate his employment pursuant to this Agreement for any reason or "for good reason" (as defined above) upon prior written notice to STT, and such termination shall be effective upon the expiration of the time period in such notice (or such earlier time as STT and Executive may agree). For purposes of this paragraph, the time period for said prior written notice shall be six months, if said notice is given during the



first two years of the term of this Agreement, and ninety days if given thereafter.

- (ii) TERMINATION WITHOUT CAUSE BY STT: STT may terminate Executive's employment pursuant to this Agreement without cause upon prior written notice to Executive, and such termination shall be effective upon the expiration of the time period in such notice (or such earlier time as STT and Executive may agree). For purposes of this paragraph, the time period for said prior written notice shall be six

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months, if said notice is given during the first two years of the term of this Agreement, and ninety days if given thereafter.

- (iii) WITH CAUSE BY STT: STT may immediately terminate Executive's employment pursuant to this Agreement for cause upon written notice to Executive, and such termination shall be effective upon the giving of such notice.
- (iv) TERMINATION ON ACCOUNT OF DEATH OR DISABILITY: Upon the death or disability of Executive, Executive's employment pursuant to this Agreement shall terminate, and such termination shall be effective on the date upon which the death or disability of executive occurs.
- (v) NON-RENEWAL OF TERM: Should Executive give STT written notice at least thirty (30) days prior to the expiration of either the original four-year term of his employment or any of the subsequent, consecutive one-year terms set forth in Section 2, above, Executive's employment pursuant to this Agreement shall terminate upon the last day of said term and such termination shall be effective on said day.
- (vi) "TERMINATION DATE" means the date upon which Executive's termination becomes effective.

- (c) TERMINATION PAY: Effective upon the termination of Executive's employment pursuant to this Agreement, STT shall be obligated to pay Executive (or in the event of his death, his estate, or in the event a personal representative is appointed, his

personal representative) only such compensation as is provided in this paragraph no. 8(c). ("Termination Pay"):

- (i) COMPENSATION UPON TERMINATION BY EXECUTIVE OTHER THAN FOR GOOD REASON: If Executive terminates his employment pursuant to this Agreement other than for good reason, then STT shall pay Executive all his compensation owed him under Section 4, above, through and including the Termination Date only.
- (ii) COMPENSATION UPON TERMINATION BY STT WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD REASON: If STT terminates Executive's employment pursuant to this Agreement without cause, or if Executive terminates said employment for good reason, then STT shall pay Executive (A) his Salary for the remainder of the Restricted Period, at the rate at which it was paid at the Termination Date, and (B) an amount equal to either (i) the amount of his target Bonus in respect of the fiscal year in which the Termination Date occurs, if the amount of such target Bonus has been established as of the Termination Date, or (ii) if the amount of such target Bonus has not been determined as of the Termination Date, the amount of the Bonus he received in respect of the immediately preceding fiscal year, and STT shall continue to provide Executive with the medical Benefits he received as of the Termination Date through the last day of the Restricted Period only.

- (iii) COMPENSATION UPON TERMINATION BY STT FOR CAUSE: If STT terminates Executive's employment pursuant to this Agreement for cause, then STT shall pay Executive all his compensation owed him under Section 4, above, through and including the Termination Date only.
- (iv) COMPENSATION UPON TERMINATION BY DEATH OR DISABILITY: If Executive's employment pursuant to this Agreement is terminated by reason of the death or disability of Executive, then STT shall pay Executive or his estate, as appropriate, all his compensation owed him under Section 4, above, through and including the Termination Date only.
- (v) COMPENSATION UPON NON-RENEWAL OF TERM: If Executive's

employment is terminated by non-renewal of its term under paragraph no. 8(b)(v), above, STT shall, in its sole discretion, determine whether Executive shall thereafter be subject to the restrictions set forth in paragraphs nos. 5(b), 5(c) and 5(d), above, for a period of up to but not exceeding one (1) year from the Termination Date. If STT determines that Executive shall be subject to said restrictions, then it shall pay him as if he were terminated without good cause or for good reason as specified in paragraph no. 8(b)(ii), above, during whatever period STT determines said restrictions shall apply. If STT determines that Executive shall not be subject to any such restrictions, then it shall pay him all his compensation owed him under Section 4, above, through and including the Termination Date only.

- (vi) AWARDS UNDER STT INCENTIVE PLANS: Executive shall receive all rights and benefits granted to Executive under STT's 1999 Omnibus Incentive Plan and any other incentive plans of STT in which Executive participates, and any agreements with Executive pursuant thereto. The vesting and exercise of any stock options and the forfeitability of any stock-based grants held by Executive shall be governed by the terms of such plans and the related agreements between Executive and STT rather than this Agreement.

(d) TIMING OF TERMINATION PAY:

- (i) FOR GOOD REASON: If Executive terminates his employment pursuant to this Agreement for Good Reason (except for any Change in Control, in which case the provisions of the following paragraph shall control) or Executive's employment hereunder is terminated by reason of death, then the full amount of any Termination Pay owed to Executive or his estate pursuant to the provisions of this Section shall become due and payable upon the Termination Date. Employer shall make payment at the time(s) and in the manner(s) specified by Executive, or by the executor of his estate, as appropriate, in written notice to Employer. Executive, or the executor of his estate, as appropriate, shall have the right to specify whether payment of the Termination Pay shall be made in whole or in part, and the specification of the payment of any part shall not waive or limit Executive's or his estate's right to receive the remainder of the whole.

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(ii) FOR OTHER REASON: If Executive or STT terminates his employment pursuant to this Agreement for any reason other than than set forth in the preceding paragraph, then any Termination Pay owed to Executive or to his estate shall be paid in accordance with STT's normal payroll schedule.

(e) RELEASE AND WAIVER OF OTHER CAUSES OF ACTION: Payment by STT of the full amount of any Termination Pay owed Executive pursuant to this Agreement shall be made promptly by STT upon receipt of a full and final release and waiver by Executive, in form and substance reasonably satisfactory to STT, of any and every claim and cause of action which Executive may have against STT, STOC, STP or any of their affiliates and subsidiaries arising out of or relating to his employment pursuant to this Agreement, whether such action is at equity or common law or arises out of any federal, state or local statute or regulation (including, but not limited to, the termination of such employment. Further, as long as STT makes timely payment of any portions or installments of Executive's Termination Pay pursuant to the provisions of paragraph no. 8(d), above, Executive shall not commence any such claim or action in any court or before any administrative body or arbitration panel. However, nothing in this paragraph shall be construed to limit Executive's right to bring an action arising out of the breach of any provision of this Agreement in any appropriate court or before any appropriate arbitration panel, consistent with the terms otherwise set forth herein.

## 9. LITIGATION AND REGULATORY COOPERATION AFTER TERMINATION

(a) EXTENT OF COOPERATION: After the termination of Executive's employment hereunder, Executive shall reasonably cooperate with STT in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of STT and which relate to events or occurrences that transpired while Executive was employed by STT, but if and only if such cooperation shall not materially and adversely affect Executive or expose Executive to an increased probability of civil or criminal litigation. Executive's cooperation in connection with such claims or action shall include being available to meet with counsel to prepare for discovery or trial and to act as a witness on behalf of STT at mutually convenient times. After Executive's employment, Executive also shall cooperate fully with STT in connection with any investigation or review of any federal,

state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while Executive was employed by STT, but if and only if such cooperation shall not materially and adversely affect Executive or expose Executive to an increased probability of civil or criminal litigation. However, notwithstanding any of the foregoing, nothing in this paragraph shall be construed to require Executive to cooperate or provide any services to, on or on behalf of STT in excess of four (4) hours in any one day or for a total of more than twenty (20) hours, nor to require Executive to travel more than fifty (50) miles from his home in order to render such cooperation, nor to provide any cooperation under this paragraph after seven (7) years from Executive's Termination Date.

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- (b) COMPENSATION FOR COOPERATION: STT shall compensate Executive for all cooperation or other services rendered pursuant to this Section 9 by paying him the greater of (i) a sum equal to all of his lost salary, earnings and profits attributable to his provision of such cooperation and services, or (ii) compensation on an hourly basis calculated at his final hourly Salary rate. STT shall also reimburse Executive for all costs and expenses incurred in connection with his performance under this Section 9, including, without limitation, all reasonable attorneys' fees and costs.

#### 10. MISCELLANEOUS

- (a) GOOD FAITH EFFORTS; FURTHER ASSURANCES; COOPERATION: The parties shall in good faith undertake to perform their agreements in this Agreement, to satisfy all conditions and to cause the purposes of this Agreement to be accomplished promptly in accordance with its terms.
- (b) ARBITRATION: Any controversy or claim arising out of or relating to this Agreement or the breach thereof not subject to paragraph no. 7(b), above, shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Said arbitration shall be before a panel of three arbitrators. Executive shall choose one arbitrator, STT shall choose one arbitrator and the two arbitrators so chosen shall choose the third arbitrator. Said arbitration shall take place in the state of New Hampshire

within sixty days of notice by one party to the other, unless they shall mutually agree to a longer or shorter time. Judgment upon the award rendered by the panel may be entered by any court of competent jurisdiction. Executive and STT shall each pay fifty percent (50%) of the panel's fees. The panel shall award reasonable interest, attorneys' fees and costs to the prevailing party but shall have no power to award punitive damages.

- (c) NOTICES: Each notice, communication and delivery under this Agreement:
- (i) shall be made in writing signed by the party giving it;
  - (ii) shall specify the section of this Agreement pursuant to which it is given;
  - (iii) shall either be delivered in person, by any form of United States Mail if a return receipt is provided therewith, by telecopier or by a nationally recognized next business day delivery service (such as Federal Express, United Parcel Service, DHL or any other similar delivery service provider);
  - (iv) shall be given to the address specified below;
  - (v) shall be deemed to be given:
    - (A) if delivered in person, on the date delivered, or

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- (B) if sent by telecopier, on the date of confirmation of receipt, by telephone or otherwise, or
- (C) if sent by a nationally recognized next business day courier service with all costs paid, on the date of confirmation of receipt.

The addresses are as follows:

If to Executive, to:

N. Brunet

8 Matthew Drive  
Auburn, NH 03032  
Telecopier:  
Confirm: (603) 647-2061

If to STT:

Strategic Timber Trust, Inc.  
5 North Pleasant Street  
New London, New Hampshire 03257  
Attn: Secretary  
Telecopier: 603/526-7811  
Confirm: 603/526-7800

Such notice shall be given to such other representatives or at such other addresses as a party may furnish to the other parties pursuant to the foregoing. If notice is given pursuant to this Section of a permitted successor or assign of a party, then notice shall thereafter be given as set forth above also to such successor or assign of such party.

- (d) COMPUTATION OF TIME: Whenever the last day for the exercise of any privilege or the discharge of any duty under this Agreement shall fall upon Saturday, Sunday or any public or legal holiday, whether federal or of a state in which the person or entity having such privilege or duty resides or has its principal place of business, the party to this Agreement having such privilege or duty shall have until 5:00 p.m. (Eastern time) on the next succeeding regular business day to exercise such privilege or to discharge such duty.

- (e) ASSIGNMENT; SUCCESSOR IN INTEREST:

- (i) BY STT: Except with the prior written consent of Executive, no assignment, transfer or delegation by STT of any of its rights and obligations under this Agreement may be made to any other entity, except that STT may make any such assignment, transfer or delegation:

- (A) to STOC or STP or any of STT's affiliates or subsidiaries; and

- (B) if STT is merged into or acquired by another

business entity such that there is a Change in Control, to the business entity into which STT is merged or by which it is acquired.

- (ii) BY EXECUTIVE: Executive (or, under appropriate circumstances, the executor of Executive's estate) may transfer or assign any of his rights to receive Executive's Total Compensation or any component of Executive's Total Compensation, in whole or in part, to any of Executive's heirs, devisees, legatees or beneficiaries upon written notice to STT. No other transfer or assignment may be made to any party by Executive of any of his rights or obligations under this Agreement.
- (f) BINDING NATURE: This Agreement shall be binding upon the parties to this Agreement and their respective legal representatives, heirs, devisees, legatees, beneficiaries and successors and assigns; shall inure to the benefit of the parties to this Agreement and their respective permitted legal representatives, heirs, devisees, legatees, beneficiaries and other permitted successors and assigns (and to or for the benefit of no other person or entity, whether an employee or otherwise, whatsoever); and upon a permitted assignment, any reference to a party to this Agreement shall also be a reference to a permitted successor or assign.
- (g) REMEDIES CUMULATIVE: The rights and remedies specified in any provision of this Agreement shall be in addition to all other rights and remedies a party may have under any other agreement or applicable law, including any right to equitable relief and any right to sue for damages as a result of a breach of this Agreement (whether or not it elects to terminate this Agreement), and all such rights and remedies shall be cumulative.
- (h) DEFENSE/INDEMNIFICATION/HOLD HARMLESS: STT shall, to the greatest extent allowed by applicable law, provide Executive a defense, indemnify Executive and hold Executive harmless from any civil or criminal claim, award or judgment which arises out of Executive's acts performed or omissions committed in the course of, or which Executive reasonably believed he performed or committed in the course of, the performance of his duties pursuant to this Agreement. However, nothing in this paragraph shall require STT to provide Executive a defense, indemnify Executive or hold Executive harmless from any such claim, award or judgment which arises out of any such act or omission which, at the time of same, Executive knew or reasonably should have known constituted cause for termination as set forth in paragraph no. 8(a)(iii), above.



- (i) INSURANCE: STT shall cause Executive to appear as an additional named insured on any policy of Directors' and Officers' Liability Insurance which STT procures on behalf of itself and/or on behalf of any of its Executive Officers. Should Executive not appear as an additional named insured on any such policy, STT shall be liable to Executive for the full amount of insurance coverage which Executive would have had pursuant to such policy had STT fulfilled its obligation under this paragraph.

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- (j) EXPENSES OF ENFORCING THIS AGREEMENT: Subject to the provisions of paragraph no. 10(b), above, any expense incurred in enforcing any or all of the provisions of this Agreement shall be reimbursed to the prevailing party.
- (k) INTEGRATION; AMENDMENT: This Agreement:
- (i) supersedes all prior negotiations, agreements and understandings between the parties to this Agreement with respect to its subject matter, and
  - (ii) constitutes the entire agreement between the parties to this Agreement with respect to its subject matter, and
  - (iii) may not be altered or amended, nor may any material provision be waived, except in writing signed by Executive and STT.
- (l) WAIVER: No waiver by any party of any provision (or of a breach of any provision) of this Agreement, whether by conduct or otherwise, in any one or more instances shall be deemed or construed either as a further or continuing waiver of any such provision or breach or as a waiver of any other provision (or of a breach of any other provision) of this Agreement
- (m) CONTROLLING LAW: This Agreement is governed by, and shall be construed and enforced in accordance with, the laws of the State of New Hampshire (except the laws of that jurisdiction that would render such choice of laws ineffective).
- (n) COPIES: This Agreement may be executed in two or more copies, each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement or its terms to produce or account for more than one of such copies.

- (o) COUNTERPARTS: This Agreement may be executed in one or more counterparts (one counterpart reflecting the signatures of all parties), each of which shall be deemed to be an original, and it shall not be necessary in making proof of this Agreement or its terms to account for more than one of such counterparts. This Agreement may be executed by each party upon a separate copy, and one or more execution pages may be detached from one copy of this Agreement and attached to another copy in order to form one or more counterparts.
- (p) RESIGNATIONS: Upon Executive's Termination Date, Executive shall be deemed to have resigned from any and all offices he may have held and from any employment he had with STT, STOC, STP and any and all subsidiaries and affiliates of STT, STOC or STP which were in existence on the Effective Date or which came into existence during the term of this Agreement as set forth in Section 2, above, up to and including the Termination Date.

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- (q) INDEPENDENT: The agreements set forth above (or any part of them) are, shall be deemed and shall be construed as separate and independent agreements. If any such agreement or any part of such agreement is held invalid, void or unenforceable by any court or arbitration panel of competent jurisdiction, such holding shall in no way render invalid, void or unenforceable any other part or provision thereof or any separate agreement.

DULY EXECUTED and delivered by the parties to this Agreement as of the dates set forth below.

Executive:

/s/ Nicolas C. Brunet

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Name: Nicolas C. Brunet

Title: Senior V.P.

Date: 3/24/99

STT:

STRATEGIC TIMBER TRUST, INC.

By: /s/ Joseph E. Rendini

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Name: Joseph E. Rendini

Title: Secretary and VP



STRATEGIC TIMBER TRUST, INC.  
EMPLOYMENT AND NONCOMPETITION AGREEMENT

Strategic Timber Trust, Inc., a Georgia corporation (hereinafter "STT" or "Employer") and Joseph E. Rendini ("Executive") hereby agree as follows:

1. EMPLOYMENT

This Agreement is entered into by STT and Executive in contemplation of a registered initial public offering of STT's common stock ("the IPO"). Executive acknowledges that he has special knowledge, expertise, contacts and other information with respect to the Restricted Business (as defined below), that he will be provided with confidential information (as defined below) and that STT's employment of Executive upon the consummation of the IPO is in consideration of the promises and agreements contained in this Agreement. This Agreement shall govern the employment of Executive as an officer of STT.

2. EFFECTIVENESS OF AGREEMENT; TERM

This Agreement shall become effective on the consummation of the IPO ("the Effective Date"), but shall be void and of no further effect if the IPO has not been consummated by December 31, 1999. The term of Executive's employment pursuant to this Agreement shall be for the period from and including the Effective Date until and including the fourth anniversary of the Effective Date, and for additional, consecutive one-year periods thereafter, all unless earlier terminated as provided in Section 8, below.

3. DUTIES AND RESPONSIBILITIES

During Executive's employment pursuant to this Agreement, Executive shall hold such office or offices as he shall be elected to by the Board of Directors of STT, shall perform the duties of such office or offices pursuant to the direction of the Board of Directors of STT (or any committee thereof) or of the Chief Executive Officer of STT, shall perform such duties to the best of his ability, shall use his good faith efforts to promote the success of the business of STT, shall devote his entire business time to the affairs of STT and shall not engage in any other business activity or occupation during normal business hours for gain, profit, or other pecuniary advantage; provided, however, that the foregoing shall not be construed as preventing Executive from investing or trading for his own benefit or for that of the members of his family in stocks, bonds, securities or other similar forms of investment in public securities markets, serving as a director of another corporation or engaging in any family enterprise or in charitable, civic or other similar pursuits, so long as they do

not materially interfere with Executive's performance of his duties under this Agreement.

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#### 4. COMPENSATION AND RELATED MATTERS

- (a) BASIC: During the Executive's employment pursuant to this Agreement, STT:
  - (i) shall pay Executive a minimum salary of \$ 100,000.00 per annum in accordance with STT's normal and usual payroll schedule ("Salary), and
  - (ii) shall include Executive in all retirement plans, insurance plans and other fringe benefits and arrangements that may be authorized and adopted for the benefit of executives of STT generally. ("Benefits" ).
- (b) RAISES AND BONUSES: STT's Board of Directors, acting directly or through its Compensation Committee, may, in its sole discretion and for any reason, increase Executive's salary and/or grant Executive additional compensation as a bonus (a "Bonus") .
- (c) VACATIONS, HOLIDAYS AND SICK LEAVE: Executive shall be entitled to vacation, holidays and sick days with pay as determined by STT.
- (d) NO DIVESTMENT: No termination of Executive's employment shall divest Executive of his right to receive all or any unpaid portion or installment of any of his Salary or Bonus to which he is otherwise entitled pursuant to the terms of this Agreement.

#### 5. NONCOMPETITION; NO INTERFERENCE

- (a) CERTAIN DEFINED TERMS: For purposes of this Agreement, the following words and phrases have the meanings set forth below:
  - (i) "CUSTOMER" means any purchaser of timber from Employer, and any potential purchaser solicited by Employer, with which Executive had contact during the term of his employment hereunder.

- (ii) "PROPERTY OWNERS" means persons and entities with whom Employer has contracted for, or with whom Employer has undertaken any phase of negotiation regarding, the acquisition of timberlands, timber cutting rights, timber deeds, or any other types of property rights, with which Executive had contact during the term of his employment hereunder.
- (iii) "RESTRICTED BUSINESS" means the business of owning timberland, selling or purchasing timberland, and selling timber or cut logs, or any of the foregoing, whether undertaken directly or indirectly.
- (iv) "TERRITORY" means North America, Central America and South America.

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- (v) "RESTRICTED PERIOD" means the period of Executive's employment with STT pursuant to this Agreement (i.e., the period extending from the Effective Date until the Termination Date, as defined in paragraph no. 8(b)(vi), below) plus one year from the Termination Date.
  - (vi) "EMPLOYER," for purposes of this Section 5 only, means STT, Strategic Timber Operating Co. ("STOC"), Strategic Timber Partners, LP ("STP") and their subsidiaries and affiliates which were in existence on the Effective Date or which came into existence during the term of this Agreement as set forth in Section 2, above, up to and including the Termination Date.
- (b) NONCOMPETITION: During the Restricted Period, Executive shall not, either directly or indirectly:
- (i) have any ownership interest (whether as proprietor, partner, stockholder or otherwise) in, or
  - (ii) be an officer, director or general or managing partner of, or hold a similar position in, or
  - (iii) act as agent, broker or distributor for, or advisor or consultant to, or
  - (iv) be employed in an executive or management position with

any business however organized or conducted which is engaged or which Executive knows or reasonably should know plans to become engaged in the Restricted Business in the Territory without the permission of the disinterested members of STT's Board of Directors. Further, any ownership interest held by Executive at the time of the execution of this Agreement shall be deemed so permitted. However, notwithstanding any of the foregoing, the ownership by Executive of less than one percent (1%) of the shares of the capital stock of a publicly held entity shall in no event be deemed a violation of any provision of this paragraph.

- (c) NO INTERFERENCE WITH CUSTOMERS OR PROPERTY OWNERS: During the Restricted Period, Executive will not in any way, directly or indirectly:
- (i) call upon, compete for, solicit, divert or take away, or attempt to solicit, divert or take away, from Employer the business of any Customer; or
  - (ii) attempt or seek to cause any Customer to refrain, in any respect, from doing business with Employer, or intentionally interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between Employer and Customer; or
  - (iii) call upon, compete for, solicit, divert or take away, or attempt to solicit, divert or take away, any pending or contemplated acquisition of timberlands, timber cutting rights, timber deeds, or any other type of property rights, from a Property Owner; or
  - (iv) attempt or seek to cause any Property Owner to refrain from consummating any pending or contemplated transaction with Employer, or intentionally interfere with, disrupt or attempt to disrupt the relationship, contractual or otherwise, between Employer and any Property Owner.
- (d) NO INTERFERENCE WITH EMPLOYEES. During the Restricted Period, Executive will not in any way, directly or indirectly, request or induce any other employee of Employer to terminate his

employment with Employer.

- (e) NO EFFECT OF TERMINATION OF EMPLOYMENT. The termination of Executive's employment with STT shall not limit or otherwise affect the agreements set forth in this Section 5, which shall continue and expressly survive the termination of Executive's employment and this Agreement.

## 6. RECORDS/NONDISCLOSURE/COMPANY POLICIES

- (a) GENERAL: All records, financial statements and similar documents obtained, reviewed or compiled by Executive as part of the performance of his services for or duties to Employer pursuant to this Agreement shall be the exclusive property of Employer, and Executive shall have no rights in such documents on or after the earlier of Executive's Termination Date (as defined in paragraph no. 8(b)(vi), below) or the last day of the term of this Agreement as set forth in Section 2, above.
- (b) CONFIDENTIAL INFORMATION AND TRADE SECRETS: Executive will not disclose to any person or entity or use for his own benefit or gain, any confidential information or trade secrets of the Employer obtained by him incident to his employment with STT. Executive shall take all reasonable steps to safeguard any confidential information and trade secrets and to protect same against disclosure, misuse, loss or theft. The term "Confidential Information" includes, without limitation, financial information, business plans, prospects and opportunities which have been discussed or considered by the management of Employer, but does not include any information which has become part of the public domain by means other than Executive's failure to observe his obligations hereunder. However, nothing in this paragraph shall be construed as prohibiting, restricting or preventing Executive from making any disclosure required by applicable law, the rules of the New York Stock Exchange or of any other securities market on which STT's securities are listed, or which are otherwise called for in connection with the performance of his duties and responsibilities thereunder or pursuant to this Agreement.

- (c) SURVIVAL: The agreements set forth in this Section 6 shall survive beyond the term of Executive's employment, as set forth in Section 2, above, and shall remain in full force and effect for seven (7) years thereafter.



- (a) REPRESENTATIONS AND WARRANTIES: Executive represents and warrants to STT:
- (i) that, excluding any statutory or case law generally applicable to all persons or entities, he is not subject to any decision, order, decree or judgment issued by any governmental authority or arbitrator or arbitration panel involving noncompetition, nonsolicitation, rights to inventions, work product or intellectual property;
  - (ii) that he will not use in his employment pursuant to this Agreement, disclose to Employer or induce Employer to use any trade secrets or proprietary or confidential information or materials belonging to others.
- (b) REMEDIES: Any violation of any provision of the foregoing Sections 5 and 6 may cause irreparable harm to Employer, and damages may not be an adequate remedy. Employer shall therefore be entitled to seek injunctive relief from any court of competent jurisdiction in the United States of America enjoining, prohibiting and restraining Executive from the continuance of any such violation. However, should Employer seek injunctive relief in any such court, Executive may then elect to have any or all controversies or claims, including any claim for injunctive relief, arising out of or relating to this Agreement or the breach thereof heard and determined by such court or by any other court of competent jurisdiction in the United States of America or to have any or all such controversies or claims settled by arbitration pursuant to the provisions of paragraph no. 10(b), below.
- (c) NOTICE TO OTHERS: Executive hereby agrees that, notwithstanding any other provision of this Agreement, Employer may disclose the prohibitions contained in Sections 5 and 6 hereof to any person or entity, including one that at the time employs or is considering employing Executive.
- (d) MODIFICATION: Should any provision of the foregoing Section 5 or 6 be deemed too broad to permit enforcement to its full extent, then it shall be enforced to the maximum extent permitted by law, and its scope may be judicially modified accordingly in any proceeding brought to enforce such restriction.

## 8. TERMINATION

## (a) CERTAIN DEFINED TERMS

(i) CHANGE OF CONTROL: A "Change of Control" shall be deemed to have occurred when any of the following events occurs:

(A) Any "person" (other than (1) any employee plan established by STT, (2) STT, (3) an underwriter temporarily holding securities pursuant to an offering of such securities, or (4) a corporation owned, directly or indirectly, by stockholders of STT in substantially the same proportions as their ownership of STT) is or becomes the beneficial owner, directly or indirectly, of securities of STT representing 50% or more of the combined voting power of STT's then outstanding voting securities [as used in this paragraph, "person" shall have the same meaning as that term does as used in Sections 13(d) and 14(d) (2) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")]; or

(B) During any period of two consecutive years, individuals who at the beginning of such period constituted the Board and any new director (other than an individual whose nomination for election is in connection with an actual or threatened election contest relating to the election of the directors of STT, as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act) whose appointment, election, or nomination for election by STT's shareholders was approved by a vote of at least two-thirds (2/3) of the directors then still in office who either were directors at the beginning of the period or whose appointment, election or nomination for election was previously so approved, cease for any reason to constitute a majority of the Board; or

(C) There is consummated a merger or

consolidation of STT with or into any other corporation or other entity, or a transaction having a similar result or effect, other than a merger, consolidation, or other transaction which would result in the holders of the voting securities of STT outstanding immediately prior thereto holding securities which represent immediately after such merger or consolidation more than 65% of the combined voting power of the voting securities of either STT or the other entity which survives such merger or consolidation or the parent of the entity which survives such merger or consolidation; or

- (D) There is consummated a sale or disposition by STT of all or substantially all of STT's assets.

- (ii) **DISABILITY:** The term "disabled" and variations of it mean a physical condition of Executive which is of a nature and duration sufficient to require payment under the provisions of STT's long-term disability insurance covering Executive, if such a policy is in effect at the time the disability commences, and, if no such policy is then in effect, a disability determined by a physician mutually agreed upon by STT and the Executive to substantially interfere with the Executive's ability to perform the essential duties of his employment.
- (iii) **FOR CAUSE:** The phrase "for cause" and variations of it mean because of:
  - (A) willful failure (other than by reason of disability) to perform any of the duties or to fulfill any of the obligations set forth in the provisions of Sections 3, 5 or 6, above;
  - (B) willful failure (other than by reason of disability) to respond to a request by the Board of Directors or Chief Executive

Officer of STT which is reasonable in light of Executive's duties as described in Section 3 and of the resources and support provided to him by Employer after notice and reasonable opportunity to cure or comply;

- (C) willful disclosure to any of Employer's then or prospective competitors of any trade secrets or confidential or proprietary information of Employer; or Executive's giving any such competitor material assistance in the conduct of such competitor's business;
- (D) willfully giving any of Employer's then or prospective competitors material assistance in the conduct of its business;
- (E) willfully engaging in any act that constitutes a material conflict of interest with Employer;
- (F) willful usurpation of a material business opportunity of Employer;
- (G) willful misappropriation of a material amount of Employer's funds or property;
- (H) willfully attempting to secure any personal profit in connection with any transaction entered into on behalf of Employer;
- (I) conviction of or the entering of a guilty plea in any court of competent jurisdiction in the United States of America with respect to fraud, theft, embezzlement or any other felony demonstrated to have a direct, material, adverse financial effect on Employer or on a customer or property owner; or

- (J) conviction of or the entering of a guilty plea in any court of competent jurisdiction in the United States of America with respect to a felony which demonstrably and materially impairs or harms Employer's

ability to conduct its business.

(iv) FOR GOOD REASON: For purposes of this Agreement, the phrase "for good reason" and variations of it shall mean because of:

- (A) Employer's assignment of Executive, without his consent, to a position, responsibilities or duties of any materially lesser status or degree of responsibility or authority than his position, responsibilities or duties at the Effective Date; or
- (B) Employer's diminution of, or refusal to pay when due, Executive's Salary under paragraph no. 4(a)(i), above, or any Bonus awarded to Executive under paragraph no. 4(b), above, (provided that, in the case of any such Bonus only, any conditions placed upon the payment of same have been satisfied); or
- (C) Employer's material diminution of the aggregate of Executive's Benefits under paragraph no. 4(a)(ii), above, or of the aggregate of Executive's vacations, holidays and sick leave under paragraph no. 4(c), above;
- (D) Employer's material reduction or diminution of the conditions of Executive's employment including, without limitation, Employer's failure to provide Executive with office, secretarial services and such other facilities and support services as are reasonably appropriate and necessary for the performance of Executive's duties under this Agreement.
- (E) Any Change in Control as defined in paragraph no. 8(a)(i), above.

(b) EVENTS: Executive's employment pursuant to this Agreement shall terminate upon the first to occur of any of the following events:

- (i) TERMINATION BY EXECUTIVE: Executive may terminate his employment pursuant to this Agreement for any reason or "for good reason" (as defined above) upon prior written notice to STT, and such termination shall be effective upon the expiration of the time period in such notice (or such earlier time as STT and

Executive may agree). For purposes of this paragraph, the time period for said prior written notice shall be six months, if said notice is given during the first two years of the term of this Agreement, and ninety days if given thereafter.

- (ii) TERMINATION WITHOUT CAUSE BY STT: STT may terminate Executive's employment pursuant to this Agreement without cause upon prior written notice to Executive, and such termination shall be effective upon the expiration of the time period in such notice (or such earlier time as STT and Executive may agree). For purposes of this paragraph, the time period for said prior written notice shall be

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six months, if said notice is given during the first two years of the term of this Agreement, and ninety days if given thereafter.

- (iii) WITH CAUSE BY STT: STT may immediately terminate Executive's employment pursuant to this Agreement for cause upon written notice to Executive, and such termination shall be effective upon the giving of such notice.
- (iv) TERMINATION ON ACCOUNT OF DEATH OR DISABILITY: Upon the death or disability of Executive, Executive's employment pursuant to this Agreement shall terminate, and such termination shall be effective on the date upon which the death or disability of executive occurs.
- (v) NON-RENEWAL OF TERM: Should Executive give STT written notice at least thirty (30) days prior to the expiration of either the original four-year term of his employment or any of the subsequent, consecutive one-year terms set forth in Section 2, above, Executive's employment pursuant to this Agreement shall terminate upon the last day of said term and such termination shall be effective on said day.
- (vi) "TERMINATION DATE" means the date upon which Executive's termination becomes effective.

- (c) TERMINATION PAY: Effective upon the termination of Executive's

employment pursuant to this Agreement, STT shall be obligated to pay Executive (or in the event of his death, his estate, or in the event a personal representative is appointed, his personal representative) only such compensation as is provided in this paragraph no. 8(c). ("Termination Pay"):

- (i) COMPENSATION UPON TERMINATION BY EXECUTIVE OTHER THAN FOR GOOD REASON: If Executive terminates his employment pursuant to this Agreement other than for good reason, then STT shall pay Executive all his compensation owed him under Section 4, above, through and including the Termination Date only.
- (ii) COMPENSATION UPON TERMINATION BY STT WITHOUT CAUSE OR BY EXECUTIVE FOR GOOD REASON: If STT terminates Executive's employment pursuant to this Agreement without cause, or if Executive terminates said employment for good reason, then STT shall pay Executive (A) his Salary for the remainder of the Restricted Period, at the rate at which it was paid at the Termination Date, and (B) an amount equal to either (i) the amount of his target Bonus in respect of the fiscal year in which the Termination Date occurs, if the amount of such target Bonus has been established as of the Termination Date, or (ii) if the amount of such target Bonus has not been determined as of the Termination Date, the amount of the Bonus he received in respect of the immediately preceding fiscal year, and STT shall continue to provide Executive with the medical Benefits he received as of the Termination Date through the last day of the Restricted Period only.

- (iii) COMPENSATION UPON TERMINATION BY STT FOR CAUSE: If STT terminates Executive's employment pursuant to this Agreement for cause, then STT shall pay Executive all his compensation owed him under Section 4, above, through and including the Termination Date only.
- (iv) COMPENSATION UPON TERMINATION BY DEATH OR DISABILITY: If Executive's employment pursuant to this Agreement is terminated by reason of the death or disability of Executive, then STT shall pay Executive or his estate, as appropriate, all his compensation owed him under Section 4, above, through and including the

Termination Date only.

(v) COMPENSATION UPON NON-RENEWAL OF TERM: If Executive's employment is terminated by non-renewal of its term under paragraph no. 8(b)(v), above, STT shall, in its sole discretion, determine whether Executive shall thereafter be subject to the restrictions set forth in paragraphs nos. 5(b), 5(c) and 5(d), above, for a period of up to but not exceeding one (1) year from the Termination Date. If STT determines that Executive shall be subject to said restrictions, then it shall pay him as if he were terminated without good cause or for good reason as specified in paragraph no. 8(b)(ii), above, during whatever period STT determines said restrictions shall apply. If STT determines that Executive shall not be subject to any such restrictions, then it shall pay him all his compensation owed him under Section 4, above, through and including the Termination Date only.

(vi) AWARDS UNDER STT INCENTIVE PLANS: Executive shall receive all rights and benefits granted to Executive under STT's 1999 Omnibus Incentive Plan and any other incentive plans of STT in which Executive participates, and any agreements with Executive pursuant thereto. The vesting and exercise of any stock options and the forfeitability of any stock-based grants held by Executive shall be governed by the terms of such plans and the related agreements between Executive and STT rather than this Agreement.

(d) TIMING OF TERMINATION PAY:

(i) FOR GOOD REASON: If Executive terminates his employment pursuant to this Agreement for Good Reason (except for any Change in Control, in which case the provisions of the following paragraph shall control) or Executive's employment hereunder is terminated by reason of death, then the full amount of any Termination Pay owed to Executive or his estate pursuant to the provisions of this Section shall become due and payable upon the Termination Date. Employer shall make payment at the time(s) and in the manner(s) specified by Executive, or by the executor of his estate, as appropriate, in written notice to Employer. Executive, or the executor of his estate, as appropriate, shall have the right to specify whether payment of the Termination Pay shall be made in whole or in part, and the specification of the payment of any part shall not waive or limit



(ii) FOR OTHER REASON: If Executive or STT terminates his employment pursuant to this Agreement for any reason other than than set forth in the preceding paragraph, then any Termination Pay owed to Executive or to his estate shall be paid in accordance with STT's normal payroll schedule.

(e) RELEASE AND WAIVER OF OTHER CAUSES OF ACTION: Payment by STT of the full amount of any Termination Pay owed Executive pursuant to this Agreement shall be made promptly by STT upon receipt of a full and final release and waiver by Executive, in form and substance reasonably satisfactory to STT, of any and every claim and cause of action which Executive may have against STT, STOC, STP or any of their affiliates and subsidiaries arising out of or relating to his employment pursuant to this Agreement, whether such action is at equity or common law or arises out of any federal, state or local statute or regulation (including, but not limited to, the termination of such employment. Further, as long as STT makes timely payment of any portions or installments of Executive's Termination Pay pursuant to the provisions of paragraph no. 8(d), above, Executive shall not commence any such claim or action in any court or before any administrative body or arbitration panel. However, nothing in this paragraph shall be construed to limit Executive's right to bring an action arising out of the breach of any provision of this Agreement in any appropriate court or before any appropriate arbitration panel, consistent with the terms otherwise set forth herein.

9. LITIGATION AND REGULATORY COOPERATION AFTER TERMINATION

(a) EXTENT OF COOPERATION: After the termination of Executive's employment hereunder, Executive shall reasonably cooperate with STT in the defense or prosecution of any claims or actions now in existence or which may be brought in the future against or on behalf of STT and which relate to events or occurrences that transpired while Executive was employed by STT, but if and only if such cooperation shall not materially and adversely affect Executive or expose Executive to an increased probability of civil or criminal litigation. Executive's cooperation in connection with such claims or action shall include being available to meet with counsel to prepare for discovery or trial and to act as a witness on

behalf of STT at mutually convenient times. After Executive's employment, Executive also shall cooperate fully with STT in connection with any investigation or review of any federal, state or local regulatory authority as any such investigation or review relates to events or occurrences that transpired while Executive was employed by STT, but if and only if such cooperation shall not materially and adversely affect Executive or expose Executive to an increased probability of civil or criminal litigation. However, notwithstanding any of the foregoing, nothing in this paragraph shall be construed to require Executive to cooperate or provide any services to, on or on behalf of STT in excess of four (4) hours in any one day or for a total of more than twenty (20) hours, nor to require Executive to travel more than fifty (50) miles from his home in order to render such cooperation, nor to provide any cooperation under this paragraph after seven (7) years from Executive's Termination Date.

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- (b) COMPENSATION FOR COOPERATION: STT shall compensate Executive for all cooperation or other services rendered pursuant to this Section 9 by paying him the greater of (i) a sum equal to all of his lost salary, earnings and profits attributable to his provision of such cooperation and services, or (ii) compensation on an hourly basis calculated at his final hourly Salary rate. STT shall also reimburse Executive for all costs and expenses incurred in connection with his performance under this Section 9, including, without limitation, all reasonable attorneys' fees and costs.

#### 10. MISCELLANEOUS

- (a) GOOD FAITH EFFORTS; FURTHER ASSURANCES; COOPERATION: The parties shall in good faith undertake to perform their agreements in this Agreement, to satisfy all conditions and to cause the purposes of this Agreement to be accomplished promptly in accordance with its terms.
- (b) ARBITRATION: Any controversy or claim arising out of or relating to this Agreement or the breach thereof not subject to paragraph no. 7(b), above, shall be settled by arbitration in accordance with the Commercial Arbitration Rules of the American Arbitration Association. Said arbitration shall be before a panel of three arbitrators. Executive shall choose

one arbitrator, STT shall choose one arbitrator and the two arbitrators so chosen shall choose the third arbitrator. Said arbitration shall take place in the state of New Hampshire within sixty days of notice by one party to the other, unless they shall mutually agree to a longer or shorter time. Judgment upon the award rendered by the panel may be entered by any court of competent jurisdiction. Executive and STT shall each pay fifty percent (50%) of the panel's fees. The panel shall award reasonable interest, attorneys' fees and costs to the prevailing party but shall have no power to award punitive damages.

(c) NOTICES: Each notice, communication and delivery under this Agreement:

- (i) shall be made in writing signed by the party giving it;
- (ii) shall specify the section of this Agreement pursuant to which it is given;
- (iii) shall either be delivered in person, by any form of United States Mail if a return receipt is provided therewith, by telecopier or by a nationally recognized next business day delivery service (such as Federal Express, United Parcel Service, DHL or any other similar delivery service provider);
- (iv) shall be given to the address specified below;
- (v) shall be deemed to be given:
  - (A) if delivered in person, on the date delivered, or

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- (B) if sent by telecopier, on the date of confirmation of receipt, by telephone or otherwise, or
- (C) if sent by a nationally recognized next business day courier service with all costs paid, on the date of confirmation of receipt.

The addresses are as follows:

If to Executive, to:

Joseph E. Rendini  
Post Office Box 392  
New London, NH 03257  
Telecopier:  
Confirm: (603) 763-9636

If to STT:

Strategic Timber Trust, Inc.  
5 North Pleasant Street  
New London, New Hampshire 03257  
Attn: Secretary  
Telecopier: 603/526-7811  
Confirm: 603/526-7800

Such notice shall be given to such other representatives or at such other addresses as a party may furnish to the other parties pursuant to the foregoing. If notice is given pursuant to this Section of a permitted successor or assign of a party, then notice shall thereafter be given as set forth above also to such successor or assign of such party.

- (d) COMPUTATION OF TIME: Whenever the last day for the exercise of any privilege or the discharge of any duty under this Agreement shall fall upon Saturday, Sunday or any public or legal holiday, whether federal or of a state in which the person or entity having such privilege or duty resides or has its principal place of business, the party to this Agreement having such privilege or duty shall have until 5:00 p.m. (Eastern time) on the next succeeding regular business day to exercise such privilege or to discharge such duty.

- (e) ASSIGNMENT; SUCCESSOR IN INTEREST:

- (i) BY STT: Except with the prior written consent of Executive, no assignment, transfer or delegation by STT of any of its rights and obligations under this Agreement may be made to any other entity, except that STT may make any such assignment, transfer or delegation:

- (A) to STOC or STP or any of STT's affiliates or subsidiaries; and

- (B) if STT is merged into or acquired by another business entity such that there is a Change in Control, to the business entity into which STT is merged or by which it is acquired.
- (ii) BY EXECUTIVE: Executive (or, under appropriate circumstances, the executor of Executive's estate) may transfer or assign any of his rights to receive Executive's Total Compensation or any component of Executive's Total Compensation, in whole or in part, to any of Executive's heirs, devisees, legatees or beneficiaries upon written notice to STT. No other transfer or assignment may be made to any party by Executive of any of his rights or obligations under this Agreement.
- (f) BINDING NATURE: This Agreement shall be binding upon the parties to this Agreement and their respective legal representatives, heirs, devisees, legatees, beneficiaries and successors and assigns; shall inure to the benefit of the parties to this Agreement and their respective permitted legal representatives, heirs, devisees, legatees, beneficiaries and other permitted successors and assigns (and to or for the benefit of no other person or entity, whether an employee or otherwise, whatsoever); and upon a permitted assignment, any reference to a party to this Agreement shall also be a reference to a permitted successor or assign.
- (g) REMEDIES CUMULATIVE: The rights and remedies specified in any provision of this Agreement shall be in addition to all other rights and remedies a party may have under any other agreement or applicable law, including any right to equitable relief and any right to sue for damages as a result of a breach of this Agreement (whether or not it elects to terminate this Agreement), and all such rights and remedies shall be cumulative.
- (h) DEFENSE/INDEMNIFICATION/HOLD HARMLESS: STT shall, to the greatest extent allowed by applicable law, provide Executive a defense, indemnify Executive and hold Executive harmless from any civil or criminal claim, award or judgment which arises out of Executive's acts performed or omissions committed in the course of, or which Executive reasonably believed he performed or committed in the course of, the performance of his duties pursuant to this Agreement. However, nothing in this paragraph shall require STT to provide Executive a defense, indemnify Executive or hold Executive harmless from any such claim, award or judgment which arises out of any such

act or omission which, at the time of same, Executive knew or reasonably should have known constituted cause for termination as set forth in paragraph no. 8(a)(iii), above.

- (i) INSURANCE: STT shall cause Executive to appear as an additional named insured on any policy of Directors' and Officers' Liability Insurance which STT procures on behalf of itself and/or on behalf of any of its Executive Officers. Should Executive not appear as an additional named insured on any such policy, STT shall be liable to Executive for the full amount of insurance coverage which Executive would have had pursuant to such policy had STT fulfilled its obligation under this paragraph.

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- (j) EXPENSES OF ENFORCING THIS AGREEMENT: Subject to the provisions of paragraph no. 10(b), above, any expense incurred in enforcing any or all of the provisions of this Agreement shall be reimbursed to the prevailing party.
- (k) INTEGRATION; AMENDMENT: This Agreement:
  - (i) supersedes all prior negotiations, agreements and understandings between the parties to this Agreement with respect to its subject matter, and
  - (ii) constitutes the entire agreement between the parties to this Agreement with respect to its subject matter, and
  - (iii) may not be altered or amended, nor may any material provision be waived, except in writing signed by Executive and STT.
- (l) WAIVER: No waiver by any party of any provision (or of a breach of any provision) of this Agreement, whether by conduct or otherwise, in any one or more instances shall be deemed or construed either as a further or continuing waiver of any such provision or breach or as a waiver of any other provision (or of a breach of any other provision) of this Agreement
- (m) CONTROLLING LAW: This Agreement is governed by, and shall be construed and enforced in accordance with, the laws of the State of New Hampshire (except the laws of that jurisdiction that would render such choice of laws ineffective).
- (n) COPIES: This Agreement may be executed in two or more copies,

each of which shall be deemed an original, and it shall not be necessary in making proof of this Agreement or its terms to produce or account for more than one of such copies.

- (o) COUNTERPARTS: This Agreement may be executed in one or more counterparts (one counterpart reflecting the signatures of all parties), each of which shall be deemed to be an original, and it shall not be necessary in making proof of this Agreement or its terms to account for more than one of such counterparts. This Agreement may be executed by each party upon a separate copy, and one or more execution pages may be detached from one copy of this Agreement and attached to another copy in order to form one or more counterparts.
- (p) RESIGNATIONS: Upon Executive's Termination Date, Executive shall be deemed to have resigned from any and all offices he may have held and from any employment he had with STT, STOC, STP and any and all subsidiaries and affiliates of STT, STOC or STP which were in existence on the Effective Date or which came into existence during the term of this Agreement as set forth in Section 2, above, up to and including the Termination Date.

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- (q) INDEPENDENT: The agreements set forth above (or any part of them) are, shall be deemed and shall be construed as separate and independent agreements. If any such agreement or any part of such agreement is held invalid, void or unenforceable by any court or arbitration panel of competent jurisdiction, such holding shall in no way render invalid, void or unenforceable any other part or provision thereof or any separate agreement.

DULY EXECUTED and delivered by the parties to this Agreement as of the dates set forth below.

Executive:

/s/ Joseph E. Rendini

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Name: Joseph E. Rendini

Title: Secretary, General Counsel and VP

Date: 3/24/99

STT:

STRATEGIC TIMBER TRUST, INC.

By: /s/ Thomas P. Broom

-----  
Name: Thomas P. Broom  
Title: EVP  
Date: 3/24/99



ARTHUR ANDERSEN LLP

EXHIBIT 23.1

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the use of our reports and to all references to our Firm included in or made a part of this registration statement.

ARTHUR ANDERSEN LLP

Stamford, Connecticut  
January 25, 1999

## CONSENT OF SUTHERLAND ASBILL &amp; BRENNAN LLP

Pursuant to Rule 436 promulgated under the Securities Act of 1933, as amended, the undersigned hereby consents to the reference to our firm under the heading "Experts" in the prospectus constituting part of this Registration Statement on Form S-11 and to the filing of this consent as an exhibit to such Registration Statement.

SUTHERLAND ASBILL &amp; BRENNAN LLP

By: /s/ Thomas C. Herman

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Thomas C. Herman, Partner

Atlanta, Georgia  
March 25, 1999

## CONSENT OF INDEPENDENT FORESTERS

We consent to the reference to our firm under the heading "Experts" in the prospectus constituting part of this Registration Statement on Form S-11.

MASON, BRUCE & GIRARD, INC.  
/s/ KENNETH M. VROMAN

Portland, Oregon  
March 24, 1999

## CONSENT OF INDEPENDENT FORESTERS

We consent to the reference to our firm under the heading "Experts" in the prospectus constituting part of this Registration Statement on Form S-11.

CANAL FOREST RESOURCES, INC.  
/s/ PETER J. STEWART  
Technical Services Manager

Charlotte, North Carolina  
March 24, 1999

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