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109TH CONGRESS
1st Session

COMMITTEE PRINT

S. PRT. 109–27

REPORT OF STAFF INVESTIGATION OF THE NATURE CONSERVANCY

(VOLUME II: APPENDICES A–T)

Prepared by the Staff of the

COMMITTEE ON FINANCE
UNITED STATES SENATE

CHARLES E. GRASSLEY, *Chairman*
MAX BAUCUS, *Ranking Member*

JUNE 2005

Printed for the use of the Committee on Finance

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APPENDIX A

GENERAL BACKGROUND INFORMATION

The Washington Post

VA SUNDAY, MAY 4, 2003 M1

BIG GREEN | *Inside the Nature Conservancy*

Nonprofit Land Bank Amasses Billions

Charity Builds Assets on Corporate Partnerships

First of three articles

By DAVID B. OTTAWAY
and JOE STEPHENS
Washington Post Staff Writers

The Arlington-based Nature Conservancy has blossomed into the world's richest environmental group, amassing $3 billion in assets by pledging to save precious places. Known for its advertisements decorated with forests, streams and the soothing voice of actor Paul Newman, the 52-year-old charity preserves millions of acres across the nation.

Yet the Conservancy has logged forests, engineered a $64 million deal paving the way for opulent houses on fragile grasslands and drilled for natural gas under the last breeding ground of an endangered bird species.

Conservancy President Steven L. McCormick runs the world's richest environmental organization.

The nonprofit Conservancy has traveled far beyond its humble beginnings, when it relied on small donors and acquired a few small plots at a time. Its governing board and advisory council now include executives and directors from one or more oil companies, chemical producers, auto manufacturers, mining concerns, logging operations and coal-burning electric utilities.

Some of those corporations have paid millions in environmental fines. Last year, they and other corporations donated $225 million to the Conservancy—an amount approaching that given by individuals.

Today, the million-member Conservancy itself is something of a corporate juggernaut, Big Green. It is also the leading proponent of a brand of environmentalism that promotes compromise between conservation and corporate America.

While the Conservancy has done much to preserve green spaces, its strategy of combining conservation and business, including its own pursuit of for-profit ventures, has led to some costly misadventures and awkward positions:

- The drilling foray, on the Texas Gulf Coast, turned into a fiasco. Not only did some endangered birds die after the Conservancy started drilling, but the charity also sold natural gas owned by someone else and kept the profits.

PHOTOS BY SARAH L. VOISIN—THE WASHINGTON POST

Sun shines on Arlington headquarters of the Conservancy, whose portfolio includes 2 million acres and some risky undertakings in recent years.

See BIG GREEN, *A21, Col. 1*

BIG GREEN, *From A1*

The Conservancy and its partners settled a resulting lawsuit last year for $10 million.

■ In Virginia, the Conservancy has invested in a number of for-profit businesses on the Eastern Shore: a bed-and-breakfast, an oyster-and-clam farm, an "heirloom" sweet-potato-chip operation, a seaside home development. The businesses failed, leaving a $24 million debt.

■ The Conservancy has profited by selling its name and logo to companies, which use the image to gain what one corporate executive calls "reputational value." A Conservancy focus group study found that a few participants said accepting corporate cash in certain cases would be "the equivalent of a payoff."

■ The charity engages in numerous financial transactions with members of the Conservancy family—governing board members and their companies, state and regional trustees, longtime supporters. The nonprofit organization has bought land and services from board members' companies, and it has declined to release property appraisals from the deals. It has sold choice Conservancy land to past and present trustees through its "conservation buyers" program, which offers steep discounts in exchange for development restrictions. It has lent cash to its executives, including $1.55 million to its president.

■ The Conservancy's mission makes it reluctant to take positions on some leading environmental issues, including global warming and drilling in Alaska's Arctic National Wildlife Refuge. Corporations represented on the Conservancy's board and advisory council have lobbied nationally on the corporate side of the issues. A Conservancy official said the group avoids criticizing the environmental records of its corporate board members.

■ Some of the charity's scientists have complained that the organization has drifted from its stated commitment to the "best available science." One scientist complained in an internal 2001 Conservancy study: "Science is not understood or supported by senior managers and state directors. [The] entire focus is on land deals." Said another: "I am not convinced [the Conservancy] is science-based, as we claim."

While Conservancy officials now acknowledge that the charity made mistakes in Texas and Virginia, they dismiss them as isolated incidents and stoutly defend their philosophy and initiatives as a pragmatic strategy for conservation in the 21st century.

Conservancy officials say their approach—which falls under a larger environmental philosophy known as "compatible development"—allows them to leverage corporate America's wealth to achieve conservation on a massive scale. Instead of insisting in every case on the pristine preservation of land, the charity practices the art of the possible, its officials said.

"There are trade-offs in conservation," Conservancy President Steven J. McCormick said in an interview. "We make a judgment that less than 100 percent is acceptable."

Along the way, the Conservancy hopes to entice companies into more environmentally friendly practices. Alliances with logging companies, for example, have protected thousands of acres from development, even though logging on the land often continues, McCormick said.

"Some of our brethren say we're dealing with the devil, but I say quite the contrary," said Conservancy official Michael Horak. "Some of the deals we're making are quite extraordinary."

Today, the organization says it manages 7 million preserved acres through a variety of means and owns 2 million outright. Much of that land is held in 1,400 nature preserves, which it describes as the world's largest private sanctuary system.

In late 2000, the nonprofit purchased the Palmyra Atoll, 15,500 acres of coral reefs, islets and lagoons 1,000 miles south of Hawaii. Last year, Conservancy researchers on Borneo discovered a large number of orangutans, which the organization said increased the known population by 10 percent. Also that year, the Conservancy acquired the 100,000-acre Baca Ranch, the final step toward creating the Great Sand Dunes National Park in Colorado.

Supporters say that the organization's enormous wealth has enhanced its influence, within the environmental movement and with the government. Last year, the Conservancy received $105 million in government consulting fees and other payments.

Respected naturalists praise the Conservancy's programs. Along with the chief executive officers, the Conservancy's board has included prominent scientists and academics. Even some critics acknowledge that global environmental health would suffer without the charity's resources devoted to land preservation. Still, some former high-ranking Conservancy officials believe the organization has grown too close to business.

"It was the wrong decision to get so close to industry," said David Morine, who headed the charity's land acquisition for 15 years and helped pioneer the group's corporate ties. "Business got in under the tent, and we are the ones who invited them in.

"These corporate executives are carnivorous. You bring them in, and they just take over."

Morine now says letting them in was "the biggest mistake in my life."

Becoming Big Green

The Nature Conservancy opened its doors in 1951 with a handful of staffers laboring out of a Washington office shared with another environmental group.

Early on, the Conservancy settled on buying land as its special niche in the environmental movement. In 1955, the Conservancy chipped in to help buy 60 acres of river gorge in New York and Connecticut. That simple strategy—raising cash to buy raw land—became known within the group as "bucks and acres."

Environmentalism bloomed with the publication of Rachel Carson's "Silent Spring" in 1962 and the sixties' activism that would result in the first "Earth Day" in 1970. In those days of turmoil, the Conservancy grew slowly but steadily and kept to its quiet land-acquisition strategy.

In the 1980s, the Conservancy's nonconfrontational approach paid off. The numbers tell the story. That decade, its revenue grew from $58 million to $222 million, and its staff surged from 77 to 933 employees.

In the 1990s, the age of the bubble economy and lavish corporate largess, astonishing growth occurred. Corporate donations mushroomed from $1.8 million in 1993 to $225 million last year. (The Washington Post Co. is a regular contributor, last year giving $1,500.) By 2002, Conservancy revenue had reached $972 million, more than 10 times the size of Sierra Club revenue.

Today, the Conservancy oversees 3,200 employees in 528 offices scattered across every state and 30 countries. The organization has many of the trappings of a Fortune 500 company: global reach, consumer focus groups, meetings with world leaders, sophisticated marketing and cost-benefit analysis applied to conservation. The group's "worldwide" headquarters is in an eight-story, $28 million building in Arlington.

"I really believe that in the next century that the most influential institutions on the planet will be nongovernmental organizations," McCormick said in a speech at the Conservancy's 50th anniversary meeting in October 2001. "I believe the Nature Conservancy will set that pattern."

The Conservancy now boasts 1,900 cor-

BY MICHAEL WILLIAMSON—THE WASHINGTON POST

Children play in Cheshire, Ohio, a community marked by emissions from American Electric Power, a Nature Conservancy supporter.

porate sponsors. Eastman Kodak Co. vice president Hays Bell recently described the Conservancy as a "natural choice" for partnerships because there was "no conflict potential." The Conference Board, a nonprofit that advises businesses, said in a report on partnerships with environmental groups that the Conservancy is especially popular with corporate executives because of its "dependability in joint ventures."

McCormick said: "By working with corporations, which control a lot of land, which are very influential, we think we make a big difference."

The Conservancy's relationships with Fortune 500 corporations have become institutionalized. Its unpaid 38-member Board of Governors has included past and present executives and directors of major industrial corporations: John F. Smith Jr., chairman of General Motors, the world's largest car manufacturer; E. Linn Draper Jr., chairman of American Electric Power Co., the nation's largest electricity producer; A. D. "Pete" Correll, chairman of Georgia-Pacific Corp., the country's second-biggest paper products business; and A.W. "Bill" Dahlberg, former chairman of Southern Co., another leading power producer.

Some of these companies face pressure from more confrontational environmental groups and from government regulators.

A recent study of utilities by the Natural Resources Defense Council and others named American Electric the largest U.S. air polluter. American Electric's operations in Cheshire, Ohio, have turned that quaint river town into a ghost. Sulfur dioxide emissions from one of the company's plants have at times enveloped Cheshire, prompting the utility to buy out most of the 221 residents, who agreed not to sue. A utility spokesman said the plant is clean, but its operations were encroaching on the community.

Elsewhere, the utility is fighting a lawsuit filed by the Environmental Protection Agency alleging Clean Air Act violations.

American Electric has joined the Conservancy in an $11 million forest preservation initiative in Bolivia. If the concept were approved by federal regulators, the project one day would supply the company with "pollution credits." That would lessen its need to install costly emissions controls at its U.S. plants.

Opponents of the Conservancy's approach argue that corporations have seized control of the charity from within.

"The Conservancy brings in corporate board members who don't know much about conservation—or even care that much about it," said Huey Johnson, the former head of the Conservancy's western U.S. operations and a founder of the Trust

for Public Land. Two years ago, he won the United Nations' top environmental award.

The Conservancy offers corporations seats on its International Leadership Council for $25,000 and up. Once there, executives can "meet individually with Nature Conservancy staff to discuss environmental issues of specific importance to the member company," Conservancy literature states.

Council members include Pacific Gas and Electric Co., which paid $333 million to settle claims that its plants polluted water and caused cancer among nearby residents, a legal battle dramatized in the film "Erin Brockovich."

Another member is Dow Chemical Co., owner of Union Carbide. Last year, the Conservancy's Louisiana chapter gave Dow its conservation leadership award for expanding a greenbelt bird sanctuary around its plant in Plaquemine, La. The plant also has drawn the attention of a grand jury investigating vinyl chloride contamination of area water, Dow officials recently confirmed.

Avoiding Controversy

Sometimes, the Conservancy's nonconfrontational approach puts it on the sidelines of the major environmental issues of the day.

In Alaska, the Conservancy has stood silent as environmentalists battle proposed oil drilling in the Arctic National Wildlife Refuge. The decision to skirt the fight followed intense debate in 2001 by the Conservancy's board, which yielded in the end to the wishes of its Texas and Alaska chapters, senior Conservancy officials said.

Two major oil companies that support the Alaska drilling—BP and Exxon Mobil—hold Conservancy leadership council seats. Exxon Mobil has donated $5 million to the Conservancy. Another supporter of drilling, Phillips Alaska Inc., has given at least $1 million, records show.

McCormick defended the Conservancy's refusal to choose sides between what he called "ideological factions" in the Alaska debate. He described the issue as "not an argument for the Nature Conservancy." Getting involved, he said, could "completely drain our credibility." He concluded: "It's more courageous to stay on principle and get conservation through some concessions from those who use the land."

The Conservancy also has been among the last environmental groups to recognize global warming and the need to reduce greenhouse gas emissions. Two of the Conservancy's strongest corporate supporters, Exxon Mobil and GM, have opposed stiff emission-cutting efforts.

Exxon Mobil for years led the Global Climate Coalition, an industry group that debunked global warming. Exxon Mobil has long been a leading lobbyist against the Kyoto accord to reduce emissions.

One environmental group, Environmental Defense, has dubbed GM "Global Warmer Number One" because its vehicles are a major source of carbon-dioxide emissions. GM Chairman Smith headed the Conservancy's $1 billion fundraising campaign, and over the past decade the company has given the Conservancy cash and vehicles worth $22 million.

"Twenty-two million dollars is going to go a long way to help preserve biodiversity," said Terry Pritchett, GM's director of global climate issues.

McCormick finally took up the global warming issue in the Conservancy's bimonthly magazine in the fall of 2001.

"Typically, the Conservancy has avoided the political debate over global warming," McCormick wrote. "But we haven't buried our institutional head in the sand."

He said that climate change was "real," and the Conservancy needed to figure out how to confront it "with a cool temper and a vigilant eye for solutions."

Last year, the Conservancy launched an initiative adopting the approach that would supply corporations with pollution credits.

GM contributed $10 million to the plan.

Greenwashing

Scientists rate the conversion of land to human habitat—urban sprawl—as Earth's greatest menace. "Sprawl is without a doubt the most pervasive threat," an unidentified Conservancy scientist wrote in response to a survey in 2001, obtained by The Post. "Failure to recognize and address this threat on all levels, not just buying land, will result in a mission-critical policy failure."

Despite such assessments, the Conservancy has forged a close partnership with Centex Corp., one of the nation's largest residential construction firms. Centex and its subsidiaries have built almost 400,000 houses, many at 28 sites ringing the District of Columbia.

Centex and its divisions have given and pledged $3 million to the Conservancy. Centex sits on the Conservancy's leadership council, and the chairman of Centex Homes served on a Conservancy advisory board. Two years ago, a Conservancy chapter in Texas gave Centex Homes its Conservation Leadership Award for "corporations that have shown leadership in and dedication to conserving natural resources."

Centex also has helped the Conservancy retain its claim of having 1 million members. The charity handed out more than 40,000 free memberships to Centex employees and customers, a November 2001 Conservancy memo said. Other corporations, including Enron, also have given away memberships.

Although its advertisements feature photographs of dense forests, the Conservancy is allied with two of the nation's biggest tree consumers, Georgia-Pacific Corp. and International Paper Co.

The Conservancy defends its partnerships with loggers by arguing that it has persuaded them to adopt more conservation-friendly methods—reduced clear-cutting, fewer access roads and wider buffer zones along rivers and streams. The Conservancy says it has also made loggers more sensitive to endangered species, such as the red cockaded woodpecker. Company spokespersons agree.

The Dogwood Alliance, a coalition of 70 grass-roots environmental groups, says the change in methods is superficial and the damage remains considerable. Further, the partnership gives loggers a public relations boost from "greenwashing," Dogwood and other environmental groups charge.

Georgia-Pacific and International Paper have used the Conservancy "to pull the wool over the public's eyes," said Trevor Fitzgibbon, Dogwood's former spokesman. "It makes it seem they are doing great things for the environment when what they're doing is destroying the South's natural heritage."

For nearly a decade, the Conservancy helped Georgia-Pacific manage environmental risks arising from its logging along North Carolina's Lower Roanoke River.

"It has absolutely changed GP's image," said Georgia-Pacific Chairman Correll, a Conservancy board member.

For its part, Georgia-Pacific has been generous to the Conservancy, donating $3 million in 2000 alone.

International Paper is on the Conservancy's leadership council. In 1998, the company sold 185,000 acres of Maine forest to the Conservancy for $35 million. The Conservancy then contracted with a Maine company to log 136,000 acres of the land to help offset costs.

McCormick sits with International Paper on the American Forest and Paper Association's Sustainable Forestry Board, a panel set up by the industry to certify that loggers are being eco-friendly.

Such ties create a "commonality of interest" between the Conservancy and International Paper, said Tom Jorling, a company vice president. "This enables us to get more legitimacy because the Conservancy has the kind of reputation it does."

Board Conflicts

The Internal Revenue Service requires charities to disclose all business deals they do with board members or their corporations. At the Conservancy, the list of such conflicts of interest is long.

Millions have gone toward property deals with such companies, including $7.88 million in transactions with Georgia-Pacific. In 1999, the Conservancy paid a Georgia-Pacific subsidiary $380,000 for 1,100 acres in Maine. In 2000, the Conservancy paid $7.5 million to the same subsidiary for 9,500 acres in Louisiana, much of it stripped of trees by clear-cutting, Conservancy documents show. The charity got a $1 million discount, according to an internal document.

Conservancy officials said the land purchases were guided by "the best available science" and based on an independent appraisal and scientific review, which they declined to make public. They said Correll recused himself from voting on the purchases.

The Conservancy's business with board members and their companies also extends to purchases of products, legal assistance and even development rights.

The Conservancy paid Orvis Services Co. $649,000 in 1998 for placing some development restrictions on its private, 1,600-acre Florida hunting preserve, records show. The chief executive of the closely associated Orvis sat on the Conservancy's board.

The Conservancy also allowed S.C. Johnson & Sons Inc. to use the Conservancy logo in ads for toilet cleaner and other products, receiving $100,000 in return. The corporation's chairman sat on the nonprofit's board.

The Conservancy told the IRS that the board members in those instances recused themselves from voting on the transactions. Since July 1, 1998, the Conservancy has reported that 11 of its board members or their companies have engaged in one or more financial transactions with the charity.

In a written response to Post questions, the Conservancy said that each deal was "entirely appropriate" and that most included discounts or donations. Such deals are permissible under IRS rules if the charity documents that its board members and their companies have not profited unduly.

Conservancy Board Chairman Anthony P. Grassi, retired chief financial officer of Credit Suisse First Boston Inc., said he sees nothing unethical in the Conservancy's doing business with board members.

Still, such financial transactions are discouraged in the nonprofit world. Known as "self-dealing," the arrangements can lead to revocation of an organization's tax-free status if the charities cannot show that they have guarded against potential abuse.

Guidelines established by the nonprofit advisory group BoardSource say: "Good judgment is affected if [a] board member's personal or professional concerns conflict with the best interest of the organization. . . . Even the appearance of a conflict of interest can damage the organization's reputation."

Credibility and Trust

While publicly enthusiastic about working with industry, Conservancy officials remain privately concerned about image. Recently, the Conservancy contracted with Wirthlin Worldwide, a consultant on consumer tastes, to conduct focus groups on the issue.

A June 2001 Wirthlin report, obtained by The Post, reassured Conservancy executives that the participants considered corporate partnerships "generally good." But it cautioned about the potential downside of selling a nonprofit's credibility and trust.

"There was a general feeling that some partnerships are created to fool or manipulate," the report said. Some of those polled worried the Conservancy might be helping the companies present a "false image to the public."

The participants were tested on their reactions to the Conservancy's hypothetical relationships with various companies: Bristol-Myers Squibb Co., Anheuser-Busch Cos., Wal-Mart Stores Inc., BP Amoco, Intel Corp. and Cadillac.

What the Conservancy said:

Steve McCormick's compensation

Steve McCormick's compensation is in line with compensation for CEOs of other nonprofits of similar size and complexity. We have provided you with information on salaries at other comparable non-profits to support this contention. In addition, we want to point out that the loan that was provided to McCormick at the time of his move from California to Washington DC was made with an interest rate of 7 percent, the market rate at the time of the loan, and well above what is currently charged in the market. As you know, Mr. McCormick is in the process of arranging for a loan from a commercial leader so that he can close out the loan from the Conservancy.

What the property record showed:

The Note provides for an initial interest rate of 4.59%. The Note provides for changes in the interest rate and the monthly payments, as follows:

Among the results: most participants expressed negative feelings about partnerships with Anheuser-Busch ("bad"), Wal-Mart ("absurd") and BP ("inappropriate"). There is no indication that they were told BP sits on the Conservancy's leadership council.

"Many feel a relationship between [the Conservancy] and an oil company is inherently incompatible," the report said.

The study focused in part on industries with which the Conservancy had what researchers described as an "inherent conflict of interest." Not only oil, but logging, mining, and power generation. Some participants considered taking cash from such industries unethical.

"There is a minority who feel that by accepting a financial contribution, [the Conservancy] would be sending out a message that they condone the business practices of that company," the report said. "To this minority, accepting financial contributions from these types of companies is the equivalent of a payoff."

Logo for Sale

Toilet cleaner is not the only product associated with the Conservancy.

The Conservancy has rented its name and logo for use on neckties, breakfast cereal, coffee and credit cards. Companies pay six-figure fees to stamp the Conservancy's oak leaf on their packaging. Conservancy vice president Michael Coda, who developed the program, describes logo sales as a "very good deal" for the nonprofit.

"A partnership with the Nature Conservancy is good business!" Conservancy literature says, stressing that its members are "upscale, urban, and have annual incomes averaging $50,000."

The practice offends some consumer activists. When affixed on a raisin bran box, the logo does not guarantee the product inside is more environmentally friendly than the next brand on the supermarket shelf, activists say.

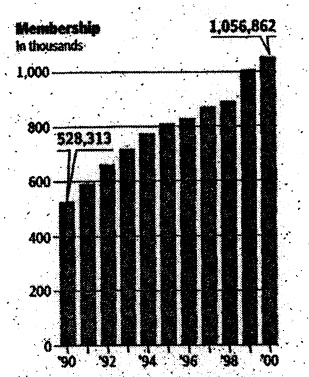
"That's misleading—a consumer is going to think that that breakfast cereal was produced with some kind of sustainable agriculture," said Urvashi Rangan of Consumers Union, a watchdog group that tracks logo usage and publishes Consumer Reports magazine.

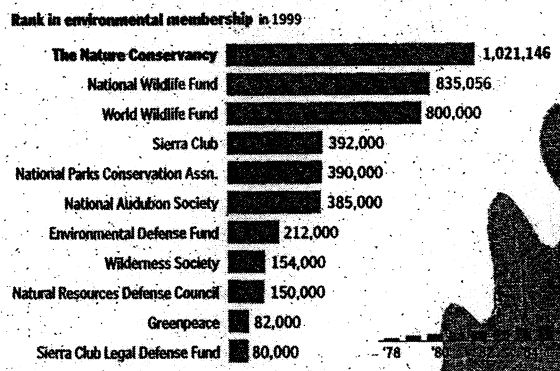
General Mills' Nature Valley granola bars have displayed the Conservancy logo since 1998. "There is nothing more environmentally friendly" about the product, Rangan said. "We have a big problem with that."

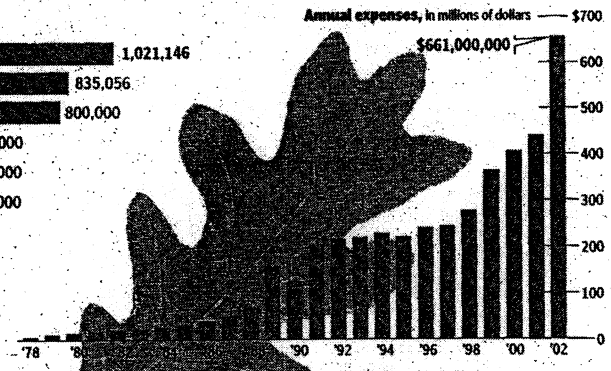
There is also no disclosure on the snacks that, until last fall, a General Mills Inc. corporate director sat on the Conservancy's board. "That's a huge conflict of interest," Rangan said. Senior Conservancy officials said they were unaware of Nature Valley's ties to their former board member.

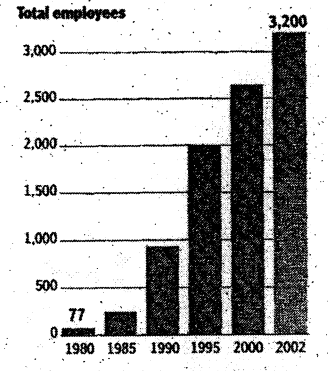
Staff researchers Alice Crites and Lucy Shackelford contributed to this article.

The Nature Conservancy's Expanding Universe of People, Expenses . . .









1950 — 1960 — 1970

1951: The Nature Conservancy incorporates in Washington, D.C. Shares office with the Wilderness Society.

1953: Membership tops 1,000.

1955: First land acquisition, 60 acres along Mianus River Gorge in New York State.

1958: Membership hits 3,000.

1961: The Nature Conservancy reaches milestone of 10,000 acres of protected land.

1966: Hires first full-time president, Charles H.W. Foster.

1967: Buys land in Mason Neck, Va., then resells it to the federal government in the first purchase of its size and type for the Conservancy.

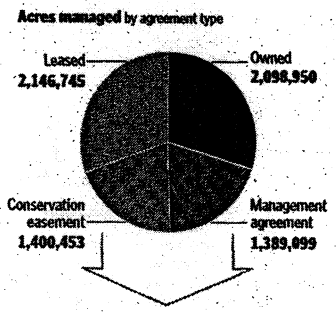
1968: Ford Foundation provides $6 million credit to finance purchase of land for later sale to the U.S. government.

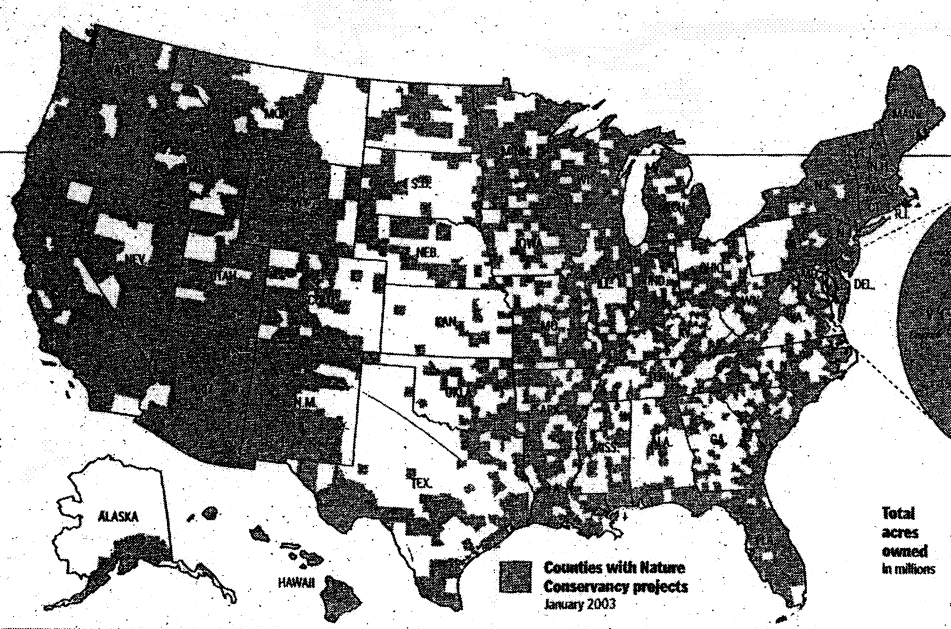
1974: Adopts plan to become America's preeminent conservation group.

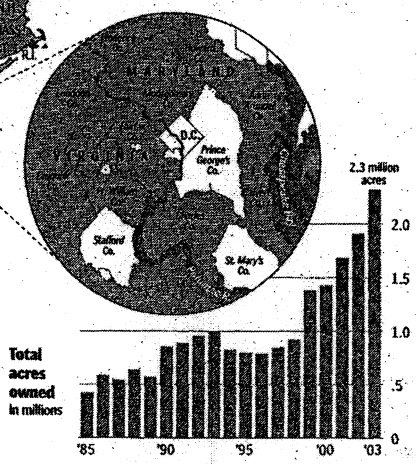
SOURCE: The Nature Conservancy

BY LAURA STANTON—THE WASHINGTON POST

. . . and Projects







1980 — 1990 — 2000

1983: Richard King Mellon Foundation donates $25 million.

1988: National Geographic magazine raises Conservancy's profile with feature story, "Quietly Conserving Nature."

1991: Last Great Places campaign is announced—a "science-driven" initiative "to protect entire ecosystems."

1995: After 20 years, executive vice president John Flicker departs to head the National Audubon Society.

1999: Conservancy membership surpasses 1 million.

2000: $1 billion fund-raising effort called the "Campaign for Conservation" is launched. The Conservancy publishes an exhaustive analysis of biodiversity in the United States.

COMPUTER MAP BY SARAH COHEN, GRAPHIC BY LAURA STANTON—THE WASHINGTON POST

The Nature Conservancy and Its Corporate Allies

	AMERICAN ELECTRIC POWER CO. *Largest U.S. power generator*	GENERAL MOTORS CORP. *World's largest auto manufacturer*	GEORGIA-PACIFIC CORP. *Major U.S. paper products company*	SOUTHERN CO. *Major U.S. power company*
Board Ties	■ AEP president on Conservancy board. ■ Member Conservancy Leadership Council.	■ GM chairman on Conservancy board. ■ Member Conservancy Leadership Council.	■ GP chairman on Conservancy board. ■ Member Conservancy Leadership Council.	■ Former Southern CEO was on Conservancy board. ■ Affiliated company on Conservancy Leadership Council.
Donations and Relationships	■ Donated more than $10 million. ■ Partner with Conservancy in project to offsetate greenhouse gas pollution credits by preserving Latin American forests.	■ Donated $2.2 million. ■ Chairman headed $1 billion fund raiser. ■ Partner with Conservancy in greenhouse gas pollution credit program.	■ With foundation pledged $3 million donation. ■ Helps Conservancy manage logging on 21,000 acres. ■ With associates, sold Conservancy millions of dollars in land.	■ With subsidiaries, donated $2.6 million. ■ Sponsored Conservancy's 50th anniversary celebration. ■ Conservancy president praised Southern for "commitment to environment."
Environmental Issues	■ Named top air polluter among U.S. power companies by Natural Resources Defense Council and other groups. ■ EPA suing for allegedly violating Clean Air Act. ■ Major coal burner.	■ GM vehicles emit tons of greenhouse gases. ■ Named "Global Warmer Number One" by Environmental Defense. ■ Liable for $219 million in environmental investigation and cleanup costs.	■ Involved in cleanups at 170 Superfund sites. ■ Liability for Michigan PCB cleanup to GP and others could reach $2.5 billion. ■ Paid $6 million fine and agreed to spend $26 million on plywood plant pollution control. ■ Affiliate paid $10 million for Wisconsin pollution.	■ Ranked most polluting U.S. utility in 1999 study by Public Interest Research Group. Study in 2002 by Natural Resources Defense Council and other groups ranked second biggest polluter. ■ EPA suing for allegedly violating clean air laws in four states. ■ Major coal burner.

The world's richest environmental group is governed, funded and advised in part by well-known corporations. Information on environmental issues comes from government agencies, court documents and advocacy groups.

INTERNATIONAL PAPER CO. *Largest U.S. forest and wood products company*	EXXON MOBIL CORP. *World's largest private oil company*	BP CO. *Fourth-largest private oil company*	CENTEX CORP. *Major home builder*	DOW CHEMICAL CO. *Major chemical company*
■ Member Conservancy Leadership Council	■ Member Conservancy Leadership Council	■ Member Conservancy Leadership Council ■ Affiliated company president is trustee of Alaska Conservancy chapter	■ Member Conservancy Leadership Council	■ Member Conservancy Leadership Council ■ Former chairman helped found Michigan Conservancy chapter
■ Sold hundreds of thousands of acres to Conservancy ■ Sits with Conservancy on panel certifying logging practices	■ Donated $5 million ■ Donated land for Texas nature preserve ■ Given Conservancy corporate leadership award	■ Donated $40 million Louisiana tract to nonprofit established with Conservancy ■ Affiliated company is major donor to Alaska Conservancy	■ Donated $3 million ■ Gave free Conservancy memberships to home buyers ■ Given Texas Conservancy's Conservation Leadership Award	■ Donated $525,000 ■ Received Louisiana Conservancy Corporate Conservation Leadership award for creating a greenbelt in Plaquemine, La.
■ Involved in Superfund cases with $57 million estimated liability ■ Named largest U.S. timber industry polluter by Public Interest Research Group ■ Paid $72,000 to settle charges it destroyed spotted owl habitat	■ Exxon Valdez tanker spilled 11 million gallons of crude oil in 1989. Court assessed $4 billion penalty ■ New York state sought $2 million for gas station leaks last year	■ Subsidiary pleaded to felony and paid $22 million for hazardous waste in Alaska ■ Agreed to pay $10 million for pollution violations elsewhere ■ Controls largest oil operation on Alaska's North Slope	■ Has built 400,000 homes and increasingly come under scrutiny by planning agencies and community groups opposed to "urban sprawl" development, according to Domini Social Investments	■ Dow Plaquemine plant has provided information to criminal investigation into pollution ■ Faces $443 million liability for environmental remediation and restoration ■ Owns Union Carbide Corp., whose Bhopal, India, plant was site of thousands of toxic gas deaths in 1984

THE WASHINGTON POST

$420,000 a Year and No-Strings Fund

Conservancy Underreported President's Pay and Perks of Office

By JOE STEPHENS *and* DAVID B. OTTAWAY
Washington Post Staff Writers

Officials at the Nature Conservancy say their finances are an open book, a stance charity experts describe as essential to promoting public trust. Still, simple answers can prove difficult to get.

Questions about the compensation of Nature Conservancy President Steven J. McCormick and his access to a discretionary fund required prolonged discussions with Conservancy officials or brought conflicting or incomplete responses.

In February 2001, the Conservancy persuaded McCormick, a former longtime executive at the charity's California branch, to leave his San Francisco law practice and move to Virginia to run one of the nation's largest nonprofit organizations.

That fall, the Conservancy reported to the Better Business Bureau's charity-tracking service that McCormick's compensation was $275,000, plus usual health and retirement benefits.

In November 2002 Conservancy communications director David Williamson sent The Washington Post a chart showing that some nonprofits paid their presidents more—from the Boy Scouts of America at $308,000 to the American Red Cross at $377,000. Williamson also disclosed that McCormick had received a $75,000 down payment on a house.

After repeated inquiries over months, McCormick and other senior officials said that the Conservancy had underreported McCormick's compensation. In addition to his base salary, they said, McCormick also got a $75,000 signing bonus, a $75,000 yearly living allowance and a $1.55 million home loan from the Conservancy.

McCormick ultimately provided information showing that his compensation and benefits for 2002 totaled about $420,000.

He used the loan to buy a new $1.7 million house in the Reserve, an upscale subdivision in McLean.

Williamson initially said the Conservancy made the adjustable-rate home loan at 7 percent, which he described as the prevailing rate at the time. McCormick later said the rate was 6 percent. Real estate records showed it was 4.59 percent. McCormick apologized for providing inaccurate information. "We were wrong," he said.

A Jan. 17 memo to hundreds of Conservancy trustees informing them of the mortgage and The Post's inquiries described the rate as "above market." Mortgage specialists, however, said 4.59 percent appeared below market for such adjustable-rate loans last May. Keith Gumbinger, vice president of loan-monitoring company HSH Associates, described the terms as a "pretty good deal."

A Conservancy internal memo suggested that McCormick would have had trouble securing outside financing because he already had a mortgage in California and "did not have the ability at that time to carry two loans." After confirming the Conservancy's loan, McCormick said he planned to immediately repay it with bank financing to avoid "scrutiny of the propriety of the loan." On Thursday, a Conservancy spokesman said McCormick had repaid the home loan.

"I don't want to do anything that jeopardizes the reputation of the Conservancy," McCormick said.

In an interview Thursday, Williamson said he will be leaving his job on Friday, after 12 years at the Conservancy, to pursue "other business opportunities."

Other Conservancy documents obtained by The Post revealed a pool of cash known as "the President's Discretionary Fund." Those funds, memos show, paid for ads in six major national markets featuring nature scenes and Paul Newman's voice.

Questioned about the fund, Conservancy officials were initially vague. They eventually supplied figures showing it had swelled from $9.5 million in 1998 to $23 million last year.

Williamson told The Post the fund had been abolished. McCormick said that the discretionary account, renamed the Quick Strike Fund, held $3 million this fiscal year.

The documents identify the fund as the source of millions spent on marketing. Some of the fund's cash came from the sale of land considered ecologically insignificant, a memo shows.

The fund also paid for donor-tracking software, government relations programs, an Indonesian ecotourism project and unspecified "emergency needs" determined by McCormick, according to a written statement from the Conservancy in response to reporters' inquiries.

McCormick also used the fund last fall to dole out $600,000 to losing participants in a United Nations environmental competition. In August, at a South African conference, he announced the Conservancy would give $30,000 to each of competition's 20 runners-up. McCormick told The Post his announcement of the gifts was a spur-of-the-moment decision.

Public financial reports do not mention the discretionary account, but Conservancy officials said the funds are included in amounts reported in various categories. Conservancy finance director Craig T. Neyman described the account as money "in the budget without a corresponding use."

Told about the fund by a reporter, charity expert Daniel Kurtz called it "bizarre." Kurtz, a former New York charity regulator and author of guides for nonprofit managers, said such a large sum should be under direct board of directors' control.

"That," he said of the fund, "is a hell of a way to run a business."

Staff researcher Alice Crites contributed to this report.

BY MICHAEL WILLIAMSON—THE WASHINGTON POST

The nonprofit gave President Steven J. McCormick a $1.55 million loan for this new house in a McLean subdivision.

Image Is a Sensitive Issue

A look inside the Nature Conservancy reveals a whirring marketing machine that has poured millions into building and protecting the organization's image, laboring to transform the charity into a household name.

One Conservancy opinion survey measured the Conservancy's name recognition at only 5 percent of Americans concerned about the environment, well below the National Audubon Society's 8 percent, the National Wildlife Federation's 10 percent and Greenpeace's 17 percent.

Those polled viewed the World Wildlife Fund as more accountable and better at conservation, Audubon and the National Wildlife Fund more successful "in local areas."

Marketing experts recommended an ad blitz.

"Although some organizations, such as Greenpeace, have significantly higher name awareness, they are not highly respected," a 1999 report said. "The Conservancy has the opportunity to position itself with key segments as the most respected and well-known conservation organization, before another national organization gains this coveted spot."

The report urged the Conservancy to spend $5 million a year on its image, in part to counter World Wildlife Fund ads.

In response, the Conservancy in the fall of 2001 launched print and television ads featuring cowboys and loving couples amid sweeping landscapes. "We want the target audiences to associate their emotional affinity for nature with the work of the Nature Conservancy," a Conservancy report said.

The Conservancy's attention to its image includes an aggressive and carefully tailored media strategy. It long ago discussed the need for a plan to battle negative coverage. A coordinated effort swung into action as The Washington Post looked into Conservancy operations.

The nonprofit conducted "opposition research" into the organization's critics, a Jan. 15 internal memo obtained by The Post shows. The Conservancy also planned to meet with key members of Congress, the memo says, and line up "prominent responders" to protest any damaging disclosures.

Conservancy officials, the memo said, worried that the charity would be portrayed as if it had "systematically colluded with wealthy individuals and corporations to conduct land transactions that manipulate the tax code to the benefit of the affluent."

Conservancy executives feared their organization might be depicted as an "environmental Enron," the memo states.

Nonprofits such as the Nature Conservancy are not subject to Securities and Exchange Commission reporting rules. But in an earlier meeting, Conservancy officials speculated they might be compared to "for-profit companies recently involved in accounting scandals," according to a memo written by a Kentucky staffer recounting a Dec. 4 staff teleconference. The memo shows that Conservancy communications director David Williamson informed chapters nationwide about precautions "taken for the worst-case scenario."

One concern involved easements, which are binding restrictions on land development rights. The resulting reduction in the land's value may be tax deductible if the easement is "donated" to a conservation group.

"If you look at our revenues from last year, they're up from the year before, mostly due to the valuation of easements, which can be viewed as subjective and a tool we used to inflate our income," the memo stated.

Williamson said Friday the Dec. 4 memo contained errors, the Conservancy never conducted opposition research and never inflated valuations on gifts.

— Joe Stephens and David B. Ottaway

Selling Nature

The Nature Conservancy engages in sophisticated marketing, including a recent series of ads featuring the voice of Paul Newman and depicting landscapes saved from development.

SOURCE: The Nature Conservancy

THE WASHINGTON POST

The Washington Post

VA MONDAY, MAY 5, 2003 V2

BIG GREEN | *When Conservation and Business Fail to Mix*

How a Bid to Save a Species Came to Grief

Second of three articles

By JOE STEPHENS
and DAVID B. OTTAWAY
Washington Post Staff Writers

TEXAS CITY, Tex.—Eight years ago, Mobil Oil gave the Nature Conservancy what was one of the group's largest corporate donations, a patch of prairie that encompassed the last native breeding ground of a highly endangered bird.

Mobil officials said that the donation offered "the last best hope" of saving the Attwater's prairie chicken, a speckled grouse whose high-stepping mating dance attracts avid bird watchers to the Texas plains each spring.

Then an unusual role reversal took place.

The Conservancy, whose core mission is preserving land to protect species such as the prairie chicken, started acting like an oil company. The Conservancy sank a well under the bird's nesting ground.

Drilling in sensitive areas is opposed as destructive by most environmentalists. But the Conservancy subscribes to an aggressive form of "compatible development," a pragmatic approach that seeks to accommodate the needs of business as well as environmentalism. The Conservancy wanted the Texas City Prairie Preserve to be a national model to show that drilling can be accomplished without harming the environment. It would use the drilling profits to buy more habitat for the birds.

That's not the way things worked out.

Today, there are fewer prairie chickens on the preserve than there were when drilling began. The number of endangered grouse nesting there has fallen from a peak of 36 in 1998 to a current estimate of 16. A previously unreported analysis by the Conservancy's Texas science director stated that the project had subjected the grouse

See BIG GREEN, *A10, Col. 1*

BY PHILLIPPE DIEDERICK FOR THE WASHINGTON POST

An endangered Attwater's prairie chicken. Drilling to increase its habitat went awry.

BIG GREEN, *From A1*

to a "higher probability of death."

The drilling also led to legal and financial problems: Another national charity accused the Conservancy of stealing its mineral rights, forcing the Conservancy and its partners last year to pay a $10 million settlement.

After The Washington Post began looking into Texas City, Conservancy President Steven J. McCormick wrote an internal memo stating that the organization made an "incorrect" assumption about the mineral rights that resulted in "a mistake." But he insisted, "Our local staff always put the interests of the Attwater's prairie chicken first. . . . We did not compromise our commitment to our mission."

A Conservancy vice president told a reporter visiting the preserve 20 months ago: "We have not been able to detect any negative impact on the birds."

Records and interviews tell a more complex tale.

'Stealing Our Oil'

A century ago, the Gulf Coast was home to a million or more Attwater's prairie chickens, known for a courtship ritual marked by cocked tail feathers and inflated orange necks. Their numbers shrank as development gobbled up coastal grasslands.

Today, each member of the last wild, breeding population of Attwater's can be found on just 2,300 acres, a pancake-flat patch of tallgrass prairie an hour southeast of Houston.

Mobil drilled on the property until 1995, when it gave the land to the Conservancy. At the time, an executive called the donation "the last, best hope of saving one of the world's most endangered species." Mobil, a Conservancy official explained, wanted "to place the land with an entity that would act in the best interest of this endangered bird."

In 1999, the Conservancy announced its own intention to drill. It said it had consulted with the U.S. Fish and Wildlife Service, developed a management plan for the birds and would sink its wells far from the birds' primary habitat.

In late summer that year, Conservancy biologists planned to introduce captive-bred grouse into the natural flock, allowing the birds to acclimate before falcons and other predators returned. The Conservancy stressed that oil work would halt by Sept. 1 to make way for the releases.

Drilling began mid-summer that year.

The story might have ended there if not for the patchwork of oil rights underlying the preserve.

A year later, in July 2000, Houston oilman J. L. "Jack" Schneider Jr. wrote a letter to the 96-year-old nonprofit Russell Sage Foundation of New York. He said he had made "a cursory examination" of Texas records and noticed that for decades the foundation had owned partial oil rights for a 1,000-acre plot.

Schneider described his interest as "speculative," based largely on the discovery of gas beneath land 14 miles away. "We have no data indicating your area is, or will be," profitable, Schneider wrote.

He offered to buy the foundation's rights for $26,176.

The foundation sent a consultant to evaluate, which led to startling conclusions: that Schneider was fronting for the Conservancy; that the preserve's mineral rights were worth millions; and that the Conservancy already had begun draining the foundation's natural gas.

The result was a bitter legal battle between two nationally respected nonprofits. The Sage Foundation ultimately accused the Conservancy of orchestrating a "conspiracy" to satisfy its "greed."

"As far as I am concerned, it was criminal," said James Roane, a former Conservancy member who co-owned a portion of the mineral rights. "They were stealing our oil."

A Hidden Buyer

Mineral rights on the Texas City Prairie Preserve had been divided in two. In the north, the Conservancy shared the rights with the Russell Sage Foundation and 39 other investors. In the south, the Conservancy held exclusive rights. The grouse's habitat straddled both tracts. So did a large pocket of natural gas.

By the time of Schneider's offer, Conservancy contractors already had drilled for gas on the south tract. Instead of drilling straight down, they turned and bored northward, traveling to within 600 hundred feet of the north tract. The Conservancy later argued that lateral drilling avoided disturbing the grouse's habitat. Unknown to the north tract owners, the Conservancy's well had tapped into the natural gas deep beneath both tracts. Soon the Conservancy was selling gas owned by all the rights holders on the south *and* north tracts.

The Conservancy's plan to acquire the north tract mineral rights was born on a turkey hunt. Schneider testified that that's when he recalls exploring the idea with Tom Rollins, an honorary trustee in the Texas chapter of the Conservancy and the chapter's former board chairman. He and other Conservancy officials agreed to send Schneider to acquire the north-tract rights without disclosing the true buyer.

"It sounded like it was a good idea," Ray Johnson, then the Conservancy's manager for eastern Texas, recalled in a deposition. Rollins later defended the hidden-buyer strategy as "industry practice" and a way to cheaply acquire the rights.

Sage Foundation lawyers described it this way: "Schneider and Rollins fabricated a story to hide the truth."

Schneider, who did not return telephone calls, denied in a deposition that he had done anything misleading. Under questioning, however, Rollins acknowledged that Conservancy officials had "ratified" Schneider's tactics and his "misleading" story.

The Conservancy's plan for acquiring the charity's natural gas rights, Rollins agreed under oath, relied on a "lie."

In a hearing, a Sage Foundation lawyer said: "What they did was basically try to steal our interest. . . . They lied. They lied. They lied some more."

Dead Birds

The wrangling in a tiny Texas courthouse dealt only with money. But paperwork generated by the litigation shows some Conservancy officials feared the drilling had harmed the endangered grouse.

Allowing newly released, captive-bred birds to acclimate to their wild surroundings was "critical," a Conservancy biologist said, placing the preferred release window in late July and early August. After that, predators would return and the birds' chances for survival would plummet.

When the Conservancy drilled in 1999, it needed a pipeline to transport the natural gas to an interstate line. Due to construction delays, the pipeline work continued into late summer and then into the fall.

Although the Conservancy's agreements with contractors required that they complete work by the end of July for the sake of the birds, the charity did not halt construction. It allowed work to continue until November, according to depositions and an April 2000 draft report prepared by James Bergan, the organization's Texas science director, and Matt Williams, then manager of the preserve. The Conservancy released the birds three months late.

The report says Williams believed the delay "may have compromised" the operation, noting that all the captive-bred birds "died shortly after their delayed release in November." The report said Williams's opinion was not "conclusive evidence" but "should not be taken lightly."

Although the report did not give a specific number, federal figures show that 17 captive-bred birds were released on the preserve that year.

Bergan wrote in an analysis prepared in June 2002 that "well completion delays forced a delay in releasing [prairie chickens] and subjected them to higher probability of death from raptor predation."

Williams declined to comment. Bergan said recently that, despite his report's wording, only Williams believed that delays led to the birds' death. Today, Bergan said, he considers the pipeline work to have been one possible factor. "We'll never know if the survival of those birds were or were not tied to the pipeline," he said.

In his deposition, Johnson said that if the endangered birds were the sole concern, "it would have been better if we didn't have any activity on our preserve."

There were other problems: A Conservancy vice president testified that the organization's drilling contractors were difficult to manage, saying, "They were always pushing, pushing, pushing, pushing. And we had to be like a brick wall to protect those birds."

Documents also reveal that a gas explosion and an unspecified number of oil spills took place at the preserve. Then, in 2001, five captive-bred birds that the Conservancy hoped to introduce into the flock died in a deluge while confined to a pen awaiting release, according to a Fish and Wildlife Service e-mail.

Biologist Stanley A. Temple, who toured the site in October at the Conservancy's request, wrote in a report: "I was shocked to find, for example, that one of the release pens is subject to flooding in heavy rains, and that birds have drowned in the pen."

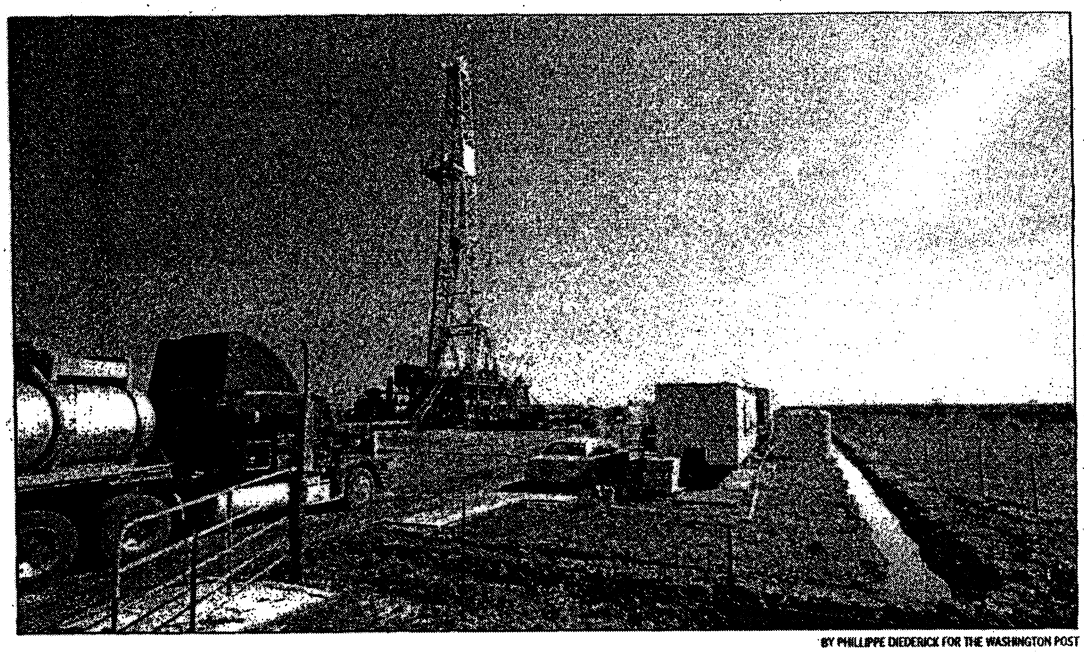
Temple was also surprised at the radio tracking devices on the captive-bred birds.

"All released prairie chickens are radioed with permanent 'poncho-style' harnesses," he wrote. "These will remain on the bird long after the transmitter has died (in a few months) and continue to compromise the bird throughout its life. There is no way that I can justify this practice."

Managing Risk

By January 2002, the Conservancy's natural gas operation had generated about $8 million in revenue. Officials planned to spend half purchasing additional habitat along the Gulf Coast, but failed to do so. Now, much of the profit has gone toward the lawsuit settlement.

After contributions from its insurance company and partners, the Conservancy said it paid $5.6 million toward the $10 million settlement.



BY PHILLIPPE DIEDERICK FOR THE WASHINGTON POST

Drilling was intended to generate funds to be used to expand the habitat of the endangered prairie chicken.

The Conservancy still expects to make a net profit on the well and says it will spend the money on the endangered birds. After The Post began examining the Texas City project, Conservancy President McCormick issued a memo to staffers and state trustees describing "tactics" used at the preserve as "not consistent with our values." McCormick informed the the trustees about the newspaper's inquiry and stressed that he saw nothing to be gained by "keeping bad news quiet."

That startled parties to the suit, who said that in return for the $10 million settlement, the Conservancy had demanded that they sign gag orders. Many declined.

McCormick later explained in an interview: "We just didn't want people to talk about how ... stupid we were."

Last October, the Conservancy dispatched Temple, a trustee of its Wisconsin chapter, to Texas City. Temple later said in a report, "The steps taken to minimize the possible disturbances associated with the current oil and gas production seem adequate to protect the birds ... although minor incidents have occurred from time to time, none of them has apparently posed any threat to the birds."

Today, the Conservancy continues to pump gas from Texas City.

"The takeaway lesson from our experience at Texas City," McCormick wrote, "is that we need to learn how to manage the risk, not how to avoid it altogether."

In a written defense of the Texas City project, Conservancy officials said:

"Our staff and independent scientists, including one of the world's leading ornithologists, have confirmed that our decisions and actions regarding oil and gas activity have not compromised the protection of the prairie chicken. . . ."

"It is also important to note that there are no other projects in which the Conservancy has initiated oil and gas drilling. It would be inaccurate to suggest this is a common practice at the Conservancy."

There is another environmental group that has experience with drilling on one of its preserves. The Audubon Society received land in 1924 along Louisiana's coast where the donor retained the drilling rights. The drilling started two decades later, and Audubon received a portion of the proceeds. There were no endangered species on the land, but Audubon eventually decided the drilling was too destructive. Audubon and the donors agreed to stop it in the fall of 1999.

Just as the Audubon Society was getting out of the drilling business, the Conservancy was getting in.

"We have learned from experience that opening fragile nature areas to drilling causes long-term damage to the environment," John Bianchi, Audubon's spokesman, said in January 2001. He added in a recent interview: "This is our cautionary tale for the Nature Conservancy to think about."

Staff researchers Alice Crites and Lucy Shackelford contributed to this report.

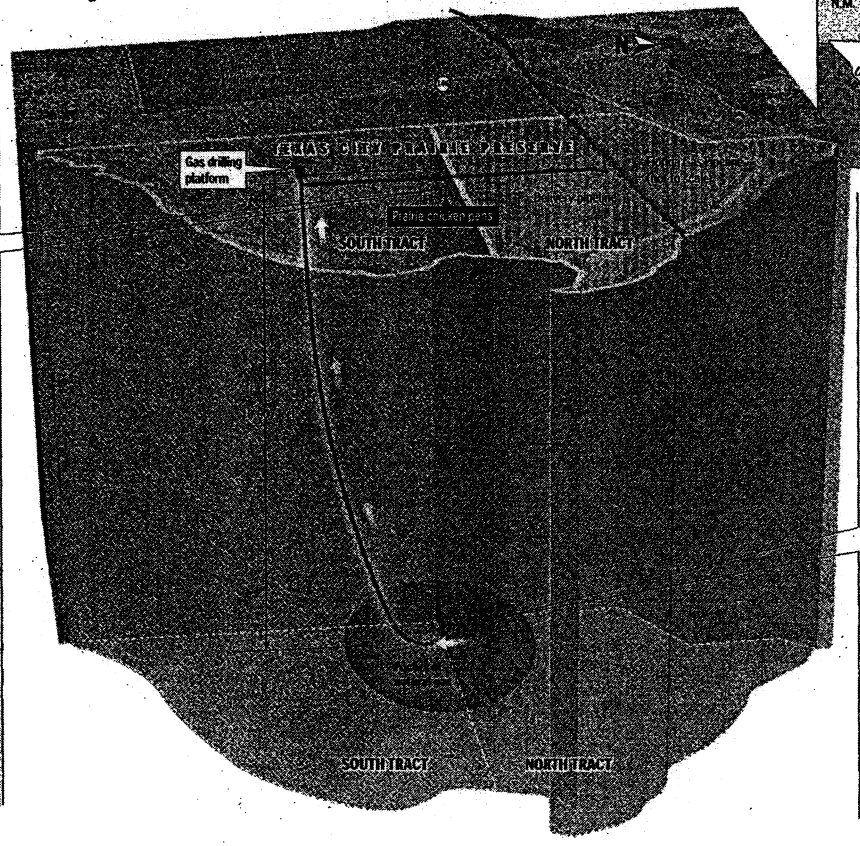
The Nature Conservancy Drills for Gas in a Texas Preserve

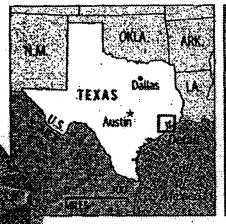
Birds in trouble . . .

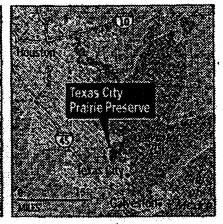
Mobil Oil donated the Texas City preserve to the Conservancy as "the last, best hope of saving one of the world's most endangered species." The Conservancy planned to bolster the Attwater's prairie chicken flock by introducing captive-bred birds in late summer of 1999, giving them time to adjust before hawks and other migrating predators returned. But the Conservancy had also contracted to drill on the land, and when pipeline construction fell behind, the birds' release was delayed to November. That year, each of the 17 captive-bred birds died.

Documents show that in recent years the preserve has been the site of oil spills and at least one explosion. In one incident, prairie chickens confined to a pen died during a deluge while awaiting release.

About the Attwater's Prairie Chicken
A century ago, the Gulf Coast was home to a million or more of the speckled birds, a species of grouse known for its colorful mating dance. Today, the last wild breeding population numbers roughly 16 and lives on the Conservancy's Texas City preserve.



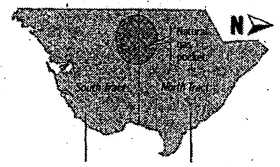




. . . and investors in the dark

Oil and gas rights below the Texas City Prairie Preserve were divided. The Conservancy owned all rights in the south, but shared them in the north. When it drilled in the south and struck a pocket of natural gas located on both sides, the Conservancy did not alert the other parties.

How the mineral rights were divided



THE SOUTH TRACT
The Conservancy held sole rights.

THE NORTH TRACT
The Conservancy shared rights with the Russell Sage Foundation of New York and 39 other investors.

How the Conservancy profited

When the Conservancy drilled a well on the south tract, it didn't bore straight down. The drill slanted northward, traveling to within 592 feet of the north tract and tapping into a massive pocket of natural gas that lay under both tracts. The Conservancy profited by selling gas jointly owned by all the rights holders.

BY DOUG STEVENS, LARIS KARKLIS AND LAURA STANTON—THE WASHINGTON POST

On Eastern Shore, For-Profit 'Flagship' Hits Shoals

Local Ventures Launched, Foundered and Failed

By DAVID B. OTTAWAY *and* JOE STEPHENS
Washington Post Staff Writers

OYSTER, Va.—With great difficulty, the Nature Conservancy five years ago hoisted an abandoned U.S. Coast Guard station building onto a dolly, slipped it onto a barge and shipped it six miles to the outskirts of this little town on Virginia's Eastern Shore.

For $3 million, the 210-ton Cobb Island Station was then converted into a rustic 12-room inn intended to anchor a high-end tourism venture. The inn was part of a collection of for-profit ventures the Conservancy launched here in the 1990s to convince the dwindling local population that small business could be profitable and preservation-friendly.

Now, the Conservancy has determined the Cobb Island Station project was a waste of money. The restored inn is shuttered and for sale.

One by one, the other Conservancy-backed business ventures at the group's 45,000-acre Virginia Coast Reserve failed. In October, auditors tallied the cost—millions in losses and a slew of failed companies. They also found that the project—which envisioned a locally based sweet-potato-chip company, an oyster-and-clam operation, even a real estate development—was beset by incoherent planning, "management issues" and properties that were a "sink for resources."

The subject headings in an independent report commissioned by the Ford Foundation, one of the project's financial backers, list more succinct reasons for what went wrong: "flawed concept," "flawed business plan," "flawed execution."

The troubles demonstrate the difficulty of the Conservancy's strategy of blending for-profit businesses with community-based conservation.

The reserve's financial mess led to the resignation of its longtime director and the reassignment of the Conservancy's one-time acting president, W. William Weeks, the project's primary promoter. It spurred an internal assessment reappraising the Conservancy's ability to engage in money-making businesses. The Conservancy audit found that despite the reserve's $53 million in assets and multimillion-dollar budget, it had "not traditionally employed a person to focus explicitly on its finances." The assessment charged that in pursuing expensive real estate, managers had lost sight of ecological goals.

In addition to tourism, the Conservancy had planned to use the Virginia reserve for "eco-friendly" seaside farms and waterfront homes. But it now believes liquidating the business is the only solution. In recent months, the Conservancy has put most of its 15,000 acres of seaside farms on the market.

The Washington Post began investigating the Conservancy's Virginia reserve business project—which the group had called its "flagship" for-profit venture—after sources within the Conservancy raised concerns. The Post visited the site and obtained the previously unreleased Ford study.

After repeated inquiries, the Conservancy released to The Post an internal 28-page program assessment of the reserve's operations completed in August. The Conservancy refused to release its full audit report. Instead, Conservancy officials provided a two-page summary.

The main promoters of the Conservancy's business experiment were Weeks and a former president, the late John C. Sawhill, an energy official in the Nixon, Ford and Carter administrations.

In a 1997 book called "Beyond the Ark," Weeks argued that the best way to conserve land was to convince local communities to stop selling forests and farms to subdivision builders and instead choose less intrusive development.

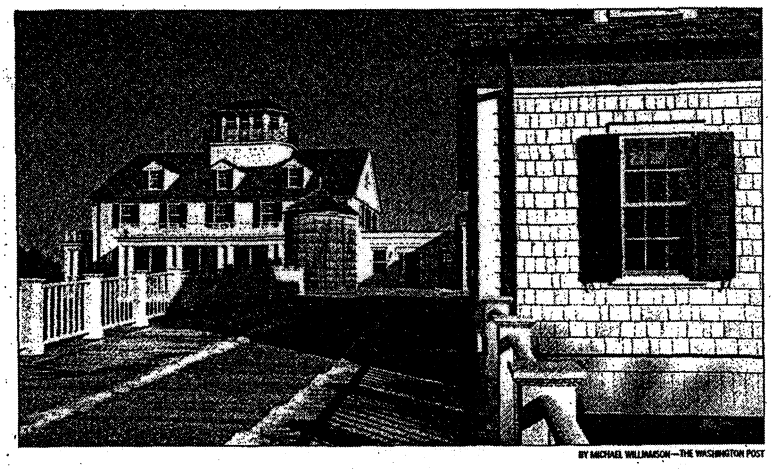
At Weeks' suggestion, the Conservancy in 1995 established the Center for Compatible Economic Development, with an annual budget of $1.5 million and total autonomy. Weeks and everyone else referred to it as his "skunk works."

It launched more than 30 ventures nationwide with seed money provided by Conservancy donors and foundations. Some of the businesses were for-profit, others initially tax-exempt but expected to soon become self-sufficient.

In Virginia, the skunk works set up its flagship operation near the Virginia reserve, a collection of 14 pristine barrier islands owned by the Conservancy. The center launched the for-profit Virginia Eastern Shore Corp. as a holding company for as many as 15 enterprises. The activities included real estate development and tourism, clam and oyster farming, arts and crafts and Hayman Potato Chips, a local specialty sweet-potato chip. Investors included the Ford Foundation, which contributed $1 million of the initial $2.25 million in capital.

The reserve's director, John M. Hall, lived rent-free on the reserve in the renovated 17th-century Brownsville Home, which had once been used for community tours and meetings. The Conservancy's internal assessment later criticized the living arrangement as "not appropriate," but Hall said the on-site housing was provided as a condition of his job. (Conservancy officials now say they do not permit employees to live at Brownsville.)

Hall began buying seaside farms and waterfront properties, using the Conservancy's Land Conservation Fund. Some properties were used for business

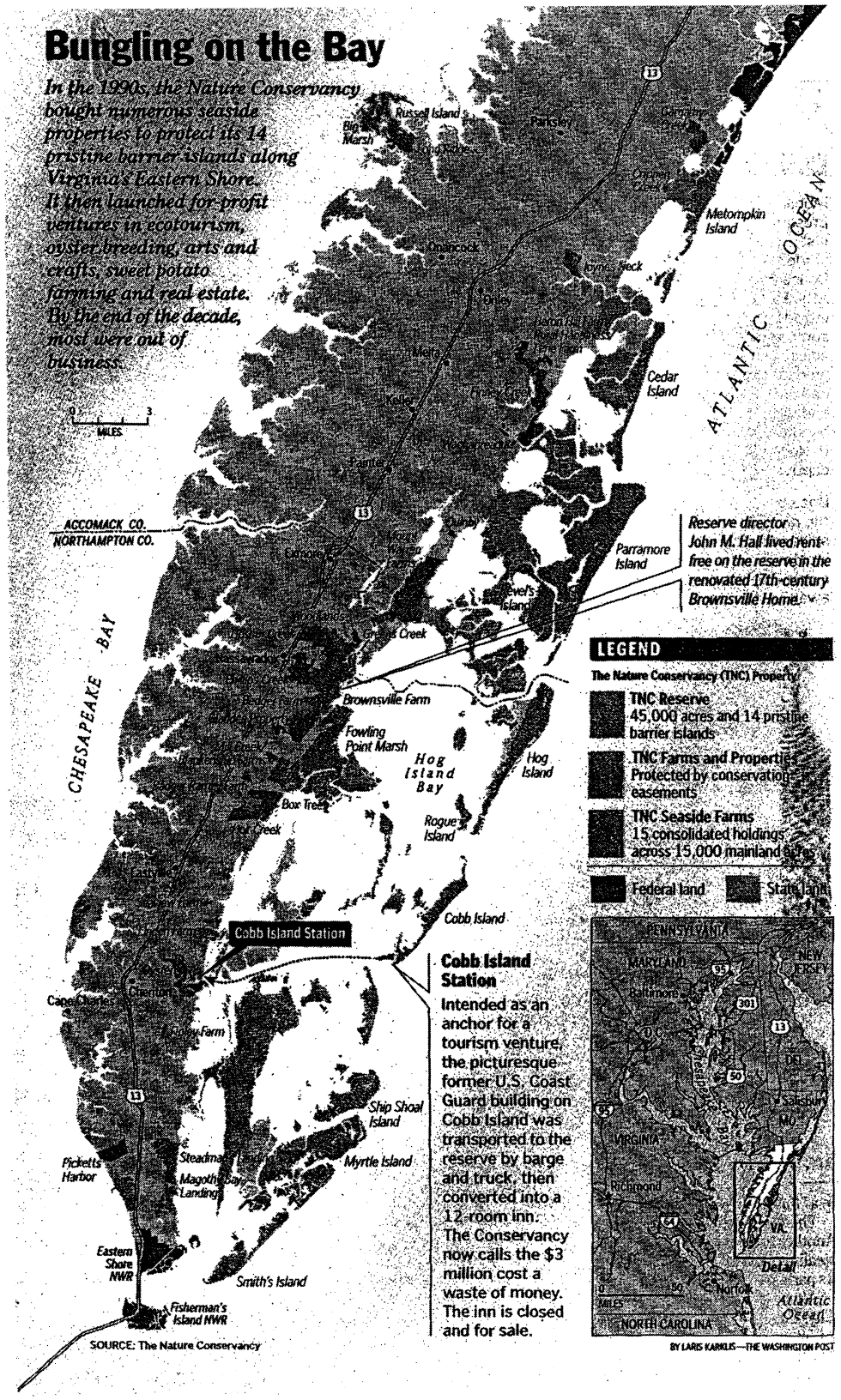


BY MICHAEL WILLIAMSON—THE WASHINGTON POST

By wheels and barge, former Coast Guard station was hauled six miles to help anchor ambitious tourism venture.

Bungling on the Bay

In the 1990s, the Nature Conservancy bought numerous seaside properties to protect its 14 pristine barrier islands along Virginia's Eastern Shore. It then launched for-profit ventures in ecotourism, oyster breeding, arts and crafts, sweet potato farming and real estate. By the end of the decade, most were out of business.



Cobb Island Station

Intended as an anchor for a tourism venture, the picturesque former U.S. Coast Guard building on Cobb Island was transported to the reserve by barge and truck, then converted into a 12-room inn. The Conservancy now calls the $3 million cost a waste of money. The inn is closed and for sale.

SOURCE: The Nature Conservancy

BY LARIS KARKLIS—THE WASHINGTON POST

projects, others resold to buyers who agreed to limit development. The farms were consolidated into 15 large holdings covering 15,000 acres around the towns of Nassawadox and Oyster.

On the 360-acre Philips Creek Farm, Conservancy officials plotted one-acre wooded, ocean-front lots, priced at $125,000 each. The Conservancy advertised in the local paper and received 400 inquiries. But the project was halted before any lots were sold.

Hall also spent millions to develop and renovate properties. At his urging, the Conservancy's board approved a $3.5 million bond issue to help cover costs of the elaborate project to convert the former Cobb Island Station into a country inn.

In mid-1999, the Conservancy's flagship Eastern Shore Corp. suddenly went belly up. Its collapse set off alarms at the Conservancy's headquarters in Arlington. The Ford Foundation commissioned an independent inquiry in late 2000.

Parts of that report, obtained by The Post, document how the Eastern Shore enterprise burned through 86 percent of its initial capital over the first two years before collapsing in "a sea of red ink" in August 1999.

The report excoriated Eastern Shore's management for systematically refusing to listen to outside advice or warnings. The report blamed hubris. The Eastern Shore Corp. "would do what no one else had ever done—and show the rest of the Nature Conservancy, not to mention the world, how to do it," the report asserted.

Instead of aiding farmers, artisans and business people, the Eastern Shore Corp. had micromanaged everything. "In doing so, it became more of an intruder than a catalyst to local action," the report said.

The report said the Conservancy's attempt to go into business was "the story of a fish out of water."

Direct operation of businesses, the Ford report said, "was a step too far" for the Conservancy.

The Conservancy's own assessment noted that too much money was tied up in properties of no ecological import. The project failed in its core mission, the assessment found, and the efforts had not slowed destruction of the feeding grounds for millions of migratory birds.

The assessment also found that the Conservancy's support of the local clam industry with loans and leases led to "unintended negative consequences": the farms polluted the ocean as the "scale of operations begins to exceed sustainable levels."

The conclusion: "Compatible economic development may create as many problems as it solves."

Ruminating on the Eastern Shore experience, Conservancy President Steven J. McCormick recently expressed doubts about the organization's ability to handle commercial ventures.

"We're a nonprofit organization," he told The Post. "We don't tend to think like a business.... That's okay, probably even appropriate, but it means we're very inexperienced in running a business. We've learned from experiments that it's real hard."

In late 2001, the Conservancy merged its Virginia Coast Reserve operations into its Virginia chapter. The Conservancy's executive summary of its internal audit report said that as of March 31, 2002, the reserve had liabilities of $24 million—$20 million of it owed to the parent Conservancy, mainly for land purchases. Conservancy officials said that that internal debt has since been reduced to about $13 million through the sale of several seaside farms.

Hall, who headed the Virginia Coast Reserve for nearly two decades, resigned in October 2001. He said in an interview he had never seen the Conservancy's audit report or program assessment. But he said when he left, "we were in very good shape financially" and "way ahead in paying off our debt."

He said "mistakes" had been made, but added that "we made a lot of little steps in the right direction."

Weeks, once number two in the Conservancy hierarchy, served for a while as a senior adviser to McCormick with no specific duties. He left the Conservancy on April 25.

Reflecting on lessons learned, Weeks conceded his primary goal—establishing successful and environmentally compatible for-profit businesses—had proved elusive.

"We didn't make that business work," Weeks said. "The lesson I take from it is, do a better job managing the business if we're going to do that kind of thing again."

The Beef About the Brand

Of all the products that carry the Nature Conservancy imprimatur, perhaps the most unexpected is beef.

Hamburger, rib-eye, filet mignon and tenderloin kebabs that can "satisfy your conscience" are sold under the name Conservation Beef, a brand the Conservancy co-owns with the tax-exempt Artemis Wildlife Foundation.

They use the program to bolster imperiled cattle ranches and, along the way, entice ranchers into environmentally friendly grazing practices. Another goal is to persuade them not to sell their land to developers. In an open letter to customers on the Conservation Beef Web site, a Conservancy official writes, "Your purchase will help save great Western landscapes for future generations."

Conservation Beef costs more than the average supermarket T-bone. That premium allows the program to pay ranchers a few cents more per pound than they could pocket selling cattle on the open market. That can translate into $5,000 or so in additional annual profit per rancher.

The program is designed to sell conservation values to ranchers, who have an "Us versus Them" attitude toward environmentalists, said Artemis President Brian Kahn, who developed the idea while working for the Conservancy.

"This is not some good-old-boy system," Kahn said.

However, Consumers Union, which publishers Consumer Reports magazine, said the program has a conflict of interest "since [Conservation Beef] helps create the guidelines and [Conservation Beef] benefits from the sale of the product."

CU's Urvashi Rangan said, "The ranchers pretty much can do whatever they want. They have very loose guidelines."

Program literature shows that the ranchers help craft their own "stewardship plans," following guidelines agreed on with the Conservancy.

The stewardship plans vary widely. "It is the rancher's right and responsibility to determine specific management proposals to meet the [Conservation Beef] Stewardship Standards," according to the guidelines.

The program works to place development restrictions on participants' land. But ranchers may preserve their rights to subdivide, develop and sell portions of their ranges. Restrictions may affect only part of the grazing land they use. Guidelines have escape clauses, allowing ranchers to substitute "another mutually acceptable way."

Madison Valley Ranchlands Group, comprised of Montana ranchers, helps monitor the program. Ranchlands President John Crumley sells cattle to Conservation Beef himself.

Kahn said that "the monitoring program will be a serious program," but added that it has yet to begin and he does not know what form it will take.

A sales pitch on the Conservation Beef Web site is co-signed by Montana rancher Randy Smith.

Smith said in an interview he has always used the same ranching methods, despite the mention of "innovative land-stewardship plans" in the letter bearing his name.

"People learned a long time ago in this area that if you don't take care of the land, it will take care of you," Smith said. "That's been around for a long time; Conservation Beef is relatively new."

Smith also said he no longer sells beef to the program. Some family members did not want to sign away development rights to their ranch.

— Joe Stephens and David B. Ottaway

The Washington Post

M VA TUESDAY, MAY 6, 2003 MD

BIG GREEN | *A House in the Woods*

Nonprofit Sells Scenic Acreage to Allies at a Loss

Buyers Gain Tax Breaks With Few Curbs on Land Use

Last of three articles

By JOE STEPHENS
and DAVID B. OTTAWAY
Washington Post Staff Writers

On New York's Shelter Island, the Nature Conservancy three years ago bought an undeveloped, 10-acre tract overlooking its Mashomack Preserve, an oasis of hardwoods and tidal pools located just a stone's skip from the exclusive Hamptons. Cost to the charity: $2.1 million.

Seven weeks later, it resold the land, with some development restrictions, to James Dougherty, former chairman of the charity's regional chapter, and his wife, Nancy, a trustee at the Conservancy's preserve. Cost to the Doughertys: $500,000.

BY JAMES M. THRESHER—THE WASHINGTON POST

Retired Goldman Sachs executive Daniel W. Stanton is building on Martha's Vineyard after Conservancy property deal opened up environmentally sensitive land.

The transaction follows a pattern seen in Conservancy land deals across the nation. Time and again, the nonprofit has bought raw land and resold it at a loss to a trustee or supporter. The sales are part of a program to limit intrusive development, but generally allow buyers to construct homes on the environmentally sensitive sites.

The buyers, in turn, cover the Conservancy's costs by giving the charity cash gifts in amounts roughly equal to the organization's loss on the sale—$1.6 million in the Shelter Island deal. The donations benefit the buyers, allowing them to take significant tax deductions—just as if they had given money to their local charity.

The public benefits, too, the Conservancy stresses, because during the transactions it attaches to the deeds permanent restrictions prohibiting development. Those restrictions lower the land's market value, the group says, justifying resale at reduced prices.

On Shelter Island, an easement added to the deed does block development: subdivision, mining, drilling, dikes, dams, garbage dumps and wholesale destruction of vegetation.

But there are exceptions:

The covenant authorizes construction of a single-family house of unrestricted size, garages, a swimming pool, a tennis court, a home office, a guest cottage and a writer's cabin. It allows relocation of an access

See BIG GREEN, *A8, Col. 1*

BIG GREEN, *From A1*

road, installation of septic facilities, construction of foot trails and related excavating, filling and bulldozing. It permits outside benches, tables, chairs, gazebos, birdbaths and screened tents.

It allows cutting firewood for personal use and, on a particular portion of the property, it authorizes tree cutting, hillside terracing, gardening and lawn planting, all to provide the owners with "enjoyment of views." It approves construction of a dock on an ocean cove.

What it does not require: public access.

Dougherty said the restrictions did not affect his plans for the property.

"We got exactly what we would have gotten anyway," Dougherty said. "We just wanted a home there."

Federal tax rules do not allow charitable deductions for ordinary payments made to purchase property. Tax specialists consulted by The Washington Post said that in some Conservancy land deals the deductions appeared questionable. The Conservancy supplied a written opinion by a tax expert who disagrees.

An Internal Revenue Service ruling defines a charitable donation this way: "A voluntary transfer of money or property that is made with no expectation of procuring a commensurate financial benefit in return." If the expected benefits are "sufficiently substantial to provide a quid pro quo for it, no deduction . . . is allowable," the ruling states.

Whatever the tax implications, it clearly remains a source of concern. One Conservancy trustee who benefited from such tax breaks described the transactions as "not illegal," yet was reluctant to discuss details because he said he wanted to avoid alerting the IRS.

The trustee, Philip Reed Jr. of New Jersey, explained: "I don't want to attract any attention to this in any way."

BY I. MICHAEL DOMBROSKI—NEWSDAY

A preserve on Shelter Island, N.Y., where buyer bought land for $500,000 and donated $1.6 million to Conservancy.

A Creative Mechanism

The Arlington-based Nature Conservancy, the world's richest environmental group, is best known for buying wilderness and holding the tracts in perpetuity, to insulate wildlife from development. Even though the organization's resources are vast—its assets total $3.3 billion—its officials realized some time ago that the charity's money could never protect as much land as they wished.

So as the Conservancy grew it looked for ways to leverage its resources. Eventually, it latched on to a creative mechanism for controlling growth: It encouraged property owners to place easements—permanent restrictions limiting development—on their land. IRS rules allow the landowners to take tax breaks for the reduction in the land's value caused by the easements.

Less well known is an increasingly common variation on that practice, through which the Conservancy helps what it calls "conservation buyers" obtain undeveloped parcels. Under this arrangement, the Conservancy purchases the property, attaches the restricting easement itself and then resells the land to an individual at a steep discount. The Conservancy stresses that all properties are sold for values that can be "justified by reasonable appraisals."

The Conservancy promotes the deals as a way to preserve wilderness by limiting construction. Several buyers told The Post that the restrictions did not affect their land use, because they had no plans to bulldoze the property and erect tract housing. Conservancy officials regularly try to tailor such easements to an individual buyer's desires.

A Conservancy brochure seeks to reassure buyers that a conservation easement does not take away all their property rights. "When people own land, they own rights that go with the property," the brochure states. "The right to graze cattle, erect a home, subdivide, extract minerals or hunt on the property are some examples of these rights. . . . Easements often allow continued grazing, fencing, irrigation, hunting and other traditional land uses."

In a written response to questions, Conservancy officials acknowledged that it was "true that many of our conservation buyers have been trustees," and that the charity is proud of each transaction. The statement emphasized that Conservancy state trustees have no formal legal or fiduciary authority at the organization. That power resides in the national Board of Governors.

The Conservancy said that conservation buyer deals amount to a fraction of their overall land transactions on behalf of preservation: 186 out of 12,000 deals since 1990.

"The goal in every case is [to] find a suitable buyer, whether that person is a Conservancy trustee or not," the statement said. It also stressed that charitable gifts to the Conservancy were "not legally tied" to the transactions, an assertion that appears at odds with statements by some participants in the deals.

The Conservancy declined to supply a complete list of its conservation buyers, saying that would violate their privacy. The Post identified a handful of buyers willing to discuss their savings.

Each said protecting land from development, including construction of what they described as cheap and unattractive homes, was a prime motivation. The buyers also said that tax breaks and a chance to develop their own house in the wilderness sweetened the deals.

New York: Shelter Island Sanctuary

In the Shelter Island case, Dougherty, a retired Manhattan lawyer, said he coveted the plot next to the lush Mashomack Preserve as a potential home site. He also wanted to protect the land, located two hours from New York, from overdevelopment. But he said the owners would not let it go.

At a party, Dougherty lamented this fact to a Conservancy official, who offered to help.

"They said, 'We will buy it from the [owners] and resell it to you,'" Dougherty recalled.

The Conservancy bought the tract for $2.1 million, then transferred it the Doughertys for $1.6 million less.

At closing, Dougherty said he and his wife made a donation to the Conservancy of more than $1 million. Over the next 15 months, they contributed an additional $600,000.

"They are basically one transaction," Dougherty said of the donation and the purchase payments. "We made them whole."

Dougherty had committed to the gift before the Conservancy agreed to buy the land.

"I signed a pledge for the $1.6 million," he said, without which the deal would not have gone forward. "They weren't going to obligate themselves if I wasn't obligated."

The transaction was approved by his attorney and provided him with substantial tax write-offs, he said. To date, the IRS has not objected. The easement restricting development also reduced the land's assessed value, slashing his property tax bill.

Dougherty said his goal was preservation and he suspects he will never build there. He quickly added, however: "I have a right to; it would be a nice house."

"It's great for us because we can, one day, if we want, have a house next to this beautiful preserve."

Kentucky: A Bucolic Horse Farm

A few years ago, Lisa Estridge was looking for a farm in Kentucky horse country. Her father, Philip Reed Jr., who is a Conservancy state trustee in New Jersey, suggested that she enlist the group's help.

Estridge was captivated by a bucolic 350-acre Kentucky River tract. She persuaded the Conservancy to buy the land and resell her a portion adjacent to a Conservancy preserve.

In April 2000, Estridge said, the Conservancy purchased the tract, paying about $367,500 for 146 acres. The Conservancy added an easement, records show, which allowed construction of two houses and development of a horse farm, but otherwise prohibited industrial development. The Conservancy resold the plot to her father seven weeks later for $252,500.

At the closing, Reed recalled in an interview, he signed a letter of intent to make a charitable contribution. A month later, Reed said, he made a tax-deductible donation to the Conservancy for the difference between the two amounts—an amount he remembered as $132,300. (Conservancy officials report slightly differing figures, calculating the group's original purchase price as $335,800 and Reed's donation as $113,200.) By designating the check as a donation, instead of part of the purchase price, Reed said he could deduct the amount of the gift, offsetting income taxed at 39 percent. In effect, he said, "the federal government is buying part of the land for you."

Reed structured the purchase and the donation into two payments so that, he explained, "you don't get into an argument with the IRS."

"You don't want to put it in there as part of the actual purchase contract," Reed said of the contribution. "What you do is sign a letter of intent to make the donation. . . . The IRS cannot argue with fact; there's nothing you can do about it."

His daughter used similar wording, explaining that the IRS could challenge an appraiser's estimate of the reduction in the land's value. By instead writing a check, Estridge said, "They can't debate that you have given a charitable organization $125,000. You did."

She stressed that the cash donation was required.

"They wouldn't sell it to you for a lower price," Estridge explained. "That was just a strategy" to generate a tax break.

When told some tax experts questioned that strategy, Reed balked at explaining further and described the topic as a "minefield."

"I don't want the IRS to think they've suddenly got something they can use," Reed said. "I don't want to attract any attention to this in any way."

He described the transaction as "not illegal" and preferable to the more common—and widely accepted—arrangement under which a landowner donates an easement. Under that system, the owner values the lost development rights and deducts that amount from taxes.

"Generally, the buyer puts too much value on it" for tax purposes, Reed said, citing his experience as a Conservancy trustee. "Land donators almost always try to value their land at more than the [true] value.

"This is a business," he said. "We sort of wince and look away at some of the values buyers put on these transactions. We're not the IRS."

Reed eventually transferred part of the farm's acreage to his daughter, who built a six-bedroom house and created a 20-stall horse barn. Cattle also graze there. The easement has not affected her land use, she said. In fact, Estridge said she and her father might have bought the tract and used it in the same way even without the Conservancy's involvement—and without the gift from U.S. taxpayers.

"I wanted this land," Estridge stressed.

The easement authorizes construction of two houses, outbuildings, garages, toolsheds, a barn, fences, driveways, paths, septic systems, underground pipes, overhead wires, swimming pools and tennis courts. It per-

mits commercial farming, hay cutting and cattle grazing. The land may also be subdivided for sale to two buyers.

"There aren't big restrictions," she acknowledged. "I wouldn't have agreed to the easement if it would have changed my plans."

The easement continues to save her money: She said the county assessor values her 146 acres and the new six-bedroom house at $150,000. "It was so low I laughed," she said.

Estridge said that, before she and the Conservancy stepped in, former owner Lawrence Morton planned to crowd the farm with mobile homes. In an interview, however, Morton said that it would have been too expensive to construct roads and water lines, so the land probably would have ended up much as it will now: large houses on 50-acre lots.

Morton said he concocted a story about towing in double-wide mobile homes in a successful ploy to prod a Conservancy purchase.

"That really shook them," Morton recalled with a chuckle. "They don't like double-wides."

Kentucky: A House in the Country

In a Conservancy deal on a 50-acre plot near Estridge's land, the link between the contribution and the land purchase was more direct.

"There was a contractual obligation to make the donation," explained the buyer, Ken Brooks. "We showed up at the closing with the money to make the donation. It was all tied into the contract—it had to be done."

Brooks first saw a "For Sale" sign on the tract while hiking with his wife, Vicki, at the neighboring preserve. Ken Brooks called the seller, who warned him the Conservancy was interested, too; Brooks interpreted the warning as an attempt to spark a bidding war.

"He would have sold to me at a higher price," Brooks said. "Little did he know I was a member of the Conservancy."

Brooks called James R. Aldrich, a Conservancy vice president and the group's Kentucky state director. Aldrich responded, "Let us buy it," Brooks recalled.

"If I would keep out of the road, part of the quid pro quo was they would sell it to me," he said. That deal, he added, "was never really made available to other people," a contention that the Conservancy now disputes.

By coordinating with the Conservancy, Brooks said, he avoided paying a premium to persuade the seller to carve off a portion of the larger, 350-acre tract he was offering.

"The savings really are in TNC's ability to buy large amounts of acreage and then subdividing it," Brooks said, referring to the Nature Conservancy. "That probably saved me as much as 25 percent."

Brooks said he paid the Conservancy about $120,000 for his land, with roughly a quarter of the payment as a tax-deductible contribution. "I had a $30,000 donation, more or less, to a charity," he explained. The land came with restrictions on commercial uses.

Aldrich said in an interview that the Conservancy asks buyers to sign what he described as a "charitable donation pledge." Asked if the pledge is legally enforceable, Aldridge responded, "It should be."

If a buyer reneged on an agreement, he said, it "would be terrible."

COURTESY OF LISA ESTRIDGE

In Kentucky, Lisa Estridge constructed a six-bedroom house on land she and her father were able to acquire through the Conservancy. The IRS, she says, "can't debate that you have given a charitable organization $125,000."

The Conservancy has resold land to about 10 buyers in Kentucky in recent years, he said, stressing that only one was a state trustee. A Conservancy spokeswoman later confirmed that another of those parcels was sold to an employee of the Kentucky chapter, a sale examined for conflicts and approved by Conservancy attorneys.

Each buyer gave the nonprofit a tax-deductible gift that Aldrich described as "all legal and ethical." His chapter shops for buyers through word of mouth among Conservancy members and through notices in a widely circulated Conservancy newsletter, he said.

"People say, 'I'd like to have a place in the country,' " Aldrich said. "Having the flexibility to build a cabin or residence is one of the things that makes it attractive."

Michigan: A Family Compound

In Michigan, former Conservancy state trustee Jerry Jung says the organization bought 185 acres on Lake Huron, paying $1.7 million. The Conservancy added an easement restricting development and resold the land to him in December for $1.1 million, plus a $650,000 charitable donation, he said.

Jung estimated his overall, after-tax savings on the deal at $300,000. Yet the easement did not alter his plans, either. Jung said he acquired the wooded getaway as a "family compound" that he can pass on to his children.

"There is a house on the property, and I am able to rebuild it under the easement," Jung said. "This is quite exciting; I have my own private bay and 4,000 feet of golden, sandy beach."

Jung said the donation was his idea and was made shortly before closing on the property with the Conservancy. "From a technical point of view, they are unrelated," he said of the transactions.

The Conservancy is pursuing other such deals in Michigan.

It is seeking a buyer for a 1,500-acre tract valued at $1.6 million. The land includes several thousand feet fronting a glacial lake. It features cedar swamps, beaver ponds, rare species and spectacular views of Lake Superior from atop a 750-foot mountain.

Nearby, the Conservancy is marketing a $1.5 million parcel of 635 acres bordering a mile-long lake. The easement will permit home construction but offer no "access to the public," a real estate Web site listing states.

"Listen! What you can't hear is wonderful," the listing says. "Advance the work of the Conservancy and at the same time enhance your enlightened self-interest by owning this property for your personal, exclusive use."

Staff researchers Alice Crites and Lucy Shackelford contributed to this report.

Landing a Big One: Preservation, Private Development

By DAVID B. OTTAWAY
and JOE STEPHENS
Washington Post Staff Writers

MARTHA'S VINEYARD, Mass.—Two years ago, the Nature Conservancy triumphantly announced a complex real estate transaction, a $64 million deal in which it acquired 215 acres of rare open sandplain. Conservancy officials hailed it as "an important victory for conservation on Martha's Vineyard," part of a campaign to save the Earth's "Last Great Places."

The Conservancy, known for buying and holding raw land in perpetuity, did not opt for 100 percent preservation in this case.

Instead, as part of the deal, the Conservancy placed restrictions limiting some development on the newly purchased land and then immediately resold half of it to others, paving the way for Gatsbyesque vacation houses on pristine beach and grasslands. Those buyers included a pair of Oracle software tycoons, a retired Goldman Sachs executive and comedian David Letterman.

"It's a Last Great Place for David Letterman," quipped former Conservancy executive David Morine, now one of its critics.

For their part, Conservancy officials defend the deal as one that preserved half the land and preempted denser development on the other half.

A closer look at the serpentine deal reveals another unexpected facet: the transaction hinged on an $18.5 million charitable gift made to the Conservancy two days before the closing, according to interviews with people involved in the purchase. The Conservancy used the gift to buy the land from business entities owned by the same family that donated the money. That series of transactions allows the family to seek an $18.5 million tax deduction, according to a family spokesman.

The gift would not be deductible under Internal Revenue Service rules if it were made with a binding restriction that it had to be used to complete the property deal. Conservancy officials said there was no restriction on the donation. They said the deal violated no IRS rules and represented a "use of tax incentives for conservation that served the public good."

However, a Conservancy lawyer, Hans P. Birle, said in a separate interview that the money was used to "close the gap" between the buyers and sellers.

How did the Nature Conservancy, once known as "nature's real estate agent," end up clearing a path for resort-sized houses on environmentally sensitive land in Martha's Vineyard? The convoluted story goes back more than a decade.

In 1990, Boston developers Neil W. and Monte J. Wallace approached officials on the island with a plan to rezone a historic oceanside property known as Herring Creek Farm in order to build 54 homes. When development-shy officials rebuffed the plan, the Wallaces challenged the decision in seven lawsuits. They lost every time.

In November 1999, Letterman's development company, MV Regency Group, offered to buy Herring Creek Farm. His agent promised limited building: six eco-friendly oceanside homes. More than half the property—115 acres—would be donated to the Farming Agriculture and Resource Management Institute, a small local nonprofit, to create a farming demonstration project for children, an institute official said.

But the Letterman proposal languished because of strong local opposition to development on the site. The Cohan family, the original owners who sold to the Wallaces, could block the deal until 2010 because they had a first option to repurchase the land. The Cohans were opposed to "any further development at all," said Joseph Shea, a Cohan family attorney.

"We always wanted less rather than more development," Shea said yesterday.

In 2000, the Conservancy, which had a longstanding interest in the property, quietly made its own offer to the Wallaces. The Conservancy said it planned to keep and preserve half of the acreage and sell the rest to "conservation buyers" who would agree to development restrictions on the land. The Conservancy convinced the Cohans to go along with the deal, Conservancy officials said.

After the Conservancy expressed an interest, the Wallaces let it be known in the small island community that the respected environmental nonprofit organization was a potential buyer, according to Stuart R. Johnson, the Wallace family spokesman. With the Conservancy in the picture, the Wallaces were able to finally satisfy their desire to get a rezoning that would boost the value of their property.

Julia Wells, who covered the Herring Creek Farm saga for the Martha's Vineyard Gazette, said Johnson used the Conservancy's name to help sway votes on the zoning commission.

"Key people were told" on the commission that the Wallaces would not build on the property but instead intended to sell the land to the Conservancy, Wells said. "They did influence the vote that way." Said Johnson, "I might have said that in the final quarter of the process." But he said other factors influenced the vote as well, including a desire to end the long standoff.

Conservancy officials said they were unaware their organization's name was used by the Wallaces with the zoning commission and that "we did not, nor did we try to, have special influence over public officials."

The commission voted 7 to 6 to give the Wallaces permission to build 33 houses on the land. The rezoning boosted the property's estimated "fair market value" to $78 million, or $363,000 an acre, a considerable premium above the $64 million, or $298,000 an acre, that the Conservancy eventually offered.

This would allow the Wallaces to apply for a $14 million IRS deduction for the difference, under tax provisions allowing such deductions for "bargain sales" to charities.

Johnson said in an interview that the Wallaces viewed the deduction as a way "to soften the pain of taxes" and the "linchpin" to the deal.

With the rezoning in hand, a complicated transaction went forward—so complicated that even some participants say they don't understand all of its aspects. It took nine months to close.

The $64 million purchase price was assembled from many pieces.

About $45 million came from a varied collection of buyers: the farming institute; retired Goldman Sachs executive Daniel W. Stanton and his wife, Mary; Oracle software company technology gurus Roger Bamford and Denise Lahey; and Letterman's MV Regency Group.

That left $18.5 million that the Conservancy needed to come up with to meet the Wallaces' $64 million purchase price.

On July 10, 2001, Real Estate Equities LP, a Wallace-owned company, donated a partial interest in another family partnership, known as Windsor at Hauppauge LP, to the Wallace Foundation, whose trustees are the Wallace brothers. The interest was valued at $18.5 million.

On July 18, 2001, the foundation gave $18.5 million to the Conservancy. Two days later, the Conservancy placed $64 million in escrow for the purchase.

Conservancy officials and Johnson initially said that one key to the deal was the $18.5 million donation. Johnson referred to it as "the gift part" of the transaction.

Later, Conservancy officials denied the gift was tied to the purchase. They said the Wallace Foundation developed its tax strategy with no consultation with the Conservancy.

"We needed to find $18 million somewhere," Conservancy officials said in a statement, "but the funds could have come from anyone interested in conservation on Martha's Vineyard."

Mike Dennis, the Conservancy's general counsel, said there was never a "legal obligation" for his organization to use the $18.5 million to purchase the farm.

"It's a huge distinction," he said. "Because if you do it one way, it's allowable, acceptable and done all the time. If you do it the other way, you've violated the law."

A 1972 IRS ruling states that for a contribution to be allowed as a tax-deductible gift, "there can be no expectation of procuring a commensurate financial benefit in return." The IRS has additional provisions regulating gifts from family foundations to prevent self-dealing by their members, such as the use of charitable donations to benefit themselves.

In the end, the Conservancy, the Wallaces and the private buyers all emerged as winners. In addition to the $64 million sale price, the Wallaces gained $32 million in tax breaks.

The Conservancy ended up with 102 acres of what it terms the most "ecologically important parcels" of the land, which it plans to restore. The organization also got a choice lot worth several million dollars earmarked for development of a luxury home.

"It's a real victory," said Conservancy President Steven J. McCormick. "Only 1 percent of sandplain grasslands ecosystem remains in the world."

Wallace family spokesman Johnson hailed the $18.5 million donation as "probably the biggest gift in the history of the Commonwealth and for sure in the history of Martha's Vineyard." A Conservancy ad published in the Wall Street Journal last May saluted the Wallaces as among seven top donors to its "Last Great Places" campaign.

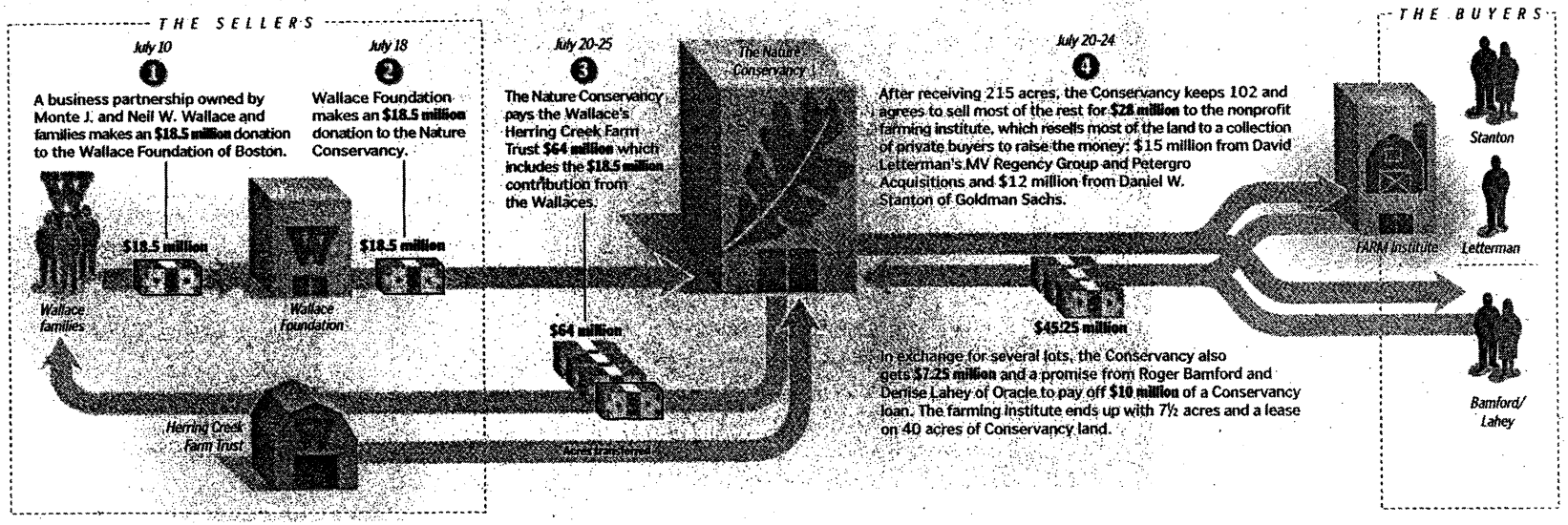
Letterman acquired one of the old Wallace homes, a sprawling, 4,750-square-foot structure on 24 acres looking out on the Edgartown Great Pond. It is a short walk to a private ocean beach bordered by grasslands that are home to osprey, short-eared owls and piping plover.

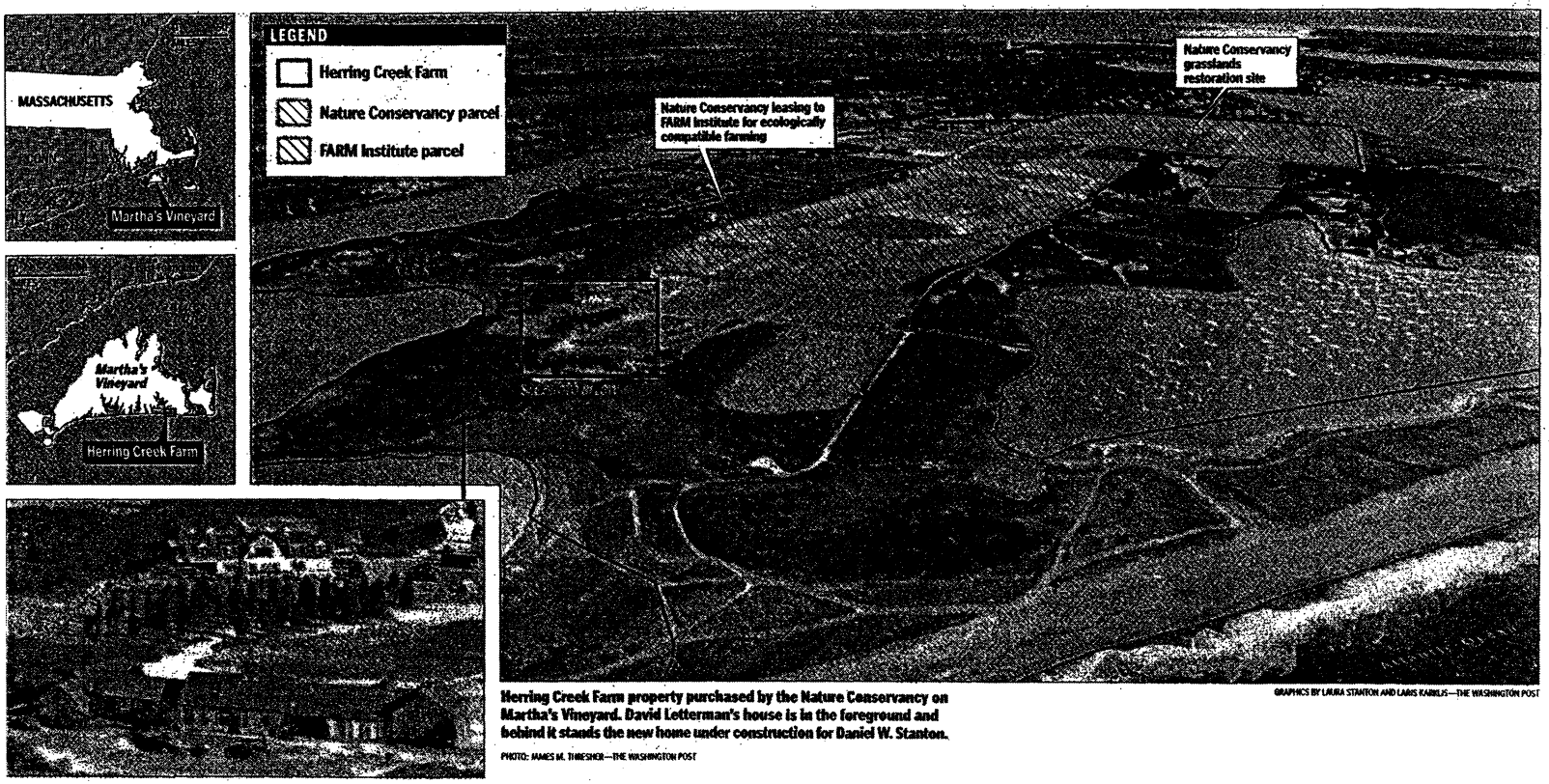
Early last year, Stanton began bulldozing for a $14 million mansion that soon resembled a high-end resort.

Five others are planned.

How a $64 Million 'Conservation Buyer' Deal Worked

As a way to promote conservation, the Nature Conservancy over the years has turned increasingly to "conservation buyers," individuals willing to accept building restrictions on their properties in exchange for tax benefits. In 2001, the Conservancy engineered one of its largest such deals, the $64 million purchase of the 215-acre Herring Creek Farm on Martha's Vineyard. The deal was intended to preserve rare sandplain grasslands. It also paved the way for multimillion-dollar home sites for a few wealthy families. The Farming Agriculture and Resource Management Institute (FARM), a small local nonprofit that originally hoped to receive a donation of more than 100 acres, ended up with only 7½.





Herring Creek Farm property purchased by the Nature Conservancy on Martha's Vineyard. David Letterman's house is in the foreground and behind it stands the new home under construction for Daniel W. Stanton.

PHOTO: JAMES M. THRESHER—THE WASHINGTON POST

GRAPHICS BY LAURA STANTON AND LARIS KARKLIS—THE WASHINGTON POST

The Washington Post

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BIG GREEN | *Conserving Land and Wealth*

Developers Find Payoff in Preservation

Donors Reap Tax Incentive by Giving to Land Trusts, but Critics Fear Abuse of System

By JOE STEPHENS *and* DAVID B. OTTAWAY
Washington Post Staff Writers

Mike Kahn, a Florida business consultant and former golf pro, advises celebrities and sports stars how they can save millions in taxes: Buy a golf course and prohibit building on the fairways.

"You make virtually risk-free easy money," Kahn's Web site says. He explained in one Internet posting how an investor paid $2.4 million for a golf course and reaped $4.8 million "in pure tax savings." Kahn will not identify the buyer but describes him as one of many who made big money—and got to keep the golf course as well.

"People who do it generally keep it quiet," he explained in an interview. "It sounds like a money grab."

It is all possible, Kahn explains, through a common environmentalist's tool called a "conservation easement."

Easements are permanent deed restrictions that limit some types of intrusive development—such as dense subdivisions or strip mines—while often permitting limited construction. Landowners "donate" the easements to a nonprofit land trust or a government agency that, in effect, certifies that the restrictions are meaningful and provide some public benefit, such as preserving open space or protecting wildlife. That allows the donor to seek federal income tax deductions for the reduction in the land's market value.

By taking such steps to limit construction, the owners of vacation resorts, country manors and dude ranches can seek big write-offs, too. Pennsylvania developer Kenneth C. Hellings says he restricted building on "unusable" portions of his new subdivision and took "a shocker" of a tax deduction. Luxury-home builders in North Carolina paid $10 million for a tract

See EASEMENTS, *A20, Col. 1*

EASEMENTS, *From A1*

in the mountains, developed a third of the land, then claimed a $20 million deduction. Such tax bonanzas have become a little-noticed byproduct of the maturing environmental movement, which increasingly entwines preservation of land with preservation of wealth.

Without question, conservation easements have done much good. Conservationists credit them with making preservation the fastest-growing arm of the environmental movement, fueling a boom in land conservation and helping to protect more than 6 million acres nationwide. Easements have helped safeguard fragile ecosystems, critical watersheds, land bordering national parks and some of the nation's most stunning vistas.

"There is an enormous amount of good that has been done," said Rand Wentworth, president of the Washington-based Land Trust Alliance. "Ninety-nine percent of these transactions are good, solid conservation."

But as easements have proliferated, so have problems and abuses.

The Senate Finance Committee earlier this year opened a wide-ranging inquiry into easement practices at the Nature Conservancy, the world's largest environmental group. The committee's investigation followed a Washington Post series that revealed the Conservancy had repeatedly bought scenic properties, added development restrictions, then resold the land at reduced prices to Conservancy trustees and supporters. The buyers, some of whom retained the right to build houses on the land, in turn gave the Conservancy cash donations that supplied them with hefty tax write-offs. After the series, the Conservancy board banned such sales.

Now conservationists are wrestling with other ethical concerns about easements.

Stephen J. Small, a leading easement consultant and former IRS attorney, warned that "some things are starting to get out of hand" in an address delivered at a conservationists' gathering earlier this year in Sacramento.

"We are getting calls from people who are totally misinformed about conservation easements and the potential tax benefits," Small said. "Lawyers and accountants and promoters and investors are giving them bad information, telling them they can do this or that and claim a big deduction, and there aren't enough people out there telling them they can't."

Conservation easements have been around for decades but only gained prominence after 1976, when Congress made them tax-deductible. Today, easements are held by a host of government agencies, national environmental groups such as the Conservancy and about 1,260 local land trusts—nonprofit corporations devoted to conservation.

Those trusts often operate behind closed doors as they decide which tracts to protect—and therefore which landowners get the tax breaks. The trusts also decide how much building can be done. The benefits often go to the wealthy, and routinely to board members and staff at the land trusts. And although the development restrictions are publicly described as lasting "in perpetuity," conservationists privately fret over whether this is true, partly because easements continue to face court challenges.

Enforcement is also a problem. Surveys of land trusts around the nation, often conducted by the land trusts themselves, show that hundreds—perhaps thousands—of easements have been violated or altered at the request of landowners. Many of the owners have already pocketed the tax savings generated by the easement. Many easements explicitly allow additional development if the land trust approves.

Meanwhile, companies and individuals claiming huge write-offs face little risk of audit. In the past two fiscal years, an IRS program aimed at identifying inflated deductions taken for easements and other non-cash gifts to charities produced thousands of leads but, because of competing priorities at the agency, did not produce a single audit, according to the General Accounting Office.

"It's complete smoke and mirrors," said John Echeverria, a former general counsel of the National Audubon Society. "Donations of conservation easements generally do not really give any value away."

Echeverria, who now directs the Georgetown Environmental Law and Policy Institute, instead favors preserving land through more time-tested processes, such as restrictive zoning and the issuance of building permits. Easements, he says, have "the potential to undermine the cause of environmental protection itself."

Fearful of damaging the land-trust movement, many conservationists are reluctant to broadcast the flaws in easements. They ruminate instead on easement shortcomings in the dry text of academic studies and legal journals.

An April 2000 survey of 18 New England land trusts and easement-holding public agencies, for example, found that 14 acknowledged that they had discovered one or more easement violations. Most said they had agreed to alter restrictions in one or more existing easements. Another study, in 1999, discovered that almost half of the protected tracts examined in the San Francisco area were not regularly monitored to make sure the restrictions were being followed.

"Failure to adequately monitor easements results in the public paying for nonexistent benefits," stated the report, by the Bay Area Open Space Council. A third study concluded bluntly: "There are serious threats to the use of easements."

Some tax specialists say deductions generated by easement donations increasingly are attracting the attention of affluent families seeking tax shelters.

Small, the conservation lawyer, estimated in a recent land-trust newsletter that a third of his potential clients "think they can get away with something by donating a conservation easement." Some developers argue that land separating homes in subdivisions qualifies for tax breaks; others produce land appraisals that appear wildly exaggerated. Although Small turns such clients away, he believes that an increasing number of abusive deals are quietly being made, sometimes facilitated by nonprofits with questionable credentials—what are known as "rogue land trusts."

Small reserves particular scorn for developers who donate easements on golf courses, then seek tax breaks for preserving open space. All but a few such easements, he said, are on their face "ridiculous."

He wrote in a recent e-mail to other conservationists, "This is a very, very bad direction the land trust business is going in and we need to stop it."

How It Works

Conservation easements generally work this way:

Landowners amend their deeds to permanently restrict some types of intrusive development—such as shopping malls or hotels—while often continuing to allow construction of homes or other limited improvements. The owner then finds a nonprofit land trust or a government agency willing to take the easement as a gift.

By accepting the gift, the land trust in effect certifies that the restrictions are meaningful and benefit the public. That allows the donor to seek federal income tax deductions and, in some cases, reductions in federal estate taxes and local property taxes. In many communities, the land trust becomes the sole entity responsible for monitoring the site and suing if violations are uncovered.

Easement donors can seek tax deductions for any loss of property value caused by the restrictions. That value is generally established by appraisers hired by the donor. Propelled by such savings, conservation easements held by the local land trusts have grown more than fivefold nationwide since 1990, to an estimated 12,000 today. Local land trusts hold easements totaling 2.6 million acres, more than double the land they own outright.

There are no reliable figures on the total value of the conservation tax breaks. But legislation to expand allowable deductions that passed the Senate this year would sacrifice more than $1 billion in additional tax revenue over the next decade, according to the Senate Finance Committee.

Unlike restrictive zoning, which is customarily established by public bodies working with land-use experts, easement restrictions often are initiated by individual landowners. The deals are made with private nonprofit corporations that may be simply a handful of local residents. Filed at the courthouse as deed amendments, the easements usually go unnoticed.

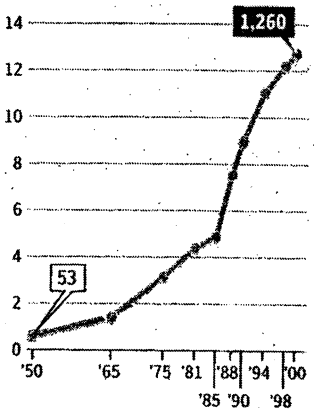
A recent survey by the Land Trust Alliance, a national trade association for conservation organizations, found that half of all trusts are run entirely by volunteers. Half have annual budgets of less than $27,000.

Such organizations decide

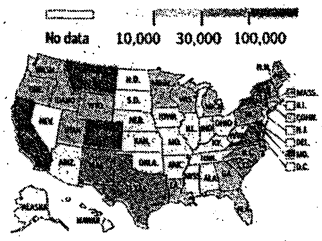
Local Land Trusts: A Closer Look

Land trusts—private, nonprofit corporations that work to conserve wildlife and open space—have exploded in number since 1976, when Congress first approved federal income tax deductions for gifts of conservation easements to land trusts. As of 2000, local and regional land trusts had used easements and other strategies to protect 6 million acres of open land, an area twice the size of Connecticut. These figures exclude national land trusts and government agencies, which also accept gifts of conservation easements, which are permanent restrictions that limit development on selected plots of land.

Number of local and regional land trusts, in hundreds



Land under conservation easements held by local and regional land trusts as of 2000, in acres



Ala.	855	Mont.	449,445
Alaska	1,250	Neb.	2,150
Ariz.	1,606	Nev.	no data
Ark.	173	N.H.	96,468
Calif.	160,671	N.J.	6,383
Colo.	293,864	N.M.	41,039
Conn.	19,821	N.Y.	280,499
Del.	1,274	N.C.	40,573
D.C.	3	N.D.	no data
Fla.	19,550	Ohio	9,390
Ga.	27,996	Okla.	no data
Hawaii	4	Ore.	13,597
Idaho	16,277	Pa.	88,316
Ill.	5,013	R.I.	9,292
Ind.	1,376	S.C.	71,209
Iowa	6,541	S.D.	7,760
Kan.	2,296	Tenn.	4,198
Ky.	1,545	Tex.	40,621
La.	13,385	Utah	28,404
Maine	61,452	Vt.	319,580
Md.	125,334	Va.	180,255
Mass.	50,061	Wash.	21,285
Mich.	20,877	W.Va.	4,004
Minn.	16,703	Wis.	10,883
Miss.	4,225	Wyo.	10,664
Mo.	1,452		

SOURCE: Land Trust Alliance

THE WASHINGTON POST

which tracts to preserve and who will pocket the tax savings "with no public input whatsoever," Echeverria wrote in a recent analysis. He describes the process as "a gross fraud on the U.S. taxpayer."

Land trusts say easement donations have helped many cash-poor families retain farms and ranches they otherwise might have sold to developers. But some of the biggest and best-known easements have been linked to major corporations and some of the nation's richest individuals, from Ted Turner and David Letterman to the Rockefellers and DuPonts.

University of Utah law professor Nancy A. McLaughlin, writing in a recent issue of the Idaho Law Review, described the use of tax incentives as "upside-down."

"It provides upper-income donors with disproportionately greater tax savings than middle and lower-income donors," she wrote.

To be sure, McLaughlin and many other environmentalists—including those pushing for reform—support easements and say they have done much good. While acknowledging a small but significant number of abuses and legal uncertainties, the proponents say most easements have never been violated. They add that although easements occasionally are amended, the environment rarely has been harmed and that amendments often increase conservation values. Most donors give out of a desire to protect land they cherish, and most ultimately lose money on the transactions, proponents say.

"Most in the land-trust community meet their ethical responsibilities, and well," Vermont Land Trust president Darby Bradley said in an October address to other preservationists meeting in California. Bradley nonetheless called for improvements, saying, "We must do better."

Big-Buck Deductions

There are mounting concerns about the size of the tax deductions that donors claim, based on the assumption that easements lower property values. Some academic researchers believe easements can increase property values by making neighborhoods more exclusive and scenic, with less density. Real estate ads sometimes tout easements as a selling point.

"Landowners may well be receiving double compensation," according to a recent analysis by Purdue University professor Leigh Raymond and University of California at Berkeley professor Sally K. Fairfax, writing in Natural Resources Journal.

Donors can pocket the tax breaks, then profit as well from the appreciation of their new, trophy-home sites. The authors described that possibility as "troubling, to say the least, given the involvement of public funds in financing their original transactions."

In the Great Smoky Mountains near Asheville, N.C., investors two years ago bought 4,400 acres, placed an easement on 3,000 acres and then began developing 350 home sites and an 18-hole golf course on the remaining property. A master plan for the development, called the Balsam Mountain Preserve, shows that the easement area is broken up by the fairways and home sites, which spot the land like mushrooms on a pizza.

Investors paid about $10 million for the land and shared in a tax write-off "in the $20 million range," said James A. Anthony, a partner in the South Carolina development firm of Chaffin/Light Associates. The deduction was based, in part, on an appraiser's assessment of how much the land would have been worth had they filled the acreage with 1,400 homes, Anthony said.

Far from a liability, the easement has become a marketing tool. Sales literature describes the subdivision as "a community within a park" and the undeveloped portions as maintained "for the quiet enjoyment of members."

Anthony said: "It does add value to the remaining land. Kind of like a limited-edition print—the fewer you have, the more the value."

Appraisers factored any appreciation into their calculations of the tax benefit due the investors, Anthony said. The firm is considering placing an easement directly on the golf course once it is completed, he added.

Broad data about the reliability of claimed deductions are scarce. But a 1984 IRS study examined 42 deductions for easement donations and determined that all but one appeared inflated, resulting in overvaluations totaling nearly $32 million.

According to a GAO report on the study, "The taxpayers generally overvalued their conservation easement deductions by an average of about 220 percent."

Setting values continues to prove nettlesome. In the case of Brandon Park, the personal retreat of chemical heiress Wilhelmina duPont Ross, New York state officials and federal officials came to different conclusions.

Visitors to the family estate in the Adirondack Mountains pull up at a gated and guarded entrance. The road then winds through a 27,000-acre private forest dotted with nine ponds and traversed by 10 miles of the St. Regis River. The grounds feature at least 16 homes, cabins and other buildings, linked by more than 60 miles of roads and trails, court records show.

In 1978, Ross gave the Nature Conservancy an easement restricting commercial development on the remote site and requiring that it remain forever a "natural and scenic area." Backed by an appraisal, she claimed that the restrictions slashed the property's market value by 44 percent. That qualified her for a federal income tax break of more than $1 million—$2.5 million in today's dollars.

Two decades later, during a local property tax dispute, a panel of state judges pointed out that Ross had retained the right to build 10 additional homes, mine gravel pits, drill for oil, cut trees, subdivide the land and expel the public. They pointed out that local governments already heavily regulated development of the estate, meaning that Ross actually had "parted with very little" when she donated her easement.

"Any further development of the land was unlikely, even if the land was not subject to the conservation easement," the court ruled in 1999, rejecting requests to slash her property taxes.

Ross died in 2000. Her lawyer, H. Dean Heberlig Jr., explained that, unlike New York officials, federal authorities factor in a property's potential future value when establishing tax breaks. The IRS initially challenged the deduction, he said, but ultimately agreed that $1 million "was an appropriate deduction."

The IRS said it could not comment publicly on an individual tax case. A Conservancy spokesman said his group strongly believes easement donors give up "real value."

Policing Conflicts

Preservationists laud the grassroots nature of the easements: Decision-making devolves into the hands of private groups that know their community best. But that approach also makes the easements difficult to track and police.

Raymond and Fairfax describe conservation easements in general as protecting a patchwork of partially developed tracts, using restrictions largely designed by the landowners to meet their own needs.

"Conserved land thus comes under protection because it is available to a land trust, not necessarily because it is an appropriate parcel to conserve," they wrote in their analysis. "The land owner, rather than the trust, drives the process. Moreover, during negotiations private landowners . . . generally define the nature of the protection on the land to suit their own priorities."

Small, who wrote the federal income tax regulations on conservation-easement donations while working for the IRS in the 1980s, says that at the time he and his colleagues expected land trusts to reject abusive transactions and police the process. Regulators thought that charities would turn away easements that allowed too much building or were designed solely to benefit the wealthy, he said.

Today, however, organizations often are responsible for policing restrictions on property owned by their own officers, directors and donors. On an Internet discussion list, land-trust officials from across the country recently spoke out fervently in defense of employees and board members who donate easements to their own nonprofits.

Tom Bailey, executive director of Michigan's Little Traverse Conservancy, wrote on Oct. 9 that land trusts should "make every effort" to persuade insiders to donate.

BY BARBARA L. JOHNSTON FOR THE WASHINGTON POST

In Chester County, Pa., the Tattersall golf course is covered by a "conservation easement" that includes the fairways. The property is part of a subdivision—built on 450 acres that once housed a historic farm—with 163 home sites.

"I certainly hope that a board member's having an easement on their land would not be considered a conflict!" Bailey wrote. "Or a staff member either. . . .

"Certainly when enforcement issues are involved, the board member would be required to abstain from discussion or decisions on the case. But let's not get carried away with this conflict stuff."

The Medina Summit Land Conservancy of Ohio holds easements on four properties owned by its trustees and two more deals with trustees are in the works, said its executive director, Chris Bunch. The North Branch Land Trust of Trucksville, Pa., is in charge of enforcing easements on farms owned by its president and its board secretary, who say they received tax deductions exceeding $300,000.

The secretary, Ed Zygmunt, said, "I personally don't see any conflict of interest."

Increase in Problems

Studies funded by land trusts show monitoring and enforcement problems are widespread and growing worse.

The 1999 survey of San Francisco-area easement holders, for example, found that only half of the preserved tracts in the region were regularly monitored by the nonprofit or government agency holding the easement. Many of the existing monitoring programs were inadequate, the survey said. And even that monitoring discovered violations at 14 percent of the sites.

"Problems are more likely to occur with second-generation landowners," added the report, by the Bay Area Open Space Council, a regional group of land trusts and conservation agencies. "Further changes of ownership in the future should be expected to increase the number of violations."

Nearly a third of the organizations surveyed had no list of the easements they held, and some failed to record the original condition of the restricted properties.

"Years may go by without any documentation on the easement," the study said. "Without proper, timely, and consistent monitoring, easements are difficult to defend legally, and violations become practically impossible to remedy."

Many of the nonprofits also

could not afford to defend an easement in court if necessary, the report concluded.

One California environmental group, Defense of Place, used data from the study to estimate that easement violations nationwide exceed 2,700. The group's director, Jason Kibbey, warned: "If you just let conservation easements unravel over the next 20 years, the movement is over."

Government agencies, which also hold thousands of easements, have their own problems. Conservationist Edmund Stiles found that his home of Hopewell Township, N.J., holds more than 400 easements, 103 of them stuffed into a box in the township hall basement. He visited a few dozen and found that 80 percent of the easements had been violated. Most were minor, he said, but in one case, a bridge had been built on the protected land.

"Governments don't like enforcing easements," Stiles said. "It's a difficult thing politically."

Hopewell zoning officer Robert Miller said the township has no one to monitor easements, so it depends on residents to report suspected violations. That happens about once a week, he said.

A voluntary survey of New England conservation groups and public agencies by the Land Trust Alliance in 2000 found that a third kept no records on inspections of land protected by easements.

Of 18 organizations participating, 11 admitted to having amended one or more easements already on file at the courthouse. Many of the easements reviewed during the survey were poorly written, making them difficult or impossible to defend in court, the report said.

An Alliance study in 1999 identified 498 easement violations nationwide, but its report struck a positive stance. It called 383 of the violations "minor." The 115 "major" violations included 32 cases of surface alteration, 28 of vegetation cutting and 18 of logging. In 25 cases, "prohibited/unauthorized" structures were built.

The report stressed that 93 percent of easements in the study appeared to have avoided violations.

Statistics show that more than half of all new nonprofits fail in their first decade. Over time, there may be no one to enforce many easements. And even when a land trust survives and has ample financing, it faces murky laws, according to a 1998 survey commissioned by the INNW Fund, a California preservation foundation. Some survey participants noted that easements are still relatively untested, and "not enough time has passed to determine whether they will hold up legally in perpetuity, as intended."

In a broader sense, some lawyers and environmentalists question whether it is wise for today's conservationists to impose their will on the future. Ecologists may one day determine that farmers do more damage than housing developments, they argue, or decide that conservation efforts would be more effective elsewhere.

University of Virginia professor Julia D. Mahoney, writing last year in the school's law review, described the easements as foolhardy. "We lack the technical competence to make land-use decisions for future generations," Mahoney wrote.

'Unusable Acres'

Hellings, the Philadelphia developer, said he has not spent much time weighing the philosophical implications. He has been busy building.

A few years ago, Hellings rolled bulldozers onto a historic 450-acre Chester County, Pa., farm and transformed it into an upscale commuters' subdivision, featuring 163 home sites on 100 acres surrounding an 18-hole golf course. Only after the plan was complete, Hellings said, did his lawyers hit on a way to capitalize on a leftover flood plain and some steep hillsides, a scattered jumble of land that Hellings describes as 131 "unusable acres."

Using guidance from a local land trust, Hellings's lawyers wrote an easement covering a dozen islands of protected land, one as small as six-tenths of an acre. Then they placed a second easement directly on 220 acres of the golf course, including the fairways, bunkers and putting greens.

The easements were accepted by the Brandywine Conservancy, a well-established Pennsylvania land trust. A Brandywine spokesman said the easements helped to protect sensitive natural resources, including water quality, and ensured that the golf course would remain "permanent open space, forever."

The easements mandate that the preserved areas "shall not unreasonably interfere with the business operations" and they authorize mowing part of the 131 acres for "temporary overflow parking." The open space boosts land prices, Hellings said, and has become a valuable sales tool.

Hellings would not say how much his tax break, calculated with the help of an appraiser, totaled. He described the final figure as "a shocker."

"It is nice to have when tax time comes," he said with a smile. "It was a bonus."

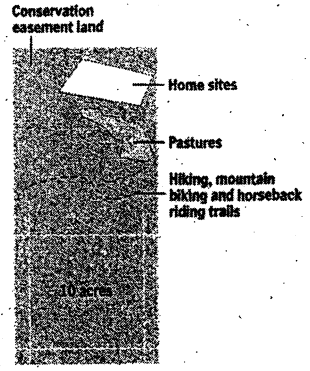
That bonus came as a surprise to West Bradford Township Manager Jack Hines Jr., who pointed out that under township ordinances Hellings would have had to dedicate at least 60 percent of his development to open space, anyway.

"I don't know how you could take a tax write-off for that," Hines said. "He shouldn't have gotten anything."

Researcher Alice Crites contributed to this report.

A Conservation Development

In the Smoky Mountains near Asheville, N.C., investors in the Balsam Mountain Preserve two years ago bought 4,400 acres for $10 million, placed building restrictions on 3,000 acres, then claimed a federal income tax deduction of about $20 million, according to one of the partners. The restrictions allow those acres to be preserved in their natural state. On the non-easement acres, the builders developed an 18-hole golf course and 350 home sites. They are considering placing an easement on the golf course and applying for another tax deduction. Here is a close look at the first phase of the development, which includes 110 of the home sites.



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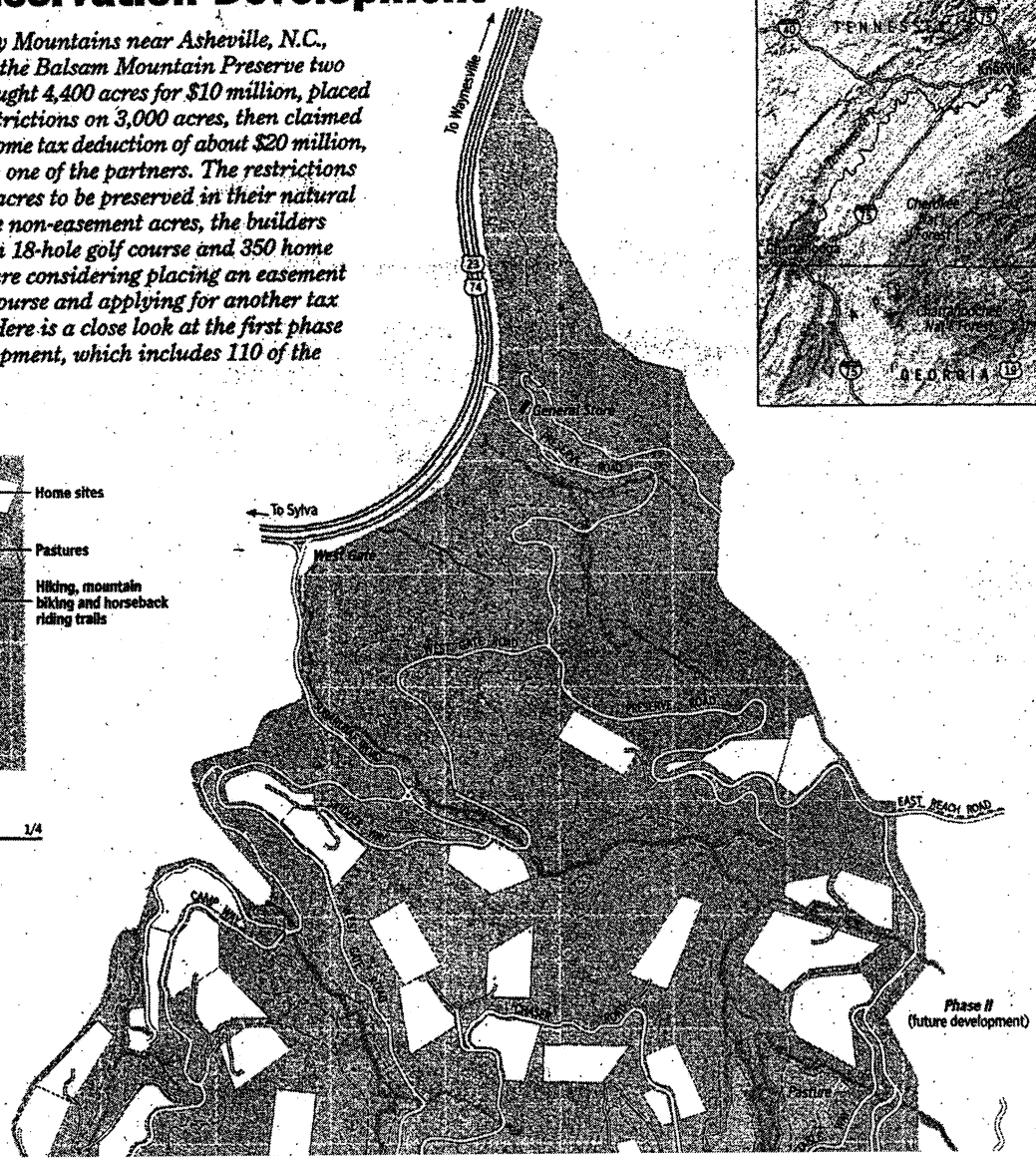
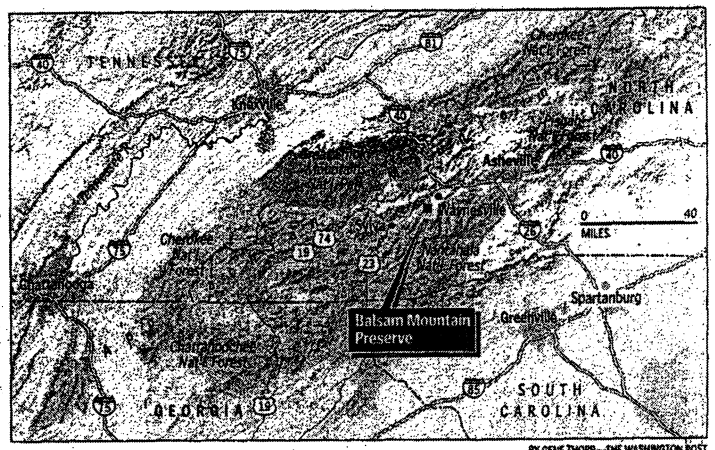
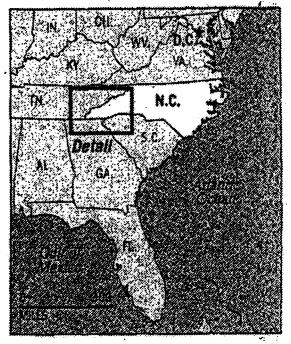
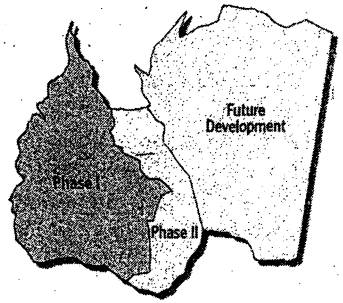
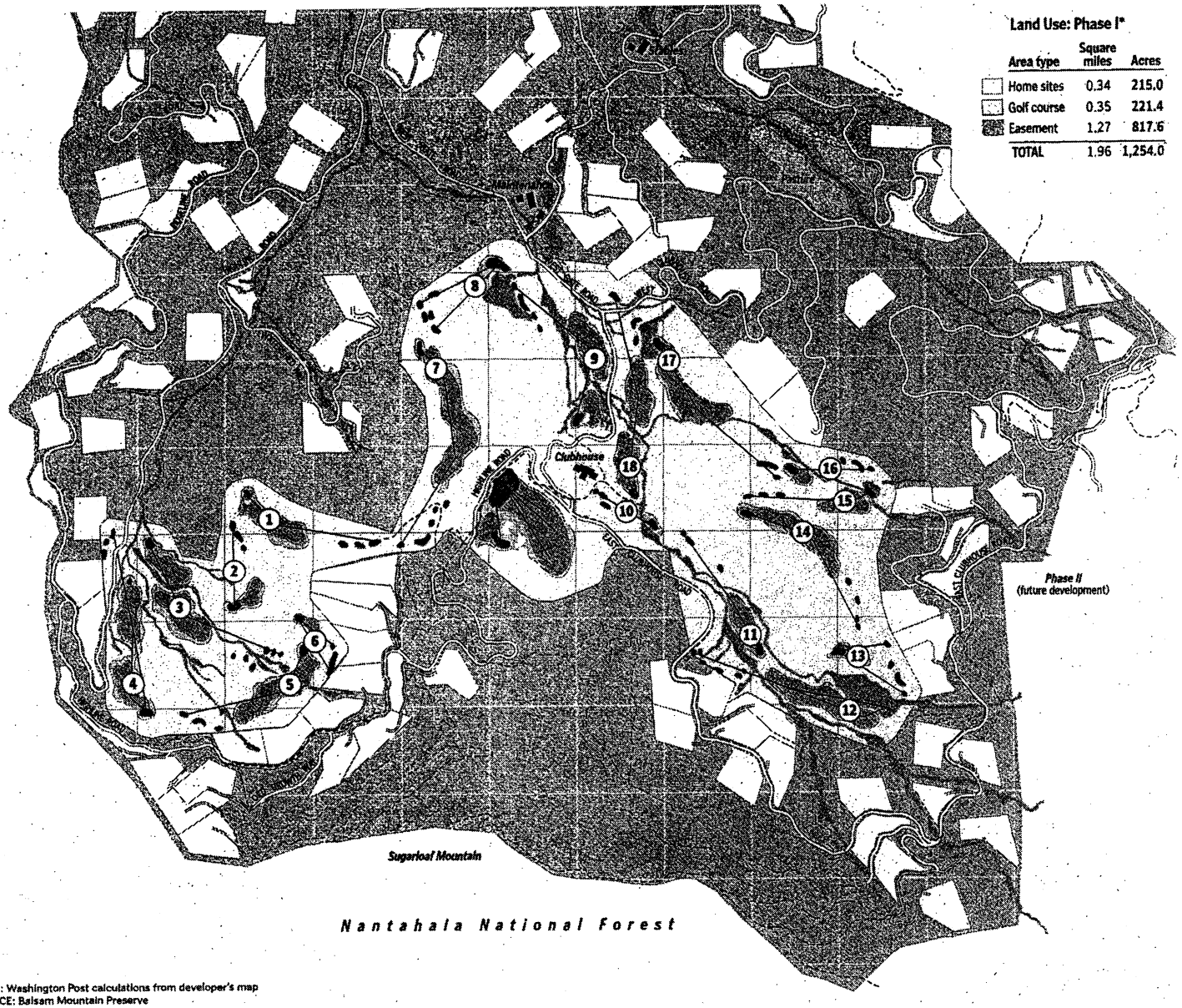




BY GENE THORP—THE WASHINGTON POST







Land Use: Phase I*

Area type	Square miles	Acres
Home sites	0.34	215.0
Golf course	0.35	221.4
Easement	1.27	817.6
TOTAL	1.96	1,254.0

*Note: Washington Post calculations from developer's map
SOURCE: Balsam Mountain Preserve

Land-Trust Boom A Boon for Habitat

By DAVID B. OTTAWAY
and JOE STEPHENS
Washington Post Staff Writers

The use of easements to protect open space has a long history.

The U.S. Fish and Wildlife Service bought easements in Minnesota and the Dakotas in the 1930s to preserve bird habitat. The National Park Service bought easements to preserve vistas along the Blue Ridge Parkway.

But conservation easements came to prominence only after 1976, when Congress approved tax deductions for land and easements given to environmental charities for conservation purposes. Since then, easements have been widely heralded for helping safeguard the environment, protecting wildlife and making many regions more attractive places in which to live and play.

They also have sparked a land-trust boom. The number of private, nonprofit land trusts swelled from 887 in 1990 to an estimated 1,300 today. The largest, the Nature Conservancy, has assets of more than $3 billion and ranks as the world's richest environmental group. It is the eighth-largest American nonprofit of any type.

Altogether, the trusts hold more than 13,000 easements. The leafy view across the Potomac River from Mount Vernon was protected with easements. So was a wildlife corridor along the Potomac in West Virginia.

The Vermont Land Trust has protected more than 7 percent of total acreage in that state, mostly through easements. The Grand Traverse Regional Land Conservancy is using easements to protect 6,000 scenic acres along Lake Michigan.

"The vast majority of land trusts are doing an excellent job in saving land," Rand Wentworth of the nonprofit Land Trust Alliance said in a statement Friday. "But the Land Trust Alliance is proposing new standards to control the isolated reports of activities that do not measure up."

Although concerns remain about the legal foundation for such easements, land trusts have scored many legal victories—none more dramatic than that won by the French and Pickering Creeks Conservation Trust of Pennsylvania.

In November 1998, after a ruling by a Chester County judge, sheriff's deputies looked on as a wrecking machine crashed through the walls of a 4,800-square-foot Colonial-style house. The judge had ruled that the $350,000 structure near Philadelphia had been built in violation of an easement granted to the trust three decades earlier.

Even that victory had its costs, though: It came after a nine-year battle that the Land Trust Alliance said cost the nonprofit easement holder almost $100,000—an amount exceeding the total annual budget of most land trusts.

While hailing the demolition as a milestone for the conservation easement, an article in the Land Trust Alliance's newsletter at the time nonetheless described the rancorous feud with the builders as "a cautionary tale for all land trusts."

Supplemental Materials

The Washington Post

Charity's Land Deals To Be Scrutinized

Senators to Send Letter to Nature Conservancy

By JOE STEPHENS
Washington Post Staff Writer

The Senate Finance Committee's chairman and its ranking Democrat said yesterday that they are troubled by reports that the Arlington-based Nature Conservancy sold scenic properties to its own trustees and that they will demand an accounting from the charity's leaders.

Committee Chairman Charles E. Grassley (R-Iowa) and Sen. Max Baucus (D-Mont.) are drafting a letter to the Conservancy, the world's richest environmental group, seeking answers to a range of concerns about the deals and other issues. The senators' interest stems from a three-part Washington Post series, which detailed this week the organization's rapid growth and described the charity's financial transactions with its supporters, including Fortune 500 companies.

"The Post reports shed light on very questionable practices by this charity that many have viewed as a pillar," Grassley said in a statement issued yesterday. "I'm committed to holding the Nature Conservancy accountable."

While the Finance Committee focused this week on President Bush's tax cut plan, the senators and their staffs found time to discuss a range of possible responses to the reports on the respected conservation group, which boasts a million members and assets worth more than $3 billion.

"I'm very concerned by reports that individuals and organizations are improperly benefiting from tax breaks on charitable donations and developing on environmentally sensitive lands," Baucus said.

"It's very important that we dig deeper to examine what's going on in these situations. If the allegations are as serious as they appear on the surface, we must look at ways to increase enforcement of laws that are already on the books. I also won't hesitate to move forward with additional legislation to protect the integrity of our natural resources and halt tax abuses if we find that's needed."

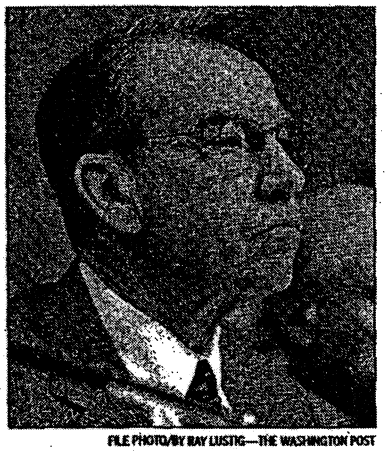
The Post series, titled Big Green, reported that the Conservancy had, time and again, bought ecologically significant tracts of land, attached some development restrictions and then resold the properties to trustees and supporters at greatly reduced prices. The sales were part of a program that limits intrusive development but generally allows buyers to build homes on the land.

The buyers then gave the Conservancy cash that was roughly equivalent to the amount of the discounts. That allowed the new owners to take significant tax deductions for charitable gifts.

The articles described how the Conservancy has logged forests and drilled for natural gas in Texas, under the last native breeding site of an endangered species of bird.

One article detailed how the Conservancy had given conflicting reports about the compensation of its president, Steven J. McCormick, and had underreported the interest rate on a $1.55 million home loan the organization extended to McCormick. McCormick's compensation totaled $420,000 last year. The organization said he will make less this year and that he recently paid off the loan.

Senate Finance Committee members have grown concerned by the appearance that Conservancy officials have dismissed the controversy, without issuing any public statement that the nonprofit plans a self-examination. Committee staffers focused in particular on a full-page advertisement published Friday in The Post and paid for by the Conservancy's board.



FILE PHOTO/BY RAY LUSTIG—THE WASHINGTON POST

Sen. Charles E. Grassley (R-Iowa) said: "I'm committed to holding the Nature Conservancy accountable."

"For 52 years, The Nature Conservancy has taken action in pursuit of a clear mission—to preserve the diversity of life on Earth," the ad states. "The job is far from complete, but the accomplishments are real.

"The Nature Conservancy has worked to protect over 116 million acres of the world's most ecologically important places. Those who know conservation recognize the invaluable contributions we have made in preserving the natural world."

Grassley is the sponsor of legislation, backed by the Conservancy, that would expand tax breaks for conservation. The measure would provide a variety of tax breaks for charitable donations, including a 25 percent reduction in the capital gains tax on the sale of undeveloped land for conservation purposes.

Grassley's bill passed the Senate by a vote of 95 to 5 on April 9, but final language for the legislation—known as the Charity, Aid, Recovery and Empowerment Act—must be hammered out with the House.

"With the significant new tax incentives provided under the CARE Act, taxpayers have the right to know how the Nature Conservancy conducts its business," Grassley said. "I'll be overseeing the charity's actions, asking tough questions and following through until satisfactory answers are given."

Tuesday, May 13, 2003 A3

Nature Conservancy Suspends Land Sales

Board of Nonprofit to Review Practices

By Joe Stephens
and David Ottaway
Washington Post Staff Writers

The Nature Conservancy has suspended a range of practices, including the sale of ecologically sensitive land to its trustees as home sites, in the wake of press accounts describing the Arlington-based nonprofit's activities and concerns expressed by some of its 1 million members.

The Conservancy, the world's richest environmental group, said it has halted all "conservation buyer" real estate transactions until the charity's board of governors reviews the practice in June. A Washington Post series last week reported that many buyers have been current and former Conservancy state trustees.

The Senate Finance Committee's chairman and ranking Democrat announced last week that they plan to look into the sales, which are designed to limit intrusive development but generally allow buyers to construct houses.

Under the program, the charity buys raw land, attaches some development restrictions and then resells the properties to supporters at greatly reduced prices. Buyers give the Conservancy cash payments for roughly the amount of the discount, a sum that is then written off the buyers' federal income taxes.

Other articles described how the Conservancy's board and leadership council today include executives and directors from corporations that have paid millions in environmental fines. The series also showed how the 52-year-old charity's alliances with Fortune 500 companies had helped it amass assets totaling more than $3 billion.

In a statement posted on the Conservancy Web site, *nature.org*, the organization said it also has:

- Suspended all new logging and other "resource extraction activities" on its nature preserves. The Post articles detailed how in Texas City, Tex., the organization had drilled for oil and natural gas under the last native breeding ground of a highly endangered species of grouse known as the Attwater's prairie chicken. The suspension will not stop natural gas production on the Texas preserve, a spokesman said.
- Suspended all new "cause-related marketing partnerships." The articles told how the Conservancy had sold its name and logo for use on consumer goods, including toilet cleaner and other products made by corporations whose executives and directors had sat on the Conservancy's governing board and advisory council.
- Suspended all new loans to employees. The articles disclosed that the Conservancy had extended a $1.55 million loan to its president, Steven J. McCormick, and then misidentified the interest rate. After being questioned by reporters, McCormick repaid the loan.

The Conservancy statement criticized The Post series, titled "Big Green," for containing what it described as "mischaracterizations" and a "lack of context." Even so, the organization plans a detailed review of the programs discussed.

"We take the broad issues the articles raised very seriously," the statement said. "The Conservancy's Board of Governors will dedicate its entire June meeting to a frank and open discussion of our practices, policies, and procedures. The board will focus on the Post's specific charges. . . .

"We will be paying particularly close attention to issues relating to how we engage and work with our Board and state chapter trustees. We are committed to making permanent and substantive changes where needed."

The meeting will be closed to Conservancy members, but will include time for "some sort of public discussion," a spokesman said.

Over the past week, the Conservancy's board has paid for three full-page advertisements in The Post, each stressing the organization's accomplishments and its dedication to preserving undeveloped land.

Sen. Charles E. Grassley (R-Iowa), chairman of the Finance Committee, and ranking Democrat Max Baucus of Montana are drafting a letter to the Conservancy seeking answers to a range of concerns about the land deals and other governance issues.

"Taxpayers have the right to know how the Nature Conservancy conducts its business," Grassley said in a statement on Friday. "I'll be overseeing the charity's actions, asking tough questions and following through until satisfactory answers are given."

Charity Hiring Lawyers to Try to Prevent Hill Probe

By JOE STEPHENS
and DAVID B. OTTAWAY
Washington Post Staff Writers

The Nature Conservancy is hiring outside lawyers and one of the nation's largest public relations companies to help head off a congressional investigation following disclosure that the nonprofit has sold scenic properties to its own trustees, internal Conservancy memos show.

The Arlington-based charity has retained Edelman Public Relations, whose Washington office is headed by former Republican and Democratic advisers, as part of a damage-control strategy that includes Capitol Hill meetings, calls to donors, third-party letters to newspapers, full-page advertisements and attempts to pacify charitable foundations, the memos show. Conservancy staffers also are working to "place stories" in the media that describe successful conservation projects.

"We will be hiring a law firm by the end of the day today that will help us with the Capitol Hill issues," a Conservancy staffer wrote this week, recounting a conference call among the organization's senior managers. "There are Congressmen that are concerned and as you know we need their support.

"We do not want them to launch an investigation of [the Conservancy] and this firm will help us on these issues."

Senate Finance Committee Chairman Charles E. Grassley (R-Iowa) and ranking Democrat Max Baucus (Mont.) said last Friday that they planned to ask the charity to account for a range of practices, including the sale of raw land at reduced prices to the organization's trustees for use as home sites. Some of those deals have coincided with charitable contributions to the Conservancy from the buyers, who then benefited from significant tax breaks.

The senators' interest stems from a Washington Post series last week that detailed the organization's rapid growth—its assets now exceed $3 billion—and described how the charity's financial transactions have benefited its supporters, including corporations that have paid pollution-related fines.

The Nature Conservancy
SAVING THE LAST GREAT PLACES ON EARTH

BY SARAH L. VOISIN—THE WASHINGTON POST

President Steven J. McCormick wrote that the charity's reputation has been damaged on Capitol Hill.

The articles reported how the Conservancy had drilled for oil under the breeding ground of an endangered bird, and how it had bought land and services from corporations whose executives sat on the nonprofit's governing board.

Grassley said in a written statement yesterday: "In my view, the best thing for the Nature Conservancy to do when it comes to both its donors and oversight from Congress is to be transparent in its practices and forthcoming with information."

In a May 5 memo, Conservancy President Steven J. McCormick told his staff, "As the story rolls out, we will continue our approach of answering all questions and harboring no secrets." This week, his spokesman declined to identify which law firm was being retained, how much its services would cost and whether the bill will be paid with donors' contributions.

Other Conservancy memos obtained by The Post show the organization is mounting a coordinated, global campaign to protect its interests.

"We . . . are working to identify firms that can help us gain access to key offices on the Hill," said one memo, bearing McCormick's name and e-mailed on Monday to the organization's executives in the United States and abroad. "We have launched a proactive effort to reach out to all critical members of Congress, key legislative staff and federal agencies."

Longtime supporters stand by the charity, McCormick wrote, but others "have serious questions about our business practices, especially surrounding the use of conservation easements and our relationships with corporations."

Conservation easements are legally binding agreements to restrict some commercial development, which the Conservancy routinely attaches to properties before resale. In many instances, however, the easements have allowed the new owners to construct one or more houses on the ecologically sensitive sites, the series reported.

"In markets where the series has run, I think it is safe to say that our reputation has been dealt a serious blow," McCormick wrote in the memo, which was labeled "Importance: High."

"This is definitely the case on Capital Hill. There is some evidence that the series is being distributed to other audiences that we care about, such as the foundation community."

The conference-call memo states that the articles "upset" foundation officials, particularly at the Doris Duke Charitable Foundation, which has given the nonprofit more than $10 million.

A fourth memorandum says that the Conservancy is encouraging "anyone, including partners and staff," to write letters to the editor protesting the series.

In an opinion column published Tuesday in The Post, McCormick said that, in response to the series, the Conservancy had suspended a range of activities highlighted in the articles, including land sales to trustees. The column said the Post articles were distorted and lacking in context, and that they mischaracterized the group's mission and motives.

Edelman's Washington office is headed by Michael F. Deaver, a former Reagan administration adviser, and Leslie Dach, a former Clinton administration adviser. Edelman represented the Red Cross after charges that the organization had misled donors after the Sept. 11, 2001, terrorist attacks. Other clients have included major corporations that have representatives on the Conservancy's governing board, including General Motors Corp., Georgia-Pacific Corp. and Southern Co.

"We have sought the advice of independent outside experts to help us navigate through all stages of this process, from dealing with issues of governance and transparency to how best to communicate to Washington-area audiences about the steps that we are taking," the Conservancy said in a written statement to The Post. "Our expertise is in conservation. It seems only prudent to engage others more versed in some of these areas to offer us their perspectives as we work through these issues."

12 Home Loans at Conservancy

Nonprofit Says All but 2 Have Been Repaid; 5 Came Interest-Free

By JOE STEPHENS
and DAVID B. OTTAWAY
Washington Post Staff Writers

The Nature Conservancy, which earlier this month issued a statement of regret to Congress for misreporting the terms of an internal loan to its chief executive, has over the past decade extended 11 housing loans to other employees, including five who were not charged interest.

In one transaction, the Conservancy's California director, Graham Chisholm, received a no-interest $500,000 mortgage that requires no payments until 2011, property records and an IRS filing show. The Conservancy will share in any rise or fall in his home's value.

Another loan, this one to a North Carolina employee, remains outstanding nearly eight months after its maturity date, said Conservancy spokesman Jim Petterson.

Each loan was made to retain or recruit a worker who was relocating, he said, and all but Chisholm's and the North Carolina employee's loans have been repaid. Although incentive loans to executives are not uncommon in the business world, some charity specialists questioned whether nonprofits should offer such loans, especially interest-free.

"It's legal, but it's not ethical," said Peter Dobkin Hall of Harvard University's Hauser Center, which researches charities. "It's very bad practice and not the sort of thing that will make donors happy."

The Conservancy's board is set to meet today at its Arlington headquarters to review the executive loans and other financial practices described last month in The Washington Post. Senate Finance Committee Chairman Charles E. Grassley (R-Iowa) and Sen. Max Baucus (Mont.), the committee's ranking Democrat, have said they plan to ask the nonprofit environmental group to account for activities that Grassley has described as "very questionable."

The Post reported that the Conservancy had used nonprofit funds to extend Steven J. McCormick, the organization's president and a member of its governing board, $1.5 million toward the purchase of a McLean home. Although Conservancy executives reported the loan was made at an interest rate of 7 percent, property records showed that the actual rate was 4.59 percent.

The Conservancy suspended new loans to executives after the disclosure, and McCormick recently repaid his debt. In a 16-page response to the Post series delivered this month to each member of Congress, McCormick wrote that "we regret the error."

Petterson said this week, in response to questions, that the Conservancy has extended a dozen housing loans to employees since 1993. All were home mortgages, except for $4,000 extended to help an employee rent housing in Indonesia, he said.

Interest rates ranged from zero to 6.02 percent, according to Conservancy records. Ten loans required no monthly payments. Of those, five were interest-free.

Chisholm, former head of the Conservancy's Nevada chapter, was named to the organization's senior California post in January 2001. Six months later, the Conservancy extended Chisholm $500,000 toward the purchase of a $925,000 house in Berkeley, according to property records and the Conservancy's IRS tax filing. The interest-free loan enabled Chisholm to buy a California house comparable to his home in Nevada, where property is cheaper, Petterson said.

No repayment is required until July 2011 if Chisholm does not move or switch jobs. On the 10th anniversary of the loan, the Conservancy will receive the principal plus a share of any appreciation in the property. If the house's value falls, the Conservancy will share the loss. Chisholm did not respond to phone calls seeking comment.

Chisholm's "shared appreciation loan" is uncommon, according to mortgage specialist Keith Gumbinger, vice president of HSH Associates. He calculated that, over 10 years, a standard mortgage with 5.125 percent interest would earn the Conservancy $235,000.

Last year, the Conservancy extended to Terry Severson, who manages land preserves in North Carolina, a $30,000 loan with 2.88 percent interest for the purchase of a new home. The IRS filing lists a maturity date of Oct. 15, 2002, but Petterson said the balance remains outstanding. Severson explained that he could not immediately repay the loan because a home he owns in Wisconsin remains unsold. Severson said he is leaving the Conservancy for family reasons on June 18 and has agreed to fully repay the loan in July.

The filing shows that the Conservancy last year extended to one of its lead scientists, John A. Wiens, and his wife a loan of $375,000 for six months with 5 percent interest. A commercial lender extended Wiens a second mortgage at 6.1 percent.

Wiens, who did not respond to requests through the Conservancy for comment, used the loans to buy a $1 million home in Vienna, Va. He later sold a Colorado home and used the proceeds to repay the Conservancy, interviews and records show.

The IRS filing states that the Conservancy loan was secured by Wiens's home in Virginia, an assertion not supported by property records. Petterson said this week that the filing was in error and that Wiens used his Colorado home as security.

Researcher Alice Crites contributed to this report.

The Washington Post

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Conservancy Abandons Disputed Practices

Land Deals, Loans Were Questioned

By JOE STEPHENS *and* DAVID B. OTTAWAY
Washington Post Staff Writers

The Nature Conservancy announced last night that it is permanently abandoning a range of practices, from drilling for oil to lending employees money to selling undeveloped land to its trustees as home sites.

The board's actions followed a day-long, closed-door meeting at the charity's Arlington headquarters, during which it weighed issues and criticisms raised over the past month by two U.S. senators and by some of the nonprofit organization's 1 million members.

"The actions taken today by the Conservancy's Board of Governors are significant and concrete and demonstrate the board's commitment to continuous improvement," charity spokesman Jim Petterson said in a written statement. "These steps will assure the Conservancy's supporters and partners of the organization's commitment to integrity beyond reproach, and will better equip the organization to address the world's conservation challenges."

The 52-year-old Conservancy, best known for its ads featuring the voice of actor Paul Newman, is the world's richest environmental group, with $3.3 billion in assets. The charity has 3,200 employees and operates in every state and

See CONSERVANCY, *A10, Col. 1*

CONSERVANCY, *From A1*

30 countries. It owns 2 million acres, much of it held in 1,400 nature preserves.

The board outlined its actions yesterday in a six-page statement. One of the decisions prohibits the buying or selling of land in transactions involving board members, state trustees, employees and employees' immediate families. In recent years, the Conservancy bought millions of dollars worth of land and services from board members and companies with which they were associated.

The board also decided to stop the practice of accepting charitable gifts in connection with its conservation buyer program unless the gifts are documented and explicitly part of the deal.

Under the program, the Conservancy bought raw land, attached development restrictions and then resold the land to state trustees and other supporters at greatly reduced prices. Buyers then voluntarily gave the Conservancy charitable contributions roughly equivalent to the discounts, sums that were written off from the buyers' federal income taxes. The deals generally allowed the buyers to build homes on the land.

"With respect to the specific conservation buyer transactions highlighted in recent media reports, outside tax counsel advised the Board, based on a review of documentation provided by the Conservancy, that there were no legal problems with the transactions from a federal income tax perspective," the Conservancy statement said. Nevertheless, the board decided to take action "to remove even the perception of conflict of interest or impropriety related to conservation buyer transactions."

In its actions, the board "reemphasized the well-established conclusion that development restrictions, asserted via conservation easements, have significant monetary value."

The board also voted to conduct scientific assessments of the conservation properties and to widely advertise all real estate the Conservancy offers for sale.

Another action prohibited new loans to employees. Two outstanding employee loans will be repaid within 90 days.

In recent years, the Conservancy extended housing loans to 12 of its workers, including five employees who were not charged interest. Conservancy President Steven J. McCormick received $1.5 million, at an interest rate of 4.59 percent, toward the purchase of a McLean home; his loan has been repaid. In another transaction, the Conservancy's California director, Graham Chisholm, received a no-interest $500,000 mortgage; this must be repaid in 90 days.

In addition, the board voted against authorizing any new projects to drill for oil or mine for minerals.

The Conservancy in 1999 began drilling for natural gas in Texas, under the last native breeding ground of the Attwater's prairie chicken, which it calls the most endangered bird in North America.

A report by Conservancy biologists said the drilling operation led to a "higher probability of death" for some of the birds.

The Conservancy will continue collecting natural gas on the Texas preserve.

The board decided to require additional levels of approval, sometimes by the board itself, before the Conservancy sells the use of its name and logo to private companies. In the past, the organization allowed companies to place its name on products in return for cash.

Finally, the board will hire independent outside advisers to help it review its governance and oversight policies.

The Conservancy's actions came as its activities were coming under increasing scrutiny on Capitol Hill.

Last month, after a three-day series of articles in The Washington Post, Senate Finance Committee Chairman Charles E. Grassley (R-Iowa) and ranking Democratic member Max Baucus (Mont.) said they planned to ask the charity to account for its programs, especially the sale of raw land at reduced prices to its state trustees.

Facing public concern over its activities, the Conservancy recently suspended many of the practices that it permanently abandoned yesterday.

"This sounds like a big step in the right direction," said Peter Dobkin Hall of Harvard's Hauser Center for Nonprofit Organizations, a research group. "The donor public feels self-dealing transactions should be avoided."

The Conservancy's actions will lead to greater accountability, he said.

"Transparency, that's the name of the game," Hall said. "I hope they mean it."

BY SARAH L. VOISIN—THE WASHINGTON POST

STEVEN J. McCORMICK

Petterson said the policy changes were approved by an overwhelming majority of board members, with only "one or two nays" on several points under discussion.

"On the agenda was a wide-ranging and thorough review of some of the tools and strategies the Conservancy has pioneered or used in pursuit of its mission," the Conservancy's statement said. "That review, initiated a year ago and accelerated, in part, by recent media reports, led the Board to create some new policies. Additionally, the Board reaffirmed the importance and contribution of the Conservancy's mission, strategy and values."

Thursday, July 17, 2003 A19

Nature Conservancy Faces Panel Review

By Joe Stephens
and David B. Ottaway
Washington Post Staff Writers

A Senate committee is seeking thousands of pages of internal documents from the Nature Conservancy as part of an "independent review" of the charity's practices.

In a letter sent yesterday to Conservancy President Steven J. McCormick, the Senate Finance Committee asked for records reaching back a decade and spanning 18 broad topics. Along with general explanations of Conservancy policies, the committee is requesting information as detailed as the Social Security numbers of individuals who received loans and land from the nonprofit.

The letter is signed by committee Chairman Charles E. Grassley (R-Iowa) and ranking Democrat Max Baucus (Mont.). The senators said in May that they might consider legislation after The Washington Post reported on a range of Conservancy practices, including the group's sale of scenic property to trustees who then made tax-deductible donations to the organization.

In the seven-page letter to the Nature Conservancy, the senators cite "serious questions about TNC's practices regarding land sales, purchases and donations; executive compensation; and corporate governance, among others."

As part of its review, the committee plans to seek information independently about the Conservancy from the Internal Revenue Service, a committee staff member said yesterday.

The Arlington-based Conservancy said in a statement that it "has been in discussion with Committee staff, and has conveyed to them that the Conservancy will work cooperatively and expeditiously with the Committee to address all matters within the scope of the inquiry."

The Conservancy also pointed out that, independent of the inquiry, the group had thoroughly reviewed its practices, and its board of governors had made several changes.

The Senate letter includes more than 100 questions and requests for information, some of which could elicit hundreds of pages in response.

BY SARAH L. VOISIN—THE WASHINGTON POST

Senators asked President Steven J. McCormick for Conservancy data.

The letter asks for information on all of the Conservancy's land deals with private individuals, including so-called "conservation buyer" deals. In those deals, the Conservancy bought raw land, added development restrictions, then resold the land at a reduced price. The buyers then made tax-deductible gifts to the nonprofit.

Many of the conservation buyers were current or former Conservancy trustees, who built homes on the rustic sites. When the Conservancy board announced major policy changes on June 13, it included a prohibition on land sales to trustees and other Conservancy insiders.

The committee wants to examine details of all loans the Conservancy has made in the past decade, including those extended to a power company and other for-profit corporations. Its request covers a dozen home loans to Conservancy employees, including $1.5 million extended to McCormick and a no-interest $500,000 mortgage extended to California state director Graham Chisholm.

The senators also want to examine all audits of Conservancy operations from the past five years. The committee seeks details of land sales to government agencies, including appraisals and any profits banked by the Conservancy. In particular, the letter asks for a list of grants and contracts involving three nonprofits: the National Fish and Wildlife Foundation; the National Forest Foundation; and the National Park Foundation.

The committee asked that the material be submitted within a month.

Land Trust Alliance Rewriting Its Ethics Standards

Organization Is Responding to Increased Scrutiny of Preservation Practices

By DAVID B. OTTAWAY
and JOE STEPHENS
Washington Post Staff Writers

The nation's largest coalition of land preservationists is rewriting its ethical standards in response to recent reports of conflicts of interest and questionable land deals cut in the name of the environment.

At its annual conference last weekend in Sacramento, the Washington-based Land Trust Alliance announced plans to add ethics training to its professional workshops, begin an ethics column in its quarterly magazine and develop regulations governing land-preservation techniques.

An alliance "strategic plan" distributed at the conference said: "The U.S. Senate has launched an investigation of land trust practices, and land trusts are receiving increased critical scrutiny from the national media. Sooner or later, the government will demand stricter standards and credentialing for land trusts. . . . The best solution is a single, national set of standards and a credentialing process that is designed and managed by the land trust community."

Ethics discussions dominated the conference, where 1,600 preservationists attended workshops with titles ranging from "Land Trusts Behaving Badly" to "Easements Today: The Good and the Not So Good." Speakers told how sellers had inflated land appraisals and how developers had used taxpayer-financed conservation projects to pepper landscapes with mansions.

Time and again, experts emphasized that preservationists need to be careful about passing along real estate and tax breaks to friends and colleagues. "For a long time now, the land trust movement in this country has been a cozy little field," conservation lawyer Stephen J. Small said. "Those days are over."

The nation's 1,300 land trusts represent the fastest-growing arm of the environmental movement. The nonprofit organizations protect land by buying and holding real estate, and by accepting donations of conservation easements—permanent deed restrictions that bar some types of intrusive development. The alliance said those methods have helped protect more than 6 million acres of open space in the United States.

The alliance's emphasis on ethics comes after a Washington Post investigation into the Arlington-based Nature Conservancy, the association's largest member and the world's wealthiest environmental group. The three-day Post series published in May reported that the conservancy had logged forests and drilled for oil under the last native breeding ground of an endangered bird species. The charity's governing board and advisory council included executives and directors from corporations that had paid millions in environmental fines, the series pointed out, and the conservancy had engaged in multimillion-dollar business deals with those executives and their companies. Other stories told how conservancy officials had extended low-interest loans to charity executives and sold scenic properties to conservancy employees and state trustees, who often built homes on the sites and reaped large tax breaks from the Internal Revenue Service.

After some members of Congress and the conservancy expressed concerns, the organization permanently banned most of the practices described in the series. Earlier this year, the Senate Finance Committee began an ongoing investigation.

At the alliance's gathering, conservancy President Steven J. McCormick acknowledged in a keynote address that his organization had "fallen short" and promised to improve. "We can do much, much better at governance," he said. "Very often, the zeal to save something can overcome our judgment."

Alliance President Rand Wentworth called the conservancy revelations a "wake-up call," and said his organization is moving "lightening fast" to create new ethical standards. The alliance is also proposing an accreditation system under which land trusts would adopt standards approved by the alliance. "Most land conservation is legitimate and done well, but we're trying to get in front of the trend lines," Wentworth said.

In recent editions of the alliance's magazine, Small called for "heightened vigilance" regarding fraudulent deals, abusive tax shelters and groups that are nothing more than fronts for developers seeking tax breaks.

"Bad conservation deals are starting to happen, albeit in small numbers," wrote Small, a former alliance board member and IRS official who helped write regulations governing conservation easements. "In the last two or three years, at least one-third of the inquiries about conservation easements come from people who think they can get away with something by donating a conservation easement. . . . The trend greatly concerns me."

BY JAMES M. THRESHER—THE WASHINGTON POST

The Nature Conservancy bought this Herring Creek farm property on Martha's Vineyard, Mass. The house belongs to Daniel W. Stanton of Goldman Sachs.

The Washington Post

C MD VA MONDAY, NOVEMBER 10, 2003 M3

Senate Panel Intensifies Its Conservancy Probe

By JOE STEPHENS
and DAVID B. OTTAWAY
Washington Post Staff Writers

A six-month inquiry into the Arlington-based Nature Conservancy by the Senate Finance Committee has raised "new questions in a wide range of areas," leading investigators to intensify their pursuit of internal audits and property records they have been seeking since last summer, according to committee Chairman Charles E. Grassley (R-Iowa).

Committee investigators, who have been looking into the charity's management and real estate sales, are now particularly interested in the "valuation of land donations and the conservation-buyer program," Grassley said. The charity uses that program to sell property to private individuals, including Conservancy members.

In a statement, Grassley said he is reserving judgment until the investigation is concluded, but added: "I expect it will become even more clear that reforms to existing law should accompany any new incentives for taxpayers to donate land for conservation." Grassley is sponsor of a bill backed by the Conservancy that passed the Senate earlier this year and which would provide hundreds of millions of dollars in new conservation tax breaks.

"The Conservancy always anticipated there would be additional questions," the charity said in a statement Friday. "Should the Committee identify reforms it feels are needed, the Conservancy stands ready to work with the Committee to design and implement them."

Grassley's comments came as committee staffers and Conservancy officials met last week to resolve issues that have delayed the release of key Conservancy documents, which detail some of the charity's largest and most controversial real estate deals.

"There are some areas where the Finance Committee has yet to receive a complete response or will require additional information," Grassley and ranking Democrat Max Baucus (Mont.) wrote to the Conservancy last week. The Conservancy had said it could not hand over some of the records because it was bound by confidentiality agreements or did not want to release proprietary information. In its letter, the committee offered to subpoena the documents.

Baucus said in a statement last week: "The Nature Conservancy has been cooperative with the information requested to this point, and I expect this willingness to continue." The senators also asked the Conservancy for a written promise not to retaliate against whistleblowers who "have been chilled by confidentiality agreements."

Conservancy officials said in Friday's statement that they expected "in a matter of days" to resolve all issues holding up release of the documents, including concerns about individual privacy.

"The Conservancy has cooperated voluntarily and fully with the Committee and its staff throughout the inquiry and it will continue to do so," the group's statement said. "The Conservancy is eager to produce the remaining documents as soon as possible."

The Conservancy said it has obtained confidentiality waivers and is awaiting "confirmation from the committee of the Conservancy's understanding of how Senate disclosure rules will be applied."

With $3 billion in assets, the Conservancy is the world's largest environmental group and has preserved millions of acres worldwide.

The areas where the committee is seeking additional information include: internal Conservancy audits, Conservancy land sales to government agencies, a $64 million land deal on Martha's Vineyard that involved talk show host David Letterman and "details of sales, donations or purchases of land with certain private individuals and companies," the senators' letter says. The Conservancy said that 11 of its land transactions were covered by confidentiality agreements.

The Washington Post independently obtained one Conservancy audit, of a project on Virginia's Eastern Shore. The audit found widespread accounting problems and violations of Internal Revenue Service regulations. The audit also states that managers helped a contractor "hide personal income."

The Senate inquiry began after a Post series in May reported on a wide range of Conservancy practices. Articles detailed how the charity had sold scenic properties to its state trustees, who reaped large tax breaks. Other stories disclosed that the charity engaged in multimillion-dollar business deals with companies and their executives while they sat on the charity's governing board and advisory

council. The Conservancy responded by banning a range of practices.

The senators wrote the Conservancy in July seeking internal records covering 18 broad categories and set an Aug. 18 deadline. The Conservancy pledged to cooperate and has provided about eight boxes of documents. But it has withheld a number of other records. They include:

■ Private records from a $64 million deal in which the Conservancy acquired 215 acres in Martha's Vineyard, Mass., and immediately resold half. In a complicated chain of transactions, Letterman's holding company acquired several of the ocean-side tracts for use as luxury home sites.

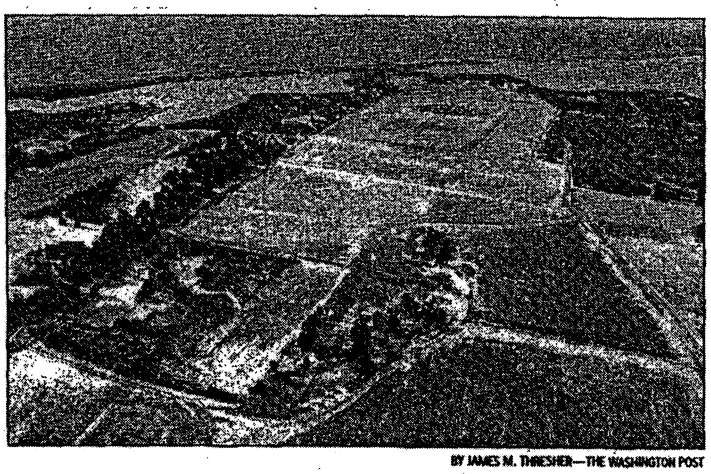
The deal generated $32 million in potential tax breaks for the families and businesses of Boston developers Neil and Monte Wallace, two major Conservancy donors. The Conservancy defended the deal, which was outlined in the Post series in May, as a bold initiative to restore ecologically valuable grasslands.

■ Details of a gift to the Conservancy of certain development rights on 11,000 acres of rugged canyon lands near Los Angeles from the Irvine Co., one of the nation's largest development companies. The gift allows the Conservancy to preserve the land, while Irvine can seek to write off the value of the rights as a tax-exempt donation.

Interviews and internal records show that the Conservancy valued those rights at $120 million and listed that amount as revenue on its books. An internal memo obtained by The Post shows that last December a Conservancy official said during a teleconference that he was concerned that the media could view such valuations "as subjective and a tool we used to inflate our income."

A Conservancy spokesman declined to comment on the gift Friday, and the Irvine Co. did not respond to requests for comment. The Conservancy said at the time of the gift that it allowed the group to preserve "relatively pristine tracts of land" and rare species in a rapidly developing area of California.

■ The audit of the Virginia project, obtained by The Post after its May series, examined the Conservancy's purchase and management of millions of dollars in land through a project known as the Virginia Coast Reserve, or VCR. Stamped "Confidential," the March 2002 report said that auditors originally uncovered widespread problems two years earlier.



BY JAMES M. THRESHER—THE WASHINGTON POST

The Nature Conservancy acquired 215 acres on the Atlantic in Martha's Vineyard and resold half. David Letterman's house is in the left foreground.

"Its runaway debt and deficits were essentially overlooked by corporate management," auditors wrote. The program had an operating deficit of $2.3 million, $3.3 million in external debt and $18 million in internal debt owed to the Conservancy's Land Preservation Fund.

"VCR owns numerous real properties and capital assets that were never properly recorded in the general ledger," the report states. "Several million dollars worth of land costs . . . could not be identified either in the files or from the county tax records."

The report noted that VCR hired an employee's family member to handle deposits and receipts and said that many transactions were improperly recorded.

For years, the report said, the IRS was not told that the charity provided some employees with free housing and free use of a car, a lapse described as an IRS violation.

The audit said a Virginia farmer, who oversaw property leases for the Conservancy, negotiated and managed six farm leases with his own father. The report said Conservancy officials paid the farmer's wife, instead of the farmer.

The report does not name the employees involved. Auditors sent their findings to Conservancy President Steven J. McCormick on May 24, 2002. It is unclear whether McCormick alerted the IRS.

Asked about the audit, the Conservancy said in its statement, "The Conservancy declines to comment about the specific details of the internal audit, except to say the matters highlighted in the audit have been addressed to ensure activities at the Virginia Coast Reserve are in compliance with the Conservancy's policies and procedures." The statement also said the audit's findings "played a significant role" in reforms of the VCR program.

According to the senators' letter, the charity earlier offered to release additional records sought by investigators in exchange for confidentiality protections "modeled after the agreement entered into between the Finance Committee and Enron Corp." But the senators said that agreement was narrowly tailored to allow the committee access to Enron data protected under IRS regulations.

The senators' letter said that "a number of whistleblowers" had approached the committee. "We would ask that TNC make a public written statement that it will take no action against any former or current TNC employees or contractors who cooperate with the Finance Committee's investigation," they wrote. The Conservancy statement said the group would issue such a public, written promise.

The Washington Post

MD VA SATURDAY, JANUARY 17, 2004

IRS to Audit Nature Conservancy From Inside

By JOE STEPHENS
and DAVID B. OTTAWAY
Washington Post Staff Writers

A team of IRS examiners will move into the global headquarters of the Nature Conservancy in Arlington to begin auditing the charity, the world's largest environmental organization.

A letter sent to the Conservancy by the Internal Revenue Service last month indicates that the audit will be of uncommon scope for a charity, tax specialists said. The memorandum proposes a preliminary meeting between four IRS examiners and the Conservancy's chief financial officer to discuss logistics, communications, telephone access, equipment and accommodations. The IRS will examine 2002 tax returns, the letter said.

"It is unusual," said former IRS commissioner Donald C. Alexander, now a private tax lawyer. "This is an extraordinary case. . . . It is an indication of a pretty strong audit."

Conservancy spokesman James R. Petterson said officials there have not been told the scope of the examination or its genesis. In a statement on the group's Web site, the Conservancy promised to cooperate fully and provide examiners comment. Alexander and other specialists said such an audit could take a year or longer.

"If they go into General Motors, this is what they do," said attorney Sheldon Cohen, a former chief counsel and commissioner of the IRS. "This is a major audit, of consequence."

Live-in IRS auditors have become a fact of life at some Fortune 500 conglomerates but remain rare at nonprofit corporations, the specialists said. The charity has assets of more than $3 billion and ranks as the eighth largest nonprofit of any type in the nation.

The developments follow articles in The Washington Post over the past year that examined financial irregularities and conflicts of interest at the Conservancy. One story described alleged IRS code violations at a Conservancy project in Virginia, and another disclosed a dozen loans that the Conservancy extended to its employees. A $1.5 million home loan went to Conservancy board member and President Steven J. McCormick, who repaid the debt after he was questioned about it by a reporter.

The stories also reported that the Conservancy had repeatedly bought land, added some development restrictions, then resold the properties at reduced prices to its trustees and other supporters. The buyers made cash gifts to the Conservancy roughly equal to the difference in price, thereby qualifying for substantial tax deductions.

In the wake of the stories, the Conservancy banned a range of practices, saying it would no longer lend money to insiders, sell land to trustees or drill for oil on nature preserve land. The charity is conducting a broad internal review of its management practices and says more changes are expected.

The Senate Finance Committee began looking into the charity last year. Investigators have spent months sifting through internal Conservancy documents, debriefing whistle-blowers and weighing legislative reforms.

The IRS letter says auditors will examine the Conservancy's fiscal 2002 tax return, which was filed on what is known as an IRS Form 990. Past Conservancy tax returns contained misstatements and omissions.

For example, the Conservancy's 2001 tax return showed that the charity had lent the utility firm WEPCO, the Wisconsin Electric Power Co., $2.2 million. The lending was made in connection with a project aimed at protecting Central American forests and could have generated greenhouse-gas credits for the utility.

Conservancy officials later said the WEPCO loans totaled only $1.5 million. The rest of the money went to corporations whose names were mistakenly omitted from the filing, Conservancy Vice President Michael J. Coda said.

"That has no relation to reality,"

Coda said of the IRS Form 990 filing, during a June 2002 interview in which he acknowledged the errors.

Months later, the Conservancy filed its 2002 tax return—which again showed that the loans to WEPCO totaled $2.2 million.

A specialist in nonprofit corporations who reviewed the Conservancy's tax returns described them as confounding.

"It stunned me," said the specialist, Peter Dobkin Hall, of Harvard University's Hauser Center for Nonprofit Organizations. "It's not exactly what I'd call a transparent organization.

"I find that very peculiar. I couldn't find out a damn thing about them. It was a brick wall."

Internal Conservancy documents show that the organization's auditor has complained about problems that could lead to IRS scrutiny or, in the words of one memo, to "the possibility of public exposure."

One internal audit report on a Conservancy project known as the Virginia Coast Reserve—or VCR—found numerous irregularities. Many financial transactions were improperly recorded, according to the March 2002 report, which is stamped "Confidential." The IRS was not told for years that the charity provided some employees with free housing and use of a car, lapses the report described as IRS violations.

One Conservancy contractor, identified in the report as a Virginia farmer, received payments though his wife, the report said.

"VCR negotiated [an employment contract] in the farmer's wife's name and issued an IRS Form 1099 [which reports miscellaneous income to the IRS] in her name and social number even though her husband performed all of the work under the contract," the report said. "VCR management wrote the contract in the wife's name so that the farmer could hide personal income."

Nature Conservancy Retools Board to 'Tighten' Oversight

By JOE STEPHENS
Washington Post Staff Writer

The Arlington-based Nature Conservancy, facing independent examinations by the Internal Revenue Service and the Senate, has announced a broad restructuring of its governing board to strengthen accountability and oversight at the $3 billion nonprofit organization.

The changes include creation of an 11-member executive committee that will wield power formerly distributed across the 36-member board.

"The Board of Governors recognized the need to become more directly involved," Conservancy Chairman Henry M. Paulson Jr., chief executive of the investment bank Goldman Sachs Group Inc., wrote in a memo discussing the changes. "We need to tighten up our oversight and risk management controls to ensure we operate at the highest standard."

The Nature Conservancy described the changes as a "complete restructuring." The executive committee will meet more frequently than the full board and "will be responsible for providing oversight and guidance as new policies and procedures are put in place and as the Senate inquiry and IRS audit proceeds," the statement said.

Henry M. Paulson Jr., chairman of the nonprofit being audited by the IRS.

The announcement comes as the Senate Finance Committee revealed yesterday that it is seeking thousands of pages of additional documents in its 10-month-old investigation into the world's largest environmental organization. An 18-page letter sent to the Conservancy this week refers to a number of business transactions never before made public.

The changes announced by the Conservancy include a reorganization of other board committees. An audit committee will focus on ethics, whistle-blowers, conflicts of interest and "broad legal issues that have ramifications across the Nature Conservancy." The Conservancy will also appoint an internal audit director who will conduct investigations and have powers similar to federal inspectors general.

The changes were approved Jan. 30 but were announced to the media only this week.

The action comes at the urging of a panel of outside experts led by Ira M. Millstein, a New York lawyer and expert on business ethics. Other panelists included former Harvard University president Derek Bok and former Los Angeles Times publisher Richard T. Schlosberg III.

The Conservancy created the panel last year, after a series of articles in The Washington Post in May spotlighted controversial practices at the organization. In the wake of the reports, the Conservancy banned a range of practices, saying it would no longer lend money to corporate insiders, sell land to its trustees or drill for oil on nature preserve land.

The Senate Finance Committee, which has been investigating since May, wrote to the Conservancy on Wednesday, requesting a range of documents that included records related to tax-sheltered "conservation easement" deals.

The letter seeks the identity of a woman who documents show was paid $350,000 over 11 months. The woman's duties included hiring and supervising Conservancy employees, the letter says, but she is listed in the charity's records only as a "contractor." The letter referred to an internal 2002 Conservancy audit report that questioned the woman's role at the Conservancy and pointed out that, if the IRS later determined that she actually should be considered a Conservancy employee, "her compensation could be viewed as excessive."

Excessive compensation paid to employees can jeopardize the tax-exempt status of a nonprofit organization. In interviews, former Conservancy employees identified the woman as a former senior adviser to Conservancy President Steven J. McCormick.

Conservancy spokesman James Petterson declined to comment on the questions.

In a written statement, the Conservancy said: "As it has throughout this review, the Conservancy will work cooperatively and expeditiously with the Committee to address all areas of inquiry. . . . The Nature Conservancy is committed to doing everything necessary to make the organization stronger and better equipped to fulfill its mission of addressing the world's conservation challenges."

The letter also asks Conservancy officials to explain whether the organization makes a profit by buying land and reselling it to federal and local governments. The letter cites one unidentified parcel that the Conservancy bought and then resold to a government body at an apparent profit of $1.3 million. Conservancy officials have repeatedly said that the organization does not make money reselling land to the government.

The letter poses a string of questions regarding the Conservancy's monitoring and enforcement of conservation easements—permanent deed restrictions that limit some types of intrusive development. Landowners "donate" the easements to the Conservancy and other land trusts, thereby qualifying for federal income tax deductions aimed at preserving open land. The easements have become controversial in recent years because of their use by developers of golf courses and luxury subdivisions.

The letter asks how many easements the Conservancy has abandoned as "unenforceable," and how many times the Conservancy has allowed landowners to modify the restrictions on their land. "A number of conservation easement amendments or modifications would appear to benefit the landowner," rather than the environment, the letter says.

Staff writer David B. Ottaway contributed to this report.

The Washington Post

MD · VA Wednesday, March 31, 2004 M

Overhaul of Nature Conservancy Urged

Report by Independent Panel Calls for Greater Openness

By Joe Stephens
Washington Post Staff Writer

An independent panel of experts created by the Nature Conservancy last year to revamp the environmental group's operations has issued a final report calling for sweeping reforms that the group hopes will become a model of ethical standards for nonprofit organizations.

The panel is urging the Conservancy to make its finances more public, to scrutinize tax deductions taken by its donors and to vow to "walk away" from financial transactions that fail to meet the proposed standards.

Conservancy board members and their companies should be barred from selling land to the Conservancy or buying property from the group, the report says, and the Conservancy's conflict of interest policy for board members and executives should be extended to cover major donors of cash or land.

The report also says board members and their companies should not enter into "cause-related marketing" campaigns with the Conservancy, where the group's logo is stamped on products and used in corporate ads.

The panel urges the Arlington-based nonprofit to bar its board members and their companies from claiming federal income tax deductions for giving land to the charity.

See NATURE, *A11, Col. 5*

NATURE, *From A1*

The recommendations come in a 28-page report prepared over six months by an outside committee led by Ira M. Millstein, a New York lawyer and an expert on business ethics. Other panelists include former Harvard University president Derek Bok and former Los Angeles Times publisher Richard T. Schlosberg III.

The Conservancy, the world's largest environmental group, created the panel last year, after articles in The Washington Post described controversial practices at the organization. The Conservancy also immediately after the articles were published in early May banned many of the practices, saying it would no longer lend money to corporate insiders, sell land to its trustees or drill for oil on nature preserve land.

The Conservancy already has adopted one of the panel's major recommendations, made months ago in an interim report. In January, the environmental group approved a "complete restructuring" of its governing board to strengthen accountability and oversight at the $3 billion organization. The changes include creation of an 11-member executive committee that will wield power formerly distributed across the 36-member board. A major focus of the executive committee will be to promote greater openness at the Conservancy.

In the final report distributed to Conservancy board members this week, the panel did not dwell on past practices at the Conservancy, choosing instead to focus on setting new standards to increase efficiency and safeguard the charity's reputation.

"I have a high degree of confidence this will be carried out," Millstein said of the recommendations. Conservancy spokesman James Petterson said most of the changes are already underway.

In a statement, Conservancy board Chairman Henry M. Paulson Jr. said the organization has made a "commitment to strive for the best standards in governance in the nonprofit sector. With the assistance of this esteemed panel, and through our own comprehensive internal review of our governance structure, we have made significant progress toward that commitment."

Senate Finance Committee Chairman Charles E. Grassley (R-Iowa), who has been investigating Conservancy practices since last year, welcomed the report as an important step and said the proposed reforms might have wider applicability to other charities.

"I'm pleased that it looks like Nature Conservancy has gotten the message that business as usual won't cut it," Grassley said in a statement. "People should have confidence that when they write a check for charity, the money will help the needy, not the greedy."

Millstein, the panel chairman, said he hopes the recommendations will become a benchmark for the charitable industry's best practices.

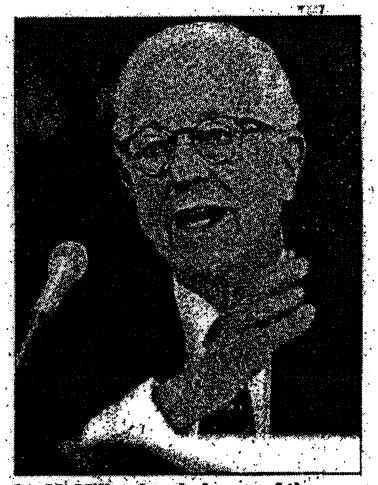
"It is essential that a non-profit board . . . scrupulously operate in a transparent, lawful and ethical manner," the report stresses.

The report says appropriate concerns have been raised about the validity of appraisals used to justify tax deductions claimed by individuals and companies that donate conservation easements, which restrict some types of intrusive development on particular tracts of land. In many cases, the donors continue to use the land as home sites.

"The panel recommends that TNC [the Nature Conservancy] put in place careful, systemic and strict procedures that will ensure compliance with all aspects of the spirit and letter of the rules for charitable contributions of conservation donations, with particular emphasis on appraisals," the panel wrote.

The Conservancy should refuse to sign Internal Revenue Service documents, known as Form 8283s and used by the IRS to document noncash gifts to charities, unless the value placed on the gift of land or an easement is backed by a report from a qualified, state-certified appraiser, the report says.

The Conservancy, the panel wrote, "must demonstrate that it is willing to 'walk away' from an otherwise advantageous transaction where all aspects of the transaction do not meet TNC's new standards, including where a donor wishes to claim a tax deduction based on an appraisal that is not justified."



Ira M. Millstein, chairman of the panel, hopes the recommendations become a benchmark for nonprofits.

The report urges the organization to strengthen efforts to monitor and enforce the development restrictions created by the easements and to take "aggressive action" against land owners who violate them.

"Adequate monitoring and enforcement of easements is critical to achieving long-term conservation results," the panel wrote.

The report also urges the Conservancy to use its annual return filed with the IRS, known as a Form 990 and available for public inspection, as a sort of annual report to its members. The Conservancy should make more disclosures in the filings than is required by law, the report says, and should include details about executive compensation, conservation activities and the organization's ethical record.

The annual Form 990 return, the panel wrote, could serve as the nonprofit's version of the Sarbanes-Oxley reports, which are now filed by publicly traded, for-profit companies. Those reports were created by Congress after disclosures of self-dealing and profiteering at Enron and other Fortune 500 companies.

In an interview, Millstein said, "What we are saying is, go along with the spirit of what the law requires, not just the letter."

Staff writer David B. Ottaway also contributed to this report.

THE NATURE CONSERVANCY RESPONDS TO *THE WASHINGTON POST* SERIES

For more than 50 years, The Nature Conservancy has sought to preserve plants, animals and natural communities by protecting the lands and waters they need to survive. We have made laudable progress toward our mission, helping protect more than 116 million acres around the world. But with development pressures mounting over the past few decades; with the world's population expanding and increased demands placed on precious resources from fisheries to forests, the challenge of protecting natural areas and biodiversity has grown ever steeper. We began to recognize in the 1980s that land purchase alone – our signature conservation tactic – was not sufficient to meet the challenge. We had to become more innovative and collaborative to effect long-term conservation, working with communities of people, businesses and others to protect *their* landscapes, *working* landscapes, places that support economies and ways of life, wildlife and ecosystems. Because time is not on our side, we had to learn to take risks.

On May 4, 5 and 6, 2003, *The Washington Post* ran a series of highly critical articles that focused on several of those risks and implied that we had neglected or failed in our mission because of them. We write to set the record straight – both about the risks we've taken, our mistakes and how we propose to correct them; but also about our record of achievement, grossly neglected and misrepresented by the *Post*. We must and will continue to take risks in our work to protect lands and waters today, before they and their wealth of life are lost to us and to our children.

Although the *Post* series was fraught with mischaracterizations and omissions of fact, we at The Nature Conservancy recognize some mistakes we have made in pursuit of innovation and conservation change. Many of these we had begun correcting and learning from before the *Post* investigation began. We take full responsibility for our actions, as we always have. Through intensive self-examination across the Conservancy, as we have done throughout our history, we know we will emerge a stronger organization, one better able to accomplish our conservation goals.

With this document, we aim to set the record straight for our members, supporters and detractors about the issues of oversight, judgment and integrity raised by the *Post*. Before we address specific issues, we begin by reviewing our mission, strategy and values. We conclude by summarizing the steps we are taking to correct our missteps and to convert the criticism leveled at us into a real dialogue about the future of how we do conservation.

The Nature Conservancy's Mission, Strategy and Values

Throughout our 52-year history, The Nature Conservancy has been known for our unique and highly successful approach to land conservation. We initially used land acquisition to "preserve wild nature," the organization's statement of purpose in the 1950s and 1960s. But as the Conservancy expanded over the years and as increasing threats to natural lands created even more demand for action, the organization tightened its focus and expanded the array of tools it uses to achieve lasting conservation results.

Today The Nature Conservancy is widely regarded and respected as an effective conservation organization, with conservation projects in all 50 states in the United States and in 26 other countries. We are known for our focused mission; our strategic framework to achieve that mission, Conservation by Design; and the unique set of values that guides how we pursue our work.

Mission. The mission of The Nature Conservancy is to preserve plants, animals and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive. We are dedicated to preserving biological diversity, and, as described below, our values compel us to find ways to ensure that human activities can be conducted harmoniously with the preservation of natural diversity. We aspire to the vision articulated so wisely more than 50 years ago by Aldo Leopold in his book, *A Sand County Almanac*: conservation is a state of harmony between man and nature.

Strategy. Our strategic framework for pursuing our mission is called Conservation by Design. It has two key components:

First, through a rigorous, science-based approach, we identify the lands and waters that represent the biodiversity of a given ecoregion. (An ecoregion is a large geographic area defined by natural features such as vegetation and geology; the Sonoran Desert is an example of an ecoregion.) Six years ago, we began an effort to develop an assessment of the places most critical for the long-term protection of ecosystems, plants and wildlife within and across the ecoregions of the Western Hemisphere, Asia and the Pacific. All together, they create a conservation blueprint

Second, Conservation by Design describes a four-step, disciplined process that enables us to develop the appropriate mix of actions to abate threats in a given place and to secure tangible, lasting conservation results. Different places require different strategies; we tailor our tools and strategies to local circumstances. Given the wide variety of threats we encounter, we must be innovative in developing flexible, uniquely tailored action plans.

Conservation by Design ensures that we focus on the right places and take the right action to achieve conservation results. The efficacy of this approach is increasingly recognized and lauded by others who are eager to use a science-based, pragmatic strategy for fulfilling their own commitments to protecting biodiversity. The Doris Duke Foundation, for example, has said:

> *Because the problem of biodiversity loss dwarfs our current resources to combat it, funders and conservationists alike must make hard choices about where and how to make our stand. To achieve deep and durable success, we will need great vision and discipline, the ability to marry strategy with the right opportunity and a commitment to learn from our failures, instead of simply trumpeting our successes. Conservation by Design offers a thoughtful and well-conceptualized framework to achieve these goals.*
>
> *As a philanthropic investor, we recognize the power of such a framework to help us identify the best and highest use of our funds. We have increasingly incorporated the key principles underlying Conservation by Design into both the selection of the sites in our*

place-based portfolio, and into how we are now funding key strategies in those sites. We believe the framework represents a critical contribution to the field of biodiversity conservation.

Values. We hold ourselves to high standards, staff and trustees alike. We freely adopted these values to guide our work, for they offer ideals to which we aspire in fulfilling our mission:

- *Integrity Beyond Reproach*: We hold paramount the trust and responsibilities placed in us by our donors, members, colleagues, partners and the public.

- *Continuity of Purpose*: We look to our mission to provide focus and guidance for everything we do.

- *Commitment to People*: We respect the needs of local communities by developing ways to conserve biological diversity while enabling them to live productively and sustainably. We value the active involvement of individuals from diverse backgrounds and beliefs in conservation efforts.

- *Effective Partnerships*: We are committed to forging public and private partnerships that combine diverse strengths, skills and resources.

- *Innovation and Excellence*: We are strategically entrepreneurial in the pursuit of excellence, encouraging original thought and its application, and willing to take risks based on sound business judgment.

- *One Conservancy*: We act as "One Conservancy," with each program assisting other programs in reaching their full potential, thereby ensuring the success of the overall organization.

- *Commitment to the Future*: We commit ourselves, individually and collectively, to leaving future generations a biologically rich world.

Setting the Record Straight
Regarding *The Washington Post* Series

The Washington Post series about The Nature Conservancy was based on a two-year investigation conducted by reporters from the *Post*. The Conservancy cooperated fully with the *Post*, providing literally thousands of pages of requested documents and scheduling interviews with dozens of staff, partners and other experts, including four separate interviews with our president, Steve McCormick. Instead of a balanced report, however, the *Post* series lacked a fair contextual description of our accomplishments and simplified complex issues, explored in depth in the following pages.

CORPORATE SUPPORT

The charge that the Conservancy is too cozy with corporations is not news. It has been made time and again, stemming from a myopic notion that there is an unbridgeable chasm between conservation and industry – and never the twain shall meet. But in all our actions, we seek to break down this stereotype and find common ground that can advance conservation. In fact, the Conservancy occupies a unique niche in the conservation movement, what some have called "the radical center." As one journalist has said of our work: "The Nature Conservancy judges its success by how many times its victories are not reported as victories, by how many times its fights are not perceived as battles by the participants."

Our long history of working with business is no secret. We accept their financial and land donations; we create collaborative ventures that further both our interests. Most of the conservation community recognizes and applauds the role we play, and many Conservancy members support us because we work *with* corporations, not against them. Only the Conservancy can and does enjoy the support of both the chairman of General Motors and a founder of Earth First!.

We do not apologize for our partnerships with the corporate world. They, along with partnerships with local communities, private landowners and government agencies, are essential to protect and restore entire functioning landscapes. In 1973, the Conservancy broke new ground when we received a donation of 49,000 acres in the Great Dismal Swamp in Virginia from Union Camp Corporation – land that is now part of the National Wildlife Refuge system. Ever since, we have continued to push the envelope to develop creative partnerships with corporations that result in tangible, lasting conservation.

Business Sector Giving to The Nature Conservancy

The *Post*'s series wrongly implies – through its graphic treatment as well as text – that The Nature Conservancy is either controlled or at least is manipulated by extractive industries. The facts show the opposite: in four out of the past five fiscal years, corporate donations represented less than 10 percent of the Conservancy's total support and revenue. Instead of using this figure, the series reports that the Conservancy received $225 million from corporations last year – "approaching the amount given by individuals." Although technically accurate, this distorts the reality. More than half of the $225 million that year was in the form of a one-time gift of a large conservation easement, now set aside as open space for the people of Orange County, California. Of the total $225 million, more than $199 million was in the form of gifts of land and conservation easements from corporations.

Cause-related Marketing

When a company advertises the name and logo of a nonprofit organization on its products, the organization receives a financial contribution as well as expanded name recognition, and the company can be viewed in a favorable light by the public for having supported the nonprofit cause. This well-established venture is called "cause-related marketing." Revenues from these

types of agreements have brought in more than $10 million to the Conservancy in the past five years and the exposure has brought our conservation message to millions of people. The *Post* series neglected to put cause-related marketing in the proper context, leaving the impression that the Conservancy is the only nonprofit organization engaging in such co-branding, when in fact dozens of nonprofits from the Boys and Girls Clubs of America to the American Cancer Society to the World Wildlife Fund (WWF) engage in cause-related marketing. Additionally, the Conservancy follows the Better Business Bureau's "Standards for Charitable Accountability," which includes guidelines for the use of cause-related marketing.

The *Post* indicated that in pursuing corporate contributions, the Conservancy allowed its logo to be used on brands of toilet cleaner produced by S.C. Johnson. The facts are different. Through a cause-related marketing partnership with S.C. Johnson, the company ran a special coupon section in Sunday newspapers around the country in which the company promised to donate 10 cents from every coupon redeemed to the Conservancy – up to $100,000. The advertisement featured the Conservancy's logo and included a variety of S.C. Johnson products, but the logo did not appear on the coupon or on the products. The ads ran once each fall from 1995 through 1999. The total proceeds to The Nature Conservancy from this partnership were $465,000.

International Leadership Council

Our International Leadership Council (ILC) is a corporate forum focusing on the challenges confronting biodiversity preservation, habitat conservation and natural resource management. These issues lie at the heart of a growing number of corporate responsibility programs. The ILC brings together companies from many industries – finance, manufacturing, forestry, consumer products, information technology, etc. – to seek solutions to conservation challenges through cooperative partnerships between the business community and the Conservancy. We want America's largest corporations to participate in this group; they have a large and significant opportunity to make enduring contributions to biodiversity conservation. The ILC has no governance responsibility for the Conservancy.

Climate Change

The *Post* implied the Conservancy had reluctantly taken up the issue of global warming and climate change only in the winter of 2001. In fact, the Conservancy was in the forefront of the movement to set aside forests as a mechanism to offset atmospheric carbon emissions, with our first "climate-action project" taking place in Belize in 1994. Working with governments and industry, the Conservancy created climate-action projects as an innovative conservation tool to protect threatened forests, especially in the tropics, and to reduce atmospheric carbon levels. Climate-action projects help abate the long-term threat of climate change by protecting standing forest, which acts as a "sink" that captures and stores atmospheric carbon dioxide.

The *Post* series neglected to report that the $10 million contributed by General Motors toward a "pollution credits" plan actually funded an important climate-action project whereby the $10 million was used to acquire and restore 30,000 acres of the Atlantic Forest in Brazil, one of the most endangered ecosystems in the world. The *Post* also implied that we let our relationships with GM and other corporations cloud our perspective and get in the way of taking a public stand

opposing proposed drilling in the Arctic National Wildlife Refuge in Alaska. But those who know us know we do not take vocal, public stands advocating one position or the other. This would compromise our "radical center" position. We leave outspoken advocacy to fellow conservation groups.

Conservancy Action

We are sensitive to the concern that the Conservancy's logo not be used to mislead consumers. To ensure that our logo is used only in appropriate cases, our Board of Governors is reviewing the current standards and guidelines that govern if we will permit others to use our logo, including the conditions imposed when we do permit our logo to be used. Until the review is complete, we have temporarily suspended all new cause-related marketing partnerships.

CONFLICT OF INTEREST POLICY
FOR OUR BOARD OF GOVERNORS

The Washington Post raised concerns about conflicts of interest, accountability and disclosure at the Conservancy. Specifically, the series implied that members of the Board of Governors used their positions with the Conservancy to offload marginal, low-value lands. The series also mischaracterized a pool of funds called the President's Discretionary Fund.

In each "conflict of interest" case cited by the *Post*, the involved Conservancy board member (or his or her business) donated or offered at a reduced price either an interest in land, goods or services. It is not unusual for members of a board of a nonprofit organization to give generous financial support, time and expertise, and in our case, donations of ecologically significant lands. That is, in part, why people are recruited to serve on boards. We view these donations with gratitude. All financial transactions between members of the board and the Conservancy are governed by conflict-of-interest and recusal policies.

All board-related conflicts of interest are fully disclosed on IRS Form 990, a form the Conservancy and all nonprofits are required by law to file annually. That form, and the accompanying conflict-of-interest descriptions, is available at http://nature.org.

Georgia-Pacific –
Cat Island, Louisiana

The *Post* examined a 9,500-acre parcel of land that the Conservancy acquired from Georgia-Pacific for $7.5 million in 2000. The CEO of Georgia-Pacific, A.G. (Pete) Correll, is a member of our Board of Governors.

An independent appraisal of the property was conducted prior to our purchase to establish its fair market value. Georgia-Pacific agreed to sell the property for $1 million less than fair market value. Mr. Correll did not participate in the actions of the Board on this acquisition.

The article describes the property by saying "much of it stripped of trees by clear-cutting." The parcel in question is now part of Cat Island National Wildlife Refuge. In a 2000 Congressional hearing on the establishment of the refuge, the Chief of Refuges for the U.S. Fish and Wildlife Service pointed out that this parcel "supports one of the highest densities of virgin bald cypress trees in the Nation. Many of these trees are estimated to be between 500 and 1,000 years old, and they include the nation's largest bald cypress tree, which is 17 feet in diameter and has a circumference of 53 feet. Overall, the forested wetlands typical of Cat Island represent one of the most valuable and productive wildlife habitat types in the United States."

Georgia-Pacific –
Roanoke River, North Carolina

The *Post* cites the Conservancy's joint management agreement in 1994 with Georgia-Pacific as "the Conservancy helped Georgia-Pacific manage environmental risks arising from its logging along North Carolina's Lower Roanoke River." This agreement with Georgia-Pacific set aside

21,000 acres of Georgia-Pacific-owned land in the Lower Roanoke River landscape. Under terms of that agreement, two biologically significant areas exceeding 6,000 acres were permanently placed off limits to logging. The rest could be logged selectively by helicopter but only with the joint approval of Georgia-Pacific and the Conservancy. Since that agreement, no logging has occurred except on three demonstration plots totaling fewer than 40 acres where logging preceded the 1994 agreement. When the paper company approached the Conservancy to change the easement to make logging easier, we declined. On January 21, 2003, all 21,000 acres were donated by Georgia-Pacific to the Conservancy's North Carolina chapter.

Orvis Services Company –
Jefferson County, Florida

The *Post* mentions the Conservancy's purchase of an easement from The Orvis Services Company. Orvis owns a 1,622-acre property in Jefferson County, Florida. This property contains important habitat for the imperiled red-cockaded woodpecker, a species that the Conservancy has targeted for conservation action throughout its range. The Conservancy's Red Hill Conservation Area plan identified these lands as a high protection priority, both because of the high quality of the habitat and increasing fragmentation of the surrounding landscape. An outside appraisal placed a fair market value on a conservation easement for the property at approximately $1.3 million. Orvis agreed to sell the Conservancy a conservation easement for 50 percent of the fair market value, or $649,000. The Conservancy's Florida chapter then acquired the easement.

Composition of the Board of Governors

In the *Post*'s quest to portray our Board of Governors as unduly influenced by Fortune 500 companies, the series overlooked a number of well-known scientists and others from academia who serve on the Board. They include John Fitzpatrick of Cornell University, Joy Zedler of the University of Wisconsin, Joel Cohen of The Rockefeller and Columbia Universities, Fran James of Florida State University and Bill Murdoch of the University of California. Esteemed biologists such as E.O. Wilson of Harvard and Dan Simberloff of the University of Tennessee have also served on the Conservancy's Board in the past. Of the corporate leaders who do serve on the Board, they serve enthusiastically as individuals, not as representatives of their particular businesses.

Conservancy Action

The Conservancy has in place a conflict-of-interest policy that covers insiders such as Board of Governors, chapter trustees and staff, and the circumstances under which they must recuse themselves from decision-making. At its June 2003 board meeting, the Conservancy is conducting a thorough review of its existing conflict-of-interest policies affecting members of the Board of Governors, trustees and staff.

COMPATIBLE DEVELOPMENT AND RESOURCE EXTRACTION ACTIVITIES

We are committed to seeking innovative conservation strategies that are aligned with our values. No one organization, or even a combination of all conservation organizations, has the financial resources to simply buy up all the world's most important wildlife habitat and fragile landscapes. Instead, we must find ways to work with private and public landowners and local communities to balance biodiversity conservation and sustainable, ecologically compatible economic development. Over the years, we have launched ventures ranging from sustainable logging to ecotourism. Of these many innovative experiments – often the first of their kind – some have succeeded; others have not. Such is the nature of innovation.

The *Post* series alleged that the Conservancy engages in resource extraction activities on ecologically sensitive lands at the risk of the species we seek to protect. The Conservancy is committed at every level of our organization to putting biodiversity protection first, while exploring innovative ways to achieve conservation goals.

The *Post* mis-states that "the Conservancy is best known for acquiring tracts of wilderness." But protecting wilderness is *not* our mission. Wilderness, as defined by the Wilderness Act of 1964, is "recognized as an area where the earth and its community of life are untrammeled by man, where man himself is a visitor who does not remain." Some places we do protect for their core, pristine and often wilderness values. But we also look to the larger landscape and the ability of this landscape to buffer core natural areas and to sustain communities of people.

Most of the landscapes in which we work are "working landscapes;" they have hosted logging, grazing and farming for generations. We and our partners have found compatible development to be a valuable conservation tool in these landscapes when used effectively. Some of our innovative efforts, however, have failed. We acknowledge our mistakes and have tried to learn from them, adapting and changing course when necessary. Of all the thousands of projects that have proven successful for the Conservancy, the *Post* not surprisingly chose to focus on three projects that appear problematic and questionable at face value.

Texas City Prairie Preserve, Texas

Attwater's prairie chickens are on the brink of extinction due to the loss of their habitat, a small remnant of which is the Conservancy's Texas City Prairie Preserve, near Galveston. The natural life span of this bird is only about four years. Attwater's prairie chicken populations have fluctuated greatly in the past few years, always gradually diminishing; their existence is precarious.

Oil and gas were produced at the Texas City site for some 50 years before the Conservancy created a preserve there. Since this site was donated to us, we have substantially improved the habitat, including control of invasive species that had degraded the bird's habitat. Our production of natural gas on the preserve began only after a review by the U.S. Fish and Wildlife Service that included their recommendations on preventing adverse impacts to the

Attwater's prairie chicken. Those recommendations were made contractual requirements in our drilling agreements with private contractors.

Our staff and independent scientists have confirmed that the protection of the Attwater's prairie chicken has not been compromised by our decisions regarding oil and gas activity. Small remnant populations such as this one eventually disappear because they are simply not large enough to cope with the vagaries of their genes (which are inbred), their demography (it is typical for numbers to fluctuate widely) and their environment (which is subject to devastating hurricane damage). We regard the Texas City Prairie Preserve as a temporary home for the prairie chickens, until they can be reintroduced to a larger, more suitable habitat.

The only remaining large areas of prairie chicken habitat are on privately owned lands, and convincing landowners to cooperate with a reintroduction will depend on demonstrating that the needs of the Attwater's prairie chicken can be compatible with cattle ranching and oil and gas extraction, as is being done at Texas City. The scientist cited by the *Post*, Dr. Stanley Temple, supports continuation of oil and gas activity at the preserve, provided the funds are allocated exclusively to the management of the site and to the protection of prairie chickens at other sites. This is the course we are pursuing. The funds raised by natural gas recovery at the preserve represent the only significant private funds supporting Attwater's prairie chicken recovery efforts.

In fact, Dr. Temple believes the *Post* distorted his conclusions and the tenor of the report he issued about the Texas City prairie chickens. In a letter to the *Post* following publication of the series, Dr. Temple wrote: "Over my career as a professional conservation biologist, I have developed a keen sense of when I am being used by a reporter who is writing a hatchet job with selected quotes that bolster a preconceived story-line while ignoring my main conclusions.... The management of the prairie chicken population at the Texas City Preserve is at best a holding action, maintaining the birds under challenging conditions until the Conservancy can eventually reintroduce the birds to a larger area of suitable habitat elsewhere within their former range. That's the Conservancy's long-range plan, and it's a good one that I endorsed wholeheartedly."

Texas City offers only a tiny pocket of habitat for the prairie chickens surrounded by heavy industry, with little opportunity for expansion of the preserve. The Conservancy has, therefore, looked for additional habitat for the birds – working with private landowners in an area known as the Refugio/Goliad Prairie in South Texas. The potential habitat there is on private land and will require intensive restoration before it is suitable for the release of captive-bred birds. Discussions are under way with interested private landowners to initiate habitat restoration efforts.

There is no way to know with certainty whether activity to retrofit a gas pipeline at Texas City Prairie Preserve in 1999 contributed to the deaths of 17 captive-bred Attwater's prairie chickens that were released on the preserve. However, only seven of these birds actually were released in November.

According to records from the U.S. Fish and Wildlife Service, 10 juvenile Attwater's prairie chickens were released on the preserve on Sept. 13, 1999. All but one of those birds died within

30 days, and the final bird had died by 180 days after release. July and August are considered optimal times to release this species into the wild, yet factors such as weather (a severe drought that year made natural food scarce), the presence of predators and the number of birds released all effect the survival rates of the birds. An additional release of seven captive-bred birds took place on Nov. 3, 1999, also without any of those birds surviving.

It is interesting to note that in that same year, 47 birds were released in August at the Attwater Prairie Chicken National Wildlife Refuge, with only three of those birds surviving to May 1. In 1998, before the Conservancy commenced its drilling operations at the preserve, none of the Attwater prairie chickens released on the preserve survived.

It should be recognized that oil and gas extraction have been going on at this site for at least 50 years, with far fewer restrictions in place than the Conservancy's drilling operation. As Dr. Temple said in his report, "... the birds have persisted there even when the property was managed by previous profit-seeking owners not nearly as sensitive to the needs of the birds as TNC has been."

At Texas City, we believed we were extracting natural gas from a reservoir in which the Conservancy was the only leaseholder. We later learned that this reservoir was situated differently than we first believed, and that revenues should have been assigned in part to the Conservancy and in part to other leaseholders. When this issue was brought to the attention of our president, he took immediate steps to rectify the situation and settled with the other leaseholders for $10 million. No donor funds were used in the settlement; the settlement is funded by the oil and gas revenue and by insurance.

We readily admit we made mistakes at Texas City. We relied heavily on the advice of an advisor, as our expertise is in conservation, not oil and gas exploration. It was uncharted territory for us. We also miscalculated the public perception of our well-intentioned actions at the preserve: Things *looked* worse than they were, given the complexities of the birds' chances of survival and the drilling operations.

Virginia Coast Reserve, Virginia

The Virginia Eastern Shore is one of the largest intact, undeveloped coastal landscapes remaining on the Atlantic seaboard, due largely to more than 30 years of innovative and steadfast conservation efforts by the Conservancy and our many partners and supporters. We have engaged dozens of partners in our efforts: towns and local communities, farmers, fishermen, nonprofit organizations, universities, foundations and companies. To protect such a vast system, encompassing 14 barrier islands and mainland-side marshes, creeks, fields and forests, we have experimented with many economic development projects designed to address a daunting challenge: How to help communities create much-needed economic opportunity while protecting the ecosystem and critical habitat for migratory birds and other creatures.

Since February 2002, the Conservancy has been updating its conservation plan for the entire Virginia Eastern Shore based on Conservation by Design, the Conservancy's strategy for guiding conservation results everywhere we work. The resulting action plan includes more than 30

strategies designed to increase the Conservancy's effectiveness. These strategies are intended to enhance both operations and conservation – from positioning the program on more sustainable economic footing, to protecting more bayside habitats, to addressing the complex needs of migratory birds and marine animals.

As we have forthrightly admitted long before the *Post* series was published, we have made some mistakes at the Virginia Coast Reserve. Because it was a model project for us, one from which all of the Conservancy would learn and emulate, we were perhaps too eager to demonstrate success there and so were not as objective as we should have been. It was the only Conservancy program allowed to operate outside the state chapter structure, and as result we allowed this situation to persist too long without taking corrective measures. We also let foundering projects such as the Virginia Eastern Shore Corporation (VESC) continue without addressing their problems and failures. It's not that we should have avoided experimentation; we launched these efforts in good faith to accomplish conservation objectives. But we should have been more circumspect in assessing our work and halting work that was not yielding good results.

When Steve McCormick became president in 2001, he initiated a thorough overhaul of the Virginia Coast Reserve, part of a wider organizational change effort aimed at correcting deficiencies and improving the way the Conservancy worked. The management of the Virginia Coast Reserve was brought under the Virginia chapter oversight. And after a programmatic analysis and internal audit, we began to develop new management plans and to reduce the reserve's debt.

The *Post* cited the Conservancy's "liabilities of $24 million" as a result of VESC. In reality, $18 million of the Conservancy's investment was in land on the Eastern Shore; that debt has been reduced to $4 million over the past two years through the sale of seaside farms whose development potential has been restricted through conservation easements. Between $3.5 million and $5 million was the investment lost on operations and the Cobb Island Station venture. An independent report by the Corporation for Enterprise Development, requested by the Conservancy, explains the failure of the VESC and lessons learned. The report is available online at: http://www.cfed.org/sustainable_economies/econDev/VESC_full_report.pdf .

Conservancy Action

We have suspended any new resource extraction activities on Conservancy lands pending an in-depth review to ensure that these activities are fully compatible with the needs of rare and threatened species and do not jeopardize the conservation values we are dedicated to protecting.

In addition, we began acting on the mistakes at Texas City and the Virginia Coast Reserve before the *Post* began looking into these projects. At Texas City, we are implementing the recommendations of a scientific review conducted by Dr. Stanley Temple. At the Virginia Coast Reserve, we are following the findings of an internal audit conducted in 2002. In both places, we have new leadership in place, with new management plans evolving.

CONSERVATION BUYER PROJECTS

The *Post* series' portrayal of the important and well-recognized role of conservation easements (and conservation buyer projects in particular) in saving critical habitat was fundamentally inaccurate and flawed.

A conservation easement is an agreement between a landowner and a private or public organization in which the landowner agrees to sell or donate certain rights associated with his or her property – often the right to subdivide and develop – and the organization agrees to hold those rights in trust. There restrictions are legally binding in perpetuity. Because use is restricted, land subject to a conservation easement is worth less on the market than comparable unrestricted and developable parcels. Land trusts around the country rely on this mechanism as an effective, efficient way of protecting open space and natural areas.

In recent years, the Conservancy has bought land in critical conservation areas (including land that buffers and surrounds core natural areas), placed conservation easements on the land, and then resold the restricted property. We refer to this as a "conservation buyer" project. It was misleading of the *Post* to suggest that the Conservancy sells these properties "at a loss." In every case, we retain valuable development rights that have been established over two decades of case law as having real value. In every case, the purchasers of these properties gave up valuable rights to subdivide or otherwise develop the lands *in perpetuity*.

There are generally four types of conservation buyer transactions.

- In the first transaction, the Conservancy purchases a property and places a conservation easement on it. The conservation buyer pays a price over and above the value of the restricted land (typically the same price the Conservancy paid for the property before the easement was imposed), allowing the Conservancy to recover its entire project costs. The conservation buyer, under the tax law, may then take a charitable tax deduction for the difference between the appraised value of the easement-restricted property and the amount the conservation buyer paid to the Conservancy.

- In the second type of transaction, the Conservancy purchases a property, places a conservation easement on it, and resells the land to a conservation buyer at a lower fair market value reflecting the restrictions of the easement. The fair market value of the property is lower because the property is now worth less due to the permanent, restrictive conservation easement placed on the property by the Conservancy. The Conservancy then raises private funds from other sources to cover the remainder of the cost of the original transaction.

- In the third type of transaction, as in the example above, the Conservancy purchases a property, places a conservation easement on it and resells the land to a conservation buyer at a lower fair market value (again, reflecting the reduction in the fair market value due to the placement of the conservation easement on the property). In this third type of transaction, the conservation buyer makes a tax-deductible charitable donation to the Conservancy in the amount of the difference between the Conservancy's cost and the

conservation buyer's purchase price. Donations such as these enable the Conservancy to facilitate land conservation by private landowners without spending government or donated funds.

- In the fourth type of transaction, the Conservancy purchases a property and sells the property to the buyer for full fair market value. As a condition of the sale, the buyer grants to the Conservancy a nominal (but legally enforceable) option to buy back a conservation easement over the property. At a later point in time the buyer either donates the conservation easement to the Conservancy, or in the alternative, the Conservancy exercises its right to buy the conservation easement.

All these methods have the same conservation impact – reducing the development threat forever – and the same tax impact, allowing an individual or individuals to take a tax deduction for permanently reducing the value of the land in order to protect important natural values. In every case, the value of the land before and after the restriction is established by professional, independent appraisals.

As it became clear there would be questions about the mechanics of conservation buyer transactions, the Conservancy asked a leading charitable giving tax advisor and attorney to review the various ways these transactions are structured. His analysis concluded that under tax law, the buyer in these cases is entitled to a federal income tax deduction. To review his analysis, go to http://nature.org/pressroom.

For all conservation buyer projects, the Conservancy obtains independent documentation of land values and the impact on those values of the permanent restrictions on development imposed by those easements. In any event, under tax law, the buyer is required to support any tax deduction with an appraisal as well.

Conservation buyer projects are only a small part of our habitat conservation activities. Since 1990, the Conservancy has completed more than 15,500 conservation land transactions – direct purchases, easements and others. Of those, 270 parcels of land were sold to conservation buyers; approximately 20 involved trustees or staff.

The *Post* series also repeatedly mischaracterizes the lands involved in conservation buyer transactions. On Martha's Vineyard, for example, the land sold to a conservation buyer has been farmed since the 1700s; it is not "pristine beach and grasslands." In fact, there are no beachfront lots. For our conservation efforts, which aim to *restore* grasslands long since lost to the plow, the conservation buyer parcels are buffer land – land surrounding the core areas we intend to restore to a natural, native grassland. The series overlooks our motivation for engaging in these transactions in the first place: These lands are *not* environmentally sensitive, but they buffer places that are.

Martha's Vineyard, Massachusetts

In July of 2001, The Nature Conservancy purchased one of the largest unprotected pieces of open space on Martha's Vineyard – the 210-acre Herring Creek Farm. The project enables the

Conservancy and its partners to restore the globally rare sandplain grassland habitat that is characteristic of Martha's Vineyard, and to prevent a 33-lot subdivision originally approved for the property. Because land on Martha's Vineyard is some of the most expensive and coveted real estate in the country, we needed to work with buyers having significant resources to protect this land.

The Herring Creek Farm property originally was of interest to the Conservancy because of its close proximity to Katama airfield. (Katama is an excellent example of existing sandplain grasslands, and we have an agreement to manage the land of this grass-strip airfield.) By restoring the farm fields of Herring Creek Farm to their native condition, the Conservancy is expanding this rare habitat to create a better functioning, less fragmented ecosystem. This is especially beneficial to animals that require large spaces to forage and reproduce, like the northern harrier, a species of hawk. Once restored, the grassland and beachfront habitats at Herring Creek Farm will support rare local bird species like the grasshopper sparrow and short-eared owl as well as rare native plants such as the Nantucket shadbush and bushy rockrose; 102 acres are permanently protected from development.

This approach meant limited new development, but not on "pristine beach and grasslands." Rather, the conservation easement prohibits any beachfront development, and no more than six new homes may be constructed on former farm pasture and previously cleared land nearby (significantly less than the approved 33). None of the new home development may occur on actual sandplain grasslands, as inferred by the *Post* article.

The Conservation Commission of Edgartown and the Conservancy jointly hold the conservation restrictions that apply to all current and future owners on the land. As a result of the conservation restrictions, the number of new houses to be built on the land is limited to six, none of which are sited in the sensitive restoration area. Currently, one new home is actively under construction.

An editorial in the *Vineyard Gazette* reveals local opinion: "The [Herring Creek] farm sale agreement brings peace and an important close to more than a decade of political warfare and lawsuits between developers and conservationists over this sensitive farmland...." The editors went on to recognize the Conservancy and "its critical conservation buyers" for their "supremely important role in the agreement and in the future conservation stewardship of this treasured piece of the Vineyard."

Shelter Island, New York

The Conservancy's Mashomack Preserve on Shelter Island, off the east end of Long Island, New York, is a natural area of 2,039 acres that encompasses several diverse habitats necessary for the survival of many species of plants and animals, including sensitive neotropical migratory songbirds and four rare plants.

The 9.38-acre Thompson Hill property is adjacent to the Mashomack Preserve. The property contains bluff frontage and shoreline; steep slopes run down to a pristine creek and tidal marsh that are part of the preserve. This tidal marsh is habitat for several species listed as threatened by

the state. Conservancy scientists determined that while it was not necessarily important to own the Thompson Hill property as part of the preserve, it was important to protect the hillside from development to prevent runoff that would adversely affect the salt marsh and other natural resources.

In the 1990s, when the owners of the property expressed serious interest in selling the property, the local chapter of the Conservancy did not have resources necessary to purchase the Thompson Hill property outright, so the Conservancy was pleased when the owners agreed to work with the organization to find a conservation buyer who would agree to forego intense development. The Conservancy found two conservation-minded couples who were interested in buying the property from the original owner. (The property was also listed with a local realtor.) After both couples learned of the very restrictive conservation easement, only the ultimate purchaser remained interested. The Conservancy bought the property for $2.1 million and placed an easement on it. Independent appraisals calculated the value of the property with the easement to be $500,000. The Conservancy then sold the easement-restricted property for its appraised value of $500,000. The buyers were a husband and wife: The husband was a former trustee of our South Fork/Shelter Island chapter and his wife is a current trustee of the Mashomack Advisory Board, as she was when the transaction took place. The new owners made a contribution of $1.6 million to the Conservancy that allowed the Conservancy to reinvest its resources in priority protection projects elsewhere.

As a result of this transaction, the Conservancy was able to safeguard the long-term heath of our Mashomack Preserve and the important ecological features of the Thompson Hill property by reducing the number of buildable lots from four to one. The new owners received a tax deduction for their cash contribution, and the Conservancy – and the public – are assured that environmentally important permanent restrictions are in place limiting the owners' rights and the rights of future owners to develop this property.

Garrard County, Kentucky

The Conservancy has preserved some 2,000 acres in the Kentucky River Palisades of Garrard County. The palisades, majestic limestone cliffs rising out of the river, are part of a landscape that harbors more rare plants than any other place in the Bluegrass Region. Farmland adjacent to the Conservancy's preserves came on the market in 2000. Although no rare species existed on the farmland, the lands were nonetheless ecologically significant and valuable as a buffer between core preserves and areas of more intense land use. More, the owner had indicated he planned to develop the property with a large number of mobile homes.

To find buyers for this farmland, the Conservancy advertised its conservation buyer projects in the Kentucky chapter newsletter and consulted its database of more than 100 conservation-minded people who had expressed an interest in purchasing land, should the opportunity arise. Lisa Estridge was among this group, as she had first contacted the Conservancy in 1998 about buying an unrelated property. The Conservancy contacted Ms. Estridge to determine whether she was interested in the farm property. We also showed the same property to more than 10 other potential buyers. Ms. Estridge made the first offer to purchase a 146-acre portion of this farmland.

The Conservancy learned shortly before closing that Ms. Estridge's father, Philip Reed, Jr., a trustee of the Conservancy's New Jersey chapter, would actually be purchasing the 146-acre tract. Mr. Reed purchased the property subject to conservation use restrictions and paid restricted use fair market value for the property as determined through an independent appraisal. Mr. Reed made a subsequent contribution to the Conservancy that exceeded the difference between the restricted use value of the land and the Conservancy's purchase price.

Ken and Vicki Brooks purchased a 54-acre portion of the property subject to conservation use restrictions. This parcel was shown to more than 10 other potential buyers before the Brookses made an offer. They paid the restricted use fair market value of the property as determined through an independent appraisal. The Brookses also made a charitable contribution to the Conservancy that covered a substantial portion of the difference between the restricted use value of the land and the Conservancy's purchase price.

Northern Lake Huron, Michigan

The Northern Lake Huron shoreline was identified through the Conservancy's ecoregional planning process as a priority for protection. The U.S. Environmental Protection Agency and Environment Canada also identified this shoreline as a critical Shoreline Biodiversity Investment Area in a joint 1996 report. Thirteen species that are listed as threatened or endangered rely on this habitat. More than 250 species of migratory songbirds and waterfowl fly through this shoreline and use this habitat as a critical resting and feeding stopover site.

The property in the transaction described by the *Post* was slated to become a golf course and condominium complex. Undeveloped Michigan shoreline property is valued between $300 to more than $3,000 per waterfront foot. Without the help of conservation buyers, the Conservancy would not have been able to protect this area. The Michigan chapter of the Conservancy turned to a past chapter trustee for help. He said he would be the conservation buyer of the property, sparing the chapter considerable time and cost in marketing the property. The property was sold to him subject to conservation use restrictions for its restricted use fair market value as determined by an independent appraisal. The buyer also made a substantial charitable gift to the Conservancy.

Conservancy Action

The Conservancy has suspended all conservation buyer transactions pending a thorough review of our policies and procedures for these transactions.

EXECUTIVE COMPENSATION

The *Post* questioned the compensation arrangements for President and Chief Executive Officer Steve McCormick. Although his compensation is comparable to that for CEOs of other large charities, this became an issue because we made a mistake in reporting the details of a home loan that was offered to Mr. McCormick as part of a compensation package when he was recruited to lead our organization. We made mistakes in reporting accurate information regarding Mr. McCormick's salary to the *Post*. There was never any intent to mislead the *Post,* and we regret the error.

Mr. McCormick's compensation is set by the Board of Governors and is in proportion to that of executives of similar-sized nonprofits.

The total amount of Mr. McCormick's compensation for fiscal year 2004 (July 2003 through June 2004) will be $360,000, plus standard Conservancy fringe benefits. This amount reflects a voluntary 5 percent cut that he and the rest of the Executive Leadership Team took in light of the current economic situation.

As part of a negotiated compensation package to encourage him to move from California to Virginia, the Conservancy provided a home loan for $1.55 million with a 1-year adjustable interest rate starting at 4.59 percent. (The rate of the loan was based on outside advice as to what a market rate would be.) He has since refinanced the Conservancy loan with a commercial lender and repaid the Conservancy's loan in full.

Mr. McCormick's total compensation for each year is listed on the Conservancy's IRS Form 990, a form all nonprofits are required to file with the IRS. The 990 Form is available at http://nature.org.

Conservancy Action

Until our Board of Governors takes a thorough review of our loan policies, we have temporarily suspended any new loans to current or prospective employees.

PRESIDENT'S DISCRETIONARY FUND

The President's Discretionary Fund (PDF) was created in the early 1990s by former Conservancy President and CEO, John C. Sawhill, who saw a need for a special fund to address important organizational needs. Funding for the PDF came primarily from undesignated bequests and other unexpected, unrestricted contributions.

Allocation of these funds was decided by the President after conferring with members of the Board of Governors and assessment and discussion by senior management of high-priority conservation needs. Projects that received funds through the PDF include NatureServe (the former Natural Heritage programs), other science programs, the Conservancy's endowment, international programs, our Fundraising Management System software and a public education campaign.

Steve McCormick abolished the PDF in fiscal year 2002 and replaced it with a much smaller "Quick Strike Fund." That fund received an initial budgeted allocation of $3.5 million. Due to a decrease in revenues, it will likely disburse approximately $1 million to organizational priorities this coming year.

COMMITMENT TO SCIENCE

The *Post*'s online sidebar about the Conservancy's science programs distorts the findings of our External Science Review Committee and uses a personnel dispute in our Wyoming office to create the false impression of an organization that is not committed to science.

The implication that we are moving away from our roots as a science-based organization could not be further from the truth. Good science has always been and will remain our hallmark. We use sound science to guide our actions, from deciding where to work, to the methods we employ to conserve ecosystems and target species.

The online sidebar quotes extensively from the report of the Conservancy's External Science Review Committee, which we commissioned in 2000 to ensure that our science capacity was sufficient to meet the organization's changing needs for conservation science. We turned to outside, independent scientists to help us evaluate our organization's science capacity and implementation. The *Post* cited the report's negative comments, but none of its positive comments. The *Post* selectively plucked quotes from the staff survey while skirting the far more complex and substantive issues raised in the review.

After the report was issued in 2001, newly appointed President Steve McCormick acted quickly to make changes recommended in the report. These changes have been difficult in some cases, and some good scientists left the organization as a result of the uncertainty change always brings. To view the report of the External Science Review Committee, go to http://www.conserveonline.org/2001/06/b/exsciencereviewweb

To address some of the erroneous and misleading points made by the *Post*:

- Publishing by Conservancy scientists is encouraged by the organization's leadership. In the past year, the rate of publication has more than doubled. Since Steve McCormick became president, papers written by Conservancy scientists have appeared in prestigious journals such as *Science, Nature, Ecological Applications, Bioscience* and *Conservation Biology.*

- There is no "thought police" at the Conservancy. Although papers submitted for publication are reviewed by peers, there is no mechanism or policy by which anyone can control what a Conservancy scientist says in his or her publication.

- Among the large research projects funded in FY03 is a study examining the impact of grazing on biodiversity. We do not avoid candid assessments of contentious issues such as this.

- The Conservancy is leading the way among conservation organizations in documenting the implications of climate change for existing conservation projects. We do not avoid this topic in our research or conservation plans.

- The vast majority of Conservancy scientists and science talent and innovation is in the field – not at our Worldwide Office in Arlington – spread throughout all 27 countries in which we work. The dispersing of scientists in the field is a deliberate management strategy for better connecting science to conservation work.

LEARNING FROM THE CRITICISM

Despite our collective disappointment and frustration over the lack of balance in the *Post* series, we realize that it raises some valid questions for our organization. We have not been as sensitive as we should have been about how things were perceived by others not familiar with our conservation methods. We do take it seriously when someone questions our oversight, judgment and integrity, and we are committed to changing practices that do not live up to our mission and values. What we should be judged by is not whether we made mistakes, but how we learn from them and how we ensure that our most serious errors are not repeated.

More than a year ago, we began a thorough internal audit of our policies and procedures as part of our commitment to our members to be leaders in nonprofit management. The June meeting of the Conservancy's Board of Governors will be dedicated to a full discussion of governance issues generally, as well as the issues outlined by the *Post*. Our intent is to review and where necessary change our policies and procedures to ensure that we meet the highest standards of public integrity and sound conservation science in all of our activities. We will be aided in that review by a number of independent and highly regarded outside experts.

Pending the outcome of the Board review, which may extend beyond the June meeting, we have temporarily suspended the following practices:

- All new conservation buyer transactions;
- All new resource extraction activities at Conservancy preserves;
- All new cause-related marketing partnerships; and
- Any new loans to current or prospective employees.

In addition, we began resolving problems at Texas City and the Virginia Coast Reserve before the Post series ran. At Texas City, we are implementing the recommendations of a scientific review conducted by Dr. Stanley Temple. In both places, we have new leadership in place, with new management plans evolving.

We will certainly focus on the *Post*'s specific charges. But our intent is to conduct a thoughtful and wide-ranging review to ensure that the Conservancy's actions are in every case consistent with our mission. We will pay close attention to how we engage and work with our Board and chapter trustees, as well. We know any self-examination of our organization can only make us a stronger, more resilient force for conservation.

We are proud of our record of on-the-ground results. In the past two years – the length of time of the *Post*'s investigation – we have protected more than 2 million acres, an area the size of Yellowstone National Park. We believe that our record of innovation, of working with the private sector, private landowners, government and the environmental community to achieve science- and market-based solutions to conservation, is an important contribution to a pressing global issue. We are especially grateful to the more than 1,500 distinguished Americans who volunteer without pay as our trustees.

Our work depends on the trust placed in us by our donors, members, volunteers, partners and the public. We recognize our responsibility to earn that trust every day, through all of our actions.

APPENDIX B

SFC LETTERS TO TNC

CHARLES E. GRASSLEY, IOWA, CHAIRMAN

ORRIN G. HATCH, UTAH
DON NICKLES, OKLAHOMA
TRENT LOTT, MISSISSIPPI
OLYMPIA J. SNOWE, MAINE
JON KYL, ARIZONA
CRAIG THOMAS, WYOMING
RICK SANTORUM, PENNSYLVANIA
BILL FRIST, TENNESSEE
GORDON SMITH, OREGON
JIM BUNNING, KENTUCKY

MAX BAUCUS, MONTANA
JOHN D. ROCKEFELLER IV, WEST VIRGINIA
TOM DASCHLE, SOUTH DAKOTA
JOHN BREAUX, LOUISIANA
KENT CONRAD, NORTH DAKOTA
BOB GRAHAM, FLORIDA
JAMES M. JEFFORDS (I), VERMONT
JEFF BINGAMAN, NEW MEXICO
JOHN F. KERRY, MASSACHUSETTS
BLANCHE L. LINCOLN, ARKANSAS

KOLAN DAVIS, STAFF DIRECTOR AND CHIEF COUNSEL
JEFF FORBES, DEMOCRATIC STAFF DIRECTOR

United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510–6200

July 16, 2003

Mr. Steven J. McCormick
President and Chief Executive Officer
The Nature Conservancy
4245 North Fairfax Drive
Arlington, VA 22203-1606

Dear Mr. McCormick:

The recent articles in the *Washington Post* regarding The Nature Conservancy (TNC) posed serious questions about TNC's practices regarding land sales, purchases, and donations; executive compensation; and corporate governance, among others. In addition, the Finance Committee has begun its own independent review that has found additional areas of concern. Given TNC's varied roles as government grantee and vendor, as well as its status as a tax-exempt organization, we, as Chairman and Ranking Member of the Finance Committee, seek answers and information about certain of TNC's policies and practices. We appreciate your repeated assurances of cooperation as the Committee seeks to review TNC documents, filings, transactions and other related material relating to the following TNC programs and practices.

1. Conservation Buyer Program

The May 29, 2003 letter to Congress from TNC has an attachment that provides a description of TNC's "Conservation Buyer Projects" (CBP). In it, the TNC states that since 1990, 220 parcels of land have been sold under the CBP program.

Please provide, for each CBP transaction within the last 10 years, the following: the description and location of the relevant property; the dates of TNC's purchase and sale of the land; TNC's purchase price and its sale price for the parcel of land; the terms of the easement or other property limitation imposed on the property by TNC; the individual(s) or entity(ies) that sold the property to TNC (including SSN or EIN); the individual(s) or entity(ies) that purchased the property from TNC (including SSN or EIN); any relationship, past or present, of CBP buyers or sellers with TNC or its subsidiaries or affiliates; any donations or contributions totaling at least $1000 made by a CBP purchaser or seller to TNC or its related organizations within two years of TNC's sale or purchase; all appraisals of the property, including appraisals made prior to TNC's purchase of the land, after an easement or other restriction was imposed, and at or after the point of sale to a CBP buyer; any analysis in the possession or control of TNC or its related organizations regarding the tax treatment of the sale or purchase; Form 8283: "Noncash Charitable Contributions" for both purchase and sale, where applicable; and, Form 8282 "Donee

Information Return," where applicable.

Please provide all information that TNC has in its control or possession regarding any transactions with Mr. Jerry Jung, Mr. and Mrs. James Dougherty and the Wallace Family.

Please confirm that CBP is the sole program by which TNC or its related organizations have sold to non-government entities land, interests in land, or water rights that are subject to a conservation easement or option of conservation easement. If there are other programs by which TNC or its related organizations has sold to non-government entities land, interests in land, or water rights subject to a conservation easement or option of conservation easement, please describe these programs in detail. In addition, please discuss any other programs other than CBP, sales to government, Trade Land or purchase of easements in which TNC purchases or sells land or interests in land.

Lastly, the Board of Governors announced on June 13, 2003 that all CBP transactions must be "legally documented as part of the transaction." Please explain specifically what that means and what information will be made available to the public and the IRS.

2. Government

It is our understanding that TNC sells or exchanges land or interests in land to local, state and federal government entities. For example, in its most recent Form 990 filing, TNC reports $181 million in income from government sales.

Please provide a list of all land or interests in land sold or exchanged by TNC or its related organizations since January 1, 1998 to local, state and federal government entities. This list should include a description and location of each property; the date of TNC's purchase and sale; the amount TNC paid for the property (note if the seller considered the sale to be a bargain sale and please provide a Form 8283 for any bargain sale or gift as well as the Form 8282 where applicable); the appraised value of the property at the time of TNC's acquisition of the property and at the time of the sale (including proof of compliance with federal appraisal standards); the individual or entity that sold/donated the property (include SSN/EIC); the amount for which TNC sold the property; the amount (together with all appraisals) that TNC determined was the value of the property for purposes of Form 990, (e.g., in Part II, line 43 TNC listed in "Statement 8" of the 2002 Form 990 line items for "Cost of Goods Sold to Govt. - Cost" and "Cost of Goods Sold to Govt. - Gift" – (please also provide a description of what these two terms reflect); the government entity that purchased the property; and the specific source of funding that enabled TNC to purchase the property (for example, a charitable contribution from an individual; a government grant/contract; grant/contract from corporation or a nonprofit organization, etc.). Finally, for each year, please provide the total amount of income from such sales, a detailed breakdown of expenses direct and indirect related to the sales and the amount of net profit from the sales.

Please provide a list including dollar amount, brief description of purpose and identification of each grant, contract, appropriation or other financial benefit to TNC conferred by a government agency (and program, example North American Wetlands grant awards, Forest Legacy Grant awards) since January 1, 1998. In addition, please provide a similar listing for grants and contracts received from or given to the National Fish and Wildlife Foundation; the National Forest Foundation; and the National Park Foundation since January 1, 1998.

3. Trade Land

TNC has a program called "Trade Lands" that targets donations or below market sales of land by corporations and individuals for resale by TNC. Please describe in detail this program, including the number and value of gifts from corporations and individuals. Please list the ten largest gifts received (by dollar value of the claimed charitable donation) per year under this program since January 1, 1993 along with the Form 8283 and Form 8282 (where applicable). If there is no Form 8282, please provide the total amount the property was sold for, the date it was sold and identify the party who purchased the land.

4. Loans

A. Employee. Please list all loans provided to officers, federal and state board members, employees, donors, TNC contractors and TNC related organizations. Please provide the loan terms (including security and value of the security), date of issue, current status, name of loan recipient and EIN/TIN. Please provide the dates and amounts of repayment and whether there was any forgiveness of the loan.

TNC provided a home loan of $1.55 million with a 1-year adjustable interest rate at 4.59 percent to Mr. McCormick. TNC states that this rate was "based on outside advice as to what a market rate would be." Please provide a copy of that advice. TNC states that recently Mr. McCormick has refinanced the loan with a commercial lender. Please provide a copy of the loan terms and contract.

B. Other Loans. TNC in its 2002 Form 990 reports the $1.55 million loan to Mr. McCormick. TNC Form 990 also discloses $26.1 million in other loans. The return provides a thumbnail description of these loans. Many of these loans are to for-profit entities or individuals. Please provide a description of all loans made (or receivable) to individuals or for-profit entities for the past ten years and include a description of any relationship between the company (including officers and directors) or individual with TNC. This description should include the original purpose of the loan, whether that purpose was met, the interest rate and payment schedule when the loan was made, the security (and value) for the loan and whether there were any changes to the terms of the loan.

Please describe in particular all of the above loans that have a 0% interest rate and all loans that defaulted or in which there was partial or full loan forgiveness. Please describe the process of TNC in approving loans, how the interest rate is determined and the material that is prepared in support of such loans.

For all loans above in A and B, where applicable, please describe how TNC and the individual complied with Section 7872 of the Internal Revenue Code: Treatment of loans with below-market interest rates. Please provide copies of all related TNC filings with the Internal Revenue Service.

5. Internal Reports, Audits and Studies

Please provide the name and contact information for the lead partner for TNC external audits since January 1, 1998. Please provide copies of all draft or final external and internal audits, evaluations and reviews conducted by or for TNC or its related organizations since January 1, 1998. In particular, please provide any such material that reviews, discusses or relates to payment of taxes (including payroll) of TNC or its related organizations, TNC or its related organizations' employees or contractors as well as any material that discusses the tax situation regarding donors, sellers, buyers or other recipients.

6. Easements

Please provide a copy of the December 4th, 2002 memo cited in the *Washington Post* that states:

> "If you look at our revenues from last year, they're up from the year before, mostly due to the valuation of easements, which can be viewed as subjective and a tool we used to inflate our income."

Please provide all other information in TNC's possession or control related to that teleconference that is discussed in the December 4th memo.

In addition, for all easements above $25,000 (as valued by the donor or purchase price) please provide a list valuing all easements purchased by or donated to TNC since January 1, 1998, including the dollar amount of the easement, where the land was located, and the identity of the donor or seller. Please note all easements purchased or donated that involved officials, governors, or trustees of TNC or its state affiliates.

7. Board Membership and Organization

Please provide a current list of all officers, directors, board members of TNC (state and national) or its related organizations. In addition, please include the current reorganization chart and bylaws of TNC and any related organizations. Please include a list of all other for-profit and

non-profit organizations that these individuals serve as employees, officers, directors, board members or similar capacity.

Finally, please provide a list of all TNC (state and national) board and staff who serve on federal and state government boards. Please note those federal and state boards that award grants or contracts to TNC.

8. Executive Compensation

Please provide TNC's Form 990 for the last 10 years. In addition, please provide the minutes of the Compensation Committee or Board of Governors meetings relating to compensation (including loans) for officials listed in Form 990 since January 1, 1998, as well as all employment contracts for these individuals. Please provide a detailed discussion, including value, of any deferred compensation programs that TNC or its related organizations operates for any of its employees.

9. President's Discretionary Fund

The Committee would like information regarding the policies and procedures with respect to the President's discretionary fund (and its successor the Quick Strike Fund). Please explain how funds become part of the discretionary fund; whether there are or have ever been any limitations on the amount of money in the discretionary fund; who can authorize the fund's use; and any limits on the use of the funds. In addition, please provide all yearly statements indicating the amount of money in the fund since January 1, 1993, and an accounting of the fund's use since January 1, 1998, including a description of each withdrawal; for what purpose the withdrawal was made; and the names of the recipient (please note any relationship to TNC). Please provide the source of funding for the discretionary fund year-by-year since 1993.

10. Major Donations/Sales/Exchanges of Land

Please provide since January 1, 1998 year-by-year the top ten donations by value (including bargain sales) of land to the TNC or its related organizations. Please provide the EIN/TIN of the entity or individual making the donation, the location of the land, the value of the land at the time of the donation, as well as relevant Forms 8283 (and Form 8282 where appropriate). Please provide the current status and use of the donated land, including whether the land has been sold by TNC and, if so, the date and amount of TNC's sale.

11. Valuation

The *Washington Post* quotes a TNC state trustee regarding charitable deductions:

> "Generally, the buyer puts too much value on it [for tax purposes]. Land donators almost always try to value their land at more than the [true] value. **This is a business**. We sort

of wince and look away at some of the values buyers put on these transactions. We're not the IRS." (Emphasis added).

Please provide TNC's viewpoint on this statement.

12. Related Organizations

Please describe the activities of all TNC-related organizations cited in the most recent Form 990 for the last five years. Please provide a copy of the Form 990 for related nonprofit organizations and a copy of the tax return for related for-profit organizations for the past five years. In addition, please provide for the last five years TNC's Form 990-T and the Form 990-T of related organizations.

13. Travel, Conferences, Meetings and Other

The most recent Form 990 filed by TNC shows that TNC spent over $13 million dollars on travel, conferences, conventions and meetings. Please provide a description (including dollar amount, location, hotel) of each activity with respect to which more than $2,000 was spent on behalf of an individual since January 1, 2002. Finally, please provide a detailed breakdown of the $23 million dollars in "other expenses" listed in the Form 990 for 2002.

14. Transactions With Board Members

Please list all land transactions between TNC and any Trustees, Governors, or staff (national and state) since January 1, 1998. Please provide copies of all material that was submitted to any TNC Board (national and/or state) for determining their approval. Please also provide any board minutes regarding these decisions. Finally, please provide the same information for each of these land transactions as was requested for CBP transactions in #1 above.

15. Conservation

TNC states to the Washington Post that it consulted with the U.S. Fish and Wildlife Service regarding the drilling for gas in Texas. Please provide copies of all material related to that consultation.

16. Litigation

Please provide the names of the parties, a brief description of the issue, the date of settlement or court order and the amount paid by TNC or its related organizations to settle or resolve all litigation or potential litigation since January 1, 1998. Please provide this information only where total cash value of payments were over $50,000.

17. Grants

The Form 990 fails to provide a list of grantees. For the last five years provide a list of each grant, the dollar amount (as well as noncash amount), the recipient and purpose of the grant. In addition, please note any relationship with TNC and its related organizations, board, officers, employees, etc. Finally, provide all other information required under the instructions for Form 990 published by the IRS: "Specific Instructions for Form 990."

18. Cash Donations

Please list the name and address of all donors – both individuals and business entities – who provided a cash donation of $50,000 or more in any year since January 1, 1998.

Please provide the requested information by August 18, 2003. We would suggest that as information to separate questions is completed it should be forward without awaiting answers and information for all questions. We recognize that some of the information requested is sensitive and will work with TNC in ensuring protection of such identified information.

If you have any questions, please contact Mr. Dean Zerbe at (202) 224-5315 or Mr. Pat Heck at (202) 224-4515, tax counsels for the Finance Committee.

Cordially yours,

Chuck Grassley

Charles E. Grassley
Chairman

Max Baucus

Max Baucus
Ranking Member

CHARLES E. GRASSLEY, IOWA, CHAIRMAN

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JOHN F. KERRY, MASSACHUSETTS
BLANCHE L. LINCOLN, ARKANSAS

KOLAN DAVIS, STAFF DIRECTOR AND CHIEF COUNSEL
RUSSELL SULLIVAN, DEMOCRATIC STAFF DIRECTOR

United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510–6200

October 27, 2004

Mr. Steven J. McCormick
President and Chief Executive Officer
The Nature Conservancy
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203

Dear Mr. McCormick:

We are writing to you in regards to our continuing review of The Nature Conservancy (TNC). We ask for your response to the follow-up questions below:

1. Please explain the meaning of footnote 15 to the letter dated April 15, 2004, page 14. Did TNC (or the donor) receive private letter rulings from the Internal Revenue Service for any conservation easement modification prior to the time that TNC adopted the new procedure? If so, attach a copy of all private letter rulings received. Also, did TNC receive approval for a modification of a conservation easement from a state authority that provides oversight of charitable organizations after the new procedure was effective in 2003? Please attach a copy of all such state approvals (including any court approvals).

2. TNC's answer to question VI.6. mentions "informal discussions with the IRS" and "additional consultations with representatives of the National Office of the IRS." Generally, guidance by the IRS to individual organizations or taxpayers is in the form of private letter rulings or nonbinding "general information letter." Please discuss the nature of the discussions or consultations with the IRS.

3. Is the stewardship fund of TNC established for the enforcement of easements held in an account bearing the name or other identifying feature of the easement to which it relates, or is the fund simply one or several large funds covering all or many of the TNC easements? Please discuss your answer.

4. How much money is deposited in a stewardship fund of a conservation easement?

5. What formula does TNC use for providing or establishing a stewardship fund for a conservation easement?

6. Which of the 75 conservation easement modifications were requested by the land owner and which were requested by TNC?

7. Attach written reports to monitor conservation easements for the ten largest and the ten smallest conservation easement properties in each of Florida and Pennsylvania since 1998.

8. You failed to answer part of question VI.16. Is the easement appropriate since Mr. Milliken was encroaching on the land? How much of the driveway and fence (and landscaping) were an encroachment on the land (discuss area of these improvements as to the total area 1.67 acres)? Please respond.

9. Did TNC send the Committee the memorandum of March 15, 2001 from the firm of McCutchen Doyle, described in footnote 14, page 13 of the letter dated April 15, 2004? If not, please provide it.

10. Please discuss the prior and/or existing relationship of PricewaterhouseCoopers LLP (PwC) to TNC. Did PwC have a relationship with TNC prior to the January 31, 2001, analysis PwC prepared for TNC on executive compensation? If so, please discuss. Did PwC in 2001 have an ongoing relationship with TNC providing tax, accounting, consulting, or other services to TNC? If so, please describe. What payments were made for Services rendered by PwC to TNC?

The questions hereunder are in reference to responses submitted to the Committee by The Nature Conservancy in April, 2004. We again ask for your response to the following:

11. Functionally related revenue (Question 1 of March 3, 2004, letter).

    - Please provide a complete description of each of the activities listed in Tab 1, Analysis of Income Producing Activities, to supplement your response to this question.

12. Emissions credit arrangements.

    - Provide an explanation and documentation demonstrating compliance with TNC's conflicts of interest policy with respect to the GM-TNC Brazil Emissions Agreement (described in TNC's Forms 990 for 1999 through 2001) in which Mr. Smith participated as an officer of General Motors Corporation and its Brazilian affiliate.

    - Did TNC seek the advice of outside counsel with respect to the tax consequences to TNC of the emissions credits transactions, or in the case of the GM emissions arrangement, any conflicts of interest issues?
    - Please describe TNC's position regarding the tax consequences to TNC of the GM emissions arrangement.
    - Provide a description of the AEP-TNC-Pacific Corp-BP-Bolivia emissions arrangement relating to a Bolivian tropical forest, the 1997 Noel Kempff

March 3, 2004

Mr. Steven J. McCormick
President and Chief Executive Officer
The Nature Conservancy
4245 North Fairfax Drive
Arlington, VA 22203-1606

Dear Mr. McCormick:

We appreciate the cooperation of The Nature Conservancy (TNC) with the Finance Committee's independent review of TNC's activities, transactions and practices. This letter is a follow up regarding certain information the Finance Committee received from the first round of questions. Further, some questions (noted as such at the end of this letter) relate to new issues not raised in our earlier letter dated July 16, 2003.

I. Conservation Buyer Program

1. Identify each and all of the TNC conservation buyer transactions for the ten year period described in our letter of July 16, 2003 (whether related party buyers or non-related buyers), that involved a charitable donation or charitable pledge made to TNC by the purchaser within a time frame beginning 6 months prior to closing on the land purchase from TNC and ending two years after the land purchase. For each such transaction list the amount and date(s) of payment of the contribution or pledge; attach a copy of the charitable pledge documentation; and attach any paperwork associated with the charitable gift— to the extent such information was not already provided in response to our prior letter.

2. In response to question 1, above, if the information has already been provided to us, indicate where each item may be found in such materials, including transaction number.

3. Questions regarding the Davis Mountains, Texas property transactions:

a. Did Caroline Alexander (also called Forgason) make a charitable pledge (or charitable contribution) with respect to the transaction for the 5,854 acres on or about December 22, 1997?
b. Why did Caroline Alexander give back to TNC the land she had purchased two years before? Why did she give back just part of it and not all of it?
c. Was there anything different about the land she kept as opposed to the land she gave back such as an improvement of the land, or a special feature of the land retained (or given up)?
d. What did Caroline Alexander end up paying for the land she retained? Was it approximately the sale price of $1,160,834?
e. Did Caroline Alexander pay the $5,426,632 purchase price for the 27,133 acres? If not, what did she pay?
f. Did Caroline Alexander pay the $2,839,717 for the charitable pledge she made? If not, how much did she pay? When were payments made on the pledge?
g. Did Caroline Alexander hold a position with TNC as a director, officer or employee? If so, discuss her position, her term with TNC, whether she continues to have a relationship with TNC, and, if so, in what capacity.
h. Attach all correspondence and other communications, including e-mail and any memos that relate to the purchase of Davis Mountains property by Caroline Alexander.
i. Please provide a copy of the January 31, 1992, opinion letter to Mike Dennis from Steptoe & Johnson, referred to in the January 29, 1997, letter from David Bland to Catherine W. Wilkinson of Steptoe & Johnson, regarding charitable contribution deductions for premiums paid for real property and donations of appreciated stock to pay the premium portion of the purchase price.

4. Questions regarding the Shelter Island (Thompson Hill) transaction:

a. The value of the conservation easement was appraised at $1,594,000.00 as of October 28, 1999. When was this information conveyed to the TNC and the Dougherty's?
b. Did the Gerard family donate part of the land that now makes up Mashomack Preserve? If so, how much land and what percentage of the total? What was the then value of the gift?
c. If yes to question b, above, describe the size nature and environmental importance of the Mashomack Preserve. Is TNC the owner/trustee?
d. The memo of August 6, 1999, from the TNC counsel to Jim Dougherty suggests that Dougherty may be required to pay interest via the charitable pledge if the pledge is not fulfilled by a certain date. Did the Dougherty charitable pledge that was actually made to TNC consist of a portion that may be considered attributable to an interest element? If so, please discuss in detail.

e. Did any of the sellers of the Thompson Hill property take a charitable deduction for a bargain sale of the Thompson Hill property? If so, please discuss and attach any relevant documents.
f. State the date and the amounts actually paid and/or to be paid by the Doughertys pursuant to the charitable pledge with TNC.
g. Did TNC market or offer for sale the Thompson Hill property to any persons other than the Doughertys. If so, please discuss in detail. In this regard, discuss the letter of TNC dated February 14, 2000, that stated that there were several interested conservation buyers to the Thompson Hill property. Were other buyers contacted about the property by TNC? Please provide any relevant documents relating to other buyers or any other offers.
h. If TNC did not actively market the property to potential purchasers other than the Doughertys, why did it fail to do so? Discuss in detail.
i. Was it TNC or the Doughertys that knew of the valuation expert and engaged his services for the appraisal of the conservation easement? Is there documentation that confirms or supports your answer?
j. Are there any other documents or other files in TNC's possession relating to conversation or correspondence that TNC had with Dougherty, especially regarding Dougherty's intentions to make a charitable contribution? Does TNC disagree with Dougherty's statements regarding his intent that were contained in the Post article? Please provide copies of the cancelled checks issued by Dougherty to TNC with respect to shi transaction.

5. Lake Huron Transaction. It appears that TNC's approach to the sale of property to Jerrold Jung of the land located in Mackinac County, Michigan, is different than some of the other conservation buyer transactions involving related parties. In Shelter Island, New York; Davis Mountains, Texas; and Gerrard County, Kentucky TNC received from each purchaser consideration from the sale and a charitable pledge or donation that was very roughly equivalent (in the aggregate) to the amount TNC paid for the acquisition of the property later transferred to the conservation buyer. In the sale to Jerrold Jung, the charitable donation of $650,000 made to TNC plus the consideration from the sale of the property of $1,062,000 paid to TNC was considerably less than TNC's purchase price to the property of $2,277,730 allocated pro rata to the Jung portion of the transaction. Please comment. If you agree there is a difference in treatment, please explain why it was treated differently. To the best of TNC's knowledge, did Larry Harmon ever claim any charitable contribution deductions with respect to either the Shillingburg or the Chi-Mac tracts? If so, what amounts and on what basis? What was the total charitable contribution deduction claimed by Jung relating to the acquisition of the property from, and grant of conservation easement to, TNC (individually or through the trust), and describe whether it was cash or property? Please confirm that Shillingburg did not claim a charitable contribution deduction with respect to his sale of property to TNC, despite TNC's letter to Shillingburg saying it was a bargain sale and providing a blank Form 8283. Please confirm

that to the best of TNC's knowledge, Chi-Mac claimed a charitable contribution deduction of $98,700, the amount reported on the Form 8283.

6. Please provide a copy of the resolution or other written action dated June 13, 2003, supporting the Board of Governors decision that "all charitable gifts associated with a conservation buyer transaction must be legally documented as part of the transaction."

7. Please provide a schedule including the following information regarding CBP sales by TNC for each of TNC's 5 most recent fiscal years: aggregate sales proceeds for CBP sales closed during the year; aggregate charitable contributions received and pledged with respect to CBP sales closed during that year; aggregate of sales proceeds, charitable contributions, and pledges with respect to CBP sales closed during the year; aggregate FMV of conservation easements and conservation restrictions placed on CBP property sales closed during the year.

8. Please provide a list of lawyers, accountants, and other outside counsel who have provided tax opinions or other tax advice to TNC with respect to the tax consequences to TNC or other parties to TNC's CBP transactions (whether with respect to actual or hypothetical transactions); please provide a copy of such opinions and written advice.

9. Has TNC ever entered into agreements with buyers of conservation buyer program properties that TNC will indemnify or reimburse the buyer for lost tax benefits from the loss or reduction of the charitable contribution deduction claimed by the buyer?

10. Martha's Vineyard transaction: Please provide a narrative description of the Martha's Vineyard transaction, addressing all material aspects of the acquisition and disposition of the properties by TNC and the charitable deductions claimed with respect to these properties. In your narrative, identify all parties to the transaction, and describe their respective roles in the transaction. Also, identify and describe each material transactional document (e.g., purchase agreements, the tax indemnification agreement dated June 29, 2001, between TNC and HCAC). Further, discuss the Washington Post's description of the transaction in its May 6, 2003, article, and explain whether you agree or disagree with the Post's description of the transaction in that article.

11. Please provide the names and complete mailing addresses (most recent in your files) for each of the approximately 170 conservation buyers' program buyers for whom you previously provided documentation to the Senate Finance Committee.

II. Government— Transactions Regarding Land Sales

The Nature Conservancy

1. The TNC response to question 2 (of the July 16, 2003 letter) contains a summary of government transfers of $500,000 or over which is supported by the more detailed list. What was the price paid by the government for each land transaction listed? Is the total of the "Land Cost Recovery" and the "Other Cost Recovery" columns under the "SALE" heading equal to the purchase price paid by the government?

2. With respect to the summary list described in the preceding question, identify and itemize the costs, in summary form, that make up the "Other Costs" column under the "PURCHASE" column. We are requesting a description of the costs generally, not a numerical calculation of each line item. Include in your answer a discussion of whether these costs consist only of tax basis costs (closing costs and land improvement costs) or also include annual maintenance costs such as taxes, insurance, maintenance, non capital improvements, and the like. Confirm that your answer is equally applicable to the "Other Costs of Acquisition and Disposition" column of the detailed Government Transfers list (not the Summary) provided in answer to question 2 of the July 16, 2003 letter.

3. Discuss generally whether TNC makes a profit on some of the land sale transactions with governments. For example, line item 35 on your summary list would seem to indicate that TNC made a profit of over $1,300,000 on the sale. Discuss that transaction in detail including the appraised value of land at the time of acquisition of $7,100,000 (being greater than the sale amount). Are there other transactions like this one, including state and local transactions as well as federal transactions of any size? If so, itemize each transaction providing the information previously requested for this question by the Committee.

4. Provide a new summary list adding to and modifying the existing list you provided. Modify the list to indicate under one column the purchase price paid by the government for the property. Also, on that same list, and consistent with your answer to question 2, above, provide detail of costs under the "Other Costs" column, separating tax basis costs from other types of costs, if applicable.

5. Based on your narrative answer to question II. 2 above, we understand that the amounts appearing under the "Amount Donated to Government" column are being reported in cost of goods sold. Is our understanding correct? Also indicate how the "Amount Donated" column was treated for financial statement purposes.

6. It is our understanding that the information provided on your lists in response to question 2 regarding land transfers to the government over $500,000 represents only Federal transactions as so limited. We assume that amounts reported on Form 990, Part VII, line 93c also consists of other categories such as Federal transfers under $500,000, state and local transfers, Indian tribal government transfers, or foreign government transfers. Please confirm this understanding and discuss. Provide a breakdown of amounts reported on line 93c for each of the categories; Federal transfers under $500,000, state and local transfers, Indian

tribal government transfers, or foreign government transfers; for the three most recent 990s by TNC filed with the IRS and related cost of sales information.

7. Provide detailed information and numbers on the following transactions using exactly the same format as provided in your response to question 2 of our prior letter dated July 16, 2003, the detailed list titled "Government Transfers The Nature Conservancy – All Interests in Land Sold, Donated, or Exchanged from July 1, 1997 to June 30, 2002 to Federal Government Agencies $500,000 or Over."

    a. The 100 largest property dispositions (based on FMV of property transferred) by TNC of properties that were transferred to State and local governments (of the 7039 transactions reported on the schedules TNC has already provided).
    b. If the following are not included in your response to the preceding question, provide similar information pertaining to Virginia Coast Reserve, VA (Nos. 416-420); Virginia Eastern Shore Megasite, VA (Nos. 421-423); Herring Creek Farms, MA (Nos. 604-607); Mashomack (Shelter Island), NY (Nos. 1027-28); Kentucky River Palisades, KY (Nos. 3617-3623); and Davis Mountains, TX (No. 5856). Is there any connection between the last four items and the conservation buyer transactions – related parties detailed in your answer to question 1 of the July 16, 2003 letter? If so, please discuss.

8. Provide aggregate information in the same format requested for the preceding question and a narrative summary of the project for each of the following projects listed in the sales to State and local governments: Big Cypress National Preserve, FL (Nos. 1465-1608); Big Cypress Preserve, FL (Nos. 1609-1638); Big Pine Key, FL (Nos. 1645-1816); Wisconsin Scientific and Natural Area Dedication, WI (Nos. 4582-4757); Lower Ozark Reserve Megasite, MO (Nos. 5263-5336). In addition, please provide all information in TNC's control or possession dealing with Big Cypress National Preserve and Big Cypress Preserve.

9. Why are land recoveries less than acquisition and transaction costs in so many cases, resulting in book losses from sales? Is there a potential concern that TNC paid too much for the land (e.g., from a related party) and couldn't recover the cost from the government?

10. Regarding the schedules previously provided for sales by TNC to Federal agencies (over $500,000), please provide a description of each of the column headings in the Federal agency sale schedule.

11. How does TNC identify properties for sale to governments? Does the process differ depending upon whether the buyer is the Federal or a State/local government?

12. How does TNC identify government buyers for these properties? Are the identities of the government buyers generally known before TNC acquires the properties?

13. Is TNC provided Federal (including Fish and Wildlife Foundation), state or local government grants that are earmarked to acquire properties that are later sold to Federal, state or local governments?

14. Describe TNC's charitable mission in selling large tracts of land to government agencies. Include in your answer a discussion of whether the mission varies depending on whether the government is Federal, state or local government. Estimate the percentage of the land being sold that consists of property that may be described as serving a significant environmental or biodiversity purpose. Include in your discussion whether for each land transaction TNC has prepared a written report establishing such purpose. Indicate what portion of the government land sales consists of government requests prior to TNC's acquisition of the land, and what portion consists of property transfers not originally requested by the recipient government agency prior to the TNC acquisition. Do any of the transactions involve land that has primarily a recreational purpose? If so, do you consider that purpose coming within TNC's exempt purpose or activity?

15. Please provide a list of lawyers, accountants and other outside counsel who have provided tax opinions or other tax advise to TNC with respect to the tax consequences to TNC or other parties to government land sale program transactions (whether with respect to actual or hypothetical transactions); please provide a copy of such opinions or written advice.

III. Trade Land

1. Has TNC ever entered into agreements with donors of trade land properties that provided TNC will indemnify or reimburse the donor for lost tax benefits from the loss or reduction of the charitable contribution deduction claimed by the donor? If so, please provide a copy of each such agreement.

2. Why was revenue from the sale of trade lands reported on the 2001 Form 990, Part VII, line 93d, but no revenue was reported for sale of trade lands on that same line for Form 990 for 1996 through 2000.

3. Please provide a list of lawyers, accountants and other outside counsel who have provided tax opinions or other tax advice to TNC with respect to the tax consequences to TNC or other parties to trade land program transactions (whether with respect to actual or hypothetical transactions); please provide a copy of such opinions or written advice.

IV. Loans

V. Internal Reports, Audits, and Studies

The Nature Conservancy

VI. Easements

1. State the number of conservation easements held by your organization as of December 31, 2003. As of December 31, 1993.

2. Is there on file with your organization a copy of each deed or other legal document that grants or establishes the conservation easement granted in favor of TNC? If so, describe how they are maintained. For example, is there a central file or are the files held in local offices? Are there any properties for which a copy of the conservation easement deed is missing or not immediately available to TNC? If so, state how many.

3. State in detail your practices, policies, and procedures for monitoring landowner compliance with the terms of an easement granted to TNC. Include in your answer how frequently you inspect the property or contact the landowner. Does your policy on monitoring the easement vary with respect to the size of the property subject to easement or the importance of the easement for conservation of the environment? Attach copies of TNC reports to monitor conservation easements for the ten largest and the ten smallest conservation easement properties in each of Ohio and California since 1998.

4. State how often TNC has engaged in litigation to enforce a conservation easement granted to it over the past ten years. For each such instance, describe the litigation briefly and discuss the outcome of such litigation.

5. Does TNC have a written policy or a general rule of thumb (written or unwritten) regarding when it will engage in litigation to enforce a conservation easement granted to it? If so, please attach a copy of the written policy, or describe any unwritten policy.

6. Explain the practices, policies, and procedures of TNC for granting a modification or amendment of a conservation easement held by or for the benefit of TNC? If there is a written policy, please attach a copy.

7. The easement modification chart submitted December 11, 2003, suggests that a number of conservation easement amendments or modifications would appear to benefit the landowner. Please describe in detail the easement adjustments provided for items 3, 4, 5, 6, 7, 8, 13, 14, 19, 20, 21, 26, 28, 29, 39, 44, 51, 56, 60, 61, 64, 65, 67, 70, and 74 of such chart. Discuss how TNC views such modifications as either benefiting or not benefiting the landowner. For each item, attach a copy of the easement before amendment and a copy of the easement after amendment, and provide a narrative discussion of the changes made.

8. Does TNC monitor and record changes in ownership of property subject to conservation easements granted in favor of TNC? If so, does TNC contact the new owner by letter or otherwise and impress upon such owner the obligations

under the conservation easement? Please attach a copy of (a) any recorded effort to track such changes in ownership, and (b) any notice to new owners regarding easement obligations.

9. Please respond to assertions or concerns regarding conservation easements as follows: (i) How many easements has TNC written off as unenforceable or of little value? (ii) Please provide a list of any such write-offs including the name of the owner of the property subject to the easement and the location of the property. (iii) Does TNC fail to enforce easements where it is aware of violations because of the cost of litigation relative to the worth of the easement in question? Please discuss your answer. (iv) Is TNC concerned that over time, with change in ownership, new owners not having conservation goals may violate easements in large numbers? Please discuss. (v) How does TNC defend its conservation easements on small tracts (from less than one acre to up to 2 or 3 acres) where monitoring and enforcement of easements is more difficult economically? Please discuss.

10. Regarding the 78 transactions exceeding $1 million for fiscal years 1998 through 2002, how many of these were (1) purchases at fair market value, (2) bargain purchases, and (3) donations? Please identify each of the 78 transactions as being in one of these three categories.

11. Please provide supporting Forms 8283, and where applicable, Forms 8282, for these 78 transactions.

12. Does TNC use easement valuations to minimize book losses, or enhance book gains? Please explain how TNC's financial statement treatment with respect to valuation of easements (whether acquired by purchase or by donation, or by other means such as by TNC creating the easement as a part of an acquisition or disposition of property by TNC) complies with accounting standards applicable to TNC and to nonprofit conservation organizations.

13. Please provide documentation to support TNC's statement that it has advised donors in writing "that the donor's proposed claim for that value may be excessive" if "TNC is made aware" the donor's proposed claim of FMV is "clearly and significantly in excess of what would seem to be a reasonable value." Please provide copies of all such letters sent within the last five years.

14. Please provide the names and complete mailing addresses (most recent in your files) for each of the first 50 persons who contributed conservation easements to TNC during calendar years 1999, 2001, and 2003.

15. Your response to our letter of July 16, 2003, included a chart of "Conservation Easement Purchases and Donations" greater than $1 million. Item 14 of the chart lists a site name of "San Joaquin Hills Portfolio" with a listed fair market value of the easement of $2,016,100. Item 15 of the chart, the same site, lists a fair market

value of the easement of $16,376,300. Item 16, the same site, lists the fair market value of $17,685,000. Item 17, the same site, list the fair market value of the easement as $89,415,400. All four easements were provided by the same company. As to all four items please provide all information in your files relating to these transactions including, but not limited to, appraisals, identification of the grantor, identification of the property, the charitable donation claimed, a copy of forms 8283, copy of deeds, copy of e-mail, letters, memos, and provide a narrative description of the transfers and the environmental purpose and significance of the property.

16. An example of a small conservation easement is the conservation easement placed on 1.62 acres on land transferred to David and Laura Milliken with respect to New Mexico – Santa Fe Canyon Preserve. Is an easement appropriate since the Millikens were encroaching on the land? How much of the driveway and fence were an encroachment on the land? Could TNC have sold a sliver of land outright that covered the area of encroachment? Does this easement serve a conservation goal?

17. Please provide a list of lawyers, accountants and other outside counsel who have provided tax opinions or other tax advice to TNC with respect to the tax consequences to TNC or other parties regarding the acquisition or granting by TNC of conservation easements or similar conservation restrictions (whether with respect to actual or hypothetical transactions); please provide a copy of such opinions or written advice.

VII. Board Membership and Organization
VIII. Executive Compensation
IX. President's Discretionary Fund
X. Major Donations, Sales, Exchanges of Land

XI. Valuation

Please provide copies of documentation to support TNC's statement that "TNC has given the donor notification in writing as part of the Form 8283 that there are serious concerns with the donor's valuation." Please provide copies of all such letters sent within the last 5 years.

XII. Related Organizations

1. The Report to Management for the year ended June 30, 2002, states that in several instances, separately created legal entities or relationships that may be controlled by TNC were created without the prior approval of the Headquarters Office, in violation of the organization's policies and procedures. Please provide any documentation pertaining to your response or follow-up to the recommendation made in the Report to Management for the year ended June 30, 2002, that you "enforce policies and procedures for identifying related parties, monitoring the

status of the relationships, and receiving current financial information to properly account for these entities."

2. Conservation Beef, LLC (CBL):

   a. Please provide the LLC's organizational documents including agreements, and all amendments thereto.
   b. Explain the parties' agreement regarding capital, profit, and loss allocations. Why is TNC only a 50% owner of capital, profits and losses, when to date it has contributed 72% of the capital to CBL? Why hasn't AWF made any capital contributions to CBL since 2000?
   c. Please provide a copy of the IRS determination letter for AWF.
   d. Please provide a copy of AWF's most recent Form 990.
   e. How did you select AWF as your co-venturer for this project?
   f. For fiscal year ended 2000, line 20 other deductions on Form 1065, explain "loss allocation to exempt purposes" in the amount of $372,512.
   g. Please provide a copy of CBL's 2003 Form 1065, when available. Please provide copies of CBL's financial statements for 1999 through 2002.
   h. Who are the participants in CBL's retirement plan? Why did contributions to the plan increase from $8,661 in 2000 to $16,387 in 2002?
   i. Who provided the $40,000 loan to CBL in 2002? Was TNC a lender or guarantor?
   j. Explain in detail the LLC's activities and mission, and explain how they substantially further TNC's exempt purposes.
   k. The article in the Washington Post describes the use of the brand name "Conservation Beef" by TNC, a brand name that is co-owned by TNC and the Artemis Wildlife Foundation. The Post article provides, in part that the program was used to bolster imperiled cattle ranches, and, along the way, entice ranchers into environmentally friendly grazing practices.

      - Provide a general description of the Program involving use of the brand name "Conservation Beef." Include in your answer whether TNC realized any profit or loss from this program for the period beginning in 1999, and if so, how much profit or loss was realized each year?

      - Attach copies of the contracts with all interested parties such as, the ranchers, the co-owner(s), the marketing agent. Attach copies of financial reports beginning with 1999.

      - How did TNC report its distributable share of losses from this program or entity on its Form 990 or 990T for the years beginning in 1999?

The Nature Conservancy

3. Nature Serve (Formerly the Association for Biodiversity Information) (ABI):

    a. Please provide a copy of the July 1, 1999, agreement between ABI and TNC, and any subsequent amendments thereto.
    b. Please provide a copy of ABI's governing instruments and organizational documents, and amendments thereto.
    c. Please provide a copy of ABI's determination letter.
    d. Did TNC report its fee income from its ABI agreement dated July 1, 1999, as unrelated business income? If not, why not?
    e. Please provide a copy of the TNC line of credit arrangement with ABI (see note 2 of the 2000 financial statements).
    f. Explain how TNC's agreement with ABI substantially furthers TNC's exempt purposes.
    g. What was the purpose of TNC's contributions to ABI in the annual amounts of $966,264; $5,395,311; and $4,690,800 for 1999, 2000, and 2001, respectively?
    h. Why did the organization respond to Questions 84a and 84b as "N/A" in its Forms 990s (regarding soliciting contributions)?
    i. Describe any affiliations with the independent contractors listed on Schedule A of Form 990, and specific information regarding the nature of services rendered by the contractors.
    j. Why did the number of employees increase from 4 in 1999 to 91 in 2000?
    k. Explain why the data base service fees received in 2000 ($75,488) and 2001 ($168,191) are not unrelated business income to ABI? NOTE: Required explanation was not provided on Form 990, Part VIII Schedule for 2000 or 2001.
    l. Provide a copy of the organization's financial statement for 2002.

4. Eastern Shore Enterprises, LLC

    a. Certain persons other than TNC received profits or capital interests in Eastern Shore Enterprises LLC. Describe the terms and conditions under which the following persons received LLC interests, and explain whether such persons were treated by the LLC as having received a partnership capital or profits interest other than in a tax-free transaction: Suzanne Wescoat; Franny Parr & Muha.
    b. Did any other persons ever hold interests in the LLC?
    c. Please provide copies of any agreements relating to the acquisition by Franny, Parr and Muha, and Suzanne Wescoat of LLC interests.
    d. Please provide corrected partnership profit, loss, and capital percentage information for 1999 (K-1s total to more than 100% capital interests).
    e. Provide detail of "other deductions" for each of 2000 through 2002; there is no breakdown in the return.

f. Describe the relationship between Eastern Shore Enterprises LLC and Virginia Eastern Shore Sustainable Development Corporation, beginning with the LLC's formation.
g. Did any members other than TNC ever make capital contributions to the LLC?

5. Virginia Eastern Shore Sustainable Development Corporation (VESC)

a. Who were the eight shareholders of VESC, and what were their respective holdings at all times they were shareholders? Who was offered an opportunity to participate as a shareholder of VESC?
b. Please provide copies all shareholder agreements, subscription agreements, and organizational instruments, including amendments thereto.
c. Who provided shareholder capital to the corporation and at what times and amounts?
d. Please provide copies of the loan documents pertaining to the corporation's long-term debt, and describe the organization's relationships with the following lenders, The Ford Foundation, the Mary Flagler Cary Charitable Trust, and the Lincoln-Lane Foundation.
e. Please provide copies of any royalty agreements pursuant to which the organization incurred royalty expenses.
f. Please provide copies of Forms 1120 for 1995 through 1997.
g. Please provide a copy of any notes receivable from TNC as obligor, to the corporation, as holder (e.g., $80,000 relating to the Mill Creek Farm land transaction). Confirm all debt owed by TNC was paid on or before the corporation's liquidation in late 1999 and early 2000.
h. Describe the corporation's "investment in Waterside Capital" in the amount of $50,000. Describe any relationship between TNC or VESC and Waterside Capital and its principals.
i. Please provide a list of shareholder capital contributions by date, shareholder, and amount, from 1995 through 1999. Describe any corresponding changes in shareholder ownership percentages.
j. The 1999 Form 1120 reports debt forgiveness income of $798,775. Who held the debt, and describe the negotiations that took place to ultimately cancel the debt without repayment.
k. Describe the corporation's investments in real estate.
l. State which shareholders were Class A and Class B shareholders. Describe the differences in rights and obligations between the two classes.
m. What was TNC's role in organizing the corporation?
n. Please provide a copy of the corporation's Board resolution dated October 1999 to liquidate the company.

6. Adirondack Land Trust (ALT)

a. Please provide a copy of the Memorandum of Understanding dated October 3, 1988, between TNC and ALT, and any amendments thereto. Why did TNC enter into this arrangement, and why does it continue to be involved in this relationship?
b. Why are all ALT employees also employees of TNC?

7. STN/TNC LLC (STM)

a. Describe the purposes and activities of STM from its inception in 1993 through the present.
b. STM has two members: TNC (34.6762%), and Sumner T. McKnight Foundation (65.3238%). What is the relationship between TNC and the McKnight Foundation?
c. Explain STM's relationship to the Virginia East Coast Sustainable Development Corporation or its projects.

8. The Forest Bank, LLC

a. Please provide a copy of the LLC's Board resolution authorizing liquidation of the LLC, and information regarding the payment of liabilities and the distribution of the LLC's assets upon liquidation.
b. Please provide a copy of the SEC registration materials pertaining to registration of the LLC's membership interests with the SEC.
c. Please provide a copy of the organization's organizational documents and governing instruments, including amendments thereto.
d. Please provide a copy of any subscription agreements or materials pertaining to the LLC membership interests.
e. Why was the LLC organized in 2001?
f. Why was the LLC liquidated in November 2002?
g. Please provide a description of the LLC's legal expenses of $186,272.88 in 2001.
h. The 2001 Form K-1 lists TNC as the 100% owner. Why did TNC and the LLC take the position that this was a partnership for Federal income tax purposes, rather than an association taxable as a corporation or a disregarded entity?

9. Please provide a list of lawyers, accountants, and other outside counsel who have provided tax opinions or other tax advice to TNC with respect to the tax consequences to TNC or other parties regarding TNC's relationships with, and activities conducted by, TNC's related organizations; please provide a copy of such opinions or written advice.

VIII. Travel, Conferences, Meetings, and Other
XIV. Transactions with Board Members

1. Discuss in detail all the land and service transactions between TNC and Georgia Pacific Corp., International Paper Co., and Orvis Services Co., or their subsidiaries, while an executive of these companies sat on TNC's Board of Governors or Leadership Council. In discussing your answer, include the following:
    a. Identify the period that the executive of each company sat on the TNC Board of Governors or Leadership Council.
    b. Identify each particular transaction with each company in a gross amount of over $200,000.
    c. State whether TNC realized a gain or a loss on each transaction with such companies identified in your answer to the preceding question.
    d. Describe TNC's Leadership Council and discuss its official function with TNC.

2. Identify similar large transactions with other corporations having an executive serving of TNC's Board of Governors at the time of the transaction, beginning in 1998 to the present.

3. Please provide a list of lawyers, accountants and other outside counsel who have provided tax opinions or other tax advice (including opinions or advice regarding compliance with relevant conflicts of interests requirements) to TNC with respect to the consequences to TNC or other parties regarding transactions between TNC and its board members, trustees, officers, executives or local chapter officials; please provide a copy of such opinions or written advice.

XV. Conservation – Texas Oil and Gas Drilling
XVI. Litigation
XVII. Grants
XVIII. Cash Donations Greater than $50,000: Individual donors from whom TNC has purchased land or interests in land, from FY 98 through FY 2002

Has TNC ever entered into agreements with donors that provided TNC will indemnify or reimburse the donor for lost tax benefits from the loss or reduction of the charitable contribution deduction claimed by the donor? If so, please provide a copy of each such agreement.

New Questions:

The following questions are new questions generated by the Finance Committee investigation of TNC to date.

I. Functionally Related Revenue

1. List each specific and separate activity or program that generates program service revenue under the broad heading "Activity Fees," "Contract Fees," and "Fees and

Contracts from Government Agencies." (from statement 23 attached to TNC's Form 990 for 2000 and 2001). Then, as to each item, explain in detail why such revenue is characterized as "Related or exempt function income." Include in your answer a description of the types of services provided by TNC to other parties. Explain how TNC complies with the instructions to Form 990 for completion of Part VII and Part VIII of its Form 990 for 2001 and earlier years in that statement 23 failed to provide detail for each specific type of revenue received and failed to itemize the specific types of revenue. See 990 instructions, the example under Part VIII, page 32.

2. Please provide a list of lawyers, accountants and other outside counsel who have provided tax opinions or other tax advice to TNC with respect to the tax consequences to TNC or other parties regarding the activities described in the immediately preceding question (whether with respect to actual or hypothetical transactions); please provide a copy of such opinions or written advice.

3. Discuss whether for-profit businesses engage in some of the same activities as described in response to the preceding question 4. In particular, address your answer to activities under 93b and 93g of statement 23 attached to Form 990 for 2001.

II. Other Questions Regarding Revenues, Expenses and Form 990 Reported Items

1. The fiscal years 1992 through 1994 report no revenues from government contracts. Please explain what happened in 1995 that caused TNC to begin reporting government contract revenues.
2. Explain the Form 990 (2001) Statement 24 explanation regarding Cisco Systems, Inc./Mr. Morgridge transactions, and how the arrangement resulted in a 76% discount to TNC.
3. Explain TNC's arrangement with General Motors described in the Form 990 (2001) Statement 24, p. 2 of 2, regarding the greenhouse gas mitigation offsets. Please provide a copy of TNC's agreement with General Motors.
4. Please describe the "insurance proceeds" revenues reported as other revenues on Form 990, Part VII, line 103, and the basis for exclusion from UBI.
5. Please demonstrate how the tax-exempt bond financings reported on Statement 15 comply, and have at all times complied, with the Federal tax-exempt bond laws.
6. Provide a description of the contribution of the conservation easement by SMI to TNC that is reported on Schedule 24, Form 990 (2000), with regard to Mr. Ian Cumming.

III. Excess Benefit Transaction Issues

1. You stated in your answer to question 8 of our prior letter that the Board of Governors approves the compensation recommendation for the President/CEO in

the January meeting. Since the compensation is effective for January 1, the compensation arrangement is not approved "in advance" (Reg. 53.4958-6T(a)(1)). Please comment. Attach copies of the minutes of January Board of Governors meetings approving the compensation of the President/CEO for the prior three years.

2. Were any loans made to any TNC officers, employees, or members of the Board of Governors treated as an economic benefit to the recipient as consideration for the performance of services where TNC clearly indicated its intent to treat the benefit as compensation within the meaning of section 53.4958-4T(c) of the regulations? If so, please discuss in detail and provide supporting documents.

3. In connection with your response to question 4 of our prior letter, state the title and salary of Graham Chisholm and indicate your view as to whether he is treated as a "disqualified person" within the meaning of section 53.4958-3T of the regulations. Provide a narrative discussion of the details of the shared appreciation note and attach a copy. Indicate the value of the property on purchase and attach a copy of the appraisal. Provide the employment contract and correspondence and other communications or memos describing his salary and job description.

4. TNC's Internal Auditors Report as of November 30, 2001, with a release date of February 27, 2002 ("Report"), discusses, on page 4, two independent contractors who may be more appropriately treated as employees of TNC. The Report further indicated that one of the contractors received payments from TNC over 11 months totaling $350,000 and that the contractor, if deemed an "employee" by the IRS would qualify as an "insider" by virtue of her position with TNC. (a) Identify the person; (b) state how long she has been associated with TNC and whether she continues to be associated with TNC as a contractor or employee; (c) indicate the period during which she served as a "contractor" with TNC; (d) state the amount of payments made to her over this period; (e) describe her duties, responsibilities and obligations to TNC in detail under the "contract" with TNC; (e) attach a copy of the contract(s) between her and TNC; and (f) attach all correspondence and other communication or memos relating to her relationship to TNC as a contractor or as an employee, including letters relating to her continued retention with TNC as either an employee or contractor as well as her termination.

5. a. Further, with respect to the "Report" described in the preceding question, comment on the assertions in the Report that, if deemed as an employee, she would qualify as an "insider" and her compensation could be viewed as excessive, thus possibly violating intermediate sanctions rules. b. Rev. Rul. 87-41, 1987-1 C.B. 296, provides a discussion of the employee – independent contractor issue. The Ruling lists 20 factors to be taken into consideration. Discuss each factor in connection with the "contactor" that is the subject of the preceding question. In addition to or as part of your answer to the preceding questions, please address the following: It is our understanding that she performed her work at TNC's

headquarters in Arlington, Virginia. Further, it is our understanding that her activities on behalf of TNC included hiring and supervising employees. It is our understanding that she not only had a long-term relationship with TNC as a contractor but she also had previously been an employee of TNC. Please comment and discuss in detail. c. Please provide all information in TNC's possession regarding this audit particularly in regards to filings with the IRS. d. Please explain in detail what actions TNC's board took in response to this audit. e. Please explain the employment history of this individual. Specifically, the timing and amount of payments made to this individual either directly or indirectly after the audit.

6. Submit a copy of the promissory note and mortgage signed by Mr. McCormick with respect to the loan to him by TNC dated May 22, 2002.

7. Did Mr. McCormick report the TNC loan to him as income on his Form 1040 prior to the commencement of an IRS examination of TNC?

8. Please provide a list of lawyers, accountants, and other outside counsel who have provided tax opinions or other tax advice to TNC with respect to the tax consequences to TNC or other parties regarding private benefit, private inurement, or excess benefit transaction tax issues (whether with respect to actual or hypothetical transactions); please provide a copy of such opinions or written advice.

Thank you for your time and assistance on this matter. If you have any questions, please contact Mr. Dean Zerbe at (202) 224-5315 or Mr. Jon Selib at (202) 224-4515. We would ask that the answers be provided in thirty days.

Cordially yours,

Charles E. Grassley
Chairman

Max Baucus
Ranking Member

Mercado Climate Action Project, and a copy of related transactional documents. We understand that $9.6 million reportedly was invested in that deal by the various partners, and that E. Linn Draper, Chairman, President and CEO of AEP, was elected to serve on the TNC Board in October 1999.

- Do you have emissions credit arrangements with entities or persons other than GM or AEP? If so, please describe them and provide relevant documentation.

13. Please confirm the IRS has never conducted an examination or audit prior to the ongoing examination announced in December 2002.

14. Please provide any private letter rulings or other written advice sought or obtained by TNC from the IRS with respect to its CBP.

15. Please confirm whether TNC has provided a letter to the IRS notifying the IRS of any material changes in TNC's character, purposes, or methods of operation, since June 30, 1992 (the end of TNC's 1991 fiscal year). If TNC has provided any such letters to the IRS, please provide us a copy of such letters and any responses from the IRS.

16. Please provide any documentation in your possession regarding TNC's transactions with John P. Morgridge, the Morgridge Foundation, and Cisco Systems that relate to the Cisco Systems transactions that were described in TNC's Form 990 filings for 1998 through 2001.

17. Please provide an aggregate trade lands account reconciliation from 6/30/97 to 6/30/2003 (beginning account balance, book value of trade lands acquired, gains on trade lands, losses on trade lands, etc., ending balance). Confirm whether any writedowns in value to reflect lower of cost or value were made for trade land holdings during this period.

18. Conservation Beef, LLC (CBL) structure.

- Did CBL enter into a joint venture agreement, management agreement, or similar arrangement with PM Holdings LLC (PMHL) or another for-profit party with respect to the Conservation Beef project?[1] If so, please (a) provide a copy of the executed agreement, and (b) describe the arrangement between CBL and PM Holdings, including specifically the economic sharing arrangement and roles and responsibilities of the parties.
- How did TNC limit the development rights of ranchers who participated in the Conservation Beef program?
- Please provide a description of the Sun Ranch easement referred to in the April 19, 2004, CBL withdrawal agreement

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[1] The form of agreement provided by TNC in its April 5, 2004, between CBL and PMHL was not signed.

- Provide a description of the land stewardship plans that CBL engaged in with respect to CBL ranchers' properties

19. Has TNC adopted a revised Conflicts of Interest Policy after that policy which was revised on October 2, 2002?

20. Many of the most serious Federal tax issues involving an exempt organization can arise when the exempt organization participates in a joint venture arrangement in which it does not own a controlling interest in the venture. Under TNC's recently adopted policies regarding related organizations and significant business holdings, approval of such ventures seems to rest with the President of TNC, rather than with the TNC Board of Governors. Is that a correct understanding, and if so, why is Board approval not required in such instances?

21. Please explain how the revised TNC policies regarding related organizations and significant business interests would apply to arrangements such as the GM-TNC emissions arrangement?

22.Why did TNC report between 19 and 21 corporate subsidiaries on a consolidated basis for its fiscal years 1992 through 1999, and then discontinue such consolidated reporting in its fiscal year 2000 Form 990? Did such entities constitute title holding corporations described within section 501(c)(2) that were includible corporations within section 1504(e)?

23. Please provide a copy of Form 990 and 990-T for fiscal year ended June 30, 2003.

24. Please clarify that TNC's response to Item XIV, Question 3, means that to the best of TNC's knowledge there were no legal opinions (tax or otherwise) regarding conflicts of interest issues provided to TNC with respect to the consequences to TNC or other parties regarding transactions between TNC and its board members, trustees, officers, executives or local chapter officials, and including organizations affiliated with any of such persons. Please explain whether TNC's conflicts of interest policy was reviewed by outside legal counsel.

25. Insider deals - Please provide documentation to demonstrate that the transactions reported on the Forms 990 as transactions with Board members (or affiliates of Board members) were approved consistent with TNC's internal conflicts of interest policy, and with any other relevant internal TNC policies.

26. Questions regarding Martha's Vineyard

- Why did the Wallaces make an $18.5 million cash contribution to be used by TNC to pay purchase price back to the Wallaces, instead of selling the property to TNC for a bargain sale price of $18.5 million less than the property's value?
- Why did TNC pay $14 million to HCAC directly, rather than to the Wallaces to be used by the Wallaces to pay HCAC?

We appreciate The Nature Conservancy's continued cooperation and assistance in these matters. We would ask that you provide your response as quickly as accuracy permits.

Cordially yours,

Charles E. Grassley
Chairman

Max Baucus
Ranking Member

CHARLES E. GRASSLEY, IOWA, CHAIRMAN

ORRIN G. HATCH, UTAH
TRENT LOTT, MISSISSIPPI
OLYMPIA J. SNOWE, MAINE
JON KYL, ARIZONA
CRAIG THOMAS, WYOMING
RICK SANTORUM, PENNSYLVANIA
BILL FRIST, TENNESSEE
GORDON SMITH, OREGON
BUNNING, KENTUCKY
CRAPO, IDAHO

MAX BAUCUS, MONTANA
JOHN D. ROCKEFELLER IV, WEST VIRGINIA
KENT CONRAD, NORTH DAKOTA
JAMES M. JEFFORDS (I), VERMONT
JEFF BINGAMAN, NEW MEXICO
JOHN F. KERRY, MASSACHUSETTS
BLANCHE L. LINCOLN, ARKANSAS
RON WYDEN, OREGON
CHARLES E. SCHUMER, NEW YORK

KOLAN DAVIS, STAFF DIRECTOR AND CHIEF COUNSEL
RUSSELL SULLIVAN, DEMOCRATIC STAFF DIRECTOR

United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510–6200

April 21, 2005

Mr. Steven J. McCormick
President and Chief Executive Officer
The Nature Conservancy
4245 N. Fairfax Dr., Suite 100
Arlington, VA 22203

Dear Mr. McCormick:

As the Finance Committee seeks to complete its investigation of The Nature Conservancy (TNC), we would request TNC's response to the questions below. In addition, at our recent hearing on reforms of charitable giving and charitable governance, comments were made about the current state of affairs at The Nature Conservancy. While the Finance Committee's review has been focused on past practice, the comments have raised concerns that need to be addressed.

In that light, please provide the following:

1. For all conservation buyer transactions since the announcement of The Nature Conservancy's reforms of the program, on June 13, 2003, as well as the Block Island, Rhode Island project, please provide the following: the description and location of the relevant property, the dates of TNC's purchase and sale of the land; TNC's purchase price and its sale price for the parcel of land; the terms of the easement or other property limitation imposed on the property by TNC; if an easement or limitation is imposed please state whether that is for the protection of a natural habitat (and if so, please provide the justification and analysis) or for the preservation of open space (and if so, again please provide the justification and analysis supporting); the individual or entity that sold the property to TNC (and any relation to TNC) ; the individual or entity that bought the property from TNC (and any relation to TNC); what charitable contributions were made by the purchaser (or related party) to TNC; all documentation that has been provided or created by TNC under the new policy as to charitable gifts associated with the conservation buyer transaction; all appraisals of the property; any analysis in the possession or control of TNC regarding the tax treatment of the sale, purchase or donation; clearly define whether the easement is for open space, protection of natural habitat or other and the analysis that supports this designation; and, IRS Form 8283 and Form 8282. For the Block Island project, please provide all details about this project and specifically the relationship of any TNC staff, officers, directors or related parties to the land involved (not limited to just conservation buyer programs).

2. Regarding the current list of conservation buyer program properties listed on your website (available at "http://nature.org/conservationbuyer/") please provide a narrative description of the efforts TNC is making to market these properties to the general public. Of the properties on this list, how many (and which ones, if any) were acquired from persons or entities with which TNC had or has a relationship of some sort (e.g., State or local trustee, financial contract).

3. Please provide estimates of the amounts or values of cash or inkind contributions that have been made to TNC's conservation buyer fund since it was established, and state when it was established.

4. Please provide an estimate of the number of section 1031 like-kind exchanges that TNC has been a party to that have involved conservation buyer program properties in the last five years. We are seeking only those exchanges of which TNC has knowledge – and not asking the TNC to contact buyers to determine whether they were involved in a 1031 like-kind exchange.

5. Please provide information regarding whether TNC ever entered into any property acquisitions or dispositions for which Colorado conservation tax credits were claimed by a party to the transaction. Specifically, did TNC execute or participant in transactions in accordance with the opinions of May 23, 2002 and September 27, 2002 from Isaacson, Rosenbaum, Woods & Levy on the Colorado conservation tax credit. If so, please provide all the information for each transaction as was requested above in question 1 for the conservation buyer program.

6. Please provide a list of transactions or arrangements which have been brought before or reviewed by the relevant governing body (board or committee) pursuant to the governance, practice and policy reforms since they were implemented by TNC in 2003 and 2004. Also, please provide copies of all documentation regarding the review of such matters, and state whether the transaction or arrangement was approved, approved with conditions, deferred for further consideration or disapproved.

7. Please provide an estimate of the breakdown (based on aggregate dollar amounts per year, if available, or for the entire period) between conservation easements, trade lands, contributions of conservation properties (entire interests), contributions of publicly traded securities (stocks, bonds, mutual fund), contributions of tangible personal property and other types of in-kind property contributed to TNC during current and prior four fiscal years (or calendar years if more convenient for TNC).

8. Please provide a list of the donor advised funds that TNC has established over the past three years, including the name of the donor, the dates and amounts of the contributions to the fund, the type of property contributed, the relationship (if any) the donor has with TNC, the type of investment the fund has entered into, and the present account balance of the fund overall and for each individual. Also describe whether any of the individual fund balances have been used

for expenditures relating to donor review of the grants from the fund or investment of the fund balances. Please provide an estimate of the current aggregate donor advised fund balances that have been established by TNC. Please provide all policies of TNC in managing the donor advised fund.

9. Please provide an estimate of the aggregate dollar value and number of transactions, for which TNC has received conservation easements or other conservation restrictions for which donors expected or intended to claim a charitable deduction as a qualified conservation contribution under Code section 170(h), for each of the last three years, including a breakdown for each year based on the predominant conservation purpose: outdoor recreation by or education of the general public, protection of natural habitat, or preservation of open space.

10. Please explain the process pursuant to which TNC became involved in the various emissions credit or allowance arrangements. Did TNC approach the financial participants, was TNC approached by the financial participants, or were these arrangements structured and marketed by third parties such as law firms, accounting firms, or consultants. Please describe this process with respect to each of the eight arrangements you have reported to the Committee. Also, please explain how the approximately $35 million of financial commitments made by the various financial participants in the emissions arrangements was reported by TNC on its Forms 990 (contributions, program service revenue, other). Has TNC completed, or is TNC involved in negotiations involving, any other emissions credit or allowance arrangements not previously reported to the Committee?

11. Please describe the activities used by TNC to solicit contributions of trade land properties, as well as the activities TNC conducts (directly or through its agents) to develop or sell such properties. Please provide a breakdown (based on approximate dollar amounts of sales or number of sales transactions) of commercial office buildings, personal residences, and other types of trade land properties. Please provide a list of trade land properties currently held by TNC with an appraised value exceeding $100,000 and information regarding the date of acquisition by TNC, the type of property, and current asking price by TNC, with respect to such properties.

12. Martha's Vineyard: Please provide information regarding ownership of the following entities or parties to the transactions, including any changes in such ownership during contractual negotiations, as of the dates they were involved in the Martha's Vineyard transaction:

- owners of Windsor Capital Corporation
- owners of Herring Creek Acquisition Company, LLC
- owners of Real Estate Equity Limited Partnership
- owners or beneficiaries of the Herring Creek Farm Trust

13. As a follow-up to an earlier question in the March 3, 2004 letter (III. Excess Benefit Transaction Issues, Question 4) where the Finance Committee requested information about a TNC Internal Auditor Report, please provide the actual detailed receipts and related material of

every reimbursement provided to the contractor.

14. It is our understanding that TNC has (or had) several federal government contracts that require a match from TNC. Information provided recently to the Finance committee indicates that TNC may have included as part of its match the value of TNC paid employees who are working overtime. Please indicate for the last five years the amount of match that has been claimed in part, or in whole, with the overtime of TNC paid employees for a federal contract or grant; the specific federal contracts or grants for which this match has been claimed; and, the terms of the contract or grant of what is allowed to count as a match. For those contracts or grants requiring a federal match, please provide a breakdown of what constituted the match amount from TNC and all information provided by TNC to the relevant federal agency justifying/supporting the match. Finally, please provide any policy statements by TNC regarding the use of overtime of TNC paid employees for meeting a federal match.

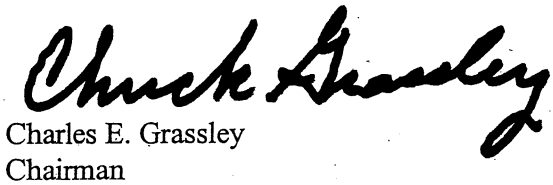
15. Please provide your estimate of the number of TNC employees (on a full-time equivalent basis) who were responsible for analyzing and reviewing Federal income tax issues pertaining to TNC's Form 990 and Form 990-T filing responsibilities for each of the last five fiscal years.

16. Please explain the process used by TNC to determine whether it characterizes an activity as an unrelated trade or business activity for Federal income tax reporting purposes. Does this process involve input from local or State chapters as well as a review by company headquarters' employees. Please provide any legal or accounting analysis from the last five years, either internal or external, that was prepared for or assisted in deciding whether or not to characterize an activity as an unrelated trade or business activity for Federal income tax reporting purposes.

17. Is there any additional information that TNC wishes to provide at this time to supplement or alter any response or information TNC previously provided to the Committee as a part of this investigation?

Thank you for your time and assistance. So that the Finance Committee can conclude its work and in preparation for a hearing on TNC hopefully in late May, we would ask that this information be provided as it is available and no later than May 12, 2005.

Cordially yours,



Charles E. Grassley
Chairman

Max Baucus
Ranking Member

APPENDIX C

TNC LETTERS TO SFC

The Nature Conservancy®
Saving the Last Great Places

Steven J. McCormick
President & Chief Executive Officer

Worldwide Office
4245 North Fairfax Drive
Suite 100
Arlington, Virginia 22203-1606
TEL 703 841-5300
FAX 703 841-8796
nature.org

July 18, 2003

Senator Charles E. Grassley
Chairman
Committee On Finance
United States Senate
219 Dirksen Senate Office Building
Washington, DC 20510-6200

Dear Senator Grassley:

This is to acknowledge receipt of your letter dated July 16, 2003, requesting detailed information regarding questions raised by the recent articles in the *Washington Post*.

We remain committed to working with you and your staff in an expeditious and cooperative manner. Karen Berky, Director of Government Relations of The Nature Conservancy, will be our point of contact to work with your staff on this matter. Karen Berky can be reached at (703) 841-4834.

Please let me know if you would like to meet with me, or if I personally can answer any questions that you have.

Sincerely yours,

cc: Dean Zerbe

The Nature Conservancy
SAVING THE LAST GREAT PLACES ON EARTH

Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283
nature.org

July 25, 2003

The Honorable Charles E. Grassley
United States Senate
Chairman
Senate Finance Committee
Washington, D.C. 20510-6200

By Hand

Dear Senator Grassley:

Pursuant to the Senate Finance Committee's request of July 16, 2003, I am pleased to forward the first group of documents for the Committee's review. As requested by the Committee, we will continue to produce additional documents for review as they are retrieved and assembled. Also, for the Committee's information, I have enclosed general background information regarding The Nature Conservancy.

The documents being transmitted today include the following materials:

Question 1 Conservation Buyer Program

A. Blank chart setting forth requests, by fields.
B. TNC Narrative Re: Conservation Buyer Program.
C. TNC Narrative Re: Legal Documentation of Conservation Buyer Program.

Question 2 Government

A. TNC Consolidated Financial Statements, Footnote 14. Cooperative Projects With Governmental Agencies and Other Conservation Organizations. FY 98 – 02.

Question 3 Trade Land

A. TNC Narrative Re: Trade Land Program.

Question 4 Loans

A. Chart: The Nature Conservancy Employee Loans 1993-2003.
B. TNC 990 Tax Return Statement 26B, Part IV – Other Notes and Loans Receivable FY 98-02.

C. Settlement Agreement (HUD) Steve McCormick Refinance, McLean, Va. Property, dated 4/21/03.
D. TNC Narrative Re: Interest Rate on Mr. McCormick's loan (with attachment).

Question 5 Internal Reports, Audits and Studies

A. List of External Audit Partners FY 98-02.
B. Index of External Audits FY 98-02.
C. External Auditor Reports FY98-02 (41 documents).

Question 6 Easements

A. Background on communications/marketing contact calls – prepared 7/21/03.
B. Jordan Peavey Email Re: notice of 12/4 conference call.
C. Jordan Peavey Email Re: 12/4 conference call with her attached notes of call.
D. Martha Sims Email Re: 12/4 conference call with Chandra Gordon's attached notes of call.
E. TNC Narrative Re: Conservation Easements.

Question 7 Board Membership and Organization

A. Board of Governors List 2002-2003.
B. The Nature Conservancy's By Laws.
C. TNC Organizational Chart.
D. TNC Board of Governor Officers 2002-2003.

Question 8 Executive Compensation

A. TNC Forms 990, FY93-02.
B. Narrative Re: Executive Compensation and Employee Contracts.
C. Executive compensation portion of the executive session of Board of Governors (presentations in 2001 and 2002) and subsequent letter from the Chairman of the Board of Governors.
D. Employment letters and/or notices for 27 employees listed in Form 990, FY 98-02.
E. Narrative re: TNC deferred compensation plan.
F. Executive Vice President Deferred Compensation Plan (Executive Summary, Q&A, and Participant's Initial Election Form).

Question 9 President's Discretionary Fund

A. TNC Narrative Re: President's Discretionary Fund.
B. Income Statements, President's Discretionary Fund, FY 98-02.

Question 11 Valuation

A. TNC Narrative Re: Valuation of Land and Easements.

Question 12 Related Organizations

A. TNC's Form 990T for FY99-02. Note: no Form 990T filed in FY98.

Question 14 Transactions with Board Members

A. TNC Narrative Re: Transaction With Board Members.
B. TNC Conflict of Interest Policy.
C. TNC Policy on Conservation Sales To or From Related Parties.

Question 16 Litigation

A. Litigation Chart 1/1/98 to present.

General Information Regarding TNC

A. TNC Narrative Re: The Board of Governors and Role of the Trustees.
B. Conflict of Interest Policy.
C. Conservation By Design.
D. The Field Guide to TNC: An Insider's Handbook to Places and Projects around the World.
E. Ecoregional Conservation brochure.
F. TNC Annual Reports 1998-2002.
G. TNC State Chapter newsletters and brochure (representative sample) from Florida, Maine, Michigan, Minnesota, and Utah.
H. Brochures of TNC Freshwater Initiative, Marine Initiative, Invasives Initiative, and Global Climate Change Initiative.
I. TNC magazines – Fall 2002, Winter 2002, Spring 2003, Summer 2003.

Please let me know if you have any questions.

Sincerely yours,

Karen S. Berky

Karen S. Berky
Director, Government Relations

Cc: Dean Zerbe (without attachments)
Andrea Cohen (without attachments)

The Nature Conservancy
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Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283
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July 31, 2003

The Honorable Charles E. Grassley
United States Senate
Chairman
Senate Finance Committee
Washington, D.C. 20510-6200

By Hand

Dear Senator Grassley:

Pursuant to the Senate Finance Committee's request of July 16, 2003, I am pleased to forward the second group of documents for the Committee's review. As requested by the Committee, we will continue to produce additional documents for review as they are retrieved and assembled.

The documents being transmitted today include the following materials:

Question 1: Conservation Buyer Program

A. Blank Template Re: Conservation Buyer Program. The template reflects fields that can be filled in from databases, fields that must be filled in manually based on looking at project files, and estimated number of transactions and files covered by this request.
B. Requested Documentation Re: 19 Conservation Buyer Transactions Involving "Covered Persons" (Employees, Board of Governors, Chapter Trustees, and related organization and close relatives) as defined by The Nature Conservancy's Conflict of Interest Policy.
C. Documents Re: Transaction with Mr. Jerry Jung.
D. Documents Re: Transaction with Mr. and Mrs. James Dougherty.

Question 2: Government

A. Blank Template Re: All Interests in Land Sold or Exchanged (FY98-02) to local, state, and federal government entities. The template reflects fields that can be filled in from databases, fields that must be filled in manually based on looking at project files, and estimated number of transactions and files covered by this request.
B. Schedule of Land Sold and Donated to Governmental Agencies and Other Conservation Organizations FY 98-00 (do not have separate audits for FY 01 and 02).
C. TNC Narrative Re: Government Grants and Contracts.

D. National Park Foundation, National Forest Foundation, and National Fish and Wildlife Foundation Grants and Contracts with The Nature Conservancy 7/1/97 – 6/30/02.
E. State and Local Government Agency Awards (State and Local Funds) to The Nature Conservancy 7/1/97 – 6/30/02.
F. Federal Government Agency and Pass-Through Agreements with The Nature Conservancy 7/1/97 – 6/30/02.

Question 6: Easements

A. Blank Template Re: Conservation Easement Purchases & Donations. The template reflects fields that can be filled in from databases, fields that must be filled in manually based on looking at project files, and estimated number of transactions and files covered by this request.

Question 7: Board Membership and Organization

A. Board of Governors List FY 98-03.
B. TNC Board of Governor Officers' Biographies.
C. Current List of Trustees.

Question 8: Executive Compensation

A. Employment letters for Steve McCormick.

Question 10: Major Donations/Sales/Exchanges of Land

A. Blank Template Re: Top Ten Gifts for Five Fiscal Years. The template reflects fields that can be filled in from databases, fields that must be filled in manually based on looking at project files, and estimated number of transactions and files covered by this request.

Question 13: Travel, Conferences, Meetings and Other

A. Narrative Re: TNC Travel Expense documentation.
B. Chapter from TNC Financial Management Handbook Re: Travel and Entertainment.
C. TNC's Standard Operating Procedures Re: Travel.
D. Narrative Re: Board of Governors reimbursement for expenses (with chart of expenses).
E. Breakdown of "Other Expenses" listed in the Form 990 for 2002.

Question 15: Conservation

A. Material related to consultation with U.S. Fish and Wildlife Service regarding drilling for oil and gas in Texas.

Question 17: Grants

A. TNC Narrative Re: detailed listing of grants.
B. TNC Grants & Allocations – Listing of Transactions FY 98, 00-02.

Please let me know if you have any questions.

Sincerely yours,

Karen S. Berky

Karen S. Berky
Director, Government Relations

Cc: Dean Zerbe (without attachments)
Andrea Cohen (without attachments)

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Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283

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August 21, 2003

The Honorable Charles E. Grassley
United States Senate
Chairman
Senate Finance Committee
Washington, D.C. 20510-6200

By Hand

Dear Senator Grassley:

Pursuant to the Senate Finance Committee's request of July 16, 2003, I am pleased to forward the third group of documents for the Committee's review. As requested by the Committee, we will continue to produce additional documents for review as they are retrieved and assembled.

The documents being transmitted today include the following materials:

Question 2: Government

A. National Fish and Wildlife Foundation (NFWF) Funding FY 98-02 (Update of NFWF Chart Previously Sent to Committee, 7/31).

Question 3: Trade Land

A. Total Number of Individual and Corporate Trade Land Gifts.
B. Narrative Re: Forms 8282 and 8283.
C. Ten Largest Individual and Corporate Trade Land Gifts FY 98-02.

Question 4: Loans

A. Narrative Re: Treatment of Loans with Below Market Interest Rates to Officers and Employees.
B. Loans to Individuals or For-profit Entities for the Past Ten Years (Excluding Employee Loans).
C. Narrative Re: TNC Loan Approval Process.

Question 6: Easements

A. Notes Collected from the Field Regarding December 4, 2002 Conference Call.

Question 7: Board Membership and Organization

A. TNC Trustees FY 99-03.

Question 8: Executive Compensation

A. Narrative Re: Minutes of Compensation Committee (with attachments).

Question 9: President's Discretionary Fund

A. Spreadsheet of Budget Centers that Received Funds from the President's Discretionary Fund, FY 98-02.

Question 13: Travel, Conferences, Meetings and Other

A. Travel Expense Reports for Members of the Board of Governors (Al Berkeley, Joel Cohen, John Fitzpatrick, Frances James, William Murdoch and Joy Zedler); Executive Leadership Team (Mike Andrews, Mike Coda, Mike Dennis, Jean-Louis Ecochard, Joy Grant, Steve Howell, Stephanie Meeks, Rebecca Patton, and Darryl Varnado) and Steve McCormick.

Question 17: Grants

A. TNC Grants & Allocations – Listing of Transactions FY 99.

Related Organizations and Entities (Portions of Questions 5, 7, 12 and 16)

A. Table of Current Related Organizations and Entities with Referenced Documents.
B. Table of Related Organizations and Entities FY 98-02 with Referenced Documents.

Please let me know if you have any questions.

Sincerely yours,

Karen S. Berky

Karen S. Berky
Director, Government Relations

Cc: Dean Zerbe (without attachments)
Andrea Cohen (without attachments)

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Arlington, VA 22203-1606

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August 26, 2003

The Honorable Charles E. Grassley
United States Senate
Chairman
Senate Finance Committee
Washington, D.C. 20510-6200

By Hand

Dear Senator Grassley:

Pursuant to the Senate Finance Committee's request of July 16, 2003, I am pleased to forward the fourth group of documents for the Committee's review. As requested by the Committee, we will continue to produce additional documents for review as they are retrieved and assembled.

The documents being transmitted today include the following materials:

Question 1: Conservation Buyer Program

A. Chart Re: 150 Conservation Buyer Transactions.
B. Documentation Re: 150 Conservation Buyer Transactions.
C. Narrative Re: Transaction with the Wallace Family.
D. Documents Re: Transaction with the Wallace Family.

Question 7: Board Membership and Organization

A. TNC Staff Who Serve On Government Boards That Make Grants or Award Contracts > $10,000/ year.

Question 10: Major Donations/ Sales/ Exchanges of Land

A. Chart Re: Top Ten Gifts for FY 98-02.
B. Documentation Re: Top Ten Gifts for FY 98-02.

Question 14: Transaction with Board Members

A. Narrative Re: Transactions with Board Members.
B. Spreadsheet of Transactions.
C. Documentation Re: Transactions.

Question 18: Cash Donations

A. Narrative Re: $50,000+ Donors—Corporations and Foundations FY 98-02.
B. Chart of $50,000+ Corporate Donors.
C. Chart of $50,000+ Foundation Donors.

Please let me know if you have any questions.

Sincerely yours,

Karen S. Berky

Karen S. Berky
Director, Government Relations

Cc: Dean Zerbe (without attachments)
Andrea Cohen (without attachments)

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Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283

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August 28, 2003

The Honorable Charles E. Grassley
United States Senate
Chairman
Senate Finance Committee
Washington, D.C. 20510-6200

By Hand

Dear Senator Grassley:

Pursuant to the Senate Finance Committee's request of July 16, 2003, I am pleased to forward the following document for the Committee's review. As requested by the Committee, we will continue to produce additional documents for review as they are retrieved and assembled.

The document being transmitted today includes the following materials:

Question 7: Board Membership and Organization

A. Updated TNC Board of Governor Officers' Biographies.

Please let me know if you have any questions.

Sincerely yours,

Karen Berky

Karen S. Berky
Director, Government Relations

Cc: Dean Zerbe (without attachments)
Andrea Cohen (without attachments)

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Steven J. McCormick
President & Chief Executive Officer

Worldwide Office
4245 North Fairfax Drive
Suite 100
Arlington, Virginia 22203-1606
TEL 703 841-5300
FAX 703 841-8796
nature.org

November 14, 2003

The Honorable Charles E. Grassley
The Honorable Max Baucus
United States Senate
Senate Finance Committee
Washington, DC 20510-6200

Dear Senators Grassley and Baucus:

This will acknowledge receipt of your letter dated November 4, 2003, concerning the Committee on Finance's inquiry into certain matters involving The Nature Conservancy. As you know, we have cooperated voluntarily and fully with the Committee and its staff throughout the inquiry and we will continue to do so. We were pleased to be able to complete a substantial portion of the Committee's document production and information request by the end of August, and are eager to produce the remaining documents requested by the Committee in its July 16, 2003 letter by Tuesday, November 18, 2003.

In cooperating with the Committee, we have been obligated to take into account the contractual commitments to which the Conservancy is a party and by which it is bound, as well as the privacy rights of individuals. We appreciate that the Committee staff has responded affirmatively to our efforts to accommodate fully the Committee's requests for a broad range of information in a manner that is consistent with the Conservancy's contractual obligations and the privacy rights of individuals.

As we informed your staff on November 3, 2003, we have now completed the process of obtaining the waivers required under the terms of a number of our real estate transactions and have reached agreements with the Committee staff with respect to certain documents and information. These waivers and agreements, when coupled with the assurances with respect to disclosure contained in your November 4 letter (as described below), will allow us to promptly complete on a voluntary basis all pending requests for documents or information covered in your July 16, 2003 letter.

We understand from the Committee staff that the disclosure assurances contained in your letter, which are based on Rule XXIX of the Senate, and the privacy protections embodied in those assurances, will be applicable to every document and other item of information (such as an individual's social security

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number) furnished by the Conservancy to the Committee at any time in response to the Committee's inquiry except where those documents or items of information are otherwise in the public domain. If our understanding of the scope of your disclosure assurances is correct, those assurances will enable the Conservancy to comply with the Committee's pending requests in a manner consistent with our contractual obligations and the privacy rights of others. If, however, our understanding is incorrect, we request that you so advise us. Assuming that our understanding is correct, we will provide the remaining documents requested under your July 16, 2003 letter by Tuesday, November 18, 2003.

To facilitate the Committee's review, we will in all future document productions mark any files that contain non-public information, and are thus within the scope of your disclosure assurances, as "confidential/proprietary." With regard to non-public information previously supplied to the Committee in response to your July 16, 2003 letter, we will promptly arrange a time with Committee staff for Conservancy staff to mark those documents in the same fashion.

Your November 4 letter also asked that we make a public statement to facilitate the Committee's desire to speak with one or more of our current or past employees in connection with your inquiry. As we discussed with Committee staff, the Conservancy continues to be very willing for individuals -- former or current employees or independent contractors -- to provide information to the Committee and to respond to any requests they may receive from the Committee.

So that you understand how seriously I take both this inquiry and your request concerning the Committee's ability to talk to current or former Conservancy staff, let me state clearly that with respect to current or past employees or independent contractors, the Conservancy reaffirms that it will take no action detrimental to the employees or independent contractors if they provide information to the Committee. Moreover, with respect to any former employee with whom the Conservancy has a mutual confidentiality, nondisclosure or similar agreement, the Conservancy will not enforce such agreement to the former employee's detriment if he provides information to the Committee. In order to ensure that the Committee will have access to all relevant information, the Conservancy trusts Committee staff will work with Conservancy staff to ensure that former employees who have non-disclosure agreements with the Conservancy also permit the Conservancy to provide information to the Committee in response to issues raised by the Committee that are covered by such agreements.

In closing, let me emphasize that we take very seriously the issues that have been raised with respect to the Conservancy. As you know, at our Board of Governor's meeting in June, we discussed these issues extensively. As a result of that discussion, we changed several of our policies and procedures and announced that there were certain categories of transactions in which we would no longer participate. We have provided the Committee staff with full documentation of these changes. We have also concluded that these specific remedial steps were not sufficient to ensure that the Conservancy would achieve the goal of serving as a model for responsible and effective governance in the non-profit sector. We have advised the Committee staff that our Board of Governors has enlisted the services of a distinguished panel of qualified and independent individuals who have volunteered to make

recommendations that will enable us to strengthen our governance, accountability and transparency processes as they apply to all of our programs and activities. We will, of course, ensure that the Committee is fully apprised of the panel's recommendations and the Conservancy's response.

Very truly yours,

cc: Dean Zerbe,
Andrea Cohen
Pat Heck

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Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283
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November 18, 2003

The Honorable Charles E. Grassley
United States Senate
Chairman
Senate Finance Committee
Washington, D.C. 20510-6200

By Hand

Dear Senator Grassley:

Pursuant to the Senate Finance Committee's request of July 16, 2003, I am pleased to forward the following documents for the Committee's review. As requested by the Committee, we will continue to produce additional documents for review as they are retrieved and assembled.

The documents being transmitted today include the following materials:

Question 1: Conservation Buyer Program

A. Two Charts Re: Conservation Buyer Transactions (Includes Information Formerly Excluded Due to Confidentiality Agreements).
B. Conservation Buyer Transactions #1-19 (Supplied 7/31) and #1-150 (Supplied 8/26) Forms 8282 and 8283 (unredacted).
C. Documentation Re: Conservation Buyer Transactions #1 (Supplied 7/31) and #18, 19, 20, 21, 22, 92 and 133 (Supplied 8/26) (Information Not Previously Supplied Due to Confidentiality Restrictions).
D. Documentation Re: Transaction with the Wallace Family (Information Not Previously Supplied Due to Confidentiality Restrictions).

Question 2: Government

A. Narrative Re: Transfers to Federal Agencies
B. Chart Re: All Interests in Land Sold, Donated, or Exchanged to Federal Government Agencies $500,000 or Over, FY 98-02.
C. Appraisals and 8282s, 8283s.

Question 3: Trade Lands

A. List of Social Security Numbers from Forms 8282 and 8283.

Question 4: Loans

A. Narrative Re: Loans.

Question 5: Audits

A. Internal Audits FY 98-02.

Question 6: Easements

A. Chart Re: Conservation Easement Purchases and Donations > $1 Million, FY 98-02.

Question 10: Major Donations/ Sales/ Exchanges of Land

A. Chart Re: Top Ten Gifts for FY 98-02 (Includes Information Formerly Excluded Due to Confidentiality Agreements).
B. Top Ten Gifts FY 99 #5, 7, 10l; FY 01 #1; FY 02 #1, 6, 8, 9, 10 (Information Not Previously Supplied Due to Confidentiality Restrictions) Forms 8282 and 8283.

Question 14: Transactions with Board Members

A. Chart Re: Transactions with Board Members
B. Forms 8282 and 8283.

Question 18: Cash Donations

A. Chart Re: Individual Donors (January 1,1998 to Present) ($50,000+) To Whom TNC Has Sold Land or Interests in Land, FY 93-02 (Backup Information Previously Submitted Under Question 1).
B. Chart Re: Individual Donors (January 1,1998 to Present) ($50,000+) From Whom TNC Has Purchased Land or Interests in Land, FY 98-02.
C. Documents Re: Individual Donors (January 1,1998 to Present) ($50,000+) From Whom TNC Has Purchased Land or Interests in Land, FY 98-02 (Same Material Provided as Requested in Question 1).

8283s & 8282s Missing SSNs

A. List of Names From Major Donors and Conservation Buyer Transactions Where There is No SSN Listed on 8283 or 8282.

Please let me know if you have any questions.

Sincerely yours,

Karen Berky

Karen S. Berky
Director, Government Relations

cc: Dean Zerbe (without attachments)
Andrea Cohen (without attachments)
Pat Heck (without attachments)

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Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.8796
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STEVEN J. MCCORMICK
President and Chief Executive Officer

November 25, 2003

The Honorable Charles E. Grassley
United States Senate
Chairman
Senate Finance Committee
Washington, D.C. 20510-6200
By Hand

Dear Senator Grassley:

Since we were first notified by you and Senator Baucus, I have been steadfastly committed to ensuring that The Nature Conservancy cooperate fully with the Committee on Finance in its inquiry into issues related to donations and sales of land involving conservation organizations such as the Conservancy.

Consistent with that commitment, my staff has worked intensively with Committee staff over the past several months to comply with the Committee's information requests in a manner that meets the Committee's objectives. While we had a desire to honor the privacy rights of individuals and the contractual obligations to which the Conservancy is subject, I am gratified that, with the cooperation of the Committee staff, we were able to comply with the outstanding information requests on a voluntary basis.

Also, as I communicated to you in my letter of November 14 I have stated that we will do nothing to impede any current or former staff of The Nature Conservancy from talking with the Committee, or to take any punitive action against them for doing so. In that regard, I waived any rights we might have under any confidentiality agreements with former staff.

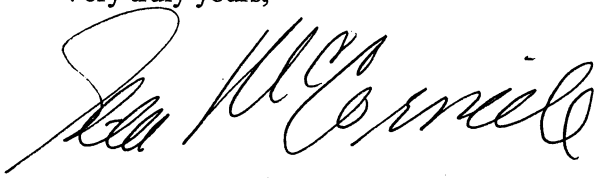
I was, therefore, very dismayed and concerned to learn that one or more unidentified parties have attributed to me comments that suggest that we believe the Committee's inquiry will not be pursued vigorously. I was sufficiently disturbed when I heard that these statements had come to your attention that I felt compelled to let you know that they are simply untrue. I have taken this investigation very seriously from its inception, have ensured that all of our staff do the same, have devoted a number of staff to virtual full-time attention to addressing the Committee's concerns and issues, and have devoted considerable time and attention to the investigation myself.

With this letter, I offer once again my personal assurances, those of my colleagues at The Nature Conservancy, and our Board of Governors that we recognize the importance and gravity of the Committee's objectives, and that we will continue to cooperate fully and assiduously with the Committee as its inquiry proceeds.

I have been with The Nature Conservancy for twenty-five years, my entire professional career. I aspire to the values we hold ourselves to, and am dedicated to honoring the trust placed in us as a not-for-profit organization. I give you my personal assurance that, in my three years as President of the Conservancy, I have done and will continue to do everything I can to ensure that we pursue only those conservation objectives which further the public interest, and do so in a proper manner that complies with all ethical and legal requirements. And I will do all I can to make continuous improvements in our practices, procedures and actions.

I would very much welcome the opportunity to meet with you personally at your earliest convenience to discuss with you the issues being addressed by the Committee and to brief you on the important steps we have already taken to strengthen our practices and our governance procedures in the public interest.

Very truly yours,



cc: Senator Max Baucus
Mr. Dean Zerbe

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Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283
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December 11, 2003

The Honorable Charles E. Grassley
United States Senate
Chairman
Senate Finance Committee
Washington, D.C. 20510-6200

By Hand

Dear Senator Grassley:

This letter is in response to conversations with Dean Zerbe regarding how the Committee wants TNC to proceed with the marking of confidential materials. As per Mr. Zerbe's email of 12/3/03, the Committee should consider all documents as "confidential/ proprietary" except for the following materials:

1. Forms 990.
2. Audited Financial Statements.
3. Recorded Deeds and Easements.
4. The General Information Regarding TNC Submitted on 7/25/03.

Also included with this letter is the easement modification chart (FY 93-02) requested orally by Mr. Zerbe. Finally, for your information, I am enclosing a recently completed Department of Defense audit report regarding The Nature Conservancy.

Please let me know if you have any questions.

Sincerely yours,

Karen S. Berky

Karen S. Berky
Director, Government Relations

cc: Dean Zerbe (without attachments)
Andrea Cohen (without attachments) ✓
Pat Heck (without attachments)

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Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283
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June 18, 2004

Mr. Dean Zerbe
Mr. Jonathan Selib
Senate Finance Committee
Washington, DC 20510-6200

By Hand

Dear Dean and Jonathan:

I am pleased to enclose a copy of the The Nature Conservancy's report entitled *Strengthened Governance, Policies and Procedures* dated June 18, 2004. This is an update of the *Interim Report* dated March 2, 2004, previously supplied to the Committee. This governance report summarizes all of the significant changes made by the Conservancy since June of 2003 up to and including actions taken by the Board of Governors at last Friday's Board meeting. I hope that you will find this report helpful as you continue your review of the Conservancy and the nonprofit sector generally. The Conservancy will be using this report to further inform and educate our staff, chapter trustees, and the public as to actions taken by the Conservancy. Please feel free to distribute this governance report.

Also, as I mentioned in my voicemail yesterday, Don Moorehead and I would be pleased to meet with you to discuss both the report and our thoughts on potential legislative options.

Sincerely yours,

Karen Berky

Karen S. Berky
Director, Government Relations

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Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.8796
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STEVEN J. MCCORMICK
President and Chief Executive Officer

Hand Delivered

December 23, 2003

The Honorable Charles E. Grassley
The Honorable Max Baucus
United States Senate
Senate Finance Committee
Washington, DC 20510-6200

Dear Senators Grassley and Baucus:

My colleagues and I at The Nature Conservancy have studied with great interest the recent reports in the press and elsewhere concerning in-kind contributions, including gifts of land and interests in land such as conservation easements. In the case of conservation easements, these concerns include whether there is a significant conservation benefit to the public, how values are established for tax purposes, and how compliance with the conservation restrictions is monitored.

The Nature Conservancy today uses conservation easements to protect targeted ecologically-important lands and waters as habitat for native land and animal species. The Conservancy has used conservation easements to protect nearly three million acres of lands and waters across the United States. Conservation easements are one of the most powerful, effective and voluntary tools available for the permanent conservation of private lands. Their use has successfully protected millions of acres of critical wildlife habitat and open space, keeping it in private hands and generating significant public benefits.

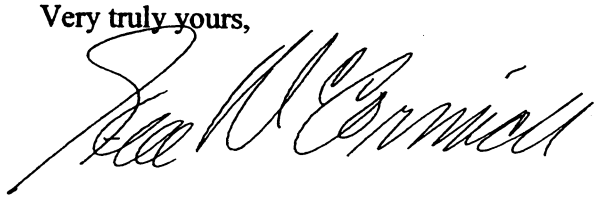
In many instances, there are no practical preservation alternatives as governments at all levels face financial requirements that leave comparatively little funds for land acquisition. Moreover, available evidence indicates that the private owners who retain the land following grants of easements generally are good stewards who honor the restrictions regarding land use and development. For these reasons, The Nature Conservancy strongly supports conservation easements and targeted tax incentives designed to encourage their use.

As you know, last June The Nature Conservancy strengthened its procedures and safeguards with regard to conservation easements and other land transactions. We of course are continuing to examine all of our practices, procedures, and policies related to conservation

easements to ensure the appropriate, consistent, ethical and effective use of this important conservation tool. Nevertheless, the recent reports highlighted some very real, yet isolated, abuses of conservation easements and the current Internal Revenue Service rules and regulations designed to govern them. These examples, while representing only a tiny fraction of easement projects nationwide, are troubling and should immediately be addressed by the Internal Revenue Service. The Nature Conservancy believes the IRS should be given the resources it needs to adequately monitor and enforce existing rules and regulations governing conservation easements and associated tax incentives.

As it has in the past, The Nature Conservancy will work with Congress to develop additional legislation to ensure that the tax incentives for conservation easements and similar land transactions are used only for their intended purposes. The Nature Conservancy will support the enactment of appropriate legislation and assist the private sector in its implementation.

Very truly yours,



cc: Members of the Senate Finance Committee

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Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283
nature.org

January 9, 2004

Mr. Dean Zerbe
Mr. Pat Heck
United States Senate
Senate Finance Committee
Washington, D.C. 20510-6200

By Hand

Dear Dean and Pat:

When we last met on December 11, I mentioned that there were several transactions on which I was going to do some additional research with regard to Question 18: Cash Donations -- $50K Donors To Whom TNC has Sold Land or an Interest in Land in Past Ten Fiscal Years (Conservation Buyers).

I would like to bring two transactions/names to your attention:

1. David Letterman: Conservation Buyer Transaction Numbers 19-22 (of the second list numbered 1-150).

   Although The Nature Conservancy did not sell land to Mr. Letterman, Mr. Letterman is a $50K donor to The Nature Conservancy and Mr. Letterman did eventually become an owner of one of the tracts of land involved in the Herring Creek transaction.

2. Caroline Alexander Forgason: Conservation Buyer Transaction Number 16 (of the first list numbered 1-19).

   Ms. Forgason is not a 50K individual donor. However, a company controlled by her and her husband donated 50K The Nature Conservancy. The company, "Groves-Alexander", is listed as a 50K donor in the list supplied to the Committee on November 26, 2003.

Please let me know if you have any questions.

Sincerely yours,

Karen Berky

Karen S. Berky
Director, Government Relations

cc: Jonathan Selib

The Nature Conservancy
SAVING THE LAST GREAT PLACES ON EARTH

Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283
nature.org

April 5, 2004

The Honorable Charles E. Grassley
United States Senate
Chairman
Senate Finance Committee
Washington, D.C. 20510-6200

By Hand

Dear Senator Grassley:

Pursuant to the Senate Finance Committee's request of March 3, 2004, I am pleased to forward the following documents for the Committee's review. The Committee should consider all enclosed documents as "confidential/proprietary," in accordance with our prior agreement. As requested by the Committee, we will continue to produce additional documents for review as they are retrieved and assembled.

The documents being transmitted today include the following materials:

I. Conservation Buyer Program

A. Part 11. Spreadsheet: Related Parties-Addresses (1-19).
B. Part 11. Spreadsheet: Addresses (1-150).

III. Tradelands

A. Parts 1-3.

VI. Easements

A. Part 14. Names and Addresses of the First 50 Persons who Contributed Conservation Easements to TNC During 1999, 2001, and 2003.

XII. Related Organizations

A. Parts 1-8.

- Volume I (Books 1 and 2)
- Volume II (Books 1 through 4)

New Question I. Functionally Related Revenue

A. Parts 1-3.

New Question II. Other Questions Regarding Revenues, Expenses, and Form 990 Reported Items

A. Parts 1-6.

New Question III. Excess Benefit Transaction Issues

A. Parts 1-8.

Please let me know if you have any questions.

Sincerely yours,

Karen S. Berky

Karen S. Berky
Director, Government Relations

cc: Dean Zerbe (without attachments)
Jonathan Selib (without attachments)

The Nature Conservancy
SAVING THE LAST GREAT PLACES ON EARTH

Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283
nature.org

April 15, 2004

The Honorable Charles E. Grassley
United States Senate
Chairman
Senate Finance Committee
Washington, D.C. 20510-6200

By Hand

Dear Senator Grassley:

Pursuant to the Senate Finance Committee's request of March 3, 2004, I am pleased to forward the following documents for the Committee's review. The Committee should consider all enclosed documents as "confidential/proprietary," in accordance with our prior agreement. As requested by the Committee, we will continue to produce additional documents for review as they are retrieved and assembled.

The documents being transmitted today include the following materials:

I. Conservation Buyer Program

A. Responses to Senate Finance Committee Questions on Conservation Buyer Program (Memorandum dated April 15, 2004).
B. Part 4. Documents Relating to Shelter Island (Thompson Hill) Transaction.
C. Part 6. Resolution Re: Conservation Buyer Transactions.

IV. Easements

A. Responses to Senate Finance Committee Questions on Conservation Easements (Memorandum dated April 15, 2004).
B. Part 3. Monitoring Reports for the 10 Largest and 10 Smallest Conservation Easement Properties in Ohio and California (2 binders and 1 document).
C. Part 7. Updated Chart Re: Easement Modifications with copies of the easement before and after amendment.
D. Parts 10 and 11. Updated Chart Re: Conservation Easement Purchases and Donations with forms 8282/8283.
E. Part 15. Documents Relating to Items 14-17 "San Joaquin Hills Portfolio" (6 Binders).

Please let me know if you have any questions.

Sincerely yours,

Karen Berky

Karen S. Berky
Director, Government Relations

cc: Dean Zerbe (without attachments)
Jonathan Selib (without attachments)

The Nature Conservancy
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Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283
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April 23, 2004

The Honorable Charles E. Grassley
United States Senate
Chairman
Senate Finance Committee
Washington, D.C. 20510-6200

By Hand

Dear Senator Grassley:

Pursuant to the Senate Finance Committee's request of March 3, 2004, I am pleased to forward the following documents for the Committee's review. The Committee should consider all enclosed documents as "confidential/proprietary," in accordance with our prior agreement. As requested by the Committee, we will continue to produce additional documents for review as they are retrieved and assembled.

The documents being transmitted today include the following materials:

I. Conservation Buyer Program

A. Part 8. Documents Relating to outside counsel who have provided tax opinions with regard to Conservation Buyer transactions.
B. Part 3.h. Davis Mountains (Two Binders).

II. Government Transactions Regarding Land Sales

A. Responses to Senate Finance Committee Questions on Land Sales to Government (Memorandum dated April 23, 2004).
B. Part 7.a. Chart: Sales to State and Local Government Agencies ($2,000,000 or over from July 1, 1997 to June 30, 2002).
C. Part 7.a. Documents Regarding Sales to State and Local Government Agencies ($2,000,000 or over from July 1, 1997 to June 30, 2002) (11 folders).
D. Part 8. Chart: Certain Interests in Land Transferred to Local, State and Federal Government Entities.
E. Part 8. Documents regarding Big Cypress Preserve.
F. Narrative Re: Transfers to Federal Agencies (previously provided November 18, 2003).
G. Department of Interior Memorandum "Department of Interior Land Acquisitions Conducted with the Assistance of Nonprofit Organizations" dated June 3, 1992.

H. GAO Report "Land Acquisitions Involving Nonprofit Conservation Organizations" dated June, 1994.
I. Policy and Procedure regarding recovery of costs in government real estate transactions.

VI. Easements

A. Parts 5 and 6. Policies and Procedures related to monitoring and enforcement of easements.
B. Part 8. Documents relating to tracking change of ownership of properties subject to conservation easements.
C. Part 17. Documents regarding outside counsel who have provided tax opinions with regard to Conservation Buyer transactions.

XI. Valuation

A. Documents related to donor notification regarding IRS Form 8283 (these documents also respond to VI. Easements, Part 13).

XIV. Transactions with Board Members

A. Parts 1-3. Transactions with Board Members.

XVIII. Cash Donations Greater than $50,000

A. Response to Question XVIII regarding tax benefits.

Please let me know if you have any questions.

Sincerely yours,

Karen S. Berky

Karen S. Berky
Director, Government Relations

cc: Dean Zerbe (without attachments)
Jonathan Selib (without attachments)

The Nature Conservancy
SAVING THE LAST GREAT PLACES ON EARTH

Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283
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November 23, 2004

The Honorable Charles E. Grassley
The Honorable Max Baucus
United States Senate
Chairman and Ranking Member
Senate Finance Committee
Washington, D. C. 20510-6200

By Hand

Dear Senators Grassley and Baucus:

Pursuant to the Senate Finance Committee's request of October 27, 2004, I am pleased to forward the first group of documents for the Committee's review. As we have in the past, we will continue to produce additional documents for review as they are retrieved and assembled.

The documents being transmitted today include the following materials:

Question 8

A. Narrative Re: Milliken Easement.

Question 9

A. The March 15, 2001 memorandum from the firm of McCutcheon, Doyle, Brown and Enerson, LLP was previously transmitted to the Committee on April 23, 2004. For the Committee's convenience, enclosed is an additional copy of the March 15, 2001 memorandum.

Question 13

A. Narrative Re: IRS Audits.

Question 14

A. Narrative Re: Private Letter Rulings.

Question 19

A. Narrative Re: Conflict of Interest Policy.
B. Copies of six of The Nature Conservancy's policies and procedures (Conflicts of Interest -- Policy and Procedure; Internal Revenue Service forms 8282 and 8283 -- Policy and Procedure; Policy on Sales To or From Related Parties; and Policy on Tax Deductions for Contributions of Land by Members of the Board of Governors).

Question 23

A. Form 990 and 990-T for Fiscal Year ended June 30, 2003.

Question 24

A. Narrative Re: Legal Opinions and Conflicts of Interest.

Please let me know if you have any questions.

Sincerely yours,

Karen S. Berky by SEH

Karen S. Berky
Chief Ethics and Compliance Officer

cc: Dean Zerbe (w/o attachments)
Jonathan Selib (w/o attachments)

The Nature Conservancy
SAVING THE LAST GREAT PLACES ON EARTH

Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283
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December 22, 2004

The Honorable Charles E. Grassley
The Honorable Max Baucus
United States Senate
Chairman and Ranking Member
Senate Finance Committee
Washington, D. C. 20510-6200

By Hand

Dear Senators Grassley and Baucus:

Pursuant to the Senate Finance Committee's request of October 27, 2004, I am pleased to forward the second group of documents for the Committee's review. We expect to transmit the final set of responses to your letter shortly after the Christmas holidays.

The documents being transmitted today include the following materials:

Question 1

A. Narrative Re: Conservation Easement Modification Procedures and Governmental Approval.

Question 2

A. Narrative Re: Conservation Easement Modifications and discussion with the IRS.

Questions 3, 4 and 5

A. Narrative Re: Stewardship Endowments and Easements.
B. Stewardship Policy

Question 10

A. Narrative Re: Conservancy Relationship with PricewaterhouseCoopers.

Question 11

A. Narrative Re: Functionally Related Revenue
B. Excerpt from The Conservancy's Chart of Accounts.

Question 12

A. Narrative Re: Emissions Credit Arrangements.
B. Memoranda re: Jack Smith dated February 1, 2000, April 18, 2000, and November 6, 2000.
C. Comprehensive Agreements for Emission Credit Arrangements (Binders I-VI).

Question 16

A. Documents regarding TNC's transactions with John P. Morgridge, the Morgridge Foundation, and Cisco Systems that relate to the Cisco Systems transactions that were described in TNC's Form 990 for filing for 1998 through 2001.

Please let me know if you have any questions.

Sincerely yours,

Karen S. Berky by SEH

Karen S. Berky
Chief Ethics and Compliance Officer

cc: Dean Zerbe (w/o attachments)
Jonathan Selib (w/o attachments)

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Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
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December 28, 2004

The Honorable Charles E. Grassley
The Honorable Max Baucus
United States Senate
Chairman and Ranking Member
Senate Finance Committee
Washington, D. C. 20510-6200

By Hand

Dear Senators Grassley and Baucus:

Pursuant to the Senate Finance Committee's request of October 27, 2004, I am pleased to forward a document which completes our submittal of materials on December 22, 2004.

The document being transmitted to the Committee today includes the following materials:

Question 12

C. Management Plan for Noel Kempff National Park

(Section 4, Attachment 5 of Binder VI, which was provided to the Committee on December 22, 2004.)

Please let me know if you have any questions.

Sincerely yours,

Karen S. Berky by SEH

Karen S. Berky
Chief Ethics and Compliance Officer

cc: Dean Zerbe (w/o attachments)
Jonathan Selib (w/o attachments)

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Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

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fax [703] 841.1283
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January 14, 2005

Z Bundeis.

The Honorable Charles E. Grassley
The Honorable Max Baucus
United States Senate
Chairman and Ranking Member
Senate Finance Committee
Washington, D. C. 20510-6200

By Hand

Dear Senators Grassley and Baucus:

Pursuant to the Senate Finance Committee's request of October 27, 2004, I am pleased to forward the third group of documents for the Committee's review. I believe this third response completes all of remaining questions and document requests contained in your October 27, 2004 letter.

The documents being transmitted today include the following materials:

Question 6

A. Narrative Re: Easement Modifications.
B. Chart Explaining Easement Modification Requests.

Question 7

A. Monitoring Reports for Pennsylvania and Florida. (one binder)

Question 15

A. Narrative Re: Material Changes.

Question 17

A. Narrative Re: Trade Lands.
B. Summary Trade Lands Chart (FY98 through FY02) with chart heading explanation.

Question 18

A. Narrative Re: Conservation Beef, LLC (CBL) Structure.
B. CBL Stewardship Guidelines.
C. Deed of Conservation Easement Relating to the Sun Ranch.

Question 20

A. Narrative Re: Board Approval of Related Organizations.
B. Policy on Related Business Entities.
C. Standard Operating Procedure on Significant Business Interests in Separate Legal Entities.
D. Risk Assessment Committee Memorandum.

Question 21

A. Narrative Re: Related Organizations.

Question 22

A. Narrative Re: Corporate Subsidiaries.

Question 25

A. Narrative Re: Related Party Transactions.
B. Chart Re: Related Party Transactions.
C. Attachments Re: Related Party Transactions.

Question 26

A. Narrative Re: Martha's Vineyard.

Please let me know if you have any questions.

Sincerely yours,

Karen S. Berky by

Karen S. Berky
Chief Ethics and Compliance Officer

cc: Dean Zerbe (w/o attachments)
Jonathan Selib (w/o attachments)

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Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

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February 25, 2005

The Honorable Charles E. Grassley
The Honorable Max Baucus
United States Senate
Chairman and Ranking Member
Senate Finance Committee
Washington, D. C. 20510-6200

By Hand

Dear Senators Grassley and Baucus:

Pursuant to the request made by Dean Zerbe to Jimmie Powell on February 23, 2005, I am pleased to provide the following documents:

1. The Nature Conservancy Response to IRS Form 4564, Information Document Request, Request Number 136, submitted to IRS November 29, 2004.

   A. Description of contractor status of [redacted]
   B. The Nature Conservancy Contract for Services between Office of the President, The Nature Conservancy, and [redacted] Contract Number OOP-01-2001, dated February 27, 2001.
   C. Memo to [redacted] from Mike Dennis, dated July 27, 2001, Amendment of Contract for Services.
   D. The Nature Conservancy Contract for Services between Office of the President, The Nature Conservancy, and [redacted], Contract Number OOP-04-2002, dated January 9. 2002.
   E. The Nature Conservancy Contract for Services between Office of the President and [redacted] Contract Number OOP-05-2002, dated April 1, 2002.
   F. Addendum #1 to Contract OOP-05-2002.

Please let me know if you have any questions.

Sincerely yours,

Jimmie Powell
Director, Government Relations

cc: Dean Zerbe (w/o attachments)
Jonathan Selib (w/o attachments)

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Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

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May 4, 2005

The Honorable Charles E. Grassley
United States Senate
Chairman
Senate Finance Committee
Washington, D. C. 20510-6200

The Honorable Max Baucus
United States Senate
Ranking Member
Senate Finance Committee
Washington, D. C. 20510-6200

By Hand

Dear Senators Grassley and Baucus:

Pursuant to the Senate Finance Committee's request of April 21, 2005, I am pleased to forward the first group of documents for the Committee's review.

The documents being transmitted today include the following materials:

Question 7

A. Chart: Estimated Contributions Breakdown.

Question 8

A. Narrative Re: Donor Advised Fund.
B. TNC Donor Advised Fund – Participants since April 1, 2002 – spreadsheet.
C. The Nature Conservancy's Investment Policy.
D. Donor Advised Fund Procedures.
E. Protocol for Distributions.
F. Distribution to Charity Cover Letter.
G. Memorandum of Understanding (with Exhibit A).

Question 14

A. Narrative Re: Matching Federal Grant Awards.
B. All TNC Staff email dated February 18, 2000.
C. OMB Circular A-133 audit reports issued by PricewaterhouseCoopers LLP (2002-2004) and Arthur Andersen LLP (2000-2001).

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4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283
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May 12, 2005

The Honorable Charles E. Grassley
United States Senate
Chairman
Senate Finance Committee
Washington, D.C. 20510-6200

The Honorable Max Baucus
United States House of Representatives
Ranking Member
Senate Finance Committee
Washington, D.C. 20510-6200

By Hand

Dear Senators Grassley and Baucus:

Pursuant to the Senate Finance Committee's request of April 21, 2005, I am pleased to forward the second group of documents for the Committee's review. We plan to forward the final group of documents to you early next week.

The documents being transmitted today include the following materials:

Question 2

A. Narrative Re: Marketing of Conservation Buyer Properties.

Question 3

A. Narrative Re: Donations to Conservation Buyer Fund.

Question 4

A. Narrative Re: 1031 Like-Kind Exchanges.

Question 5

A. Narrative Re: Colorado Conservation Tax Credits.

Question 9

A. Narrative Re: Conservation Easements (FY03-04).

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Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283
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May 12, 2005

The Honorable Charles E. Grassley
United States Senate
Chairman
Senate Finance Committee
Washington, D.C. 20510-6200

The Honorable Max Baucus
United States House of Representatives
Ranking Member
Senate Finance Committee
Washington, D.C. 20510-6200

By Hand

Dear Senators Grassley and Baucus:

Pursuant to the Senate Finance Committee's request of April 21, 2005, I am pleased to forward the second group of documents for the Committee's review. We plan to forward the final group of documents to you early next week.

The documents being transmitted today include the following materials:

Question 2

A. Narrative Re: Marketing of Conservation Buyer Properties.

Question 3

A. Narrative Re: Donations to Conservation Buyer Fund.

Question 4

A. Narrative Re: 1031 Like-Kind Exchanges.

Question 5

A. Narrative Re: Colorado Conservation Tax Credits.

Question 9

A. Narrative Re: Conservation Easements (FY03-04).

Question 10

A. Narrative Re: Carbon Sequestration Projects.

Question 11

A. Narrative Re: Trade Land Activities.
B. Chart of Trade Lands with Value Exceeding $100,000.

Question 12

A. Narrative Re: Martha's Vineyard Transaction.

Question 13

A. Narrative Re: Documents Relating to Reimbursements to Retha Wellons.
B. Receipts of Payments made to Retha Wellons. (1 binder)

Question 15

A. Narrative Re: Review of Form 990.

Question 16

A. Narrative Re: Unrelated Income Business.
B. Unrelated Income Tax Standard Operating Procedure.
C. Index of documents submitted for question 16.
D. Documents relating to characterization of UBIT activity. (1 binder)

Please let me know if you have any questions.

Sincerely yours,

Jimmie Powell
Director of Government Relations

cc: Dean Zerbe (w/o attachments)
Jonathan Selib (w/o attachments)

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Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283
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May 17, 2005

The Honorable Charles E. Grassley
United States Senate
Chairman
Senate Finance Committee
Washington, D. C. 20510-6200

The Honorable Max Baucus
United States Senate
Ranking Member
Senate Finance Committee
Washington, D. C. 20510-6200

By Hand

Dear Senators Grassley and Baucus:

Pursuant to the Senate Finance Committee's request of April 21, 2005, I am pleased to forward the third group of documents for the Committee's review. Our response to Question 17 will be forthcoming.

The documents being transmitted today include the following materials:

Question 1

Part A. Information Re: Conservation Buyer Transactions

1. Spreadsheet with required information and responses
2. Back-up documentation for 47 transactions (2 boxes)

Part B. Block Island

1. Narrative Re: Block Island Transactions
2. Map: Block Island Conservation Ownership.
3. Map: Northeast Coastal Areas Study, Significant Coastal Habitats, Block Island Complex.
4. Article: "Block Island refuge has it all," by Peter Lord, *The Indianapolis Star*, Sunday, June 2, 1991.
5. Article: "Bird Island Block Island," by Carol McCarthy, *The Way*, Monday, October 20, 1997.
6. Newsletter: Conservation Update Block Island, The Nature Conservancy Spring 2005 newsletter.
7. Letters regarding importance of Block Island.
   A. Senator Lincoln Chafee to North American Wetlands Conservation Council, March 27, 2000.

B. Senator John Chafee to North American Wetlands Conservation Council, April 3, 1998.
C. Acting Regional Director, Region 5 of U.S. Fish and Wildlife Service to David Smith, Director (ARW/NAWWO), March 28, 2000.
D. Ronald E. Lambertson, Regional Director of U.S. Fish and Wildlife Service to North American Wetlands Conservation Council, March 31, 1998.

Question 6

A. Narrative Re: Organizational Review of Transactions.
B. Supporting documents: Board or Committee Review of Transactions or Arrangements (1 binder)

Please let me know if you have any questions.

Sincerely yours,

Jimmie Powell
Director of Government Relations

cc: Dean Zerbe (w/o attachments)
Jonathan Selib (w/o attachments)

APPENDIX D

INFORMATION RE:
CONSERVATION EASEMENTS

JUL 25 2003

Question 6: Easements

Background on communication/marketing contact calls—Prepared 7/21/03

The teleconference call that took place on December 4 2002, was one of the update calls that the communications department at the Worldwide Office regularly hosts for the approximately 115 Conservancy staff on the Worldwide Office maintained e-mail distribution list of communications/marketing contacts. There is no regular teleconference schedule and the frequency of these calls increased during the months before the Washington Post articles ran.

The purposes of the December 4 2002 call was to keep the communication contacts appraised of the status of the *Washington Post* series so that Conservancy staff in the field who deal with the media were informed. For the teleconference call on December 4, 2002, the Acting Director of Media Relations, Jordan Peavey, sent an e-mail on December 2, 2002 to the communications/marketing contacts e-mail distribution list to inform them about a mandatory conference call to discuss the upcoming Washington Post series. (A copy of this e-mail invitation is attached)

Despite the mandatory attendance suggested, the usual practice for these calls is that whoever is available will dial in at the appointed time. During the first few minutes of the call an informal roll call is taken as people sign on to the call. The communications department does not maintain a record of the people or states that are on the call.

If a communications contact is not available he or she might ask someone else from the state office to listen in on the call. Likewise, if a state does not have a designated communications contact someone else from the state office might listen in on the call.

The people on the call may or may not take handwritten or typed notes for their information or to distribute to other people in their offices. The Worldwide Office does not collect their notes but does send a summary of the call to the communication/marketing contacts e-mail distribution list that is invited to the call.

Teleconference of December 4, 2002

The Director of Conservation Marketing, David Williamson, who had been the point of contact for working with the Washington Post reporters, led the call. He spent approximately an hour going over a wide-range of issues relating to the *Washington Post* in a very conversational and informal manner. He gave a chronology of the interaction between the Washington Post reporters and Conservancy staff and gave a few examples of some of the issues materials that the reporters examined.

The Conservancy was concerned at this point in time and in our interactions with the reporters that the article would not be a fair and accurate representation of the organization. Thus, Mr. Williamson detailed potential themes that the Conservancy staff

thought the Post may run, despite our conviction that they were not an accurate portrayal of the situation.

As one of these themes Mr. Williamson explained that someone could see the valuation of conservation easements as subjective and a tool to inflate our income. He was not in any way implying that this was the practice of the Conservancy. In fact, it is TNC's practice to advise donors that it is their own responsibility to secure "qualified appraisals" to substantiate the value of their contribution and that TNC takes no position on the value of the donated land or easements claimed by donors.

Mr. Williamson also relayed the Conservancy's estimate on the likely timing of the article and the preparation materials the media relations department was gathering to help the state offices prepare for likely questions from key constituencies such as donors, members or the media. He also took questions from the people on the call.

After the conference call, Ms. Peavey sent the communication/marketing contacts e-mail distribution list the official notes of the call from the Worldwide Office. (A copy of the e-mail with the notes as an attachment and a copy of the official notes as they were sent out are attached).

"Memo" Referenced in the Washington Post

The "memo" referenced in the *Washington Post* article came from Chandra Gordon, donor relations manager, for the Kentucky chapter of The Nature Conservancy. Kentucky is one of the states without a designated communications contact and neither the state director, Jim Aldrich, nor the then director of philanthropy, Logan McCulloch, was available at the time of the call. Ms. Gordon and the assistant to the state director, Tonya Courtney, debated who would sit in on the call to take notes. They decided that Ms. Gordon would sit in on the call as a note-taker for Kentucky. The "memo" is Ms. Gordon's notes that she took based on the discussion that she heard on the call. On December 6, 2002, she sent these notes to Mr. Aldrich, Mr. McCulloch and Ms. Courtney. The state director, Mr. Aldrich, asked a development assistant, Marsha Sims, to send these notes to the Kentucky staff. (A copy of Ms. Gordon's notes and the e-mail sent by Ms. Sims to Kentucky staff are attached.)

QUESTION 6: Conservation Easements

JUL 25 2003

"In addition, for all easements above $25,000 (as valued by the donor or purchaser price) please provide a list valuing all easements purchased by or donated to TNC since January 1, 1998, including the dollar amount of the easement, where the land was located, and the identity of the donor or seller. Please note all easement purchased or donated that involved officials, governors, or trustees of TNC or its state affiliates."

It will not be possible to fully complete the request to supply information about the value of all easements above $25,000 acquired by TNC since January 1, 1998 because of the way in which such information is obtained and collected by TNC. The value of easements donated by individuals where a tax deduction is claimed will be substantiated by an independent qualified appraisal and accompanied by Form 8283; in those cases we will be able to provide the required valuation information. Similarly, for easements that were purchased by TNC, either as a bargain-sale or for full value, we will have an appraisal or other information to substantiate the values involved because it is TNC practice to obtain such valuation information as a basis for and prior to entering into such purchases. However, there are cases in which the donor did not claim a tax deduction in which event TNC may or may not have relevant appraisal information. In addition, in cases where a corporation is the donor of the easement, since there is no legal requirement for such donors to use Form 8283 which would require an appraisal to be attached thereto, TNC may or may not have the relevant appraisal information. TNC uses our own appraisal information as the basis for book value in cases where an easement has been purchased. In cases where an there has been a donation and the donor supplies TNC with an appraisal, TNC uses that valuation as the basis on which to establish the value for such easements on TNC's books. Where no appraisal exists, TNC carries such interests on the books at an estimated value where there is a reasonable basis for such valuation. TNC has been advised by its external

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Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283
nature.org

April 15, 2004

Responses

to

Senate Finance Committee Questions on Conservation Easements

This memorandum responds to 12 of the questions concerning conservation easements set forth in Part VI of the letter dated March 3, 2004 to The Nature Conservancy (the "Conservancy") from Senators Grassley and Baucus on behalf of the Committee on Finance of the United States Senate (the "Committee").[1] Part I of this memorandum contains a brief overview of the use of conservation easements by the Conservancy; Part II identifies the Conservancy's key policies and procedures with respect to conservation easements and describes the steps taken by the Conservancy from and after June 13, 2003 to strengthen those practices and procedures; and Part III provides detailed responses to the Committee's specific questions with respect to the application of the Conservancy's policies and procedures.

I.

Use of Conservation Easements by the Conservancy

The mission of the Conservancy is to preserve the plants, animals and natural communities that represent the diversity of life on Earth by protecting the land and waters they need to survive. The Conservancy has developed and uses a strategic, science-based process called "Conservation by Design" to identify lands and waters for inclusion in the Conservancy's conservation programs.

[1] The remaining five questions contained in Part VI of the Committee's letter (i.e. Questions 10, 11, 13, 14, and 17) request data or documents that do not require explanation or elaboration. Responses to those requests, and the data and documents requested in connection with the questions addressed in this memorandum, are being provided to the Committee separately. The Committee is also being provided with all documents referred to in this memorandum.

In the United States, the Conservancy traditionally has used land acquisitions as a principal tool to accomplish its mission and today owns and manages more than 1,500 preserves throughout the United States. In many instances, however, the Conservancy's conservation mission may be accomplished in other ways. In such cases, the Conservancy employs a broad range of alternatives to the "purchase and hold" strategy. Conservation easements are one such alternative.

A conservation easement is a voluntary agreement by a landowner to surrender irrevocably certain rights that are otherwise inherent in the ownership of the land (e.g., the right to subdivide and develop the land or the right to use the land for certain purposes). The easement is then sold or donated by the landowner either to a private organization, such as the Conservancy, or a public agency, which agrees to hold the right to enforce the terms of the easement in perpetuity. Even where the current landowner has no intention of taking actions prohibited by the conservation easement (e.g., subdividing and developing the land), the conservation easement still serves important conservation purposes. This is because a conservation easement "runs with the land" and thus is binding on the current and all future owners of the land. In essence, valuable rights surrendered in a conservation easement are forfeited permanently and effectively no longer exist.[2]

Land that is subject to a conservation easement remains in private ownership. It is subject to State and local property taxes and available for those human uses (including job-producing economic activities) that are compatible with the conservation objectives of the easement. Conservation easements are carefully structured by the Conservancy to encompass only those rights that are necessary to ensure that specific conservation values are achieved. As a result, many types of private land use, such as farming, ranching and timber harvesting, can continue under the terms of a conservation easement subject to

[2] Treas. Reg. § 1.170A-14(g)(6)(i) states: "If a subsequent unexpected change in the conditions surrounding the property [that is the subject of a conservation easement] . . . can make impossible or impractical the continued use of the property for conservation purposes, the conservation purpose can nonetheless be treated as protected in perpetuity if the restrictions are extinguished by a judicial proceeding . . . ."

suitable restrictions protect land and water resources to ensure that the underlying conservation objectives are achieved on a permanent basis.

Conservation easements are used in the United States by more than 1,200 other conservation organizations, including many local and regional land trusts, and in some locations easements may be the only viable option for achieving conservation objectives. The Conservancy has used conservation easements for more than four decades for a broad range of purposes. For example, conservation easements have been and continue to be used to provide buffers for core conservation areas, including national parks and other public lands; preserve critical habitats; conserve watersheds and aquifers, thus helping to ensure clean drinking water; and protect open space in rapidly growing urban and suburban areas. Given these public benefits, nearly all States have enacted laws specifically authorizing the creation of conservation easements in land and these laws are generally modeled on the Uniform Conservation Easement Act adopted in 1981 by the National Conference of Commissioners on Uniform State Laws. Federal tax incentives to promote conservation easements were first provided by Congress in 1976. A number of States now also provide tax benefits as do other countries such as Canada and Australia.

II.

The Conservancy's Practices and Procedures

As described more fully in Part III of this memorandum, the Conservancy has over the years adopted a broad range of policies and standard operating procedures governing the use of conservation easements to carry out its mission. Many of these policies and procedures were formally established in 1996, based on then existing unconsolidated policies and practices.[3] Specifically, since 1996, the Conservancy has had written policies or standard operating procedures that govern when easements will be accepted or purchased by the Conservancy; require preparation of a detailed "baseline" report at the time of acquisition to facilitate future monitoring and enforcement; and provide for the

[3] A number of these "existing unconsolidated polices and practices" were reflected in memoranda, etc., and in 1996 the Conservancy completed a comprehensive project to codify its policies and procedures.

establishment of stewardship funds to finance monitoring and enforcement. In addition, in 2001, the Conservancy established a comprehensive standard operating procedure governing proposed modifications to the terms of easements. The current procedure requires that any decision by the Conservancy to accept a proposed easement modification must be submitted to the relevant State authorities.

At its meeting on June 13, 2003, the Board of Governors of the Conservancy reaffirmed the importance of conservation easements to the Conservancy's mission and, in its review of conservation buyer transactions,[4] adopted three new policies that relate to conservation easements and build upon prior policies and procedures. *First,* a scientific assessment must be completed for all conservation buyer transactions to determine the easement terms that are necessary to achieve the desired conservation objective. *Second,* community values and input will be integral in determining proposed land uses under a conservation easement. *Third,* all conservation buyer transaction easements must include a monitoring plan that will ensure that the conservation goals will be met and the easement terms will be enforced.

Immediately following the Board's meeting, the Conservancy's senior management commissioned a comprehensive internal review of the processes by which the Conservancy acquires, uses, monitors and enforces conservation easements. A draft report, with specific recommendations, was published on December 14, 2003 and circulated for comment to senior managers within the Conservancy, volunteer leaders, outside experts and partner organizations. The draft report was also posted on the Conservancy's web site for public comment. Following review of the comments received, and with the concurrence of the Executive Committee of the Board of Governors, additional policies and procedures with respect to conservation easements were adopted in a series of actions culminating on March 12, 2004. The internal review is continuing and a final report is expected to be

[4] The Conservancy's conservation buyer program is described more fully in a separate memorandum (the "Conservation Buyer Memorandum") provided to the Committee in response to the Committee's questions on conservation buyer transactions, as set forth in Part I of the Committee's letter dated March 3, 2004.

issued in June 2004, at which time additional changes to the Conservancy's policies and procedures concerning conservation easements may be adopted.

One set of changes already adopted is intended to foster compliance by donors with all applicable tax law requirements. Under the Internal Revenue Code, it is the obligation of the donor of a conservation easement to establish whether a tax deduction is allowable with respect to the donation and, if so, to substantiate the amount of that deduction. The Conservancy has, however, adopted policies and procedures designed to foster compliance with all applicable tax law requirements governing the valuation of gifts of land and conservation easements (including easements imposed under the Conservancy's conservation buyer program). As approved by the Executive Committee of the Board of Governors on March 12, 2004, it is stated Conservancy policy to encourage donations of conservation easements and other interests in land ". . . in a way that such donations will conform to the letter and spirit of the law."

Under a new standard operating procedure published to implement this policy, the Conservancy will henceforth execute an IRS Form 8283[5] proffered by a donor only if: (a) the form, as presented to the Conservancy, contains all information required by applicable Internal Revenue Service procedures; (b) the donor provides the Conservancy with a copy of the appraisal to be used by the donor to establish the tax valuations shown on the form; and (c) the donor provides to the Conservancy a written statement by the donor's appraiser attesting that (i) the appraiser is State-certified under procedures established by Congress in the Financial Institutions Reform, Recovery and Enforcement Act of 1989; (ii) the appraiser has used generally accepted professional appraisal standards in making the appraisal, including those established for qualified conservation contributions under section 170(h) of the Internal Revenue Code; (iii) the appraisal otherwise satisfies all of the requirements for a "qualified appraisal" prescribed by the Internal Revenue Service, (iv) the appraiser has the requisite expertise and experience to

[5] Form 8283 must be executed by donee organizations such as the Conservancy to verify the receipt of a gift of land or an interest in land such as an easement. The form is also used by donors to provide the Internal Revenue Service with information concerning the valuation of the gift.

make appraisals of conservation easements and conservation lands; (v) the appraiser is not barred from practice before the Internal Revenue Service or Treasury Department or other administrative bodies; (vi) the appraiser has accounted for any value enhancements to other property of the donor or parties related to the donor; and (vii) if the appraisal is being made for a person who is a "related party" or "major donor" with respect to the Conservancy, as defined in the Conservancy's conflicts of interest policy, the appraiser is aware of the relationship and attests that it did not influence the appraiser's valuation.[6]

The Conservancy's strengthened policies and procedures for conservation easements incorporate a number of other important changes. *First*, conservation easements generally will be accepted or purchased by the Conservancy only if the easement contributes directly or indirectly to the conservation of "portfolio sites" identified through planning processes that are based on the Conservation by Design methodology[7] and prospective donors must be informed of the Conservancy's policies and procedures to ensure a clear understanding of mutual expectations and obligations with respect to the easement. *Second*, while many decisions with respect to the appropriate terms and conditions, monitoring and enforcement of easements will continue to be made by the Conservancy's on-site personnel at the State and local level, increased central oversight and guidance will be provided.

Third, the Conservancy will accept gifts of easements from related parties and major donors only if two special requirements are satisfied. The gift will be subject to advance review and approval under the Conservancy's strengthened conflicts of interest procedures. In addition, the appraiser retained by the related party or major donor to value the easement for tax purposes must certify that (a) the appraisal satisfies all of the

[6] Under the Conservancy's policies, "related parties" include members of the Board of Governors, State Trustees, and employees, together with close members of their families and business organizations in which they have a specified equity interest. (Sales or purchases of land, and of interests in land, involving related parties were prohibited in June 2003.) "Major donors" include contributors whose support totals $100,000 or more during a five-year period.

[7] As described more fully in the Conservation Buyer Memorandum, Conservation by Design is a strategic, science-based planning process adopted by the Conservancy in 1995 to identify lands and water for inclusion in its various conservation programs.

requirements of a "qualified appraisal" prescribed by the Internal Revenue Service, and (b) the appraiser is aware of the relationship between the related party or major donor and the Conservancy and that relationship did not influence the appraiser's opinion as to the value of the easement. *Fourth*, all proposed modifications to easements involving related parties or major donors be subject to advance review and approval under the Conservancy's strengthened conflicts of interest procedures and, as appropriate, to further advance review by a new Risk Assessment Committee.

III.

Finance Committee Questions on Specific Practices and Procedures

1. State the number of conservation easements held by your organization as of December 31, 2003. As of December 31, 1993.

Under the Conservancy's computer database containing information about the Conservancy's interests in land, easements are tracked on a parcel by parcel basis. As of December 31, 1993, the Conservancy had 1,065 parcels of land under protection through conservation easements. The comparable figure for December 31, 2003 was 1,608 parcels.[8] The Conservancy also carries out its mission by securing conservation deed restrictions.[9] There were 52 such cases as of December 31, 1993 and 145 as of December 31, 2003.

2. Is there on file with your organization a copy of each deed or other legal document that grants or establishes the conservation easement granted in favor of TNC? If so, describe how they are maintained. For example, is there a central file or are the filed held in local offices? Are there any properties for which a copy of the conservation easement deed is missing or not immediately available to TNC? If so, state how many.

The Conservancy maintains a central file for key legal documents, including documents related to the acquisition of land or interests in land, such as conservation

[8] It is possible that more than one parcel of land may be protected by a single conservation easement.

[9] Deed restrictions typically contain only limitations that are general in nature (e.g., a prohibition on subdividing) and, under the laws of some States, such restrictions can be enforced only by those in the chain of title with respect to the land. Conservation easements are more suitable if detailed and comprehensive restrictions are required to achieve the conservation objective and they may be enforced by the Conservancy even if it is not in the chain of title.

easements. With respect to conservation easements, the original documents (including the documents that grant or establish the easement) are maintained in secure files in the Conservancy's central office in Arlington, Virginia. The files are organized on a State by State basis in the case of land located within the United States. In addition, copies of these documents are maintained as appropriate in State offices and in other regional and district offices where members of the Conservancy's legal staff are located.

The Conservancy has a specific procedure for processing legal documents. All original legal documents related to land (including conservation easements) are sent to the Conservation Information Management ("CIM") department in the Conservancy's central office from the field offices where they were generated. When the documents are received in the central office, they are date stamped and entered into the Conservation Land System (the "CLS"), a computer database containing information about the Conservancy's transactions in and holdings of land. "Hard copy" files are also made. As described above, these files contain the original documents and all related correspondence. In the case of files for conservation easement projects, the Baseline Documentation Report (described elsewhere in this memorandum) is also included in the hard copy file. CIM specialists verify the accuracy of the database by comparing the information in the hard copy files with the information in the database.

The Conservancy's staff believes that the central files are complete, but recognizes that there may be isolated cases where this is not the case. To minimize such occurrences, files are reviewed periodically for completeness and a report on missing documents is sent to the appropriate field offices approximately every six months. If documents are determined to be missing from the central files, duplicates are sought (and typically obtained) from other Conservancy offices or from repositories of official land records.

Like many large organizations, the Conservancy has an ongoing microfiche process in which completed project files that are more than three years old are microfilmed. In this process, files are obtained from the field offices, combined with the appropriate central office "hard copy" files and then transmitted to a microfiche contractor. Upon return, the correspondence is destroyed and the original legal documents are sent to a third party

storage facility for permanent safekeeping. Original microfiche files are also sent to storage. One copy of the microfiche is sent to the appropriate regional or district office and one copy is kept at the central office.

3. State in detail your practices, policies, and procedures for monitoring landowner compliance with the terms of an easement granted to TNC. Include in your answer how frequently you inspect the property or contact the landowner. Does your policy on monitoring the easement vary with respect to the size of the property subject to easement or the importance of the easement for conservation of the environment? Attach copies of TNC reports to monitor conservation easements for the ten largest and the ten smallest conservation easement properties in each of Ohio and California since 1998.

Under the Conservancy's 1996 policy entitled "Ownership and Management of Land and Waters", the Conservancy only "owns and/or manages those lands and waters and interests therein that are important to accomplishing the . . . Conservancy's mission." This policy has been consistently interpreted to encompass the ownership of a conservation easement and, in accordance with this policy, the Conservancy has from time to time declined to accept offers to donate conservation easements.[10] The Conservancy's policies and procedures have also contemplated that the Conservancy will monitor and enforce the easements it holds. On March 12, 2004, the Executive Committee of the Board of Governors approved revisions to the policy on "Ownership and Management of Lands and Waters" to state explicitly that ". . . in the case of conservation easements or other interests in land held by the Conservancy, [the Conservancy] will monitor and enforce those easements or interests in land to achieve their conservation objectives."

Effective monitoring requires in the first instance that the terms of the conservation easement be drafted with care and precision to ensure that the easement terms are both sufficient to ensure achievement of the conservation purpose on a permanent basis and expressed clearly enough to permit monitoring and enforcement. All easements are subject to advance review and approval by the Conservancy's law department to ensure that this is

[10] As noted elsewhere in this memorandum, the Conservancy will today accept or purchase an easement only if it contributes directly or indirectly to the conservation of a portfolio site identified in accordance with the Conservation by Design methodology.

the case and the law department has prepared model conservation easement documents and texts for special provisions that may be included in an easement as appropriate (e.g., if some form of forest harvesting rights are to be retained).

Under a 1996 procedure, a detailed "Baseline Documentation Report" must be prepared at the time an easement is acquired by the Conservancy. This report, which is generally prepared by the Conservancy field office accepting the easement, documents the condition of the property at the time the easement is acquired and is thus essential to the monitoring process. The Baseline Documentation Report is signed and attested to by the current owner of the property and is used to measure and monitor future changes in the condition or use of the land.[11]

Effective monitoring also requires a commitment of financial resources. To ensure that sufficient resources are available to meet the burdens of holding conservation easements, the Conservancy has a policy on Stewardship Funding. This policy was established in 1996 and is based on a Board of Governors' directive issued in 1989. Under this policy, whenever the Conservancy acquires a conservation easement, or any other legal interest in conservation lands, that it intends to hold, funds must be set aside for the perpetual management of that interest. Funds may be raised from the donors themselves or from others. If funds cannot be raised immediately through donations, they must be "borrowed" by the relevant local office from the Conservancy's Land Preservation Fund in an amount sufficient to fund stewardship "start-up" costs and establish a stewardship endowment that will generate income to cover at least half of the projected annual stewardship needs for the Conservancy's management responsibilities for the foreseeable future.[12] If the appropriate amount of funding is difficult to determine, an acceptable estimate is 20 percent of the land interest's fair market value.

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[11] While applicable tax requirements permit such reports to be prepared by the landowner, Conservancy procedures require that it be prepared by Conservancy personnel. See Treas. Reg. § 1.170A-14(g)(5).

[12] The maximum internal borrowing from the Land Preservation Fund for stewardship start-up and endowment funding is an amount equal to 25 percent of the fair market value of the land interest.

Under the Conservancy's procedures, a plan for monitoring the property is to be established when the easement is accepted. The Conservancy's procedures for monitoring conservation easements do not and have not varied "with respect to the size of the property . . . or the importance of the easement for conservation" purposes. The plan for monitoring a particular easement will vary based on a variety of factors, including the biological resources being protected; the specific terms and conditions of the easement; and the degree to which a threat to the biological resources is likely to occur.[13]

Because each parcel of land is unique, the Conservancy's policies and procedures have traditionally reflected an expectation that the appropriate State or local unit will develop and implement a suitable monitoring plan to ensure that the conservation goals and objectives of the easement are being met and the terms of the easement are being honored by the landowner. Thus, in prior years, the Conservancy generally has relied upon its field offices to develop and implement their own monitoring plans. Each monitoring plan was expected to be tailored individually and address the goals and standards for monitoring the specific parcel of land involved. All State Chapters employ Directors of Science and Stewardship whose responsibilities include monitoring conservation easements. As appropriate, these employees have staffs to assist them in their responsibilities.

As noted above, on March 12, 2004, the Executive Committee of the Board of Governors approved revisions to the policy on "Ownership and Management of Lands and Waters" to make explicit the Conservancy's expectation that the relevant operating unit will develop and implement appropriate monitoring plans. As part of the continuing internal review discussed earlier in this memorandum, the Conservancy's easement working group is developing a recommendation for new centralized procedures to supplement and strengthen the necessarily decentralized and local monitoring process.

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[13] The Conservancy distinguishes between compliance monitoring to ensure that specific easement terms are met, on the one hand, and ecological monitoring, on the other, which seeks to determine whether the plants, animals or natural communities that are the conservation target of the easement continue to be viable on the property. Unfortunately, in some cases, whether these biological targets are able to survive may be unrelated to the degree of easement compliance as determined through the compliance monitoring process.

These procedures will include a new centralized easement management electronic database that will record all easements held by the Conservancy and the terms and conditions of each easement. When fully operational, the protocol will: (a) notify operating units of appropriate monitoring dates for each easement; (b) provide a standardized monitoring checklist; (c) require that all records of monitoring, property transfer notices, regular owner cultivation, periodic verification of the baseline, and enforcement actions be entered into the system; and (d) while not requiring a report of annual monitoring activities, be subject to internal audit of monitoring activities and record keeping. The Conservancy estimates that this system-wide monitoring process will be placed in service early in its next program year.

4. State how often TNC has engaged in litigation to enforce a conservation easement granted to it over the past ten years. For each such instance, describe the litigation briefly and discuss the outcome of such litigation.

See the response to Question 5.

5. Does TNC have a written policy or a general rule of thumb (written or unwritten) regarding when it will engage in litigation to enforce a conservation easement granted to it? If so, please attach a copy of the written policy, or describe any unwritten policy.

As the preceding discussion illustrates, the Conservancy takes seriously its monitoring and enforcement obligations under the terms of the easements it holds. As a first step in the enforcement process, the Conservancy generally makes a strong effort to build good partnerships and open lines of communication with the landowners who own land subject to the conservation easements that the Conservancy holds. Such relationships are often sufficient in and of themselves to prevent or avoid violations of the terms of easements. In situations where there is a violation, however, it is the Conservancy's practice to seek corrective action in the first instance by negotiation with the landowner.

If a reasonable resolution cannot be reached by agreement, the Conservancy will pursue litigation to enforce the conservation easement pursuant to its standard operating procedure concerning litigation. This procedure was established in 1996 based on then existing practices. Litigation is costly, problematic and (even when successful) involves

delays that may in some cases compromise conservation objectives. The Conservancy has been able to resolve most instances of actual or alleged easement violations without resorting to actual litigation. The specific instances in which actual litigation has been required are summarized in Annex A to this memorandum.

6. Explain the practices, policies, and procedures of TNC for granting a modification or amendment of a conservation easement held by or for the benefit of TNC. If there is a written policy, please attach a copy.

As explained earlier in this memorandum, the Conservancy has a formal written procedure with respect to the amendment or modification of a conservation easement. The procedure was established in 2001. At that time, there was little or no official guidance from the Internal Revenue Service with respect to the modification of easements. The 2001 procedure was reviewed in proposed form by independent counsel[14] and was adopted following informal discussions with representatives of the National Office of the Internal Revenue Service and other conservation organizations.

The procedure applies to all conservation easements held by the Conservancy (including, but not limited to, easements with respect to which a taxpayer received a tax deduction for contributing the easement). The procedure applies to all proposed amendments or modifications except where the proposed changes (1) only impose additional conservation restrictions; (2) are clearly *de minimis*; or (3) merely clarify, rather than change, the substantive terms of the easement.

In cases where this procedure is applicable, a four part analysis must be undertaken by the Conservancy upon receipt of a request for a proposed modification. *First*, the Conservancy's conservation staff must determine that the proposed changes will not diminish the overall conservation goals and objectives of the original easement in any way. *Second*, the Conservancy's legal staff must determine that the proposed changes will not result in a violation of the "private benefit" rule set forth in section 501(c)(3) of the Internal Revenue Code. This determination generally is based on independent appraisals

[14] A memorandum dated March 15, 2001 containing the views of the law firm of McCutchen, Doyle, Brown and Enersen, LLP on the then-proposed procedure is being provided separately to the Committee.

of the value of the benefit (if any) to the landowner and the value of the conservation rights being provided. *Third*, in the case of proposed modifications to an easement that was acquired by donation, the donor must be contacted to confirm he or she has no objection. *Fourth*, the Conservancy's legal staff must determine that the proposed change complies with all applicable State law requirements.[15]

If these four conditions are satisfied, two further steps are required. *First*, the proposed changes must be approved by the Conservancy's President and its General Counsel. *Second*, the Conservancy and the landowner must submit the proposed modification by the relevant State authority that that provides oversight of charitable organizations and, where appropriate, by a court.

7. The easement modification chart submitted December 11, 2003, suggests that a number of conservation easement amendments or modifications would appear to benefit the landowner. Please describe in detail the easement adjustments provided for items, 3, 4, 5, 6, 7, 8, 13, 14, 19, 20, 21, 26, 28, 29, 39, 44, 51, 56, 60, 61, 64, 65, 67, 70, and 74 of such chart. Discuss how TNC views such modifications as either benefiting or not benefiting the landowner. For each item, attach a copy of the easement before amendment and a copy of the easement after amendment, and provide a narrative discussion of the changes made.

The Conservancy has separately provided the Committee with its responses with respect to the 25 easement modifications identified in the Committee's question. As the preceding discussion in this memorandum indicates, the Conservancy's procedures require that strict scrutiny be given to all proposals for easement amendments and the 2001 procedure specifically requires an examination of the potential application of the "private benefit" rules. The policy states:

> ". . . if the landowner receives any value attributed to the change, then the landowner must compensate the Conservancy in an amount that is at least equivalent to value enhancement. While the Conservancy should prefer to take back compensation in the form of additional conservation lands or

[15] The requirement that proposed easement modifications be submitted to the relevant State authorities was added to the Conservancy's policy in 2003 following additional consultations with representatives of the National Office of the Internal Revenue Service. It replaced the original requirement of review by the Service. State review was considered by the Service to be more appropriate since resolution of the relevant tax law issues was controlled by the interpretation of State law.

conservation restrictions, there may be instances where the Conservancy will receive monetary compensation."

8. Does TNC monitor and record changes in ownership of property subject to conservation easements granted in favor of TNC? If so, does TNC contact the new owner by letter or otherwise and impress upon such owner the obligations under the conservation easement? Please attach a copy of (a) any recorded effort to track such changes in ownership, and (b) any notice to new owners regarding easement obligations.

The Conservancy does record changes in ownership of property subject to conservation easements that it holds. A clause in the Conservancy's standard form of easement document requires that notice be given to the Conservancy by the grantor of a conservation easement when the grantor transfers the land to a new owner. Successor owners are subject to the same notice requirement if they re-transfer the land since they are subject to the terms of the easement. When fully operational, the centralized easement database discussed earlier in this memorandum will capture information concerning transfers of ownership and thus provide a system-wide mechanism for timely notifications to new owners and other appropriate action.

As noted elsewhere in this memorandum, responsibility for the management and administration of conservation easements traditionally has resided with the Conservancy's State Chapters. Some State Chapters, such as California, Texas, and various States in the Northeast, hold a large number of easements and have developed detailed procedures and forms which are used to contact new landowners and track changes in ownership. Those States often have organized systems and databases to keep track of such information. In other locations, easements are not a significant component of a State Chapter's conservation activities or projects and the process of tracking ownership changes has been less structured and more dependent on other means, such as actual site visits during monitoring inspections. In addition, where the Conservancy conservation staff is located in small, rural communities, they become aware of changes in land ownership by virtue of their presence within the local community. Finally, in some cases, new owners, who are often as conservation minded as the original owner, initiate contact with the Conservancy directly. Thus, the Conservancy typically is aware of changes in ownership and generally

contacts new owners to inform them of the easement obligations and conservation importance of the property.[16]

9. Please respond to assertions or concerns regarding conservation easements as follows:

(i) How many easements has TNC written off as unenforceable or of little value?

The Conservancy has not "written off" any easements because they were regarded as unenforceable or of little value.

(ii) Please provide a list of any such write-offs including the name of the owner of the property subject to the easement and the location of the property.

To the best of the Conservancy's knowledge, there have been only three easement projects in which the original conservation purposes for holding the easement changed and the Conservancy or the landowner sought to modify the management of the easement in light of those changed conservation circumstances. These are described in Annex B to this memorandum.

(iii) Does TNC fail to enforce easements where it is aware of violations because of the cost of litigation relative to the worth of the easement in question? Please discuss your answer.

As noted elsewhere in this memorandum, litigation is a last resort in the Conservancy's hierarchy of enforcement methods. The Conservancy does not, however, "fail to enforce easements" merely because of the litigation cost. As also discussed previously in this memorandum, the Conservancy establishes and maintains a stewardship endowment fund for each conservation easement and these funds can be used to defray the cost of litigation where litigation is necessary.

The decision to pursue legal action to redress an easement violation generally would be made without regard to the "worth", in *economic* terms, of the easement. Such a decision generally would be made based on the "worth" of the easement in *conservation* terms. In the few cases in which the Conservancy has been involved in easement

[16] Samples of notices, letters, and forms have been provided to the Committee.

litigation, if an adverse court decision has been rendered, the Conservancy will assess all relevant facts and circumstances, including the likelihood of prevailing on appeal and the costs to be incurred, in determining whether to proceed with an appeal.

(iv) Is TNC concerned that over time, with change in ownership, new owners not having conservation goals may violate easements in large numbers? Please discuss.

In principle, there is a risk that a new owner will not understand, or be as committed to, the conservation purposes of the easement as was the owner who placed the easement on the property. As noted above, owners are required by the terms of an easement to notify the Conservancy when they transfer title. The Conservancy generally seeks to develop constructive relationships with new owners and provide information about the conservation features and importance of their property, as well as the mechanics and shared obligations of a conservation easement. In the Conservancy's experience, most landowners will not knowingly violate the terms of an easement when properly apprised of the importance of their land from a conservation perspective and the relationship of the easement's terms to achievement of the conservation objective.

(v) How does TNC defend its conservation easements on small tracts (from less than one acre to up to 2 or 3 acres) where monitoring and enforcement of easements is more difficult economically? Please discuss.

The size of the acreage of the tract is not a factor in the Conservancy's decision-making with respect to monitoring and enforcement. Indeed, in some respects, it is easier and simpler to monitor a small easement tract than a large one. The Conservancy implements it obligations for stewardship and oversight of such properties based on ecological and conservation priorities. In point of fact, the Conservancy does not hold many easements over tracts of the size described.

12. Does TNC use easement valuations to minimize book losses, or enhance book gains? Please explain how TNC's financial statement treatment with respect to valuation of easements (whether acquired by purchase or by donation, or by other means such as by TNC creating the easement as a part of an acquisition, or disposition of property by TNC) complies with accounting standards applicable to TNC and to non profit conservation organizations.

The Conservancy maintains its books and records, and prepares its published consolidated financial statements, in conformity with accounting principles generally accepted in the United States. The Conservancy's financial statements are audited by PricewaterhouseCoopers LLP ("Pricewaterhouse"). For its fiscal year ended June 30, 2003, the report of Pricewaterhouse states:

> "In our opinion, the accompanying consolidated statements of financial position and the related consolidated statements of activities and of cash flows *present fairly, in all material respects*, the consolidated financial position of The Nature Conservancy (The Conservancy) at June 30, 2003 and 2002, and the changes in their net assets and their cash flows for the years then ended *in conformity with accounting principles generally accepted in the United States of America.*" (Emphasis supplied.)

The Conservancy's specific method of accounting for easements is set forth in the published notes to its financial statements (Note 2, "Summary of Significant Accounting Policies") as follows:

> "The Conservancy records conservation easements at cost or fair market value, which is usually determined by appraisal if the easement was donated, at the date of acquisition. Conservation easements may subsequently be transferred to government and others. The proceeds from any such transfers are reflected as revenue. The carrying cost, and any losses arising from such dispositions, are accounted for as the land sales and donations component of program expenses (see Note 14)."[17]

This method of accounting for conservation easements has been approved by three different independent auditors who have rendered unqualified opinions on the Conservancy's financial statements since 1988: Pricewaterhouse; Arthur Anderson & Co.; and Coopers and Lybrand.

The Conservancy's accounting for conservation easements is transparent. In addition to disclosing the policy clearly in the footnotes to its audited financial statements, conservation easements have in recent years been presented as a separate line item in the Conservancy's consolidated statement of financial position to ensure that any user of the Conservancy's financial statements would understand the nature of this specific class of

[17] Copies of the Conservancy's audited financial statements are available on the Conservancy's web site.

asset and the basis for the recorded accounts.[18] To illustrate the Conservancy's policy, if an easement having a fair value of $100 is donated to the Conservancy, the revenue component of the statement of revenues is increased by that amount as are the Conservancy's balance sheet assets. In this connection, it should be noted that, under the Conservancy's method of accounting, all gifts (whether cash or in kind) are recorded as revenues. In the case of the purchase of an easement for its fair value of $100, the cash account is reduced by the $100 purchase price and balance sheet assets are increased by $100. If the easement is subsequently transferred or sold by the Conservancy, any sales proceeds are reflected as revenues and an increase in cash on the balance sheet.. In addition, "Cost of conservation land and easements sold to government and others" is charged as an expense and balance sheet assets are reduced appropriately to record the disposition of the conservation easement asset.

The Conservancy believes its method of accounting is consistent with accounting standards applicable to nonprofit conservation organizations. There is at present no specific guidance in the literature of "generally accepted accounting principles" that mandates a single method of accounting for conservation easements by nonprofit conservation organizations. The Conservancy's independent auditors have provided references that serve as the basis for the conclusion that the Conservancy's method of accounting for conservation easements as having value is a proper method.[19] The Pricewaterhouse audit letter (as quoted above) is consistent with this position and Pricewaterhouse has recently affirmed this treatment to the Audit Committee of the Conservancy's Board of Governors.

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[18] Conservation easements appear as a separate line item on the Conservancy's *balance sheet* and are included within the category entitled "Land and easements contributed for conservation" on the Conservancy's *statement of revenues and expenses*. Finally, in the Conservancy's *statement of cash flows,* there are separate line of items for "Land and conservation easements contributed for conservation", "Proceeds from sale of conservation land and easements," and "Purchases of conservation land and easements."

[19] See FASB Statement of Financial Accounting Concepts No. 6, paragraphs 26 and 28; EITF 02-7, Example 1 (March 20-21, 2002); and FASB Statement of Financial Accounting Standards No. 116, paragraph 130.

15. Your response to our letter of July 16, 2003, included a chart of "Conservation Easement Purchases and Donations" greater than $1 million. Item 14 of the chart lists a site name of "San Joaquin Hills Portfolio" with a listed fair market value of the easement of $2,016,100. Item 15 of the chart, the same site, lists a fair market value of the easement of $16,376,300. Item 16, the same site, lists the fair market value of $17,685,000. Item 17, the same site, lists the fair market value of the easement as $89,415,400. All four easements were provided by the same company As to all four items please provide all information in your files relating to these transactions including, but not limited to, appraisals, identification of the grantor, identification of the property, the charitable donation claimed, a copy of forms 8283, copy of deeds, copy of e-mail, letters, memos, and provide a narrative description of the transfers and the environmental purpose and significance of the property.

The conservation easements acquired by the Conservancy within the Irvine Ranch Land Reserve are designed to ensure the long-term protection of three portfolio sites identified by the Conservancy in its 1990 South Coast Ecoregional Scoping.[20] The materials and documents requested by the Committee, together with a narrative description of the transfers, are being provided to the Committee separately. The discussion in this memorandum is limited to a description of the environmental purpose and significance of the property.

The lands protected under the conservation easements include approximately 171 acres within the Laguna Canyon Area (part of our 20,000-acre San Joaquin Hills Portfolio site) and 11,500+ acres in the Central/North Irvine Ranch (within the Western Slope portion of our Santa Ana Mountains Project Area). The Central and North Irvine Ranch areas contain two Conservancy portfolio sites: Limestone Canyon and Fremont Canyon, which total approximately 24,000 acres. Limestone Canyon has been largely protected through the National Communities Conservation Plan (NCCP) program; however, the NCCP did not address the protection or connections to larger core areas such as the North Ranch or connections to the Cleveland National Forest.

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[20] The parties originally contemplated that there would be a total of seven easement contributions. Four such contributions were made during the time period encompassed by the Committee's question. A fifth contribution was made subsequent to this period and the two additional contributions are expected to be made in the future.

The donation by The Irvine Company of the 171-acre Laguna Laurel conservation easement in the San Joaquin Hills provides an important "missing link" in a habitat linkage that is being planned to connect Orange County's south coast wilderness (Crystal Cove State Park, Laguna Coast Wilderness Park) northward to Limestone Canyon Wilderness and the Cleveland National Forest. The donation of the four northernmost of the conservation easements (East Orange, Fremont, SilMod, and Anaheim), which are located in the Central/North Irvine Ranch area, will ensure the protection of the entire North Irvine Ranch, and the protection of connections from Limestone Canyon to the North Ranch and beyond to the Cleveland Forest. Fremont Canyon is considered by local conservation interests as an important core habitat area, supporting large carnivores and deer as well as many unique plant and animal associations not represented on other Irvine Company open space holdings or in the National Forest (golden eagle foraging/nesting areas, Tecate cypress, transitional Venturan sage scrub, chaparral bear grass, 11 species of bats, San Diego fairy shrimp).

In its 2000 Santa Ana Mountains Project Update, the Conservancy conservatively identified approximately 8,000 acres of the North Ranch that we would like to see protected; these conservation easements will ensure protection of the *entire* 10,000 acre North Ranch, *and* 1,500 acres of important connector lands, thereby ensuring not only the full protection of the North Ranch but also ensuring the long-term ecological integrity of the adjacent Limestone Canyon portfolio site.

16. An example of a small conservation easement is the conservation easement placed on 1.62 acres on land transferred to David and Laura Milliken with respect to New Mexico – Santa Fe Canyon Preserve. Is an easement appropriate since the Millikens were encroaching on the land? How much of the driveway and fence were an encroachment on the land? Could TNC have sold a sliver of land outright that covered the area of encroachment? Does this easement serve a conservation goal?

The question asks whether, in lieu of a conservation easement, the Conservancy could have "sold a sliver of land outright that covered that encroachment…" and the conservation purposes served thereby. In fact, as explained more fully below, the

transaction *was* actually structured as a sale of the land outright subject to deed restrictions and did not involve a donation or conveyance of a conservation easement.

On April 14, 2000, Public Service Company of New Mexico (PNM) donated a 190-acre tract of land to The Nature Conservancy. This tract became the Santa Fe Canyon Preserve. In the course of establishing the Preserve, the Conservancy learned that a portion of Mr. David Milliken's driveway, and landscape retaining walls associated with Mr. Milliken's residence, were located on a very small portion of the donated property. Mr. Milliken agreed to rectify the situation by purchasing a 1.67-acre parcel of the donated 190-acre property on which the driveway and walls were located, such tract to be located between his home and an adjacent utility easement access road.

The property is located in the mountain special review district of the extra-territorial zoning authority area of the City of Santa Fe located outside of the city in Santa Fe County. The minimum lot size for a single family residence in this zone is twenty acres. The sale to Mr. Milliken was further limited by restrictions in the deed of conveyance from the Conservancy to Mr. Milliken which prohibit subdivision or building or construction of improvements, except for landscaping and perimeter fencing whose design and any subsequent modification must be approved prior to construction by the Conservancy. Due to zoning and these deed restrictions, the highest and best use of the property as determined by Jane Plimpton Trusty, an independent appraiser and a member of the Society of Real Estate Appraisers, was "as buffer for privacy and enjoyment of open space in association with the site located at 1710 Upper Canyon Road", owned by Mr. Milliken. Ms. Trusty placed a value on the tract of $75,000. The property was subsequently sold to Mr. Milliken for $100,000 on April 29, 2002.

The sale of the tract posed no threat to or adverse impact on the conservation values on the Santa Fe Canyon Preserve and allowed for a lot line adjustment which resolved driveway and landscape encroachment conflicts. The land will not be further developed, serves as a buffer to the Preserve and is subject to the deed restrictions. It also allowed funds to be obtained and used for the management of the Preserve.

The Conservancy treated the transaction with Mr. Milliken in accordance with its conflict of interest procedures in effect at the time. Prior to executing a purchase agreement for the sale on November 29, 2001, the potential conflict that might appear (because of one of Mr. Milliken's relatives serving on the Conservancy Board of Governors and because of Mr. Milliken's service as a trustee of the Utah chapter of the Conservancy) was disclosed and approved by Conservancy management.

* * *

The Conservancy stands ready to respond to any additional questions the Committee may have with respect to conservation easements.

Annex A

Summary of Enforcement Litigation

Florida: Koreshan Unity Preserve

On April 14, 1966, The Conservancy accepted the donation of a 76± acre tract, located in Lee County, Florida, from the owners, the Koreshan Unity Foundation, Inc. (KUF). This tract, which established the Conservancy's Koreshan Unity Preserve, was donated with the intention that the property be held in its natural state. On August 23, 1978, the Conservancy transferred the property back to KUF, with the mutual agreement that the property be subject to deed restrictions requiring that it be held as a nature preserve for scientific, educational and aesthetic purposes, and kept entirely in its natural state.

The Koreshan movement was established in the late 1800's in Estero, Florida as a Utopian Community. Approximately 305 acres of the original KUF property, located adjacent to the 76± acre tract originally donated to the Conservancy in 1966, was transferred to the Florida Board of Parks and Historic Memorials in 1961, creating the Koreshan State Historic Site. The original Koreshan members, whose intentions were that the property be maintained in its natural state, are all now deceased. Over the years, the Conservancy has received requests from the successors of the original Koreshan members to have the restrictions held by the Conservancy on the 76± acre tract released. Since this tract is adjacent to the Koreshan State Historic Site, the Conservancy consulted with the Florida Park Service, which consider the 76± acre tract an important buffer to the State site and requested that the restrictions remain in place. The Conservancy has consistently refused to lift or release the restrictions.

In September, 1995, KUF filed a lawsuit to obtain release of the restrictions, so that the property could be developed. The Conservancy vigorously defended the easement and the litigation received significant coverage in the local press. The final judgment was rendered in favor of the Conservancy in June 1997, upholding these restrictions as an enforceable conservation easement. The judgment was affirmed in October, 1998, the District Court of Appeals affirmed the Circuit Court's ruling.

Georgia: Southeast Timberlands

On January 14, 1983, the Conservancy accepted a donation of a conservation easement on approximately 3,965 acres of land located in Chatham County, Georgia. The property owner-grantor under the easement, Southeast Timberlands, Inc., engaged a third party timber company to do a timber cut on land adjacent to the land encumbered by the easement. Although the third party was made aware of the existence of the easement, the third party cut timber within the boundaries of the easement. The cutting within the easement appeared to have been accidental. Southeast Timberlands, Inc. was paid approximately $14,000 for the value of the timber cut from the CE area. The Conservancy filed suit in May, 2001 to enforce the terms of the CE.

The CE document provides that the measure of damages in case of a violation is the cost of restoring the land to the condition in which it existed prior to the violation. Since natural reforestation was already in progress, restoration was not necessary in the opinion of Georgia Chapter conservation staff.

Although the land owner did profit from the CE violation, the CE document does not allow us to recover that profit. Since the cut was apparently accidental and not in bad faith, the Conservancy decided to settle the case and dismiss the lawsuit in exchange for a $5,000 payment from the property owner.

Maryland: Myrtle Grove

In 1998, The Nature Conservancy joined a Motion to Intervene in a suit brought by the Attorney General of the state of Maryland to enforce a conservation easement that had been created in 1975. The property subject to the conservation easement had been transferred from the easement grantor to a subsequent landowner, and the new owner asked the easement holder, The National Trust for Historic Preservation, if some of the easement terms could be changed to permit increased development of a portion of the property. The Trust agreed at first, but then shortly thereafter denied the request. The landowner sued the Trust for breach of contract in the Superior Court of the District of Columbia.

Subsequently, the Maryland Attorney General sued the landowner in Maryland state court to prevent any weakening of the easement provisions and to enforce the "charitable trust on behalf of the people of Maryland." The Nature Conservancy, the Eastern Shore Land Conservancy, and five other neighboring landowners moved to intervene in this action. These parties asserted that the conservation easement should not be modified to permit any additional development. Shortly thereafter, the Trust and the landowners reached a settlement that recognized the validity of the easement and left it unchanged.

Montana: Shining Mountain

The Nature Conservancy on June 21, 1982 sold, subject to covenants, the property commonly referred to as Shining Mountain Ranch to Baker Boone Ranch, d/b/a/ Bitter Root Cattle Company. Shining Mountain Ranch was eventually purchased by George R. Madden. On January 30, 1992, the Conservancy sent Madden notice of violations of the covenants and servitudes that the Conservancy held over the property. Madden then brought a Complaint for Declaratory Relief against the Conservancy in the USDC for the District of Montana – Missoula Division on March 5, 1992. In his complaint Madden asserted that the covenants were not binding on him or the property and, therefore, not legally enforceable. He further asserted that the actions alleged in the notice of violations were done to prevent erosion of the property, remove fire hazards, increase the vigor and health of forested portions of the property, and, therefore, were not violations of the covenants. The Conservancy filed an answer and counterclaim on June 9, 1992. The counterclaim essentially sought injunctive and preventive relief to require Madden to restore property to its state prior to the alleged violations and enjoin Madden from further activities in violation of the covenants. Both parties filed motions for judgment on the pleadings. On December 8, 1992 the Court issued its opinion and order finding that the Conservancy held a valid conservation servitude on Shining Mountain Ranch pursuant to Section 70-17-102(7) M.C.A. which was enforceable against Madden. Therefore Madden's motion for judgment on the pleadings was denied and TNC's motion for judgment on the pleadings was granted.

On December 23, 1992 the Conservancy filed a Motion for Preliminary Injunction which was subsequently denied. Thereafter, numerous discovery requests and motions were filed by the parties. Settlement discussions between the parties also occurred and eventually resulted in a mutually satisfactory disposition of this matter. During the course of this litigation, Madden had placed his property on the market for sale and a potential buyer appeared. Based on the advice of outside counsel that the Conservancy had engaged to represent us in the litigation, the Conservancy entered into discussions with the potential buyer of the Shining Mountain Ranch and reached agreement on the terms of a conservation easement to encumber the property in the event the potential buyer was successful in purchasing the property from Madden. The Conservancy's outside counsel was of the opinion that while the covenants and servitudes encumbering the property had been found valid, the Court had expressed its views in several of the hearings that the provisions were ambiguous at best and the Conservancy's outside counsel believed it would be to the Conservancy's benefit to use a conservation easement that more clearly expressed prohibited uses to encumber the property. Madden and this buyer reached agreement on the sale of the property and, therefore, the matter was settled with the Conservancy signing a Deed of Termination and Reconveyance of Covenants and Servitudes. The new owner of the property, J.R. Miller Ranches, L.L.C., conveyed a conservation easement to the Conservancy upon purchase of the property from Madden.

Madden and TNC signed a Mutual Release of All Claims. The Court entered an Order of Dismissal with prejudice on July 6, 1998.

New York: White Lake Swamp

In a case in which the Conservancy sought to enforce deed restrictions (which are quite similar to conservation easements) in 1997, the Conservancy entered into litigation on behalf of the Central & Western New York Chapter of the Conservancy to defend a 450-acre property on which the Conservancy held a deed restriction. The deed restriction, which the property became subject to at the Conservancy's request in the early 1980s, required the property to remain in a "natural state". The Conservancy had an adjoining Preserve, the White Lake Swamp Preserve. In 1997, a private individual purchased the property, with full knowledge of the deed restriction and announced his intention to build a housing development. Litigation was commenced to enforce the deed restriction and prevent the development of the property. In 1998 and after the Conservancy had spent $70,000.00 in outside counsel fees, a Court ruled that the deed restriction was invalid. The Conservancy withdrew from the litigation, but a a group of adjoining property owners successfully appealed the decision. As adjoining landowners, they also had standing to enforce the deed restrictions. The restriction was ultimately upheld by the NYS Appellate Division and the property remains undeveloped By reason of the decision of the other litigants to appeal, there was no need for the Conservancy to incur the additional expense of joining in the appeal.

Annex B

Summary of Easement Write-Offs

Roanoke Island Marshes (Guthrie) NC

This easement was donated by Shirley and Cecil Guthrie on December 10, 1984 and covered 34.34 acres, of which 28.34 acres were marsh and 6 acres were "upland loblolly pine/myrtle hammock". The easement is adjacent to the home of the Guthries, but does not cover the land on which the home is located. At the time the easement was accepted it was thought that the Conservancy would acquire additional easements on the marshes on the west side of Roanoke Island. For various reasons this never happened and the conservation area today only covers the 34.34 acres. There are a few monitoring reports, but staff at the Nags Head Preserve about 25 miles from this easement, say they have responded to various questions over the years from Mrs. Guthrie and tried to visit the property every five years or so. In 1998 staff at Nags Head Woods responded to call from Ms. Guthrie and her son about trimming some trees along a driveway that runs to her home. Staff told them that nothing in the easement would prevent the trimming. In November of 1999 we received a letter from an attorney representing Ms. Guthrie. He stated that Ms. Guthrie had brought the easement to him to review and that Ms. Guthrie claimed that the easement was supposed to only cover the marsh acreage and not affect the uplands. The easement was drafted by the Conservancy. The attorney goes on to state that the Guthries did not claim a deduction for the gift. Ms. Guthrie wanted the easement to apply only to the marshland. The Conservancy stated that it thought it was clear that by the Guthries' own correspondence that the Guthries understood the concept of the easement and the land it was to cover. The Conservancy communicated with the Guthrie's attorney and reported that there was nothing in the files that would lead the Conservancy attorney to make a recommendation to reduce the coverage of the easement. Later, the Conservancy staff went by the site and noticed that some loblolly pines had been cut on the uplands, which would be a violation of the easement. Staff sent Ms. Guthrie a letter in care of her attorney notifying Ms. Guthrie of the possible violation and offering to set up a time to inspect the property. It was later learned that Ms. Guthrie had the trees cut on the advice of a forester from the NC Division of Forestry because of pine bark beetle infestation. About the time that the Conservancy discovered the possible violation, the Conservancy also learned that Ms. Guthrie had agreed to sell her property to a developer for $100,000 who was going to combine it with adjacent land to construct a marina. The sale was conditioned on the Conservancy agreeing to amend the easement to restrict it to the wetlands. The developer offered to grant the Conservancy an easement over some adjoining marsh. For the next two years staff discussed a possible transaction, which finally evolved into a proposal whereby the Conservancy would agree to limit or remove the restrictions on the uplands in exchange for title to a much larger area of marsh and marsh islands. However, the Conservancy could never get final agreement on the transaction, even though an independent scientific assessment commissioned by the Conservancy said the transaction would have a positive conservation benefit for the

marshes, which were the conservation target. Also, at some point in 2001, the Conservancy came to the conclusion that it would not be a good idea for the Conservancy to bring suit against an elderly home town widow of moderate means because she cleaned out a few acres of diseased loblolly pines on the advice of a state forester – particularly since the possible violation was only discovered when she contacted us through an attorney contesting the coverage of the easement and alleging undue influence. The Conservancy also felt that the main reason for the easement was to protect the marshes and that was being accomplished.

Foulweather Bluff (Pennell) WA

This easement was granted in 1975. The Conservancy Washington program has generally defended the Foulweather Bluff (Pennell) conservation easement in the same manner it has defended other conservation easements (e.g. periodic monitoring and follow up conversations or letters to the owner). This easement is unusual however, in that the owner requested a release of the easement. In 1995, the Conservancy Washington program concluded, based on an ecological evaluation of the property, that the easement provided no protection for this property above and beyond that which was being provided under the Draft Bald Eagle Management Plan prepared by the Department of Fish & Wildlife. Concluding that there was no ecological reason to retain the easement, in 1995, the Conservancy offered to release the easement in exchange for the fair market value of the easement. However, the owner declined to pay for a release of the easement and the conservation easement remains in effect today. The property has subsequently been transferred to a new owner. Pursuant to a letter dated October 4, 2001, the Washington program of the Conservancy approved the removal of some tree limbs, and the topping and removal of some of the dying or dead trees on the property.

Plantation Pond (Bowater North American Corporation) TN

This conservation easement was granted to the Conservancy on November 22, 1982 over land in Sequatchie and Grundy Counties, Tennessee. The easement encumbered 4.15 acres and was granted expressly to protect a colony of white fringeless orchid (Platanthera integrilabia). In approximately 1994, as a result of monitoring the property, no more specimens of this plant could be located on the property. The easement has not been monitored since that time. No formal action has been taken in this regard and the easement continues to remain in effect.

November 23, 2004

October 27, 2004
Senate Finance Committee Letter

Question 1

Please explain the meaning of footnote 15 to the letter dated April 15, 2004, page 14. Did TNC (or the donor) receive private letter rulings from the Internal Revenue Service for any conservation easement modification prior to the time that TNC adopted the new procedure? If so, attach a copy of all private letter rulings received. Also, did TNC receive approval for a modification of a conservation easement from a state authority that provides oversight of charitable organization after the new procedure was effective in 2003? Please attach a copy of all such state approvals (including any court approvals).

Footnote 15 in the TNC letter dated April 15, 2004 refers to the provision in TNC's conservation easement amendment procedure that requires approval of such modifications by the state authority that provides oversight of charitable organizations. This requirement was included to ensure that a determination is made that the proposed amendment complies with applicable state laws, including but not limited to the state's enabling legislation for conservation easements as well as state laws providing for oversight of the disposition of assets controlled by charitable organizations.

As described in footnote 15 to the TNC letter of April 15, 2004, TNC did consult with representatives of the Internal Revenue Service since the prior TNC procedure had contemplated review of easement modifications by the Service itself. The consultations indicated that this earlier requirement was not considered by the Service to be feasible since the questions typically involved interpretations of State law. The consultations were informal in nature and to the best of our knowledge no private letter rulings were sought by TNC (nor any donor) from the IRS for any conservation easement modification prior to the time TNC adopted this procedure.

Since the new procedure became effective, TNC has not received approval for a modification of a conservation easement from a state authority that provides oversight of charitable organizations for any of the easement modifications covered by the Committee's request for the time period FY98-FY02 (July 1, 1997 – June 30, 2002). Of the easement amendments previously submitted to the Committee, the only conservation easement amendment that was made subsequent to the adoption of the new procedure, was an amendment to an easement to correct errors in a property description. This amendment made no changes to the substantive conservation provisions of the easement and thus, did not require state agency approval.

October 27, 2004
Senate Finance Committee Letter

Question 2

TNC's answer to question VI.6 mentions "informal discussions with the IRS" and "additional consultations with representatives of the National Office of the IRS." Generally, guidance by the IRS to individual organizations or taxpayers is in the form of private letter rulings or nonbinding "general information letter." Please discuss the nature of the discussions or consultations with the IRS.

Question VI.6 in the TNC letter dated March 3, 2004, discusses TNC's procedure with respect to the amendment or modification of a conservation easement and the basis for its development.

The new procedure for easement modifications was developed by TNC after TNC sought and obtained informal opinions and advice from a wide variety of sources including, but not limited to independent attorneys, conservation practitioners, other conservation organizations and officials at the IRS. As noted in the response to Question 1, the new procedure substituted State review for IRS review and was considered appropriate by TNC and those with whom TNC consulted since the questions involved typically involved interpretation of State laws. No private letter rulings or "general information letters" were sought. The "informal discussions with the IRS" consisted of occasional meetings with attorneys at the IRS where technical issues were discussed and where TNC was simply seeking informal guidance as to best practices that TNC might adopt in this area, where no official rules or regulations exist. In effect, these meetings may be thought of as what would be similar to a pre-submission conference for a letter ruling request under IRS Revenue Procedure 2004-4, Section 12.07. Following discussions with the IRS and others, the TNC General Counsel and his colleagues within TNC concluded that a letter ruling was not required.

October 27, 2004
Senate Finance Committee Letter

Questions 3, 4, and 5: Narrative Re: Stewardship Endowments and Easements.

Question 3

Is the stewardship fund of TNC established for the enforcement of easements held in an account bearing the name or other identifying feature of the easement to which it relates, or is the fund simply one or several large funds covering all or many of the TNC easements? Please discuss your answer.

As described more fully in TNC's letter dated April 15, 2004, the Conservancy has a policy on Stewardship Funding that is intended to ensure that sufficient resources are available to meet the burdens, including enforcement as required, of holding conservation easements. The current policy was established by the Board of Governors in 1996 and is based on a directive issued by the Board in 1989. A copy of this policy is attached. In pertinent part, the policy states:

> "When The Nature Conservancy acquires any legal interests (fee and less than fee) in conservation land that it intends to hold, funds must be set aside for the perpetual management, or stewardship, of that interest."

The phrase "any legal interests" encompasses conservation easements and the phrase "funds must be set aside" is generally implemented by placing appropriate funds in an "endowment" which is designated as such on the Conservancy's books of account. Consistent with the Conservancy's general practices, these endowments typically are not physically segregated in separate bank accounts or otherwise.

The Conservancy currently maintains over 400 endowments that are separately identified as such in its books of account and the aggregate of the balances in these accounts is in excess of $700 million. These endowments fall into one of two categories: (1) endowments that are subject to perpetual restrictions imposed by donors and from which only the earned investment income may be expended, and (2) endowments established by the Conservancy which are not subject to donor-imposed restrictions with respect to the expenditure of principal, but which are administered by the Conservancy as though such a restriction had been imposed. As a result, all of these endowments are expected to continue in perpetuity.

These endowments provide the principal source of funding for the enforcement of conservation easements and thus obviate the need for a separate endowment limited to enforcement activities with respect to any specific conservation easement. In the Conservancy's view, this approach is more compatible with the broad interpretation of

the term "stewardship" applied by the Conservancy with respect to the conservation easements its holds.

In terms of the purposes for which a particular endowment may be used, the endowments generally fall into one of four categories.

1. Specific to a Particular Parcel of Land or Easement. These endowments generally are established with respect to large projects, which typically have separate operating budgets in the Conservancy's financial accounting system, and have the specific project name in their description. In such cases, funds may be disbursed as appropriate to enforce the terms of any easements that are part of the project to which the endowment relates.

2. Donor-Restricted. Investment income earned with respect to these endowments may be expended only for the purposes specified by the donor, which may, where specified by the donor, include providing stewardship (including enforcement) for conservation lands, or interests in land such as easements, held by the Conservancy.

3. General Stewardship. These endowments generally are comprised of funds set aside pursuant to the Stewardship Policy for a variety of projects within a specific geographic area, such as the Alabama Stewardship Endowment. The investment income from such endowments generally is used to fund stewardship operating costs, including enforcement of easement terms, with the geographic area to which the particular endowment is dedicated.

4. Other. The Conservancy also has endowments that either impose only general restrictions on the use of the income (e.g., to fund the ongoing operating costs of a particular chapter) or impose no restrictions. In such cases, the Conservancy remains free to use the income for enforcement of easements.

Question 4

How much money is deposited in a stewardship fund of a conservation easement?

As discussed in the Conservancy's response to Question 3, the funds used by the Conservancy for the enforcement of easement terms are generally taken from stewardship endowments and these endowments are intended to encompass the full range of stewardship activities and not merely enforcement activities. Thus, it is not feasible to identify a specific portion of the $700 million in stewardship endowment funds which is allocable as such to the enforcement of easements. In this connection, of the 400 endowment funds with some $700 million in assets, funds with assets totaling in excess of $200 million are identifiable as stewardship funds. The amounts expended from these funds annually for stewardship is approximately equal to five percent of the principal balance and, as noted elsewhere, funds from other endowments are also used as appropriate for stewardship purposes. On balance, the Conservancy is thus satisfied that

its endowments are adequate to fund enforcement activities for the easements it now holds.

Question 5

What formula does TNC use for providing or establishing a stewardship fund for a conservation easement?

As also discussed in the response to Question 3, the Conservancy's long standing policies require that a stewardship fund be created (or an existing fund increased) whenever a new conservation easement is acquired. The policy itself appropriately does not specify the dollar amount of the fund required since the level of expense that may reasonably be anticipated will vary from property to property. The policy provides that an amount equal to 20 percent of the value of the property be set aside where the circumstances are such that a more precise estimate of needed funding is impractical.

Stewardship Funding

POLICY:

When The Nature Conservancy acquires any legal interests (fee and less than fee) in conservation land that it intends to hold, funds must be set aside for the perpetual management, or stewardship, of that interest.

PURPOSE:

To ensure that The Nature Conservancy is able to fund the stewardship of its conservation interests in the conservation land.

ORIGIN:

Approved by the Board of Governors on March 15, 1996. The policy was formerly an existing Board directive - Board of Governors Resolution 1419 - approved 9/23/89. The policy also reflects the February 6, 1991 memorandum "Stewardship Endowment Funding Changes" from Bill Weeks and Will Murray.

REFERENCES, RESOURCES, and EXPLANATORY NOTES:

Funds will be raised or borrowed from the Land Preservation Fund in an amount sufficient to cover stewardship "start-up" costs, and to fund a stewardship endowment such that the income generated will cover at least half of the projected annual stewardship needs for the foreseeable future. If the appropriate amount of funding is difficult to determine, an acceptable estimate is 20% of the land interest's fair market value. The maximum Land Preservation Fund loan permissible for stewardship start-up and endowment funding is an amount equal to 25% of the fair market value of the land interest.

Refer to the Conservation Region Managing Directors for additional information

October 27, 2004
Senate Finance Committee Letter

Question 6: Narrative Re: Easement Modifications

Which of the 75 conservation easement modifications were requested by the landowner and which were requested by TNC?

Attached please find a chart indicating, to the best of the Nature Conservancy's knowledge, the party that initiated the request to modify the conservation easement modifications previously reported to the Committee. The chart shows that approximately 50% of the modifications were initiated either by TNC or by the landowner to add additional land for conservation protection under the easement. Approximately 18% of the modifications were made by mutual agreement to correct a mutual mistake. Approximately 28% of the easement modifications were initiated by the landowner or a subsequent owner. Finally, less than 4% of the modifications were initiated at the request of a third party, such as a state or local agency of government.

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Question 8: Narrative Re: Milliken Easement

You failed to answer part of question VI.16. Is the easement appropriate since Mr. Milliken was encroaching on the land? How much of the driveway and fence (and landscaping) were encroaching on the land (discuss area of these improvements as to the total area 1.67 acres)? Please respond.

The Milliken driveway/landscape encroachment on the 190 acre Public Service Company of New Mexico (PNM) land donation was approximately 2,160 square feet (120 feet long by 18 wide, 1/20th of an acre) which represents 3% of the 1.67 acre tract. The other portion of the 1.67 acre tract (not being impacted by Mr. Milliken) was the land between Mr. Milliken's property and the utility easement access road. This land is comprised of a very steep, shale escarpment that rises from the utility road up to a small plateau on which Mr. Milliken's house is located and where the driveway and landscape encroachment occurred.

After reviewing all of the legal options, the Conservancy's internal general counsel and his professional staff concluded the most effective way to resolve the encroachment issue was to sell a small parcel of land to Mr. Milliken. From a conservation standpoint, the shale escarpment was not integral or important to the Preserve design or management. The potential costs of litigating over the property lines and taking legal action to force Mr. Milliken to reposition his driveway and landscaping were significant. Moreover, the funds from the sale of the small parcel would be used for the management of the Preserve. On balance, selling this small piece of land was a good resolution to the encroachment.

With regard to the easement, the Conservancy decided to place an easement on this sliver of land prior to selling it to Mr. Milliken to ensure no further development occurs on this land. This easement was appropriate given the original purpose of the gift of land from PNM, which was to protect the property from development, and consistent with the Conservancy's desire to keep this land as a buffer area for the Preserve.

One final note, in our original response we mistakenly stated that Mr. Milliken had been a trustee of the Conservancy's Utah Chapter. In fact, it was Mr. Milliken's brother, not Mr. Milliken, who served as a Utah Chapter trustee. Mr. Milliken has never been a trustee of any chapter of the Conservancy.

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Question 9:

Did TNC send the Committee the memorandum of March 15, 2001 from the firm of McCutcheon Doyle, described in footnote 14, page 13 of the letter dated April 15, 2004? If not, please provide it.

The March 15, 2001 memorandum from the firm of McCutcheon, Doyle, Brown and Enerson, LLP was previously transmitted to the Committee on April 23, 2004. For the Committee's convenience, enclosed is an additional copy of the March 15, 2001 memorandum.

McCUTCHEN
McCUTCHEN, DOYLE, BROWN & ENERSEN, LLP

617-482-5866

NOV 23 2004

PRIVILEGED AND CONFIDENTIAL

Date: March 15, 2001

Direct: (415) 393-2436
pmorrisette@mdbe.com

To: Michael Dennis
General Counsel
The Nature Conservancy
1815 N. Lynn Street
Arlington, VA 22209

Laurel Mayer
California Regional Counsel
The Nature Conservancy
201 Mission Street, 4th Floor
San Francisco, CA 94105

From: [redacted]

Re: Amending Conservation Easements

As you requested, we researched the issue of whether a conservation easement can be amended without jeopardizing its tax-deductible status. In addition, we reviewed the memorandum that you prepared on procedures for The Nature Conservancy ("TNC") to follow when amending conservation easements. We have the following observations and recommendations regarding the amendment of conservation easements.

As you know, the grant of a conservation easement cannot be deducted for federal income tax purposes unless the easement is granted in perpetuity. We understand that in TNC's informal discussions with the Internal Revenue Service (the "IRS"), the IRS has expressed the view that when a conservation easement is amended in a way that reduces the scope of the easement, the easement no longer satisfies this perpetuity requirement and thus loses its tax deductibility. Although we are not aware of any case or ruling directly addressing this issue, we believe that if such an amendment were made to a conservation easement, the IRS would most likely be successful in challenging the tax deductibility of the easement if (i) the amendment was contemplated at the time the easement was originally granted and/or (ii) the landowner did not fully compensate TNC (in cash or other consideration such as additional conservation easements on other property) for the increase in the value of the land to the landowner as a result of the amendment and for any diminution in the value of the conservation easement to TNC as a result of the amendment.

In both of these instances, the IRS would have solid grounds for arguing that the original grant of the easement was not made in perpetuity. Furthermore, in the latter instance, TNC would run the risk of violating the tax-law prohibition against conferring a private benefit, and even if the applicable statute of limitations had run with respect to the original grant of the easement, the landowner might nevertheless have to recognize income under the so-called "tax benefit" rule.

We believe, however, that so long as an amendment reducing the scope of a conservation easement (for example, to permit the construction of an additional dwelling on a property) was not contemplated at the time the easement was granted, such an amendment should probably not affect the tax deductibility of the original grant of the easement provided that (i) the landowner fully compensates TNC for the increase in the value of the land to the landowner as a result of the amendment and for any diminution in the value of the conservation easement to TNC as a result of the amendment and (ii) TNC determines that the amendment will not have a significant adverse effect the conservation interests associated with the property.

Provided that full compensation is paid, this approach prevents the landowner from receiving a financial windfall with respect to the original grant of the easement (i.e., because the landowner has fully compensated TNC for the amendment, the landowner has not, in retrospect, received the benefit of an inflated charitable deduction) and also enables TNC not to run afoul of the prohibition against conferring a private benefit. Moreover, as discussed below, we believe this approach also is consistent with the approach taken in the Treasury regulations for dealing with extinguishments of easements and with easements involving the retention by the landowner of certain rights that may impair the conservation interests associated with the property.

The Treasury regulations provide that under certain conditions, a conservation easement can be extinguished without causing the original grant of the easement to fail the perpetuity requirement and thus lose its tax deductibility. One of these conditions is that upon an eventual sale of the property, the donee organization receive a portion of the sales proceeds equal to the proportionate value that the perpetual conservation restriction at the time of the gift bears to the value of the property as a whole at the time of the gift. See Treas. Reg. § 1.170A-14(g)(6). If the donee organization is entitled to be so compensated, then extinguishment of the easement does not cause the perpetuity requirement to be violated.[1] We believe the fact that the Treasury regulations permit extinguishments so long as, among other things, the donee organization is ultimately compensated for the value of the original easement supports the approach we have recommended above for the amendment of conservation easements.

[1] We understand that in TNC's informal discussions with the IRS, the IRS has been receptive to the idea of a partial extinguishment. A partial extinguishment might be a useful alternative to an amendment if the Treasury regulations did not require a judicial proceeding to extinguish a conservation easements. We believe this "judicial proceeding" requirement clearly limits the practical use of partial extinguishments (as well as complete extinquishments).

The Treasury regulations also permit a landowner granting a conservation easement to retain rights the exercise of which might impair the conservation interests associated with the property. See Treas. Reg. § 1.170-14A(g)(5). For example, a landowner may retain the right to build additional homes or roads on his property (i.e., rights whose exercise might impair conservation interests) without jeopardizing the tax deductibility of the conservation easement he is granting (though such retained rights could reduce the amount of his tax deduction). Before exercising a retained right, the landowner is required by the Treasury regulations to notify the donee organization in writing. Moreover, the donee organization must have the right to inspect the property to verify compliance with the conservation restrictions, and the right to enforce the conservation restrictions by appropriate legal proceedings. We believe the approach we have recommended for the amendment of conservation easements (i.e., requiring TNC to determine that the amendment will not have a significant adverse effect on the conservation interests associated with the property) is consistent with the approach taken in the Treasury regulations regarding the exercise of retained rights.

When negotiating future conservation easements, TNC may in certain instances want to go to considerable lengths to encourage landowners to consider carefully what specific property rights they want to reserve. Reserving rights at the time of the original gift could avoid the need to amend a conservation easement later. The reserved rights should of course be consistent with the conservation purpose of the easement, and the landowner should understand that retaining rights may reduce the amount of his tax deduction.

Finally, your memorandum states that it is TNC's position that an amendment that places an additional restriction on a property already protected by a conservation easement is no different than placing an additional conservation easement on the property. A recent U.S. Tax Court decision supports this position. In *Strasburg v. Commissioner of Internal Revenue*, the court held that an amendment to an existing conservation easement where the donor was giving up the right to build an additional home on the property constituted a qualified conservation contribution for which the donor was entitled to a deduction. 79 T.C.M. (CCH) 1967 (2000). Under *Strasburg*, a landowner who retained rights at the time of the granting of the original conservation easement should be able to receive an additional tax deduction if he later relinquishes those retained rights to the donee organization.

We hope these observations and suggestions are useful. Please call us if you have questions, and please keep us informed on your discussions with IRS regarding amendment of conservation easements.

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APPENDIX E

INFORMATION RE:
CONSERVATION BUYER PROGRAM

JUL 25 2003

QUESTION 1: Conservation Buyer Program

The Conservancy's Conservation Buyer Program is the sole program by which the Conservancy or its related organizations have sold to non-government entities land, interest in land, or water rights that are subject to a conservation easement or option of conservation easement. As noted in your letter; the Conservancy is also involved in sales of land to government, tradelands, and purchases of easements. However, one of the most important and largest programs of The Nature Conservancy is the acquisition of land and interests in land to be held permanently as conservation lands. While in most instances these lands are owned and managed by The Nature Conservancy, occasionally the Conservancy will transfer these lands by gift or sale to other non-governmental organizations or governmental agencies for management purposes.

JUL 2 5 2003

QUESTION 1: Conservation Buyer Program

"Lastly, the Board of Governors announced on June 13, 2003 that all CBP transactions must be 'legally documented as part of the transaction.' Please explain specifically what that means and what information will be available to the public and the IRS."

A summary of the decisions made June 13, 2003, by the Board of Governors states that "all charitable gifts associated with a conservation buyer transaction must be legally documented as part of the transaction." This summarizes the Board's decision that all charitable gifts associated with a conservation buyer transaction will be a legally enforceable element of the transaction and explicitly documented. This action was taken to ensure that in cases where the buyer makes a gift, there is an explicit link between the sale of the property and the gift.

TNC makes information relating to sales of property and donations available to the IRS in accordance with the requirements of the Internal Revenue Code. For example, on Schedule B of Form 990, with respect to contributions of 2% or more or its contributions, grants and similar amounts received, TNC reports the name and address of the contributor, the contributor's aggregate contributions, type of contribution, description of noncash property given, and fair market value or estimate of noncash property given. TNC would provide comparable information for other contributions if requested by the IRS in the context of an IRS examination of TNC tax returns. At the request of its donors, TNC typically does not make information relating to sales of property and donations available to the public. The Board of Governors' action will not change the foregoing practices.

Senate Finance Committee Letter 3/3/04
I. #6 Conservation Buyer Program

APR 1 5 2004

Attached please find the Resolution adopted by The Nature Conservancy's Board of Governors on June 13, 2003 creating new standard operating procedures for Conservation Buyer transactions which includes the requirement that "all charitable gifts associated with a conservation buyer transaction must be legally documented as part of the transaction." The Board's consideration and adoption of these procedures was made in an effort to ensure that conservation buyer projects are undertaken in accordance with the highest standards of conservation, real estate finance and practice, law and ethics as well as to provide greater openness and transparency in such transactions. The discussion at the Board meeting where these procedures were adopted and approved reflected the Board's desire to achieve those goals.

RESOLUTION
CONSERVATION BUYER TRANSACTIONS
STANDARD OPERATING PROCEDURE

Conservation buyer transactions are those in which TNC buys land with conservation significance and resells the land to a private individual, partnership or corporation subject to an agreement by the new owner to use the property in accordance with certain specified conservation objectives, typically in the form of a permanent conservation easement (which restricts the uses of the land and therefore reduces its fair market value). Transactions where the resale is to a public agency or another private conservation charity such as a land trust or where the resale is a tradeland are not included in this definition.

To ensure that all TNC conservation buyer transactions (CBT's) comply with the highest standards of conservation, finance, law and ethics, the following procedures are required to be followed:

1. **All CBT transactions must be consistent with *Conservation by Design*:** All CBT must advance TNC's conservation goals. A CBT shall be undertaken only when it A) meets standards for TNC action at priority conservation sites, B) achieves specific conservation goals and objectives, and C) uses conservation mechanisms that are appropriate and effective.

To accomplish item A), above, any transaction must be located within an identified ecoregional portfolio site or within a site for which TNC has a site or area conservation plan. Any exceptions must be approved by the relevant division director, who must find that, based on new scientific information, the property would meet the foregoing standards or that it will advance TNC's work in an area in tangible, measurable ways.

To meet items B) and C), above, a TNC scientist responsible for work in the project area, must provide a written assessment of the conservation buyer transaction, prior to the sale, that includes the following:

a) the specific conservation goals that are sought to be achieved at the site;
b) how the protection of the particular tract or property proposed for sale to a conservation buyer will achieve those goals;
c) what specific threats must be prevented to be able to achieve the conservation goals;
d) the specific conservation easement terms that are needed to meet the conservation goals (the operating unit must also give adequate consideration as to how conservation purposes might be achieved in the proposed transaction that are other than those relating strictly to biodiversity goals, including for example, those relating to assuring best management practices and/or other environmental standards for compatible human use of the land and natural resources); and
e) a monitoring plan (including costs and responsibilities) that will ensure that the conservation goals will be met and the easement terms will be enforced.

2. **All CBT transactions must assure appropriate valuation of the property interests in CBTs**: TNC must receive the full value for restricted land being sold. To assure this, TNC must obtain for its own use, a recent, independent, and qualified appraisal of the property as restricted before the property is sold. This requirement can be fulfilled with the following sequence of steps in a project process:

a) Determination of the terms of an easement to protect the conservation values of the property (see 1(d) above);
b) Draft appraisal (or letter of opinion or similar documentation of value) of the property documenting its value before and after the imposition of proposed easement restrictions;
c) Negotiation and agreement with proposed conservation buyer to accept such terms; and
d) Final appraisal by an independent appraiser of the property documenting its value before and after the imposition of proposed easement restrictions.

(The order listed above represents the ideal, but the sequence may not be followed in every instance.)

3. **All CBT transactions must adequately expose the property to the market through open marketing:** TNC must sell any property in a manner that both maximizes the financial return and assures appropriate conservation through an open and equitable marketing process. To ensure that this dual objective is achieved, wide exposure of the property to the marketplace is required. Therefore, the following marketing procedures must be followed in all CB transactions:

a) Conservation easement terms and financial objectives must be clearly stated for all TNC conservation buyer properties before marketing commences;
b) Information on all TNC conservation buyer properties will be available on TNC's web site;
c) Properties will be offered for sale using the most appropriate and practical methods that allow for fair competition and broad exposure. Methods considered should include listings with real estate brokers, advertisements in local/national media outlets, articles in TNC newsletters, articles in community media outlets, use of other internet outlets in addition to TNC's web site, use of comprehensive TNC conservation buyer lists, and use of "word of mouth" as appropriate;
d) A minimum time frame of thirty (30) days for exposure of the property to the real estate market is required, prior to a contract being accepted, unless a shorter time frame has been approved by a Division or Regional Director; and
e) All efforts to market the property are required to be documented.
f) There is an expectation that TNC will receive at least appraised value for the property or interests that are sold.

4. **All CBT transactions must assure standards of both legality and "Integrity Beyond Reproach":** Each CBT project must achieve the multiple objectives of assuring permanent conservation protection for the land; securing the needed project costs; and adhering to TNC standards of transparency, compliance with laws and policies as well as "Integrity Beyond Reproach." Therefore, TNC will participate only in those CB transactions where:

1) permanent conservation results from TNC's involvement.
2) TNC can document and will provide to the buyer a statement of the link between the gift and the sale in the transaction.
3) TNC has structured the transaction so as not to relieve the buyer of the responsibility for substantiating the value of the easement.

To meet TNC's commitment to "Integrity Beyond Reproach" in arranging CBT's, TNC should urge buyers/donors to use and will only participate in any one of the following forms of transaction:

The "Premium Sale" Approach
The "Gift Option" Approach

The "Sale and Separate Gift of Easement" Approach
The "Straight Conservation Sale with Private Fundraising" Approach
The "Straight Conservation Sale with Public Funding" Approach

Detailed explanations of above five forms of transaction are attached hereto and are available from the General Counsel's office.

5. **All CBT transactions must assess community considerations to assure that proposed uses of conservation buyer property do not impair TNC's reputation:** Prior to the transaction, TNC must assess the likely community reaction to the proposed land uses that will be permitted under the conservation buyer arrangement and balance the conservation benefit with the risk to the community's good will toward TNC.

The "Premium Sale" Approach: Sale by TNC of real estate subject to conservation restrictions, at a price significantly in excess of the appraised value of the restricted land, with (a) restricted use fair market value stated as sales price for the restricted land with the gift amount stated separately or (b) without separate statements of price and gift amount. In a variation, the purchase agreement could contain an obligation to deliver at closing a charitable pledge for a cash gift. This is similar to the purchase of items at charity auctions for a premium price. The IRS recognizes any contribution above the fair market value of the item as a tax-deductible charitable contribution. The buyer has the obligation to substantiate the value of the gift and the value of the restricted land for tax purposes with an appraisal which may be reviewed by IRS. The buyer runs the risk that the donation value may not be approved as claimed. TNC has the obligation to substantiate the value of the restricted land sold.

The "Gift Option" Approach: Sale by TNC of unencumbered real estate at a price based on its unrestricted value; simultaneous grant by the buyer to TNC of a long term option to buy conservation restrictions for a nominal (but legally enforceable) purchase price. (In practice, the option will always be exercised unless the buyer donates the easement on or before the option exercise date.) If the option is exercised, the difference between the option price and value of the easement is a tax-deductible contribution and the transaction would be considered to be a "bargain-sale." If the option is not exercised, and the buyer has first donated the easement to TNC, then the buyer may receive a deduction equal to the full value of the easement. In either case, the buyer would have the obligation to substantiate the value of gift for tax purposes with an appraisal which may be reviewed by IRS. The buyer runs the risk that the donation value may not be approved as claimed.

The "Sale and Separate Easement Gift" Approach: Sale by TNC of unencumbered real estate at a price based on its unrestricted value; simultaneous grant of a (legally enforceable) pledge to make a gift of the conservation easement separately or at a later date. This approach requires the donor to obtain an appraisal of the easement value to substantiate the value of the gift for tax purposes which may be reviewed by IRS. The buyer runs the risk that the donation value may not be approved as claimed.

The "Straight Conservation Sale with Private Fundraising" Approach: Sale by TNC of real estate subject to conservation restrictions for value as restricted; no gift component from buyer. Separate contributions are sought to cover project costs, including the

difference between TNC's original purchase price and the sales price with restrictions. TNC would continue to hold and monitor the conservation easement or might transfer the easement to a local land trust.

The "Straight Conservation Sale with Public Funding" Approach: Sale by TNC of real estate subject to conservation restrictions for value as restricted; sale of restrictions/easement at appraised easement value to third-party public agency, which would then permanently hold and monitor the conservation easement.

Approved
Board of Governors
The Nature Conservancy
June 13, 2003

The Nature Conservancy
SAVING THE LAST GREAT PLACES ON EARTH

Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283
nature.org

April 15, 2004

Responses

to

Senate Finance Committee Questions on Conservation Buyer Program

This memorandum responds to seven of the questions concerning "conservation buyer" transactions set forth in Part I of the letter dated March 3, 2004 to The Nature Conservancy (the "Conservancy") from Senators Grassley and Baucus on behalf of the Committee on Finance of the United States Senate (the "Committee").[1] Part I of this memorandum contains a brief overview of conservation buyer transactions; Part II responds to the Committee's questions concerning the Conservancy's general practices and procedures with respect to conservation buyer transactions; and Part III provides detailed responses to the Committee's questions with respect to four specific transactions.

I.

Overview of Conservation Buyer Transactions

The mission of the Conservancy is to preserve the plants, animals and natural communities that represent the diversity of life on Earth by protecting the land and waters they need to survive. As described more fully elsewhere in this memorandum, the Conservancy has developed and uses a strategic science-based process called "Conservation by Design" to identify lands and waters for inclusion in the Conservancy's conservation programs.

In the United States, the Conservancy traditionally has used land acquisitions as a principal tool to accomplish its conservation mission and today owns and manages more

[1] The remaining four questions contained in Part I of the Committee's letter (i.e., Questions 1, 2, 7 and 11) request data on documents that do not require explanation or elaboration. Responses to those requests, and the data and documents requested in connection with the questions addressed in this memorandum are being provided to the Committee separately. The Committee is also being provided with all documents referred to in this memorandum.

Recycled Paper

than 1,500 preserves throughout the United States. In many instances, however, the Conservancy's conservation mission may be accomplished in other ways. In such cases, the Conservancy employs a broad range of alternatives to the "purchase and hold" strategy. Conservation buyer transactions are one such alternative.

Many conservation organizations, including the Conservancy, participate in conservation buyer transactions. In its simplest form, a conservation buyer transaction is one in which a conservation organization purchases land and re-sells it to a private sector buyer subject to a conservation restriction, in the form of an easement, intended to ensure achievement of the organization's conservation objectives with respect to the land on a permanent basis. These transactions thus permit important conservation objectives to be achieved while the land remains in private ownership, subject to State and local property taxes and available for those human uses that are compatible with the conservation objectives with respect to the land. The Conservancy completed its first conservation buyer transaction in 1979. During the 10-year period encompassed by the Finance Committee's inquiry, the Conservancy engaged in more than 10,000 land transactions (including direct purchases of land and acceptances of easements) and, of these, 169 were conservation buyer transactions.

A. Selection of Land for Conservation Buyer Projects.

From its organization in 1951, the Conservancy has focused its conservation programs on high priority conservation areas. In 1995, the Conservancy adopted the "Conservation by Design" planning process to identify lands and water for inclusion in its various conservation programs[2]. In this process, the Conservancy focuses on "ecoregions", large areas of land or water defined by distinct climate, geography and native species. Within each such "ecoregion", the Conservancy identifies a "portfolio" of high priority sites that collectively capture the biological diversity of the region. If these

[2] A pamphlet describing the Conservation by Design methodology in detail has been provided to the Committee. In years prior to implementation of the Conservation by Design methodology, the Conservancy selected land for acquisition based on the best available science, focusing on lands harboring significant occurrences of threatened or endangered plants and animal species.

portfolio sites are properly managed, the long term survival of all the ecoregion's native plant and animal life should be ensured even if most of the property within an ecoregion is not the subject of organized conservation strategies.

The Conservation by Design methodology does not simply define "where" the Conservancy works. It also defines "how" the Conservancy works. The Conservancy develops specific, science-based strategies for the proper protection of each portfolio site. For example, these strategies may involve land acquisition; agreements to manage lands owned by others; early detection and eradication of invasive species; reintroduction of fire and other restoration activities; support of public policies based on sound science; promotion of compatible human uses; and conservation education. In some cases, the Conservancy may itself acquire and retain ownership of the core conservation areas within a portfolio site in order to ensure that they receive the highest level of protection. The Conservancy may also pursue alternative strategies for these core areas, including working with governmental units at all levels to facilitate the public acquisition of selected parcels of land.

The principles of the Conservation by Design methodology are now applicable to the selection of parcels of land for the conservation buyer program. For example, in those parts of a portfolio site that surround core conservation areas, the Conservancy may acquire land for use in its conservation buyer program to ensure that there are adequate buffers to protect environmentally sensitive land.[3] All of the parcels of land involved in the specific conservation buyer transactions identified in the Committee's letter of March 3, 2004 (and described in Part III of this memorandum) were within sites identified as conservation priorities by the Conservancy before they were acquired and re-sold to a conservation buyer, subject to a conservation easement. Some of these sites were identified in accordance with the Conservation by Design methodology, while others were

[3] The use of conservation easements by the Conservancy as a tool in furtherance of its conservation mission is discussed more fully in a separate memorandum (the "Conservation Easements Memorandum") being provided to the Committee in response to the Committee's questions on conservation easements, as set forth in Part VI of the Committee's letter dated March 3, 2004.

similarly identified in earlier years based on the procedures used at the time by the Conservancy.[4]

B. Basic Structure of Conservation Buyer Transactions.

In virtually all of its conservation buyer transactions to date, the Conservancy has identified the land to be acquired before it has located a suitable buyer. In an effort to accomplish its conservation objectives at the least possible cost, the Conservancy typically first acquires an option to purchase the land and uses the option period to identify conservation-minded potential buyers who are willing to abide by the restrictions on use and development that are necessary to enable the Conservancy to accomplish its conservation objectives. The acquisition of an option is not always feasible (e.g., where there are competing bidders some of whom may seek to subdivide and develop the land). In such cases, the Conservancy may complete the purchase of the land in order to ensure its preservation before a suitable buyer is identified.

When land is sold by the Conservancy to a conservation buyer, it typically is encumbered by a conservation easement as part of the sale transaction.[5] A conservation easement is a voluntary agreement by a landowner to surrender irrevocably certain rights that are otherwise inherent in the ownership of land (e.g., the right to subdivide and develop the land or the right to use the land for certain purposes). A private organization, such as the Conservancy, or a public agency holds the right to enforce the terms of the

[4] In years prior to the development of ecoregional plans and full implementation of the Conservation by Design methodology, conservation buyer transactions almost universally involved properties where the Conservancy scientists and staff determined that the land had important conservation attributes. As discussed elsewhere in this memorandum, under policies adopted by the Conservancy's Board of Governors on June 13, 2003, all conservation buyer properties must fall within a priority conservation site established in accordance with the Conservation by Design criteria.

[5] In a limited number of cases, the Conservancy has purchased the land and sold it to a conservation buyer for its unrestricted full fair market value, subject to a legally enforceable option entitling the Conservancy to purchase a conservation easement for nominal value. Following the sale, the buyer either contributes an agreed upon easement to the Conservancy or the Conservancy exercises its option to purchase the easement. In other instances, the Conservancy has acquired an option to purchase from the original landowner and transferred the option to a conservation buyer subject to a contractual commitment by the buyer to impose an agreed-upon conservation easement of the land and provide the Conservancy with the right to enforce the easement in perpetuity.

easement in perpetuity. Even where the current landowner has no intention of taking actions prohibited by the conservation easement (e.g., subdividing and developing the land), the conservation easement still serves important purposes. This is because a conservation easement "runs with the land" and is thus binding on the current and all future owners of the land. In essence, valuable rights surrendered in a conservation easement are forfeited permanently and effectively no longer exist.[6] As a result, the fair market value of the restricted land acquired by a conservation buyer is less than the fair market value of the unrestricted land at the time of its acquisition by the Conservancy.

With increasing frequency in recent years, the Conservancy has solicited contributions from conservation buyers to enable the Conservancy to recover all or a portion of its original cost in acquiring the property involved in a particular transaction. For example, if the Conservancy purchases land for $100x and sells it to a conservation buyer for $60x (the appraised fair market value of land following imposition of a conservation easement), the Conservancy often will seek a contribution, ideally equal to the value of the easement (here $40x), from the buyer. Such a contribution, when added to the purchase price received from the buyer for the restricted land (here $60x), will enable the Conservancy to recover all or part of its original acquisition cost. In some cases, the Conservancy may achieve the same economic result by selling the restricted land to the conservation buyer for an amount equal to its value without regard to the easement (here $100x) in what is commonly known as a "premium purchase" transaction.

As discussed more fully in Part III of this memorandum, in those cases where the conservation buyer is unwilling or unable to make an additional contribution (or makes a contribution that is insufficient to enable the Conservancy to recover its costs fully), the Conservancy must either use unrestricted donations or seek additional donations from third parties to make up the difference. From the Conservancy's point of view, however, the

[6] Treas. Reg. § 1.170A-14(g)(6)(i), states: "If a subsequent unexpected change in the conditions surrounding the property [that is the subject of a conservation easement] . . . can make impossible or impractical the continued use of the property for conservation purposes, the conservation purpose can nonetheless be treated as protected in perpetuity if the restrictions are extinguished by a judicial proceeding . . . ."

most important objective is to be able to sell the land subject to a strong conservation easement.

II.

Committee Questions on General Practices and Procedures

A. Tax Advice on Conservation Buyer Transactions.

In Part I, **Question 8**, the Committee requested information concerning advice obtained by the Conservancy with respect to the tax consequences of conservation buyer transactions. The Conservancy has been advised by independent legal counsel on multiple occasions that a conservation buyer who makes payments to the Conservancy in excess of the fair market value of the restricted property is entitled to a charitable deduction for the excess payment.[7] As described more fully below, there are four principal written legal opinions that the Conservancy obtained with respect to the federal income tax consequences of the types of conservation buyer transactions in which it has participated. Three of these opinions were rendered by the law firm of Steptoe & Johnson LLP (collectively the "Steptoe Opinions") and the fourth opinion was rendered by Jerry L. McCoy (the "McCoy Opinion").

The first Steptoe Opinion was issued to the Conservancy in draft form on January 31, 1992 in connection with a proposed conservation buyer transaction involving land in Georgia. Citing judicial decisions, rulings of the Internal Revenue Service and other authorities, the draft opinion concluded that, on the facts presented, the buyer of the land would be entitled to a charitable contribution deduction under section 170 of the Internal Revenue Code (the "Code"), subject to the general limitations contained therein, to the extent that the payments made by the buyer exceeded the fair market value of the land at the time of its acquisition by the buyer (as determined by an independent appraisal and

[7] In accordance with the Committee's request, copies of all opinions and advice obtained by the Conservancy with respect to the tax consequences of conservation buyer transactions to the Conservancy or others (and a list of the persons who provided such opinions or advice) are being provided to the Committee separately. These materials were collected by the Conservancy as part of a field survey of its legal staff undertaken in connection with the preparation of its responses to the questions set forth in the Committee's letter of March 3, 2004.

taking into account the permanent restrictions set forth in the conservation easement to be placed on the land by the Conservancy prior to the sale). The draft opinion stated that this conclusion was equally applicable whether the transaction was structured as a premium purchase of the land or as a purchase of the land for its fair market value and a separate payment designated as a charitable contribution.[8]

The second Steptoe Opinion was issued to the Conservancy on March 10, 1997 in connection with proposed conservation buyer transactions at Davis Mountains, Texas.[9] The 1997 opinion reached the same substantive conclusions as were set forth in the January 31, 1992 draft opinion. It also addressed the federal income tax consequences to the buyer if appreciated securities were substituted for cash for a portion of the buyer's payments to the Conservancy. The third Steptoe Opinion was issued on September 26, 2002. This opinion was requested by the Conservancy to update the March 10, 1997 opinion. Consistent with the Conservancy's request, the 2002 opinion did not discuss any specific conservation buyer transaction, but discussed the then current rules generally applicable to charitable contributions involving a purchase of property from an organization such as the Conservancy for a price in excess of the fair market value of the property.

The McCoy Opinion was issued to the Conservancy on January 20, 2003. It was requested by the Conservancy and provided to *The Washington Post* on January 29, 2003 following discussions between Conservancy representatives and the *Post* concerning the deductibility of contributions made in connection with certain conservation buyer transactions. The McCoy Opinion was subsequently posted on the Conservancy's web site for the information of all interested persons. Mr. McCoy reached the same substantive conclusions as did the Steptoe Opinions: the excess of the amount paid to the Conservancy by a conservation buyer over the fair market value of the restricted land when acquired by

[8] It does not appear that this draft opinion was ever issued in final form.

[9] In accordance with the Committee's request, two of the Davis Mountains conservation buyer transactions are discussed in detail in Part III of in this memorandum.

the buyer (i.e., as encumbered by the conservation easement) is properly treated as a contribution to the Conservancy under section 170 of the Code, whether the buyer makes a premium purchase of the restricted land or, alternatively, purchases the restricted land for its fair market value and makes a separate payment to the Conservancy designated as a contribution.

A Conservancy policy established in 1996 (and based on prior practice) states that Conservancy personnel "shall not provide legal or financial advice to anyone and shall encourage prospective donors to seek their own professional counsel as appropriate". This policy has been interpreted by the Conservancy to include tax advice and it has been the Conservancy's practice to inform prospective donors, and others with whom conservation transactions have been discussed, that they should seek their own tax and financial advice and rely on that advice in connection with any specific contribution to, or transaction with, the Conservancy.

Consistent with practices of many tax-exempt organizations, the Conservancy has provided information to prospective donors and others concerning the tax benefits of contributions to, and certain transactions with, the Conservancy. This information has included copies of opinions of counsel, as well as various worksheets to illustrate the effects of these transactions. The worksheets contain statements, based on the Conservancy's "no tax advice" policy, urging the recipients to consult their own professional advisors.[10] Similarly, when tax opinions, such as the Steptoe Opinions, were shared by Conservancy staff with prospective conservation buyers, Conservancy policy (as quoted above) required that any such disclosures be accompanied by an admonition that the prospective conservation buyers should consult their own professional counsel.

B. Tax Indemnities to Conservation Buyers.

In Part I, **Question 9**, the Committee asked whether the Conservancy has provided tax indemnities to conservation buyers with respect to the availability or amount of a charitable deduction. The Conservancy has *not* entered into any agreements with

[10] Copies of these materials, and of the 1996 policy statement, have been provided to the Committee.

conservation buyers under which the Conservancy agreed to indemnify or reimburse the buyer for lost tax benefits resulting from the loss or reduction of the charitable contribution claimed by the buyer.[11]

C. Board of Governors' Actions.

In Part I, **Question 6**, the Committee requested a copy of the resolutions adopted by the Conservancy's Board of Governors on June 13, 2003 with respect to the solicitation and receipt of contributions in connection with conservation buyer transactions. At its June 13, 2003 meeting, the Board of Governors was advised that all of the Conservancy's conservation buyer transactions had been structured to comply with all applicable laws. The Board nevertheless concluded that seven policy changes should be adopted.[12]

First, if a contribution is solicited in connection with a conservation buyer transaction, the Conservancy must document and provide to the buyer a statement of the link between the gift and the sale; and the transaction must be structured by the Conservancy so as not to relieve the buyer from responsibility for substantiating the value of the contribution for tax purposes. *Second*, conservation buyer transactions with members of the Board of Governors, State Chapter Trustees, employees and other related parties are now prohibited by Conservancy policy even though they are permitted under current tax law if structured in conformity with so-called "arm's-length" standards.[13] *Third*, conservation buyer transactions with major donors (as defined under Conservancy policy) to the Conservancy may be undertaken only after advance review and approval

[11] As discussed more fully in Part III of this memorandum, the Conservancy did enter into a tax indemnity agreement with a party to the Herring Creek transaction, but the indemnified party was not a conservation buyer. Based on the field survey of the Conservancy's legal staff referred to previously in this memorandum, the Herring Creek transaction appears to be the only transaction involving a tax indemnity granted by the Conservancy.

[12] Copies of the resolutions adopting these new policies are being provided to the Committee separately.

[13] Of the 169 conservation buyer transactions closed by the Conservancy during the 10-year period encompassed by the Committee's inquiry, 19 transactions were identified as involving buyers who were "related parties" as defined under Conservancy policy. As discussed more fully in Part III of this memorandum, under the Conservancy's prior conflicts of interest policy, conservation buyer transactions with State Chapter trustees and other related parties were subject to advance review and approval by the Conservancy's General Counsel.

under the Conservancy's strengthened conflicts of interest procedures. This review is intended to ensure full compliance with the arm's-length standard. *Fourth*, all lands involved in conservation buyer transactions must fall within a priority conservation site established in accordance with the Conservation by Design criteria and the terms of the easement, and the plans to monitor compliance with those terms, must be structured to achieve the desired conservation result on a permanent basis. *Fifth*, the Conservancy must obtain its own independent "qualified appraisal" (as defined by the Internal Revenue Service) documenting the value of the land both before and after the imposition of the conservation easement. *Sixth*, the land must be offered for sale in a manner that allows for broad exposure and fair competition among interested potential conservation buyers. *Seventh*, community input must be obtained regarding permitted future uses of the land.

III.

Specific Conservation Buyer Transactions

A. Davis Mountains.

In Part I, **Question 3**, the Committee asked a series of specific questions concerning two conservation buyer transactions involving Ms. Caroline Alexander. Both transactions involved land located in the Davis Mountains region of Texas and each tract of land was within a portfolio site designated as such by the Conservancy prior to its acquisition of the land. Davis Mountains is an intact desert "sky island" ecosystem, which is an important habitat for many rare plants and animals, as well as migrating birds.

The first transaction (the "1997 Transaction") involved 5,854 acres. This land was part of a larger parcel of approximately 32,500 acres acquired by the Conservancy. The Conservancy retained direct ownership of a core conservation area of approximately 11,000 acres. The Conservancy sold the remaining acreage in six separate conservation buyer transactions subject to conservation easements to restrict incompatible uses and development in perpetuity. The 1997 Transaction was one of those transactions. The Conservancy had first acquired a one-year option to purchase the 32,500 acre tract and used the option period to seek suitable conservation buyers. In this instance, the

Conservancy sought buyers through a broad range of activities, including contacts with brokers and media advertisements.

In the 1997 Transaction, Ms. Alexander paid a purchase price of $1,160,834. She also pledged to make two contributions to the Conservancy (**Question 3a**). The first was a contribution of $730,000, which was equal to the appraised value of the easement, and thus enabled the Conservancy to recover its original acquisition cost of the land sold to Ms. Alexander. The second was a contribution of $140,000 to establish an endowment to underwrite monitoring of the land. The first pledge amount was reduced by the Conservancy to $712,452 following discovery of certain title encroachments on the land. Ms. Alexander satisfied both of her contribution pledges in full and on a timely basis. On December 23, 1997, she transferred marketable securities to the Conservancy to satisfy the first pledge. The Conservancy sold the securities for a realized price of $736,247.[14] The excess of the amount realized on the securities sale over the adjusted contribution amount ($23,795) was retained by the Conservancy and applied against the second pledge, reducing the amount payable thereunder from $140,000 to $116,205. Ms. Alexander transferred marketable securities to the Conservancy to satisfy the second pledge, the securities were sold by the Conservancy for a realized price of approximately $117,225, and the Conservancy retained the excess.

The second transaction (the "1999 Transaction") involved a different (27,133 acres) tract of land located in the same vicinity and, but for the Conservancy's intervention, would likely have been sold for subdivision and development. This tract was within the same portfolio site as the land involved in the 1997 Transaction and the Conservancy concluded it would constitute an important buffer zone for the core conservation area. Davis Mountains Land & Cattle Company, an entity wholly-owned by Ms. Alexander purchased this acreage in its entirety, subject to a conservation easement imposed by the Conservancy, for a purchase price of $5,426,632 (**Question 3e**). The Conservancy

[14] The Conservancy has a standard operating procedure requiring that all securities received as contributions be sold promptly. Due to fluctuations in market prices, the actual realized proceeds may differ from the amount of the pledge by a modest amount.

marketed this tract widely, as in the 1997 Transaction. As part of the 1999 Transaction, Ms. Alexander made a charitable pledge of $2,839,717, which was equal to the appraised value of the easement.

At the request of the Conservancy, a portion of this pledge was satisfied by the transfer by Ms. Alexander of a portion of the land (3,696 acres) she had acquired in the 1997 Transaction (**Question 3b**). The land acquired by Ms. Alexander in the 1997 Transaction is located between the 27,133 acres acquired in the 1999 Transaction (lying to the north) and the Conservancy's Davis Mountain Preserve (lying to the south). Upon further analysis, the Conservancy was increasingly interested in the 3,696 acre parcel because it was contiguous to the Preserve and had substantial ecological and land management significance. The actual configuration of this tract was designed and negotiated based on an identification of important landscape-scale natural features. This tract also included Locke's Gap, an important topographical feature; a large, intact stand of native Ponderosa Pine woodlands that had not been infected by bark beetles; and the headwaters of both Cherry Creek and Right Hand Creek.

Ms. Alexander honored the Conservancy's request and transferred the 3,696 acre parcel in October 1999. There are substantial differences between the 3,696 acre parcel transferred to the Conservancy and the 2,161 acre parcel (the balance of the acreage involved in the 1997 Transaction) retained by Ms. Alexander (**Question 3c**). As noted above, the transferred acreage is more significant ecologically and of greater potential as a migratory bird habitat. In contrast, the retained acreage, which is contiguous to the 27,133 acre tract involved in the 1999 Transaction, is primarily pasture land and has more frontage along a highway. With respect to improvements, the land transferred to the Conservancy had one solar water well, a hunting camp (consisting of a small metal building with no utilities) and an abandoned mobile home. The acreage retained by Ms. Alexander had minor ranch improvements, including two water wells and associated troughs; a windmill; two small working cattle pens in poor condition; and a shack used to store salt for livestock. Following the transfer of the 3,696 acre parcel to the Conservancy, a fence was built to delineate the two tracts.

Thus, Ms. Alexander ultimately paid $1,160,834 for the land she retained from the 1997 Transaction (**Question 3d**). Consistent with the pledge agreement executed in connection with the 1999 Transaction (which contemplated contributions of cash, securities or property totaling $2,839,717), Ms. Alexander made the following transfers (**Question 3f**) in addition to the transfer of the 3696 acres, which were valued at $200 per acre ($739,286):

August 31, 1999	Marketable Securities (Value $509,137.52)
November 23, 1999	Marketable Securities (Value $1,652,098.93)

Ms. Alexander thus ultimately contributed $2,900,522.45 to the Conservancy in satisfaction of her pledge of $2,839,717.

Ms. Alexander does not and has not held a position with the Conservancy as a "director, officer, or employee" (**Question 3g**). During the period from January 31, 1992 through June 30, 2003, Ms. Alexander provided valuable volunteer assistance to the Conservancy as a trustee of the Conservancy's Texas Chapter. At various times during that period, she served as co-chair of the Chapter's Conservation Committee, Chapter Secretary, Second Vice Chair and Vice Chair.

The Conservancy is a single legal entity and its State and local Chapters thus do not have independent legal authority to act on behalf of the Conservancy. As a result, while the work of Chapter trustees is quite important to the success of the Conservancy's conservation mission, their functions are properly described as advisory and supportive in nature, and they have no legal authority or fiduciary duty with respect to the Conservancy. They are unpaid, very involved and valuable volunteers. Although Chapter trustees thus do not have duties and authorities comparable to those of directors, officers or employees, they are and have been classified as "related parties" under the Conservancy's conflicts of interest policy. As a result, both the 1997 Transaction and the 1999 Transaction were subject to advance review and approval by the Conservancy's General Counsel.

Ms. Alexander is currently assisting the Conservancy as a member of its San Antonio Development Board, an advisory committee with respect to fundraising. In this

capacity, and as the owner of land on which the Conservancy holds conservation easements, she is in regular contact with the Conservancy.

B. Thompson Hill.

In Part I, **Question 4**, the Committee asked a series of specific questions concerning the Thompson Hill conservation buyer transaction. The Thompson Hill property consists of approximately 9.38 acres and is located immediately adjacent to the Conservancy's Mashomack Preserve on Shelter Island, New York. The Preserve is of substantial environmental importance (**Question 4c**). It consists of approximately 2,039 acres of diverse habitat necessary for the survival of many rare and significant species of plants and animals. It also contains nearly 1,500 acres of intact oak forest and its largely unbroken landscape provides habitat for sensitive neo-tropical migrant birds. The Pine Swamp complex at the western edge of the Preserve has been designated by the New York State Department of Environmental Conservation as a freshwater wetland of "unique local importance". The coastal environs that constitute the Preserve's perimeter include an assemblage of documented rare species and significant natural communities. Seven largely undisturbed tidal creeks and associated salt marshes cover nearly 300 acres and are the breeding grounds for some of the smallest links in the marine food web. Miss Annie's Creek, located on the western edge of the Preserve, has the most extensive tidal eelgrass beds within the Preserve. Ten miles of undisturbed beach with associated bluffs, low dunes and shrub lands provide habitat for beach-dependent species and rare beach plants. Not only is the Preserve of extraordinary ecological significance, it is also located in the heart of one of the most densely developed areas of the Eastern Seaboard of the United States.

The bulk of the Preserve, which is included in the Conservancy's North Atlantic Coast Ecoregion as a portfolio site, was acquired in 1980. At the sellers' request, the purchase of the Mashomack property was accomplished through the purchase of all of the stock of Aeon Realty Company, Inc. ("Aeon") from members of the Gerard family for approximately $12 million. Aeon owned the Mashomack property and certain other real estate assets. These other assets were disposed at the time of or following the stock

purchase and Aeon was ultimately liquidated by the Conservancy. Prior to its acquisition by the Conservancy, the property that now comprises the Preserve was used for hunting and was slated for intensive residential development over the long term. (The Conservancy also purchased a small tract (2.43 acres) from a different party (Hickey) in 1981.) A valuation of Aeon at the time of the Conservancy's purchase of its stock indicated that the Conservancy's purchase price was less than the fair market value of the property acquired. Some members of the Conservancy's staff understood that one or more members of the Gerard family who sold shares of Aeon stock to the Conservancy may have intended to treat their sales as "bargain sales" and thus may have claimed a tax deduction based on treating the transaction as involving a contribution **(Question 4b)**.[15]

The Thompson Hill property was not owned by Aeon at the time its stock was acquired by the Conservancy. Rather, it was owned by members of the Gerard family in their individual capacity and had been retained by them following the sale of the Aeon stock for possible resale or development. The Thompson Hill property was purchased by the Conservancy on an unrestricted basis from members of the Gerard family on September 2, 1999 for $2.1 million. The Conservancy has no knowledge that the sellers claimed a charitable deduction with respect to the sale **(Question 4e)**. At the time of its acquisition, the protection of the Thompson Hill property had been the subject of years of ongoing negotiations involving the Conservancy. From the early 1980s and throughout the 1990s, Conservancy staff and the owners of the property engaged in extensive discussions regarding a purchase of the property either by the Conservancy or a third party conservation buyer (who would take the property subject to a conservation easement). During this period, the Conservancy made at least one offer to purchase the property, as did the Doughertys (the ultimate conservation buyers) and several others. In addition, Conservancy staff discussed the property and its ecological value with numerous parties and the property was listed with local real estate brokers. Conservancy staff met with

[15] Both the Aeon and Hickey transactions predated the imposition of the current requirement of donee acknowledgements on Form 8283.

some of these brokers to inform them of the Conservancy's desire to have a conservation easement on the property and provided draft easement language in several instances **(Questions 4g, 4h)**.

Once the Conservancy finally secured an agreement in principle from the owners to enable the Conservancy to purchase the Thompson Hill property, time was of the essence lest the owners close a sale with a different (non-conservation) buyer. Given the substantial values of property in this area, the Conservancy concluded that it was in its best financial interest to locate a willing conservation buyer who could close promptly. Based on the marketing activities described in the preceding paragraph, the Conservancy's staff was aware of two potential buyers (both of whom were and remain Mashomack Preserve Trustees). One of the potential buyers decided not to proceed following a review of the Conservancy's proposed easement terms and the land was sold to the Doughertys on October 28, 1999 for $500,000 (the appraised value of the land as restricted by the conservation easement by the Conservancy was $506,000). The appraisal was conducted by an independent appraisal firm (Givens Associates) with substantial experience in appraisals in the relevant geographic area for both private and public sector clients. The appraisal was jointly commissioned by the Conservancy and the Doughertys, but the Conservancy was responsible for contracting and communicating with the appraiser **(Question 4i)**.

As part of the conservation buyer transaction, the Doughertys made a separate charitable pledge to donate $1.652 million to the Conservancy. The pledged amount was received by the Conservancy in a series of contributions of marketable securities within the stated 15-month time period **(Question 4f)**. Because of the speed with which the Conservancy was required to respond in order to be successful in securing the property and given its substantial purchase price, the local Chapter of the Conservancy was required to fund the acquisition from the Conservancy's Land Preservation Fund. As a result, from the date of the purchase until repayment of the intra-Conservancy loan, the Chapter incurred an internal interest or capital charge. The ability to obtain this internal bridge funding was based in part on the Doughertys' pledge. The memorandum dated August 6,

1999 (**Question 4d**) was intended simply to ensure that the Doughertys clearly understood that satisfaction of the pledge on a timely basis was important. The pledge, when made, was for a fixed amount and the memorandum was not intended to modify, and did not modify, the terms of the pledge to add an interest element. It was intended merely to inform the Doughertys that the local chapter would incur additional costs if the pledge was not fulfilled in a timely basis.

With respect to statements attributed to Mr. Dougherty by *The Washington Post* (**Question 4j**) regarding his dual "intent" to acquire and protect the land, the Conservancy has no basis for specific comment. The commitment of the Doughertys to the Conservancy's mission cannot be questioned and the Conservancy was and remains grateful for their commitment, which enabled the Thompson Hill property to remain in private ownership, and subject to local property taxes, while important conservation objectives were achieved on a permanent basis.[16]

The Conservancy strongly disagrees with the implication in *The Washington Post* that, because the conservation easement did not affect the Doughertys' own plans for the land, important conservation objectives were not achieved. The conservation easement is perpetual. Thus, the transaction resulted in the *permanent* extinguishment of development and use rights that would otherwise have had significant economic value to the Doughertys *and* any and all subsequent owners. After nearly 20 years of uncertainty about the fate of this critical in-holding in a vitally important conservation preserve, the transaction ensured that the land will protect sensitive habitat and be used only for compatible uses in perpetuity.

C. Lake Huron.

In Part I, **Question 5**, the Committee asked a series of specific questions regarding the Lake Huron conservation buyer transaction. The Northern Lake Huron, Michigan, shoreline is portfolio site located within the Great Lakes ecoregion. It was identified as

[16] Under the conservation easement, development is restricted to the construction of one residential and ancillary structures. It requires that all structures (other than a small writer's cabin) be located within a designated development envelope placed well away from the bluffs and a nearby creek.

one of the richest and most productive biological areas in the United States by the Conservancy, and as a critical Biodiversity Investment Area by the Environmental Protection Agency. The shoreline features nine globally rare communities and at least 13 species that have been designated as endangered, threatened or listed under applicable federal and/or State laws. The site also contains at least 21 globally rare species of plants and animals, and 60 species that are rare within the State of Michigan. More than 250 species of migratory birds and waterfowl use the shoreline as a critical resting and feeding site.

The land that was the subject of this conservation buyer transaction was part of a parcel of approximately 210 acres located on the shoreline. Prior to its acquisition by the Conservancy, the land was slated for development as a golf course with 27 residential housing units. The Conservancy purchased the land in order to prevent habitat fragmentation.[17]

The structure of this transaction did not differ materially from the Conservancy's other conservation buyer transactions. The Conservancy acquired the property by purchasing two parcels of land for a total consideration of $2,574,500 in October 2000 and April 2001. Independent appraisals obtained at the time indicated that fair market value of the unrestricted land was $2,632,000. The Conservancy sold the larger parcel, 184.5 acres of the property, on December 9, 2002 to the conservation buyer (Jerrold Jung, a Chapter Trustee from 1995 through 1998, as trustee for the Jerrold M. Jung Trust). As part of the sales transaction, a comprehensive conservation easement was placed on the land and, as so restricted, it was sold for $1,062,000. Under the easement, the then existing structures

[17] The land was comprised of two parcels, one owned by an entity named Chi-Mac and the other by a Mr. Shillingburg. A Mr. Harmon acquired an option with respect to the Shillingburg parcel and the Conservancy entered into negotiations with all three parties to acquire the land. In response to the Committee's questions, and to the best of the Conservancy's knowledge, Mr. Harmon did not claim any charitable contribution deduction with respect to either the Harmon-Shillingburg tract or the Chi-Mac tract. Mr. Shillingburg did not make a contribution to the Conservancy, but instead conveyed his property to Mr. Harmon who then conveyed it to the Conservancy. The Conservancy did not provide Mr. Shillingburg with a blank Form 8283 and did not provide him with a letter stating that his conveyance to Mr. Harmon was a bargain sale. Finally, while the Conservancy believes that Chi-Mac claimed a charitable deduction for the $98,700 reported on Form 8283, it has no direct knowledge that such deduction was in fact claimed.

(one residence, one log cabin, one pole barn and one boat dock) may be replaced in the same locations, but the log cabin may not be replaced if it is destroyed or voluntarily removed. The easement also prohibits any commercial use of the property; disturbance of native vegetation, agriculture or forestry; and restricts other changes to and economic uses of the land. An independent appraisal indicated that, as of January 1, 2002, that the value of this parcel, as restricted by the conservation easement, was $1,062,000 and that the value of the easement was $1,236,500. The balance of the land (approximately 24.8 acres) was sold, subject to appropriate conservation limitations structured as deed restrictions, to an independent non-profit organization in December 2002 for $200,000.

The conservation buyer made a cash gift of $650,000 to the Conservancy within two weeks after completing the purchase. The contribution did not fully reimburse the Conservancy for its original outlay in acquiring the land. Additional fundraising activities are still being conducted, but there remained an outstanding project debt of approximately $353,400 as of June 2003. As noted earlier in this memorandum, the Conservancy seeks contributions from conservation buyers with increasing frequency. In fact, however, many conservation buyers are not in a position to make a contribution in an amount sufficient to cover all of the Conservancy's initial costs. The most important criterion is the ability to sell the property subject to a strong conservation easement and, if this can be done, the Conservancy often seeks a buyer who is willing and able to make at least a meaningful contribution.

Mr. Jung's agreement to make a cash contribution of $650,000 was considered by the Conservancy the most favorable option available to ensure protection of the land and recoup a significant portion of its initial acquisition cost. The Conservancy has no knowledge with respect to the contribution deductions actually claimed by Mr. Jung either individually or through the Jung trust. The Conservancy received a cash gift of $650,000 from Mr. Jung and, in accordance with applicable tax law requirements, provided Mr. Jung with written acknowledgement of that gift. The property was sold to Mr. Jung at its appraised value, as restricted by the easement.

D. Herring Creek Farm.

In Part I, **Question 10**, the Committee asked for a narrative description of the Herring Creek conservation buyer transaction, together with comments on the characterization of the transaction by *The Washington Post* in an article published on May 6, 2003.

1. Purpose and Effect. At the time of its acquisition by the Conservancy on or about July 21, 2001, Herring Creek Farm (the "Farm") consisted of approximately 215 acres of land. There were six residential structures on the Farm (five of which were occupied), a large horse barn in the so-called "Central Field", and a group of farm buildings associated with one of the six residential structures. The Farm is within an area that had previously been designated by the Conservancy as a portfolio site within the North Atlantic Coast ecoregion and the Conservancy had been interested in protecting it from development for many years.

The Farm includes an extensive shoreline and related wetlands habitats, but it was originally of interest to the Conservancy because it includes substantial areas of native coastal sandplain grasslands. These grasslands are located in close proximity to other native coastal sandplain grasslands (Katama Plains), which had previously been purchased by the Conservancy jointly with its governmental partners, and were being restored and maintained by the Conservancy. The coastal sandplain grasslands remaining on Martha's Vineyard are part of one of the most threatened natural systems in the world, with less than one percent of the original global acreage remaining.

The acquisition of the Farm was the product of extensive and often contentious multi-party negotiations that lasted for more than a year. The Conservancy initially made an offer to the owners of the Farm (the "Wallaces")[18] to purchase the entire 215 acres for $35 million. This offer was rejected by the Wallaces, who at the time had pending with the

[18] In 2000, substantially all the Farm was owned by the Herring Creek Farm Trust ("HCFT"). Neil and Monte Wallace owned directly or indirectly substantially all of the beneficial interests in HCFT and the owners of the remaining comparatively small portion of the Farm were all members of or closely connected to the Wallace family. In this description of the transaction, HCFT and the other owners are referred to collectively as the "Wallaces".

local government authorities a request for approval of a 33-lot subdivision on the Farm. That request was granted, with conditions, in November 2000. The Conservancy resumed substantive negotiations with the Wallaces' representative in December 2000. At the Wallaces' insistence, the Conservancy's negotiations with the Wallaces were expanded to include MV Regency Group LLC ("Regency") [19] and F.A.R.M. Institute (the "Institute").[20] The Conservancy also conducted extensive negotiations with Herring Creek Acquisition Company LLC ("HCAC"), which held a pre-emptive option to purchase the Farm should the Wallaces seek to sell it.[21] All of these negotiations were conducted at arm's length, they were often acrimonious and each participant was represented by its own counsel.

In the transaction, as finally completed, the Conservancy acquired title to the entire 215 acres comprising the Farm and was thus able to ensure that a comprehensive and permanent conservation restriction (the "Conservation Restriction") was placed on the entire property. In accordance with concession agreements previously negotiated, the Conservancy then transferred portions of the Farm (and other consideration) to HCAC, the Institute (which by prior agreement transferred a portion of land it received to Regency) and Roger Bamford ("Bamford"), who provided substantial financial assistance to enable the Conservancy to acquire the Farm. The terms of these transfers collectively permit the

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[19] Regency was a development company managed by Mr. David Peters and owned by the David M. Letterman Trust. The Conservancy understood, and press accounts of the transaction confirmed, that the Owners had previously engaged in discussions with Regency regarding a possible sale of the Farm.

[20] The Institute is a non-profit organization that seeks to preserve farms and promote agricultural education. The Conservancy understood, and press accounts of the transaction confirmed, that the Institute was a possible participant in the sales transaction apparently discussed by the Owners with Regency.

[21] Most of the Farm had been acquired by the Wallaces in 1969 from two families, who also owned additional land adjacent to the Farm. At that time, the parties entered into an agreement which, among other things (1) assured that certain rights of way between the Farm and neighboring properties still owned by members of the two families were preserved; (2) assured that development of the Farm would be limited through 2009; and (3) granted to both parties purchase rights with respect to the other party's property in the event of a proposed sale by either prior to 2009. Under this third provision, if the Wallaces wished to sell the property between January 1, 2000 and December 31, 2009, the two families had a right of first refusal to purchase the Farm at $10,000 per acre plus the fair market value of the then existing residences and other structures on the land. At some time before the summer of 2000, these pre-emptive rights had been transferred by the two families to HCAC.

construction of six new houses (instead of 33). Following these transfers, the Conservancy retained title to approximately 102 acres, consisting of a 62-acre parcel known as the East Field and a 40-acre parcel known as the Central Field. The Conservancy provided the Institute with a 99-year ground lease on the Central Field, subject to a restriction that it be used only for farming and other agricultural and educational uses. The Conservancy has undertaken a project to restore the 62-acre East Field to native sandplain grasslands. All 215 acres remain subject to the Conservation Restriction, which will be administered and enforced jointly by the Conservancy and the Conservation Commission of Edgartown, Massachusetts.

2. Description of the Transaction. The transaction was completed pursuant to the terms of a series of final agreements among the parties. The Conservancy was a party to written agreements with the Wallaces, the Institute and HCAC; and to an arrangement with Bamford. It was not a party to a contract with Regency. At the closing, the following transfers occurred:

a. Purchase of the Farm by the Conservancy. Pursuant to its agreement with the Wallaces,[22] the Conservancy purchased the Farm from the Wallaces for $64 million, payable as follows: cash received from the Institute ($27 million); cash received from Bamford for the purchase of one of the existing residences ($7,250,000); a portion of the proceeds of a Bank of America loan obtained, guaranteed and collaterized by Bamford and non-recourse to the Conservancy ($9,250,000); a credit for the Conservancy's initial deposit ($1 million) for which the Conservancy was reimbursed from the Bank of America

[22] "Definitive Agreement Regarding Herring Creek Farm, Edgartown, Dukes County, Massachusetts, between The Nature Conservancy and Herring Creek Farm Trust". Under the terms of this agreement, the Wallaces had the right to specify the final purchase price based on a final appraisal (ultimately appraised at $78 million), but the Conservancy was not obligated to pay more than $45,500,000 from its own resources. If the final purchase price designated by the Wallaces exceeded this amount (as it did), the Conservancy had no obligation to complete the purchase unless it received additional contributions in an amount equal to the excess. The appraisal of the Farm was made by Coleman and Sons Appraisal Group ("Coleman"), which was selected by the Wallaces with the prior approval of the Conservancy. The Conservancy had the right to conduct a review appraisal of the Coleman appraisal and it retained Meredith & Grew Incorporated ("Meredith") to do so. Meredith informed the Conservancy that the purchase price of $64 million did not exceed the fair market value of the Farm. Meredith also provided valuations to the Conservancy with respect to other components of the transaction.

loan; a promissory note secured by a mortgage on the Farm Lot ($1 million); and an amount equal to a gift received by the Conservancy from the Wallace Foundation on July 18, 2001 ($18.5 million). In connection with the purchase, the Conservation Restriction was placed on the Farm and all subsequent transfers of portions of the Farm (as described below) by the Conservancy were made subject to that restriction.

b. Transfers to the Institute. Pursuant to its agreement with the Institute,[23] and in exchange for $27 million in cash and the Institute's assumption of the $1 million promissory note secured by the Farm Lot, the Conservancy made the following transfers to the Institute: title to the Farm Lot; a 99-year ground lease on the Central Field (pasture land); and title to four building lots, one of which was the site of one of the existing Wallace residences. All of the consideration received by the Conservancy from the Institute was used by the Conservancy to finance the purchase of the Farm from the Wallaces. By prior agreement, the Institute transferred the four lots to Regency. Thereafter, Regency transferred one or more of the lots and retained the others. The Conservancy was not a party to the Institute's agreement with Regency or to Regency's subsequent transfers of certain of the lots.

c. Transfers to Bamford. Pursuant to its arrangement with Bamford,[24] and in exchange for $7,250,000, the Conservancy transferred to Bamford a lot on which the second existing Wallace residence is situated. A second, buildable, lot was sold

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[23] "Purchase and Sale Agreement between The Nature Conservancy as Seller and The F.A.R.M. Institute, Inc. as Purchaser Regarding a Portion of Herring Creek Farm, Edgartown, Dukes County, Massachusetts".

[24] The purpose of the arrangement with Bamford was to enable the Conservancy to complete the transaction without out-of-pocket costs either for the acquisition of the Farm or securing waiver of HCAC pre-emptive rights. Under this arrangement, Bamford would purchase two lots for their final appraised values. One of these lots was the site of an existing Wallace residence. Bamford also undertook to arrange a non-recourse (to the Conservancy) loan from Bank of America, which Bamford would guarantee and collateralize. This loan was intended to provide the Conservancy with the funds its needed to fund fully the $45,500,000 purchase price, make cash payments to HCAC and recover its other transactional costs such as legal fees and transfer taxes. The Conservancy agreed that if it received any net sales proceeds from the sales to Bamford or the Institute in excess of the total costs of the transaction, that excess would be used to reduce the Bank of America loan. Bamford agreed to make a contribution to the Conservancy in an amount sufficient to enable the Conservancy to pay off the loan.

subsequently to Bamford for $4,750,000 in December 2003 and the proceeds were used to reduce the Bank of America loan. No construction has been commenced on this lot.

d. Transfers With Respect to Pre-Emptive Rights. Pursuant to its agreement with HCAC,[25] the Conservancy made certain transfers in consideration of the waiver by HCAC of its pre-emptive rights. Meredith determined that these rights had a fair market value of approximately $14 million, which was approximately equal to a second appraisal of those rights obtained by the Conservancy from Appraisal Economics, Inc.

In exchange for the waivers of the pre-emptive rights, the Conservancy made transfers valued at $11,931,755 representing: (a) $1,700,000 to reimburse prior legal expenses of the two families and HCAC in connection with litigation with the Owners concerning the validity of the 1969 agreement and contesting attempts by the owners to secure 50-lot and 33-lot subdivision approval with respect to the Farm; (b) $402,755 in payment of HCAC's current legal expenses; (c) payment of $1,484,000 as a gross up payment reflecting anticipated taxes on the consideration received for waiver of the pre-emption rights; (d) conveyance to HCAC for no consideration of two buildable lots having a total value of $4,750,000; (e) conveyance to HCAC for no consideration of the Sanderling lot valued at $1 million; (f) conveyance to one of the family members (as HCAC's assignee) for no consideration of the Blue Heron lot valued at $625,000; (g) conveyance to HCAC for no consideration of beach rights and other property enhancements valued at $750,000; and (h) release by the Conservancy of the pre-emptive rights encumbering properties of the two families under the 1969 agreement, which were valued at $1,222,000. The values ascribed to items (d), (e), (f) and (h) were provided to the Conservancy in written appraisals by Meredith.

As noted earlier in this memorandum, the Conservancy agreed to provide a tax indemnity in order to secure HCAC's agreement to waive pre-emptive rights, but it was understood from the outset that Bamford would back the indemnity. The Conservancy understood that HCAC intended to treat the waiver as a bargain sale and claim a deduction

[25] "Agreement Regarding Transfer of Herring Creek Farm".

based on the excess of the value of the rights surrendered over the value of the consideration received. The tax indemnity was based on the sum of the anticipated tax on the taxable portion of the transaction and the tax benefit of the contribution to be claimed.

HCAC insisted on the indemnity as the only acceptable alternative to payment by the Conservancy of consideration having a total value of $14 million, the appraised value of the pre-emptive rights. The Conservancy concluded that providing the tax indemnity was the least costly alternative and that the sum of the value of the indemnity and $11,931,755 in paid consideration was less than the appraised value of the pre-emptive rights.

e. Transfer to Herring Creek Farm Landowners' Association. The Conservancy had the right to retain ownership of the roadways at the farm and the Beach Lot, subject to travel and use easements in favor of the other landowners at the Farm. In order to avoid the risk of liability as owner in the event of personal injury or death, the Conservancy transferred these portions of the Farm to the Association, a non-profit corporation, for no consideration.

3. Description of Conservation Restriction. The Conservation Restriction replaced the proposals previously advanced by Owners in securing approval of the proposed 33-lot subdivision, restricts in perpetuity the number of homes that may be built on the Farm and ensures that permissible development will have the least impact on the sensitive grasslands, wetlands and beach habitats on the Farm.

The Conservation Restriction is a permanent encumbrance on the entire Farm and, in pertinent part: (a) establishes pristine areas of the Farm with exceptional wildlife and plant species habitat where no development will ever be permitted; (b) establishes on those lots within the Farm where limited residential development will be permitted so-called "development envelopes" outside of which no improvements will be permissible and joins

together the resulting open space on each lot into meaningful tracts of contiguous habitat;[26] (c) imposes key restrictions on the Farm, including limiting public access to sensitive grasslands and beach areas, limitations on the types and numbers of domesticated pets that may be kept on the Farm, on the planting of non-native grasses and plant species outside the development envelopes and on the types of improvements that may be constructed within the development envelopes; (d) incorporates the Conservancy's science-based habitat management techniques, such as prescribed burning of certain grassland areas and beach management activities; and (e) prohibits development of shore-hugging mansions that would irreparably alter the character of the Farm and its unique vistas and "viewsheds".

In agreements with the Town of Edgartown, the Conservancy has reserved for itself the right to enforce the terms of the Conservation Restriction. To ensure meaningful enforcement, the Town and the Conservancy have entered into a Memorandum of Understanding concerning the individual and collective enforcement of the Conservation Restriction. The Town and the Conservancy will meet at least annually at an Open Space Management Meeting to review and discuss ongoing monitoring and enforcement activities. The Conservancy has prepared a baseline report to document the condition of the Farm upon its acquisition, which will be used as the basis for future enforcement and to measure the success of the program. The Conservancy and the Town will also cooperate in implementing aggressive conservation strategies, including soil and water conservation, restoration of native grasslands, active management of the beach area and open spaces (as set forth in separate management plans attached to the Conservation Restriction), and selective cutting and clearing of vegetation for habitat protection.

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[26] There are 14 development envelopes. Three were established to permit the construction, relocation and/or expansion of previously existing barns and other farm-related structures and five related to previously existing residences. The remaining six were established to permit six new buildable lots. The total acreage encompassed by these envelopes is 16 acres. Once a structure is sited within one of these development envelopes, the remaining area within that envelope is significantly restricted as to its use and development. Thus, of the approximately 215 acres of the Farm initially acquired by the Conservancy only slightly more than six acres (the six development envelopes for the new buildable lots) was effectively opened for new development.

5. *The Washington Post* Description. The Committee asked the Conservancy to discuss the *Post's* description of the transaction in its article of May 6, 2003. The Conservancy disagrees with the *Post's* description of the transaction in several important respects, and representatives of the Conservancy so informed the *Post* prior to publication.

As the preceding description in this memorandum makes clear, the transaction enabled the Conservancy to restore the globally rare sandplain grasslands habitat and prevented the 33-lot subdivision originally approved for the Farm. Because the land on Martha's Vineyard is among the most expensive in the country, the Conservancy had no choice but to work with other parties having sufficiently significant financial resources to enable the project to proceed. While the transaction necessarily will result in limited new development, the Conservation Restriction prohibits any beachfront development, and only six new homes may be constructed on former farm pasture and previously cleared land nearby. None of these new homes may be built on actual sandplain grasslands and they are subject to size limitations. Thus, the Conservancy disagrees with the *Post's* reference to "Gatsbyesque" homes built on "pristine beach and grasslands". In the Conservancy's view, the *Post* more accurately described the effect transaction in its earlier July 27, 2001 article, a copy of which is being provided to the Committee, together with an article dated May 11, 2001, as published in the *Vineyard Gazette*.

The *Post's* description of the transaction in its May 6, 2003 article implies that the Conservancy was an active participant in the Wallaces' financial and tax planning for the transaction. This was not the case. As Conservancy representatives informed the *Post* before publication, the Conservancy did not work closely with the sellers and buyers to create a structure for all aspects of the transaction. The sellers and buyers worked independently of the Conservancy and, consistent with its policy (described earlier in this memorandum) the Conservancy made no tax or financial representations to the sellers or buyers. These parties had their own advisors and counsel and made their own judgments.

The Conservancy also disagrees with the implication that it actively assisted the Owners in securing approval of the 33-lot subdivision and thereby increasing the value of the Farm. The subdivision was approved by the Martha Vineyard's Commission on

November 16, 2000 and the Conservancy did not participate in the Commission's proceedings until May 2001, when it presented testimony concerning modification of the wastewater treatment system planned for the Farm. Tthe gift to the Conservancy from the Wallace Foundation was not subject to an explicit binding condition that it be used only to finance the acquisition of the Farm. A copy of the Foundation's letter transmitting the gift has been provided to the Committee.

If the Herring Creek conservation buyer transaction had not occurred, it is doubtful that the Farm could have been preserved. As an editorial in the May 11, 2001 edition of the *Vineyard Gazette* observed: "The [Herring Creek] farm sale agreement brings peace and an important close to more than a decade of political warfare and lawsuits between developers and conservationists over this sensitive farmland . . . ." The editors went on to recognize the Conservancy and "its critical conservation buyers" for their "supremely important role in the agreement and in the future conservation stewardship of this treasured piece of the Vineyard."

* * *

The Conservancy stands ready to respond to any additional questions the Committee may have with respect to conservation buyer transactions.

NOV 23 2004

October 27, 2004
Senate Finance Committee Letter

Question 14

Please provide any private letter rulings or other written advice sought or obtained by TNC from the IRS with respect to its CBP.

With respect to its Conservation Buyer Program, The Nature Conservancy relied on written opinions of independent and well qualified outside legal counsel, all of which have been provided previously to the Committee. The Conservancy did not seek or obtain any private letter rulings or other written advice from the IRS with respect to its Conservation Buyer Program.

April 21, 2005
Senate Finance Committee Letter

Question 2

Regarding the current list of conservation buyer program properties listed on your website (available at http://nature.org/conservation buyer/) please provide a narrative description of the efforts TNC is making to market these properties to the general public. Of the properties on this list, how many (and which ones, if any) were acquired from persons or entities with which TNC had or has a relationship of some sort (e.g., State or local trustee, financial contract).

In June, 2003, the Conservancy adopted a new comprehensive standard operating procedure for conservation buyer transactions that has been previously described to the Committee. One of the key requirements of that procedure is to ensure that conservation buyer properties are marketed widely. To meet that requirement, conservation buyer properties have been listed on the Conservancy's web-site.

As of May 1, 2005, the Conservancy had 52 properties listed for sale on its website. To the best of our knowledge, none of these properties were acquired from a related party (employee, Board member, Chapter Trustee, close relative of the foregoing, and related organizations). All of these properties are specifically listed on the web site to make sure that they are widely exposed to the general public at large. The Conservancy's web site received 3.8 million site visitors and 16.6 million page views during 2004. Our Conservation Buyer pages received 24,339 page views during 2004. We require all properties to be listed on our web site for a minimum of 30 days before we will contract to sell a property to assure equal access for all parties interested in purchasing conservation lands from TNC.

In addition to this substantive effort to expose all our conservation buyer properties to the public at large electronically, each state pursues marketing and exposure outlets. While the level, intensity, and type of the marketing depends on the size, value, and location of the property being marketed, in virtually every case, the property is listed with a local real estate broker who places the property on the MLS listing service, the brokers' website, and runs advertisements in local newspapers, local real estate magazines, and regional and national advertising venues as appropriate. To illustrate how this marketing works, *Rancho Canada de Pala,* one of the properties currently listed on the Conservancy's website, has been listed with a broker. Under the listing agreement, the broker lists the property on his website, other reputable websites, and local real estate magazines showing property for sale. Thus far, this property has been advertised on the CCIM network, Loopnet, "Homes and Land in Santa Clara" magazine, Ag Alert, Ranch and Country Magazine, the broker's website, MLS and California Farm Link.

In addition, most state offices post "for sale" signs on the property, list the property as being for sale in state-wide Conservancy newsletters, and place property for sale notices in state-wide circulation outdoor publications.

April 21, 2005
Senate Finance Committee Letter

Question 4

Please provide an estimate of the number of section 1031 like-kind exchanges that TNC has been a party to that have involved conservation buyer program properties in the last five years. We are seeking only those exchanges of which TNC has knowledge – and not asking the TNC to contact buyers to determine whether they were involved in a 1031 like-kind exchange.

To the best of the Conservancy's knowledge, during the five years of Fiscal 2000 through Fiscal 2004, the Conservancy completed approximately 20 like-kind exchanges as part of a transfer-out of property in a conservation buyer transaction. In every such case, the property owned by the Conservancy was transferred to the conservation buyer in exchange a) for a conservation easement over other land owned by the individual conservation buyer (typically, a neighboring landowner) that TNC sought to protect based on its conservation priorities, or b) for non-conservation land owned by the individual conservation buyer that the Conservancy would later sell for cash. There have been approximately five like-kind exchange transactions for the acquisition-in of property. In these cases, the Conservancy acquired land by trading other land to the seller. The land that the Conservancy acquired in the exchange was subsequently sold to a conservation buyer

In all cases, such exchanges were structured on a value for value basis and where values were not equal, cash was included as part of the transaction so that equal values could be obtained.

To put such transactions in context, during this same period, from FY00 to FY04, TNC completed some 7,718 conservation real estate transactions and approximately 170 conservation buyer transactions.

APPENDIX F

TAX OPINIONS AND ADVICE RE: CONSERVATION EASEMENTS AND CONSERVATION BUYER TRANSACTIONS

SFC II RESPONSE

I. Conservation Buyer Program, Question 8

VI. Easements, Question 17

8. Please provide a list of lawyers, accountants, and other outside counsel who have provided tax opinions or other tax advice to TNC with respect to the tax consequences to TNC or other parties to TNC's CBP transactions (whether with respect to actual or hypothetical transactions); please provide a copy of such opinions and written advice.

17. Please provide a list of lawyers, accountants and other outside counsel who have provided tax opinions or other tax advice to TNC with respect to the tax consequences to TNC or other parties regarding the acquisition or granting by TNC of conservation easements or similar conservation restrictions (whether with respect to actual or hypothetical transactions); please provide a copy of such opinions or written advice.

Firm/Contact	Address	Opinion	Attachment
Deloitte & Touche LLP	555 12th Street, NW, Suite 500 Washington, DC 20004-1207	San Rafael Cattle Company, Inc.	Letter dated December 14, 1998 to Michael Dennis from Deloitte & Touche LLP.
Holden, Kidwell, Hahn & Crapo, P.L.L.C. [redacted]	U.S. Bank Building 330 Siioup Avenue Third Floor P.O. Box 50130 Idaho Falls, ID 83405	Centennial Valley ([redacted]), Montana	Letter dated 10.15.02 to [redacted] and [redacted] from [redacted], Other attachment dated 10.4.02
Deloitte & Touche LLP [redacted] Tax Partner		Little Rapid – Beaver Creeks sale to [redacted]	Letter dated 11.23.94 to [redacted] from [redacted]
Ernst & Young LLP [redacted]	Suite 2100 400 West Market Street Louisville, KY 40202	[redacted] Purchase	Letter dated 8.23.99 to [redacted] ([redacted], Inc.) from [redacted]
Jerry J. McCoy Attorney At Law	1050 Connecticut Avenue, NW Suite 1200 P.O. Box 66491 Washington, DC 20035-6491	Particular form of transaction used by TNC in its land conservation activities.	Letter dated 1.20.03 to Michael Dennis from Jerry J. McCoy
		Request for Outside Counsel re: Davis Mountains Ranch Conservation Project, TX	Letter dated 1.29.97 to [redacted] from [redacted]

SFC II RESPONSE

I. Conservation Buyer Program, Question 8

VI. Easements, Question 17

Firm/Contact	Address	Opinion	Attachment
Steptoe & Johnson [redacted]	1330 Connecticut Avenue, NW Washington, DC 20036-1795	Response to request dated 1.29.97 re: Davis Mountains Ranch Conservation Project, TX	Letter dated 3.10.97 to [redacted] from [redacted]
Steptoe & Johnson	1330 Connecticut Avenue, NW Washington, DC 20036-1795	Letter Ruling 200213021 (12.14.01) CCH IRS Letter Rulings Report No. 1309, 04-03-02 IRS REF: Symbol: CC:ITA:2-PLR-135425-01	Fax dated 5.7.02 from Steptoe & Johnson (no recipient listed)
Faison Stone [redacted]	816 Congress Avenue, Suite 1670 Austin, TX 78701	After tax net cost analysis	Fax dated 1.30.97 to [redacted] from [redacted]; Attachment dated 1.29.97, memo to [redacted] from [redacted]
Steptoe & Johnson [redacted]	1330 Connecticut Avenue, NW Washington, DC 20036-1795	Use of LLC in Connection with [redacted]/TNC Eastern Shore Transaction	Fax memorandum dated 6.7.01 to [redacted] and [redacted] from [redacted] and [redacted]
Pinna, Johnston & Burwell, PA [redacted]	2601 Oberlin Road, Suite 100 Oaks of Fairview Raleigh, NC 27608	[redacted] L.L.C. Contract	Letter dated 5.22.00 to [redacted] from [redacted]
Steptoe & Johnson [redacted]	1330 Connecticut Avenue, NW Washington, DC 20036-1795	Deductibility of the Amounts Paid for Property Purchased from a Charity at a premium	Fax letter dated 9.26.02 to Michael Dennis and [redacted] from [redacted]
Choate, Hall & Stewart [redacted]		Status of Negotiations with Herring Creek Acquisition Company Regarding "Tax Make-Whole Payment"; Attachments	Memorandum dated 10.18.01 to [redacted] from [redacted] III. PC
Deloitte & Touche LLP [redacted]	555 12th Street, NW, Suite 500 Washington, DC 20004-1207	[redacted] Corporation Questions	Letter dated 5.15.00 to [redacted] from [redacted]

SFC II RESPONSE
I. Conservation Buyer Program, Question 8
VI. Easements, Question 17

Firm/Contact	Address	Opinion	Attachment
[redacted]		The Forest Bank, LLC U. S. Federal Income Tax Opinion – H&W Tax Opinion	Letter dated May 2001 to The forest Bank, LLC, c/o TNC from [redacted] Van Deusen
Knight & Masar Attorneys at Law [redacted]	300 The Florence 1111 N. Higgins Avenue, 59802 P.O. Box 8957 Missoula, MT 598078957	Arrow Ranch Conservation Easement	Letter dated 6.13.95 to [redacted] from An[redacted]
Deloitte & Touche [redacted]	50 Fremont Street San Francisco, CA 94105	TNC– Meteetsee River – Pitchfork Ranch • Like Kind Exchanges – Summary of Tax Issues	Memorandum dated 1.17.01 from [redacted] to TNC
Deloitte & Touche [redacted]	701 "B" Street, Suite 1900 San Diego, CA 92101	TNC– Meteetsee River – Pitchfork Ranch • Acquisition of property from Langley Hall Ranch LLC	Memorandum dated 2.23.01 to [redacted] from [redacted]
Holland & Hart LLP [redacted]	555 Seventeenth Street Suite 3200 Denver, CO 80202-3979	Other Parties – Meteetsee River – Pitchfork Ranch/Wilson Tract	Confidential Memorandum dated 10.26.01 to [redacted] from [redacted], attachment, email to [redacted] from [redacted] re: Pitchfork Ranch transaction/Wilson tract
Deloitte & Touche [redacted]	701 "B" Street Suite 1900 San Diego, CA 92101	TNC - Bighorn Foothills – PK Ranch • Soldier Creek Preserve (tax consequences to TNC of SCP's present intent to sell appreciated assets followed by a complete liquidation)	Email dated 4.11.03 to [redacted], [redacted] from [redacted] attachment: letter dated 4.11.03 to TNC from [redacted] re: Soldier Creek Preserve

SFC II RESPONSE
I. Conservation Buyer Program, Question 8
VI. Easements, Question 17

Firm/Contact	Address	Opinion	Attachment
Deloitte & Touche LLP [redacted] Manager, Tax Services [redacted] Tax Senior	701 "B" Street Suite 1900 San Diego, CA 92101	TNC - Bighorn Foothills – PK Ranch • PK Ranch Distribution of Earnings & Profits	Original email dated 6.12.00 from [redacted] to [redacted]; email forward dated 6.13.00 from [redacted] to [redacted]; email response dated 6.13.00 to [redacted] from [redacted] attachment: fax letter dated 6.12.00 from [redacted] to [redacted] (includes blank IRS Form 8109); email dated 6.12.00 from [redacted] to [redacted], forward of email to [redacted] Memo dated 6.1.00 to TNC-Fax File from [redacted]
Deloitte & Touche LLP [redacted] Manager, Tax Services	701 "B" Street Suite 1900 San Diego, CA 92101	TNC - Bighorn Foothills – PK Ranch • Acquisition of PK Ranch Company (tax due diligence)	Letter dated 12.10.99 to [redacted] from J[redacted]; attachment: letter dated 11.29.99 to TNC fro[redacted]
Deloitte & Touche LLP J[redacted] Manager, Tax Services	701 "B" Street Suite 1900 San Diego, CA 92101	TNC - Bighorn Foothills – PK Ranch • Original tax issues summary and calculations	Fax memorandum dated 11.16.99 to [redacted] from [redacted]; attachments: (1) dated 11.16.99, Interest Deductible; (2) dated 11.16.99, Interest Non-Deductible; (3) letter dated 12.10.99 to [redacted] from [redacted]

SFC II RESPONSE

I. Conservation Buyer Program, Question 8

VI. Easements, Question 17

Firm/Contact	Address	Opinion	Attachment
Deloitte & Touche LLP [redacted]	50 Fremont Street San Francisco, CA 94105	TNC - Bighorn Foothills – PK Ranch • Soldier Creek Preserve 1031 Exchange	Email dated 4.2.01 to [redacted] from [redacted], email response dated 4.2.01 from [redacted] to [redacted], email forward dated 4.2.01 to [redacted], [redacted] from [redacted]
McCutchen, Doyle, Brown & Enersen, LLP [redacted]	Three Embarcadero Center San Francisco, CA 94111-4067	Amending Conservation Easements	Letter dated 3.15.01 to Michael Dennis and [redacted] from [redacted] and [redacted]
Steptoe & Johnson [redacted]	1330 Connecticut Avenue, NW Washington, DC 20036-1795	Purchase/Donation	Draft letter dated 1.31.92 to [redacted] from [redacted]
Wilson & Company [redacted]	P.O. Box 1120 Sumerset, KY 12501	Lost Island, Inc. Clear Lake Club, Inc. Axe Lake Swamp	Letter dated 3.2.99 to [redacted] from [redacted], letter dated 7.19.99 to [redacted] from [redacted], memorandum dated 8.10.98 to [redacted] from [redacted]
Issacson, Rosenbaum, Woods & Levy, PC [redacted]		May 23, 2002 Memorandum re: Availability of Colorado conservation Income Tax Credits	Email dated 9.27.02 to Mike Dennis, [redacted] from [redacted] Letter dated 9.27.02 to [redacted] from [redacted]

CONFIDENTIAL

Suite 500
555 12th Street, NW
Washington, D.C. 20004-1207
Telephone: (202) 879-5600
Facsimile: (202) 879-5309

December 14, 1998

Mr. Michael Dennis, Esq.
General Counsel
The Nature Conservancy
4545 North Fairfax Drive
Suite 100
Arlington, VA 22203-1606

Dear Mr. Dennis:

This is in reply to your request for an opinion regarding the tax implications of the proposed conversion of San Rafael Cattle Company, Inc. from a taxable entity to a tax-exempt organization under Internal Revenue Code (IRC) §501(c)(2).

In rendering this opinion, we have (with your permission) reviewed and relied upon, among other things:

a) The facts, representations, and assumptions summarized below; and

b) Your letters to us dated September 8, 1998, and the exhibits therein; and

c) Representations from Morrison & Hecker, LLP, legal counsel, dated December 10, 1998.

FACTS AS REPRESENTED TO US

The San Rafael Cattle Company, Inc. (SRCC) is currently a Subchapter C corporation for federal and state income tax purposes. The Nature Conservancy, which is recognized as a tax-exempt organization under §501(c)(3), desires to purchase the stock of this corporation, and convert the corporation to an IRC §501(c)(2) title holding company for the purposes of preserving the natural beauty of the land and surrounding San Rafael Valley in Arizona.

You have represented to us that The Nature Conservancy will not incur any indebtedness with regard to the purchase of the stock of SRCC, that SRCC does not have any debt that will constitute "acquisition indebtedness" within the meaning of IRC §514(c), and that SRCC does not carry on any activities that would give rise to unrelated business taxable income as defined under IRC §512.

In addition, The Nature Conservancy is currently negotiating with the State of Arizona for the sale of an easement on real property that is held by SRCC.

ISSUES

1. Will the conversion of SRCC to a tax-exempt organization be subject to tax?

2. Will the income earned by the SRCC, including any future sale of assets, be considered unrelated business income under IRC §512?

3. What will be the effective date for the conversion to an IRC §501(c)(2) title holding company?

CONCLUSIONS

1. The conversion to a tax-exempt title holding company should not be subject to tax.

2. If all of SRCC's assets will be utilized in The Nature Conservancy's tax-exempt purpose as represented, any income earned, including gains from sale of assets, will generally be exempt from tax.

3. The effective date for the conversion to tax-exempt status should be the date the governing documents are amended and the application for exemption is filed (for federal and state purposes).

LAW & ANALYSIS

Conversion to a Tax-exempt Organization

Generally, a distribution of assets from a taxable subsidiary to a tax-exempt parent, not in complete liquidation, will result in gain recognition at the subsidiary level as if the property or other distributed assets were sold to the distributee at the fair-market value of the assets under IRC §311(b). As such, if SRCC distributed the title to the land owned in the San Rafael Valley to The Nature Conservancy, SRCC would be required to recognize the gain on the land.

Secondly, if SRCC transferred the land outright to the parent, the transfer would be considered a dividend under IRC §316(a). Any amounts transferred without consideration by a taxable corporation to its sole stockholder, an organization exempt from federal income tax are considered dividends to the parent. Under this type of transfer, SRCC would be required to recognize income equal to the fair-market value, less the adjusted basis in the property transferred, and would be required to pay taxes on the difference similar to that discussed above.

SRCC will not distribute assets to its tax-exempt parent prior to conversion to tax-exempt status. SRCC will be converted to an IRC §501(c)(2) title holding company. As such, legal counsel has reviewed the activities of SRCC to determine that they meet the qualifications as a tax-exempt holding company under IRC §501(c)(2).

The IRS could argue that §337(b)(2) applies to this transaction, which would make the conversion an immediately taxable event. IRC §337(b)(2) states that gain or loss would be recognized where the distributee is an exempt organization. We believe however that the IRS should lose this argument based upon the characterization of the conversion discussed below.

On January 13, 1997, the IRS released proposed regulation §1.337(d)-4. The regulations would generally treat a change in a corporation's tax status as an asset transfer. (Prop. Reg. 1.337(d)-4(a)(2)). There are a number of exceptions and an anti-abuse rule, which are important but not relevant here. The proposed regulations will be effective "30 days after publication in the Federal Register of these regulations as final regulations...". (Prop. Reg. 1.337(d)-4(e)). However, as of today, we have not seen the regulations published in final form. The proposed regulations have a prospective effective date. It is our view that a corporation that amends its articles and by-laws, and files its application for exemption prior to the issuance of the final regulations, should not be

subject to those regulations, even if the exemption application is granted after the regulations are effective. We believe that under IRC §361, a conversion from a taxable, to a tax-exempt organization would not be considered a deemed liquidation, as SRCC would be amending its corporate charter rather than liquidating and reincorporating.

Unrelated Business Income

IRC Regulation §1.501(c)(2)-1 states, " A corporation described in §501(c)(2) and otherwise exempt from tax under §501(a) is taxable upon its related business taxable income...Since a corporation described in §501(c)(2) cannot be exempt under §501(a) if it engages in any business other than that of holding title to property and collecting income therefrom, it cannot have unrelated business taxable income ... ". As a result, there is a prohibition on the receipt of unrelated business taxable income (other than that which could result from holding debt financed rental property). Therefore, SRCC can only hold title to assets for its tax-exempt parent, collect income therefrom, and remit the income less expenses to its parent. However, under IRC Reg. §1.501(c)(2)-1(a), a §501(c)(2) tax-exempt organization is allowed to have unrelated taxable income, if it is due to IRC §514.

Under IRC §514, income from debt-financed property generally results in unrelated business income. Reg. §1.514(a)-1(a)(3) defines average acquisition indebtedness as the average amount of the outstanding principal indebtedness during that portion of the taxable year the property is held by the organization. Under IRC §514(c)(7), if property is sold or otherwise disposed of, average acquisition indebtedness is defined as the highest amount of the acquisition indebtedness with respect to such property during the 12-month period ending with the date of the sale or other disposition.

IRC §514(b)(1)(A)(i) excludes from the definition of debt-financed property assets held for an exempt organization's tax-exempt purpose. Reg. §1.514(b)-1(c)(2)(i) states that property owned by an exempt organization and used by a related exempt organization shall not be treated as debt-financed property if used in furtherance of the related organization's exempt purpose. Reg §1.514(b)-1(c)(2)(ii)(a) goes on to state that "related organizations" for purposes of the above stated rule include a title holding company exempt under IRC §501(c)(2)and its tax-exempt parent. You have further represented to us that all of SRCC's assets will be utilized in the Nature Conservancy's tax-exempt purpose.

Effective Date of Tax-Exempt Status

The actual conversion for Federal purposes would be accomplished by amending the articles of incorporation and by-laws and filing Form 1024, *Application for Recognition of Exemption*. Arguments can be made that the conversion occurs on any one of three dates: (1) the date that the corporation's articles of incorporation and bylaws are amended, (2) the date that the application for exemption is filed, or (3) the date that the exempt determination letter is granted.

We believe that the conversion occurs at the time that the application for exemption is filed, unless no application for exemption is required. The proposed regulations discuss the time when an organization is deemed to have exemption under certain exceptions for changes of status within three year periods, and they look to the filing of an application for recognition of exemption, not the later date that exemption is granted. (Prop. Reg. §1.337(d)-4(a)(3)(ii)).

We believe that the date of the conversion is not the earlier amendment of articles and bylaws nor the later date that the exempt determination letter is granted. Amending a corporation's articles and bylaws alone will usually not change a taxable corporation to a tax-exempt one, unless no application for exemption is required. Likewise,

since the determination of exempt status generally relates back to the date that the exemption application was filed, and in some cases earlier, IRS issuance of the determination letter should not be the date of the conversion.

Therefore, it is our contention that from the date of amendment of the articles of incorporation and by-laws and the filing of Form 1024, SRCC would qualify as a tax-exempt organization.

Other Considerations

SRCC's legal counsel will review the amendments to the articles and by-laws for state law specific provisions.

Additionally, Reg. §1.501(c)(2)-1(b) states that IRC §501(c)(2) organizations cannot accumulate income. Therefore, SRCC must turn over the entire amount of such income, less expense, to its parent, an organization which is exempt from tax under IRC §501(a).

This opinion is based solely upon:

a) the representations, information, documents, and facts we have included or referenced in this opinion letter;

b) our assumption (without independent verification) that all of the representations and all of the originals, copies, and signatures of documents reviewed by us are accurate, true, and authentic;

c) our assumption (without independent verification) that there will be timely execution and delivery of an performance as required by the representations and documents;

d) the understanding that only the specific Federal income tax issues and tax consequences opined upon herein are covered by this tax opinion, and no other federal, state, or local taxes of any kind were considered;

e) as a tax-exempt title holding company, San Rafael Cattle Company, Inc. will not engage in any trade or business, other than holding title to property for its tax-exempt parent;

f) the Nature Conservancy is tax-exetnpt under Federal and Arizona law;

g) the law, regulations, cases, rulings, and other tax authority in effect as of the date of this letter. If there are any significant changes of the foregoing tax authorities (for which we shall have no responsibility to advise you), such changes may result in our opinion being rendered invalid or necessitate (upon your request) a reconsideration of the opinion;

h) your understanding that this opinion is not binding on the IRS or the courts and should not be considered a representation, warranty, or guarantee that the IRS or the courts will concur with our opinion;

i) your understanding that this opinion letter is solely for your information and benefit, is limited to the described transaction, and may not be relied upon, distributed, disclosed, made available to, or copied by anyone, without prior written consent or as described herein;

j) your representation that San Rafael will not at the time of the conversion and thereafter carry on any unrelated trade or business (with minor exceptions not relevant here) or have incurred 'acquisition indebtedness' within the meaning of IRC §514(c);

Deloitte & Touche LLP

December 14, 1998
Mr. Michael Dennis, Esq.
Page 5

k) your representation that the Nature Conservancy will not incur debt to finance the acquisition of the San Rafael Stock;

l) that all property held by SRCC will be utilized in the Nature Conservancy's tax-exempt purpose.

In issuing this opinion we relied solely upon representations from outside legal counsel for the Nature Conservancy that:

a) amendments are possible under Arizona law to allow conversion to a tax-exempt title holding company without such amendments constituting a liquidation under Arizona law (we will also rely on legal counsel to prepare the filings necessary to amend the governing documents under state law);

b) Arizona law permits a stock corporation to qualify as a tax-exempt title holding company and that appropriate application for recognition of tax exemption will be filed with the appropriate agency of the state of Arizona;

c) as a tax-exempt title holding company, SRCC's sold purpose per its charter will be to hold title to property for its tax-exempt parent, and will remit any net income from the property to its parent, on an annual basis; and

d) San Rafael Cattle Holding Company, Inc. will be a direct subsidiary, through 100% stock ownership by the Nature Conservancy.

If you have any questions concerning this opinion please contact [redacted]

Very truly yours,

Deloitte + Touche, LLP

Deloitte & Touche LLP

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Deloitte & Touche LLP

Law Offices
HOLDEN, KIDWELL, HAHN & CRAPO, P.L.L.C.

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U S BANK BUILDING
330 SHOUP AVENUE, THIRD FLOOR
P.O. BOX 50130
IDAHO FALLS, IDAHO 83405

TELEPHONE (208) 523-0620
FACSIMILE (208) 523-9518
E-MAIL GMEIKLE@HOLDENLEGAL.COM

Arthur W. Holden
(1877-1967)
Robert B. Holden
(1911-1971)
Terry L. Crapo
(1939-1982)
William S. Holden
(1907-1988)

Of Counsel
Fred J. Hahn

October 15, 2002

VIA TELEFAX NO. (406) 587-6086

Mr. Tim Swanson
The Nature Conservancy

VIA TELEFAX NO. (303) 541-0346

Wendy Dinner, Esq.
The Nature Conservancy

Dear Tim and Wendy:

In anticipation of our telephone conference with afternoon, I am writing to highlight some of the [redacted] primary concerns regarding the easement and the documentation report. Before getting to those details, let me first address the lien issue which Wendy raised last week. The taxpayer in the case which Wendy referred to received cash for a conservation easement. The [redacted]' will exchange into other real property on a section 1031 like-kind exchange. The IRS specifically recognizes the continuing availability of the special use valuation if the property is exchanged into other property eligible for special use valuation. I do not anticipate an estate tax problem with this issue.

Of greater concern is the lien on the existing property. I expect the IRS to approve transferring the lien from the existing property to the replacement property, but I will be surprised if we are able to accomplish that within two weeks. [redacted], the [redacted]' accountant, will arrange for this through his partner in the Helena office.

With the tax issues hopefully out of the way, we can address the specifics of the transaction. [redacted]'s and [redacted]'s primary concern relates to their ongoing grazing of livestock and utilization of the property in a ranching operation. They believe that they should be permitted to utilize the ranch at current and historic levels. As operators of the ranch, they have a vested interest in maintaining the quality of the property for ranching operations. They are particularly concerned about paragraph 4.A.ii. We will have to discuss at some detail the mechanism to provide them with the necessary comfort with that issue.

I am enclosing two pages which show specific provisions which we wish to discuss.

Also, there are some provisions from the Centennial Valley easement which we wish to have in these easements. They include paragraph 6.A., 6.E., 4.N., and 4.M. from the Centennial Valley easement.

In the Centennial Valley easement under paragraph 5, TNC has 20 days from receipt of a notice of proposed activity to request additional information concerning the proposed activity. We suggest that the same 20 day provision be in the new easements.

Paragraph 7 of the Centennial Valley easement requires a 30-day notice from TNC to the grantor concerning violations, remedies, etc. The proposed agreements do not have a corresponding notice provision. We believe it is important that it be added.

Paragraph 12.C. of the Centennial Valley easement provides a mechanism for the grantor to participate in selecting a successor organization to TNC. Again, we believe this should be included in the proposed easements.

I look forward to visiting with you later.

Very truly yours,

[redacted]

Enclosures

[redacted]

Add historic use - NE from Centennial Valley

DRAFT

E. Grantor, as owner of the Property, owns the affirmative rights to identify, preserve, and protect in perpetuity its open space character and its significant relatively natural features and values;

F. Grantor desires and intends to transfer such rights to the Conservancy;

G. The State of Montana has recognized the importance of private efforts toward the preservation of natural systems in the state by enactment of Section 76-6-101, et seq., MCA; and

H. The Conservancy is a private organization organized to protect and conserve natural areas and ecologically significant land for scientific, charitable and educational purposes, and is a "holder" under the terms of Section 76-6-104(5) and Section 76-6-204, MCA, and is a "qualified organization" within the provisions of Section 170(h) of the Internal Revenue Code of 1986, as amended (the "IRS Code"), qualified to acquire and hold conservation easements and meets the requirements of the IRS Code as a Sec. 501(c)(3) exempt organization.

TERMS AND CONDITIONS

NOW, THEREFORE, in consideration of the mutual covenants contained herein, pursuant to Section 76-6-101, et seq., MCA, Grantor hereby conveys to the Conservancy, its successors and assigns, a perpetual Conservation Easement consisting of the rights and restrictions enumerated herein, over and across the Property (the "Easement").

Purposes. It is the purpose of the Easement to preserve and protect in perpetuity, to enhance upon mutual agreement, and in the event of their degradation or destruction, to provide for the restoration of the open space and significant relatively natural features and values of the Property. It is further the specific purpose of this Easement to conserve important habitat for wildlife; to protect rare or unique native plants; and to conserve the diverse grassland, and riparian vegetative communities and the wildlife inhabiting these communities (collectively the "Conservation Values"). In achieving these purposes, it is the intent of the Easement to ensure the continuation of such ranching, agricultural, and other uses of the Property as may be conducted consistent with the conservation values protected herein. The preservation of the historical use of the property and continued management of this property as a viable ranching operation at current levels of use is also worthy of preservation. The current levels of management and operation of the Property comply with and help accomplish these purposes. Any and all rights or interests of the Grantor not specifically conveyed to the Conservancy or specifically prohibited by the Easement are reserved to the Grantor.

2. Easement Documentation Report. A collection of baseline data on the Property and its resources has been prepared and the data and explanatory text are presented in the "[redacted]. [redacted] Family Limited Partnership/aka [redacted] Easement Documentation Report", dated August 1, 2002 (the "Report"). A copy of the Report is on file with both Grantor and the Conservancy and by this reference made a part hereof. The parties acknowledge that the Report is intended to establish the condition of the Property subject to the Easement as of the date written below and that

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significant deterioration, the Conservancy shall so inform Grantor. In response, Grantor shall develop a Grazing and Riparian Management Plan for review and approval by the Conservancy and Grantor shall then implement the approved plan.

B. Use, maintenance, repair, and construction of new livestock handling facilities provided that these facilities are limited to a corral, loading chute, and related facilities. These structures may not be constructed in wetland basins or within 50 yards of Winslow Creek.

C. Maintenance and improvement of existing roads, and construction of new roads as may be necessary to carry out the agricultural and ranching activities as provided herein, provided, however, that all roads shall be kept to the minimum widths and minimum level of improvement necessary to accomplish the purpose of the road.

D. Maintenance, repair, and reconstruction of existing fencing and intentionally construction of new fences. New or reconstructed boundary or pasture-division fences may not exclude or prevent wildlife from moving through the Property, but other fencing may exclude wildlife from, newly-seeded areas and temporary vegetative restoration areas. Present fencing may be replaced with similar types of fencing in approximately the same location.

E. Use of agricultural chemicals, including fertilizers, pesticides, herbicides, insecticides and rodenticides. The use of such agents shall be conducted in such a manner as to minimize adverse effects upon the natural values of the Property and the natural ecosystem. Aerial spraying of chemical agents requires advance approval by the Conservancy.

F. Introduction of biological weed and pest control agents.

Pt 3.6. from Corral Creek — raising harvesting, hay + not historical in Bl. + Gary + Tim w/ Hal to Evan to verify

G. Removal of surface sand and gravel in limited quantities, for use solely in ranch operations consistent with historical practices. Under no circumstances is any commercial use of sand or gravel located on the Property permitted by this Easement, nor may any sand or gravel be mined for any purpose, either commercial or non-commercial. All sand and gravel extraction permitted hereunder shall have only limited, localized impacts, and shall be suspended, if the Conservancy determines such removal impairs any of the Conservation Values protected by this Easement.

H. Use, maintenance, repair, and reconstruction of existing agricultural water facilities, as documented in the Report and with prior notice and approval of the Conservancy, the development of new water resources and facilities, including the diversion, withdrawal and use of water, consistent with valid water rights, for wildlife habitat enhancement and other uses provided for herein; provided that any maintenance, repair, reconstruction, construction or development activities do not cause significant or long-term impairment of water quality or riparian values.

I. Construction of utility systems for the uses permitted in this Easement.

To: Allan Beezley
From: Ben Pierce

add to your notes

Deloitte & Touche LLP

We appreciate your pinpointing the original TNC agreed to the allocation set forth in the addendum to option agreement based on the values established in Mr. [redacted] appraisal & we do not have any other information (either self-generated or provided by other appraisers) concerning such allocation of value.

November 23, 1994

Mr. Benjamin C. Pierce, Direct
Wyoming Chapter
The Nature Conservancy
258 Main Street, Suite 20
Lander, Wyoming 82520

Dear Ben:

The following is in response to your questions regarding the need for the allocation of the selling price of Mr. [redacted]s ranch to the various components set forth in the Addendum to the Option Agreement.

Because the tax law requires an allocation of consideration received upon the sale of multiple assets in order to determine a taxpayer's gain or loss (see, for example, section 1060, IRC) a tremendous amount of time and effort was expended to determine the appropriate allocation to the assets sold. Treas. Reg. Sec. 1.1034-1(c)(3) also requires that an allocation be made for purposes of gain computation when part of a property was used by a taxpayer as his principal residence (as was the case with Mr. [redacted]) and part was used for other purposes. The allocation and resulting gain/loss calculations were based on previously appraised values of the separate and distinct assets comprising the ranch as set forth in the appraisal prepared by Mr. [redacted]er dated October 26, 1994.

Although the appraisal specified the fair market values of the various portions of Mr. [redacted]s ranch, it could not, and did not, document the dollar amount for which Mr. [redacted] actually sold his assets. Such documentation had to be provided by means of an allocation (not an appraisal) entered into between the buyer and seller, because the selling price was at a substantial discount below fair market value. This is normal business practice in most commercial transactions wherein more than one kind of asset is changing hands.

If you have any questions or if I can be of further assistance, please do not hesitate to call me at (303) 837-3207.

Sincerely,

[redacted]

Tax Partner

#143
Little Rapid - Brown Creeks
Sale to [redacted]
TNC

Deloitte Touche Tohmatsu International

SENT BY: [redacted] pur- ase Mike

Copy in Scott & TEL

donor file

ERNST & YOUNG LLP

Suite 2100
400 West Market Street
Louisville, Kentucky 40202

Phone: 502 585 1400
Fax: 502 584 4221

August 23, 1999

DRAFT
FOR DISCUSSION PURPOSES ONLY

[redacted]

Dear [redacted]

I have spoken with [redacted], Regional Counsel of The Nature Conservancy, on a few occasions over the past month about your proposed exchange of land. From my previous discussions with you I understand that you are prepared to give The Nature Conservancy a piece of property valued in excess of $300,000 in exchange for which you will receive another piece of property valued at approximately $270,000. In addition, you will grant a conservation easement on the property which you are going to receive that will significantly affect your possible use of that land in the future.

It appears that your exchange of land will create a tax deferred like-kind exchange, as well as a charitable contribution. In order to qualify as a like-kind exchange, a taxpayer must swap property held for investment or business use for similar property. Your exchange of property appears to meet this requirement, as pieces of land would generally be considered "like-kind" property. It is our understanding that both your current piece of property and the property which you will receive will both be held for investment and/or farming.

When two unrelated taxpayers exchange property, it is generally assumed that the pieces of property have similar fair market values. In this case, there will be valuations showing that the land you are surrendering is worth significantly more than the land you are receiving (with or without the conservation easement). Because of the value you are giving up, you will be entitled to a charitable contribution. There are two components to this charitable contribution; the first is the excess of the value of the surrendered property over the value of the received property (not considering the easement), the second is the decrease in the value of the land you receive as a result of the granting of a conservation easement.

A taxpayer can receive a charitable contribution deduction for the contribution of a "qualified conservation contribution" provided that the contribution is of a qualified real property interest made to a qualified organization and is made exclusively for conservation purposes. A restriction (granted in perpetuity) on the use of land is a qualified real property interest as defined in the Internal Revenue Code. In addition, the Nature Conservancy has represented to you that they are a qualified organization as

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[redacted]

defined in IRC §170(h)(3), and the granting of this easement is exclusively for conservation purposes. As such, you seem to meet all of the requirements for claiming a charitable deduction for the granting of a conservation easement.

In order to support the value of the contribution you have made, appraisals must be performed on the relevant property no more than 60 days prior to the contribution. A valuation would be needed on the property you receive as well as the property you relinquish. Generally you would be responsible for the cost of the appraisal on the property which you are giving up. The value of the land you receive would need to be appraised both with the easement and without the easement, to determine the value of said easement.

Perhaps the easiest way to structure this transaction would be to transfer the properties and simultaneously grant a conservation easement on the property you receive. This should qualify as a like-kind exchange as both pieces of property are held for investment and/or business use (farming). The excess of the value of your land given up over the value of the land received, including the conservation easement, should be treated as a charitable contribution. This transaction could be viewed in two ways, with each yielding the same tax answer. Firstly, this could be viewed as a swap of your land for land that is significantly lesser in value, due in part to the conservation easement as well as other factors. Secondly, this could be viewed as a swap of your land for land that is lesser in value due solely to size, location, condition, etc. of the land, followed by a contribution to the Nature Conservancy of the conservation easement. Either way, the result should be the same: a like-kind exchange of property coupled with a charitable contribution equal to the value of the land you surrendered less the value of the land you received, including the conservation easement.

A few points for you to keep in mind should be mentioned. [redacted] mentioned that the land you are to receive was once leased for oil and gas production. A contribution deduction is not allowed for a conservation easement if mineral extraction is permitted on that property. According to [redacted], the previous owners of the land will provide affidavits asserting that all oil and gas leases on this property have terminated and/or expired. In addition, it should be noted that taking a mortgage on the land you are going to receive could also jeopardize your charitable contribution deduction unless the mortgagee takes a subordinate position to the conservation organization.

Another point to keep in mind is the utilization of this charitable contribution in your income tax return. Deductions for contributions of capital gain property (which your land would constitute) are limited to 30% of a taxpayer's adjusted gross income for any tax year. Any excess that cannot be deducted in the year of contribution can be carried over and deducted in a subsequent tax year. Such a carryover would expire after five years if not fully utilized.

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[redacted]

I hope I have presented the relevant issues clearly to you related to your swap of land and related charitable contribution. If you should have any questions, please do not hesitate to contact me.

Sincerely,

[redacted]

JERRY J. McCOY
ATTORNEY AT LAW

1050 CONNECTICUT AVENUE, N.W., SUITE 1200
POST OFFICE BOX 66491
WASHINGTON, D.C. 20035-6491

(202) 466-6941
FAX (202) 466-6942

January 20, 2003

Michael Dennis
General Counsel
Suite 100
4245 North Fairfax Drive
Arlington, VA 22203-1606

Dear Mike:

This is in response to your request for my comments on a particular form of transaction used by The Nature Conservancy ("TNC") in its land conservation activities.

You also asked for a curriculum vitae showing my qualifications to comment on such a matter, and that is attached. As noted there, I have practiced tax law (with a specialty in charitable tax planning) for more than thirty years, teach courses in the subject at two national law schools, and have written widely in the field (including a book on family foundations and two monthly newsletters, Charitable Gift Planning News, and Family Foundation Advisor).

The Subject Transaction

The transaction you described is a typical land trust technique for acquiring, protecting and reselling tracts of land with significant conservation values. The transaction generally proceeds as follows:

> In Step One, the land trust purchases the land, generally paying an amount equal to the fair market value of the land. (If the original owner were inclined to donate the land to the land trust, or sell it for less than full value, he or she would probably be willing to proceed with the protection of the land without involving the land trust in the sale transaction at all.)
>
> In Step Two, the land trust encumbers the land with a negative restriction or "conservation easement," thereby permanently limiting its use and assuring it will not be developed or otherwise converted to uses that would be injurious to the conservation values being protected. As when an individual creates a conservation easement, the effect of this step is to reduce the market value of the land since prospective purchasers who would otherwise acquire it for development are effectively barred from the market.

In Step Three, the land trust sells the land (which is now encumbered by the easement) to a purchaser who is willing to limit his or her use of the land to activities that are permitted under the easement. Because this friendly or sympathetic buyer is motivated at least partially by the conservation considerations of the property, he or she is generally willing to underwrite all or part of the land trust's loss on the purchase and sale in either of two ways.

> Alternative A — In some instances, this donor/buyer makes a cash contribution to the land trust sufficient to make it whole (i.e., an amount equal to the difference between the price originally paid by the land trust for the property and the lesser amount paid for the property by the donor/buyer).
>
> Alternative B — In other instances, the donor/buyer simply pays the land trust a price for the land equal to what the land would be worth in the absence of the easement (typically the same amount the land trust paid).

In either case, whether the donor/buyer proceeds under Alternative A or Alternative B above, the result is the same. The total outlay of the donor/buyer is equal to the full, unencumbered value of the property, and the excess over the actual value (reflecting the restrictions imposed by the conservation easement) is deductible for income tax purposes.

Example

Using a simple example, let's assume TNC acquires a tract of forest land for $1,000,000. The land can be developed into a series of 5-acre homesites, and the $1,000,000 price reflects this factor. TNC conveys to a local governmental agency a conservation easement precluding such development of the land and any other activity (e.g., logging, strip mining, operation of a business, etc.) that would be deleterious to the pristine forest nature of the property. This means that any future purchaser is limited in his or her ability to realize the full economic value of the land. Accordingly, the land cannot be sold in the open market for more than $700,000. The values are confirmed by reliable professional appraisals.

TNC locates a buyer, D, who will buy the property subject to the easement for $700,000, and this sale is consummated. At the closing or soon thereafter, D voluntarily contributes $300,000 in cash to TNC, so that it breaks even on the transaction. This is the approach used in Alternative A above. Alternatively, D may buy the property from TNC for $1,000,000, the same amount TNC paid for it. Since D is paying $1,000,000 for an asset that is worth only $700,000, D has conferred a $300,000 benefit on TNC. This is Alternative B.

Because TNC is a qualified charity and the benefit in question (either the $300,000 cash contribution in Alternative A or the $300,000 cash benefit in Alternative B) was conferred with the intention of supporting the charitable mission of TNC, D will be entitled to a charitable contribution deduction in the amount of $300,000 for income tax purposes under either approach.

Availability of Deductions

You indicated that some question has been raised as to the proper deductions allowable under one or both of these alternatives, and I believe I can say with certainty that the buyer (D in our example) is clearly entitled to the deductions described, subject to the normal conditions (e.g., a qualified donee, substantiation by means of a timely receipt, qualified appraisals, percentage limitations based upon the donor's adjusted gross income, etc.). Indeed, this seems only appropriate, since in each case D is out of pocket (and the land trust is enriched) by this amount.

In the case of the cash contribution in Alternative A, there would seem to be little room for argument assuming the values are correct. In the case of the purchase of property at a price in excess of value (Alternative B), the economic result is the same, and the tax result follows. The Regulations provide for this result in §1.170A-1(h), where a taxpayer who purchases goods or services from a charitable organization, but intentionally pays an amount in excess of the fair market value of the goods or services is entitled to a charitable contribution deduction. This is the case in the everyday situation where a donor buys a charitable gift annuity from a charity, where the amount payable for the annuity is set at a level which exceeds the value of the annuity purchased; the excess is deductible as a charitable contribution. The IRS has recognized this principle in the Regulations [§1.170A-1(d)(1)] and in Revenue Ruling 70-15, 1970-1 CB 20. Moreover, the Supreme Court has upheld this principle in United States v. American Bar Endowment,477 US 105 (1986), where the Court stated as follows:

> "The sine qua non of a charitable contribution is a transfer of money or property without adequate consideration. The taxpayer, therefore, must at a minimum demonstrate that he purposely contributed money or property in excess of the value of any benefit he received in return."

Of course, the critical question is one of respective values — the amount paid by the donor/buyer versus the value of the property received. As with any charitable contribution situation involving property, these values must be determined by appraisals, and are subject to question by the Internal Revenue Service on audit of the taxpayer making the contribution. The donee organization is not involved in the valuation process, and the determination of value (including defense of any attack by IRS) is entirely the donor's obligation.

* * *

I hope this discussion is helpful. Please let me know if there are any additional questions or if I should elaborate on any of the points discussed above,

Sincerely,

Jerry J. McCoy

Attachment

JERRY J. McCOY

Office:

1050 Connecticut Avenue, N.W., Suite 1200
P.O. Box 66491
Washington, D.C. 20036
(202) 466-6941 [fax (202) 466-6942]
mccoylaw@aol.com

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Charitable Gift Planning News, a monthly newsletter published by Little, Brown & Co., Boston, Mass. until June, 1990, now published by the co-editors (Co-Founder and Co-Editor, 1983 to date)

Co-founder and co-author of monthly newsletter on tax and other considerations affecting charitable giving; circulation includes development officers for educational institutions and other charitable organizations, as well as attorneys, accountants, financial planners, life underwriters, and other donee advisors.

Family Foundation Advisor, a monthly newsletter published by Aspen Law & Business (A Wolters Kluwer Company), New York beginning February, 2002

Co-founder and co-editor of monthly newsletter for advisors and managers of family foundations, designed to complement the Family Foundation Handbook (listed below).

Professional Organizations

American Bar Association, Section of Real Property, Probate and Trust Law (Washington Coordinator for the Probate and Trust Division; Group Chairman for Committees on Charitable Planning and Exempt Organizations)

American Bar Association, Section of Taxation (Co-Chairman, Subcommittee on Community Foundations of Exempt Organizations Committee; former Chairman of Legislative Recommendations Committee)
Fellow of The American College of Trust and Estate Counsel (Chairman, Charitable Planning and Exempt Organizations Committee; 1990-91 Editor of Probate Notes)

Fellow of The American College of Tax Counsel

Member, American Law Institute

Adjunct Faculty, Georgetown University Law Center (coinstructor for charitable tax planning course in the Master of Laws in Taxation Program, 1996-date)

Adjunct Faculty, University of Miami Law School (coinstructor for charitable tax planning course in the Master of Laws in Estate Planning Program, 1983-date)

Founding Faculty, American Institute of Philanthropic Studies, California State University, Long Beach

Named in Who's Who in America and Who's Who in American Law (Marquis), and The Best Lawyers in America (1999-2000 ed., published by Woodward/White)

Other Memberships and Positions

Founding Member, Board of Directors, International Institute of Association and Foundation Lawyers

Founding Member, Board of Directors, International Planned Giving Foundation

Member, Board of Directors, National Committee on Planned Giving (1992-1994)

Assistant Treasurer, National Park Foundation (1972-1993)

Treasurer and Co-Counsel, Commission on Private Philanthropy and Public Needs [The Filer Commission] (1973-1976)

Member, Advisory Committee, Philip E. Heckerling Institute on Estate Planning, University of Miami, 1978 to date

Advisory Board, The Exempt Organization Tax Review (a Tax Analysts publication)

Board of Advisers, The Journal of Taxation of Exempt Organizations (a Warren, Gorham & Lamont publication)

Publications and Lectures

Co-Author (with Kathryn W. Miree), Family Foundation Handbook, Published January 2001 by Aspen Law & Business (A Wolters Kluwer Company), New York.

Author, United States chapter in International Charitable Giving: Laws and Taxation, (Carole Shelbourn George, ed.), Published 1994 by Graham & Trotman/Martinus Nijhoff (Kluwer Academic Publishers Group), London/Dordrecht.

Author of articles on tax, estate planning, and charitable subjects in various professional publications (in addition to the institutes listed above), including Trusts & Estates, The Journal of Taxation of Exempt Organizations, Tax Law Review, TAXES - The Tax Magazine, Taxation for Accountants, Taxation for Lawyers, The Practical Tax Lawyer, and numerous publications of Tax Management, Inc. (a division of the Bureau of National Affairs, Inc.)

Speaker at national, regional and local meetings on tax and estate planning subjects, including the following:

Philip E. Heckerling Institute on Estate Planning, (University of Miami)
New York University Institute on Taxation
Southern Federal Tax Institute
American Bar Association (Annual Meetings)
Tulane Tax Institute
Midwest Tax & Business Planning Institute
Duke Estate Planning Conference
UCLA/CEB Estate Planning Institute
Georgetown Law Center/D.C. Bar Institutes
Notre Dame Estate Planning Institute
National Conference on Planned Giving
American College of Trust and Estate Counsel (Annual Meetings)
International Association for Financial Planning
(National Conventions)
ALI/ABA National Institutes
Various State Bar Meetings, Local Planned Giving Councils, Estate Planning Councils and Community Foundations Nationwide

Education

LL.M. (in Taxation), New York University School of Law, New York, N.Y. (1967)

LL.B., Duke University School of Law, Durham, N.C. (1966)

B.S. in Business Administration, West Virginia University, Morgantown, W.Va. (1963)

file

The Nature Conservancy®
SOUTHEAST REGIONAL OFFICE

January 29, 1997

VIA OVERNIGHT MAIL

[redacted]
Steptoe & Johnson
1330 Connecticut Avenue, NW
Washington, DC 20036

Re: Davis Mountains Ranch Conservation Project, TX

Dear [redacted]:

As we discussed last week, The Nature Conservancy has a contract to purchase 32,528.70 acres of the [redacted] Ranch in the Davis Mountains area of West Texas. The purchase price is $330 an acre for a total of $10,734,471. I have enclosed a copy of an appraisal commissioned by us which shows the fair market value at $11,400,000. The remaining 6,500 acres of the ranch will be retained by [redacted], who intends to donate a conservation easement over the 6,500 acres to the Conservancy.

The project will be known as the Davis Mountains Ranch. To finance most of the project, we intend to sell six ranch tracts ranging from 2,548 acres to 4,265 acres in size. Prices will vary from $1,683,333.00 to $1,883,334.00. Each tract will be sold subject to a conservation easement retained by The Nature Conservancy which will prohibit subdivision, limit construction to one ranch complex, and allow grazing subject only to a grazing management plan worked out with the Conservancy. Each purchaser will also have limited use rights in a 4,075 acre "common area." This common area will be owned by a nonprofit Texas corporation to be set up by the Conservancy - the Brown Mountain Landowners Association. Each tract owner will be able to use this common area for hiking, hunting, horseback riding, etc. The members of the Brown Mountain Landowners Association will consist of the Conservancy and the owner of each tract. The whole project will be subject to a declaration of covenants, conditions and restrictions, such as you might have in a residential subdivision, that will make the rights and duties of the tract owners in the common area appurtenant to their tract. The remaining acreage (9,475 acres) will be retained by the Conservancy as a preserve. It will include the most spectacular portions of the property in terms of scenery and biodiversity. I have enclosed a project brochure which contains maps which will illustrate all of this more clearly.

101 Conner Drive
Suite 302
Chapel Hill, North Carolina
27514

P.O. Box 2267
Chapel Hill, North Carolina
27515-2267

919 967-5493
FAX 919 967-1575

International
Headquarters
Arlington, Virginia
703 841-5300

To meet our conservation goals means the Conservancy must retain a substantial portion of the economic value of the property. The Texas Chapter does not have the assets to cover the value retained, and thus we are requiring the various tract buyers to pay a premium to cover our costs, and provide for startup expenses and a stewardship endowment. The Board of Governors has made it clear that the Texas Chapter must have $8 million in income from the sale of tracts closed simultaneously with the purchase of this property. We could close as early as February 26, but closing may be postponed because the [redacted]s are still in the process of securing survey patents from the State of Texas for portions of the property.

What we need is a memorandum from your firm to The Nature Conservancy that addresses the likely outcome of several tax-related matters which will arise in connection with lining up purchasers for this property. We are telling each potential purchaser that they must secure their own tax advice. However, it would be helpful to have a memorandum on these issues which we could give to potential purchasers who could then share them with their accountants or lawyers. The memo, of course, should contain a message in bold print that it is not intended as advice for the purchasers and that purchasers should seek their own counsel. I believe such a memo would go a long way in focusing the purchasers on the relevant issues. The memo would essentially be an update of your January 31, 1992 opinion to [redacted]s and cover the following issues:

1. Is a purchaser entitled to a charitable deduction for a "premium" paid for real property?

2. How should such a transaction be constructed? Alternative One would be to use one document which recites a purchase price which includes the premium amount and then provides that both parties recognize that the buyer is paying a premium for which the purchaser will claim a deduction. In this alternative, should the purchaser obtain an appraisal before closing, or can this be done post-closing? If it is done before closing, should the contract recite the "fair market amount" and the "premium" amount? Alternative Two would be to have the purchaser obtain an appraisal, and then enter into a contract for the purchase of the property for the fair market value. At the same time the purchaser would give the Conservancy a pledge for the premium. Would the IRS compress this into one transaction anyway? Are charitable pledges enforceable in Texas? Are there other alternatives?

3. Two of the potential purchasers have indicated a strong desire to use appreciated stock to pay the premium portion of the price. In Alternative One or Two above how will the IRS treat this use of stock? If we make it clear in the contract that the stock represents the premium, will the IRS respect such a designation, will they allocate the stock between the fair market portion and the premium portion, or will they redesignate it to the fair market value portion of the purchase price? Would having the stock given through a separate pledge help matters?

4. You should also know that two of the potential purchasers have close ties to the Texas Chapter. One is a Chapter Trustee and the other serves on a real estate committee.

Once you have had a chance to review these matters, please call me to discuss your initial reactions and your fees. In addition to the memorandum, I would also foresee you talking with purchasers' attorneys on tax issues. Of course, I hope you can use your West Texas rates.

Very truly yours,

David Bland
Regional Attorney

DB/dsf

cc: James King, Director of Protection, Texas (w/out enc.)
Mike Dennis (w/out enc.)
Phil Tabas, Eastern Regional Attorney (w/out enc.)
Patrick Ramos, Western Regional Attorney (w/out enc.)
Mike Andrews, Southeast Regional Director (w/out enc.)

Enclosures

STEPTOE & JOHNSON LLP

ATTORNEYS AT LAW

1330 CONNECTICUT AVENUE, N.W.
WASHINGTON, D.C. 20036-1795

(202) 429-3000
FACSIMILE: (202) 429-3902
TELEX: 89-2503

PHOENIX, ARIZONA
TWO RENAISSANCE SQUARE

TELEPHONE: (602) 257-5200
FACSIMILE: (602) 257-5299

STEPTOE & JOHNSON INTERNATIONAL
AFFILIATE IN MOSCOW, RUSSIA

TELEPHONE: (011-7-501) 258-5250
FACSIMILE: (011-7-501) 258-5251

[redacted]
(202) 429-6262

March 10, 1997

VIA FAX AND EXPRESS MAIL

David Bland, Esquire
Regional Attorney
The Nature Conservancy
101 Conner Drive
Suite 302
Chapel Hill, NC 27514

Re: Davis Mountains Ranch Conservation Project, TX

Dear David:

As you requested, we have considered the tax issues relating to the Davis Mountains Ranch Conservation Project. We understand that The Nature Conservancy ("TNC") has a contract to purchase 32,528.70 acres of the [redacted] Ranch in the Davis Mountains area of West Texas for a conservation project. We further understand that, to help finance the conservation project, TNC plans to sell six ranch tracts subject to a conservation easement. TNC intends to charge a premium for these tracts in order to cover its costs and provide for start-up expenses and a stewardship endowment. You have asked us to determine whether a potential purchaser will be entitled to a charitable deduction for the premium payment. Further, you have asked us to consider the tax consequences if a potential purchaser uses appreciated stock in lieu of cash for some portion of the transaction and, if a charitable deduction will be permitted under either form of payment, to provide advice on how the proposed alternative forms of the transaction should be structured.

Charitable Deduction for Premium Paid

A purchaser who pays a premium to purchase a parcel of the Davis Mountains Ranch property from TNC should be entitled to a charitable deduction under Section 170(a) of the Internal Revenue Code of 1986, as amended (the "Code") for the amount paid in excess of the fair market value of the land. Although we have not located any cases or rulings dealing directly with a premium paid by a taxpayer to purchase land from a charity, the Internal Revenue Service (the "Service") recognizes the deductibility of a premium payment in other contexts. For instance, in the annuity context, the Service specifically allows a charitable deduction for amounts paid to charities for annuity contracts in excess of their fair market value. See Treas. Reg. § 1.170A-1(d); Rev. Rul. 70-15, 1970-1 C.B. 20. Similarly, where a taxpayer purchases a ticket to a charitable event for an amount in excess of fair market value, the Service allows a charitable deduction for the excess amount. Rev. Rul. 64-246, 1967-2 C.B. 104 (price of ticket to charity ball deductible to extent it exceeds market value of admission).

Furthermore, the United States Supreme Court has specifically recognized that a payment to a charity can have the dual character of a purchase and a contribution. In United States v. American Bar Endowment, 477 U.S. 105 (1986), the Supreme Court denied a charitable deduction for a portion of the payments made by individuals to the American Bar Endowment for insurance because the amount paid did not exceed the fair market value of the insurance received. In doing so, however, the Court recognized:

> Where the size of the payment is clearly out of proportion to the benefit received, it would not serve the purposes of § 170 to deny a deduction altogether. A taxpayer may therefore claim a deduction for the difference between a payment to a charitable organization and the market value of the benefit received in return, on the theory

> that the payment has the "dual character" of a purchase and a contribution.

Id. at 117.

The Service and the courts have adopted a two-part test for determining when a part of a "dual payment" is deductible. Rev. Rul. 64-246, 1967-2 C.B. 104; see also, American Bar Endowment, 477 U.S. at 117. First, the payment is deductible only if and to the extent it exceeds the market value of the benefit received. Second, the amount paid in excess of fair market value must be made with the intention of making of gift.

Thus, since the Davis Mountains Ranch property is being sold at a price in excess of fair market value, the premium payment should be deductible under Section 170(a) of the Code so long as the transaction makes clear that the purchaser intends to make a gift to TNC of the premium amount.

Use of Appreciated Stock

We understand that some purchasers may want to use appreciated stock to pay a portion of the purchase price for a parcel of the Davis Mountains Ranch property. The use of appreciated stock will have different tax results depending on whether the appreciated stock is attributed to the purchase element or the gift element of the transaction.

If the appreciated stock is attributed to the purchase element, the purchaser will realize gain on the transaction subject to tax. Section 1001(a) of the Code provides gain from the sale or other disposition of property is the excess of the amount realized over the adjusted basis of the property. For this purpose, the amount realized is the amount of cash plus the fair market value of the property received. I.R.C. § 1001(b). Thus, under Section 1001, a purchaser who uses appreciated stock to purchase a parcel of the Davis Mountains Ranch property would recognize gain equal to the excess of the fair market value of the parcel over the purchaser's adjusted basis in the stock.

On the other hand, if the appreciated stock is used to make a gift to TNC for the premium amount, the purchaser will be entitled to an income tax charitable deduction for the full fair market value of the stock contributed, subject to certain percentage limitations. See I.R.C. § 170(e)(1); see also § 170(b)(1). Thus, using the appreciated stock to make a gift to TNC rather than to purchase the land will result in substantially more favorable tax treatment.

Structure of Transaction

As you suggested in your letter, there are two alternatives for structuring the sale of the Davis Mountains Ranch tracts. The first is to combine the purchase of the land with the charitable contribution to TNC in a single transaction. The second is to separate the purchase and the gift into two distinct transactions.

If the total purchase price will be paid in cash, we see no reason why the transaction cannot be structured as a single transaction so long as the contract of sale clearly states the fair market value of the land and indicates that the amount paid in excess of the fair market value is intended to be a gift to TNC. To the extent that potential purchasers want to use appreciated stock to pay for the premium portion of the purchase price, however, we recommend that the transaction be separated into two distinct transactions, each with its own separate documentation: (1) a purchase of the property in cash for the fair market value and (2) a gift of appreciated stock in the amount of the premium. This should insure that the appreciated stock is treated as the gift element and the cash is treated as the purchase element, thereby avoiding the recognition of gain discussed above.

We understand that some purchasers may want to give TNC a pledge for the premium amount at the time of the closing. In order to protect TNC's interests, we suggest that TNC require that at least half of the premium amount be paid at the time of closing. As we discussed, we are uncertain whether a charitable pledge by a Texas resident for the unpaid premium amount would be enforceable under Texas law. Therefore, we recommend that in

such circumstances TNC take a note from the purchaser for the unpaid premium amount. However, you should confirm with your Texas counsel that such a note would be enforceable in Texas and obtain advice on what the precise terms of the note should be.

Regardless of how the transaction is structured, a qualified appraisal should be obtained within 60 days prior to closing to determine the fair market value of the property and thus the amount of the premium. See Treas. Reg. § 1.170A-13(c)(3). The appraisal should state the fair market value of the land, taking into account the conservation easement retained by TNC.[1/] It is not necessary for the appraisal to state the value of the premium payment.

Finally, we understand that at least two of the potential purchasers have close ties with the Texas Chapter of TNC. As a result, any scrutiny by the Service of the transactions with these purchasers is likely to be particularly thorough. Therefore, you will want to make sure that all the transactions are structured in compliance with the regulations under Section 170 of the Code and in accordance with the highest standards so that there is no question that they were conducted at arm's-length.

[1/] The appraisal should include the following: (1) a description of the land being sold; (2) the date of the appraisal and the closing; (3) the terms of the agreement, including a description of the conservation easement retained by TNC; (4) the name, address and federal identification number of the qualified appraiser; (5) the qualifications of the qualified appraisal; (6) a statement that the appraisal was prepared for income tax purposes; (7) the appraised fair market value of the land; (8) the method of valuation used; and (9) the specific basis for the valuation, such as specific comparable sales transactions. Treas. Reg. § 1.170A-13(c)(3)(ii).

If you have any questions or would like to discuss these issues further, please give me a call.

Best regards.

Sincerely,

[redacted]

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Letter Ruling 200213021, December 14, 2001
CCH IRS Letter Rulings Report No. 1309, 04-03-02
IRS REF: Symbol: CC:ITA:2-PLR-135425-01

Provided to

Uniform Issue List Information:
UIL No. 0170.00-00
Charitable, etc. contributions and gifts
UIL No. 0511.00-00
Tax on unrelated business income of charitable, etc., organizations (Taxable v. not taxable)

[Code Sec. 170]

This responds to your letter dated April 30, 2001, requesting a ruling on the proper federal income tax treatment of a proposed fund-raising activity involving the sale of the right to use niches and cenotaphs to members of the Roman Catholic community at a price which significantly exceeds the fair market value.

REQUESTED RULINGS:

1) Taxpayer's proposal of offering columbarium niches and cenotaphs for greater than fair market value falls within the guidelines for qualifying as a charitable contribution with a partial consideration component under §170 of the Internal Revenue Code.

2) No part of the payments received by Taxpayer with respect to rights to use the columbarium under the proposed Donor Agreement will be unrelated business income under §511.

APPLICABLE FACTS:

Taxpayer is a parish of the Roman Catholic Church with principal offices located at X in state Y. Taxpayer is a tax-exempt entity under section 501(c)(3) of the Internal Revenue Code and is classified as a church and as an organization which is not a private foundation under §§170(b)(1)(A)(i) and 509(a)(1). The functions of Taxpayer include ownership and operation of church property within the parish.

Taxpayer represents that conducting funeral masses, burying the dead and performing other sacraments for the dying and the bereaved are basic religious functions of the Roman Catholic Church directly associated with its fundamental doctrines. As part of its ministry, the Church has, for many centuries, provided consecrated burial grounds and crypts, more recently, columbaria for the internment of deceased loved ones.

Taxpayer is currently constructing a columbarium on the church's property which will include niches for the internment of cremated remains and cenotaphs for remembrances of loved ones buried elsewhere. Taxpayer proposes to initiate a fund-raising program under which members of the Catholic community may purchase the right to use the niches and cenotaphs at a price which significantly exceeds the fair market value (FMV). It is proposed that a buyer/donor wishing to use a niche or cenotaph will execute a Donor's Agreement. The Donor's Agreement does not obligate Taxpayer to furnish other goods or services customarily offered by funeral homes, nor does Taxpayer intend to do so. The proposed payments, pre-development and post- development, and the estimated FMV for these donations are as follows:

Item	Pre-Development	Post-Development	FMV
Hillside Companion Niche	$a	$b	$d
Cenotaph	$c	$c	$e

LAW AND ANALYSIS

REQUESTED RULING NO. 1:

Section 170(a)(1) permits a deduction for a charitable contribution, as defined in §170(c). Section 170(c) defines a charitable contribution as a contribution or gift to or for the use of certain qualifying organizations.

A contribution or gift, for the purposes of §170 is a voluntary transfer of money or property made by the transferor

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without receipt or expectation of a financial benefit commensurate with the money or property transferred. See Section 1.170A-1(c)(5) of the Income Tax Regulations.

Rev. Rul. 67-246, 1967-2 C.B. 104, states that, to be deductible as a charitable contribution for federal income tax purposes under section 170, a payment to or for the use of a qualified charitable organization must be a gift. To be a gift for such purposes, there must be, among other requirements, a payment of money or transfer of property without adequate consideration. The Supreme Court has stated that the "sine qua non of a charitable contribution is a transfer of money or property without adequate consideration." United States v. American Bar Endowment, 477 U.S. 105, 118 (1986) [86-1 USTC ¶9482].

Rev. Rul. 67-246 establishes a two-part test for determining when part of a dual character payment is deductible. First, the payment is deductible only if and to the extent it exceeds the market value of the benefit received. Second, the excess payment must be "made with the intention of making a gift." Rev. Rul. 67-246 further states generally, where a transaction involving a payment is in the form of a purchase of an item of value, the presumption arises that the gift was not made for charitable contribution purposes, the presumption being that the payment in such a case is the purchase price. If a charitable contribution deduction is claimed with respect to the payment, the burden is on the taxpayer to establish that the amount paid is not the purchase price of the privileges or benefits and that part of the payment, in fact, does qualify as a gift. Thus, in showing that a gift has been made, it is essential for the taxpayer to establish that the portion of the payment that is claimed as a gift represents the excess of the total amount paid over the FMV of any substantial privileges or benefits received in return.

Accordingly, Rev. Rul. 67-246 states that if payments solicited for a charitable fund-raising activity are designed to be partly a gift and partly the purchase price of certain privileges or benefits, the organization conducting the activity should employ procedures that make clear not only that a gift is being solicited in connection with the activity, but also the amount of the gift being solicited. To do this, the amount of property attributable to the purchase of privileges or benefits and the amount solicited as a gift should be determined in advance of solicitation. In making such a determination, the FMV of any substantial privileges or benefits attributable to the purchase must be taken into account. After making such a determination the charitable organization should notify its donors of the amounts allocable to each component of the payment. See Rev. Rul. 67-246, 1967-2 C.B. at 105-6; Rev. Proc. 90-12, 1990-1 C.B. 471.

In the instant case, Taxpayer proposes a charitable fund-raising activity designed to be partly a gift and partly the purchase price of certain privileges or benefits. Specifically, Taxpayer plans to offer the right to use the columbarium's niches and cenotaphs on its property to members of the Catholic community at a price which significantly exceeds FMV. Taxpayer is employing procedures that make clear not only that a gift is being solicited in connection with the activity, but also the amount of the gift being solicited. Taxpayer informs potential buyer/donors of the FMV of the niches and cenotaphs along with pre- and post-development prices. Taxpayer notifies buyers/donors of the amounts allocable to each component of the payment by way of a Donor's Agreement which states that the FMV for a niche is $d and $e for a cenotaph.

Based on the facts presented, the proposed transactions clearly take the form of a purchase and contribution. Taxpayer has satisfied the two-part test in Rev. Rul. 67-246. Thus, Taxpayer's proposal of offering columbarium niches and cenotaphs for greater than FMV falls within the guidelines for qualifying as a charitable contribution with a partial consideration component under §170.

REQUESTED RULING NO. 2:

Section 501(c)(3) provides for the exemption from federal income tax of organizations organized and operated exclusively for charitable and religious purposes.

Section 511 imposes a tax on the "unrelated business taxable income" of organizations otherwise exempt from federal income tax under §501(c)(3).

Section 512(a)(1) defines "unrelated business taxable income" as the gross income derived by any organization from any unrelated trade or business as defined in §513 regularly carried on by it, less the allowable deductions which are directly connected with the carrying on of such trade or business.

Section 513(a) defines the term "unrelated trade or business" as any trade or business the conduct of which is not substantially related (aside from the need of such organization for income or funds or the use it makes of the profits derived) to the exercise or performance by such organization of its charitable, educational, or other purpose or function constituting

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the basis for its exemption under §501.

Section 513(c) provides that the term "trade or business" includes any activity carried on for the production of income from the sale of goods or the performance of services.

Section 1.511-2(a)(3)(iii) provides that, beginning in 1969, but with certain transitional rules covering tax years beginning before January 1, 1976, churches are subject to the tax on unrelated business taxable income under §511.

Section 1.513-1(a) provides that, unless one of the specific exceptions of §512 or 513 applies, the gross income of an exempt organization subject to §511 is includible as unrelated business income if: (1) the income is from a "trade or business," (2) such trade or business is "regularly carried on" by the organization, and (3) the conduct of such trade or business is not substantially related (aside from the need for, or the production or use of, the funds) to the organization's performance of its exempt functions.

Section 1.513-1(b) provides that, for purposes of §513, the term "trade or business" has the same meaning that it has in §162 and, generally, includes any activity carried on for the production of income from the sale of goods or performance of services.

Section 1.513-1(c)(1) provides that, in determining whether a trade or business from which a particular amount of gross income derives is "regularly carried on" within the meaning of §512, regard must be had to the frequency and continuity with which the activities productive of the income are conducted and the manner in which they are pursued.

Section 1.513-1(d)(2) provides that for the conduct of trade or business from which a particular amount of gross income is derived to be substantially related to purposes for which exemption is granted, the production or distribution of the goods or the performance of the services from which the gross income is derived must contribute importantly to the accomplishment of those purposes.

In Senate Report Number 91-552, 91st Congress, 1st Session 70 (1960). 1969-3 C.B. 469, on the Tax Reform Act of 1969, Public Law 91-172, the Committee on Finance stated that, in the case of churches, the term unrelated business income will not include the operation and maintenance of cemeteries as long as they are carried on in connection with the church.

Rev. Rul. 79-359, 1979-2 C.B. 226, holds that an organization providing traditional religious burial services qualifies for recognition of exemption under §501(c)(3). It states that provision of burial services to members of a religion in compliance with the requirements of the religion's laws perpetuates traditional religious customs and obligations and contributes to the advancement of religion.

In the instant case, the proposed sales of niches and cenotaphs will be a trade or business carried on within the meaning of §§1.513-1(b) and (c). Thus, the issue here depends on whether such activity is substantially related to the parish's exempt purposes as required by §513(a). The parish church's columbarium's niches and cenotaphs will be used for decedents with respect to whom the Roman Catholic Church has conducted or expects to conduct a funeral ceremony (or ceremony in which Roman Catholic ordained clergy or those under vows preside or participate). Based on the legislative history cited above, a church's operation and maintenance of a cemetery or this columbarium with niches and cenotaphs for decedents of the church's religious denomination would not be an unrelated trade or business. As in Rev. Rul. 79-359, providing traditional burial services that directly support and maintain basic tenets and beliefs of a religion regarding the burial of its members furthers the religious and charitable purpose of advancement of religion and, thus, is related to furtherance of exempt purposes under §501(c)(3).

Accordingly, based on the facts presented we rule as follows. Taxpayer's sales of the rights to use the columbarium's niches and cenotaphs, in connection with anticipated funeral ceremonies to be performed there or elsewhere by the Roman Catholic Church with respect to the decedents, will be substantially related (aside from the production of income) to the parish's exempt religious and charitable purposes under §501(c)(3) and, thus, will not be an unrelated trade or business under §513(a), and will not result in unrelated business taxable income under §511.

RULINGS:

Based solely on the facts and representations submitted, we conclude and rule as follows:

(1) Taxpayer's proposal of offering columbarium niches and cenotaphs for greater than FMV falls within the guidelines

Faison Stone

FAX TRANSMITTAL COVER SHEET

DATE: 1-30-97

PLEASE DELIVER THE FOLLOWING PAGE (S) TO:

NAME: [redacted]

FIRM: NATURE CONSERVANCY FAX NO: (210) 228-9805

FROM: WILL WYNN

FAX NO.: (512) 477-3940

Got your phone message today. Things look encouraging. Several issues:

1. really need your help to ensure that Davis Bland and Steptoe & Johnson do everything they can to make Mel comfortable on the NET cost of this deal after-tax.
2. [redacted] sounded very busy but may be able to get us a letter prior to closing. He would need to see the deed restrictions ASAP. Unfortunately his initial reaction to the value decrease wasn't as encouraging as hoped.
3. we need to focus on the deed restriction language
4. $330/acre vs. $350/acre as today's Fair Market Value

Mel's interest is clearly in both tracts combined on a "NET cost" basis. I'm very encouraged.

[ ] HARD COPY TO FOLLOW BY MAIL [✓] HARD COPY NOT TO FOLLOW
[ ] HARD COPY TO FOLLOW BY FEDERAL EXPRESS

A TOTAL OF 3 PAGES (INCLUDING THE COVER SHEET) WERE TRANSMITTED TO YOU. IF YOU DO NOT RECEIVE ALL OF THE PAGES, PLEASE CALL BACK AS SOON AS POSSIBLE TO (512) 477-3434.

816 Congress Avenue • Suite 1570 • Austin, Texas 78701
Telephone: (512) 477-3434 • Facsimile: (512) 477-3940

MEMORANDUM

Faison Stone

TO: [redacted] **VIA FAX & US MAIL**

CC: [redacted]

FROM: [redacted]

DATE: **JANUARY 29, 1997**

RE: **DAVIS MOUNTAINS RANCH**

Attached please find two revised after tax net cost analyses. These assume that 50% of the stock gift is appreciated value. I will visit with the appraiser and get his input as to fair market value subsequent to the deed restrictions. Obviously, the fair market value has a substantial impact on this net cost analysis.

In a related matter, I spoke with [redacted] The Nature Conservancy's (in-house) attorney in Chappel Hill, NC - (919) 967-1575 x 116. He is very comfortable with the above-market donation/tax benefit issue. He has asked their Washington, DC-based tax counsel to write an opinion on the following:

1. The tax deduction on above-fair market value consideration on this proposed transaction, and

2. The (avoidance of) capital gains tax on an appreciated stock gift in conjunction with this proposed transaction.

This opinion should be received in the next ten days.

They are also developing recommendations on the wording and structure of the documents to further the acceptance of this proposed transaction by the IRS.

We are welcome to contact that law firm if needed in the meantime. The contact is [redacted] with the firm of Steptoe and Johnson, [redacted]

---

bcc: [redacted]

816 Congress Avenue • Suite 1670 • Austin, Texas 78701
Telephone: (512) 477-3434 • Facsimile: (512) 477-3940

MEMORANDUM

Faison Stone

TO: [redacted] **VIA FAX & US MAIL**

CC: [redacted]

FROM: [redacted]

DATE: **JANUARY 29, 1997**

RE: **DAVIS MOUNTAINS RANCH**

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01/28/97

DAVIS MOUNTAINS RANCH
Net Cost Analysis

Adjusted acreages	acres	price	per acre
Salcido Tract	3,350	$1,883,334	$562
Limpia Tract	3,220	$1,883,334	$585
total	6,570	$3,766,668	$573

COMBINED TRACTS

	$1,149,750	Cash at closing (new appraised value of $175/acre).	
Donation	2,616,918	Separate stock pledge. Tax reduction (@39%) of	$1,020,598
	$3,766,668		

$1,149,750	Cash at closing.
2,250,549	Stock value after (28% capital gains) tax on 50%.
$3,400,299	
(1,020,598)	Tax reduction.
$2,379,701	$362 per acre AFTER TAX NET COST

[redacted]

STEPTOE & JOHNSON LLP

ATTORNEYS AT LAW

PHOENIX, ARIZONA
FACSIMILE: 602.257.5299
VERIFICATION: 602.257.5287

1330 CONNECTICUT AVENUE, NW
WASHINGTON, D.C. 20036-1795
MAIN NUMBER: 202.429.3000
www.steptoe.com

LOS ANGELES, CALIFORNIA
FACSIMILE 213.439.9599
VERIFICATION: 213.439.9400

FACSIMILE: 202.429.3902
VERIFICATION: 202.429.8152

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DELIVER TO:

NAME:	[redacted], Esq. Legal Counsel, Northeast Division	TELECOPY PHONE NUMBER:	[redacted]
COMPANY:	The Nature Conservancy	VERIFICATION NUMBER:	[redacted]
TOTAL PAGES & COVER SHEET:	14	DATE TRANSMITTED:	6/7/01
S&J OPERATOR'S NAME:	[redacted]	TELEPHONE NUMBER:	[redacted]
CLIENT/CASE NUMBER:	[redacted]		

FROM:

NAME: C[redacted] direct dial [redacted]

REQUEST MADE ON	DATE:	6/7/01	TIME:	9:17 AM
COMPLETION REQUIRED BY	DATE:	6/7/01	TIME:	ASAP

SPECIAL INSTRUCTIONS: [redacted] Attached documents for your review for our 12:30 conference call.
Regards[redacted]

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STEPTOE & JOHNSON LLP
ATTORNEYS AT LAW

1330 Connecticut Avenue, NW
Washington, DC 20036-1795

Telephone 202.429.3000
Facsimile 202.429.3902
www.steptoe.com

PRIVILEGED AND CONFIDENTIAL
ATTORNEY WORK PRODUCT / DRAFT

[redacted]/CPA
202.429.6262
cwilkinson@steptoe.com

MEMORANDUM

via Facsimile

TO: [redacted]

FROM: [redacted]

RE: Use of LLC in Connection with Murray/The Nature Conservancy Eastern Shore Transaction

---

As you requested, we have researched issues that may arise if The Nature Conservancy ("TNC") uses a limited liability company ("LLC") in connection with the sale of land to [redacted] ("[redacted]"). As we understand the proposed transaction, TNC and [redacted] would form an LLC of which they would be the only members. [redacted] would contribute to the LLC an amount of cash roughly equal to the fair market value of the subject land and would receive a majority interest in the LLC. TNC would invest a small amount of cash in the LLC in exchange for a proportionately small interest in the LLC. Subsequently, the LLC would purchase the parcel of land from TNC at the appraised fair market value price.

Despite their unequal interests in the LLC, TNC and [redacted] would have equal control rights with respect to the LLC. In other words, TNC and [redacted] each would have the right to consent to significant transactions, including the development or sale of the land or the

placing of restrictions on the land. The LLC agreement would not contain an explicit requirement that a conservation easement be placed on the property within a certain period of time. It is contemplated, however, that at some point in the future both parties would agree on the form of, and consent to the granting of, a conservation easement to TNC, although the eventual granting of an easement is not a foregone conclusion.

It is intended that the granting of a conservation easement would result in a charitable deduction that would flow through the LLC to the members of the LLC. Because [redacted] would have the largest interest in the LLC, he would receive the majority of the benefit of any available deduction. A small amount of any such deduction (in proportion to TNC's interest) would be allocable to TNC. The LLC would subsequently be dissolved, and the land, then encumbered by the conservation easement, would be distributed [redacted] in satisfaction of his interest in the LLC.

Based on our preliminary research, we have identified three issues that may arise under this scenario, each of which is addressed below.[1] First, we consider whether the Internal Revenue Service (the "Service") would treat the transaction as, in substance, the equivalent of the sale of property subject to a restriction and thus deny [redacted] the benefit of any subsequent appreciation in value. Next, we consider the potential effect of the arrangement on the valuation of the land. Finally, we consider whether the arrangement could cause TNC to recognize unrelated business taxable income or jeopardize TNC's tax-exempt status under the charitable joint venture rules.

[1] Our research to date has been limited to issues relating to the availability of a charitable contribution, the impact of the structure of the transaction on the amount of any contribution and the potential tax implications for TNC. We have not undertaken any research with respect to the issues of allocation of profit or loss or distributions of property under Internal Revenue Code section 702, *et seq.*

1. **Economic Substance of Transaction**

First, we believe there is risk that the Service would find the transaction described above to lack economic substance and, in reality, to involve the sale of encumbered property at a premium price (*i.e.*, a "bargain sale"). Therefore, we believe the arrangement could be treated for tax purposes in much the same manner as the option transaction discussed in our draft letter dated March 7, 2001.

In an analogous case, *Mount Mercy Associates v. Commissioner*, the Tax Court concluded that a purported charitable contribution by a partnership lacked economic substance and was thus not deductible. 67 T.C.M. 2267 (Feb. 24, 1994), *aff'd*, No. 94-4091 (2d Cir. Feb. 8, 1995) (unpublished opinion). In *Mount Mercy*, a partnership was formed to purchase land from a religious order. The partnership contracted to purchase from the order a parcel of unimproved land and a parcel of land upon which the order's convent was located. At closing, the partnership took control of the unimproved land and leased the convent property back to the order for $1 per annum. Simultaneous with the sale and leaseback, the partnership conveyed to the order a 50 percent undivided interest in the convent property and claimed a charitable contribution. Eventually, the partnership transferred 48 percent interest in the convent property back to the order and claimed an additional charitable deduction in connection with the transfer.

The Tax Court concluded that the transfer and reconveyance of the convent property lacked economic substance.[2] The transaction was structured in such a way that the order never lost possession, control, or ownership of the convent property, as evidenced by the

[2] Although the Tax Court agreed with the Service's argument that the transaction lacked economic substance, the Tax Court rejected the Service's argument that the partnership's conveyance of the convent property was in exchange for an economic benefit and thus lacked donative intent. *Id.*

lease and the fact that a mortgage note secured by the convent property was never paid. In essence, the partnership purchased only the unimproved land. Therefore, the partnership was not allowed a charitable deduction. *Id.*

The proposed LLC arrangement is similar to the transaction in *Mount Mercy* in that both transactions involve the transfer by a charitable organization of land to another entity with an expectation that a portion of the property or an interest in the property will be reconveyed to the charitable entity. Further, like the religious order in *Mount Mercy*, TNC arguably would not relinquish control of the property to the LLC because TNC would retain veto, or consent, rights with respect to any further transactions involving the land. However, to the extent there is a realistic possibility that the members would ultimately decide not to grant a conservation easement to TNC, there is less certainty that the Service would conclude that the LLC arrangement lacks economic substance. Nevertheless, there a risk that the Service would reach such a conclusion and that [redacted] would be denied the benefit of any further appreciation in the value of the property, with the result that any charitable deduction would be limited to the amount by which the purchase price paid by the LLC exceeds the fair market value of the property.

2. <u>Valuation</u>

Further, we believe there is risk that TNC's consent rights under the LLC agreement would constitute a restriction on the property that would depress the value of the property. In *Mount Mercy*, discussed above, the Tax court noted that although the partnership had no legal obligation to reconvey the convent property to the religious order, the order had essentially protected its interests through a highly favorable 10-year lease of the property. 67

T.C.M. 2267. The Tax Court noted that the lease "substantially reduced the value of the convent property." *Id.*

Similarly, TNC would arguably be protecting its interests in the land through its consent rights under the LLC agreement. This restriction is thus likely to depress the value of the land held by the LLC for charitable deduction purposes.

We recommend that you confirm the likely effects of the LLC arrangement on the value of the land with [redacted].

3. **Charitable Joint Venture Issues**

Finally, where a section 501(c)(3) organization enters into a joint venture arrangement with a nonexempt third party in which the exempt organization will serve as a general partner of a partnership or a managing member of an LLC, the Service generally applies a two-part "close scrutiny" test to determine the permissibility of the joint venture arrangement. The two-part test requires (i) that the activities of the joint venture further charitable purposes; and (ii) that the structure of the venture insulates the exempt organization from potential conflicts between its charitable purposes and its obligations as a general partner or managing member, and minimizes the likelihood that the arrangement will generate private benefit. *See, e.g.*, Rev. Rul. 98-15, 1998-12 I.R.B. 6 (Mar. 4, 1998).

Control will be determined based on all relevant facts and circumstances. With respect to the control requirement, it may be insufficient from the Service's perspective to have 50% control and an ability to veto any significant transactions. For example, in Revenue Ruling 98-15, the Service set forth two different scenarios, one with "good facts" and one with "bad facts." In the situation involving good facts, the exempt organization was entitled to select three members of the LLC's governing board, while the nonexempt organization could select only two

members of the governing board. As such, the exempt organization clearly controlled the joint venture. In the "bad facts" scenario, each party selected two members of the governing board. The Service concluded that, based on the control situation and all other relevant facts and circumstances, the organization in the good facts scenario was entitled to exemption, while the organization in the bad facts scenario was not. Some commentators believe that the Service considers a 50-50 control arrangement to be insufficient (even though the organization could temporarily block actions proposed by the for-profit) because the exempt organization is essentially powerless to force the joint venture to take affirmative actions that it considers essential to meeting its charitable purposes.

Importantly, the hypothetical joint ventures at issue in Revenue Ruling 98-15 were "whole hospital" joint ventures, and thus involved the transfer of *all* of the exempt organization's activities into the joint venture. As was the case in Revenue ruling 98-15, in the case of a "whole-entity" joint venture that is found not to operate in furtherance of charitable purposes, the likely result is loss of the organization's exemption.

There has been considerable speculation concerning whether the Service will also apply the analysis of Revenue Ruling 98-15 in the context of an "ancillary" joint venture, i.e., one that does not involve all of the exempt organization's operations. However, because an ancillary joint venture does not involve all of the operations of an exempt organization, if the venture is found not to further charitable purposes because of a lack of overriding charitable purpose or because the organization has ceded control of the venture to a nonexempt entity, the organization may only incur unrelated business income tax rather than loss of its exemption.

Although the Service has not explicitly extended Revenue ruling 98-15 to cover ancillary joint ventures, it appears that the Service applies a similar analysis to such ventures.

For example, in Private Letter Ruling 200041038, the Service condoned participation of a conservation organization in an LLC that could be regarded as an ancillary joint venture. The Service ruled that the management role of the organization in the timber management and selling venture would not impair its section 501(c)(3) status because the venture furthered its conservation purposes by managing the timber rights of a number of small holders on a more ecologically sensitive and sustainable basis than the individual donors had done. The operating agreement explicitly provided that in the event of a conflict between the purpose of conserving forestland and managing the lands to provide economic benefits to the members, conservation will control. The exempt organization could only be replaced as manager by extraordinary measures (a two-thirds vote of the members after failure to provide for the annual minimum return to the participants for two consecutive years) and then must be replaced by another exempt organization.

Until the Service issues clear guidance with respect to ancillary joint ventures, at least one commentator has recommended that exempt organizations take the following precautionary steps when entering into joint ventures with nonexempt parties:

1. Enter into ancillary ventures that clearly further the organization's exempt purposes;
2. Have the exempt organization make a capital contribution proportionate and equal to its percentage interest in the ancillary venture;
3. Recognize that cash contributions may be less risky than asset contributions;
4. The exempt organization should have more than minimal equity ownership even if it otherwise controls the ancillary venture;

5. Add an express requirement to the operative documents of the ancillary venture that in the case of any conflict between the exempt organization's obligations to satisfy the charitable purpose and furtherance of profit-making goals that the former will prevail; and

6. Limit the exempt organization's obligation to fund future capital contributions to the ancillary venture, and strive to minimize its exposure to liability as a general partner.

M.I. Sanders, *Current Issues in Structuring Joint Ventures*, Representing and Managing Tax-Exempt Organizations, Georgetown University (Apr. 26-27, 2001).

It is conceivable that the proposed TNC[redacted] LLC could be deemed to operate with the charitable purpose of conservation, although the management agreement presumably would not explicitly provide that conservation considerations will override any nonexempt considerations. Nevertheless, because TNC presumably would not have more than 50% control of the proposed LLC, there is risk that TNC will be deemed to have ceded control of the activity to a nonexempt interest. Therefore, participation in the LLC may not constitute an appropriate section 501(c)(3) activity. Because of the overall level of activities in which TNC engages, however, it is unlikely that this venture alone, even if deemed unrelated to TNC's exempt purposes, would place TNC's exempt status at risk. Instead, TNC likely would incur unrelated business income tax in connection with any income from the activity. If, on the other hand, TNC intends to use the LLC structure as a model for future transactions and the transactions, taken together, are more than insubstantial, participation in such ventures could place TNC's exempt status at risk.

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[CCH Dec. 49,693(M)]
Mount Mercy Associates, Alan Berk, Tax Matters Partner v. Commissioner

Docket No. 11191-90., TC Memo. 1994-83, 67 TCM 2267, Filed February 24, 1994

[Appealable, barring stipulation to the contrary, to CA-2.--CCH.]

[*Code Sec. 170*]

Charitable contributions: Deductions: Economic substance: Benefit to donor.--A partnership was not entitled to claim charitable contribution deductions for the donation of property to a religious order. The partnership contracted to purchase from the order unimproved land and a parcel of land upon which a convent was located. Following the purchase, the partnership took control of the unimproved land and leased the convent property back to the order, and, eventually, it transferred the convent property back to the order. This transfer and reconveyance of the convent property lacked economic substance. The transaction was structured in such a way that the order never lost possession, control, or ownership of the convent property, as evidenced by the fact that the mortgage note secured by the convent property was never paid. In essence, the partnership purchased only the unimproved land. Therefore, no charitable deduction was allowed.--CCH.

Leonard Rosen (specially recognized), for the petitioner. Randall P. Andreozzi, for the respondent.

Memorandum Findings of Fact and Opinion

GERBER, Judge:

Respondent, by means of a Notice of Final Partnership Administrative Adjustment (FPAA), determined adjustments to Mount Mercy Associates', a limited partnership (partnership), income for its 1985 and 1986 taxable years in the amounts of $1,534,738 and $1,473,348, respectively. The adjustments are attributable to respondent's disallowance of deductions claimed for a charitable contribution.

We must decide whether the partnership's conveyances of real property and a convent building in 1985 and 1986 qualify as charitable contributions under section 170 [1] and, if so, the fair market value of the property contributed.

Findings of Fact

Some of the facts have been stipulated, and the stipulation of facts and attached exhibits are incorporated by this reference. At the time of filing the petition herein, the partnership had its principal place of business in Dobbs Ferry, New York.

The partnership was formed on October 8, 1985, to acquire property located in Dobbs Ferry, New York, and to build residential units on the property. At that time, the property was owned by the Institution of Mercy (Corp.), a not-for-profit, eleemosynary corporation wholly owned by the Sisters of Mercy (Sisters), a religious order.

The corporation offered approximately 35 [2] acres of land for sale, through a real estate agent, at a $7.5 million asking price. The Sisters resided at and operated a nursing home in the Mount Mercy convent building, which was an improvement on the property offered for sale. The convent building and surrounding grounds were situated on approximately 5 acres of land (the convent property). The corporation prescribed certain terms or conditions that were to be included before an offer to purchase the property would be considered. The offer must, to some extent, be paid in cash and the remaining mortgage note would not be subordinated to any other financing. No personal property was to be included in the offer and the Sisters desired continued use of the convent building. The Sisters occasionally attended negotiations or meetings, but the interests of the corporation and the Sisters were represented by lawyers. The corporation had financial needs which motivated its proposal to sell the realty. The primary concerns of the Sisters were to generate some operating funds and to retain use of the convent building in order to carry out their charitable activities.

The partnership's Private Placement Memorandum outlined plans to purchase the property from the corporation. There were no plans to develop the convent property. Instead, the partnership intended to build up to 250 luxury condominiums on the remaining unimproved property. It was anticipated and understood that the partnership intended to deed the convent property back to the corporation. The Private Placement Memorandum outlined the tax benefits to the investors attributable to donating the convent property. To maximize the anticipated tax benefits, 50 percent of the convent property was to be donated in 1985 and the remainder in 1986.

The negotiated purchase price in the initial draft of the purchase agreement between the corporation and Geygln Corp. (Geygln) (the partnership's initial general partner) was $8 million ($3,250,000 cash and a $4,750,000 purchase money note and mortgage). The corporation received other offers to purchase the property. The offers ranged from $6 million to $7.5 million and almost all provided for some arrangement under which the Sisters would remain in the convent property. Only one offer did not provide for the Sisters to remain in the convent property.

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The November 1, 1985, purchase and sale agreement contained a $9 million selling price payable $2 million at closing; a $1 million note and mortgage secured by the convent property; and a $6 million note and mortgage secured by the remaining unimproved land. The agreement also stated that upon closing, Geygln would lease the convent property back to the corporation. Geygln assigned its rights and obligations to the partnership under the purchase and sale agreement on November 30, 1985.

After the purchase and sale agreement was signed, the partnership renegotiated the provisions of the sale with the corporation. The purchase price remained at $9 million but cash to be paid at closing was reduced from $2 million to $400,000, and the $6 million note and mortgage were correspondingly increased to $7.6 million. The corporation agreed to subordinate the $1 million mortgage note secured by the convent property. During these negotiations, the partnership discussed its intentions to donate the convent property with representatives of the corporation.

In November 1985, the partnership hired a real estate appraiser to determine the fair market value of the property. The convent property was appraised separately from the unimproved land. The appraiser opined that the fair market values of the convent property and the remaining unimproved land were $4 million and $6.9 million, respectively.

On December 30, 1985, the corporation conveyed the property to the partnership for $9 million under the following terms: $80,000 deposit paid November 1, 1985; $10,000 additional deposit paid December 1985; $310,000 paid December 30, 1985; $1 million note and mortgage secured by the convent property; and $7.6 million note and mortgage secured by the remaining unimproved property. The $7.6 million note and mortgage was nonrecourse and had an interest rate equal to the greater of 10 percent or 2 percent plus the prime commercial rate of The Bank of New York. The $1 million note and mortgage was nonrecourse, had no stated interest rate, and was subordinate to all mortgages which existed at the closing or arose thereafter. Payment of the $1 million note was due on December 30, 1988.

Also on December 30, 1985, the partnership leased the convent property back to the corporation. The lease was for 3 years, with renewals for 7 additional years (maximum of 10 years), at $1 per annum rent. Simultaneous with the sale and leaseback, the partnership conveyed to the corporation a 50-percent undivided interest as tenants in common in the convent property. The corporation granted the partnership a right of first refusal with respect to any subsequent sale, lease, transfer, or other conveyance of its interest in the convent property. The partnership claimed a $1,534,738 charitable contribution deduction on its 1985 tax return attributable to its conveyance of 50 percent of the convent property to the corporation.

On December 24, 1986, the partnership conveyed an additional 48-percent undivided interest, in the convent property, to the corporation as tenants in common. The corporation granted the partnership a right of first refusal, under the same terms as the 50-percent transfer, with respect to its 98-percent undivided interest in the convent property. The partnership retained a 2-percent undivided interest in the convent property. The partnership claimed a $1,473,348 charitable contribution deduction on its 1986 tax return attributable to its conveyance of a 48-percent interest in the convent property to the corporation.

The $1 million nonrecourse note and mortgage secured by the convent property was due on December 30, 1988. As of the due date and through the time of trial, the partnership had not paid any part of the $1 million nonrecourse note and the corporation had not demanded payment or attempted to collect on the $1 million note. The partnership has paid the principal and monthly interest on the $7.6 million mortgage note secured by the remaining unimproved property. As of July 15, 1989, $5.6 million of the $7.6 million note had been paid by the partnership.

At the time of the sale, the entire property was zoned for educational institution use. The partnership sought to change the zoning of the unimproved land to a one family residence district. The partnership did not attempt to change the zoning for the convent property. In its zoning application, the partnership represented that it paid $9 million for the unimproved land without reference to the convent property. At all times pertinent herein, the Sisters indicated that they did not intend to leave the convent property and that their intention was to remain indefinitely. During 1986, the Sisters requested a zoning change for the convent property to a convent zone.

Opinion

The issue for our consideration is whether the partnership was entitled to claim charitable contributions in 1985 and 1986 and, if so, the amount of the contributions. Petitioner bears the burden of proving that the partnership is entitled to the claimed deductions. Rule 142(a).

Section 170, in general, allows a deduction for a charitable contribution made during a taxable year. Section 170(c) defines a charitable contribution as a "contribution or gift to or for the use of" an organization as described in that section. Both parties agree that the corporation is such an organization. When a taxpayer contributes property rather than cash, the amount of the charitable contribution deduction is generally the fair market value of the property at the time of the contribution. Sec. 170A-1(c)(1), Income Tax Regs.

A charitable contribution is synonymous with a gift. *Sutton v. Commissioner* [Dec. 31,075], 57 T.C. 239, 242 (1971). A gift is defined as a voluntary transfer of property motivated by a detached and disinterested generosity. *Commissioner v. Duberstein* [60-2 USTC ¶9515], 363 U.S. 278, 285 (1960). If a transfer is motivated by an anticipated economic benefit

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from the donee, even if there is no legal or moral obligation, then it is not a gift. *Id.*; see *Hernandez v. Commissioner* [89-1 USTC ¶9347], 490 U.S. 680, 690-691 (1989).

Respondent first argues that the closing documents, on their face, show that the transfer of the convent property to the corporation was a bargained for exchange and an integral part of the entire transaction; therefore, it was not a gift. Respondent contends that the partnership conveyed the convent property in expectation of economic benefits from the corporation; namely the conveyance of the unimproved property.

We find that the partnership's primary motivation for conveying the property was to secure a tax deduction. However, this does not result in the disallowance of the deduction. "A charitable contribution may be motivated by the basest and most selfish of purposes as long as the donor does not reasonably anticipate benefit from the donee in return." *Weitz v. Commissioner* [Dec. 45,526(M)], T.C. Memo. 1989-99 (citing *Stubbs v. United States* [70-2 USTC ¶9468], 428 F.2d 885, 887 (9th Cir. 1970)). "The legal right of a taxpayer to decrease the amount of what otherwise would be his taxes, or altogether avoid them, by means which the law permits, cannot be doubted." *Gregory v. Helvering* [35-1 USTC ¶9043], 293 U.S. 465, 469 (1935) (citations omitted).

We do not find that partnership's conveyance of the convent property was in exchange for an economic benefit from the Sisters or the corporation. As a matter of form, the partnership was under no obligation to transfer the convent property, even though it was understood that it intended to do so. The partnership made its intentions clear in its Private Placement Memorandum and during the negotiations for the purchase of the property. This does not automatically disqualify a conveyance from being a gift.

The corporation may have expected to receive the property, but, because the partnership had no legal obligation to transfer the convent property, the corporation protected its interests. The protection was in the form of a highly favorable 10-year lease. This 10-year lease, with a nominal stated annual rental, substantially reduced the value of the convent property. In addition, the corporation held a mortgage note secured by the convent property. Even if the partnership had not conveyed the convent property, the Sisters could have remained on the property without interruption. We are unable to find, as respondent argues, that the corporation would not have sold the partnership the property if it had not agreed to transfer back the convent property or that the conveyance was a bargained-for exchange.

Respondent next argues that the contribution lacks economic substance. In order to have economic substance, the form of the transaction must comport with the underlying reality. A transaction that lacks economic substance should be disregarded for Federal tax purposes. *Gregory v. Helvering, supra.* "A given result at the end of a straight path is not made a different result because reached by following a devious path." *Minnesota Tea Co. v. Helvering* [38-1 USTC ¶9050], 302 U.S. 609, 613 (1938).

Respondent asserts that the underlying reality of the transaction was such that the partnership purchased only the unimproved land and did not purchase the convent property. Respondent contends that the partnership paid $8 million for the unimproved land and not $9 million for the convent property and the unimproved land. To support that contention, respondent points to the fact that the $1 million mortgage note was not paid when due and that payment was not demanded. Further, the partnership, in its zoning application, represented that the $9 million was paid for the unimproved land, and the purchase and reconveyance of the convent property was not referenced in the application.

Petitioner argues that the convent property was purchased as part of the transaction. Petitioner asserts that because the partnership did not intend to utilize the convent property and instead intended to contribute the property back to the corporation it does not automatically follow that the transaction lacked economic substance. Petitioner relies on *Weitz v. Commissioner, supra.* In *Weitz*, the taxpayers purchased medical supplies at a discount, held the supplies for 1 year, and then donated them to a hospital and took a charitable contribution deduction. The transaction was done through an agent and was motivated primarily to secure a tax deduction. The taxpayers did not know what equipment was purchased, where it was stored, or to whom it would ultimately be donated. The Commissioner challenged the deduction claiming that the transaction lacked economic substance. This Court held that the taxpayers were entitled to the charitable contribution deduction after deciding that the transfer of the supplies was a gift, that the agent did represent the taxpayers and not the hospitals, and that the taxpayers were the true owners of the supplies. *Weitz v. Commissioner, supra.*

The Court in *Weitz*, as part of its holding that the transaction had economic substance, discussed that the taxpayers had the right to beneficial ownership of the property, although they did not exercise that right. See also *Skripak v. Commissioner* [Dec. 41,907], 84 T.C. 285, 316 (1985). During the year the taxpayers held the supplies, the hospital that was to receive the supplies could not use the supplies, even though they were stored in the hospital's warehouse. At any time during that year, the taxpayers could have withdrawn from the plan and taken possession of the medical supplies.

The partnership here, however, did not intend to take possession of the convent property. Instead, it intended to donate the convent property back to the corporation. The corporation expected to receive the property when the transaction was complete. Simultaneous with the purchase of the property, the convent property was leased for a $1 per annum rental and a 50-percent undivided interest in the leased property was also conveyed to the corporation. [3] The following year, the partnership conveyed a 48-percent undivided interest in the convent property. At all relevant times, the Sisters had uninterrupted use and enjoyment of the convent property, and the corporation had at least a 50-percent ownership interest.

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The partnership did not have or exercise any possessory right to the convent property. In substance, the Sisters and the corporation never lost possession, control, and, in essence, ownership of the convent property.

Furthermore, the mortgage note secured by the convent property was not paid, even though all other obligations concerning the transaction were being fully executed. The partnership's representative, in a sworn affidavit attached to its zoning application, represented that it purchased the unimproved land, but not the convent property, for $9 million. Evidently the partnership did not allocate any portion of the purchase price or basis to the convent property. Unlike the taxpayers in *Weitz*, the partnership, in substance, did not become the true owner of the convent property. [4]

The substance of the transaction, considered in its entirety, is that the partnership purchased only the unimproved land for $8 million. The $8 million purchase price is within the range of the other offers that had been made to acquire the property. Although the face value may appear to be higher than other offers, the offer is comparable especially if one considers the contract modifications reducing the amount of cash up front by $1.6 million and deferring payment of that amount for a period of years. The transfer and reconveyance of the convent property was without economic substance, and the partnership did not possess the benefits and burdens of ownership in the convent property. The partnership played on the charitable presence and good reputation of the Sisters to structure a transaction whichhad the appearance, but not the substance, of a gift to charity. The form of the transaction, if respected, would have allowed the partnership a deduction that was designed merely to reduce its cost of acquiring the unimproved land. [5] We agree with respondent that section 170 was not intended to encourage profit-motivated entities to enter into this type of structured transaction. The partnership's purchase of an unwanted and unnecessary asset with no additional cost to it should not result in a tax benefit where none was actually intended by the statutes or, as a matter of substance, the donee received nothing more than it already possessed. The Sisters made clear their intent to sell the property and also to remain in possession of the convent property to continue their charitable endeavors. They played a passive role in this transaction, except for the acceptance of a sales price and the requirement that they remain in possession. It was the partnership that produced the subterfuge we must ignore. Therefore, we find that the contribution lacked economic substance, and the partnership is not entitled to charitable deductions for 1985 and 1986. [6]

Decision will be entered for respondent.

[1] All section references are to the Internal Revenue Code in effect for the years in issue, and all Rule references are to the Tax Court Rules of Practice and Procedure, unless otherwise indicated.

[2] Some documents presented at trial indicate that there were approximately 44 acres plus the convent property sold to the partnership. Approximately 15 acres of the property were situated on the Hudson River. Therefore, there were approximately 35 acres of usable property offered for sale. We note that the different references to the amount of property exchanged does not affect our decision in this case.

[3] Even if the partnership had failed or refused to convey the convent property, its value was substantially decreased because of the bargain lease to the corporation. We further note that the bargain lease was not a gift or contribution because it was bargained for and became part of the legal obligations of the parties. Therefore, the convent property had little commercial value and the only way the transaction makes sense is if the partnership gave the land to the corporation.

[4] Some indications of ownership include:

(1) Whether legal title passes; (2) how the parties treat the transaction; (3) whether an equity was acquired in the property; (4) whether the contract creates a present obligation on the seller to execute and deliver a deed and a present obligation on the purchaser to make payments; (5) whether the right of possession is vested in the purchaser; (6) which party pays the property taxes; (7) which party bears the risk of loss or damage to the property; and (8) which party receives the profits from the operation and sale of the property. * * *

Grodt & McKay Realty, Inc. v. Commissioner [Dec. 38,472], 77 T.C. 1221, 1237-1238 (1981) (citations omitted).

[5] With the expected charitable contribution deductions, the investors expected to pay less than $8 million for the unimproved land. Assuming a 50-percent top marginal rate for the investors, they may have expected the deductions to yield an additional $1.5 million. Considering the tax effect, the partnership would have only paid $6.5 million for the unimproved property, which is less than the $6.9 million fair market value estimated by the real estate appraiser the partnership hired before it entered into the transaction.

[6] Having found that the claimed contribution lacked substance, it is unnecessary to decide the fair market value of the convent property at the time of the alleged gift.

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[95-1 USTC ¶50,164] Mount Mercy Associates, Alan Berk, Tax Matters Partner, Petitioner v. Commissioner of Internal Revenue, Respondent

(CA-2), U.S. Court of Appeals, 2nd Circuit, 94-4091, 2/8/95, 50 F3d 2, Affirming the Tax Court, 67 TCM 2267, Dec. 49,693(M), TC Memo. 1994-83

[*Code Sec. 170*]

Charitable contributions: Deductibility: Economic substance.--A partnership was not entitled to claim charitable contribution deductions for the donation of property to a religious order. The partnership contracted to purchase from the order unimproved land and a parcel of land upon which a convent was located. Following the purchase, the partnership took control of the unimproved land and leased the convent property back to the order. It eventually transferred the convent property back to the order. This transfer and reconveyance of the convent property lacked economic substance. The transaction was structured in such a way that the order never lost possession, control and ownership of the convent property, as evidenced by the fact that the mortgage note secured by the convent property was never paid. In essence, the partnership purchased only the unimproved land; therefore, no charitable deduction was allowed. BACK REFERENCES: 95FED ¶11,690.051

→ ***Caution: This court has designated this opinion as NOT FOR PUBLICATION. Consult the Rules of the Court before citing this case.*** ←

Present: FEINBERG, MESKILL, MCLAUGHLIN, Circuit Judges.

ON CONSIDERATION WHEREOF, it is hereby ordered, adjudged

, and decreed that the judgment of the Tax Court be and it hereby is AFFIRMED.

Mount Mercy Associates appeals from a decision of the United States Tax Court that it was not entitled to charitable deductions claimed in its tax returns for 1985 and 1986. We affirm the Tax Court's conclusion that there was no economic substance to the transaction underlying the deductions.

The decision of the Tax Court is AFFIRMED.

Pinna, Johnston & Burwell, P.A.
Attorneys at Law

[redacted]

2601 Oberlin Road, Suite 100
Oaks of Fairview
Raleigh, North Carolina 27608
919/755-1317
919/782-0450

Mailing Address:
Post Office Box 31788
Raleigh, NC 27622

Facsimile: 919/782-0452

May 22, 2000

Hans Birle, Esquire
The Nature Conservancy
201 Devonshire Street, 5th Floor
Boston, Massachusetts 02110

***Via E-Mail* and First Class Mail**

Re: Wildlife Management, L.L.C. Contract

Dear Hans:

I am writing to you on behalf of Wildlife Management, L.L.C. and [redacted]e with respect to the Option for Purchase of Real Estate from [redacted] as Trustee under trust agreement dated November 30, 1982. Specifically, I have been advising the above parties with respect to the tax consequences of this transaction. I request the language under Section 3 entitled "Purchase Price" be amended to reflect the following:

1. The purchase price be determined by MAI appraiser selected by Buyer.

2. That no reference be made to any $50,000 cash donation, but simply that a $50,000 check will be written and received by The Nature Conservancy prior to the execution of the Option which anticipates a $2,000 payment.

3. That contemporaneously with the execution of the Option, a single or double letter(s) of credit will be delivered to The Nature Conservancy for an agreed upon amount which will expire subsequent to the expiration of the 14 month option period.

4. The letter of credit will be available to be drawn upon, if Wildlife Management, L.L.C. exercises its option within the option period at the MAI appraised value without a donation of the difference of $1,000,000 and the appraised value to The Nature Conservancy.

WPP-3\Valentine.ltr

5. If the donation is made to The Nature Conservancy by [redacted]e, then the letters of credit will be released and the closing on the property can take place at the fair market value as determined by the MAI.

6. There should be no reference to a promissory note or deed of trust since financing will not be necessary.

By modifying the Option accordingly, I feel it is clearer as to any charitable donation to a qualified charity without the necessity of our firm reviewing the trust agreements as to charitable content along with the fact our client, [redacted]e, has a clear donation to a qualified charity with the same results to The Nature Conservancy.

If you can agree to modify the Option accordingly, I will instruct our clients to proceed with securing and delivery of letter(s) of credit.

Thank you for your consideration and please feel free to contact me at the above address.

Very truly yours,

PINNA, JOHNSTON & BURWELL, P.A.

[redacted]

WPP/dbm
cc: [redacted]

STEPTOE & JOHNSON LLP

ATTORNEYS AT LAW

PHOENIX, ARIZONA
FACSIMILE: 602.257.5299
VERIFICATION: 602.257.5287

1330 CONNECTICUT AVENUE, NW
WASHINGTON, D.C. 20036-1795
FACSIMILE: 202.429.3902
VERIFICATION: 202.429.8152
MAIN NUMBER: 202.429.3000
www.steptoe.com

LOS ANGELES, CALIFORNIA
FACSIMILE 213.439.9599
VERIFICATION: 213.439.9400

LONDON, ENGLAND
STEPTOE & JOHNSON
FACSIMILE: 011.44.207.367.8001
VERIFICATION: 011.44.207.367.8000

BRUSSELS, BELGIUM
FACSIMILE: 011.322.639.4639
VERIFICATION: 011.322.639.4630

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DELIVER TO:

NAME: [redacted], Esq.
Legal Counsel

TELECOPY PHONE NUMBER: (617) 482-5866

COMPANY: Northeast Division of
The Nature Conservancy

VERIFICATION NUMBER: (617) 542-1908 x. 218

TOTAL PAGES & COVER SHEET: 8

DATE TRANSMITTED: 9/26/2002

S&J OPERATOR'S NAME: [redacted]

TELEPHONE NUMBER: (202) 429-6436

CLIENT/CASE NUMBER: [redacted]

FROM:

NAME: [redacted]

REQUEST MADE ON DATE: 9/26/02 TIME: 3:47 PM

COMPLETION REQUIRED BY DATE: 9/26/02 TIME: ASAP

SPECIAL INSTRUCTIONS:

Doc. #1168330 v.1 9/26/02 03:47 PM

STEPTOE & JOHNSON LLP
ATTORNEYS AT LAW

1330 Connecticut Avenue, NW
Washington, DC 20036-1795

Telephone 202.429.3000
Facsimile 202.429.3902
www.steptoe.com

[redacted], CPA
202.429.6262
cwilkinson@steptoe.com

September 26, 2002

via Facsimile and U.S. Post

Michael Dennis, Esq.
General Counsel
The Nature Conservancy
4245 Fairfax Drive
Arlington, Virginia 22203

Hans P. Birle, Esq.
Legal Counsel, Northeast Division
The Nature Conservancy
201 Devonshire Street
Boston, Massachusetts 02010

Re: **Deductibility of the Amounts Paid for Property Purchased from a Charity at a Premium**

Dear Mike and Hans:

You have requested that we update our opinion letter of March 10, 1997, which discussed the tax consequences of the sale of certain tracts of land by The Nature Conservancy ("TNC")[1] at a premium. We concluded that a potential purchaser would be entitled to a charitable deduction for the premium payment.

In the present letter we do not discuss any specific transaction but, rather, address the current rules that apply generally to charitable contributions involving a purchase of property from a charity for more than the fair market value of the property.

I. Allowance of Charitable Deduction for Premium Paid

A purchaser who pays a premium to purchase property from TNC should be entitled to a charitable deduction under Section 170(a) of the Code for the amount paid in excess of the fair market value of the property. The landmark case addressing the deductibility of amounts paid for purchases of property from charities is United States v. American Bar

[1] TNC is a public charity described in section 501(c)(3) of the Internal Revenue Code of 1986, as amended (the "Code").

Endowment, 477 U.S. 105 (1986). In American Bar Endowment, the United States Supreme Court specifically recognized that a payment to charity can have the dual character of a purchase and a contribution. The American Bar Endowment ("ABE") raised funds for its exempt activities by providing group insurance policies, underwritten by insurance companies, to its members. Because of ABE members' low mortality and morbidity rates, the cost to the insurance companies of providing insurance to ABE members was uniformly lower than the premium paid in a given year. The excess, called a dividend, was refunded to ABE in its capacity as the master policyholder for its members. All members were required to assign all policyholder dividends to ABE as a condition of participating in the insurance program. ABE used the dividends for its charitable purposes. ABE advised its insured members that each member's share of the dividends, less ABE's administrative costs, constituted a tax-deductible contribution. The Court held that a charitable deduction for such dividends was not available because the premium paid did not exceed the fair market value of the insurance received. The Court, however, made clear that the result would be different if the amount paid exceeded the fair market value of the benefit received in return:

> Where the size of the payment is clearly out of proportion to the benefit received, it would not serve the purposes of §170 to deny a deduction altogether. A taxpayer may therefore claim a deduction for the difference between a payment to a charitable organization and the market value of the benefit received in return, on the theory that the payment has the "dual character" of a purchase and a contribution.

Id. at 117. See also Treas. Reg. § 1.170A-1(d) (allowing a charitable deduction for amounts paid to charities for annuity contracts in excess of their fair market value); Rev Rul. 70-15, 1970-1 C.B. 20 (same); Rev. Rul. 67-246, 1967-2 C.B. 104 (allowing a charitable deduction for the price of a ticket to a charity ball to the extent that the price exceeded the fair market value of admission).

To determine whether a part of a dual payment is deductible, courts and the Internal Revenue Service (the "Service") use the following two-part test. First, the payment is deductible only if and to the extent it exceeds the market value of the benefit received. Second, the amount in excess of fair market value must be paid with the intention of making of gift. American Bar Endowment, 477 U.S. at 117. This two-part test was first articulated in Rev. Rul. 67-246, supra. In 1997, this test became incorporated in its entirety in Treas. Reg. section 1.170A-1(h)(1). See T.D. 8690 IRB 1997-5.

The amount deductible for dual payments is limited to the excess of:

- the amount of any cash paid and fair market value of any property (other than cash) transferred by the donor to a charity over
- the fair market value of the goods or services the organization provides in return.

Treas. Reg. §1.170A-1(h)(2)(i).

In PLR 200213021 (Dec. 14, 2001), the Service applied the two-part test to a fund-raising activity of a tax-exempt church. In that ruling, Taxpayer, a church, constructed a columbarium on the church's property. The columbarium included niches for the interment of cremated remains and cenotaphs for the remembrance of those buried elsewhere. Taxpayer offered its members the opportunity to purchase the right to use the niches and cenotaphs at a price significantly exceeding the fair market value of the niches and cenotaphs. Each purchaser executed a Donor's Agreement which set forth the fair market price for the niches and cenotaphs. The Donor's Agreement made clear that Taxpayer would not furnish any goods or services customarily offered by funeral homes. The Service concluded that the amounts in excess of the fair market value of the niches and cenotaphs qualified for a charitable deduction because the donors were properly informed, by way of the Donor's Agreement, that the fair market value of the benefits being purchased was $d for a niche and $e for a cenotaph and that only the amount in excess of the fair market value was being solicited as a gift.

The charity should determine the amount of payment attributable to the purchase of privileges or benefits and the amount solicited as a gift in advance of the solicitation. Rev. Rul. 67-246, supra. The charity must notify its donors of the amounts allocable to the purchase component and the contribution component of the payment. Rev. Rul. 67-246, supra; Rev. Proc. 90-12, 1990-1 C.B. 471. The donor may rely on the charity's good faith estimate of the fair market value of the property provided by the charity in return for the donor's contribution. Treas. Reg. §1.170A-1(h)(4).

Thus, if TNC sells any property at a price in excess of the property's fair market value, the premium payment will be deductible to the purchaser under Section 170(a) of the Code so long as the transaction makes clear that the purchaser intends to make a gift to TNC of the premium amount.

II. Additional Limitations

If all or part of the donor's premium payment to TNC consists of property other than cash, the amount of the charitable deduction will be subject to the limitations provided in sections 170(b)(1)(C)(i) and 170(c) of the Code and sections 1.170A-4 and 1.170A-4A of the regulations. See Treas. Reg. §1.170A-1(h)(2)(ii).

A. Reduction in the Amount of the Contribution

Generally, the amount of charitable deduction allowable for a contribution of property other than cash is the fair market value of the property at the time of the contribution. Treas. Reg. §1.170A-1(c)(1). Fair market value is defined as the price at which the property would change hands between a willing buyer and a willing seller, neither of whom was under any compulsion to buy or sell and both of whom had reasonable knowledge of the relevant facts. Treas. Reg. §1.170A-1(c)(2). The fair market value of contributed property is determined by taking into consideration "the most active and comparable market place at the time of the donor's contribution," and the restrictions, if any, placed on the property by the donor. Rev. Rul. 80-233, 1980-2 C.B. 69; Rev. Rul 85-99, 1985-2 C.B. 83. Evidence of the donated property's value includes:

- valuation by a qualified appraiser;
- the donor's cost of purchasing the property, if the purchase occurs shortly before the donation;
- the sale price obtained by the donee in a resale, if the resale occurs shortly after the donation;
- market sales price of comparable property.

See Dillard v. Commissioner, 20 T.C.M. (CCH) 137 (1961); Rev. Rul. 80-69, 1980-1 C.B. 55.

The charitable contribution deduction for gifts of property other than cash is required to be reduced by the amount which would not have been long-term capital gain if the property had been sold by the taxpayer at its fair market value at the time of the contribution. Code §170(e)(1)(A). The determination of whether an asset would produce long-term capital gain depends on (1) whether the asset is a capital asset under the Code and (2) whether the asset was held for a requisite period of time. Capital assets are defined as any property held by a taxpayer other than property expressly excluded from the definition of capital asset by section 1221 of the Code. Code §1221(a). Assets excluded from the definition of capital asset by section 1221 include property such as inventory, depreciable property used in the donor's trade or business and accounts receivable.[2] The holding period necessary to produce long-term capital gain is one year. Code §1222(3). Because the entire gain from a sale of an asset that (1) does not meet the definition of capital asset or (2) has not been held for at least one year, would be

[2] For charitable deduction purposes, property which is used in a donor's trade or business, except for the amount claimed as depreciation on such property, is treated as a capital asset, even though section 1221(a)(2) of the Code excludes such property from the definition of capital asset. Code §170(e)(1)(flush language).

ordinary income, a contribution of this type of asset would be deductible only in the amount of the donor's basis in the asset. Code §170(e)(1)(A).

Even capital assets held for more than one year, however, are not necessarily entitled to the full fair market value deduction. Certain provisions of the Code require capital gain to be treated as ordinary income. Capital gain recharacterized as ordinary income under applicable provisions of the Code is not allowable as a charitable deduction. Section 1245(a)(1) of the Code provides that, in the case of a sale or other disposition of depreciable tangible property, the amount previously claimed as depreciation on such property is treated as ordinary income (not to exceed the taxpayer's actual gain on the sale or disposition of such property). Treas. Reg. Section 1.170A-4A(d) provides that a charitable deduction is not allowed for any amount treated as ordinary income under section 1245. The interplay of section 170(e)(1)(A) and section 1245 means that depreciable tangible property which is subject to depreciation recapture under section 1245 is deductible only in the amount of the property's fair market value *minus* the amount of the depreciation recapture.

Accordingly, if a donor's contribution to TNC consists of property that (1) does not meet the definition of a capital asset under section 1221 or section 170(e)(1)(flush language) of the Code; or (2) has not been held for at least one year; or (3) produces capital gain that is recharacterized as ordinary income under applicable provisions of the Code, the amount of the donor's charitable deduction for the contribution of such property will have to be reduced under section 170(e) of the Code, as described above.

B. Allocation of Basis

If a donor's payment consists of both cash and appreciated property, the contribution of property is likely to be treated as a bargain sale to a charity. See Code §1011(b). Ordinarily, the term "bargain sale" refers to a sale of property by a donor to a charity at below the property's fair market value rather than to a sale of property by a charity to a donor at above the property's fair market value. Nevertheless, in P.L.R. 8305075 (Nov. 3, 1982), the Service held that a sale of an annuity by a charity to a donor for more than the annuity's fair market value was a bargain sale. In exchange for the annuity, the donor in P.L.R. 8305075 transferred to the charity his interest in a certain farm. The Service held that the excess of the fair market value of the interest in the farm over the fair market value of the annuity was deductible as a charitable contribution. The Service also held that, in determining the amount of gain resulting from the bargain sale, the donor had to allocate its basis in the donated property between the sale element and the gift element, as required by section 1011(b) of the Code. The result of the basis allocation is the increase in the donor's taxable gain recognized on the exchange. Because the donor's entire payment in P.L.R. 8305075 consisted of appreciated property, the Service did not need to address how the basis allocation rules would apply to payments consisting of both appreciated property and cash.

The rules for allocating basis are provided in Treas. Reg. section 1.1011-2(b). That regulation provides that the adjusted basis of the property which is sold or exchanged is that portion of the adjusted basis of the entire property which bears the same ratio to the adjusted basis as the amount realized bears to the fair market value of the entire property. The application of this rule is straightforward in situations where the donor's entire payment consists of appreciated property so that the entire amount realized is attributable to that property. It is not so straightforward in situations involving payments consisting of both cash and property. Presumably, because the amount realized in exchange for a payment consisting of both cash and property is attributable to both cash and property, the amount realized has to be allocated between the cash and the property before the rule of Treas. Reg. section 1.1011-2(b) can be applied. Considering that the fair market of cash is its face value, the basis attributable to the sale portion of the transaction can then be calculated as follows:

$$\frac{\text{basis of the portion sold}}{\text{basis of the entire property}} = \frac{\text{(amount realized} - \text{cash)}}{\text{fair market value of the entire property}}$$

C. The 30% Ceiling on Deductions by Individual Donors in a Single Year

In the case of individuals, charitable contributions to tax-exempt public charities, such as TNC, are normally deductible to the extent of 50% of the donor's adjusted gross income, determined without regard to net operating loss carrybacks. Code §170(b)(1)(A). However, in the case of charitable contributions by individuals of capital gain property, the total amount of the charitable deduction is limited to 30% of the donor's adjusted gross income. Code §170(b)(1)(C)(i). The 30% ceiling applies only to contributions of capital gain property the fair market value of which is not required to be reduced under section 170(e) of the Code. See I.B.1, supra. The amount of the contribution in excess of 30% of the donor's adjusted gross income is allowable as a carryover in each of the five succeeding taxable years in order of time. Code §170(b)(1)(C)(ii). In the case of corporate donors, charitable deductions are always limited to 10% of the corporation's taxable income, computed with certain adjustments, regardless of the type of the donee or the type of the contribution. Code §170(h)(2). The amount of the contribution in excess of 10% of the corporation's taxable income is allowable as a carryover in each of the five succeeding taxable years in order of time. Code §170(d)(2)(A).

III. Substantiation

If all or part of the donor's dual payment consists of property other than cash, the donor must obtain a qualified appraisal of such property within 60 days prior to closing to determine the fair market value of the property and thus the amount of the premium. See Treas. Reg. §1.170A-13(c)(3). The appraisal should include the following: (1) a description of the property being sold; (2) the date of the appraisal and the closing; (3) the terms of the transfer; (4) the name, address and federal identification number of the qualified appraiser; (5) the qualifications of the qualified appraisal; (6) a statement that the appraisal was prepared for income tax purposes; (7) the appraised fair market value of the property; (8) the method of valuation used; and (9) the specific basis for the valuation, such as specific comparable sales

transactions. Treas. Reg. §1.170A-13(c)(3)(ii). While the appraisal is required to state the fair market value of the property, it is not necessary for the appraisal to state the value of the premium payment.

If you have any questions or would like to discuss these issues further, please give me a call.

Sincerely,

[redacted]

CHOATE, HALL & STEWART

MEMORANDUM

To: Hans P. Birle, Esq.

cc: [redacted], Esq.

From: [redacted]

Date: October 18, 2001

Re: Status of Negotiations with Herring Creek Acquisition Company Regarding "Tax Make-Whole Payment"

The basic deal between The Nature Conservancy ("TNC") and Herring Creek Acquisition Company ("HCAC") is that TNC will cover any tax liability incurred by HCAC as a result of TNC's having conveyed Lots 2 and 3, Blue Heron and Sanderling (collectively, the "Conveyed Lots") to HCAC for no consideration, but subject to the further agreement that TNC will receive a credit against the "tax make-whole payment" (the "TMW Payment") to reflect the charitable deductions that HCAC will be able to pass through to its members based upon HCAC having made a bargain sale gift to TNC (the "Bargain Sale Gift") of some portion of the "preemptive rights" under the so-called 1969 Agreement. Currently, there is a $3,299,000 (plus some amount of accrued interest) escrow account (of which D[redacted] of Nutter, McClennan & Fish and I are the co-escrow agents) to cover the TMW Payment.

Calculation of TMW Payments Prior to Giving Any Effect To Bargain Sale Gift.

HCAC and TNC have agreed that (a) the federal tax component of the TMW Payment will be calculated by multiplying the fair market value ("FMV") of the Conveyed Lots by .2 and then dividing that product by .8 and (b) the state tax component of the TMW Payments will be calculated by multiplying the FMV of the Conveyed Lots by .05 and then dividing that product by .95. [redacted] of Meredith & Grew provided a real estate appraisal which states that the FMV of the Conveyed Lots is $6,375,000. Using this FMV and the agreed upon formula, the TNW Payment before giving any effect to the Bargain Sale Gift would be as follows:

Federal Component: $6,375,000 x .2 ÷ .8 =	1,593,750.00
State Component: $6,375,000 x .05 ÷ .95 =	335,526.00
Total TMW Payment:	$1,929,276.00

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Calculation Of Bargain Sale Gift

The first step in establishing the Bargain Sale Gift is establishing an FMV for the "preemptive rights". [redacted] has appraised the "preemptive rights" at $14,000,000 and a second appraiser, [redacted] (Appraisal/Economics, Inc. in Chicago, Illinois) has also concluded that the "preemptive rights" are worth at least $14,000,000 (although [redacted] employed a dramatically different methodology for his valuation than did [redacted] who established that value on more or less a real estate appraisal analysis). HCAC has indicated that it is willing to agree that the "preemptive rights" have a value of $14,000,000. Thus, the Bargain Sale Gift will equal $14,000,000 minus the total consideration received by HCAC from TNC in connection with TNC's acquisition of the "preemptive rights". After a fair amount of debate and discussion between [redacted] and I on behalf of TNC and [redacted] and [redacted] on behalf of HCAC, the current positions of the respective parties regarding the calculation of the Bargain Sale Gift are set forth on the attached Chart 1.

The Bargain Sale Gift amount in the TNC column on Chart 1 will obviously increase as the TMW Payment is decreased to reflect the credit for the Bargain Sale Gift (although my algebra skills are far too limited to include any detail in this memo as to exactly how the variable for the TMW Payment and the variable for the Bargain Sale Gift figure are finally brought into equipoise with one another). Based on the current statements made by [redacted] and [redacted], they and HCAC have determined that the Bargain Sale Gift amount is more or less $1,000,000 and so it would appear that [redacted] and [redacted] would simply adjust one of the other items in the HCAC column on Chart 1 (most likely the "enhancement" value item) to offset any reduction in the TMW Payment line item so as to maintain a bottom line Bargain Sale Gift calculation of roughly $1,000,000.

Applying Credit For Bargain Sale Gift To The TMW Payment

There also seems to be some disagreement between TNC and HCAC as to how the credit for the Bargain Sale Gift is reflected in the TMW Payment. TNC takes the position that the total amount of the Bargain Sale Gift should be deducted from the FMV for the Conveyed Lots prior to calculating the federal tax component of the TMW Payment. The reference in the Agreement between TNC and HCAC that the tax savings for the gift would be "calculated on the basis of a presumed federal tax rate of 20%" was meant to show that the tax savings would be deemed to parallel the capital gain rate of 20% that would be applied to the overall transaction as a capital transaction (and would not be based on the actual tax savings to those members of HCAC who would be using their share of the charitable deduction against income that was taxed at a rate significantly higher than 20%). Since there is no charitable deduction available against state income taxes in Massachusetts (and it was the Massachusetts capital gain rate that was used to calculate the state component of the TMW Payment), there was no corresponding credit to the state component of the TMW Payment calculation. HCAC contends that the credit for the Bargain Sale Gift should simply be 20% of the Bargain Sale Gift amount and nothing more; that is, there should be no "gross-up" for the savings even though the credit is being applied against a "grossed-up" tax payment on the other side of the equation. The net result of HCAC's position

is that TNC only gets a $20,000 credit for each $100,000 of Bargain Sale Gift even though TNC made a federal component TMW Payment of $25,000 per $100,000 of FMV for the Conveyed Lots. The logic of this position totally escapes me, but this nevertheless seems to be what [redacted] and [redacted] are saying.

Conclusion

Based on all of the foregoing, TNC would say that the TMW Payment should be approximate $1,400,000 as shown in the TNC calculations set forth on the attached Chart 2 and HCAC would say that the TMW Payment should be approximately $1,730,000 as shown in the HCAC calculations set forth on the attached Chart 2.

CHART 1 – BARGAIN SALE GIFT CALCULATION

	TNC			HCAC	
	$14,000,000			$14,000,000	
minus	$6,375,000	(FMV of Conveyed Lots)	minus	$375,000	(FMV of Conveyed Lots)
minus	$1,700,000	(cash payment to HCAC)	minus	$1,700,000	(cash payment to HCAC)
minus	$350,000	(HCAC legal fees to NMF)	minus	$350,000	(HCAC legal fees to NMF)
minus	$625,000	(value of Beach Rights given to existing [redacted] lots) (Note 1)	minus	$1,250,000	(value of Beach Rights given to existing [redacted] lots) (Note 1)
minus	$1,400,000	(value of release of preemptive rights encumbering existing [redacted] lots) (Note 2)	minus	$500,000	(value of release of preemptive rights encumbering existing [redacted] lots) (Note 2)
minus	$1,929,276	(TMW Payment) (Note 3)	minus	$1,929,276	TMW Payment (Note 3)
minus	$0	(enhancement to value of existing [redacted] lots) (Note 4)	minus	$895,524	(enhancement to value of existing [redacted] lots) (Note 4)
	$1,620,724	Total Bargain Sale Gift		$1,000,000	Total Bargain Sale Gift

Note 1: HCAC thinks that the Beach Rights are worth $250,000 per lot because the [redacted] planned to sell beach rights at their proposed beach club for $250,000 a piece. Since the Beach Rights received by the [redacted] lots can only be sold in conjunction with a sale of the relevant lot, the rights should be valued at lesser amount and so I have discounted the value of beach rights by 50% (although we have no formal real estate appraisal to this effect).

Note 2: The [redacted] land that was subject to the preemptive rights had acreage equal to roughly 10% of the acreage of the [redacted] land that was subject to preemptive rights; therefore, the $1,400,000 figure simple represents 10% of [redacted] conclusion that the preemptive rights encumbering the Wallace land were worth $14,000,000. For some reason, HCAC has indicated that this item should only be ascribed $500,000 in value but without any real explanation as to why.

Note 3: This figure does not reflect reduction for the credit that will be generated by giving effect to the Bargain Sale Gift. See Chart 2 for my rough cut at how this credit will ultimately reduce the TMW Payment to $1,400,000±.

Note 4: This item seems to be the major source of discrepancy between the TNC approach and the HCAC approach. If there is any enhancement value to be considered, it should simply be the enhancement that HCAC achieved by refusing [redacted]'s six lot development proposal (which TNC had tentatively approved) and insisting that the six new houses to be reduced to four new houses. It is not the enhancement value achieved by reducing a 33 lot subdivision to only four new houses. Moreover, there is a very strong argument to be made that the enhancement does not need to be considered in any respect; to the extent it is factored in, it creates a taxable event for HCAC and so it is difficult to understand why HCAC is pressing this point so aggressively. The $895,524 is simply my "plug" number to yield the $1M figure that [redacted] and [redacted] stated to be HCAC's estimate of the Bargain Sale Gift amount.

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CHART 2

CALCULATION OF TMW PAYMENT

TNC Calculation		HCAC Calculation	
Federal Component of TMW Payment: (6,375,000 – 1,620,722) x .2 ÷.8 =	1,188,569.50	Federal Portion of TMW Payment: 6,375,000 -) x .2 ÷.8 =	1,593,750.00
State Component of TMW Payment: 6,375,000 - x . .05 ÷.95 =	335,526.31	State Portion of TMW Payment: 6,375,000 - x .05 ÷.95 =	335,526.31
		TOTAL TMW Payment Prior To Credit	$1,929,276.31
		minus	
TOTAL TMW Payment (Note 1)	$1,524,095.81	Credit for Bargain Sale Gift: $1,000,000 x. 2 =	$200,000.00
		NET TMW Payment:	$1,729,276.31

Note 1: Based on my very rough efforts to further refine the TMW Payment to reflect the increased Bargain Sale Gift which in turn generates a lower TMW Payment, it appears to me that the final TMW Payment should settle in at roughly $1,350,000 to $1,400,000; so the real amount in controversy between the TNC position and the HCAC position is approximately $330,000 to $350,000.

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Deloitte & Touche

Post-it® Fax Note 7671	Date 5/31/00 # of pages ▶ 7
To [redacted]	From [redacted]
Co./Dept. TNC	Co. TNC
Phone #	Phone #
Fax # 303 541-0346	Fax # 208 522-4944

Deloitte & Touche LLP
National Tax
555 12th St., NW, Suite 500
Washington, DC 20004

Telephone: 202-879-5305
Facsimile:
www.us.deloitte.com

To:	Company/Office:
[redacted]	The Nature Conservancy - Eastern Idaho Office
Fax Number:	**Phone Number:**
208-522-4944	208-522-4350
From:	**Office:**
[redacted]	Washington DC
Fax Number:	**Number of Pages (including this one):**
202-661-1251	11
Date:	**To confirm receipt, or if you do not receive all pages, please call:**
May 19, 2000	202-879-4996

Comments:

[redacted]

Following is our draft memo. We have sent it in draft to ensure we have answered the questions you requested. Please call me at (202) 879-4996 with any questions or comments.

[redacted]

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Deloitte Touche Tohmatsu

Deloitte & Touche

Memo

Deloitte & Touche LLP
National Tax
555 12th St., NW Suite 500
Washington, DC 20004

Telephone: 202-879-5305
Facsimile:
www.us.deloitte.com

DRAFT

Date: May 15, 2000

To: Allen May
The Nature Conservancy, Eastern Idaho Office

From: [redacted]

Subject: Diamond D Corporation Questions

The purpose of this memorandum is to respond, in general terms, to the questions posed in your fax dated May 2, 2000, as they pertain to the tax implications of the conversion of Double D Corporation to a Subchapter S Corporation ("S Corp") and the subsequent grant of a qualified conservation easement.

This memorandum is a confidential communication between Deloitte and Touche LLP ("D&T") and The Nature Conservancy and is not to be relied on by, or exhibited to, third parties without the express written consent of D&T. The discussion of the issues and recommendations contained in the memorandum are based on the facts and assumptions set forth herein, and the published authorities as of the date of this correspondence. D&T assumes no obligation to update the memorandum for any future changes in tax law, regulations, or other interpretations. The effect of this arrangement under any state or federal law other than as specifically stated herein is beyond the scope of this memorandum.

The memorandum is a general discussion of concepts and is not intended to be an opinion of income tax consequences regarding any particular transaction. In addition, this memorandum will not address the federal or state income tax implications of any specific transaction to either the shareholders of Double D nor to The Nature Conservancy. Should a specific transaction be contemplated, the information discussed herein should be evaluted in light of the transaction and we will offer advice or opinions based on the documentation of the transaction as represented at that time.

Scenario for donated easement?
what amt of gift would flow to individuals

Deloitte Touche Tohmatsu

Diamond D Corporation Questions

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During our May 2, 2000, conference call, we discussed various strategies for using tax savings to accomplish the goal of protecting land owned by Double D Corporation. Two families, the [redacted] and the [redacted] presently own the Double D Corporation. The Nature Conservancy ("TNC") indicated that initially the Irvings wanted to contribute a conservation easement as part of an overall plan to transfer their ownership to the [redacted]. As indicated, the intent was to carry out this purpose through a part sale/part gift to the TNC followed by the TNC's sale of Double D stock to the [redacted]

sale via bargain sale this stock

However, as discussed, because the land is held by Double D, the individual shareholders cannot claim a charitable contribution deduction on their personal returns for the contribution of the easement to TNC by the corporation. Thus, neither the [redacted] nor the [redacted] would obtain any economic benefit from a charitable contribution deduction resulting from a gift of the conservation easement. Any benefit from the gift of the easement would be trapped in Double D, which is not expected to produce sufficient income to fully utilize the deduction.

During our discussions we identified a possible alternate structure whereby ownership could be transferred between the two families, without intervention of TNC. The 100% successor owners, the [redacted], could then elect subchapter S status for the corporation, and through the S Corp donate or sell an easement to TNC. If there is a charitable contribution of the easement it would then "flow-through" to the shareholders for deduction on their individual tax returns, subject to limits outlined in IRC §170.

Questions Posed by The Nature Conservancy

1. What are the issues surrounding the election of Subchapter S status?

2. Would the grant of a qualified conservation easement trigger corporate level tax on "built in gain" of the Subchatper S Corp assets?

3. What are the issues surrounding the bargain sale of an easement to TNC by the [redacted] once they have elected Subchapter S status for Double D?

4. What is the required holding period of the S Corp prior to donating a conservation easement to The Nature Conservancy?

5. What are the implications on the shareholder's ability to deduct the charitable contribution on their personal returns (after electing Subchapter S status) if The Nature Conservancy pays a small amount (i.e. bargain sale) for the easement?

6. Can the shareholders take advantage of the IRC §2031(c) exclusion for estate tax purposes?

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Relevant Tax Law & Discussion

1. Election of Subchapter S Status

Assuming that the alternate plan suggested by D&T is followed and that the [redacted] sell their Double D Corporation stock to the [redacted], you have inquired as to what the consequences would be of the S[redacted]onverting the Double D Corporation to an S Corp.

A corporation must meet the requirements of several statutory provisions and elect to be treated as an S Corp. We have attached the federal Form 2553 and the instructions for your review which detail the process and the requirements for electing Subchapter S status. However, we wish to again point out that we are not offering advice on the [redacted] family's need or ability to elect Subchapter S status. The discussion which follows accordingly is predicated on the [redacted]'s ability to choose to elect Subchapter S status.

Upon election of Subchapter S status, the assets held by a C corporation are subject to the "built-in gains" ("BIG") tax rules of IRC §1374. Under these rules, corporate level tax may apply irrespective of the basic S Corp rules dictating tax at the shareholder level only under certain circumstances. Essentially, IRC §1374 requires that any appreciation in the C Corporation that has not previously been taxed may be taxed at some point if a "triggering event" occurs during the 10-year period following the date of conversion. This tax is only triggered upon the disposition of an asset or the recognition of a built-in gain item within a 10-year period from the date of the election. Each year there are two limitations to taxing the BIG at the corporate level which are (1) the total net unrealized built-in-gain at the time of the S conversion and (2) the total taxable income of the current period.

Generally, we recommend obtaining an appraisal to "fix" the value of any assets held by the corporation at the time of the election, thereby "locking in" the amount of net built-in gain which is potentially subject to the BIG tax (subsequent appreciation may not be subject to the BIG tax). If no appraisal is obtained, it may be very difficult to substantiate the value of those assets on the date of conversion at the point in the future when the assets are subsequently sold or upon audit.

2. Granting of an Easement as a "Triggering Event"

In general, nontaxable transactions, such as the charitable gift of an easement on built-in gain property, do not constitute a recognition event for triggering the BIG tax, though a part sale/part gift would.

3. Implications of a Bargain Sale of an Easement

As noted above, should TNC purchase a conservation easement from Double D Corporation (now an S Corp) in a bargain sale, a pro-rated amount of the built-in gain would be triggered. (Note – all assets of the corporation are valued, at the time of conversion, to ascertain the maximum taxable amount of built-in gain the corporation may be required to pay tax on, however, here we are assuming that the gain on the sale of the land does not exceed this limitation and that there is no debt attached to the land.) Assume the following:

the assets acquired prior to electing Subchapter S status carries over to the newly elected S Corp pursuant to IRC §1223. In other words, if the land was held for longer than 12 months by Double D, any gain or loss recognized upon the sale would be long-term capital gain. As it has been represented that the land has been held by the corporation in excess of 12 months, the reduction in the charitable contribution under IRC §170(e) is not applicable, and there is no "waiting period" required once Subchapter S status has been elected for the donation and/or bargain sale of the easement to occur.

4. Ability of Individual to Utilize Charitable Contribution Deduction

Each individual's ability to utilize the charitable contribution passed through from the S Corp will be dependent upon their personal income tax position and their basis in their S Corp interest. A shareholder of an S Corp is limited in the amount of losses and deductions available to be taken on their personal tax returns to their adjusted basis in the S Corp and any indebtedness of the S Corp to the shareholder.

In this regard, the S Corp shareholders (presumably, members of the S[redacted] family) should each seek counsel as to the consequences of the proposed transaction on their individual tax situations.

5. Availability of IRC §2031(c) Exclusion from Gross Estate

Under IRC §2031(a) the value of the gross estate of a decedent includes the value at the time of their death all property, real or personal, tangible or intangible, wherever situated. The Taxpayer Relief Act of 1997 added IRC §2031(c) which provides that an executor of an estate, upon making an election, can exclude the lesser of the applicable percentage of the value of land subject to a qualified conservation easement, reduced by the amount of any charitable deduction that was taken by the estate with respect to such land under IRC §2055(f), or the "exclusion limitation". Applicable percentage is defined as 40% reduced by 2 percent for each point by which the value of the qualified conservation easement is less than 30 percent of the value of the land (determined without the easement but reduced for retained development rights).

This exclusion is available for land which was either encumbered during the lifetime of the decedent or upon death through operation of a will or other means.

This exclusion is applicable for decedents dying after December 31, 1997, and is limited to $500,000 for the year 2002 and after. For decedents dying prior to 2002 there is a table provided in the statute which phases in the exclusion.[1]

In addition, it appears that the exclusion is available for interests held through a partnership, corporation or trust if at least 30% of the entity is owned (directly or indirectly) by the decedent in accordance with the attribution rules found in IRC §2057(e)(3), which essentially means the decedent or the decedent's family must own 30% of the partnership, corporation or trust.

It is important to note that IRC §2031(c) delineates the requirements that land subject to a

[1] This exclusion is in addition to the qualified family owned business deduction provided under IRC §2057.

Diamond D Corporation Questions

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FMV of land at date of S election	$	1,000,000
Basis to the corporation (inside basis)		- 250,000
Appreciation potentially subject to BIG		= 750,000

FMV of land at time of granting of easement	1000,000
FMV of land with easement in place	800,000
Easement fair market value	200,000
Purchase Price of easement	25,000

Under the part sale/part gift rules found in IRC §1011 and the regulations thereunder, upon the granting of an easement for less than its fair market value, the S Corp would be required to allocate basis to the easement in a proportion equal to the fair market value of the easement over the fair market value of the land unencumbered. In this instance the easement's basis would be $50,000 (($200,000/1,000,000)*250,000). However, since this would be a bargain sale, the basis needs to be further allocated between the sale portion and the gift portion of the conservation easement. The basis allocated to the sale portion would be $6,250 (($25,000/200,000)*50,000).

The remainder basis of $43,750 would be allocated to the charitable contribution portion of the bargain sale.

Based on the foregoing, the gain from the sale portion at the corporation level would be $18,750 ($25,000 – 6,250), which could potentially be subject to the BIG tax currently. The contribution portion would not be taxed, as a charitable contribution is not a triggering event for the BIG tax. However, the amount of the charitable contribution, which would flow through to the shareholders based upon ownership percentage, would be $175,000.

The end result is that the entire $18,750 gain may be subject to tax at the corporate level, subject to certain limitations discussed above, and an amount equal to the $18,750 gain (net of the tax paid) at the corporate level would also be subject to tax at the shareholder level (i.e. since the S Corp is a "flow-through" entity).

Assuming the entire amount of BIG is taxable, the tax paid by the corporation would be $6,562.50 (35% * 18,750). As a side note, if the Corporation has a net operating loss carryforward or a capital loss carryforward, these amounts may be used to offset the built-in gain recognized at the corporate level. Also, keep in mind that any built-in gain recognized, net of the corporate level tax paid, is also taxed at the individual level when it is passed through to the shareholders on their Schedule K-1s. The charitable contribution of $175,000 would also be passed through to the shareholders based upon their ownership percentage.

3. Required Holding Period

There is an additional limitation under IRC §170(e) which requires that the charitable contribution deduction be reduced for any amount of gain which would not have been long term capital gain had the property in question been sold. Short term or long-term gain or loss characterization is based upon the length of time the asset has been held. The holding period of

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conservation easement must meet in order to qualify for the exclusion. The encumbered land will qualify if it is located--

a) in or within 25 miles of an area which, on the date of the decedent's death, is a metropolitan area (defined by the Office of Management and Budget),

b) in or within 25 miles of an area which, on the date of the decedent's death is a national park or wilderness area designated as part of the National Wilderness Preservation System (unless it is determined by the Secretary that land in or within 25 miles of such a park or wilderness area is not under significant development pressure), or

c) in or within 10 miles of an area which, on the date of the decedent's death, is an Urban National Forest (as designated by the Forest Service),

d) which is owned by the decedent or a member of the decedent's family at all times during the 3-year period ending on the date of the decedent's death, and

e) with respect to which a qualified conservation easement has been made by an eligible individual pursuant to the provisions of this section.

Note that the aforementioned requirements apply to the exclusion (only) and not to the deduction. Whether or not the land held by the Double D Corporation meets the above definition or whether this would apply to the [redacted] would have to be evaluated by an appropriate party, and we are not currently making that determination for TNC. The conservation easement must be "qualified" as defined in IRC §170(h)(1), which defines a qualified conservation easement for charitable contribution purposes. In addition, if there are rights retained by the grantor of the easement, there would be implications on the valuation of the exclusion as well as the valuation and qualification of the easement for charitable contribution purposes.

It should be noted that the Treasury Department has not issued regulations to assist taxpayers in the application of the exclusion provisions. Our discussion above is limited to the statutory language enacted as IRC §2031(c).

Exhibit 8.1

May __, 2001

The Forest Bank, LLC
c/o The Nature Conservancy
339 East Avenue, Suite 300
Rochester, NY 14604

The Forest Bank, LLC
U.S. Federal Income Tax Opinion

Ladies and Gentleman:

We have acted as counsel to The Forest Bank, LLC, a Delaware limited liability company (the "Company"), in connection with the preparation of an S-1 registration statement filed on March 2, 2001 (the "Registration Statement") and the offering and sale (the "Offering") pursuant to the Prospectus contained as part of the Registration Statement (the "Prospectus") of 15,000,000 Preferred Units of the Company. The Company is governed by the Amended and Restated Limited Liability Company Agreement of the Company, dated as of May __, 2001 (the "LLC Agreement"), by and among The Nature Conservancy, a District of Columbia nonprofit organization ("TNC"), and other persons who are record owners of membership units in the Company (as identified in the LLC Agreement). Capitalized terms used herein have the same meanings as ascribed to them in the LLC Agreement. You have requested our opinion regarding certain U.S. federal income tax matters in connection with the Offering.

In giving the opinions set forth below, we have reviewed original or copies of the following:

1. the LLC Agreement, including the exhibits thereto;

2. the private letter ruling addressed to TNC from the Internal Revenue Service, dated July 20, 2000, with respect to the Company (the "Private Letter Ruling");

3. the forms of the Nature Conservancy Conservation Easement, the Forest Bank Management Easement, and the Forest Bank Management and Conservation Easement;

4. the Subscription Agreement;

5. the Management Agreement; and

6. the Prospectus.

We also have reviewed such other records, documents and matters of fact and law as we have deemed necessary or relevant for purposes of rendering the opinions expressed below. In addition, we have assumed, with your permission, the authenticity of all documents submitted to us as originals, the conformity to the originals of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such copies, the genuineness of signatures not witnessed by us, the legal capacity of natural persons, and the due authorization, execution, and delivery of all documents by all parties thereto and the validity, binding effect, and enforceability thereof.

Furthermore, we have assumed, with your permission, the following:

1. the transactions contemplated by the Prospectus will be consummated in accordance with the descriptions in the Prospectus;

2. all of the terms and conditions of the LLC Agreement and other governing documents will be satisfied;

3. no Preferred Member will exercise his or her redemption rights within two years of the contribution of the Timber Rights to the Company;

4. the Company will not assume the liabilities of any Member or take Timber Rights subject to any indebtedness;

5. prior to the contribution of Timber Rights to the Company, each Preferred Member will have held his or her Timber Rights for at least one year and no Preferred Member will have held his or her Timber Rights as inventory primarily for sale to customers in the ordinary course of his or her trade or business; and

6. except for the LLC Agreement, the Nature Conservancy Conservation Easement, the Forest Bank Management Easement, the Forest Bank Management and Conservation

Easement, the Subscription Agreement, and the certificates attached as exhibits to or otherwise described in the Prospectus, there are no agreements or understandings, express or implied, between the Company or TNC, on the one hand, and any of the Members, on the other hand.

Finally, we are relying upon the conclusions of the Internal Revenue Service set forth in the Private Letter Ruling.

Our opinions are based upon the current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the Treasury regulations promulgated thereunder, current administrative rulings, judicial decisions, and other applicable authorities, all as in effect on the date hereof. All of the foregoing authorities are subject to change or new interpretation, both prospectively and retroactively, and such changes or interpretation, as well as any changes in the facts as they have been represented to us or assumed by us, could support a position contrary to our opinions expressed below or could otherwise affect our conclusions. Our opinion does not foreclose the possibility of a contrary determination by the Internal Revenue Service or by a court of competent jurisdiction, or of a contrary position by the Internal Revenue Service or the Treasury Department in regulations or rulings issued in the future.

Based upon all of the foregoing and subject to the qualifications stated herein, we are of the opinion that:

(a) the Company will be classified as a partnership for federal income tax purposes;

(b) each Member will be treated as a partner of the Company for federal income tax purposes;

(c) no gain or loss will be recognized by a Preferred Member upon the contribution of his or her Timber Rights to the Company in exchange for Preferred Units;

(d) any gain recognized by the Company for federal income tax purposes from the Company's harvesting activities pursuant to the Forest Bank Management Easements

and the Forest Bank Management and Conservation Easements will be treated as long-term capital gain;

(e) for federal income tax purposes, the allocations of income, gain, loss, deduction, and credit in the LLC Agreement should have substantial economic effect or otherwise be respected under Code sections 704(b) and 704(c) and the Treasury regulations thereunder; and

(f) the descriptions of the law contained in the Prospectus under the caption "Federal Income Tax Considerations" are correct in all material respects, and the discussions thereunder fairly summarize the U.S. federal income tax considerations that are likely to be material to a Preferred Member.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement. In giving this consent, we do not admit that we are in the category of persons whose consent is required by Section 7 of the Securities Act of 1933, as amended, or the rules and regulations promulgated thereunder by the Securities and Exchange Commission.

The foregoing opinions are limited to the U.S. federal income tax matters addressed herein, and no other opinions are rendered with respect to other federal tax matters or to any issues arising under the tax laws of any other country, or any state or locality. We undertake no obligation to update the opinions expressed herein after the date of this letter. This opinion letter is solely for the information and use of the addressee and the holders of Preferred Units, and it may not be distributed, relied upon for any purpose by any other person, quoted in whole or in part or otherwise reproduced in any document, or filed with any governmental agency without our express written consent.

Very truly yours,

03352/07796/01655

Path[redacted]
Doc #: 657278; V. 3
Doc Name: H&W Tax Opinion
Author: Va[redacted]
Typist: Vai[redacted]
Last Edit: 5/1/01 4:04 PM

In response to SFC #2 question 1.d. 3-19-04

JUN 14 1995

Big Hole River (Arrow Land & Livestock, Inc.) MT

ROBERT M. KNIGHT
JAMES J. MASAR
ANDREW C. DANA

June 13, 1995

Mr. Hugh Zackheim
The Nature Conservancy
Big Sky Field Office
32 South Ewing
Helena, MT 59601

RE: Arrow Ranch Conservation Easement

Dear Hugh:

As promised last week, we enclose our proposed changes your first review draft of the Arrow Ranch Conservation Easement. Consistent with our normal practice, you will find two versions of the Conservation Easement: (1) a "Redline" draft with all additions and deletions shown in highlighted and strikeout typefaces, and (2) a "clean" version of the easement which incorporates all of our proposed changes. We have also enclosed a computer disk with the two versions encoded in Wordperfect 5.1 format.

Our proposed changes are extensive, and, for the most part, are explained in detail below. The reasons for the changes that are not discussed in this letter should be self-evident, but, if they are not, please call and we will explain the reasons for the proposed modifications. The [redacted] have reviewed this version of the Conservation Easement and approve of it in its current form.

Apart from the specific modifications discussed in this letter and reflected on the "Redline" version of the Conservation Easement, you should be aware that the [redacted] are still considering whether they wish to claim a charitable income tax deduction for their gift to the Conservancy. Depending on their decision, they may choose not to acquire the outstanding mineral estate on the Ranch. In this circumstance, the Conservancy may wish to commission an independent study of the mineral development potential of the property. Furthermore, if the [redacted] decide not to claim an income tax deduction, additional changes to the Conservation Easement may be made to excise portions that are currently driven by the requirements of the federal tax code and Treasury Regulations.

Turning to the specific changes we recommend, we refer below to the pages of the enclosed "Redline" draft upon which the modification appear.

300 THE FLORENCE ■ 111 NORTH HIGGINS AVENUE, 59802 ■ P.O. BOX 8957 ■ MISSOULA, MONTANA 59807-8957
(406) 721-5440 ■ 1-800-722-8957 IN MONTANA ■ FAX (406) 721-8644

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Pages 1-2: The Conservation Easement will be granted by [redacted] & [redacted], Inc., not the [redacted] individually. We also believe it is important to clarify certain factual representations included in the Recitals: (a) that the Ranch does not incorporate any portion of the Big Hole River per se; (b) that the main body of the ranch does not lie within one mile of the Anaconda-Pintlar Wilderness; and (c) that although the "region" may be undergoing increasing development, the Big Hole Valley itself is not under severe development pressure.

Pages 3-4: We have heavily edited the initial statement of purposes of the conservation easement. In making these modifications, we have attempted to clarify the terms of the conservation easement by eliminating ambiguous and indefinite terms. For example, we believe that it is more appropriate for the conservation easement to protect natural "resources" rather than natural "values", because values are highly subjective. (We have made this change throughout the conservation easement document, as appropriate.) We have also tried to eliminate words that are not capable of easy definition (e.g., what is watershed "*integrity*", or "*significant* impairment" of a resource?).

Pages 4-5: We have amended the easement to reflect that the baseline report will be recorded, along with the signed acknowledgement that the property condition is accurately described within the baseline report. We believe that recording baseline reports adds clarity to the purposes of the conservation easement. Furthermore, we have inserted a provision into the conservation easement that if the baseline report conflicts with the conservation easement in any manner, the express language in the conservation easement governs. Similar language should be included in the baseline report itself.

Pages 6-8: At pages 6-8 of the conservation easement, we have made extensive modifications to provisions concerning improvements on the property, as directed by the [redacted]. First, we attempt to group facilities by usage and/or location, and we have rearranged the subsections of Paragraph A accordingly.

Second, we have deleted the reference to "single-family" residences to avoid any conflicts that might arise over the meaning of this term.

Third, we have deleted references to "seasonal or short-term" use of other housing facilities on the property, in anticipation that the [redacted]s might use the Arrow Ranch as a research and educational facility, either of which might sponsor long-term research projects requiring habitation of the ranch buildings for relatively long periods of time.

Fourth, the [redacted]s wish to reserve the right to renovate the barn at the [redacted] site for use in conjunction with a small horse ranch, so we have modified the conservation easement to allow this activity and to permit expansion of the barn by 25% of the current gross square footage.

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Finally, we have inserted a provision allowing the [redacted] to renovate and upgrade an existing cabin near the Forest Service boundary, and we have reserved a right to allow the Buchers to construct four additional cabins. We need to consult further with the Buchers about where they would like to permit future cabin construction. As noted in the Easement, an Exhibit "F" will disclose the existing cabinsite and the reserved cabinsite locations, assuming they can be selected in advance. If the [redacted] cannot decide on the location for these cabins, we will modify the easement to leave cabinsite location unresolved and subject to later designation.

The [redacted] want to place specific limitations on the use of these cabins. Therefore, we have provided that the cabins may only be used as temporary lodging for permitted recreational purposes or in conjunction with other activities that are allowed by the easement.

✓ Page 8: We have modified the reserved right to construct roads on the property so that new roads may be constructed as such roads "are reasonably necessary" to [redacted]s' ability to engage in authorized uses of the property. We have specifically provided a right to construct roads to provide vehicular access to all improvement and structures on the Ranch.

✓ Pages 8-9: The affirmative obligation placed on the [redacted] in the draft easement that they "*shall* work cooperatively with the Conservancy" to develop a Range Recovery Plan if range condition deteriorates may become a flashpoint of disagreement between the Conservancy and any future owner of the Arrow Ranch who disagrees with the Conservancy's goals for range recovery. We have therefore eliminated the requirement. Range degradation is now governed by the general breach and remedy provisions.

Pages 9-10: Your suggested provisions on management and control of sagebrush appear to alter in subtle ways many of the prior approval provisions contained in Section V. We believe the goals of consistency and enforceability are better served if Section V governs virtually all prior approval provisions and have made changes to this effect throughout the easement. Please note that the Buchers have approved of the concept of annual and ten-year limitations on the number of acres of sagebrush that may be treated. We would appreciate your input into what the appropriate numbers should be. The [redacted] are checking with their ranch manager.

We have also preserved the [redacted]' right to harvest hay, grain and other crops in areas that have historically been used for such purposes and in areas that will be designated prior to finalizing the conservation easement. These areas will need to be negotiated with the [redacted] and designated in the Baseline Report.

NB —

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Pages 10-11: We found the water development provisions in your review draft somewhat confusing. On the one hand, they permit development of water resources, but on the other hand, they prohibit "significant or long-term impairment of water quality, aquatic ecology or riparian values." These provisions seem to be internally contradictory: Almost any surface water development for domestic or irrigation purposes may ultimately harm aquatic and riparian values.

We have therefore tried to clarify the [redacted] rights to develop water on the property consistent with the uses permitted by the conservation easement. The [redacted]' rights to develop water are limited, however, by Section VI, Paragraph M, of the conservation easement. Except for water developments necessary to engage in reserved rights under the conservation easement, the [redacted] may not drain or alter natural wetlands or water courses without Conservancy approval, and they may not cause any measurable degradation of surface or subsurface water quality. At the [redacted]s' request, we have also inserted a provision which prohibits long-term depletion of ground water reservoirs (pages 23-24).

We also believe that the simplest way to handle prior approval of stream improvement projects is to subject them to the prior approval provisions set forth in Section V.

Pages 13, and 16-17: We have substantially expanded the [redacted]' reserved rights to conduct scientific research on and to make educational use of the property (page 16). To ensure that this reservation does not swallow the conservation purposes of the easement, however, we have provided that all scientific and educational activities must be consistent with the purposes of the easement. Furthermore, we have inserted an express right allowing the [redacted] to "trap, band, and mark" wildlife species for scientific and educational purposes. We have also indicated that the [redacted]s have the right to "trap and collect" limited numbers of native wildlife species, as long as they comply with State and federal law. Furthermore, any such activities cannot pose a threat to the long-term viability of wildlife populations both on the property and on adjacent lands.

Pages 13-14: Although the stands of timber on the Arrow Ranch are not extensive, the [redacted] mentioned that some timber does grow on the property. We have therefore incorporated a provision in the conservation easement to govern timber harvest rights. We have attempted to outline specific goals of any permissible timber harvest, and we have specifically provided that a large scale timber harvest (as defined by mutual agreement between the parties prior to finalizing the conservation easement) requires advance approval of a timber harvest plan. If you believe that the Arrow Ranch timber base is so negligible that this provision should be further simplified, please let us know and we will try to work out changes.

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Page 15: We have also modified the provision of the conservation easement which permits the [redacted] to extract rock and gravel from designated sites on the property.

We have advised the [redacted] that inclusion of this provision may jeopardize their ability to claim a federal income tax deduction, in part, if the I.R.S. considers gravel to be a mineral and gravel extraction to be surface mining. Montana law is not clear on these matters. Therefore, we have advised the [redacted] to obtain tax advice on this issue. The [redacted] have also expressed some interest in simply deleting the sites of their gravel pits from the easement, if retention of the right to remove gravel from them causes problems with the I.R.S.

Of course, if the [redacted] decide not to claim a tax deduction, this whole problem may become moot.

Page 16: In Subparagraph "Q", We propose that "wildlife habitat improvement" projects be submitted for the Conservancy's prior approval under Section V.

Page 17: We have inserted a new subparagraph "W" which reserves and retains to the [redacted] all rights which are not expressly conveyed to the Conservancy.

Pages 18-20: We have amended the conservation easement to shorten the time period to 30 days in which the Conservancy has to review any requests for prior approval. We believe that a 45-day review is unreasonable. Under your proposal, an action that the Grantor wishes to take may be delayed for up to three months, or longer, from the time prior approval is requested. We have attempted to reduce this time for review by at least one month. Furthermore, we have shortened the time in which the Conservancy must request additional information to 20 days, again in an attempt to speed up the prior approval process. Finally, we believe it is appropriate to require that the Conservancy to put in writing all reasons for denial of prior approval requests.

Page 20-21: We suggest substantial changes to Section VI, Paragraph B, which concerns restriction on division of the property. We have inserted language to clarify that structures and improvements on the property may not be conveyed separately from legal title to the balance of the Ranch. On the other hand, we have also provided that a number of persons may own the Property in co-tenancy, with each co-tenant having an undivided interest in the whole of the property including the buildings. Furthermore, we have preserved the [redacted]' right to enter into lease agreements and similar arrangement, as long as all lessees and tenants abide by the terms of the conservation easement. None of these activities are to be considered subdivisions or "de facto" subdivisions.

Page 23: In response to a concern about the [redacted]' ability to remove willows from irrigation ditches, we have modified Paragraph J in Section VI of the conservation

easement to provide that they may remove native vegetation, specifically in conjunction with agricultural and ranching activities and other activities that are expressly permitted by Section IV of the conservation easement.

Page 24: We believe that Paragraph "N" in Section VI of your review draft may be overly restrictive concerning future uses of the property. We have attempted to expand the Grantor's permissible future uses, as long as such uses are conducted in harmony with the natural resources and values protected by the easement.

Pages 25-29: We have substantially rewritten the Remedies section of the conservation easement to streamline and clarify the respective rights of the parties. If there is an actual breach of the conservation easement, the Conservancy will have the right to serve a written demand on the Grantor to correct the breach. If the situation is not resolved within 30 days after Grantor's receipt of the notice of breach (or if Grantor does not continue to address the situation if it takes longer than 30 days to correct the problem), the Conservancy will have a right to bring an action in court to enforce the terms of the easement, to enjoin actions in violation of the easement, to recover damages that it may have suffered, and to require restoration of the property.

On the other hand, if the Conservancy determines that a breach has not yet occurred but is imminent, the Conservancy will have the right to enter the property to prohibit certain actions, and it will have the right to seek a temporary restraining order or preliminary injunction to prevent Grantor from taking actions which are likely to cause harm to the Conservancy's interests.

If a court ultimately determines that the Conservancy has no reasonable basis in law or fact for seeking a temporary restraining order or preliminary injunction, the Conservancy will be liable for all of the harm caused to the Grantor thereby, including costs and attorneys' fees. Furthermore, if there is ever litigation over actions permitted or prohibited by the conservation easement, the prevailing party will be entitled to fees and costs.

As requested by the [redacted], we have inserted a representation from the Conservancy that it generally intends to enforce the terms of the conservation easement, notwithstanding the language which permits it to defer enforcement without penalty. We have also included a standard provision which will protect the Grantor from any liability for breach of the conservation easement as a result of causes beyond their control, such as fire, flood, drought, storm and earthquake, or actions taken under emergency conditions.

Pages 29-30: We have modified the Assignment section of the conservation easement to require the Conservancy to obtain the [redacted]' prior consent to the assignment. The only time the Conservancy may assign this easement without the

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Grantor's prior consent is if The Nature Conservancy withdraws from Montana, or if the national office of The Nature Conservancy undergoes a corporate dissolution.

Pages 30-34 & Exhibit E: Section XI of the conservation easement concerning proceeds from involuntary conversions contains substantial revisions. We believe that our proposed language more accurately tracks the language and intent of the Treasury Regulations.

You will note that we also recommend attachment of an Exhibit "E" to the conservation easement. This exhibit is a form that we developed to memorialize the percentage by which the value of the property has been reduced through the grant of the conservation easement, and this percentage will be used in conjunction with the proceeds and condemnation section of the conservation easement, if necessary. Exhibit "E" appears on page 41 of the redline draft of the conservation easement.

We recognize that the changes we suggest are extensive and detailed. We hope that this letter will help to explain why we believe the changes are necessary and important. After you have had a chance to review and digest this letter and the enclosed materials, please do not hesitate to call if you have any questions, comments, observations, or matters which you believe need further clarification.

Sincerely,

KNIGHT & MASAR

[redacted]

encls.

C[redacted] (w/enclosures)

Deloitte & Touche LLP
50 Fremont Street
San Francisco, CA 94105
USA

T 415.783.4459
F 415.783.4798
www.us.deloitte.com

Memo

Deloitte & Touche

Metcetsec. Rim – Pitchfork Ranch
TNC

Date: January 17, 2001

To: The Nature Conservancy

From: [redacted]

Subject: LIKE KIND EXCHANGES – SUMMARY OF TAX ISSUES

INTRODUCTION

When a taxpayer exchanges an appreciated asset for another asset, the result under general income tax principles is that the taxpayer realizes gain. The amount of gain is equal to the difference between the fair market value of the property received and the taxpayer's tax basis in the property that was transferred. However, section 1031 of the Internal Revenue Code of 1986, as amended (the "Code") provides that taxpayers may exchange appreciated assets without recognizing gain or loss, provided that the exchanged properties qualify as "like kind" and certain other requirements are satisfied (a "1031 Exchange").

If a transfer of assets qualifies as a 1031 Exchange, then no gain or loss is recognized upon the transfer of those assets, rather the gain or loss is deferred. The assets received by the taxpayer in a 1031 Exchange are assigned a transferred tax basis, meaning that the tax basis of the property acquired is equal to the tax basis of the property transferred.[1] Thus, the potential gain or loss that is deferred as a result of the 1031 Exchange is preserved in the tax basis of the acquired assets.

Frequently, a 1031 Exchange will also involve transfers of cash or other non-like kind property ("boot"). A taxpayer who receives boot, as part of an exchange of properties that qualifies as a 1031 Exchange, may recognize gain with respect to all or a portion of the boot received.[2] Similarly, a 1031 Exchange may involve the transfer and/or receipt of property that is subject to liabilities. A taxpayer who transfers property subject to liabilities is treated as receiving cash in an amount equal to the liability that is transferred. Accordingly, the taxpayer may recognize a gain equal to all or a portion of the transferred liability. If both the assets received and the assets transferred in a 1031 Exchange are subject to liabilities, then the liabilities are netted against each other, and the party who is relieved of the net liability is treated as receiving cash in such amount.[3] However, a receipt of actual cash cannot be netted against a receipt of a liability.[4]

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1 Code §1031(d).

2 Code §1031(b).

3 Regulation §1.1031(d)-2.

4 Code §1031(b), Regulation §1.1031(d)-2, Example 2.

Furthermore, notwithstanding the general nonrecognition rule of Code section 1031, depreciation recapture will be triggered on the transfer of depreciable property in a 1031 Exchange except to the extent that the replacement property is not only like kind but also recapture property.[5] Consequently, as a result of the depreciation recapture rules, income may be recognized in a 1031 Exchange even if no boot is received.

LIKE KIND PROPERTY

The 1031 Exchange applies to property held for productive use in a trade or business, or for investment, if such property is exchanged solely for replacement property of like kind to be held for productive use in a trade or business or for investment.[6] The term "property of like kind" has been interpreted by the courts and the Internal Revenue Service (the "Service"). While the determination of what qualifies as "property of like kind" is highly dependent on the facts and circumstances of each case, certain general principles have been established. The Treasury Regulations (the "Regulations") provide that the qualification of property as "property of like kind" refers to the "nature or character" of the property and not to its "grade or quality."[7] The Regulations illustrate this principle with several examples, including: (1) the exchange of a used passenger automobile for a new passenger automobile qualifies as property of like kind, and (2) the exchange of city real estate for a ranch or a farm also qualifies as property of like kind.[8] Beyond this general principle, the analysis also depends, in part, on whether the assets that are being transferred are real property or personal property.

A. Real Property

The 1031 Exchange may include a wide variety of interests in real property.[9] The qualification of real property interests as "property of like kind" requires a two-part analysis. First, the property being exchanged must qualify as "real property" under the law of the state where it is located. Second, the interests in real property that are being exchanged must have the same "nature or character" for federal tax purposes.

1. State Law Definition of Real Property

With respect to the first part of the analysis, state law should control the definition of real property.[10] Under this rule, it may be possible that two very different interests in real property will qualify for a 1031 Exchange, provided that both properties constitute real property under state law. The Regulations state that "[t]he fact any real estate involved is improved or unimproved is not material, for the fact relates only to the

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5 Code §§1245(b)(4), 1250; Regulation §1.1245-4(d).

6 Code §1031(a). Certain types of property are ineligible for like kind exchanges including inventory, stocks, bonds, partnership interests and choses in action.

7 Regulation §1.1031(a)-1(b).

8 Regulation §1.1031(a)-1(c).

9 Foreign real property is not like kind with real property located in the United States. Code §1031(h).

10 Aquilino v. United States, 363 U.S. 509 (1960); Morgan v. Commissioner, 309 U.S. 78 (1940); P.L.R. 8327003 (March 17, 1983) ("For federal income tax purposes, state law controls in determining the nature of the legal interest which a taxpayer has in its property."); Magneson v. Commissioner, 753 F.2d 1490 (9th Cir. 1985). *See also* Regulation §1.1031(k)-1(e)(3)(iii). An open issue remains with respect to the state law definition of real property. In many states certain interests are treated as real property for some state law purposes while at the same time being treated as personal property for other state law purposes. In such a case, it is unclear which state law characterization would govern.

grade or quality of the property and not to its kind or class.[11] For example, the Tax Court has held that a royalty interest in oil and gas property may be exchanged for a fee interest in land.[12] In this case, the Tax Court found that both property interests were of like kind based on their classification as real property under state law. An exchange of real property may also include unconventional interests in real property. For example, the Service has held that a perpetual water right that qualifies as real property under state law may be exchanged for a fee interest in land.[13]

Interests in real property might also include fixtures and other items of property that are attached to the land, provided that such attachments qualify as real property under state law. The Service appears to take this position, although it has not stated so explicitly. In a series of private letter rulings, the Service ruled that a 1031 Exchange involving real property would include certain items of property which "constitute a fixture under local law."[14] However, the fact that the Service has not explicitly affirmed the view that fixtures are real property for purposes of the 1031 Exchange causes some uncertainty in this area.

2. "Nature or Character" of Real Property

The second part of the analysis for exchanges of real property is that the properties being exchanged must possess the same "nature or character." While there is no clear definition of nature or character in this context, the courts have focused attention on the form of ownership and the duration of the real property interest. With respect to the duration of an interest in real property, the courts and the Service have taken the position that interests in real property which have a perpetual duration generally will be treated as property of like kind. According to this principle, a perpetual non-fee interest is treated in the same manner as a fee interest. For example, a perpetual royalty interest in oil and gas property is treated as property of like kind with a fee interest in an improved ranch.[15] However, if both interests in real property are not perpetual interests, then they will not be treated as property of like kind. The courts have held, for example, that an oil and gas production payment right (having a limited duration) differed in nature or character from an oil and gas royalty interest (having a perpetual duration).[16] With respect to leases, long term leasehold interests may qualify as property of like kind with a fee interest. The Regulations provide the example of a 30-year leasehold interest that is treated as property of like kind with other real estate.[17]

The Service has ruled that property is not like kind where the property being exchanged differs substantially in the form of ownership. For example, in a 1986 General Counsel Memorandum, the Service held that a shareholder interest in a not-for-profit agricultural irrigation company, which qualified as real property under state law, could not be exchanged for a fee interest in land. The Service explained that, despite the classification of both assets as real property under state law, they differed substantially in nature and character and, therefore, could not be considered property of a like kind.[18]

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11 Regulation §1.1031(a)-1(c). *See, e.g.*, P.L.R. 9431025 (May 6, 1994) (raw land held for investment was like kind to rental townhouses).

12 Commissioner v. Crichton, 122 F.2d 181 (5th Cir. 1941).

13 Rev. Rul. 55-749, 1955-2 C.B. 295.

14 P.L.R. 9517005 (January 18, 1995).

15 P.L.R. 7935126 (June 4, 1979).

16 Fleming v. Campbell, 205 F.2d 549 (5th Cir. 1953).

17 Regulation §1.1031(a)-1(c). The leasehold interest, however, must be an interest in real property under state law. *See e.g.*, P.L.R. 8327003 (March 17, 1983).

18 G.C.M. 39536 (July 17, 1986).

B. Tangible Personal Property

Tangible personal property may also qualify for a 1031 Exchange if the exchange consists of "property of like kind."[19] While the taxpayer is not prohibited from exchanging items of personal property based on a factual comparison of the nature and character of each asset, the Regulations provide a safe harbor. Under the safe harbor contained in the Regulations, tangible personal property is treated as property of like kind if the property belongs to a "like class."[20] There are two ways that property may qualify as property of a like class. First, the property may be classified within the same General Asset Class, as set forth under the Regulations.[21] Second, the property may belong to the same Product Class, also defined under the Regulations.[22]

1. General Asset Classes

As described above, the exchanged properties may qualify as tangible personal property of like class, and therefore as property of like kind, if they are described in the same General Asset Class. The General Assets Classes consist of 13 categories of property. As provided in the Regulations, the General Asset Classes are as follows:[23]

(i) Office furniture, fixtures and equipment (asset class 00.11)

(ii) Information systems (computers and peripheral equipment) (asset class 00.12)

(iii) Data handling equipment, except computers (asset class 00.13)

(iv) Airplanes (airframes and engines), except those used in commercial or contract carrying of passengers or freight, and all helicopters (airframes and engines) (asset class 00.21)

(v) Automobiles, taxis (asset class 00.22)

(vi) Buses (asset class 00.23)

(vii) Light general purpose trucks (asset class 00.241)

(viii) Heavy general purpose trucks (asset class 00.242)

(ix) Railroad cars and locomotives, except those owned by railroad transportation companies (asset class 00.25)

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19 Personal property used primarily within the United States is not like kind with that used primarily outside the United States. Code §1031(h)(2).

20 Regulation §1.1031(a)-2.

21 Regulation §1.1031(a)-2(b)(2).

22 Regulation §1.1031(a)-2(b)(3).

23 Regulation §1.1031(a)-2(b)(2); Rev. Proc. 87-56, 1987-2 C.B. 674.

(x) Tractor units for use over-the-road (asset class 00.26)

(xi) Trailers and trailer-mounted containers (asset class 00.27)

(xii) Vessels, barges, tugs, and similar water-transportation equipment, except those used in marine construction (asset class 00.28), and

(xiii) Industrial steam and electric generation and/or distribution systems which are used for the production of electricity for industrial manufacturing or plant activity and not for sale to others (asset class 00.4)[24]

2. Product Classes

Alternatively, tangible personal property may qualify as property of like class if the exchanged properties are described within the same Product Class. Product Classes are generally more specific than General Asset Classes. Under the current Regulations, each 4-digit code listed within Division D of the Standard Industrial Classification Manual (1987) (the "SIC Codes") is a Product Class.[25] Each of the SIC Codes contains a list of assets. If the exchanged property is described within a Product Class, then it is treated as property of like class with any property received which is also listed in that Product Class, and therefore, property of like kind

Recently, the Executive Office of the President, Office of Management and Budget, issued the North American Industry Classification System - United States, 1997 (the "NAICS Codes"). The NAICS Codes consist of a 6-digit code system. The introduction to the NAICS Codes states that the NAICS Codes are intended to replace the SIC Codes for statistical purposes only and that it is up to each governmental agency to choose whether to adopt the NAICS Codes. The Service has informally stated it does not intend to adopt the NAICS Codes in the context of Code section 1031. However, given the resulting uncertainty as to whether the Product Class will be determined under the NAICS Codes or the SIC Codes, the Product Class might not provide a safe harbor. Therefore, in order to proceed with sufficient certainty as to the tax results, it may be necessary to obtain an advance ruling from the Service.

C. Intangible Personal Property

Intangible personal property may in certain circumstances qualify for a 1031 Exchange. The Regulations state that the qualification of intangible personal property as property of like kind generally depends on (1) the nature or character of the property rights (*e.g.*, a copyright or a patent), and (2) the underlying property right to which the intangible asset relates (*e.g.*, a copyright for a novel or a song).[26] So, for example, the exchange of copyrights relating to different books would qualify for like-kind treatment.[27] Consequently, although, for example, the exchange of licenses or franchises may qualify for a 1031 exchange, concluding that they are like kind will depend on the specific facts. The IRS has recently

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24 This General Asset Class is limited to systems which are utilized in generation and distribution for a taxpayer's own activity and not for sale to others. The Service, on an informal basis, has been unwilling to expand this Class to include generation and distribution systems utilized in the sale of electricity.

25 Division D of the SIC Manual contains nearly 200 pages of SIC Codes for various manufacturing businesses.

26 Regulation §1.1031(a)-2(c)(1).

27 Regulation §1.1031(a)-2(c)(3).

concluded, for example, that an FCC radio broadcast license is like-kind to an FCC television broadcast license.[28] Importantly, the Regulations also state that goodwill and going concern value for one business is never property of like kind with that of another business.[29] A significant issue that has not been addressed by the Regulations and that may be questioned by the Service is the treatment of "goodwill-based" assets, such as those listed in Code Section 197 (customer lists, trademarks).

EXCHANGES OF MULTIPLE PROPERTIES

A taxpayer may seek to exchange assets which include many different types of property. For example, taxpayers may wish to exchange similar businesses or facilities. For 1031 Exchange purposes, this will not be deemed to be an exchange of a single property but rather as the exchange of the underlying assets of each business (*i.e.*, a multiple property exchange). For a multiple property exchange, the taxpayer is not required to analyze the exchange according to each individual asset. Instead, the Regulations permit the taxpayer to separate the various properties into "exchange groups." Each exchange group consists of property of like kind, as determined under the principles described above. After the exchange groups have been identified, the 1031 Exchange applies to each transfer of an exchange group.[30] For each exchange group, it is necessary to compute an "exchange group surplus" or an "exchange group deficiency." An exchange group surplus is the excess of the fair market value of the assets in such exchange group transferred over that of the assets in such exchange group received. Conversely, an exchange group deficiency is the excess of the fair market value of the assets in such exchange group received over that of the assets in such exchange group transferred. The amount of gain recognized upon the transfer of an exchange group is equal to the lesser of the gain realized (*i.e.*, the difference between the fair market value of the assets transferred and their adjusted tax basis) and the exchange group deficiency. Losses are not recognized.[31]

In a multiple asset exchange, it is necessary to aggregate the liabilities on each side of the exchange. The aggregate liabilities are then netted against each other. The side of the exchange with the net liability then allocates the liability among the exchange groups in proportion to fair market value. In this manner, the transfer of liabilities affects the amount of the exchange group deficiency or exchange group surplus, and the gain realized upon the exchange.[32] Furthermore, as discussed above, depreciation recapture will be triggered on a 1031 Exchange except to the extent the replacement property is not only like kind but also recapture property. If some of the assets transferred in the multiple asset exchange are otherwise subject to depreciation recapture, the Regulations have not addressed how to calculate the amount of the depreciation recapture.

MULTI-PARTY AND DEFERRED 1031 EXCHANGES

As a practical matter, a simultaneous two-party exchange may not be possible. For example, one party may want to acquire an asset from another party, but the first party may have no asset to exchange. The Code and Regulations provide some flexibility in structuring a 1031 Exchange. First, the exchange of properties in a 1031 Exchange is not required to be simultaneous. Under the Code, a taxpayer may wait as long as 45 days following the initial transfer of the relinquished property to identify the replacement property

28 TAM 200035005 (May 11, 2000)

29 Regulation §1.1031(a)-2(c)(2).

30 Regulation §1.1031(j)-1.

31 Code §1031(c); Regulation §1.1031(j)-1(b)(3).

32 Regulation §1.1031(j)-1(b)(2)(ii).

to be received in the exchange. The receipt of the replacement property by the transferor must be completed no later than the earlier of (i) 180 days following the transfer of the relinquished property or (ii) the due date of the tax return of the transferor (including extensions) for the year in which the transfer of the relinquished property occurs.[33] Furthermore, many 1031 Exchanges are accomplished through the use of a qualified intermediary. The qualified intermediary would typically buy the relinquished property from the transferor and sell it to the purchaser for cash and use the cash proceeds to buy the replacement property identified by the transferor and then transfer such replacement property to the transferor. In this manner, the purchaser of the relinquished property is not involved in the transferor's reinvestment in the replacement property and the transferor in the 1031 Exchange would not have access to the cash proceeds from the transfer of the relinquished property, and therefore, the exchange may qualify as a 1031 Exchange.[34]

In order for a deferred exchange to qualify as a 1031 Exchange, the transferor must not receive or have access to cash proceeds resulting from the transfer (*i.e.*, no constructive receipt.) The Regulations contain several safe harbors by which to avoid constructive receipt. For example, the Regulations provide that the cash proceeds from the purchaser of the relinquished property may be subject to a security arrangement, may be deposited with a "qualified escrow agent" (if the acquiror is willing to participate in the exchange) or may be paid to a "qualified intermediary" (if the acquiror is not willing to participate in the exchange). A qualified escrow agent or intermediary generally is someone who is not related to, or was not within the prior two years employed by, the transferor.[35]

The Regulations also contain specific rules dealing with the identification and receipt requirements with respect to the replacement property (including multiple properties), security arrangements, qualified escrow accounts and intermediaries, interest and growth factors and the payment of transaction expenses. There are also issues that may arise as a result of (i) 1031 Exchanges between related parties, (ii) reverse 1031 Exchanges (exchanges where the replacement property is obtained before the relinquished property is transferred), or (iii) the combination of a 1031 Exchange with either tax-free exchanges (*i.e.*, contributions to, or distributions from, corporations and partnerships) or the leveraging, of property.

CONCLUSION

As discussed above, Code section 1031 permits the deferral of gain or loss that would otherwise be recognized upon a sale or exchange of property. The rules governing the 1031 Exchange are highly fact sensitive, and certain areas of the applicable law are not entirely settled. Therefore, depending on the size of the exchange, it may be desirable to obtain an advance ruling from the Service so that the 1031 Exchange may proceed with a high level of certainty with respect to the tax results.

---

33 Code §1031(a)(3); Regulation §1.1031(k)-1(b)(2).

34 Regulation §1.1031(k)-1(g)(4).

35 Regulation §1.1031(k)-1(k).

Deloitte & Touche LLP
701 "B" Street, Suite 1900
San Diego, CA 92101
USA

Tel: (619) 237-6586
Fax: (619) 615-4932
www.us.deloitte.com

To: Dave Neary
From: B by Hall
My comments to follow email docs. sent to you.

Memo

415 783-5789

Deloitte & Touche

Metectsee Kim - Pitchfork Ranch
TNC

[redacted]

Date: February 23, 2001

To: Becky Hall, The Nature Conservancy

From: [redacted]

Subject: Acquisition of Pitchfork Ranch property from [redacted] LLC

The following items were noted upon the review of documents for the contract for sale of the Pitchfork Ranch. This property will possibly serve as replacement property on the disposition of the PK Ranch currently owned by Soldier Creek Preserve, Inc. ("Soldier Creek").

CONTRACT FOR SALE

1. The purchaser is listed as The Nature Conservancy ("TNC"). This contract should be assigned to Soldier Creek as the purchaser. IRC §1031 requires that the legal entity that starts the exchange must complete the exchange. This purchase contract will ultimately be assigned form Soldier Creek to a qualified intermediary ("QI") prior to closing. The QI acquires the replacement property (Pitchfork Ranch) with proceeds from the sale of the relinquished property (PK Ranch) and then transfers the replacement property to the exchanger (Soldier Creek) to complete the exchange. However, there should be a trail of assignments from TNC to Soldier Creek and then to the QI. *

2. The property being acquired includes a long list of items that may or may not apply to this transaction. Please provide a list of all the assets to be acquired and a value attributable to each type of asset. For example if we are acquiring land, building and improvements, farm equipment, etc. please provide a detailed list of the assets and the value assigned to each asset totaling the $2,872,000 purchase price. In order for Pitchfork Ranch to qualify as replacement property for PK Ranch, it must be considered like-kind property. I have been informed that the majority of the PK Ranch property is real property. As discussed in the memo dated January 17, 2001, attached, personal property is not like kind to real property. Therefore, we must determine what type of property is being acquired in order to determine if it is like kind to the PK Ranch property being sold. *

see email

AMENDMENT TO CONTRACT FOR SALE

This agreement should assign the original contract to Soldier Creek as purchaser and include language that provides for a like-kind exchange in accordance with IRC §1031. The reference to Revenue Procedure 2000-37 is not applicable to this transaction as long as the sale of PK Ranch

Holland & Hart suggests that maybe we redraft entire agreement instead of amendment

I'm checking w/ Joyce if this is ok.

Deloitte Touche Tohmatsu

precedes the purchase of Pitchfork Ranch. I will provide a sample of appropriate language under separate cover.

OPTION AGREEMENT

This agreement should be revoked. Property for which like-kind exchange treatment applies is property that is held for investment or used in a trade or business. Property subject to an option that could be exercised immediately, especially within 2 years of its acquisition, could arguably be held for sale and not held for investment. Property held for sale is not eligible for like-kind exchange treatment. I would not recommend any option be entered into on this property or any other property that will be used as replacement property for the PK Ranch exchange.

discuss w/ [redacted]

Please contact me at (619) 237-6586 with any questions.

HOLLAND & HART LLP
555 SEVENTEENTH STREET, SUITE 3200
P.O.BOX 8749, DENVER, CO 80201-8749
PHONE: (303) 295-8000 FAX: (303) 295-8261

CONFIDENTIAL MEMORANDUM

October 26, 2001

Mefeetsee Run - Pitchfork Ranch
Other Parties

TO: [redacted]

CC: [redacted]

FROM: [redacted]

RE: Pitchfork Transactions/Wilson Tract

For the past several years, [redacted], LLC ("LHR") and The Nature Conservancy ("TNC") have been working together to protect the Pitchfork Ranch from development. In furtherance of that goal, LHR sold three parcels of land to TNC earlier this year. The "520" was sold in January for just over $1.5 million. The "320" and "770" were sold in late March for almost $2.9 million.

These deals were "parking" arrangements, with TNC effectively agreeing to hold the properties for some period of time and then sell them back to LHR or to a conservation-minded buyer. This arrangement was reflected in an option contract on the 520, which gave LHR the right to repurchase that property at any time within two years after the sale for the original purchase price plus cost of funds. If LHR did not exercise its right during this two-year period, TNC had the right for 90 days afterwards to require LHR to buy back the property, again for the initial purchase price plus cost of funds. Although the parties had a similar understanding with respect to both the 320 and the 770, at TNC's request, an option contract was not signed with respect to those parcels.

The parties have recently agreed to another round of transactions, which are expected to close in December. LHR will sell the "Wilson" to TNC in a bargain sale for $3.5 million and together with [redacted] (or an LLC owned by [redacted]) will donate conservation easements worth $1.1 million. LHR will also sell an easement to TNC worth $200,000, which TNC will pay for with grant money it has already earmarked for that purpose. At the same time, TNC will sell the "Luxford" to LHR for $370,000. TNC will also sell the 520 to a charitable remainder trust established by [redacted] (the "CRT") for $2 million, nearly $500,000 more than TNC paid for it. In a related transaction

slated to close in January, TNC will sell the Wilson to the CRT for $3.5 million.

TNC acknowledges that the economic risk associated with these transactions is small. Indeed, after the December closings, TNC will need to sell the Wilson for only about $1.9 million to come out even, given the $1.1 million worth of donated easements and the nearly $500,000 profit on the sale of the 520. Moreover, if it sells the Wilson for $3.5 million as planned, it will come out nearly $1.6 million ahead. And in either case, it will have helped to ensure the conservation of the Pitchfork Ranch. Nevertheless, TNC has expressed concern that the CRT is not legally obligated to buy the Wilson and has asked whether LHR can grant TNC a "put" option to sell the Wilson to LHR in the unlikely event TNC's deal with the CRT falls through.

Why can't TNC have an option on the Wilson?

As we have discussed, granting TNC an option to sell the Wilson to LHR in the unlikely event the sale to the CRT falls through would raise serious tax risks for both LHR and the CRT. LHR is a so-called disqualified person with respect to the CRT and is thus effectively precluded by the self-dealing rules from selling property either directly or indirectly to the CRT. *See* IRC § 4941(d)(1)(A). The risk of self-dealing will be reduced, however, if TNC is a bona fide purchaser of the Wilson, holding both the benefits and the burdens of the property for some period of time before selling it to the CRT. But if TNC eliminates its downside risk with an option, it would be considered nothing more than "straw man" and its ownership for tax purposes would be ignored. In that case, the transaction would be considered a prohibited sale between LHR and the CRT. This would have significant adverse tax consequences, making this deal unworkable.

How is this different from the sale of the 520?

TNC has asked how granting an option on the Wilson would be different from what's already been done with the 520. The critical difference between the two transactions is the parties' intent at the time of the initial purchases. When TNC bought the 520, there was no understanding or expectation that it would later sell the property to the CRT. In fact, the CRT had never even been mentioned as a possible conservation buyer. But there is an expectation that the Wilson will be sold to the CRT, and this expectation alone increases the risk that TNC's ownership will be ignored. Taking away TNC's risk of loss would virtually eliminate any argument that its ownership should be respected.

Would TNC's tax-status be jeopardized if it sells the Wilson for less than $3.5 million?

TNC has also expressed concern that its tax-exempt status could be jeopardized if the sale to the CRT falls through and, to recoup its costs, it ends up selling the Wilson for less than $3.5 million. Although this is unlikely (in fact, we have difficulty conceiving of the circumstances in which the sale to the CRT would not close), if TNC ends up selling the property for less than $3.5 million, its exemption should be safe as long as it sells the property in an arm's-length deal for fair market value. A contemporaneous appraisal by an independent appraiser should give TNC added comfort that the transaction will not result in a private benefit or violate the private-inurement or excess-benefit rules.

We hope this answers your questions. Please call if you have further questions or would like to discuss any of these issues.

memo re pitchfork transaction.DOC

[redacted]

From: [redacted]
Sent: Friday, October 26, 2001 4:48 PM
To: [redacted]
Subject: RE: memo re pitchfork transaction/wilson tract

no, please do and print for file

-----Original Message-----
From: Jen[redacted]
Sent: Friday, October 26, 2001 4:43 PM
To: [redacted]
Subject: RE: memo re pitchfork transaction/wilson tract

[redacted]
Did you save this memo in the subdirectory? If not, I will do so.

-----Original Message-----
From: [redacted]
Sent: Friday, October 26, 2001 4:36 PM
To: [redacted]@tnc.org
Cc: vsim[redacted]
Subject: FW: [redacted]

Hello [redacted] and [redacted]-
I am forwarding the memo prepared by [redacted] at Holland & Hart which addresses the "put" and "self-dealing" issue for the Wilson tract in the Pitchfork transaction.
I requested this from [redacted] in order to address our concerns regarding the risk of purchasing the Wilson tract in December without having a contract to resell the property to the CRT in January, as the Board of Governors considers our request for approval for this transaction.
Please let me know if you have any questions-
Thanks,
[redacted]

-----Original Message-----
From: [redacted]
Sent: Friday, October 26, 2001 4:28 PM
To: [redacted]
Cc: [redacted]
Subject: memo re pitchfork transaction/wilson tract

[redacted]

As discussed. Please call [redacted] or me if you have any questions.

Have a great weekend!

[redacted]

[redacted]
Holland & Hart LLP
555 17th Street, Suite 3200
Denver, CO 80202
[redacted]

[redacted]

CONFIDENTIALITY NOTICE: This message is confidential and may be privileged. If you believe that this e-mail has been sent to you in error, please reply to the sender that you have received this e-mail in error; then please delete this e-mail. Thank you.

'o: [redacted]
'c:
Bcc:
'rom: [redacted]
ubject: re: FW: PK Ranch Distribution of Earnings & Profits
Tuesday, June 13, 2000 at 9:50:58 am MDT
h:
ertify: N

Bighorn Foothills - PK Ranch
TNC

li[redacted] Thanks for your message.

ctually, I think that I agree with the proposed tax treatment as outlined in the e-mail and memo from [redacted], but I had a few uestions for him that I just sent to him. As soon as I hear back from him, I'll let you know if there is anything else we hould discuss, but for now, let's proceed as if we will follow their advice.

/ith respect to the Estimated Tax payment, please note that in filling out the payment coupon that you will receive from [redacted] today, that the name of the corporation has been changed to Soldier Creek Preserve, Inc. Therefore, I would suggest hat you say something like "Soldier Creek Preserve, Inc., formerly known as PK Ranch Company". [redacted] said that the ost important thing is the FEID # anyway, but we might as well make it crystal clear that we are talking about the same orporation.

fter you have received the form from Joe, and the Check Request from Pat, please let me know if you have any uestions. In addition, could you please send me a copy of the final form for our files, and I will take care of sending opies to others.

HANKS.

ra[redacted]

[redacted]

presume your legal judgment is that we rely upon this ax treatment, as proposed by D&T. If so, then my nderstanding is that all I must do in this regard is to vait by the sidelines until somewhere around March 15, 001 at which time TNC will receive a K-1 from the PKR -corp. (for PKR's calendar year 2000) which will show a leemed dividend (debit TNC's investment in PKR) that TNC vill have to record on its books and 990 for its FY01 tax ear.

lease let me know only if my understanding is incorrect.

hanks
[redacted]

[redacted] -- please use this email and attachment as ocumentation for a carryforward point for next year's 990 ax prep.

---Original Message-----
rom: "[redacted]
nailto:[redacted]
: Monday, June 12, 2000 9:18 PM
[redacted]

SMTP@TNCHQ04@Servers["[redacted]
Subject: PK Ranch Distribution of Ea. gs & Profits

[redacted]

Please find attached the memo regarding the
availability of an
Earnings and Profits (E&P) Deemed Distribution for S
Corporations. I
think this will allow us to distribute the E&P of the
S Corporation,
thereby relieving PK Ranch of the Excess Passive
ncome issues.

Please call me once you have had an opportunity to
eview the memo so
we may discuss the issues.

Regards,

[redacted]
Manager, Tax Services

Deloitte & Touche

Fax Transmission

Deloitte & Touche LLP
701 "B" Street
Suite 1900
San Diego, CA 92101-8198

Telephone: (619) 232-6510
Facsimile: (619) 232-0955
www.us.deloitte.com

To: [redacted]	Company/Office: The Nature Conservancy
Fax Number: (303) 541-0346	Phone Number:
From: [redacted]	Office: Deloitte & Touche LLP - San Diego
Fax Number: (619) 232-0955	Number of Pages (including this one): 4
Date: 6-12-00	To confirm receipt, or if you do not receive all pages, please call: [redacted] ex [redacted]

Comments:

OK [redacted] to take care of tax payment 6/13/00

PR

Confidentiality Notice: This page and any accompanying documents contain confidential information intended for a specific individual and purpose. This telecopied information is private and protected by law. If you are not the intended recipient, you are hereby notified that any disclosure, copying or distribution, or the taking of any action based on the contents of this information, is strictly prohibited.

Deloitte Touche Tohmatsu

Deloitte & Touche

Southern California/Nevada Tax Services

Deloitte & Touche LLP
Suite 1900
701 "B" Street
San Diego, California 92101-8198

Telephone: (619) 232-3800
ITT Telex: 4995722
Facsimile: (619) 232-0955

June 12, 2000

Mr. Craig Neyman
The Nature Conservancy
4245 North Fairfax Drive, Suite 100
Arlington, Virginia 22203

Re: PK Ranch Corporation

Dear Craig:

We enclose instructions for payment of the second, third and fourth installment of federal corporate estimated tax for the year ending December 31, 2000. These amounts are based upon your prior year tax liabilities in order to avoid underpayment penalties and interest.

FEDERAL TAX PAYMENTS: The following Federal tax payments should be deposited with a Federal Reserve bank or an authorized commercial bank. The payments should be made with Form 8109, Federal Tax Deposit Coupon - Corporation Income Tax, on or before the date indicated. We suggest that you clearly indicate on Form 8109 which year-end (or quarterly estimate) you want the payments applied to. Payments received in the mail by the depository after the due date may be delinquent unless it can be positively shown they were mailed two days prior to the date due.

Type of Tax	Final Date for Payment	Amount
Second Installment - Corporate Tax (F/Y/E: 12/31/2000)	6/15/00	$4,000
Third Installment - Corporate Tax (F/Y/E: 12/31/2000)	9/15/00	$1,500
Fourth Installment - Corporate Tax (F/Y/E: 12/31/2000)	12/15/00	$1,500

At your request, we have included a Form 8109 for your use. The form should be completed based on the instructions above. Please be sure to include the Employer Identification Number for PK Ranch Corporation. Additionally, the Form 8109 must be an original; a Federal Bank may not accept a facsimile or photocopy.

Deloitte Touche Tohmatsu

2235 Faraday Avenue, Suite O, Carlsbad, California 92008-7209	Telephone: (760) 930-3430	Facsimile: (760) 930-3440
695 Town Center Drive, Suite 1200, Costa Mesa, California 92626-1924	Telephone: (714) 436-7100	Facsimile: (714) 436-7200
1000 Wilshire Boulevard, Los Angeles, California 90017-2472	Telephone: (213) 688-0800	Facsimile: (213) 688-0100
50 West Liberty Street, Suite 900, Reno, Nevada 89501-1949	Telephone: (702) 348-8808	Facsimile: (702) 322-8754
3773 Howard Hughes Parkway, Suite 490N, Las Vegas, Nevada 89109	Telephone: (702) 893-3100	Facsimile: (702) 369-1736

If you have any questions regarding the above, or any other tax matters, please do not hesitate to contact us.

Yours very truly,

DELOITTE & TOUCHE LLP

[redacted]

Manager, Tax Services

Enclosures
[redacted]

cc: [redacted]

[redacted]

DOLLARS CENTS

TAX YEAR MONTH →

EMPLOYER IDENTIFICATION NUMBER →

BANK NAME/ DATE STAMP

Name

Address

City

State ZIP

Telephone number ( )

IRS USE ONLY

Darken only one TYPE OF TAX		Darken only one TAX PERIOD
941	94	1st Quarter
990-C	112	2nd Quarter
943	990-	3rd Quarter
720	99 PF	4th Quarter
CT-1	104	
940		35

FOR BANK USE IN MICR ENCODING

Federal Tax Deposit Coupon

Form 8109-B (Rev. 10-96)

SEPARATE ALONG THIS LINE AND SUBMIT TO DEPOSITARY WITH PAYMENT OMB No. 1545-0257

Note: *Except for the name, address, and telephone number, entries must be made in pencil. Please use a soft lead (for example, a #2 pencil) so that the entries can be read more accurately by optical scanning equipment. The name, address, and telephone number may be completed other than by hand. You CANNOT use photocopies of the coupons to make your deposits. Do not staple, tape, or fold the coupons.*

Paperwork Reduction Act Notice.—We ask for the information on this form to carry out the Internal Revenue laws of the United States. You are required to give us the information. We need it to ensure that you are complying with these laws and to allow us to figure and collect the right amount of tax.

You are not required to provide the information requested on a form that is subject to the Paperwork Reduction Act unless the form displays a valid OMB control number. Books or records relating to a form or its instructions must be retained as long as their contents may become material in the administration of any Internal Revenue law. Generally, tax returns and return information are confidential, as required by Code section 6103.

The time needed to complete and file this form will vary depending on individual circumstances. The estimated average time is 3 min. If you have comments concerning the accuracy of this time estimate or suggestions for making this form simpler, we would be happy to hear from you. You can write to the Tax Forms Committee, Western Area Distribution Center, Rancho Cordova, CA 95743-0001. DO NOT send this form to this address. Instead, see the instructions on the back of this page.

Purpose of Form.—Use Form 8109-B to make a tax deposit only in the following two situations:

1. You have not yet received your resupply of preprinted deposit coupons (Form 8109); or

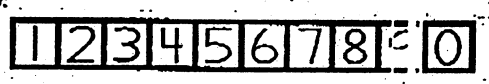
2. You are a new entity and have already been assigned an employer identification number (EIN), but you have not yet received your initial supply of preprinted deposit coupons (Form 8109).

Note: *If you do not receive your resupply of deposit coupons and a deposit is due or you do not receive your initial supply within 5–6 weeks of receipt of your EIN, please call 1-800-829-1040.*

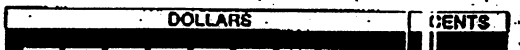
If you have applied for an EIN, have not received it, and a deposit must be made, send your payment to your Internal Revenue Service Center. Make your check or money order payable to the Internal Revenue Service and show on it your name (as shown on Form SS-4, Application for Employer Identification Number), address, kind of tax, period covered, and date you applied for an EIN. Also attach an explanation to the deposit. Do not use Form 8109-B in this situation. Do not use Form 8109-B to deposit delinquent taxes assessed by the IRS. Pay those taxes directly to the IRS. See Circular E, Employer's Tax Guide, for information on depositing by Electronic Funds Transfer.

How To Complete the Form.—Enter your name exactly as shown on your return or other IRS correspondence, address, and EIN in the spaces provided. If you are required to file a Form 1120, 990-C, 990-PF (with net investment income), 990-T, or 2438, enter the month in which your tax year ends in the TAX YEAR MONTH boxes. For example, if your tax year ends in January, enter 01; If it ends in June, enter 06; If it ends in December, enter 12. Please make your entries for EIN and tax year month (if applicable) in the manner specified in Amount of Deposit below. Darken one box each in the TYPE OF TAX and TAX PERIOD columns as explained below.

Amount of Deposit.—Enter the amount of the deposit in the space provided. Enter the amount legibly, forming the characters as shown below:



Hand print money amounts without using dollar signs, commas, a decimal point, or leading zeros. The commas and the decimal point are already shown in the entry area. For example, a deposit of $7,635.22 would be entered like this:



If the deposit is for whole dollars only, enter "00" in the CENTS boxes.

Types of Tax.—

Form 941 —Withheld income tax and both the employer and employee social security and Medicare taxes from wages and other compensation (includes Forms 941-M, 941-PR, and 941-SS).

Form 945 —Withheld Income Tax From Pensions, Annuities, IRAs, Gambling, Indian Gaming, and Backup Withholding.

Form 990-C —Farmers' Cooperative Association Income Tax.

Form 943 —Agricultural Withheld Income, Social Security, and Medicare Taxes (includes Form 943-PR).

Form 720 —Excise Tax.

Form CT-1 —Railroad Retirement Taxes.

Form 940 —Federal Unemployment (FUTA) Tax (includes Form 940-EZ and Form 940-PR).

Form 1120 —Corporate Income Tax (includes Form 1120 series of returns and Form 2438).

Form 990-T —Exempt Organization Business Income Tax.

Form 990-PF —Excise Tax on Private Foundation Net Investment Income.

Form 1042 —Withholding on Foreign Persons.

Marking the Proper Tax Period.—

Payroll Taxes and Withholding (Forms 941, 940, 943, 945, CT-1, and 1042. See the separate instructions for Form 1042.)

If your liability was incurred during:

- January 1 through March 31, darken the 1st quarter box
- April 1 through June 30, darken the 2nd quarter box
- July 1 through September 30, darken the 3rd quarter box
- October 1 through December 31, darken the 4th quarter box

Note: *If the liability was incurred during one quarter and deposited in another quarter, darken the box for the quarter in which the tax liability was incurred. For example, if the liability was incurred in March and deposited in April, darken the 1st quarter box.*

(Continued on back of page.)

Department of the Treasury
Internal Revenue Service

Cat. No. 61142S

Form 8109-B (Rev. 10-96)

o: [redacted]
c: [redacted]
: [redacted]
ubject: PK Ranch Distribution of Earnings & Profits
ate: Monday, June 12, 2000 at 7:18:20 pm MDT
ttach: regsec.doc
ertify: N

[redacted]

Please find attached the memo regarding the availability of an Earnings and Profits (E&P) Deemed Distribution for S Corporations. I think this will allow us to distribute the E&P of the S Corporation, thereby relieving PK Ranch of the Excess Passive Income issues.

Please call me once you have had an opportunity to review the memo so we may discuss the issues.

Regards,

[redacted]
Manager, Tax Services

o: [redacted]
c: [redacted]
cc:
: [redacted]
ject: [redacted]s & Profits
ate: Tuesday, June 13, 2000 at 7:04:02 am MDT
ttach: regsec.doc
ertify: N

[redacted]

presume your legal judgment is that we rely upon this tax treatment, as proposed by D&T. If so, then my understanding that all I must do in this regard is to wait by the sidelines until somewhere around March 15, 2001 at which time TNC ill receive a K-1 from the PKR S-corp. (for PKR's calendar year 2000) which will show a deemed dividend (debit TNC's vestment in PKR) that TNC will have to record on its books and 990 for its FY01 tax year.

ease let me know only if my understanding is incorrect.

anks
[redacted]

[redacted] -- please use this email and attachment as documentation for a carryforward point for next year's 990 tax prep.

--Original Message-----
om: [redacted]
nt: Monday, June 12, 2000 9:18 PM
: [redacted]
[redacted]
[redacted]
[redacted]
bject: PK Ranch Distribution of Earnings & Profits

[redacted]

Please find attached the memo regarding the availability of an Earnings and Profits (E&P) Deemed Distribution for S Corporations. I think this will allow us to distribute the E&P of the S Corporation, thereby relieving PK Ranch of the Excess Passive Income issues.

Please call me once you have had an opportunity to review the memo so we may discuss the issues.

Regards,

[redacted]
Manager, Tax Services

Deloitte & Touche

Memo

Deloitte & Touche LLP
701 B Street, Suite 1900
San Diego, CA 92101-8198

Telephone: (619)232-6500
Facsimile: (619)232-0955
www.us.deloitte.com

Date: June 1, 2000

To: The Nature Conservancy - Tax File

From: [redacted] - Tax Senior

Subject: PK Ranch Distribution

FACTS

An Internal Revenue Code ("IRC") §501(c)(3) organization, The Nature Conservancy ("TNC") has acquired a 100% interest in an S Corporation, PK Ranch ("PKR"). PKR has a $0 balance in its accumulated adjustments account ("AAA") and approximately $600,000 of accumulated earnings and profits ("E & P") from its C Corporation years. In the proposed transaction, PKR desires to distribute to TNC its balance in E & P. PKR does not currently have the cash flows to make the distribution in cash.

ISSUE

1. What type of non-cash distribution is allowable to distribute the balance in PKR's E & P?

DISCUSSION AND ANALYSIS

An S Corporation may elect under Final-Reg. §1.1368-1(f)(3) to distribute all or part of its E & P through a deemed dividend. If an S Corporation makes this election, it will be considered to have made the election to distribute E & P first under Final-Reg. §1.1368-1(f)(2).[1] The amount of the deemed dividend may not exceed the E & P of the corporation on the last day of the taxable year, reduced by any actual distributions of E & P made during the taxable year. The

[1] Under Final-Reg. §1.1368-1(f)(2), an S Corporation with accumulated E & P may elect to distribute E & P first. Distributions made by an electing corporation are treated as made first from E & P and second from the AAA. Any remaining portion of the distribution is treated in the manner provided in IRC §1368(b). This election is effective for all distributions made during the year for which the election is made.

amount of the deemed dividend is considered as if it were distributed in money to the shareholders in proportion to their stock ownership, received by the shareholders, and immediately contributed by the shareholders to the corporation, all on the last day of the corporation's taxable year.

The election to make a deemed dividend is made by attaching a statement to the tax return filed for the applicable taxable year. In the statement, the corporation must identify the election it is making and must state that each shareholder consents to the election. An officer of the corporation must sign under penalties of perjury the statement on behalf of the corporation. The statement must also include the amount of the deemed dividend distributed to each shareholder.[2]

The election to make a deemed dividend is irrevocable and is effective only for the taxable year for which it is made.[3]

CONCLUSION

PKR may make a non-cash distribution in the form of a deemded dividend to distribute all of its E & P. For the taxable year in which the distribution takes place, PKR must attach to its tax return a signed statement identifying the election it is making under Final-Reg. §1.1368-1(f). Confirmation of consent by TNC, a 100% shareholder, and the amount of the deemed dividend must also be disclosed on the statement.

F:\clients\nature\PK Ranch\RegSec.1.1368Memo.doc

[2] Final-Reg. §1.1368-1(f)(5)(iii).
[3] Final-Reg. §1.1368-1(f)(5)(iv).

Bighorn Foothills - PK Ranch
TNC

Deloitte & Touche

Southern California/Nevada Tax Services

Deloitte & Touche LLP
Suite 1900
701 "B" Street
San Diego, California 92101-8198

Telephone: (619) 232-6500
ITT Telex: 4995722
Facsimile: (619) 232-0955

December 10, 1999

VIA FACSIMILE: (303) 541-0346
Mr. Patrick Ramos
The Nature Conservancy
2060 Broadway, Suite 230
Boulder, Colorado 80302

Dear Mr. Ramos:

We have reviewed the tax information provided in regard to The Nature Conservancy's acquisition of PK Ranch Company. The attached memorandum details the work performed and our findings relating to this matter.

Thank you for this opportunity to be of service to you. Please call me at (619) 231-4505 if you have any questions.

Very truly yours,

[redacted]
Manager, Tax Services

Enclosures
cc: [redacted]
f:/clients/nature/PK Ranch/ltr_001.doc

Deloitte Touche Tohmatsu

2235 Faraday Avenue, Suite O, Carlsbad, California 92008-7209 — Telephone: (760) 930-3430 — Facsimile: (760) 930-3440
695 Town Center Drive, Suite 1200, Costa Mesa, California 92626-1924 — Telephone: (714) 436-7100 — Facsimile: (714) 436-7200
1000 Wilshire Boulevard, Los Angeles, California 90017-2472 — Telephone: (213) 688-0800 — Facsimile: (213) 688-0100
50 West Liberty Street, Suite 900, Reno, Nevada 89501-1949 — Telephone: (702) 348-8808 — Facsimile: (702) 322-8754

Deloitte & Touche

Memo

Deloitte & Touche LLP
Southern California/Nevada Tax Services
701 B Street, Suite 1900
San Diego, CA 92101

Telephone: (619) 232-6500
Facsimile: (619) 232-0955
www.us.deloitte.com

Date: November 29, 1999

To: The Nature Conservancy Tax File

From: [redacted]

Subject: Acquisition of PK Ranch Company

The purpose of this memorandum is to document the tax due diligence work performed by Deloitte & Touche, LLP in connection with the proposed acquisition of PK Ranch Company ("PK") by The Nature Conservancy, a tax-exempt organization under IRC §501(c)(3). We have reviewed the federal income tax returns and other tax-associated documents of PK Ranch Company (as listed in attachment A). Details of the review performed and the findings thereof follow.

Procedures Performed

In reviewing the income tax returns and other tax-associated documents of PK Ranch, the following procedures were performed:

- Review of the federal and state income tax returns for potential Built-In Gains taxes that would remain the liability of the corporation after the acquisition.
- Review of the federal income tax returns for potential Excess Passive Investment Income Taxes that would remain the liability of the corporation after the acquisition, including review of possible S Corporation termination for Excess Passive Investment Income for three consecutive tax years.
- Review of the federal form 2553, Election by a Small Business Corporation to determine whether the election to be treated as an S Corporation was appropriately completed, including review of IRS acceptance of the form 2553 filing.
- Review of tax returns for any inappropriate accounting methods.
- Review of PK's common and preferred stock books to determine whether PK met the S Corporation shareholder requirements during the S Corporation years, including review of

the demand note from PK to [redacted] Trust for the redemption of preferred stock.

- Review of Articles of Incorporation, Bylaws and Minutes of PK for any adverse tax consequences to the corporation that would remain the liability of the corporation after the acquisition.

- Review of various versions of the [redacted] Revocable Trust to determine whether the trust was an allowable shareholder of S Corporation stock under IRC §1361(c)(2).

We have reviewed the tax returns provided by the seller and have not reviewed any underlying workpapers.

You have engaged us to conduct a *limited* review of the federal and state tax returns and other tax-associated documents of PK Ranch Company (as listed in attachment A). Consequently, only those review steps described above will be performed. **Deloitte & Touche does not warrant or represent to you that our review steps will enable us to identify every error, potential issue, election, filing, or notice requirement in your returns.** Upon completion of our review, we are reporting to you, the following findings, issues, and questions.

Federal Income Tax

PK has been an S Corporation since January 1, 1993. If PK is a valid S Corporation as it maintains, then the federal income tax liabilities on the income of the corporation flows through to the S Corporation shareholders. It also means that there are no net operating losses or credits that carryforward to the new shareholders.

The financial statements appear to be maintained on a tax basis. The only book-tax differences reported on the returns for 1993-1998 are meals and entertainment, federal income taxes, and boarding costs limitations. These differences appear to be appropriate. PK's tax advisor maintains that PK has never been audited by the Internal Revenue Service.

S Election

One Class of Stock - PK is a [redacted] corporation that was originally incorporated as a C corporation on February 10, 1956. The corporation was initially owned by [redacted], [redacted], and [redacted]. Shortly after the incorporation, [redacted] sold or transferred his stock in PK to [redacted]. The remaining stock was subsequently transferred several times between [redacted] and [redacted] and living trusts established by [redacted] and [redacted]. It appears that [redacted]'s stock was sold or transferred to [redacted] during 1970. During 1956, PK issued 2,000 shares of Preferred Stock to [redacted]. Per review of the Minutes for the Board of Directors meetings on December 2, 1992, the Preferred Stock was called and retired effective December 31, 1992 at midnight. The minutes detail that the Preferred Stock was redeemed in exchange for a note. The note was a simple demand note for $212,000, earning an 8% interest per annum. Based on [redacted]'s discussions with PK's legal counsel, the note has been paid in full.

According to Treas. Regs. 1.1361-1(l)(3), "in determining whether all outstanding shares of stock confer identical rights to distribution and liquidation proceeds, all outstanding shares of stock of a corporation are taken into account." As of December 31, 1992, when its preferred stock was called and retired, PK has only had one class of stock issued and outstanding. Therefore, during its time as an S Corporation, it appears to have met the "one class of stock" requirement.

Duly Executed S Corporation Election – We have reviewed the form 2553, Election by a Small Business Corporation ("Election"), and the accompanying IRS Notice of Acceptance as an S Corporation. The Election listed [redacted] as the sole shareholder. The share registry supports that the [redacted] Revocable Trust was the sole shareholder of PK. Wyoming is a separate property state for property rights purposes, therefore, if the PK stock was [redacted] separate property, then only his signature was required for a valid S-Election. If [redacted] had an interest in the stock at the time of the election, her signature would be required. We have not confirmed through any other inquiries that the stock was the separate property of [redacted] at the time of the Election.

An S Corporation Election must include the shareholders consent with their signature. The sole shareholder of PK is The [redacted] Revocable Trust, a grantor trust. Under IRC §1361(c)(2)(B)(i), "the deemed owner shall be treated as the shareholder," and must sign the election. According to IRC §674(a), the grantor shall be treated as the owner of any portion of a trust which the beneficial enjoyment of the corpus or the income therefrom is subject to a power of disposition, exercisable by the grantor or a nonadverse party, or both, without the approval or consent of any adverse party. Therefore, the only required signature of consent for the S Corporation election would be [redacted], the deemed owner of the trust who is the sole shareholder of PK.

Excessive Passive Investment Income – An S Corporation, that has earnings and profits from C Corporation years, may be subject to a tax under §1375(a) if the S Corporation's passive income for a taxable year exceeds 25% of gross receipts for the year. The tax rate is equal to the highest applicable rate under §11(b), which is currently 35%. Passive investment income is defined to include gross receipts derived from royalties, rents, dividends, interest, annuities and sales or exchanges of stock or securities that result in a gain.

[redacted], CPA for PK, has represented to us that PK has approximately $640,000 of earnings and profits. This amount appears to be consistent with the Retained Earnings of PK as reported on the December 31, 1992 federal income tax return. This amount is an estimate, and neither Mr. [redacted] nor Deloitte & Touche have performed an earnings and profits study to determine the actual amount. This tax is imposed at the corporate level, and therefore, would be the liability of the corporation and not the shareholder during the tax year the Passive Investment Income is earned.

Included in the 1996 and 1997 returns were "Other Revenues" described as "Water." As these revenues did not appear to exceed 25% of the total gross revenues of PK during the respective years, we did no further analysis whether these revenues are passive investment income.

In the event that PK incurred Excess Passive Investment Income in three consecutive S Corporation years, PK would be deemed to have revoked its S Corporation status effective the

first day of the fourth year.

Built-In Gains – Built-in Gains (BIG) tax applies to a C Corporation that converts to an S Corporation after 1986. PK was converted to an S Corporation on January 1, 1993. At the time of conversion, the fair market value of the assets exceeded PK's adjusted tax basis in the assets, creating a BIG. A tax is imposed at the corporate level when a BIG asset that was held at S conversion is sold for a gain during the first ten years after S conversion.

Taxpayers generally obtain an independent appraisal on the value of property held by the C Corporation at the time of S conversion. Based on discussions with [redacted], no appraisal was performed. In the event of an IRS audit, the BIG amount reported on its federal tax return would not be supported by an appraisal.

In order to determine the BIG tax liability, the corporation first must determine its net recognized built-in gain for the current tax year pursuant to §1374(d)(2). This limits the built-in gain to the lesser of (a) the built-in gains for the year or (b) the S Corporation's taxable income. Any built-in gains recognized in a tax year that are limited due to the S Corporation's taxable income will be carried forward to the succeeding year (§1374(d)(2)(B)).

During the first seven years beginning with S conversion, PK sold assets for a gain. PK recognized BIG in 1993 of $677,643. The Built-In Gain was limited to the amount of taxable income of the S Corporation, approximately $61,337, resulting in $21,468 of taxes. The remaining BIG ($616,303) was carried forward. From 1994 through 1998, PK continued to recognize additional BIG on the disposition of C Corporation assets, but did not pay tax on the BIG as PK incurred net operating losses during each of those years.

In total, PK may have recognized approximately $1.3 million of BIG that it has not paid taxes on due to the net taxable income limitation. This BIG carryforward is the liability of the S Corporation, not the shareholders, and may result in approximately $455,000 of tax when the BIG is recognizable. This amount may be more, as PK does not have an independent appraisal to support these amounts.

Other Taxes

Sales and Use Taxes – PK has placed approximately $50,000 - $200,000 of depreciable property into service in each of the previous 6 years. The gross sales, including sales of breeding cattle, ranged from $400,000 to $900,000 per year from 1993-1998. We have not reviewed sales and use tax reports for Wyoming or Kansas.

Payroll Taxes – PK has reported approximately $150,000 - $200,000 of salaries and wages during each of the previous six years. We have not reviewed the payroll tax reports for federal or state purposes.

The Nature Conservancy
Acquisition of PK Ranch

ATTACHMENT A
List of Tax Returns and Supporting Documentation Reviewed

1998 Federal S Corporation Tax Return for PK Ranch, form 1120S
1997 Federal S Corporation Tax Return for PK Ranch, form 1120S
1996 Federal S Corporation Tax Return for PK Ranch, form 1120S
1995 Federal S Corporation Tax Return for PK Ranch, form 1120S
1995 Kansas Corporation Income Tax Return, form K-120
1994 Federal S Corporation Tax Return for PK Ranch, form 1120S
1994 Kansas Corporation Income Tax Return, form K-120
1993 Federal S Corporation Tax Return for PK Ranch, form 1120S
1993 Kansas Corporation Income Tax Return, form K-120
1992 Federal Corporation Tax Return for PK Ranch, form 1120
1991 Federal Corporation Tax Return for PK Ranch, form 1120
Election by a Small Business Corporation, form 2553
IRS Notice of Acceptance as an S-Corporation
PK's Common Stock – New Stock Book
PK's Common Stock – Old Stock Book
PK's Preferred Stock Book
Articles of Incorporation, Bylaws and Minutes of PK
Amended and Restatement of the [redacted] Revocable Trust dated July 12, 1996
Amendment of [redacted] Revocable Trust dated March 11, 1997.
Amendment of [redacted] Revocable Trust dated November 23, 1993
Amendment of [redacted] Revocable Trust dated February 25, 1992
Amendment of [redacted] Revocable Trust dated June 20, 1991
Amendment and Restatement of the [redacted] Revocable Trust Dated August 10, 1988
Amendment and Restatement of the [redacted] Revocable Trust Dated May 20, 1988
Demand Note issued from PK to [redacted] in redemption of Preferred Stock.

Bighorn Foothills - PK Ranch
TNC

Deloitte & Touche

Fax Transmission

To: [redacted]

Deloitte & Touche LLP
Southern California/Nevada Tax Services
701 B Street, Suite 1900
San Diego, CA 92101

Telephone: (619) 232-6500
Facsimile: (619) 232-0955
www.us.deloitte.com

To:	Company/Office:
[redacted]	The Nature Conservancy
Fax Number:	**Phone Number:**
(307) 332-2974	
From:	**Office:**
[redacted]	Deloitte & Touche - San Diego
Fax Number:	**Number of Pages (including this one):**
(619) 232-0955	11
Date:	**To confirm receipt, or if you do not receive all pages, please call:**
November 16, 1999	(619) 231-4505

Comments:

[redacted]

Please find attached the original tax issues summary and calculations sent to Mike Dennis. I have also included revised calculations based on the information, as we understand it to date. Please call me at (619) 231-4505 if you have any questions. Thank You.

Confidentiality Notice: This page and any accompanying documents contain confidential information intended for a specific individual and purpose. This intercepted information is private and protected by law. If you are not the intended recipient, you are hereby notified that any disclosure, copying or distribution, or the taking of any action based on the contents of this information, is strictly prohibited.

[redacted]

TNC buy cash

FORTUNE 100 [redacted]

[redacted]

Interest Deductible

The Nature Conservancy
Purchase of PK Ranch
11/16/1999 10:07

Interest Deductible

The total property is appraised at $18M, the Mountain Pasture comprising $6M of that. PK Ranch grants an easement to The Nature Conservancy (TNC) which reduces the Mountain Pasture property from $6M to $3.7M, giving PK Rach a $4.3M charitable deduction. PK Ranch sells the mountain pasture to Barry for $3.7M cash and leaves $2.6M in PK Ranch. TNC purchases the stock of PK Ranch for $9M plus the amount of any cash left in PK Ranch.

[redacted] basis in PK Ranch (per [redacted])	1,500,000
Gain on sale of Mountain Pasture	2,700,000
Less:Cash Distributed	(900,000)
Charitable Contribution on Easement	(4,300,000)
[redacted] basis in PK Ranch prior to Sale to TNC	-
Built-in Gains from Sale of Mountain Pasture (per [redacted])	3,000,000
Built-in Gains Rate	35%
Built-in Gains Tax	1,050,000
FMV of Total Property	18,000,000
Less: Mountain Pasture	(6,000,000)
FMV of TNC's Property	11,000,000
Purchase Price of Remaining Land	9,000,000
Cash Remaining in PK Ranch	2,800,000
Purchase Price of PK Ranch (basis in stock)	11,800,000
Basis in Stock after Purchase	11,800,000
Less: Distribution (Cash Remaining after BIG Taxes)	(1,750,000)
Basis in Stock prior to Distribution	10,050,000
Gain on Distribution of PK Ranch Property to TNC (FMV)	13,300,000
Basis in Stock after Distribution	23,350,000
Gain on Distribution of PK Ranch Property to TNC (FMV)	13,300,000
Loss on Liquidation of PK Ranch (FMV-Basis)	(10,050,000) @
Net Gain on Liquidation	3,250,000
Less: Carrying Charges (Interest)	(2,300,000) #
Gain/(Loss) on Liquidation	950,000
UBIT Rate	34%
UBIT	323,000
Total Cost of TNC Land	
Purchase Price of PK Ranch	11,800,000
Less: Cash Remaining in PK Ranch before BIG Taxes paid.	(2,800,000)
Built-in Gains Tax	1,050,000
UBIT	323,000
Carrying Charges (Interest)	2,300,000 #
Cost to TNC of Land	12,673,000

45 days i.d.
(Close w/in 180 days

Assumes property can be sold for the $11,000,000 appraisal value plus carrying charges. Also assumes PK Ranch's tax basis in the property is zero.

Interest calculated at 7.5% of Loan Amount ($11.8M Purchase Price - $1.45M Immediate Cash Distribution)

Basis in Stock prior to Liquidation	23,350,000
FMV of Property Received in Liquidation	13,300,000
Loss on Liquidation @	(10,050,000)

The Nature Conservancy
Purchase of PK Ranch
11/16/1999 10:07

Interest Non-Deductible

The total property is appraised at $19M, the Mountain Pasture comprising $8M of that.
PK Ranch grants an easement to The Nature Conservancy (TNC) which reduces the Mountain Pasture property from $8M to $3.7M, giving PK Rach a $4.3M charitable deduction.
PK Ranch sells the mountain pasture to Berry for $3.7M cash and leaves $2.8M in PK Ranch.
TNC purchases the stock of PK Ranch for $8M plus the amount of any cash left in PK Ranch.

[redacted]asis in PK Ranch (per[redacted])	1,500,000
Gain on sale of Mountain Pasture	3,700,000
Less:Cash Distributed	(900,000)
Charitable Contribution on Easement	(4,300,000)
[redacted] in PK Ranch prior to Sale to TNC	-
Built-In Gains from Sale of Mountain Pasture (per [redacted])	3,000,000
Built-In Gains Rate	35%
Built-In Gains Tax	1,050,000
FMV of Total Property	19,000,000
Less: Mountain Pasture	(8,000,000)
FMV of TNC's Property	11,000,000
Purchase Price of Remaining Land	9,000,000
Cash Remaining in PK Ranch	2,800,000
Purchase Price of PK Ranch (basis in stock)	11,800,000
Basis in Stock after Purchase	11,800,000
Less: Distribution (Cash Remaining after BIG Taxes)	(1,750,000)
Basis in Stock prior to Distribution	10,050,000
Gain on Distribution of PK Ranch Property to TNC (FMV) #	13,300,000
Basis in Stock after Distribution	23,350,000
Gain on Distribution of PK Ranch Property to TNC (FMV)	13,300,000
Loss on Liquidation of PK Ranch (FMV-Basis)	(10,050,000) @
Net Gain on Liquidation	3,250,000
UBIT Rate	34%
UBIT	1,105,000
Total Cost of TNC Land	
Purchase Price of PK Ranch	11,800,000
Less: Cash Remaining in PK Ranch before BIG Taxes paid.	(2,800,000)
Built-In Gains Tax	1,050,000
UBIT	1,105,000
Carrying Charges (Interest)	2,800,000 #
Cost to TNC of Land	13,455,000

Assumes property can be sold for the $11,800,000 appraisal value plus carrying charges. Also assumes PK Ranch's tax basis in the property is zero.

Interest calculated at 7.5% of Loan Amount ($11.5M Purchase Price - $1.45M Immediate Cash Distribution)

Basis in Stock prior to Liquidation		23,350,000
FMV of Property Received in Liquidation		13,300,000
Loss on Liquidation	@	(10,050,000)

Real Estate Appraisals

Brokerage

Consulting

Management

N. Clark Wheeler, ARA, Broker
Certified General Appraiser, MT & WY
Bozeman Office

Kevin T. Pearce, ARA, Broker
Certified General Appraiser, MT & WY
Sheridan Office

Kim C. Colvin, ARA
Real Estate Sales Associate
Certified General Appraiser, MT & WY
Bozeman Office

Kurtis E. Naego, Staff Appraiser
Real Estate Sales Associate
Bozeman, Office

November 10, 1999

[redacted]
The Nature Conservancy - Wyoming
258 Main Street, Suite 200
Lander, WY 82520
307/332-2973 x 3005

Via Fax ..... (307) 332-2974

RE: FK Ranch

Dear [redacted]

I apologize for dropping off the call today. I was having some difficulty with my cell phone. I have not heard back from you so I wanted to follow up on our conversation with a letter and outline some of the issues which we discussed.

A. Conservation easement area.

It sounded as if you and [redacted] are having a discussion relative to the amount of restrictions to be placed over the easement area and that perhaps the amount of restriction should be increased so that we can assign a lower after value to the easement encumbered lands. [redacted] had discussed the inclusion of public access over the property which would have a substantial diminishing effect on value and which was not part of the valuation criteria which we used in assigning our initial values to this property. Additional restrictions as to buildings and subdivision would also result in additional decreases in value.

All of this relates back to the before value assigned to the property as the percent of diminution assigned as a result of the easement and the after value is governed by the unrestricted value assigned the property. As you and I had discussed previously, there may be some potential to decrease the before value of the property by up to 10%. However, as I described and reiterated to [redacted] today, it is not our position in this appraisal process to make up numbers that can be used to fit into the equation. The market value is what the value is, and that is how the IRS will look at the overall transaction. We do not provide a service to anyone by assigning values that are not defendable or can be collapsed by the IRS.

221 E. Mendenhall, Bozeman, MT 59715, P.O. Box 1953, Bozeman, MT 59771, Phone: 406/587-7701, Fax: 406/587-2638
195 North Main, P.O. Box 774, Sheridan, MT 59749, Phone: 406/842-7400, Fax: 406/842-7401

ARA - Accredited Rural Appraiser

Obviously it sounds like there needs to be additional discussion relative to the valuation of the overall property and the assignment of the easement diminution. [redacted] had inferred that he may be employing an additional Appraiser which could be problematic to the overall process if we have conflicting appraisal reports out there. In view of the overall complexity of this transaction, I believe there is a considerable amount of downside risk which could be complicated by having conflicting appraisal reports. Please advise as to what the status of this process may be.

B. Corporation Valuation.

Prior to dropping off the call, I was hoping that you had the opportunity to revisit this issue with [redacted] relative to the discount which we would see. We were discussing two different transactions here and two different types of value. One value is specific to the transaction involving The Nature Conservancy and one value would be *Market Value* as defined by appraisal law and the IRS. If we are to appraise a property subject to special conditions or a special users federal law requires the inclusion of extraordinary assumptions within the transmittal letter of the appraisal which basically red flags any valuation work. Typically we appraise market value which is willing buyer/willing seller and under these criteria, corporations which are sold within the market are penalized. I understand that the corporation issue may be resolved in three years. However, there is a three year holding period involved with the property and during that time, it is my understanding that The Nature Conservancy or any other buyer of the property has to physically operate the property. This requires expenditure of a considerable amount of capital relative to purchasing equipment and livestock as well as management oversight. These are issues which a typical buyer would have to consider despite the fact that they may be able to begin to market the property and perhaps contract a sale for the property, now subject to a three year closure.

The bottom line is that conditions such as these place properties into an unusual market arena and within this arena, discounts and alternative or unusual property values are often seen. In many instances, transactions are disregarded as being aberrations of the market when effected by too much special consideration or unusual financing conditions. We need to revisit this issue with the accountants to understand whether or not they believe there would be no red flag on the valuation of a corporation which illustrated no discount. Based on our preliminary numbers, it appears to us you are paying approximately a 20% discount which would probably be appropriate in consideration of the fact the property can be sprung out the other side of the equation in three years.

In our discussions in Wyoming which you and I had, I indicated to you that typically corporation discounts of 30% to 50% are seen in the market. However, these depend on many specific characteristics of the corporation, including debt, type of corporation and holding period required. Our discussions of those numbers was simply to you to help you understand the issues that we must deal with on the appraisal side of the equation.

I feel that it should be clear that we are engaged by the seller to provide an appraisal on the property subject to the easement and market value seen in the market. We have not been engaged to provide any type of a *Special Use* or *Alternative Appraisal Assignment* that encompasses some of the specific considerations or concerns expressed today. Such a special assignment requires the inclusion or utilization of *extraordinary assumptions* or *hypothetical conditions* which we are required to disclose under federal law. I trust that it is clear to the parties here that we are providing professional appraisal services based on federal appraisal guidelines. It is not to the benefit of our client to provide valuation information which falls outside the normal constraints of the law thereby allowing the IRS the ability to harass and ultimately extract tax penalties from our client.

I still feel the need for additional conversations related to these valuation issues and the fact that K[redacted] needs to be included in these discussions as he has had a substantial amount of information provided to him by you and [redacted]. Please call with your thoughts.

Sincerely,

(Dictated but not read.)

N. [redacted]

NCW/ew

Big Hill Foothills - PK Ranch
TNC

[redacted]

-----Original Message-----
From: [redacted]
Sent: Monday, April 02, 2001 11:33 AM
To: [redacted]
Subject: FW: Soldier Creek Preserve 1031 Exchange

Here is [redacted]'s answers to the questions concerning [redacted]

[redacted]

Comment on #2 yr holding period

-----Original Message-----
From: [redacted]
Sent: Monday, April 02, 2001 9:21 AM
To: [redacted]
Subject: RE: Soldier Creek Preserve 1031 Exchange

Andy:

Question 1:

[redacted] if you are acquiring the property without any other transaction going on. For example, could there be a bargin purchase element on any of the replacement properties for which the seller is getting part sale and part contribution? If this is the case, then the purchase price may not be representative of fair market value. [redacted]

Question 2:

[redacted] I would suggest waiting the two-full years or as long as possible, within the two-year time period, to dispose Eastman or any of the other properties purchased as "replacement" property.

Please let me know if you have any other questions.

[redacted]

-----Original Message-----
From: [redacted]
Sent: Monday, April 02, 2001 9:49 AM
To: [redacted]
Cc: [redacted]
Subject: Soldier Creek Preserve 1031 Exchange

[redacted]

[redacted]

We have a couple of questions concerning replacement properties for the 1031 exchange.

1. ~~Since we are electing to use the 200% rule, must we choose from the fair market value for each property identified in addition to the legal description, can we use the purchase price as the fair market value, or is there some other supporting documentation that we need to have to support the fair market value?~~

2. Is there any "holding period" for the replacement properties if we wanted to use one or all of the replacement properties to effect another 1031 exchange? For example, if we wanted to sell the Eastman property before January, 2003, could we do another 1031 exchange with it, and if so, is there a period we need to hold Eastman before selling it for another 1031 exchange?

I will be out of the office beginning on Wednesday, April 4th, and not returning to the office until Monday, April 23rd. I will not be checking my e-mail or voice messages during that period so if you could respond to [redacted] as well as me, I would appreciate it since she will be handling matters related to this 1031 exchange while I am away. For your information, the Identification Statement for the replacement properties will be FAXed t[redacted] and [redacted] on April 13th and [redacted] will FAX you a copy as well.

Thanks for all your help on this matter.

[redacted]
The Nature Conservancy
Western Resource Office
2060 Broadway, Suite 230
Boulder, CO 80302

[redacted]

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617-482-5866

PRIVILEGED AND CONFIDENTIAL

Date: March 15, 2001 [redacted]

To: Michael Dennis
General Counsel
The Nature Conservancy
1815 N. Lynn Street
Arlington, VA 22209

Laurel Mayer
California Regional Counsel
The Nature Conservancy
201 Mission Street, 4th Floor
San Francisco, CA 94105

From: [redacted]

Re: Amending Conservation Easements

As you requested, we researched the issue of whether a conservation easement can be amended without jeopardizing its tax-deductible status. In addition, we reviewed the memorandum that you prepared on procedures for The Nature Conservancy ("TNC") to follow when amending conservation easements. We have the following observations and recommendations regarding the amendment of conservation easements.

As you know, the grant of a conservation easement cannot be deducted for federal income tax purposes unless the easement is granted in perpetuity. We understand that in TNC's informal discussions with the Internal Revenue Service (the "IRS"), the IRS has expressed the view that when a conservation easement is amended in a way that reduces the scope of the easement, the easement no longer satisfies this perpetuity requirement and thus loses its tax deductibility. Although we are not aware of any case or ruling directly addressing this issue, we believe that if such an amendment were made to a conservation easement, the IRS would most likely be successful in challenging the tax deductibility of the easement if (i) the amendment was contemplated at the time the easement was originally granted and/or (ii) the landowner did not fully compensate TNC (in cash or other consideration such as additional conservation easements on other property) for the increase in the value of the land to the landowner as a result of the amendment and for any diminution in the value of the conservation easement to TNC as a result of the amendment.

ATTORNEYS AT LAW
Three Embarcadero Center
San Francisco, California 94111-4067
Tel. (415) 393-2000 Fax (415) 393-2286
www.mccutchen.com
San Francisco Los Angeles Walnut Creek Palo Alto Taipei

In both of these instances, the IRS would have solid grounds for arguing that the original grant of the easement was not made in perpetuity. Furthermore, in the latter instance, TNC would run the risk of violating the tax-law prohibition against conferring a private benefit, and even if the applicable statute of limitations had run with respect to the original grant of the easement, the landowner might nevertheless have to recognize income under the so-called "tax benefit" rule.

We believe, however, that so long as an amendment reducing the scope of a conservation easement (for example, to permit the construction of an additional dwelling on a property) was not contemplated at the time the easement was granted, such an amendment should probably not affect the tax deductibility of the original grant of the easement provided that (i) the landowner fully compensates TNC for the increase in the value of the land to the landowner as a result of the amendment and for any diminution in the value of the conservation easement to TNC as a result of the amendment and (ii) TNC determines that the amendment will not have a significant adverse effect the conservation interests associated with the property.

Provided that full compensation is paid, this approach prevents the landowner from receiving a financial windfall with respect to the original grant of the easement (i.e., because the landowner has fully compensated TNC for the amendment, the landowner has not, in retrospect, received the benefit of an inflated charitable deduction) and also enables TNC not to run afoul of the prohibition against conferring a private benefit. Moreover, as discussed below, we believe this approach also is consistent with the approach taken in the Treasury regulations for dealing with extinguishments of easements and with easements involving the retention by the landowner of certain rights that may impair the conservation interests associated with the property.

The Treasury regulations provide that under certain conditions, a conservation easement can be extinguished without causing the original grant of the easement to fail the perpetuity requirement and thus lose its tax deductibility. One of these conditions is that upon an eventual sale of the property, the donee organization receive a portion of the sales proceeds equal to the proportionate value that the perpetual conservation restriction at the time of the gift bears to the value of the property as a whole at the time of the gift. See Treas. Reg. § 1.170A-14(g)(6). If the donee organization is entitled to be so compensated, then extinguishment of the easement does not cause the perpetuity requirement to be violated.[1] We believe the fact that the Treasury regulations permit extinguishments so long as, among other things, the donee organization is ultimately compensated for the value of the original easement supports the approach we have recommended above for the amendment of conservation easements.

[1] We understand that in TNC's informal discussions with the IRS, the IRS has been receptive to the idea of a partial extinguishment. A partial extinguishment might be a useful alternative to an amendment if the Treasury regulations did not require a judicial proceeding to extinguish a conservation easements. We believe this "judicial proceeding" requirement clearly limits the practical use of partial extinguishments (as well as complete extinquishments).

21316871_5

The Treasury regulations also permit a landowner granting a conservation easement to retain rights the exercise of which might impair the conservation interests associated with the property. See Treas. Reg. § 1.170-14A(g)(5). For example, a landowner may retain the right to build additional homes or roads on his property (i.e., rights whose exercise might impair conservation interests) without jeopardizing the tax deductibility of the conservation easement he is granting (though such retained rights could reduce the amount of his tax deduction). Before exercising a retained right, the landowner is required by the Treasury regulations to notify the donee organization in writing. Moreover, the donee organization must have the right to inspect the property to verify compliance with the conservation restrictions, and the right to enforce the conservation restrictions by appropriate legal proceedings. We believe the approach we have recommended for the amendment of conservation easements (i.e., requiring TNC to determine that the amendment will not have a significant adverse effect on the conservation interests associated with the property) is consistent with the approach taken in the Treasury regulations regarding the exercise of retained rights.

When negotiating future conservation easements, TNC may in certain instances want to go to considerable lengths to encourage landowners to consider carefully what specific property rights they want to reserve. Reserving rights at the time of the original gift could avoid the need to amend a conservation easement later. The reserved rights should of course be consistent with the conservation purpose of the easement, and the landowner should understand that retaining rights may reduce the amount of his tax deduction.

Finally, your memorandum states that it is TNC's position that an amendment that places an additional restriction on a property already protected by a conservation easement is no different than placing an additional conservation easement on the property. A recent U.S. Tax Court decision supports this position. In *Strasburg v. Commissioner of Internal Revenue*, the court held that an amendment to an existing conservation easement where the donor was giving up the right to build an additional home on the property constituted a qualified conservation contribution for which the donor was entitled to a deduction. 79 T.C.M. (CCH) 1967 (2000). Under *Strasburg*, a landowner who retained rights at the time of the granting of the original conservation easement should be able to receive an additional tax deduction if he later relinquishes those retained rights to the donee organization.

We hope these observations and suggestions are useful. Please call us if you have questions, and please keep us informed on your discussions with IRS regarding amendment of conservation easements.

21316871_5

[redacted]
(202) 429-[redacted]

January 31, 1992

DRAFT

Michael Dennis, Esquire
General Counsel
The Nature Conservancy
1815 North Lynn Street
Arlington, Virginia 22209

Dear Mike:

As you requested, we have considered alternative ways in which a combined purchase/donation to The Nature Conservancy could be implemented. This letter presents two alternatives which come within the general outlines we have been discussing for the transaction, and explains the advantages and disadvantages, if any, of each.

Our understanding of the nature of the transaction is as follows. The donor/purchaser, an individual whose legal residence and domicile are in the State of Georgia, has proposed to purchase approximately 75 percent of the property known as the Gray Ranch in New Mexico which is presently owned by The Nature Conservancy. The Nature Conservancy's basis in that land is within the range of $20-21 million. The donor/purchaser is willing to make a $15 million commitment to The Nature Conservancy in exchange for the 75 percent interest in the property. As a condition of the conveyance, The Nature Conservancy will place conservation restrictions on the land. Prior to the conclusion of the transaction, a current written appraisal will be obtained to determine the fair market value of the 75 percent interest subject to the conservation restrictions.[1] For purpose

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[1] We assume that the appraisal will meet the standards of a qualified appraisal prepared by a qualified independent appraiser. See Treas. Reg. § 1.170A-13(c).

of this letter we assume that this appraised value will be $X million.

To the extent that the $15 million commitment exceeds the value of the land subject to the conservation restrictions, the donor/purchaser is willing to make a charitable contribuiton to The Nature Conservancy of the difference between $15 million and the appraised value of the land. The $15 million will be paid in installments, based on a schedule to be set forth in the purchase/gift agreement(s). The donor/purchaser has indicated a willingness to execute promissory notes for the full $15 million, provided that the note evidencing the charitable contribution does not alter the timing of the deductibility of the donation. The portion of the price allocable to the land will carry interest at the appropriate applicable Federal rate ("AFR"). The portion of the price allocable to the charitable donation will include additional sums to account for the payment of the donation over time.

We think there are two forms that achieve these results and come within these guidelines:

1. Two simultaneous agreements: a purchase agreement for $X million conveying the 75 percent interest in the land and a separate charitable subscription for $Y million. The land purchase agreement would be secured by assets acceptable to The Nature Conservancy; the charitable subscription could be unsecured, or secured by acceptable assets (e.g. stock).

2. A single agreement for $15 million, with $X million expressly allocated to the land purchase, and $Y million expressly designated as a charitable subscription. The agreement would be secured for $15 million by assets acceptable to The Nature Conservancy.

As a preliminary matter, it appears to us that the payment of an amount in excess of the value of the land does not create any automatic problem under the charitable gift rules. Donors commonly engage in "bargain sales," selling property to a charity for an amount less than fair market value. The "bargain" is recognized as a charitable donation, and is deductible by the donor. Our situation is simply the reverse of the bargain sale.

Similarly, in a bargain exchange, donors give valuable property to a charity in exchange for less valuable property.

The Internal Revenue Service (the "Service") acknowledges the deductibility of the excess value given to the charity. Our situation is very similar, except that instead of giving property with an excessive value, our donor will give money in excess of the property's value.

That is the result in another recognized form of charitable giving, the gift annuity. There, a donor purchases an annuity from a charity for a price that exceeds the price of a comparable commercial annuity. The excess payment constitutes a charitable gift, deductible in full in the year of purchase. The gift annuity is analogous to our situation, because an amount will be paid that exceeds the fair market value of the land purchased.

We receive comfort from the fact that the Service recognizes and respects that gifts can occur in combination with an arm's length transaction. No reason occurs to us for dissimilar treatment where the donor receives less than fair market value to dispose of property and where the donor pays more than fair market value to acquire property.

Based on the foregoing, it appears that there is little risk that the Service will refuse to acknowledge the gift portion of a transaction that appears to combine both purchase and gift elements. And as we discussed, the charitable donation will be deductible as payments are made, irrespective of whether the gift is evidenced by a secured or unsecured note and/or subscription agreement.

Form 1

By creating separate obligations for the donor, separate agreements may evidence the parties' intention that there are distinct elements of the transaction. It is unclear that any significant advantage is gained since the Service is unlikely to deny that a gift has occurred. Adopting a format to separately establish the gift may be an unnecessary precaution. On the other hand, separate agreements may provide better evidence of the parties' view of the relative value of the land and the charitable gift.[8]

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[8] There is always a risk that the Service will ignore the form selected, and will recharacterize the transaction in a manner it considers more consistent with the substance of the transaction. For example, even if we execute separate agreements for $X

(continued...)

If separate agreements are executed, the land purchase agreement would be supported by a promissory note, containing a schedule of payments and reciting the appropriate AFR interest.[1] The promissory note should also provide The Nature Conservancy with a security interest in assets acceptable to The Nature Conservancy in the event of default in payment.

We believe the gift should be made in the State of Georgia and that the gift should take the form of a charitable subscription, or pledge, reciting the donor's promise to pay the stated amount. A payment schedule may be set forth. By taking the form of a charitable subscription or pledge, The Nature Conservancy will be in a better position to enforce the pledge. See O.C.G.A. § 13-3-44 (1991) (adopting Restatement of Contracts, 2d, § 90(b) and providing that a charitable subscription is binding under section 90 "without proof that the promise induced action or forbearance").[2]

Given that charitable subscriptions are enforceable in Georgia, it may not be critical to have the pledge secured. However, securing the pledge with property of similar value

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[1] (...continued)
million and for $Y million, respectively, the Service may assert that those agreements are actually a single agreement for $15 million. Thus, there may be no actual advantage to structuring the transaction in this way.

[1] If the agreement does not provide for adequate stated interest, additional interest will be imputed, and the principal portion of the purchase price will be reduced. Under our facts, that would support an argument by the Service that, in lieu of reducing the principal amount, some portion of the gift should be allocated to the land purchase.

[2] By contrast, Virginia has not codified the Restatement rule, and its courts have yet to decide whether the rule should be adopted judicially. See Stone Printing and Mfg. Co. v. Dogan, 234 Va. 163, 360 S.E.2d 210 (1987). Moreover, some state courts have rejected the Restatement rule. For example, Maryland courts have refused to enforce charitable pledges absent legislative adoption of the Restatement. Maryland Nat'l Bank v. United Jewish Appeal Federation, 286 Md. 274, 407 A.2d 1130 (1979). In view of the uncertainty under Virginia law, the pledge should provide expressly that it is to be governed by the law of Georgia.

demonstrates the parties' bona fide belief in the relative value of the land and the gift. A security interest also gives added comfort (and may be procedurally simpler) in the event that the donor defaults on the gift agreement.

Form 2

As noted, it is doubtful that the Service would deny the existence of a gift simply because a single transaction combines a purchase and a gift. Therefore, there is little reason not to use a single agreement to effect the purchase/gift. The charitable gift would be structured under the agreement as a charitable subscription or pledge to take advantage of Georgia law. As in Form 1, the agreement would carry a promissory note, secured by assets acceptable to The Nature Conservancy and stating adequate interest.

A single agreement for the purchase/gift would have to spell out expressly the parties' intended allocation of the purchase price between the land and the gift. We should note that, regardless of that allocation, there is always the risk that the Service will challenge the appraisal and the resulting allocation, and assert that a greater portion of the $15 million purchase price is allocable to the land.[3] While The Nature Conservancy would still be entitled to $15 million, the donor runs the risk of having a smaller charitable deduction.[4]

While Form 1 is our preferred form, we are not opposed to either of the formats described.

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[3] Since the purchaser and The Nature Conservancy are not related parties, ordinarily the price bargained for by the parties would set fair market value. Where the parties contend that the fair market value is less than the amount being paid, with a gift element constituting the excess, the Service has some room to challenge the allocation of the price between the sale and the gift.

[4] If the Service successfully contends that the value of the land is greater than $X million, thereby reducing the charitable donation, the donor's basis in the land would be increased dollar for dollar.

If you have any questions, or we can be of further assistance, please let me know.

Sincerely,

[redacted]

WILSON & COMPANY, PSC
Certified Public Accountants

[illegible] East St. Vernon Street
Post Office Box 1120
Somerset, KY 42502

Telephone [illegible]
Facsimile [illegible]
Internet [illegible]

March 2, 19999

Michael Hatter
The Nature Conservancy
642 West Main Street
Lexington, KY 40508-2018

Dear Mike:

As you requested, we are writing to outline the estimated tax effect of liquidation of Lost Island, Inc. (a Kentucky corporation).

Based on the appraisal letter you furnished and assuming 100% of the value ($15,000) represents gain to the liquidating corporation and the Corporation has no other assets, liabilities or transactions, the tax liability to the Corporation should be $600 Kentucky income tax and $2,250 federal income tax. The total tax should not exceed $2,850. [redacted]

It may be possible to reduce the income tax somewhat if we can determine the cost of the real estate in the hands of Lost Island, Inc. The estimate we present here should be worst case.

Please contact us if you need additional information.

Very truly yours,

WILSON & COMPANY, PSC

[redacted]

WILSON & COMPANY, PSC
Certified Public Accountants

[illegible]
[illegible]
[illegible]

[illegible]
[illegible]
[illegible]

July 19, 1999

Michael Hatter
The Nature Conservancy
642 West Main Street
Lexington, KY 40508-2018

Dear Mike:

As you requested, we are writing to outline the estimated tax effect of liquidation of Clear Lake Club, Inc. (a Kentucky corporation).

Based on our discussion, the only asset of the corporation is real estate with a fair value of $350,000 and basis (cost) of $7,500. Liquidation of the corporation will cause recognition of corporate level gain of $342,500. The resultant income tax will be approximately $23,500 Kentucky and $131,500 federal, for total tax of $155,000. [redacted]

The tax estimate we have calculated does not consider any other transactions, assets or liabilities that Clear Lake Club, Inc. may have.

Please contact us if you need additional information.

Very truly yours,

WILSON & COMPANY, PSC

[redacted]

c: [redacted]

[illegible]

a) liquidation by TNC

In computing the liquidation tax I made the following assumptions:

fmv of land = $350,000

cost basis of land = $7,200, based upon title insurance policy purchased by Clear Lake Club, Inc. in 1953

The liquidation tax is computed as follows:

$350,000 - $7,200 = $342,800 x 34% = liquidation tax of $116,552

TNC has spent $52,359.80 to acquire 2 shares of the corporation ($28,193.80--Igert + $24,166--[redacted] Family Trust). TNC will spend an additional $87,498 to acquire the 3 outstanding shares. TNC's grand total is $139,857.80 to acquire 5 shares.

This amount does not include direct expenses (legal fees, safe deposit box fees, title insurance, travel related to acquisition, phone, overnight mail, cost of preparing tax return, cost of corporate document preparation and filing, etc.) Mike, refer to the TDR for the direct expenses charged to the project budget center. [redacted] can help you with any overnight mail, postage or copying charges that originated in my office.

Assume that total direct expenses are $10,000. $10,000 + $116,552 liquidation tax + $139,857.80 to purchase the 5 shares not donated = $266,409.80. This is the estimated amount that TNC should charge the state (plus overhead and interest on amounts advanced to the project, if recoverable.)

Sequence of events - liquidation

1) TNC acquires all shares of Clear Lake Club, Inc.

2) Liquidate:

- prepare corporate legal documents--minutes, resolutions, etc. necessary to appoint new officers and directors, vote to liquidate, etc. [redacted] has started some of this work.

- prepare a final corporate tax return for Clear Lake Club, Inc. showing the liquidation. [redacted] can do this. He should compute the tax--the above amount is my best estimate. TNC will order a check to send to the IRS when tax return is filed.

- sign deed for land from Club to TNC. TNC purchases title insurance policy. Record deed. Sign deed from TNC to state.

3) Deliver deed to state. Pick up check to TNC from state.

Letter of intent.

Mike, I would like to have [redacted] (or other appropriate person) a[redacted] sign a letter of intent (or a letter of confirmation accompanied by an invoice, if letters of intent are not used) to confirm that the state will reimburse the following transaction expenses incurred by TNC in order to deliver clear title: cost of purchasing 5 shares, cost of liquidation tax, direct expenses (list them--phone, overnight mail, title insurance, etc.) overhead (if recoverable) and interest (if recoverable.)

We need to document that TNC is not making a profit doing business with a government agency. Because the corporate liquidation tax is an expense TNC must pay, it is not technically part of the cost of the land. If the state prefers a lump sum amount that is fine, but I want the file to document the breakdown.

Timing.

Ideally TNC will spend the $87,000+ to acquire the additional shares at the same time the state is ready to deliver the check to TNC. Let's discuss the sequence/timing of the state's approval/payment process so we can coordinate spending/reimbursement.

[redacted] suggested that TNC attempt to give the 3 remaining share owners a note instead of cash, with a promise to pay the cash as soon as the state reimburses TNC for the land. If any of the remaining share owners are agreeable, this would save TNC interest charges.

b) Set up a title holding company.

The second alternative. Under section 501(c)(2) of the Internal Revenue Code, corporations are exempt from tax if they are organized for the exclusive purpose of holding title to property, collecting income therefrom, and turning over any income to another tax exempt organization.

TNC could apply for a determination that Clear Lake Club, Inc. is a 501(c)(2) organization. The idea of applying for 501(c)(7) status (pleasure, recreation club) won't fly because TNC cannot show that it is a pleasure or recreation club nor is TNC in the business of pleasure or recreation.

TNC is currently using the 501(c)(2) strategy for other projects. In the other projects, TNC is working to acquire assets of corporations that have already received IRS determination as tax exempt.. Because Clear Lake Club's federal tax status is undetermined, it is a weaker candidate for using this strategy.

In addition, in the Axe Lake project there is enough margin between the fmv and TNC's transaction costs to cover all costs of the project, assuming [redacted]s willing to reimburse TNC

for the liquidation tax. This alternative is not available in the other projects. Because TNC has an alternative, Mike prefers to not rely on the 501(c)(2) route.

The steps of the 501(c)(2) route are 1) acquire all shares; 2) apply for 501(c)(2) status; 3) get IRS determination letter; 4) if determined tax exempt, sell land to the state. There would be no tax liability whatsoever. If determined not tax exempt, pay tax, file tax return, sell land to state.

Lost Island Club Corporation

TNC will need to follow the liquidation sequence here as well. We need to determine the cost basis of the land. TNC has paid $5,000 to acquire 1 of 3 outstanding shares, and received the other 2 shares as gifts.

Please talk with me about the steps for tracking down corporate records--we have only a copy of the articles of incoporation dated 1965. We need to contact [redacted]--is there a title policy for Cashe Island? or any other record of what the club paid for the land?

Mike, please set aside some time and give me a call to discuss. [redacted] thanks again for your assistance.

ky/axetax.mem

[redacted]

Bighorn Foothills - PK Ranch
TNC

From: [redacted]
Sent: Monday, April 21, 2003 10:16 AM
To: [redacted]
Cc: [redacted]
Subject: FW: Soldier Creek Preserve

per our conf call this morning, here is the summary of UBIT tax estimates [redacted] for SCP--
I'll follow-up with an email to [redacted]
Becky
p.s. [redacted] starts maternity leave tomorrow, so please copy [redacted] on all WYFO matters/correspondence going forward. [redacted] would you please let all of WFYO know?

-----Original Message-----
From: [redacted]
Sent: Friday, April 11, 2003 3:41 PM
To: [redacted]
Cc: [redacted]
Subject: Soldier Creek Preserve

[redacted]

Attached are the projected tax calculations on the sale of appreciated assets followed by a liquidation of SCP under various scenarios that we discussed.

Also attached is a memo that outlines the assumptions that we used for the calculations. Please let me know if you require additional scenarios added to the calculations or if you have any questions.

Have a great weekend!

<<assumptions.doc>> <<tax basis calc_tnc.xls>>

[redacted]
Director
National Real Estate Tax Services

[redacted]
Deloitte & Touche | 701 "B" Street, Suite 1900 | San Diego, CA 92101-8198

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Deloitte & Touche LLP
701 "B" Street, Suite 1900
San Diego, Ca 92101-8198
USA

Tr (619) 237-6586
Fa (619) 615-4932
www.deloitte.com

Memo

Deloitte & Touche

Date: April 11, 2003

To: The Nature Conservancy

From: [redacted]

Subject: Soldier Creek Preserve

Facts: Soldier Creek Preserve ("SCP"), a wholly owned subsidiary of The Nature Conservancy ("TNC"), is contemplating the sale of certain appreciated assets, to be followed by a liquidation of the corporation. Any remaining assets and liabilities would be distributed to TNC in the liquidation.

Income, gains, losses and deductions that arise from the ownership of an S Corporation by a tax-exempt entity including the disposition of the stock, is considered to be an unrelated trade or business under Internal Revenue Code Section 512(e).

Issue: What are the tax consequences to TNC of SCP's present intent to sell appreciated assets followed by a complete liquidation?

Conclusion: The attached calculations reflect the tax consequences under various scenarios. The calculations were based on the following assumptions:

- Fair market values of the real property held by SCP was provided by TNC;
- TNC has no other means of sheltering the gains realized from the sale of property and/or the liquidation of SCP;
- SCP has no prior C Corporation earnings and profits;
- All calculations assume that the sales and/or liquidating distributions occur within the same tax year. If the sales and/or liquidating distributions occur in different tax years, the results would materially differ from the calculations presented;
- The tax basis of the stock and the gain on the sale of assets is based on information through December 31, 2001, as information for the tax year 2002 is not yet available. The taxable income or loss (excluding the gain on sale or the distribution of properties) for the period beginning January 1, 2002 through the date of liquidation will impact the stock basis therefore, the actual income tax calculations may differ from the current presentation;

- The gains realized on the projected sale of property exclude selling expenses (commissions, etc.) that would be deductible for income tax purposes. As these costs have been excluded from the calculations, the tax amounts are conservative estimates of any actual tax liability;

- All other assets and liabilities (excluding real property) were assumed to have a fair market value equal to the net tax value and therefore no gain or loss was calculated on those items;

- The intercompany liability of $1,558,224 (as of December 31, 2001) will require repayment before the liquidation of SCP. Alternatively, this amount could be contributed to the capital of SCP. The contribution of the intercompany liability would increase the stock basis and capital loss realized on the complete liquidation of SCP;

- The state tax rate was assumed to be 6%. The federal tax calculation assumes a 34% rate, tax-effected for a state tax deduction;

- If SCP elects not to liquidate, but sells certain appreciated assets, the gain realized on the disposition of the property could be deferred under IRC Section 1031 (like-kind exchange) if replacement property is acquired by SCP under the prescribed time limits.

cc: [redacted]

'er Creek Preserve (FKA "PK Ranch Company")
ated Tax Projection Calculation on Various Scenarios

cenario 1
No property is sold and all is distributed to TNC in liquidation

eginning Tax Basis of TNC (as of 12/31/01)	8,889,161
otal Gain on Distribution - Section 311(b) / 337	12,048,851
istribution	(13,197,992)
apital Loss on Liquidation	7,740,020
ain from Property Sales/Corporate Liquidation	12,048,851
ess Capital Loss on Liquidation	(7,740,020)
et Capital Gain on Liquidation	4,308,831

ax on distribution of appreciated property - Section 311(b) / 337

'ederal	34.0%	1,377,102
State	6.0%	258,530
Total Tax		1,635,632

cenario 3
Like-Kind Exchange

this scenario, no property is distributed and SCP does not uidate. To the extent that there are property sales, like-kind changes can be completed to defer the tax, so long as the net oceeds generated from the sale will be reinvested in like-kind change property.

Scenario 2
[redacted] roperties are sold and the remaining properties are distributed to TNC in complete liquidation

Beginning Tax Basis of TNC (as of 12/31/01)	8,889,161
Gain on Sale of [redacted]	6,205,250
Gain on Distribution of remaining properties	5,843,601
Less Distribution of Sales Proceeds	(6,900,000)
Less Distribution of Property:	
[redacted]	(41,992)
[redacted]	(1,173,000)
[redacted]	(3,300,000)
[redacted]	(1,783,000)
Capital Loss on Liquidation	7,740,020
Gain from Property Sales/Corporate Liquidation	12,048,851
Less Capital Loss on Liquidation	(7,740,020)
Net Capital Gain subject to UBI tax	4,308,831

Tax upon Sales of Property/Liquidation -Section 311(b) / 337

Federal	34.0%	1,377,102
State	6.0%	258,530
Total Tax		1,635,632

Total Proceeds from Sales of Properties	6,900,000
Less estimated UBI tax	(1,635,632)
Net Proceeds to TNC	5,264,368

Melissa Hansen

Purgatoire - Chancellor
TNC

From: [redacted]
nt: Friday, September 27, 2002 3:42 PM
: m[redacted]g
Cc: [redacted]
Subject: Chancellor Memo

542319-1_.doc Static copy of MMoreheadBPierc...

Hello all-

Attached below is an updated memo (542319-1_1.doc) from our outside counsel, [redacted] at Isaacson, Rosenbaum, Woods & Levy in Denver, which addresses some of the outstanding tax, securities, and real estate filing issues for the Chancellor project, which is coming before the Board of Governors next week. I have also attached below a prior memo (Static copy of [redacted]) from [redacted] dated May 23, 2002 which addressed several of these matters.

I think the memo fairly reflects the law and a reasonable interpretation thereof; however, I believe that there are two areas which could use more emphasis in consideration.

The first is the issue of "re-assemblage" of the individual lots after all development rights have been extinguished. As [redacted] notes in the memo, there are concerns both from a securities and a tax perspective regarding the possible sale of tax credits under the Colorado tax credit statute. The gray area exists in determining whether there is any pre-conceived expectation or notion of re-assemblage, and I urge to consider carefully how [redacted]s may be interpreted or perceived.

The second area involves registration with the Colorado Real Estate Commission. It is my understanding that sales of 20 or more lots (whether in one or several phases) requires such registration. The registration form is not difficult but it does require disclosure of certain matters by the principals of the applicant - i.e. The Nature Conservancy, a District of Columbia nonprofit corporation - not just the local field office. I raise this because I recall this was an issue for the TNC principals when we were considering an application for a Colorado liquor license at the Medano-Zapata, and such application required similar disclosures.

Both [redacted] and I are available Monday if you have any concerns concerning this memo.
Thanks-
Becky

NTON D. ROSENBAUM
A. WOODS
EL L. LEVY
EVEN G. WRIGHT
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JOSEPH J. STOLLAR (1946-1984)

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MEMORANDUM

TO: [redacted]

CC: [redacted]

FROM: [redacted]

DATE: September 27, 2002

RE: May 23, 2002 Memorandum re Availability of Colorado Conservation Income Tax Credits

You have asked us to expand on several issues related to the May 23, 2002 memorandum that I wrote to you re "Availability of Colorado Conservation Easement Income Tax Credit In a Southeast Colorado Limited Development Transaction." A copy of the May 23, 2002 memorandum is attached and should be read in conjunction with this memorandum.

Prior to addressing those issues, I want to discuss a September 20, 2002 Internal Revenue Service National Office Legal Advice Memorandum for Area Counsel which raises, but does not answer, several issues regarding the Colorado income tax credit for the donation of a conservation easement. The first and most significant issue raised is "whether, to the extent a taxpayer is effectively reimbursed for the transfer of the easement through the use, refund, or transfer of the credit, that benefit is a *quid pro quo* that reduces or eliminates a charitable deduction under § 170." An affirmative response to this question would throw the availability of the Colorado income tax credit into some confusion because of House Bill 02-1098, passed this year by the Colorado Legislature. It requires that for a Colorado income tax credit to be claimed the conservation easement must also qualify as a qualified conservation contribution under Section 170(h) of the Internal Revenue Code and the applicable Treasury Regulations.

The remainder of the legal Advice Memorandum raises questions about whether the credit received results in a capital gain to the donor of the conservation easement and related

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issues. These remaining issues, while not going to the very availability of the credit as does the first issue discussed above, could have a material effect on the economics of a transaction involving the credit. The office issuing the Legal Advice Memorandum has recommended that the questions it has raised be addressed in published guidance, which would have to be approved at higher levels of the Internal Revenue Service.

Consequence of Purchase of a Parcel by a Board Member

The first question asked was whether a board member of the Colorado chapter of The Nature Conservancy could purchase one of the proposed parcels. We believe that with appropriate cautions, a board member could do so. A tax-exempt organization is not prohibited from selling an asset to an insider such as a board member, provided it is at a fair and reasonable price without special concessions not offered to the general public. One could anticipate, however, that added scrutiny would be applied in that type of circumstance. That requires that the parcels be appraised carefully so that the sale values can be defended, whether that sale is to an insider or to a member of the general public. An additional consideration may be that a board member who believes it is reasonably likely that they would participate in this project by the purchase of a parcel, may want to recuse themselves from the review and approval of the structure of the project, and should certainly recuse themselves from the process of valuing and setting sale prices for the various parcels.

Further Description of the "Collapsing of a Transaction" and Additional Discussion Regarding Reassemblage of the Property

It should be expected that the structure of this transaction will be reviewed as to its "substance" and not as to its "form." That means where additional steps are created in a transaction for no reason other than to generate a tax benefit, or where there are elements of a transaction for which there is no underlying economic reality, additional scrutiny of the transaction would look past those items to the substance of what really occurred. A donor of money to The Nature Conservancy who only receives title to the property temporarily in order for them to place a conservation easement and therefore generate a tax credit, before allowing The Nature Conservancy to reassemble the property, includes a step (the transfer of title) which occurs for no reason except to generate the tax credit. Conversely, a sale of a parcel to a "buyer," where the paper trail is clear that it is their intention to be a buyer of property and not just a donor of money, would naturally include the step of transferring title to property. This relates to my prior caution that "prospective parcel owners should be approached as 'buyers' and not as 'donors.'"

In giving additional thought to a right of reassemblage and whether that was possible, I am still nervous about formalizing a reassemblage plan. If a right of repurchase can be exercised after a parcel owner has made the donation of a conservation easement, it would give credibility to the characterization that this was simply a "loan" of the property to a party to generate tax credits. If a right of repurchase exists which could be exercised to prevent a purchaser from

building a home, it contradicts the position that purchasers are free to either build a home or donate a conservation easement. I would be concerned about these issues regardless of whether it was a contractual right of repurchase or something less direct, such as the ability to walk away from the property before a balloon loan payment was due on a loan from The Nature Conservancy.

A better program of reassemblage might be not to raise the issue during this first stage of the project. A purchaser of a parcel who donates a conservation easement and eliminates any building right does have property which is of limited use to them. Following those events, they may approach The Nature Conservancy on an unprompted basis that they prefer not to retain title. A suggestion at that time that the fee title could be donated to The Nature Conservancy or a donation could be provided for in their will may accomplish almost as much as a right of repurchase, without the possible taint on the structure of the transaction.

Unrelated Business Income

You have asked that we advise you about our view of whether the sale of these parcels would create unrelated business income for The Nature Conservancy. For such income to be from an "unrelated" trade or business it would have to be "not substantially related (aside from the need of such organization for income or funds or the use it makes of the profits derived) to the exercise or performance" of the organization of its charitable purpose. Our belief is that you can make a good case that the sale of these parcels is substantially related to the charitable purpose of The Nature Conservancy. That position can be enhanced if the sale of the parcels is a part of the land preservation project and not just a manner of raising money for it. Tying the conservation values of the parcels to the conservation values of the whole project, specifying the location of the building envelopes, and the creation of a community, albeit it limited in size, that helps monitor and foster the conservation values of the property, would all be helpful in establishing that substantial relationship.

A second consideration regarding this issue should be whether any income is actually going to be generated by the sale of these parcels. Allocating the purchase price of the project to specific parcels to determine a basis for each parcel is important. If they are not sold at a value higher than that basis, then it may be that no income is realized.

Securities Law and Colorado Subdivider Requirements

We have been asked to advise whether we believe the proposed structure of this transaction, now described to us as eighteen (18) or nineteen (19) parcels initially with the potential of another 18 or 19 parcels in a distinct second phase, causes any concern regarding securities issues. The definition of a security is a common scheme, with an expectation of profit, based on the reliance of the actions of others. It does not seem to us that the sale of the parcels would fall within that definition. However, the fact that this is the sale of real property on an

individual parcel basis does not settle the issue. We assume that the marketing of these parcels will not include any communication which would create an anticipation for an increase in value of the properties because of the actions of The Nature Conservancy. As an example, marketing these properties as "great investments, which will increase in value because they will be next to permanently-protected open space owned by The Nature Conservancy" could result in crossing the line from sales of individual parcels of property to individual purchasers, to a common scheme of sales with an expectation of profit based on actions that The Nature Conservancy is going to take.

We have not been asked to address any issues of registration as a consequence of the sale of these parcels, but would like to briefly comment. C.R.S. § 12-61-401, *et seq.* requires registration as a subdivider for the sale of twenty (20) or more parcels. There is no stated exemption for doing more than twenty in distinct phases. Therefore, the conservative course of action, because a violation is a Class 6 felony, will be to register. The Interstate Land Sales Act exempts sales of less than twenty-five (25) parcels from the provisions of the Act, and exempts less than one hundred (100) units from registration but not from its advertising and marketing requirements.

How to Market the Property

We have also been asked about our thought regarding the marketing of these parcels regarding the choices of constructing the home which would be permitted within each parcel versus the donation of that right by the imposition of a conservation easement. This is an area where I believe that extra caution must be exercised. I believe it is acceptable to inform people of the choices that they have as the purchaser of one of these parcels. Those choices include building a home, donating a conservation easement and eliminating the right to build, or doing neither. It is essential that there is no expectation communicated verbally or in writing to the lot purchasers that there is an obligation, albeit moral and not legal, to donate the conservation easement and eliminate the ability to build a home. The lot owners must have the right to make an independent, uncoerced, decision regarding their choice to build or donate a conservation easement. The Nature Conservancy must have only one position regarding this, and not an "official" position and "unofficial" position. If the latter exists, a good lawyer in a deposition will bring it to light, and this structure then looks like a tax scheme and not a valid limited development proposal. That will reflect badly on The Nature Conservancy whether or not it has violated the letter of the law.

Concluding Thought

Both this and my prior memorandum have dealt primarily with the legal standards regarding the proposed structure of this transaction. But some comments transcend just the legal issues and include consideration of how the transaction is perceived by others. That bears directly on the credibility and integrity of The Nature Conservancy and is as important as the

initial legal question posed to us. This transaction can be properly handled and be a legitimate limited development transaction. But, if it is a transaction with a hidden agenda regarding the sale parcels, that hidden agenda will become known and this transaction will be perceived as an attempt to use Colorado income tax credits to fund a project of The Nature Conservancy.

/cal

STANTON D. ROSENBAUM
Y A. WOODS
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[redacted]

MEMORANDUM

TO: [redacted]

CC: [redacted]

FROM: [redacted]

DATE: ~~September~~ May 23 27, 2002

RE: Availability of Colorado Conservation Easement Income Tax Credit In a Southeast Colorado Limited Development Transaction

The purpose of this memorandum is to provide our preliminary advice to The Nature Conservancy regarding the availability of the Colorado income tax credit for the donation of conservation easements in a proposed transaction in southeast Colorado.

TRANSACTION SUMMARY

My conceptual understanding of the transaction is that it involves up to approximately 190,000 acres in southeast Colorado. While the bulk of the property would be protected and no development permitted, as a means of assisting in the financing for the purchase of the property, approximately 36-40 parcels of 320 acres each would be sold to individual buyers. Each of those parcels would contain a two-acre building envelope on which could be constructed one single-family house and accessory structures, and the parcels would be generally clustered along existing county roads, so that new roadways would not be required for accessing any of these parcels.

The parcels would be sold initially to a selected group of people with the hope that some them would be sufficiently conservation-minded that they would donate a conservation easement over their parcel which would eliminate the permitted house site. However, there would be no contractual requirement for them to make such a donation.

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The issue we have been asked to review is whether a donor of a conservation easement in these circumstances would be eligible for the Colorado income tax credit for the donation of a conservation easement.

CONCLUSION

Our general conclusion is that a Colorado income tax credit should be available to a donor of a conservation easement on one of the proposed parcels where that conservation easement eliminates the ability to build a home. This conclusion is predicated on the assumption that the donation (presumably back to The Nature Conservancy) is done freely, out of disinterested generosity of the parcel owner, and not by requirement (either express or clearly implied). This conclusion is subject to several cautions discussed below.

ANALYSIS

Comparison to Limited Development Transactions.

Setting aside the issue of the subsequent donation of a conservation easement on each of these parcels, this transaction could be fairly characterized as a limited development conservation transaction. It has all of the elements of that kind of transaction: a large parcel of property; protection of substantially all of the property except for a limited area of development; clustering of the development that is permitted; and use of the development values to help finance a purchase of the property, the bulk of which is protected.

A general cause of concern in the conservation community regarding conservation easement transactions and the Colorado income tax credit has been the proposed division of an entire property into multiple parcels in order to generate multiple tax credits. That type of proposal is inconsistent with the spirit of the Colorado conservation easement income tax credit law, even if it is not clear whether it violates the letter of the law. Such a transaction would result in the complete division of the property into multiple parcels with each parcel intended to generate an income tax credit.

The difference between that kind of transaction and a limited development transaction is that in the former the division of the property is solely motivated by the desire to obtain multiple tax credits. In the limited development scenario, multiple ownerships are created to create value to purchase a larger parcel, all of which is protected except for the small area within which the development can occur. We believe that a subsequent conservation easement on a development parcel within a limited development project can be consistent with the letter and the spirit of the Colorado law regarding conservation easement income tax credits, subject to the important cautions noted below.

Orchestration of Donations.

The manner in which the possibility of a subsequent donation of a conservation is communicated and encouraged for the perspective parcel purchasers is very important. How this is "pitched" to those purchasers can bear on the issue of the validity of the tax credit. If The Nature Conservancy finds 40 potential donors for this project, each of whom is willing to donate $100,000 in cash, as an example, and then each was convinced instead to buy the parcel and make the conservation easement donation (where their effective donation would be the same, but their larger initial expense would be offset by a Colorado income tax credit), it would seem like an orchestrated deal to generate tax credits as opposed to the limited development transaction described above.

While it may sound strange, it will probably actually solidify the ability of these parcel purchasers to generate the Colorado income tax credit if several parcel purchasers decline to make the donation and actually construct a unit in the location permitted. That kind of action would be the clearest evidence available that a parcel purchaser was making an independent donation decision and rebut any claim that the donations were orchestrated.

With regard to the possibility of "orchestrating" donations, I believe that it would be prudent to think about this in terms of letting parcel owners know that The Nature Conservancy would be delighted if they donated a conservation easement to prohibit development on the parcel they purchased, while letting them know that it is their decision whether to make such a donation, and there would be no official or no unofficial consequence for not doing so.

Independent Transactions.

An additional matter to consider is that you will want to have each of these donations done independent of any other conservation easement donation, i.e., have each be free-standing. That would reinforce the notion that each of these conservation easement decisions is an independent donation decision of each parcel purchaser.

When making the donation of a conservation easement for a Colorado income tax credit, as a result of H.B. 02-1098, it is necessary for the conservation easement to comply with the Internal Revenue Code and the Treasury Regulations. That requires that each conservation easement also stand on its own from the standpoint of the analysis of the conservation purposes of each. Those conservation values will need to be specifically identified in each easement.

Valuation Issue.

Related to that is the question of valuation in terms of what is the value that a donor would be giving away by eliminating the ability to build a single-family and accessory structures within a 2-acre building envelope. Assuming that the restriction to a 2-acre building envelope at the time of sale will be by deed restriction, an appraiser will be aware that each individual parcel is already subject to such a restriction. From an appraisal standpoint, it may not be viewed that

any value of consequence is being donated by the conservation restrictions on the portion of the 320 acres not within the building envelope, and that the only real value being donated is the right to build within the building envelope.

It may be prudent to engage an appraiser early in the transaction to discuss conceptually how they would view a conservation easement over a property that is already deed restricted in a manner generally consistent with the conservation easement except for the elimination of the building envelope.

Reassemblage.

In our initial discussion, some thought was given to whether The Nature Conservancy could retain a right of first refusal or other right of repurchase as a means of retaining additional control over the parcels after their initial sale. After further reflection, I do not believe that would be prudent. A right of repurchase (and thus the power to reassemble the property) will make this look as though the parcels were solely being transferred for the creation of the income tax credit. I do not believe that is consistent with the spirit of the law and it could be a transaction that is "collapsed," i.e., looking past the form of a transaction to its substance, and perceived as a "loan" of property solely to generate tax credits.

General Comments.

Having advised you above that our conclusion is that this transaction can be successful in generating Colorado income tax credits for the donation of conservation easements, these additional cautions also should make clear that how you go about it could affect that validity. As a general matter, I would look at this transaction as a limited development project that will be successful in protecting 190,000 acres, even if each of the 36–40 parcels gets developed with a homesite. That is an extraordinarily small amount of limited development given the size of the property and could stand alone as a successful conservation project. With that premise, each time that a parcel purchaser makes a donation of their development right, it would be perceived as a bonus that increases the conservation value of the project, but it is not essential for its success. This attitude would correlate well with my feeling that this transaction, both in reality and perception, must be one where the individual parcel purchasers did have the discretion to make or not make the donation of a conservation easement.

In reviewing this issue, we have not analyzed the question of whether the sale of these parcels creates unrelated taxable income for The Nature Conservancy. For obvious reasons, that issue should be resolved as well.

Summary.

A summary of some of the important cautions is as follows:

- Keep the donation decision an independent decision of the parcel owner.
- Do not create or plan for a "reassembly" right.
- Provide "information" but not "pressure" regarding the conservation easement donation decision and its income tax credit for the parcel owner.
- Prospective parcel owners should be approached as "buyers" and not as "donors."
- Do not "orchestrate" the donation decision in any way, i.e., do not have an "official" position on the structure of the transaction and an "unofficial, off-the-record" version.
- The transactions need to be about selling land and not selling tax credits.
- Be sure there are identifiable conservation values for each parcel to satisfy Internal Revenue Code requirements.

The difference between a limited development project with independent donation decisions and an orchestrated tax credit deal could get fuzzy if these cautions are ignored. If the cautions are observed, the income tax credits should be available to a parcel owner who subsequently donates a conservation easement.

[redacted]

April 21, 2005
Senate Finance Committee Letter

Question 5

Please provide information regarding whether TNC ever entered into any property acquisitions or dispositions for which Colorado conservation tax credits were claimed by a party to the transaction. Specifically, did TNC execute or participant in transactions in accordance with the opinions of May 23, 2002 and September 27, 2002 from Isaacson, Rosenbaum, Woods & Levy on the Colorado conservation tax credit. If so, please provide all the information for each transaction as was requested above in question 1 for the conservation buyer program.

The Conservancy did not execute or participate in the specific transaction referenced in the letters from Isaacson, Rosenbaum, Woods & Levy described in the question above. The project that was contemplated never materialized because the Conservancy made an affirmative decision not to proceed with the acquisition of the property both for reasons identified in the letters and because of a difference of opinion with the seller about the market value of the property. The Conservancy sought the outside legal advice and expertise on the issues discussed in the letter in order to help the Conservancy fully assess the pros and cons that would be faced in the event that it decided to proceed with such a project strategy. Having been presented with the analysis of various considerations in the project, the Conservancy chose not to proceed further. (Please note that approximately one year after the Conservancy withdrew from the project, the State of Colorado, acting through its State Lands Board, acquired the subject property.)

To the best of the Conservancy's knowledge, there are no other Conservancy transactions in Colorado where the Conservancy acquired property in bulk and then resold all or portions of the property with a plan to have buyers maximize state tax benefits. There are however, numerous Colorado projects where the Conservancy has been the donee of conservation easements or lands that advance recognized conservation priorities. In some of those cases, donations are made over a number of years based on the landowner's own personal situation and considerations, to which the Conservancy is not privy. In each year of a multi-year donation, however, the Conservancy evaluates the merit of that year's donation so that each easement has ecological value on its own that is not dependent on completion of future donations. In most cases, the landowners who make such conservation gifts are motivated to do so, in part, because of the tax benefits that accrue in connection with such donations. In Colorado, as is the case elsewhere, the Conservancy follows its internal procedures with respect to not providing tax advice to landowners with respect to the actual tax treatment for or results from a particular conservation transaction.

APPENDIX G

INFORMATION RE: GOVERNMENT LAND SALES

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QUESTION 2: Government

"Please provide a list including dollar amount, brief description of purpose and identification of each grant, contract, appropriation or other financial benefit to TNC conferred by a government agency (and program, example North American Wetlands grant awards, Forest Legacy Grant awards) since January 1, 1998. In addition, please provide a similar listing for grants and contracts received from or given to the National Fish and Wildlife Foundation; the National Forest Foundation; and the National Park Foundation since January 1, 1998."

To the extent that TNC received appropriated dollars from government agencies in the form of grants, cooperative agreements, or contracts, those transactions are covered by the charts entitled "Federal Gov't Agency and Pass-Through Agreements with The Nature Conservancy 7-1-97 – 6/30/02," "State and Local Gov't Agency Awards (State and Local Funds) to The Nature Conservancy 7/1/97 – 6/30/02," "National Fish and Wildlife Foundation Grants to The Nature Conservancy 7/1/97 – 6/30/02," and the narrative explanation of our awards from/to the National Forest Foundation and the National Park Foundation.

There is another category of transactions that could be interpreted as falling under "other financial benefit to TNC conferred by a government agency," but for which no identifying information is available in any of the Conservancy's financial systems. These are projects in which the Conservancy is a recipient of "mitigation" funds from a government agency, e.g. where private entities have been required by law or court order to pay settlement funds, and those funds are managed and disbursed by an agency to the Conservancy to carry out a conservation-related project. Generally, these funds come to The Conservancy without federal, state, or local "grant administration" requirements and do not have to be identified for purposes of the Conservancy's annual OMB Circular A-133 audit. These projects, therefore, are not identified in the Conservancy's financial systems as having come from government agencies.

Recovery of Costs in Government Real Estate Transfers

POLICY:

The Nature Conservancy will recover only its costs when transferring real estate or any interest in real estate to a government agency for a conservation purpose.

This policy is intended to apply to:

- All transactions in which the Conservancy holds title to real estate, or an interest in real estate ("Conservancy real estate"), which is then transferred in whole or in part to the government for a conservation purpose.
- All governments – Includes (i) U.S. federal, state, and local governments, and (ii) foreign governments, and (iii) Native American tribes, corporations and similar entities when using federal, state, or local government funds for a purchase.
- All real estate – Other than real estate expressly excluded below, this policy applies to all Conservancy real estate, regardless of the Conservancy's length of ownership or original intent for the real estate.

This policy does not apply to:

- Non-Conservation Transfers – Transfers to the government of non-conservation real estate and transfers to the government for non-conservation purposes (such as tradelands, rights-of-way, roads, trails) if approved by the Division Director (and subject to the rules on partial sales to the extent applicable).
- Land Exchanges – Transactions where the Conservancy transfers real estate to the government and receives real estate back in exchange.
- Government Assists – Transactions in which the Conservancy does not take title to real estate, but assists the government in acquiring title (including the assignment of options).
- Government Grants and Awards – Real estate acquired by the Conservancy with government grant, contract or other award funds, or real estate purchased with Conservancy funds that is used as a match for a government grant, contract or award. The government rules and regulations related to the grant, contract, or award will govern.
- Leases to the government of Conservancy real estate.

Definition of "real estate": The term "real estate" shall include, but not be limited to, fee title, any undivided or other partial interest, remainder interest, conservation easement, land dedication, lease, water right, mineral right, timber right, development right, restrictive covenant, or other similar real estate interests in land or structures.

Waiver Procedure: In the event that this Policy will result in an unanticipated or unreasonable outcome, the Division Director may submit a written request to an appropriate committee appointed by the President or Chief Conservation Officer for a limited waiver of the Policy. The committee will decide on the waiver request based on the following criteria:

i. The waiver will not violate the intent and spirit of the Policy; and
ii. The waiver accomplishes an important conservation objective; and
iii. The waiver is likely to withstand public scrutiny in light of the overall Policy.

All waivers will be reported to the Board of Governors.

QUESTION 2: Government
NARRATIVE RE: TRANSFERS TO FEDERAL AGENCIES

General

The spreadsheet summarizes specified sales and transfers of land or interests in land from The Nature Conservancy to federal agencies. The transfers (sales, gifts, or exchanges) are for at least $500,000 and occurred between July 1,1998 and June 30, 2003.

The information on this spreadsheet comes from two Nature Conservancy systems -- the General Ledger and the Biological and Conservation Database (BCD). These two systems have been used in order to provide the most complete information available from TNC's systems related to these transactions in response to the Committee's detailed question. The General Ledger was established to meet the requirements of appropriate accounting and auditing standards, and, as such, does not always display numbers in exactly the format requested by the Committee. In those instances where it was appropriate and feasible to do so, we have made manual adjustments to answer the Committee's questions.

The Committee should note that many of the transactions on the spreadsheet represent partial components of a larger project. For example, transfers from the Conservancy to a particular federal agency sometimes will go hand-in-hand with transfers to other federal agencies, state agencies, and other non-profits as well as with the retention of land or rights in land by the Conservancy. In addition, a transfer relating to one of the projects summarized here may have taken place before July 1, 1998 or after June 30, 2003. Costs identified on the spreadsheet related to the transfer of the land are also similarly constrained based on those start and end dates.

Cost of Land/Interest Acquired Column

This column, derived from the General Ledger, identifies the price TNC paid to acquire the land. It is based, however, on the interest in land that was transferred out. For example, if TNC paid $10,000 for 10 acres, and then transferred those 10 acres to a federal agency, $10,000 would be in that column. If TNC only transferred 5 acres out to a federal agency, the General Ledger would contain $5,000, taking the price per acre for the acquisition and then calculating the 5 acre transfer based on that per acre amount. The $5,000 would appear in this column.

Gift of Land/Interest Acquired Column

This figure is taken from the General Ledger. There must be a description of this value in the Conservancy's land transaction file for an amount to be entered here. The Conservancy will not assume that a gift has been made unless credible information is in its possession (e.g. a copy of an 8283, an independent appraisal, or our own internal analysis).

Other Costs of Acquisition and Disposition Column

These figures are taken from the General Ledger. They represent direct and other costs that the Conservancy has incurred to both acquire and transfer the land.

The General Ledger is set up on a "first out" basis. A land project, such as the Cat Island National Wildlife Refuge project in Louisiana, will have a unique cost center in the General Ledger; separate tracts purchased will have separate "subcenters" assigned, to which costs are charged and payments entered. That subcenter could encompass multiple transactions OUT if a tract was transferred out in parts. All of the costs in that subcenter up until the date of the first transaction OUT will be attributed to that first transaction IN. Any costs that accumulate between the first transaction OUT and the second transaction OUT will be attributed to the second transaction OUT, and so forth.

The costs accumulated in a subcenter will relate to the acquisition as it came in; for example, if the Conservancy purchased a 50-acre tract but transferred out only 25 acres, the General Ledger will display the costs relating to the 50 acres. We have adjusted this number to take into account situations where a different number of acres came in and went out or where acres came in as fee and went out as an easement. In the former situation, we determined the percentage of the acquisition IN that went OUT (in our example of 50 acres IN and 25 acres OUT = 50%) and then applied that percentage to the total costs that were in the General Ledger. In the latter situation, we determined the percentage for the price of the easement over the price of the fee acquisition and then applied that to the total costs.

Finally, as a general rule, only the costs that are in the General Ledger as of the end of the Conservancy's fiscal year in which the transfer OUT occurred show up here; i.e. if a transfer occurred on June 1, 2001, costs accrued as of June 30, 2001 would be displayed in this column. Because of this, some costs billed subsequent to the transfer OUT being recorded on the General Ledger, i.e. a later billing for an appraisal, may not be included in this column.

Other Cost Recovery Column

To the extent that costs are separated in the General Ledger, we have separated out the direct and other costs we received as part of the transactions OUT from recovery of costs attributable directly to land.

Amount Donated to Government Column

There are certain transactions in which TNC donated outright land to a federal agency, e.g. #12 -- Hobe Sound Sandhill. Such donation will be displayed on the spreadsheet. This column also displays donations beyond outright donations of land and displays the costs that the Conservancy absorbed in excess of the amount received from a federal agency. The number here is the result of a mathematical calculation, using other spreadsheet columns: (Cost of Land/Interest Acquired plus Gift of Land/Interest Acquired plus Other Costs of Acquisition) – (Land Cost Recovery plus Other Cost Recovery). Given the artificial cut-off date and challenges presented by the "Other

Costs of Acquisition and Disposition" column, these figures should be viewed as providing a snapshot of the financial situation at the time of the transfer OUT for a particular transaction. For example, in the Cat Island National Wildlife Refuge project, transfers OUT have continued after the June 30, 2002 cut-off date, and we have continued to recover costs from the federal agency, reducing the amount shown in this column.

Also, it is very important to note that because the Conservancy generally does not reappraise properties at the time of sale to the federal government, the amount donated column reflects only the book value rather than the fair market value of the property. In cases where the Conservancy has held the land for an extended period of time and the property has appreciated in value, the actual value of the property donated and thus the actual value of the gift is often much more than the amount reflected in this column. For example, in California, in FY 2001, the Conservancy transferred 8,500 acres on Santa Cruz Island to the National Park Service at no cost. The land is carried on the Conservancy's books at $57.70 an acre, which was the value in 1978. On the Conservancy's books, the gift to the National Park Service is recorded at $490,450 (8,500 acres multiplied by $57.70) so it does not even show up on the chart for Question 2 because it is under $500,000. The National Park Service estimated the land's value at the time of donation to be $25 million.

Appraisal at Time of Sale Column and Proof of Compliance with Federal Appraisal Standards Column

The Conservancy does not obtain an appraisal at the time of transfer. Federal law places the obligation for valuing intended purchases on the federal agency. If the Conservancy received a "Statement of Just Compensation" from the federal agency that was acquiring the land/interest from TNC, we have assumed that the Federal Appraisal Standards have been met.

Form 990 Valuation Amount Column

The figure put in this column and that is also used to calculate the "Cost of Goods Sold to Gov't" lines on the Form 990 is the "bookvalue" taken off the General Ledger when the transfer OUT occurs. For example, if the Conservancy bought 100 acres in 1998 for $50,000 and sold those 100 acres in 2000 for $60,000, $50,000 is taken off the Conservancy's General Ledger and is the amount used for the Form 990. Using the same scenario but assuming that the Conservancy sold 50 acres in 2000 for $30,000, a per acre calculation is figured for the acquisition IN and then applied to the 50 acres. If the Conservancy acquired land in fee and transferred easement rights out, then the amount taken off the General Ledger and used for the Form 990 is the "transfer bookvalue" attributable to the easement. Sometimes that value will be based on an appraisal. In the case of Wetland Reserve Program easements (from the U.S. Department of Agriculture), of which there are a number on the spreadsheet, the bookvalue is the price the Department of Agriculture paid for the easement. In other cases, Conservancy staff with real estate experience make a judgment about easement bookvalue relative to the original fee book value. Those judgments are documented and the appropriate value is entered into the General Ledger and BCD and then aggregated for the Form 990.

In all cases, the figures used to calculate the "Cost of Goods Sold to Government" line on our Form 990 do not include any direct or indirect costs recovered.

The "Cost of Goods Sold to Govt – Cost" line on the Form 990 is the aggregate of the bookvalues identified above for all of the sales OUT that occurred within a specific Conservancy fiscal year. To the extent that any transfers OUT related to acquisitions that involved donations in whole or in part, for example those transactions in which there are numbers in the "Gift of Land/Interest Acquired" Column, those donations are aggregated and entered on to the "Cost of Goods Sold to Govt – Gift" line on the Form 990.

Specific Source of Funding Column

For many of the transactions, there is a "LPF" notation. The Conservancy's Land Preservation Fund (LPF) is an internal revolving fund that is the principal source of funding for the Conservancy's land transactions. A Conservancy management unit can borrow from the LPF for an urgent conservation project today by simultaneously committing to a corresponding obligation to repay the amount over time, with interest. Effectively, this borrowing and repayment cause the LPF to "revolve" and therefore be available for other conservation projects. The interest rate of the LPF is set by the Conservancy's Chief Financial Officer and reflects a variety of considerations including the Conservancy's own cost of capital and prevailing market interest rates. Currently, the annual interest rate charged on LPF loans is 4%, compounded monthly (effective yield of 4.0741%). The loan term is typically 3 years.

The Nature Conservancy
SAVING THE LAST GREAT PLACES ON EARTH

Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283
nature.org

April 23, 2004

Responses

To

Senate Finance Committee Questions on Land Sales to Governments

This memorandum responds to eleven of the questions concerning sales of conservation lands to governments set forth in Part II of the letter dated March 3, 2004 to The Nature Conservancy (the "Conservancy") from Senators Grassley and Baucus on behalf of the Committee on Finance of the United States Senate (the "Committee").[1]

Six of these questions focus on the financial terms and conditions of the Conservancy's conservation land sales to governmental entities (Questions 3 and 9 of Part II of the Committee's letter); how the lands involved in these transactions are identified (Question 11) and how the governmental purchasers are identified (Question 12); the use of government grants to acquire conservation lands that are sold to governmental entities (Question 13); and how sales of conservation lands to governmental entities in the United States enhance the ability of the Conservancy to carry out its mission (Question 14).

The Conservancy's responses to those six questions are contained in Parts I through IV of this memorandum.[2] As described more fully in this memorandum,[3] the Conservancy's program of sales of conservation lands to governmental entities has for

[1] The questions contained in Part II of the Committee's letter that are not discussed in this memorandum request data or documents that do not require explanation or elaboration. Responses to those requests, and the data and documents requested in connection with the questions discussed in this memorandum are being provided to the Committee separately. The Committee is also being provided with all documents referred to in this memorandum.

[2] Part V of this memorandum contains the Conservancy's responses to an additional five of the questions posed by the Committee in Part II of its letter dated March 3, 2004.

[3] The responses contained in this memorandum are limited to the sale of conservation lands by the Conservancy to the United States Government and various State and local governmental entities. The Conservancy also engages in conservation activities outside the United States and works collaboratively with non-governmental organizations and national and local governments in those countries.

many years been conducted in accordance with a "no net profit" policy (Part I); the selection of lands for sale to governmental entities is in principle no different than the selection of lands for inclusion in any of the other conservation programs undertaken by the Conservancy and the identification of possible governmental purchasers is based principally on the statutory mission of those purchasers (Part II); the Conservancy has a specific policy with respect to government grants made for the acquisition of specific conservation land (Part III); and sales of conservation lands to governmental entities play a critical role in enabling the Conservancy to carry out its mission (Part IV).

I.

Financial Aspects of Sales to Governments (Questions 3 and 9)

A. The Conservancy's "No Net Profit" Policy (Question 3).

Under the Uniform Relocation and Assistance and Real Property Acquisition Policies Act of 1970, as amended by the Surface Transportation and Uniform Relocation Act of 1987,[4] the United States Government is generally required to offer fair market value to non-profit organizations (such as the Conservancy) when it purchases land or interests in land (including conservation easements) from those organizations. While this requirement may enable some non-profit organizations to sell lands to the federal government at a profit, the Conservancy has for many years had a "no net profit" policy for sales of land to governmental entities at all levels.

This policy was formally established by the Conservancy's Board of Governors in 1995 and, as so established, it provided: "The Nature Conservancy will not make a profit when assisting any governmental agency in acquiring conservation land unless the President makes an exception."[5] The 1995 policy, which was codified in 1996,[6] permits

[4] 42 U.S.C. section 4601 et seq.

[5] Limited exceptions have been made in some cases where the Conservancy incurred costs in one transaction that could not be fully recovered where there was a second transaction that was proximate to the first in time and location and involved the same governmental purchaser. In some such situations, the governmental purchaser allowed all or a portion of those costs to be recovered in the second transaction subject to the limitation that the purchase price paid in the second transaction not exceed the fair market value of the land involved in that transaction.

[6] In 1996, the Conservancy completed a comprehensive project to codify all of its then outstanding policies and standard operating procedures.

the recovery of direct and indirect expenses incurred by the Conservancy. These include the purchase price paid for the land, direct expenses such as appraisals, recording fees and interest expense; and, in some instances, certain indirect expenses.

The Conservancy's audited financial reports, as published on its web site and made available to the Committee, demonstrate that the Conservancy has in fact adhered to its policy of not profiting from sales of conservation lands to governmental entities. As set forth in Note 14 to its audited financial reports, for its fiscal year ending June 30, 2003, the Conservancy "recovered" $172,566,000 on conservation lands sold to governmental entities (and others) and, with respect to these lands, its direct and allocated indirect costs totaled $204,936,000. For the fiscal year ended June 30, 2002, the comparable figures are $181,884,000 and $246,309,000. As is described more fully in note 14 to the Conservancy's published financial statements, these figures compare the proceeds received from the sale or transfer of conservation lands to governmental entities and others (the "recovery") with the related costs, including the original purchase price and interest and overhead during the period the land was held by the Conservancy. The amounts so "recovered" are recognized by the Conservancy when they are received. Other direct costs and interest are recognized in the Conservancy's financial records when they are incurred, but they are included in the preceding figures as a cumulative amount in order to match project recovery and cost properly.[7]

The basic application of the Conservancy's "no net profit" policy may be illustrated by several simple examples involving conservation land having a value of $100 at the time it is acquired by the Conservancy. *First*, if the Conservancy purchases the land for $90, and incurs no other costs properly allocable to that land, it will sell the land to a governmental entity for $90 even though the land is worth $100. *Second*, if in the preceding example, the Conservancy had incurred direct and allocable indirect costs

[7] As set forth in Note 14 to the Conservancy's financial statements, the cost of land sold includes the actual acquisition price. Other direct costs include items such as surveys, legal fees, and real estate taxes. Interest includes both payments to third parties on loans or mortgages and internal financing charges representing cost of capital. Overhead expenses consist of indirect expenses allocable to the land projects.

of $5 (total cost of $95), it could only recover $95 even though the land was worth $100. Note, in some cases, the Conservancy chooses not to recover all or a portion of its costs because it desires to make additional contributions to the overall costs of the project. In other cases, the Conservancy may recover less than its total costs because the funding is unavailable. *Third*, if in the preceding example, the Conservancy had incurred additional direct and allocable indirect costs of $15 (total cost of $105), it could only recover $10 of those additional costs because governmental entities generally may not pay more to purchase conservation land than the fair market value of the land (here $100).[8] *Fourth*, if in the preceding example, the land appreciated in value to $150 before its sale to the governmental entity, the Conservancy could fully recover the $15 in additional costs, but not the additional $45 of the appreciated value. *Fifth*, if the Conservancy had purchased the land for $100 and its value did not appreciate before the sale to the governmental entity, the Conservancy would sell the land for $100 and would not recover any of its otherwise properly allocable additional costs, again because governmental entities generally may not pay more for conservation lands than their fair market value.

On March 12, 2004, the Executive Committee of the Conservancy's Board of Governors strengthened the 1995 policy with a new policy entitled "Recovery of Costs in Government Real Estate Transfers". The new policy states: "The Nature Conservancy will recover only its costs when transferring real estate or any interest in real estate to a governmental agency for a conservation purpose". Under this new policy, the Conservancy's "no net profit" policy continues in effect, but more specific guidance has been provided with respect to the inclusion of direct and indirect costs in the Conservancy's sales prices to governmental entities (which of course are in all cases subject to applicable legal restrictions that governmental entities generally may not pay

[8] Some federal agencies may permit recovery of certain direct costs (e.g., appraisal costs) in addition to the fair market value of the land. Some state and local agencies may also allow recovery of certain indirect costs in addition to the fair market value of the land.

more than fair market value for the conservation lands they purchase).[9] This expanded guidance is contained in a standard operating procedure, which was also adopted on March 12, 2004. As discussed more fully below, the new procedure contains specific rules for the calculation of the purchase price to be received from governmental entities for conservation lands.[10] These rules govern recoverable costs, non-recoverable costs, and required deductions.

Recoverable costs include acquisition and sale costs; external and internal interest charges; capital costs (as determined under generally accepted accounting principles) for improvements made to land while the Conservancy holds title to the land; and expenses paid to third parties for activities requested or required by the governmental entity. In addition, certain indirect costs (personnel costs, travel costs, etc.) may be recovered, but only at a rate not to exceed three percent of the purchase price paid by the governmental entity. *Non-recoverable costs* include personnel costs (except as recovered as part of the computation of the three percent indirect cost allowance); and maintenance and operating costs (such as costs of conservation planning and monitoring, maintaining existing improvements, removal of invasive species, and insurance).

Once the Conservancy has established its total recoverable costs under these rules, it must make *required deductions* in the amount of otherwise recoverable costs for any includable costs for which reimbursement has been received. These required deductions include: (1) the value of gifts (including private grants) received and restricted to the conservation lands involved; (2) any government funding received for acquisition or

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[9] The 2004 policy also provides more specific substantive and procedural rules for waivers of the policy. A waiver may be sought only where literal application of the policy would result in "an unanticipated or unreasonable outcome" and waivers will be granted following review by a special committee only if the waiver (i) will not violate the intent and spirit of the policy, (ii) enables an important conservation objective to be accomplished; and (iii) is likely to withstand public scrutiny in light of the overall policy. Any waivers granted will be reported to the Conservancy's Board of Governors.

[10] The new standard operating procedure also provides rules for the allocation of costs in three special situations: (i) sales to a governmental entity of only a partial interest in land, such as a conservation easement, or a parcel of a larger tract of land; (ii) aggregate sales to a governmental entity of tracts of conservation land acquired by the Conservancy from different sellers or in different transactions; and (iii) multiple sales where conservation lands acquired in a single transaction are thereafter sold over time in parcels to a governmental entity.

other costs relating to the conservation lands involved (including costs for capital improvements); and (3) net income received by the Conservancy from any activities (e.g., a significant timber harvest) that have a material effect on the value of the conservation lands involved.

To summarize, the Conservancy has for nearly a decade had a specific written policy of "no net profit" on sales of conservation lands to governmental entities and the financial data described indicates that this policy has been followed.[11] The new procedures recently adopted by the Conservancy, as described above, provide the specific cost allocation rules necessary to ensure that this long-standing policy will continue to be given effect on a transaction by transaction basis.[12]

B. Land Recoveries and Acquisition Costs.

As discussed elsewhere in this memorandum, acquisition of conservation lands and the re-sale of those lands to governmental entities is a strategy that has been used for many years by the Conservancy to carry out its conservation mission. As discussed more fully below, the fact that recoveries on the sale of conservation lands to governmental entities is often less than the Conservancy's acquisition and other costs does not indicate that the Conservancy may have ". . . paid too much for the land (e.g., from a related party) and couldn't recover the cost from the government".

Since June 1996, the Conservancy has had a specific standard operating procedure governing the documentation of the value of real estate.[13] This policy states that ". . . the fair market value of interests in land must be substantiated at the time of acquisition by

[11] Transaction item 35, referred to in the Committee's letter of March 3, 2004 did not in fact result in a profit to the Conservancy. As previously reported to the Committee, the information originally reported with respect to that transaction was in error and corrected information has previously been supplied to the Committee. This transaction in fact involved a donation by the Conservancy to an entity of the federal government, and the Conservancy did not recover any portion of its expenses related to that transaction.

[12] The Conservancy has submitted, for the Committee's information, copies of two documents relating to land sales to government: 1) "Department of Interior Land Acquisitions Conducted with Assistance of Nonprofit Organizations", dated June 3, 1992; and 2) "Land Acquisitions Involving Nonprofit Conservation Organizations", dated June, 1994.

[13] This policy codified then existing practice, as reflected in various memoranda. As noted in Footnote 5 above and in other submissions made to the Committee, the Conservancy in 1996 completed a comprehensive project to codify its then existing policies, procedures and practices.

The Nature Conservancy". The purpose of this policy was set forth as the time as follows:

> The Nature Conservancy must keep accurate records of its asset base for audit and accounting purposes. In addition, accurate valuation records help the Conservancy avoid violating the Private Benefits Rule which provides that as a 501(c)(3) tax-exempt organization, the Conservancy cannot do anything that inures to the benefit of a private individual. *This includes paying in excess of fair market value* or selling for less than fair market value. (Emphasis supplied.)

In the case of conservation lands acquired by purchase, this procedure has generally been implemented by securing appraisals of the lands at the time of purchase unless, in individual cases, there are other reliable methods the use of which is documented for the file by the appropriate Conservancy staff member.[14] Thus, the Conservancy has, and has had, a specific policy to address the concerns raised by the Committee.

The Conservancy has long recognized that the potential for excessive payments by tax-exempt organizations for property merits special scrutiny where the seller has a relationship to the organization. Under current tax laws, in the case of "public charities" such as the Conservancy, transactions such as the purchase of conservation land from related parties generally are permissible if they are structured in accordance with the so-called "fair market value and arm's-length" standard. Since 1995, the Conservancy has had a specific written policy on conflicts of interest and, under this policy, any transactions with related parties are subject to advance review and approval to ensure compliance with the requirement of the arm's-length standard and with other applicable legal, tax, and ethical considerations.

As in effect until June 2003, this policy required that all purchases of land by the Conservancy from related parties (including land intended to be resold to a governmental

[14] In limited instances, the Conservancy has paid a purchase price slightly in excess of the valuation opinion of its appraiser where there was a serious threat to the conservation purpose of a particular parcel of land (e.g., the landowner and his or her appraiser believed a higher price was available if the land was sold for development and the landowner intended to pursue that alternative). This has occurred only following a determination by the Conservancy staff based on independent appraisal information that the amount actually paid was within an acceptable range (e.g., 10 percent) of the appraised valuation.

entity) be reviewed and approved in advance by the Conservancy's general counsel. For this purpose, the term "related party" included any individual who is, or was during the 12-month period ending on the date of the transaction, a member of the Board of Governors, a State Chapter Trustee, or an employee of the Conservancy; any individual who was a close relative of such an individual; and any entity in which such an individual or his or her close relatives own directly or indirectly a significant equity interest.

In June 2003, the Board of Governors concluded that all purchases and sales of land and interests in land from or to related parties (as defined above), although infrequent in prior years, should be prohibited. In addition, on March 12, 2004, the Executive Committee of the Board of Governors approved a strengthened conflicts of interest policy and extended that policy to additional persons, including major donors (i.e., an individual or entity that makes a gift or pledge of $100,000 in any form (cash, in kind, or bargain-sale value) at any time or cumulatively over the five-year period preceding the date of a proposed transaction).

To summarize, the Conservancy has policies and procedures requiring that the value of land be substantiated at the time of its acquisition, prohibiting all purchases of land from related parties, and requiring advance review and approval of purchases of land from major donors. These policies and procedures were and are intended to ensure that the Conservancy has not and will not make excessive payments to acquire land, including conservation land subsequently transferred to a governmental entity. As described more fully below, the losses incurred by the Conservancy in such cases are typically attributable to other factors.

The Conservancy periodically purchases conservation land and donates that land to a governmental entity. In such cases, the Conservancy necessarily incurs a loss. For example, in 1978, the Conservancy purchased 55,000 acres on Santa Cruz Island, the largest island in California's Channel Islands National Park, for $2.5 million. In September, 2000, the Conservancy donated 8,500 acres of this land to the National Park

Service, increasing the Service's ownership on the Island to 14,000 acres. The Service estimated the value of the donation at $25 million.

Losses may also be incurred when there is a substantial delay between the purchase of the conservation land by the Conservancy and its resale to a governmental entity. These delays may arise when, for example, a governmental entity has extensive and time-consuming land acquisition procedures and the original landowner insists on an immediate sale, or where the necessary appropriations cannot be obtained promptly for budgetary reasons or otherwise. In such cases, where there is such a delay, the Conservancy incurs a broad range of costs. Some of these costs, such as maintenance and operating costs, generally are not recoverable under the Conservancy's policies. While some costs, such as interest on acquisition indebtedness, are recoverable under the Conservancy's policies, they will not be recoverable unless the total allocable costs are less than the property's fair market value when it is acquired by the governmental entity (or if the acquiring agency specifically permits such expenses to be recovered). Where the fair market value of the land is less than the amount necessary to enable the Conservancy to recover all of its properly allocated costs, the application of the Conservancy's "no net profit" policy converts the sale to the governmental entity into an "economic loss" to the Conservancy.

Many governmental entities seek the Conservancy's assistance in acquiring conservation lands, but their commitment to acquire the lands from the Conservancy is almost universally contingent on the appropriation by Congress, or State or local legislative body, of the necessary funds. As noted above, this often lengthens the Conservancy's holding period, since in numerous instances the purchase of conservation lands cannot be deferred until appropriations have been enacted (e.g., where the private owner of the land intends to the sell the property promptly and will sell to others if the Conservancy is unwilling to purchase the property immediately). For example, in 2003, after extended negotiations with the U.S. Fish and Wildlife Service and a private landowner, the Conservancy purchased a 2,640 acre tract of land bordered on three sides

by the St. Marks National Wildlife Refuge in Florida. The Administration requested funding for this acquisition on three separate occasions (FY03, FY04, and FY05). Based on amounts appropriated for fiscal year 2003, the Conservancy transferred 1,281 acres to the Service. The Conservancy still holds and maintains the remaining acreage pending the enactment of additional appropriations legislation. Had the Conservancy not participated, at its expense, in the transaction, it is likely that this particular land would have been sold for non-conservation purposes.

II.

Identification of Land and Purchasers (Questions 11 and 12)

A. Identification of Land.

From its organization in 1951, the Conservancy has focused its conservation programs on high priority conservation areas. In 1995, the Conservancy adopted the "Conservation by Design" planning process to identify lands and waters for inclusion in its various conservation programs. As described more fully in other materials provided to the Committee, Conservation by Design is a strategic, science-based planning process that governs both the selection of a portfolio of sites within broad ecoregions and the identification of the conservation strategies to be applied with respect to each such site.[15]

The Conservancy uses the Conservation by Design methodology for all of its conservation programs, including in connection with the acquisition of conservation lands that are subsequently transferred to a governmental entity. As noted, the Conservation by Design methodology is used not only to determine "where" the Conservancy works (i.e., the identification of portfolio sites within each ecoregion), but also to determine "how" the Conservancy works (i.e., the selection of specific conservation strategies for each portfolio site).

One such conservation strategy is the acquisition of conservation lands. This strategy is most typically employed with respect to core conservation areas within a

[15] The Conservation by Design methodology is described more fully in a separate memorandum provided to the Committee in response to the Committee's questions on the Conservancy's "Conservation Buyer" program, as set forth in Part I of the Committee's letter dated March 3, 2004.

particular portfolio site (as opposed to areas that surround and buffer such core areas where strategies such as conservation easements are often sufficient). With respect to those conservation lands where an acquisition strategy is the most appropriate tool, the Conservancy then considers whether public ownership is appropriate. As discussed more fully elsewhere in this memorandum, the Conservancy often receives suggestions and recommendations from governmental entities for the acquisition of particular tracts of conservation land, but the Conservancy generally is unwilling to commit its finite resources to such a project unless both identification of the land and the selection of the conservation strategy (public ownership) are consistent with the Conservation by Design methodology.

B. Identification of Governmental Purchaser.

As the Committee is aware, the Conservancy is a decentralized organization that, subject to organization-wide policies and procedures, carries out its conservation mission in the United States through its various State Chapters and their regional and local offices. Thus, conservation land acquisition projects generally are developed in the first instance by the State Chapters in accordance with the Conservation by Design methodology.

In situations where long-term ownership by a governmental entity is a suitable conservation strategy, the Conservancy cannot, and does not, act unilaterally. As noted elsewhere in this memorandum, the Conservancy's field staffs maintain regular contacts with representatives of many governmental entities. Each governmental entity properly has its own programmatic priorities and discussions between the Conservancy and a governmental entity's representatives typically focus in the first instance on determining whether the Conservancy's priorities overlap with those of the governmental entity involved. In some instances, a governmental entity will initiate discussions with the Conservancy and suggest that the Conservancy acquire a particular parcel of conservation land. For example, a governmental entity may wish to acquire lands within an existing

wildlife refuge and seek the Conservancy's assistance, which may be provided if feasible and if the conservation land involved is within the Conservancy's own priorities.

There are of course other factors that must necessarily be taken into account in determining whether a particular governmental entity is an eligible purchaser. These include the statutory authority of the governmental entity to make the acquisition; the statutory, regulatory and planning requirements applicable to the entity's holding and management of the land; and the ability of the entity to secure appropriations or other funding to finance the acquisition. In nearly every case, the Conservancy has identified the prospective governmental purchaser before the Conservancy acquires the land and secures a letter of intent regarding resale to the government agency. This reduces the risk that the Conservancy will incur substantial and unforeseen costs in holding the land.

III.

Use of Government Grants to Acquire Lands for Re-Sale (Question 13)

As a general matter, the Conservancy rarely receives support from governmental entities that is unrestricted as to their use. Unrestricted funds from all sources (including any governmental support) are used by the Conservancy for the general support of the Conservancy and, as designated by the Board of Governors, for land acquisition, land preservation funds (which are used to provide internal funding for the purchase of conservation land), other specific conservation project funds, and to increase endowment funds.

The Conservancy also receives funds, including government grants, that are restricted as to their use. Specifically, much of the money received as grants from or under contracts with federal, state and local government agencies is for the conduct of specific conservation work, such as carrying out restoration or stewardship activities, or for scientific research. Some of the work supported by these grants and contracts is required by law (e.g., some governmental agencies are required to inventory animals and plants on property such as military bases and these agencies often rely on the Conservancy's expertise).

As the Committee's question indicates, the Conservancy also receives from time to time funds (including government grants and grants from the National Fish and Wildlife Foundation) that are made for the acquisition of specific conservation land by the Conservancy. If that land is subsequently re-sold to a governmental entity, the Conservancy's current policy expressly requires that the amount of that specified government funding received for acquisition or other costs (including capital costs) related to that conservation land that be deducted from the amount of the costs otherwise recoverable by the Conservancy upon the sale of the property to the governmental entity.

IV.

Land Sales to Governments Support the Conservancy's Mission (Question 14)

The mission of the Conservancy is to preserve the plants, animals and natural communities that represent the diversity of live on Earth by protecting the lands and waters they need to survive. As described more fully elsewhere in this memorandum, the Conservancy has developed and uses a strategic science-based process called "Conservation by Design" to identify lands and waters for inclusion in its conservation programs.

In the United States, the Conservancy has traditionally used land acquisition as a principal tool to accomplish its conservation mission and today owns and manages more than 1,400 preserves throughout the United States. In many instances, however, the Conservancy's mission can be accomplished in other ways. In such cases, the Conservancy uses a broad range of alternatives to the "purchase and hold" strategy. Sales to governmental entities are one such alternative. If a governmental entity with a mission that is compatible with the Conservancy's mission has the capacity to ensure the permanent protection of a particular parcel of environmentally sensitive land, the ownership of that parcel and the payment of the costs of its conservation and maintenance, effectively enables the Conservancy to "stretch its resources" and achieve more conservation results with its financial resources.

Many government agencies have missions that are compatible with that of the Conservancy. For example, at the federal level, the statutory mandate of the National Park Service is to conserve the parks and the "scenery and the natural and historical objects and wildlife therein, unimpaired for the enjoyment of future generations".[16] Similarly, and although there are multiple statutory authorities for the creation of National Wildlife Refuges, the mission of the National Wildlife Refuge System is "to administer a national network of lands and waters for conservation, management and where appropriate, restoration of the fish, wildlife, and plant resources and their habitats within the United States for the benefit of present and future generations of Americans".[17] Both the National Park Service and the U.S. Fish and Wildlife Service have been key partners in multiple land transactions with the Conservancy.

The Conservancy has worked with the National Park Service on land acquisition projects that have resulted in the Service acquiring more than 225,000 acres of land in approximately 40 units of the Service located in more than 24 States. Similarly, between 1967 and February 2003, the Conservancy completed more than 1,100 land transactions with the U.S. Fish and Wildlife Service in 44 States, resulting in the transfer to public ownership of approximately 1.5 million acres. These types of transfers all involve lands and waters with substantial ecological significance and their preservation contributes positively and significantly to the mission of the Conservancy as well as the governmental entity and, as noted, enables the Conservancy to protect more sensitive land than would otherwise be possible.

The Conservancy believes that all, or virtually all, of the lands sold to governmental entities serve significant conservation or biodiversity purposes. As described elsewhere in this memorandum, lands (including lands that are transferred to governmental entities) are selected by the Conservancy as being important to protect because of their environmental and biodiversity significance, as determined under the Conservation by Design methodology. In addition, governmental entities that purchase

[16] 16 U.S.C. Chapter I, Subchapter I, Sec. 1.
[17] 16 U.S.C. Chapter 5A, Subchapter III, Sec. 668 dd(a)(2).

conservation lands are subject to limitations on the types of land they may acquire and these almost always include some aspect of biodiversity protection. In some instances, and consistent with its objectives with respect to compatible human uses, the Conservancy has worked with State or local governmental entities to undertake projects where both biodiversity and agricultural conservation goals can be met.

As discussed more fully in other materials provided to the Committee, the Conservancy maintains a Conservation Land System (the "CLS"), a computerized database containing information about the Conservancy's transactions in, and holdings of, land. Conservancy staff are required to enter information about each land transaction (including transactions undertaken with government agencies at any level) into the CLS. Under CLS changes adopted in 2003, the biodiversity purpose served by each such transaction is a "required field" and must be entered. The required information includes (a) whether the land has been identified as a "conservation area priority" in accordance with the Conservation by Design methodology; (b) the key conservation strategies to be employed with respect to the land; (c) the Conservancy's conservation-specific role with respect to the land; (d) key threats to the land, such as fire or invasive species; and (e) the plants, animals and/or natural communities to protected.[18] All land acquired by the Conservancy and resold to a governmental entity will of course be included in the CLS and there is thus a record of the conservation purpose with respect to each parcel of land sold by the Conservancy to a governmental entity.[19]

It is not possible to quantify with precision what portion of the Conservancy's sales of conservation lands to governmental entities involved land that a governmental entity had itself identified *unilaterally* before the land was acquired by the Conservancy. As discussed earlier in this memorandum, the Conservancy's staff meet regularly with

[18] Under the prior database system, much of this information could have been included, but only the biological/conservation factors (plants, animals and/or natural communities) were mandatory (i.e., a "required field").

[19] In recent years, the Conservancy has also prepared "hard copy" project notebooks for each federal land acquisition project for which funding has been sought from the Land and Water Conservation Fund and the Forest Legacy program, which are funded by Congressional appropriations. These project notebooks contain descriptions of the biodiversity significance of the lands involved.

national, regional, State, and local representatives of the federal land management agencies, to discuss conservation priorities. In the course of these discussions, land acquisition opportunities are routinely identified and discussed. As a general proposition, if the relevant agency expresses little or no interest in acquiring a particular parcel, the Conservancy will not pursue the acquisition on behalf of the agency. Instead, if the land has important conservation values, as determined by the Conservation by Design methodology and acquisition of the land would advance the Conservancy's then current priorities the Conservancy might acquire and maintain the land as one of its preserves. Alternatively, the Conservancy might seek to ensure protection of the land through other means such as a conservation buyer transaction or an acquisition by a different governmental entity.

In some instances, where the relevant federal agency has a specific interest, it may issue a formal "letter of intent", which sets forth the agency's desire to acquire the particular parcel, subject to securing the necessary appropriations. In such a case, the Conservancy will typically participate in the acquisition project if it is compatible with the Conservancy's mission and is supported by a request for the Conservancy's assistance.[20]

To summarize, the Conservancy participates in transactions resulting in the acquisition of conservation land by governmental entities when such transactions enhance the Conservancy's ability to carry out its mission. That mission can sometimes be accomplished by permitting compatible human uses on the lands involved. Some of these uses may involve passive recreation such as hiking. Many governmental entities have similar policies with respect to compatible human uses. The Conservancy does not, however, act to protect lands that are used for active recreational purposes such as golf

[20] Most federal land acquisition projects involving a purchase and resale by the Conservancy involve in-holdings within existing acquisition boundaries. For example, in 2000, Congress enacted the "Great Sand Dunes National Park and Preserve Act", which contemplated the purchase by the Conservancy of the 97,000 acre Baca Ranch, the creation of the Baca National Wildlife Refuge and the establishment of the Great Sand Dunes National Park. In January 2002, the Secretary of the Interior entered into an agreement with the Conservancy to purchase the Baca Ranch from the Conservancy, subject to the availability of appropriated funds.

courses and baseball fields. Thus, in response to the Committee's question, the Conservancy's land transactions with governmental entities do not involve lands that have primarily an active recreational purpose or use.

The Conservancy's record of collaborative work with governmental entities at all levels is illustrated by an ongoing project in Alabama, where the Conservancy is working with the U.S. Fish and Wildlife Service to provide for the public acquisition of land within the Cahaba River National Wildlife Refuge. The refuge was established in 2000 with the support of Alabama's Congressional delegation, its Governor and conservation commissioner, and local officials. The Conservancy acquired at its expense options to acquire approximately 3,400 acres to establish the refuge. Federal appropriations legislation in FY02 and FY03 enabled the Conservancy to complete the purchase of approximately 2,900 acres and re-sell the land to the U.S. Fish and Wildlife Service. The Conservancy will continue to work to complete the governmental acquisition of the full 3,400 acres and other lands within the refuge and will partner with the Service in a program to restore longleaf pine areas within the refuge.

V.

Conservancy Responses to Additional Committee Questions

5 a. Based on your narrative answer to question II.2 above, we understand that the amounts appearing under the "Amount Donated to Government" column are being reported in "costs of goods sold." Is our understanding correct?

The amounts under "Amount Donated to Government" on the detailed spreadsheet provided by the Conservancy in response to the Senate Finance Committee July 16, 2003 letter reflect outright donations of land from the Conservancy to government agencies as well as the costs the Conservancy incurred in excess of the amount received from government agencies. In either case, the "costs of goods sold" amount reflects the removal of the book value of the land that was subsequently transferred.

5 b. Also indicate how the "Amount Donated" column was treated for financial statement purposes.

First, if the entire parcel as donated to the governmental entity, it appears as "value of conservation land and easements donated to government and others" in the financial statements. If, however, the costs incurred are in excess of the amount received from the governmental entity, that difference is a net loss on the financial statements. For example, assume that the Conservancy acquired a parcel of real estate for $1,000,000, and then subsequently sold that parcel to a federal agency for $750,000. In this example, the "cost of goods sold" found in the expense section of the Conservancy's income statement would reflect $1,000,000 paid by the Conservancy for the property. In addition, "sales of conservation land" found in the revenue section of the Conservancy's income statement would reflect the $750,000 the Conservancy received for the property. Assuming there were no other transactions for the period, the Conservancy's income statement would show a $250,000 "loss", which would be reflected as a decrease in the Conservancy's net assets.

6 a. It is our understanding that the information provided on your lists in response to question 2 regarding land transfers to the government over $500,000 represents only Federal transactions as so limited. We assume that amounts reported on Form 990, Part VII, line 93c also consists of other categories such as Federal transfers under $500,000, state and local transfers, Indian tribal government transfers, or foreign government transfers. Please confirm this understanding and discuss.

Line 93c on the 990 form aggregates all value received by the Conservancy for all transfers OUT of real estate or any interest in real estate during any particular fiscal year. All transfers are reported on that line no matter the amount received and no matter what type of entity or individual. Included would be transfers to federal agencies, state agencies, colleges and universities, local agencies, non-profits, foreign governments, individuals, Indian tribes, and for-profit corporations.

6 b. Provide a breakdown of amounts reported on line 93c for each of the categories; Federal transfers under $500,000, state and local transfers, Indian tribal government transfers, or foreign government transfers; for the three most recent 990s by TNC filed with the IRS and related costs of sales information.

Fiscal year 00

1. Recovery of costs

Federal	21,146,733
State/Local	21,429,984
Foreign	-0-
Tribal	-0-

2. Cost to The Nature Conservancy

Federal	28,229,061
State/Local	33,130,810
Foreign	-0-
Tribal	-0-

Fiscal year 01

1. Recovery of costs

Federal	21,060,077
State/Local	31,988,720
Foreign	-0-
Tribal	-0-

2. Cost to The Nature Conservancy

Federal	28,632,929
State/Local	47,959,188
Foreign	-0-
Tribal	-0-

Fiscal year 02

1. Recovery of costs

Federal	16,789,810
State/Local	96,415,708
Foreign (Costa Rica, Virgin Islands)	2,500,000
Indian Tribe	1,704,094

2. Cost to The Nature Conservancy

Federal	19,722,754
State/Local	162,674,831
Foreign (Costa Rica, Virgin Islands)	3,556,682
Indian Tribe	2,158,965

Note that in all three years, the cost to the Conservancy of the transactions far outweighed the amounts received from federal, state and local, and foreign governments as well as Indian tribes.

7 b. (As modified by agreement with the Committee staff.) Provide a narrative summary of each of the following projects as well as dates of transfers, acreage, and the transferee: Virginia Coast Reserve, VA (Nos. 416-420); Virginia Eastern Shore Megasite, VA (Nos. 421-423); Herring Creek Farms, MA (Nos. 604-607); Mashomack (Shelter Island), NY (Nos. 1027-28); Kentucky River Palisades, KY (Nos. 3617-3623); and Davis Mountains, TX (No. 5856).

Is there any connection between the last four items and the conservation buyer transactions – related parties detailed in your answer to question 1 of the July 16, 2003 letter? If so, please discuss.

Virginia Coast Reserve
Virginia Eastern Shore Megasite
Virginia Eastern Shore National Wildlife Refuge[21]

Transactions 416, 417, 418 Virginia/Virginia Coast Reserve/Wachapreague

The Wachapreague property, while not part of the Reserve, is near Finney Creek and has ecological, scientific and aesthetic value as a "buffer area" directly and indirectly affecting the quality and ecological health and well-being of other lands and waters owned or managed by the Conservancy. Certain uses of the Wachapreague property would adversely affect the quality and health of riparian waters, wetlands and marshes, and accordingly limiting and controlling uses of the property benefits the general public and the Reserve. Controlling the use or development of the property helps to maintain the Reserve in its current, natural, scenic and ecologically healthy condition and insures the continued high quality of the nearby waters, wetlands and marshes.

Transactions 416 and 418 – These lease transactions were entered into with the Town of Wachapreague. The fire department is directly across the street from a parcel owned by the Conservancy, and the fire department has always used a small portion of the parcel for parking and to turn vehicles around when backing into the station. This

[21] See description of Virginia Coast Reserve contained in responses to XII, Question 5 "Related Organizations" submitted to the Committee on April 5, 2004 (page 8).

low intensity use is consistent with the Conservancy's goal to limit degradation of the quality of nearby waters. There has been a lease arrangement since 1992 whereby the Conservancy leases to the town the land directly across from their fire station for parking at a rate of $1.00/year. The lease renews automatically each year.

Transaction 417 – This is a lease agreement between the Conservancy and the Town of Wachapreague, Virginia for a 10' by 10' area under the "Welcome to Wachapreague" sign. The lease is for $1.00/year and renews automatically. The use of a small area of this tract for the town's sign has no adverse impact on the remainder of the Conservancy's land. Protection of this property from inappropriate development serves to protect the quality and health of nearby waters, wetlands and marshes.

Transactions 419 and 420 Virginia/Virginia Coast Reserve/Quinby

The Quinby property, while not part of the Reserve, fronts on Quinby Harbor and has ecological, scientific, educational and aesthetic value as a "buffer area" directly and indirectly affecting the quality and ecological health and well-being of other lands and waters owned or managed by the Conservancy. Certain uses of the Quinby property would adversely affect the quality and health of riparian waters, wetlands and marshes, and, accordingly, limiting and controlling uses of the property benefits the general public and the Reserve. Controlling the use or development of the property helps to maintain the Reserve in its current, natural, scenic and ecologically healthy condition and ensures the continued high quality of the nearby waters, wetlands and marshes.

The Conservancy made a gift of this acreage to the county and received the use of 2 boat slips in perpetuity as partial consideration. The property conveyed is adjacent to Quinby Harbor and was restricted by language in the deed to "be used only for open space and/or public parking for the Quinby marina . . . ." Such use restrictions help to limit the degradation of the nearby Quinby Harbor and adjacent waters.

Transaction 421 Virginia Eastern Shore Megasite, Eastern Shore of Virginia National Wildlife Refuge/Northampton

The Conservancy acquired approximately 4.7 miles of abandoned railroad right of way 66 feet in width from Penn Central Corporation in 1985. The property is located in Northampton County, Virginia and adjoins the Eastern Shore of the Virginia National Wildlife Refuge. The right of way provides potential habitat for migratory birds and is a buffer along U.S. Route 13, the major north-south highway on the Eastern Shore. The acquisition helped to control future strip development at the ecologically significant southern tip of the Eastern Shore, a focal area for migrating birds as they prepare to cross the Chesapeake Bay. The Virginia Eastern Shore megasite plan had identified the southern tip of the Eastern Shore Peninsula as a critical site for the protection of migratory birds. Transfer of a portion of the Penn Central property to the U.S. Fish and Wildlife Service ensured its protection as a vegetated corridor for migratory birds.

The Conservancy sold two parcels of land to the Chesapeake Bay Bridge & Tunnel District as part of a mitigation project for the District's taking of land in the nearby National Wildlife Refuge. The properties were sold subject to restrictions as to use for wildlife habitat, passive outdoor recreation, agricultural or farming purposes. The properties were protected to ensure their continued viability as bird habitat and for the construction of a bike/ hike trail that would link Kiptopeke State Park and the National Wildlife Refuge. These parcels were subsequently conveyed by the District to the U.S. Fish and Wildlife Service.

Transaction 422 Virginia Eastern Shore, Eastern Shore of Virginia National Wildlife Refuge/Northampton

Skidmore Island in Northampton County, Virginia is within the boundaries of the Eastern Shore of Virginia National Wildlife Refuge at the southern end of the Eastern Shore, approximately one mile off the mainland in Magothy Bay. The island includes beach, upland forest, marsh and mud flats. Skidmore Island lies just to the east of the southern tip of the Eastern Shore peninsula and provides critical habitat for migrating

land and water birds. The southern tip is a significant rest and staging area for migratory birds before they cross the Chesapeake Bay. Inappropriate development of the island would have a material adverse impact on the National Wildlife Refuge and the wildlife resources it protects.

The Conservancy purchased Skidmore Island in 1986. The purchase included all the "land lying eastward of the Thoroughfare between it and the mainland." The property was surveyed on March 31, 1987 and shown to contain 108.5 acres, being 40.5 acres above mean high water and 68.0 acres between mean high and mean low water. The Conservancy conveyed the land to the U.S. Fish and Wildlife Service (USFWS) by warranty and quitclaim deeds.

Transaction 423 Virginia Eastern Shore National Wildlife Refuge/Northampton

This tract contains approximately 396 acres on the southern tip of the Eastern Shore of Virginia in Northampton County. The tract contains 7,000 feet of frontage on the Chesapeake Bay and was purchased by the Conservancy for inclusion in the Eastern Shore of Virginia National Wildlife Refuge. The area is of primary importance to shore and water birds which are migrants and summer residents, waterfowl, and fall migrants that include a large variety of birds, most notably raptors and songbirds. This area on the Eastern Shore has had the highest or near highest fall bird species counts for the eastern United States. At the time of the purchase, the site had been proposed for the new national wildlife refuge and had been targeted by the Conservancy as a key area for protection.

This land was purchased from the Chesapeake Bay Bridge and Tunnel District, a political subdivision of the State of Virginia. It was subsequently transferred to USFWS by warranty and quitclaim deeds to become part of the Eastern Shore of the Virginia National Wildlife Refuge.

Herring Creek Farm, Martha's Vineyard, MA[22]

Immediately after acquiring fee title to the various lots, The Nature Conservancy granted a Deed of Conservation Restrictions over all of the lots referenced in Transactions 604-607 to the Conservation Commission of the Town of Edgartown. The conservation restriction provides that the "property is not to be improved with structures and improvements, except as described herein (certain building envelopes) and will be retained in a predominantly undeveloped, natural, open, agricultural and/or forested condition; threatened or endangered plants and animals that may exist will be protected." The conservation restriction is held by the Conservation Commission alone over the Central and East Fields, property retained by the Conservancy. The Conservation Commission and the Conservancy hold the conservation restriction jointly and severally, "with respect to such portions of the Property as may be owned by other Owners."

The parcels that were acquired by the conservation buyers included in the Conservancy's response to Question 1 of the Committee's July 16, 2003 letter are all subject to the conservation restrictions transferred to the Conservation Commission.

Davis Mountains – Harvey Amendment

The Nature Conservancy acquired the 241 acre Harvey Tract in Reeves County, Texas, on July 2, 1997, to establish the Sandia Springs Preserve. This tract includes East and West Sandia Springs and is home to a number of rare fish and plant species. In 2002, at the request of the local community and the Reeves County Commissioners Court, the Conservancy donated a 9.03 acre tract to the county to help establish a new community center. This 9-acre tract did not include any of the springs or spring runs, and was the highway frontage of the 241 acre Harvey Tract. The 9 acres was determined by The Conservancy science staff to be non-essential in the protection and management of the spring complex. The Conservancy, in its pursuit of community-based conservation, additionally is using this as an education opportunity with the people in the local town of Balmorhea to build an awareness and support of the importance of desert cienegas

[22] See narrative description of the Herring Creek transaction contained in the "Responses to the Conservation Buyer Program", submitted to the Committee on April 15, 2004.

conservation. To date, the county is working on securing the funds for the community center. In the event the 9-acre tract is not used as a community center, county offices, or a park, the property will revert back to The Conservancy.

The Davis Mountains are located 45 miles away and, although ecologically there is a hydrologic link to conservation in the mountains and spring flow in the Balmorhea Complex, there is no relationship between this transaction and any Davis Mountain conservation buyer transactions.

Mashomack Preserve

The project involving the transactions identified by the Committee are part of the "Ram Island" project.

The Conservancy acquired approximately 2039 acres from Aeon Realty Corp. in 1980; most of this acreage now comprises the Conservancy's Mashomack Preserve. As part of this acquisition, the Conservancy also acquired two small parcels (totaling 2.8 acres by 1982 survey; 3.14 acres by 1993 survey) on the Ram Island\Little Ram Island isthmus – a spit of land extending into Gardiners Bay from the north end of Shelter Island, just across Coecles Inlet from Mashomack Preserve. The Conservancy already owned and managed two other parcels on Ram Island\Little Ram Island, so the Aeon parcels were incorporated into the Conservancy's preserve portfolio and managed as part of its Ram Island holdings until they were transferred to Suffolk County in October, 1993 as part of the Kessler project (see below).

In July 1992, the Conservancy made an offer to purchase the 37.46 acre Kessler tract (aka Section 9) on Ram Island on behalf of the Conservancy, Suffolk County, and the Town of Shelter Island. All three parties would contribute money toward the purchase price. The entire property was to be transferred out to Suffolk County simultaneously with the closing to the Conservancy. In December 1992, due to a title issue, Suffolk County determined that it could not take title to a 2.7 acre portion of the property (where numerous other parties had recreational access rights).

An agreement was made between Suffolk County, the Town of Shelter Island, and the Conservancy to proceed with the acquisition and disposition of the property as follows: the Conservancy would acquire the entire Kessler (Section 9) parcel; the Conservancy would sell Suffolk County the Kessler property minus the 2.7 acre "recreational use area" and 2 parcels on Ram Island already owned by the Conservancy (the Aeon Realty parcels). The Conservancy would sell the Town of Shelter Island the 2.7 acre "recreational use" portion of the Kessler tract.

The 3.14 acre parcel that the Conservancy sold to Suffolk County is adjacent to a parcel already owned by Suffolk County which abuts the Kessler property – resulting in three contiguous properties now owned and managed by Suffolk County.

Other than the fact that the properties are located in the same geographic area, there is no connection between the Dougherty transaction (Mashomack Preserve conservation buyer) and the transactions discussed above.

Kentucky River Palisade – White Oak Creek

The Kentucky River Palisades is among the most outstanding conservation area in the Interior Low Plateau Ecoregion. The site contains a continuous strip of forest, several unusual natural communities (mostly associated with outcrops, caves and springs), and many rare species. The White Oak Creek conservation area is located within the Kentucky River Palisades and is the most significant portion of the central Palisades. White Oak Creek is a tributary that flows into the section of the Kentucky River lying south of Jessamine Gorge and Polly's Bend, an area with a relatively wide forest corridor along the river, some extensive gentle uplands as well as steep slopes, extensive tributary ravine forests, and representation of virtually all the rare species know in the area.

The Conservancy strategy at White Oak Creek has involved acquisition of riparian bottomlands, limestone cliffs rising out of the river, and wooded ravines and bluffs along White Oak Creek and the Kentucky River as core conservation areas and upland areas as buffer for the core conservation areas. The Kentucky River Authority and the Kentucky State Nature Preserves Commission have been important partners in

the protection and long term management of the core riparian areas. As the Conservancy has been able to acquire core riparian areas and as the Commonwealth of Kentucky has had funds to acquire them, the Commonwealth has purchased certain riparian tracts or the riparian portions of other tracts acquired by the Conservancy.

All of the tracts involved in transactions 3617 - 3623 are riparian tracts consisting of wooded ravines and bottomlands on both sides of White Oak Creek where it enters the Kentucky River and on both sides of the Kentucky River near the mouth of White Oak Creek. Together they provide critical protection for both White Oak Creek and the Kentucky River and the natural communities in the riparian area. In transactions 3617 - 3620, 3622 and 3623, the Conservancy conveyed fee title to approximately 800 acres of riparian lands to the Commonwealth. In transaction 3621, the Conservancy conveyed an access easement to allow access by the Commonwealth and the public to tracts owned by the Commonwealth.

None of the owners from whom the Conservancy acquired these tracts were connected with any of the conservation buyer-related parties detailed in the Conservancy's answer to Question 1 in the first SFC letter.

In two cases, the Conservancy acquired more land than it conveyed to the State of Kentucky in the transactions listed above. The remainder or portions of the remainder of those tracts were sold to conservation buyers as reported in answer to Question 1 in the first SFC letter as follows:

Transaction 3619 – Kentucky River Palisades – White Oak Creek – Day, Harry, Estate.

The Conservancy acquired 175 acres of land from the Day estate and sold 52.26 acres to Vincent and Elizabeth Austin, who are *not* related parties.

Transaction 3623 – Kentucky River Palisades – White Oak Creek – Wilson Estate.

The Conservancy acquired 633 acres and sold portions to the following conservation buyers:

David and Karma Cassidy – 51.98 acres – *not* related parties.

Marsha and Larry Sims – 100.14 acres – related parties.

Larry and Judy Duggins – 103.85 acres – *not* related parties.

8. (As modified by agreement with the Committee staff.) Provide a narrative summary of each of the following projects as well as dates of transfers, acreage and the transferee: Big Cypress National Preserve, FL (Nos. 1465-1608); Big Cypress Preserve, FL (Nos. 1609-1638); Big Pine Key, FL (Nos. 1645-1816); Wisconsin Scientific and Natural Area Dedication, WI (Nos. 4582-4757); Lower Ozark Reserve Megasite, MO (Nos. 5263-5336). In addition, with regard to Big Cypress National Preserve, provide copies of any information regarding retention or sale of mineral rights.

Big Cypress National Preserve

Note that "Big Cypress National Preserve" and "Big Cypress Preserve" are the same project.

In 1972, The Nature Conservancy began working with the National Park Service (NPS) to acquire tracts as additions to the Big Cypress National Preserve in Collier and Monroe Counties, Florida. The first National Preserve in the National Park System, Big Cypress serves as a supply of fresh, clean water for the vital estuaries of the ten thousand islands area near Everglades City. Most wildlife species native to semi-tropical Florida occur within the Preserve, which provides important feeding, nesting, resting, and wintering areas for birds migrating to and from South and Central America.

Between 1972 and 1977, the Conservancy acquired 186 tracts, totaling 735.70 acres, for purchase prices totaling $127,410.[23] The majority of these tracts were acquired at tax title auctions conducted by the Clerk of Collier County Circuit Court, at the request of the NPS. The Conservancy began acquiring the title auction tracts in 1975, in accordance with guidelines provided by the NPS. The tracts were acquired with the intention to transfer ownership to the NPS as soon as practicable after title was vested in the Conservancy, with the understanding that the Conservancy would be reimbursed for all incidental expenses involved in conveying title to the NPS. The tracts were

[23] A chart detailing these transfers has been provided to the Committee.

transferred to NPS between 1976 and 1978, at purchase prices totaling $217,248, which included reimbursement for expenses incurred by the Conservancy.

In 1977, the Conservancy began receiving lease checks from several oil companies. These payments were for oil leases on properties owned by the Conservancy at that time. These leases were in place prior to the Conservancy acquiring the property from Collier County tax title auctions. Until 1977, the Conservancy transferred the tracts to NPS with full mineral rights intact. In 1978, after consulting with NPS, the Conservancy began reserving the mineral rights on tracts being transferred to the NPS.[24] The Conservancy currently retains the mineral rights on 43.75 acres in Big Cypress National Preserve. The Conservancy has received from several oil production companies proposals to enter into oil leases, but has refused to do so.

Big Pine Key

The Nature Conservancy's Florida Keys Initiative was a comprehensive program launched in 1987 to protect rare tropical hardwood hammocks, coral reefs, tropical marine waters, and rare animals such as the Key deer and American crocodile. The Florida Keys were designated as an Area of Critical State Concern in 1974. Between 1987 and 1996, The Conservancy worked in conjunction with the U.S. Fish and Wildlife Service ("USFWS"), the South Florida Water Management District ("SFWMD"), and the Board of Trustees of the Internal Improvement Trust Fund of the State of Florida ("State") in acquiring properties located on Big Pine Key and surrounding areas in Monroe County, Florida. Properties acquired were located within the boundaries of the National Key Deer Wildlife Refuge ("Refuge"), the South Florida Water Management District's Save Our Rivers (SOR) Big Pine Key Project, and the State of Florida's Key Deer/Coupon Bight Conservation and Recreation Lands (CARL) Project.

[24] Copies of the deeds in which the Conservancy retained mineral rights have been provided to the Committee. To the best of the Conservancy's knowledge, all other tracts transferred to the NPS included the fee and underlying mineral rights.

Transfers to USFWS:

Between 1988 and 1991, the Conservancy acquired 21 properties for transfer to USFWS, totaling 63.69 acres, at purchase prices totaling $781,690, valued at $849,742. The properties were transferred to USFWS between 1989 and 1993 for purchase prices totaling $834,876, to be managed as part of the National Key Deer Wildlife Refuge.

Transfers to SFWMD:

The Conservancy also acquired 29 properties in 1990 for transfer to SFWMD, totaling 38.89 acres, at purchase prices totaling $403,800, valued at $413,430. The Conservancy transferred these properties to the SFWMD, including all rights, in 1990 and 1991, at purchase prices totaling $408,216. In addition, the Conservancy assisted the SFWMD in directly acquiring 125 properties (the "assist properties"), totaling 327.84 acres, at purchase prices totaling $3,053,750, valued at $3,304,927. All mineral rights held by the Conservancy on the assist properties were assigned to SFWMD.[25] Properties owned by SFWMD on Big Pine Key are managed in conjunction with the National Key Deer Wildlife Refuge by USFWS.

Transfers to State of Florida:

Between 1990 and 1995, the Conservancy acquired 21 properties, totaling 19.28 acres, at purchase prices totaling $194,300, valued at $207,350. The properties were sold to the State in 1998 at purchase prices totaling $194,300, to be managed as part of the Coupon Bight Aquatic Preserve.

Wisconsin Scientific and Natural Area Dedication

The State of Wisconsin has an active dedication program through which any individual or entity can dedicate ecologically significant property by conveying an easement to the State of Wisconsin, Department of Natural Resources. The easement commits the landowner to protect the natural values of the dedicated property by controlling use, restricting development, and either managing or allowing the DNR to manage the property for the permanent protection of its natural values. The dedication

[25] The mineral rights associated with the 29 properties and the 125 assist properties were purchased by the Conservancy in 1990 from the Costa Trust/Richards Trust and were assigned to SFWMD.

program also was designed to promote public awareness, appreciation, understanding and respect for the state's natural heritage. Fee title to the property is retained by the landowner. The dedication recites that it is made for one dollar and other good and valuable consideration.

The Conservancy dedicates many of its Wisconsin preserves. Dedication gives the property an added layer of protection, in that dedicated areas are not subject to condemnation. In the 1990s, dedications of privately funded lands were also recognized as gifts under a state program which then allowed for the release of state funds to the DNR for conservation activities. Therefore, the Conservancy dedications leveraged additional funds for conservation in the State of Wisconsin.

The transactions identified by the Senate Finance Committee represent individual tracts of land involved in dedication transactions. While there are 175 tracts listed, there were many fewer transactions. For efficiency, the Conservancy tends to dedicate tracts at a particular conservation area in groups. For example, the tracts listed in items 4603 - 4709 (106 tracts) are encompassed in one dedication of approximately 56 acres at the Conservancy's Chiwaukee Prairie Preserve. This native prairie preserve on the shores of Lake Michigan was subdivided by developers in the 1920s and sold off in parcels of approximately ½ acre in size. The development company went bankrupt after the stock market crash in 1929 and the land was idle for many years. The Conservancy has had an on-going project to acquire parcels from the many individual landowners, consolidating ownership for the purposes of protecting and managing the property as a nature preserve. The State of Wisconsin supports this effort and recognizes the ecological value of the area. Therefore, the Conservancy offered, and the DNR accepted, a dedication of these parcels to give them statutory natural area protection.

Lower Ozark Reserve Megasite, Missouri

The Lower Ozark Reserve is a critically important conservation area within the Ozarks Ecoregion. It contains the Current River and one of its major tributaries, the Jack Fork River. This undammed cold-water river system, fed by large freshwater streams, is

one of the most significant of its size in mid-continental North America. It contains populations of 35 globally significant aquatic species, and 27 of these are the world's best or only populations of these organisms. The surrounding terrestrial landscape includes five major karst regions, containing global priority cave systems. This region is the central crown jewel of the last large-scale functional woodlands in mid-continental North America, with some of the lowest habitat fragmentation indices in the Midwest. The woodlands provide critical habitat for many breeding birds. The entire terrestrial landscape is characterized by unusually high levels of habitat diversity, with more than 33 global priority natural communities.

The Conservancy's strategy at the Lower Ozark Reserve is to sustain the watershed integrity, hydrology, and water quality in the Current River system and to link and conserve the high quality terrestrial natural communities. The project is part of a two decade-old initiative with the Missouri Department of Conservation (MODOC), the United States Forest Service (USFS), and the National Park Service (USNPS). The Current River is a National Scenic River overseen by the USNPS, and a small portion of the land acquired by the Conservancy from Kerr McGee has been transferred to USNPS (transactions 5282 and 5283). Much of the land which the Conservancy acquired from the Jefferson Smurfit Corporation was conveyed to the USFS. These properties consisted of inholdings within the Mark Twain National Forest, and USFS ownership of these tracts allows for increased management efficiency and reduction in the threat of adverse land uses (transactions 5330-5332 and 5334-5336). A portion of the Jefferson Smurfit Corporation land was also conveyed to the MODOC (transaction 5333). The Missouri Department of Conservation has been an active partner with the Conservancy since the onset of the Lower Ozarks project, assuming ownership and management responsibility for a large portion of the 80,819 acres which the Conservancy acquired in a 1991 purchase from the Kerr McGee Chemical Corporation (transactions 5263-5281 and 5284-5328). The Conservancy also retained a portion of the Kerr McGee land and works cooperatively with MODOC in many management activities. The Ellis tract was

transferred to the MODOC in order to consolidate ownership and management of the parcel with other MODOC lands which surround it on three sides (transaction 5329).

10. Regarding the schedules previously provided for sales by TNC to Federal agencies (over $500,000), please provide a description of each column headings in the Federal agency sale schedule.

On November 18, 2003, the Conservancy submitted to the Committee a document entitled "Narrative Re: Transfers to Federal Agencies" that provides a description and narrative of the key columns on the above referenced Federal agency sale schedule. This narrative is being resubmitted in response to this question. If the Committee has additional questions, the Conservancy would be pleased to respond.

* * *

The Conservancy stands ready to respond to any additional questions the Committee may have with respect to its sales of conservation land to governmental entities and related collaborative activities with governments.

Question 14 – Matching of Federal Grant Awards

The Conservancy manages hundreds of federal government awards (almost entirely grants and co-operative agreements) which have matching requirements. All federal awards, whether they contain matching obligations or not, are annually audited under the provisions of OMB Circular A-133 by an outside accounting firm. The OMB Circular A-133 audit reports issued by PricewaterhouseCoopers LLP (2002-2004) and Arthur Andersen LLP (2000-2001) are attached. Those audit reports contain unqualified opinions in all areas required to be reported upon under OMB Circular A-133. These audits include the examination of compliance with matching provisions of grant awards.

In question 14, you state that the Conservancy "may have included as part of its match the value of TNC paid employees who are working overtime." As you know, there are two types of overtime: 1) overtime earned by non-exempt employees, for which compensation is paid; and 2) overtime recorded by exempt employees, for which compensation is not paid. With respect to overtime paid to non-exempt employees, these costs are allowable costs under OMB Circular A-122 in certain circumstances outlined in the Circular. The Conservancy follows the provisions of OMB Circular A-122 and/or any specific provisions that may be contained in a given grant award in determining whether to include non-exempt employee paid overtime as a match for a federal award. For the year ended June 30, 2004, the Conservancy included as overtime match, $7,168, or 18/100^{ths} of 1%, of the amount of government revenue (excluding government awards for land acquisition) recorded in that fiscal year.

With regard to overtime hours worked by exempt employees, because no additional compensation is paid to these employees for the additional time worked, no overtime costs are recorded as a match to any federal award. In fact, the Conservancy's payroll system reduces the effective rate of hourly pay for the exempt employee (since they are paid a salary, not an hourly wage) for the actual time worked in a given pay period, such that overtime recorded by such employees may never appear as a cost in the Conservancy's system, and therefore eligible to be used as a match.

Prior to July 1, 2000, on a limited basis, some parts of the organization did utilize unpaid exempt employee overtime as an "in-kind" match on certain government awards. The organization discontinued this practice for all government awards starting on or after July 1, 2000. Attached is a copy of an electronic memorandum sent on February 18, 2000, advising the entire organization of the discontinuation of this practice. Other than this memorandum, the Conservancy has no policy statement regarding the use of overtime of Conservancy paid employees for meeting a federal match requirement.

'o: *@*@tnc*
:c:
:cc:
'rom: Susan Lauscher@Legal@TNCHQ
ubject: Message from Neyman/Meinicke/Lauscher
ıate: Friday, February 18, 2000 at 4:05:14 pm EST
ıttach:
:ertify: N

ıTTENTION ALL PROGRAMS THAT CURRENTLY USE EXEMPT EMPLOYEE EXTRA HOURS AS A MATCHING :XPENSE FOR GOVERNMENT AWARDS

/sing exempt employee extra hours as a match for government awards will be phased out. This refers to exempt employees who /ork more than a standard work week and count the extra hours as "match in-kind." New agreements starting on July 1, 2000 or fter may not include this type of match.

f you have any questions, please contact your Grants Specialist.

:raig Neyman, Lee Meinicke, Susan Lauscher

|R. FINANCE DIR-GRANTS INT LEGAL COUNSEL-GRANTS

APPENDIX H

INFORMATION RE: EMISSIONS CREDITS

October 27, 2004
Senate Finance Committee Letter

Question 12

Provide an explanation and documentation demonstrating compliance with TNC's conflicts of interest policy with respect to the GM-TNC Brazil Emissions Agreement (described in TNC's Forms 990 for 1999 through 2001) in which Mr. Smith participated as an officer of General Motors Corporation and its Brazilian affiliate.

Please note that the description of this transaction appears in TNC's Form 990 each year for **FY 2000 – 2003,** not "1999 – 2001" as stated above.

At the time that the GM-TNC Brazil Emissions Agreement was approved by TNC in April, 2000, TNC's Conflict of Interest Policy required review and approval by TNC's President for a project or matter that involved TNC and a corporation that is "related" to a TNC Board member. In addition, if the matter required approval by the Board itself, the affected Board member would be required to recuse him/herself from participating in the review by and any decision of the TNC Board regarding such project or matter.

In a memo dated February 1, 2000 (copy attached hereto), the TNC staff attorney responsible for the project, disclosed and presented the GM project to TNC's General Counsel and President for approval in accordance with the policy. In the event that Board approval was needed, the memo recommended that Mr. Smith recuse himself from participating in any Conservancy Board decision regarding the Project. Such memo, including its recommended course of action, was approved by both the General Counsel and President on February 2, 2000. (Note, the February 1, 2000 memorandum incorrectly states that Mr. Smith was the Chairman of The Conservancy's Board of Directors. Although Mr. Smith served as a member of the Board of Governors he was never the Chairman of The Conservancy's Board, rather, he was the Chairman and Chief Executive Officer of General Motors Corporation.)

Because TNC's corporate authority in effect at the time, delegated to the Executive Committee of the Board the authority to approve TNC's entering into agreements of this type, it was not necessary to obtain full TNC Board of Governors approval of this particular Agreement. Mr. Smith was not a member of the Executive Committee at the time of approval of the project. Thus, Mr. Smith was not required to be involved in the review and approval of this Agreement. The Agreement was reviewed and approved by the Executive Committee on April 25, 2000.

In accordance with TNC's standard practice at that time, members of the Conservation Committee of the Board were also informed about conservation projects for which corporate approval by the Executive Committee was being sought and given an opportunity to comment on or express an opinion regarding such projects. Mr. Smith, as a member of the Conservation Committee at the time, received the same materials about the slate of projects for which approval from the Executive Committee was being sought.

Although they did not vote to approve or disapprove projects, members of the Conservation Committee provided views to the Executive committee via ballots. Mr. Smith's ballot regarding projects before the Executive Committee and TNC's internal conflict memorandum with respect (copies attached hereto) indicate that Mr. Smith recused himself from taking a position on this project at the time that the Agreement was presented for formal corporate approval the Executive Committee.

Each IRS Form 990 return filed for FY 2000-2003 discloses this transaction and notes that Mr. Smith was not involved in the transaction.

Did TNC seek the advice of outside counsel with respect to the tax consequences to TNC of the emissions transactions, or in the case of the GM emissions arrangement, any conflicts of interest issues?

TNC did not seek the advice of outside counsel with respect to the tax consequences to TNC of the emissions transactions, or in the case of the GM emissions arrangement, any conflicts of interest issues. As explained in prior submissions to the Finance Committee, all conflicts of interest issues were subject to advance legal review by TNC's General Counsel. In addition, under TNC's policies at the time, all contracts and agreements were subject to advance review and approval by the TNC legal department. This review included an analysis of all relevant legal issues, including tax law issues.

Please describe TNC's position regarding the tax consequences to TNC of the GM emissions arrangement.

Under the GM-TNC Agreement, GM provided $10 million to TNC to implement the Brazil Atlantic Rainforest Restoration project in the Guaratuba region of Brazil, an area of recognized biodiversity importance and designated as a UNESCO world biosphere reserve. The funds have been used by TNC for land acquisition and habitat restoration in this area. Under the agreement, GM retained the right to seek approval from the appropriate international institution(s) to obtain carbon offset credits for climate mitigation that may be generated from the project. At the time of the agreement, no legal or commercial framework existed to secure such credits (indeed, no such framework exists today). TNC did not guarantee the creation or certification of any such credits nor did it assume any liability for the failure of such credits to be created in the future.

The primary purposes of the agreement are to "...promote the protection of plants and animals, sequester carbon from the atmosphere, otherwise reduce so-called greenhouse gases in the atmosphere and achieve sustainable development through community conservation...." Clearly, implementation of the agreement is in furtherance of the mission of TNC in "protecting the plants animals and natural communities that represent the diversity of life on earth and the lands and waters they need to survive..." and is without a doubt, directly and substantially related to the exempt purpose of TNC.

In accordance with the previously described policy with respect to advance review and approval by the legal department, the tax and legal aspects of the transaction were reviewed by the TNC legal department when the transaction was approved. That review indicated that there were no tax consequences to the Conservancy. The review concluded that this project taken as a whole was consistent with TNC's 501(c)(3) exempt and charitable purposes.

Provide a description of the AEP-TNC-Pacific Corp-BP-Bolivia emissions arrangement relating to a Bolivian tropical forest, the 1997 Noel Kempff Mercado Climate Action Project.

The Noel Kempff Mercado Climate Action Project was designed to expand the Noel Kempff Mercado National Park through the retirement of logging rights on 1.6 million acres of government-owned land. With incorporation of that land into the park, Noel Kempff Mercado grew from 2.2 million acres (890,340 hectares) to 3.8 million acres (1.5 million hectares). The funding provided by participants was used to retire the timber concessions, to support the Noel Kempff Mercado National Park management programs, to create long-term financing mechanisms for the park and bordering communities, to carry out sustainable development activities in the communities surrounding the park, to mitigate greenhouse gases in the Earth's atmosphere, and to generate certified offsets for the parties.

Industry participants agreed to provide a total of US$7 million funding for the implementation of the project through annual payments over a 10-year period.

The breakdown of the industry participants' funding is as follows:

AEP	$4,750,000
Pacificorp	$1,750,000
BP	$500,000

In addition, AEP agreed to provide funding in an amount not to exceed US$500,000, above the US$7 million total provided by the industry participants, to cover utilization of advanced technology videography measurement to confirm carbon sequestration by the project. AEP would be entitled to financial credit for any reduction in monitoring and verification costs which are attributable to the use of this technology.

TNC and FAN (Fundacion Amigos de la Naturaleza) agreed to contribute US$2.6 million[1] for the implementation of the project.

In 2002 the project budget was revised from $9.6 million to $10.85 million. This increase was funded by industry participants in the following amounts:

[1] In the comprehensive agreement, the Conservancy and FAN contribution is listed at $2.5 million. In a 2001 board meeting, that amount was raised to $2.6 million. There was no amendment to the agreement to reflect this change.

AEP	$950,000
BP	$300,000

According to the agreement the parties would receive Certified Offsets[2] as follows:

- Apportionment to AEP. The equivalent of 2% of offsets accumulated each year during the project term. AEP shall receive this apportionment as consideration for its leadership, financial support in developing the project and for marketing the project to other prospective financial participants.
- Apportionment to the Industry Participants. To industry participants, AEP, BP, Pacificorp, (on a pro rata basis in proportion to their respective financial contributions to the project) the equivalent of 49% of the offsets accumulated each year during the project term.
- Apportionment to FAN and the Government of Bolivia. The equivalent of 20% of the offsets accumulated each year during the project term. Funds obtained through the sale of these offsets shall be contributed to an Endowment Account for the National System of Protected Areas.
- Apportionment to the Government of Bolivia. The equivalent of 29% of the offsets accumulated each year during the project term. Funds obtained through the sale of these offsets are to be invested in Bolivia in accordance with the following priorities:
    - To ensure the financial resources exist to guarantee greenhouse gas mitigation throughout the project term and the generation of certified offsets
    - To support biodiversity protection activities at Noel Kempff Mercado National Park
    - To support activities consistent with Bolivia's National Sustainable Development Strategy
    - To support biodiversity protection activities elsewhere in Bolivia
    - To support current and future climate change mitigation activities in Bolivia pursuant to mitigation obligations that may become applicable.

Apportionment of offsets will transfer to the recipient parties the right to thereafter hold, register or transfer such offsets further, as each such party may independently decide, subject to Bolivian law.

We understand that $9.6 million reportedly was invested in that deal by the various partners, and that E. Linn Draper, Chairman, President and CEO of AEP, was elected to serve on the TNC Board in October 1999.

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[2] In the agreement Certified Offset is defined as an offsets that has been (1) demonstrated to the Government of Bolivia National Program for Climatic Change pursuant to the then applicable project operating protocols, and the ground rules and guidelines of the Government of Bolivia National Program for Climatic Change, the USIJI, and the FCCC and (2) certified by the Government of Bolivia National Program for Climatic Change.

In the 1998 Noel Kempff Mercado Climate Action Project comprehensive agreement industry participants agreed to provide $7 million and TNC and FAN agreed to provide $2.5 million to the project. In 2001 TNC added another $100,000 and in 2002 industry participants agreed to provide another $1.25 million.

The Noel Kempff Mercado Climate Action Project agreement was finalized and signed on March 9, 1998. In total AEP agreed to provide $6.2 million to the Noel Kempff Mercado Climate Action Project (in 1998 AEP agreed to provide $5.25 million and in 2002 AEP agreed to provide an additional $950,000 to the project).

Linn Draper, Chairman, President, and CEP of AEP, was elected to serve on the TNC Board in September 1999. Dr. Draper's maximum Board term runs through 2008.

Do you have emissions credit arrangements with entities or persons other than GM or AEP? If so, please describe them and provide relevant documentation.

Yes. The emission offsets arrangements and entities involved are listed in the table below.

A narrative description of the emission credit arrangements for each project (except the Noel Kempff Mercado Climate Action Project, for which a description was provided in response to the previous question) follows. Copies of the final, signed comprehensive agreements for each project have been provided as part of this submission.

Agreement	Project description	Entities involved
Noel Kempff Mercado Climate Action Project	Retirement of timber concession on 1.6 million acres and incorporation of land into the national park. Project is located in northeastern Bolivia.	American Electric Power Pacificorp British Petroleum The Nature Conservancy The Government of Bolivia Fundacion Amigos de la Naturaleza (FAN)
Rio Bravo Carbon Sequestration Pilot Project	Purchase of 14,880 acre tract of endangered tropical forest land and incorporation of land into the Rio Bravo Conservation and Management Area and implementation of sustainable forest	Wisconsin Electric Power Company (now WE Energies) Cinergy Services, Inc. Detroit Edison Corporation (now DTE Energy) Pacificorp Utilitree Carbon Company[3] The Nature Conservancy Programme for Belize

[3] See the end of this document for a list of member companies.

	management. Project is located in northwestern Belize.	
Rio Bravo Carbon Sequestration Pilot Project Expansion	Purchase of 21,000 acre tract of endangered tropical forest land and incorporation into the Rio Bravo Conservation and Management Area and implementation of sustainable forest management. Expansion of project in northwestern Belize.	Wisconsin Electric Power Company (now WE Energies) Suncor Energy, Inc Canadian Occidental Petroleum, Ltd. (now Nexen, Inc) The Nature Conservancy Programme for Belize
Texaco Antonina Pilot Reforestation Project	Restore and protect 2,500 acres of Atlantic Rainforest in southeastern Brazil.	Texaco The Nature Conservancy Sociedade de Pesquisa e Vida Selvagem (SPVS)
General Motors Atlantic Rainforest Restoration Project	Restore and protect 30,000 acres of Atlantic Rainforest in southeastern Brazil.	General Motors General Motors do Brasil Ltda. The Nature Conservancy SPVS
Central and South West Services Guaraquecaba Climate Action Project	Restore and protect 17,000 acres of Atlantic Rainforest in southeastern Brazil.	Central and South West Services (now part of American Electric Power) The Nature Conservancy SPVS
Reforestation and Biodiversity Projects Agreement between The Nature Conservancy and Cinergy Services	Reforestation of 925 acres in Ohio and Indiana.	Cinergy Services, Inc. The Nature Conservancy
Bayou Pierre Floodplain Climate Action Project	Purchase of 400 acres and reforestation of 500 acres of cropland in northwest Louisiana	PowerTree Carbon Company, LLC[4] The Nature Conservancy

Rio Bravo Carbon Sequestration Pilot Project

The Rio Bravo Carbon Sequestration Pilot Project was designed to purchase a 14,880 acre tract of endangered tropical forest land and to incorporate the land into the Rio Bravo Conservation and Management Area. The Project also includes the

[4] See end of this document for list of member companies.

implementation of sustainable forest management. The Project is located in northwestern Belize.

Project funding during the 10-year commitment period is provided by the financial participants (Wisconsin Electric Power, Cinergy Services Inc, Detroit Edison Corporation, Pacificorp, and Utilitree Carbon Company[5]) in the total amount of $2.6 million. TNC agreed to lend the Financial Participants and the Project, from the TNC Land Preservation Fund US$1,080,333.00.

In consideration for the TNC Land Preservation Fund Loan the financial participants agreed to repay the principal amount of the Loan, plus interest calculated at 7% APR (compounded monthly) in full over the remaining nine years of the commitment period.

Certified Offsets produced by the project shall be apportioned to the financial participants, pro rata in accordance with the number of project shares held by each such financial participant[6].

In consideration for the financial participants' monetary support for the project, Programme for Belize assigns, grants, transfers and conveys the registration interest in all offsets produced on the project site to the financial participants in five equal shares (based on each financial participant's monetary contribution), free and clear of all encumbrances, for a period of forty years. Such registration interest includes the exclusive right of each financial participant:

- To be apportioned the certified offsets produced by the project each year, pro rata by share held
- To register apportioned offsets under such governmental programs as may exist at the time of such apportionment (including the U.S. Department of Energy 1605(b) registry)
- To count such apportioned offsets against the financial participant's Climate Challenge or other greenhouse gas commitments or obligations
- To sell or transfer certified offsets once apportioned.

In the event of country emissions credit recognition is allowed under the Framework Convention on Climate Change (FCCC) for joint implementation projects, and an active public commodities or other public trading market develops for the sale or transfer of offsets for monetary value received, the parties will develop by not later than one year following such FCCC country credit recognition an operating protocol consistent with the

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[5] At the signing of the comprehensive agreement (November 1, 1995), there were four financial participants: Wisconsin Electric Power Company with two shares, and Cinergy Services Inc, Detroit Edison, Pacificorp each with one share. On June 28, 1996, Wisconsin Electric Power Company sold one of its shares to Utilitree Carbon Company, which became the firth financial participant.

[6] "Certified Offset" is defined in the agreement at an offset that has been formally demonstrated and established under the USIJI and the Government of Belize round rules and guidelines.

letter of understanding of June 24, 1995[7], between Wisconsin Electric Power Company and Program for Belize, which shall contain procedures for the equitable sharing with Program for Belize of net monetary profits, if any, resulting to a financial participant from such participant's election to sell or transfer offsets on such public market.

Rio Bravo Carbon Sequestration Pilot Project Expansion

The Rio Bravo Carbon Sequestration Pilot Project Expansion was designed to expand upon the Rio Bravo Carbon Sequestration Pilot Project. The Expansion Project includes the purchase of a 21,000 acre tract of endangered tropical forest land and incorporation into the Rio Bravo Conservation and Management Area and implementation of sustainable forest management. The project expansion is located in northwestern Belize.

The project expansion has been funded by the financial participants (Wisconsin Electric Power Company, Suncor Energy Inc., Programme for Belize, The Nature Conservancy[8], Canadian Occidental Petroleum Ltd.) in the total amount of US$3,052,600 which amount has been transferred for use of the project expansion prior to January 1, 1999 or committed to by financial participants prior to January 1, 1999 and financed by TNC in accordance with the promissory notes[9].

Wisconsin Electric Power Company committed to fund the project expansion in the amount of US$1,000,000 (exclusive of interest and other finance costs). In accordance with and in exchange for the promissory note made by Wisconsin Electric Power Company, TNC financed this commitment to the project expansion.

Suncor committed to fund the project expansion in the amount of US$400,000 (exclusive of interest and other finance costs). In accordance with and in exchange for the promissory note made by Suncor, TNC financed this commitment to the project expansion.

On all project expansion disbursement deficit spent by the Conservancy, the Conservancy must pay internal interest calculated at 7% per annum compounded monthly. Project expansion funds, including interest paid on the promissory notes are to be used to satisfy these internal interest charges. Any interest earned by the Conservancy on the promissory notes is to be treated as project expansion funds and disbursed for project expansion.

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[7] Copy of the Letter of Understanding is provided.

[8] The Conservancy provided US$452,600 of its own funds in order to satisfy the obligation of Programme for Belize to fund the project expansion. In exchange the Conservancy became a financial participant, with a pro rata share of all offsets based upon the proportion of its financial support. On August 3, 2000 the Conservancy assigned the rights to its share of the offsets to Canadian Occidental Petroleum, Ltd (now Nexen), in exchange for payment of US$483,000, which was intended to cover the initial cost to the Conservancy (US$452,600) plus all accrued interest costs (US$30,400).

[9] A copy of the promissory notes is provided.

The certified offsets[10] produced by the project expansion are apportioned to the financial participants, in the same proportion that the amount their investment has to the total financial investment of the financial participants as reflected in the sums set forth below:

Party	Financial Support	% of offsets
Programme for Belize	US$1,200,000	39%
Wisconsin Electric Power	US$1,000,000	33%
Suncor	US$400,000	13%
TNC (transferred to Canadian Occidental Petroleum Ltd.)	US$452,000	15%

In consideration of the financial participants' monetary support for the project expansion, Programme for Belize assigns, grants, transfers, and conveys the registration interest in all offsets produced on the project expansion site to the financial participants in shares proportional to each such financial participants monetary contribution to the project expansion, free and clear of all encumbrances, for a period of forty years starting in 1997 and ending in 2037. Such registration interest includes the exclusive right of each financial participant:

- To be apportioned the certified offsets produced by the project expansion each year
- To register the apportioned offsets under such governmental programs as may exist at the time of such apportionment (including the U.S. Department of Energy 1605(b) registry)
- To count such apportioned offsets against the financial participant's climate challenge or other greenhouse gas commitments or obligations of the parties or to which the parties become subject
- To sell or transfer certified offsets once apportioned

In the event of country emissions credit recognition is allowed under the FCCC for joint implementation projects, and an active public commodities or other public trading market develops for the sale or transfer of offsets for monetary value received, the parties will develop by not later than one year following such FCCC country credit recognition an operating protocol in conjunction with the original project and consistent with the letter of understanding of June 24, 1995[11] between Wisconsin Electric Power and Programme for Belize, which shall contain procedures for the equitable sharing with Programme for Belize of net monetary profits, if any, resulting to a financial participant from such financial participant's election to sell or transfer offsets on such public market.

[10] Certified offsets in this agreement are defined as an offset that has been formally demonstrated and established under the USIJI and the governments of Canada and Belize ground rules and guidelines.
[11] A copy of the Letter of Understanding is provided.

Central and South West Services Guaraquecaba Climate Action Project

The Central and South West Service Guaraquecaba Climate Action Project was designed to restore and protect 17,000 acres of Atlantic Rainforest in southeastern Brazil.

Central and South West Services (now American Electric Power) agreed to provide the sum of US$5,391,000 to finance the development of the project and its implementation throughout the forty-year project term.

As long as Central and South West Services is not in default of its duties under the agreement, all certified offsets[12] shall be apportioned Central and South West Services. Such apportionment shall transfer to Central and Southwest Services the right to hold, register, sell, hypothecate, transfer or otherwise dispose of such offsets subject to all applicable legal requirements whatsoever.

The parties to the agreement mutually understand, intend and agree that, subject to applicable legal requirements whatsoever, each offset apportioned, or to be apportioned, to Central and South West Services under this agreement shall constitute an unconditional marketable private right for Central and South West Services, or their successor in interest or permitted assignees, to register the offset, in a metric tons of carbon-equivalent amount equal to the net GHG mitigation represented by such offsets, with the Energy Information Administration Section 1605(b) Registry of the United States government or with any other relevant mechanism, and to count such offset toward compliance by Central and South West Services, or its successor in interest or assignee, with its current or potential future GHG limitation obligation or commitments, voluntary or otherwise.

[12] In this agreement, certified offsets are defined as an offset that has been demonstrated to a certifying entity designated by Central and South West Services pursuant to this agreement and certified by such certifying entity.

General Motors Atlantic Rainforest Restoration Project

The General Motors Atlantic Rainforest Restoration Project was designed to restore and protect 30,000 acres of Atlantic Rainforest in southeastern Brazil.

General Motors agreed to provide a total of US$10 million for the planning and implementation of the project. General Motors do Brasil Ltda. serves on the project executive committee, but did not contribute funding.

As long as General Motors and General Motors do Brasil Ltda. are not in default of their duties under this agreement, all offsets[13] shall be conveyed to General Motors providing sufficient time to register such offsets with registries and tracking systems established by relevant mechanisms or certifying entities. Such conveyance shall transfer to General Motors the right to hold, register, sell, hypothecate, transfer or otherwise dispose of such offsets subject to all applicable legal requirements.

The parties to the agreement mutually understand, intend and agree that, subject to applicable legal requirements whatsoever, each offset conveyed, or to be conveyed to General Motors under this agreement shall constitute an unconditional marketable private right for General Motors, or their successor in interest or permitted assignees, to register the offset, in a metric tons of carbon-equivalent amount equal to the net GHG mitigation represented by such offsets, with the Energy Information Administration Section 1605(b) Registry of the United States government or with any other relevant mechanism or certifying entity, and to count such offset toward compliance by General Motors, or its successor in interest or assignee, with its current or potential future GHG limitation obligation or commitments, voluntary or otherwise.

[13] In this agreement Certified Offset is defined as an offset that has been demonstrated to a mechanism or certifying entity designated by General Motors pursuant to this agreement and certified by such mechanism or certifying entity.

Texaco Antonina Pilot Reforestation Project

The Texaco Antonina Pilot Reforestation Project was designed to restore and protect 2,500 acres of Atlantic Rainforest in southeastern Brazil.

Texaco agreed to contribute a total of US$3 million to finance the development and implementation of the project throughout the project term.

As long as Texaco is not in default of its duties under the agreement, all offsets generated pursuant to the agreement shall be conveyed to Texaco. Such offsets shall be conveyed providing sufficient time to register such offsets with registries and tracking systems established by relevant mechanisms or certifying entities. Such conveyance shall transfer to Texaco the right to hold, register, sell, hypothecate, transfer, or otherwise dispose of such offsets subject to all applicable legal requirements whatsoever.

The parties to the agreement mutually understand, intend and agree that, subject to applicable legal requirements whatsoever, each offset conveyed, or to be conveyed to Texaco under this agreement shall constitute an unconditional marketable private right for Texaco, or their successor in interest or permitted assignees, to register the offset, in a metric tons, or other acceptable unit measure, of carbon-dioxide equivalent amount equal to the net GHG mitigation represented by such offset, with the Energy Information Administration Section 1605(b) Registry of the United States government or with any other relevant mechanism or certifying entity, and to count such offset toward compliance by Texaco, or its successor in interest or assignee, with its current or potential future GHG limitation obligation or commitments, voluntary or otherwise.

Reforestation and Biodiversity Projects Agreement between The Nature Conservancy and Cinergy Services

The Reforestation and Biodiversity Projects Agreement between The Nature Conservancy and Cinergy Services was developed to reforest 925 acres in Ohio and Indiana. Cinergy agreed to provide $500,000 to fund reforestation projects in Ohio and Indiana.

Registration interest in and ownership of all net atmospheric carbon dioxide sequestered, offset or reduced as a result of each and every project resulting from the agreement, shall be owned and held in perpetuity by, and be the sole property of Cinergy to do with as Cinergy, in its sole discretion, determines. For the purposes of the agreement, registration interests means the right accorded to Cinergy under any other terms of the agreement, and Section 1605(b) of the United States Energy Policy Act of 1992, and other similar agreements, programs, laws, regulations, and systems as may presently exist, or hereafter be established under the laws of the United States to be apportioned, claim, formally register or otherwise obtain environmental credit for all registration interest in net carbon dioxide sequestered, offset or reduced under the agreement.

Bayou Pierre Floodplain Climate Action Project

The Bayou Pierre Floodplain Climate Action Project was designed to purchase 400 acres and reforest 500 acres of cropland in northwest Louisiana. The land will be placed in long-term protection.

PowerTree Carbon Company agreed to pay $424,520 to finance the development of the project.

PowerTree Carbon Company retains exclusive ownership of the emissions reductions[14] resulting from the project.

[14] In the agreement emission reduction is defined as one ton of carbon-equivalent greenhouse gas emissions demonstrated to be mitigated, reduced, avoided, sequestered or fixed in any calendar year and any associated credits, rights, authorizations permits, or other benefits, including but not limited to any rights with respect to any database maintained pursuant to section 1605(b) of the Energy Policy Act of 1992 or any successor statute.

Members of Utilitree Carbon Company

Allegheny Energy
Alliant Energy
American Electric Power Company
Ameren
Baltimore Gas & Electric Company
Central Illinois Light Company
Cinergy Corporation
CLECO
Conectiv
Detroit Edison Company
Duke Energy
Duquesne Light Company
Dynegy
Empire District Electric Company
Entergy Services, Inc.
EPCOR
FirstEnergy
Florida Power & Light Company
General Public Utilities Corporation
Hawaiian Electric Co., Inc.
Kansas City Power & Light Company
Nevada Power Company
New York State Electric & Gas Corporation
Northern Indiana Public Service Company
PacifiCorp
PG&E National Energy Group
PPL
Public Service Electric & Gas Company
Sierra Pacific Power Company
South Carolina Electric & Gas Company
Southern Company
Tampa Electric Company
Tennessee Valley Authority
TransAlta Corporation
Tucson Electric Power Company
TXU
UtiliCorp
Western Resources, Inc.
Wisconsin Energy
Wisconsin Public Service Corporation

Members of PowerTree Carbon Company, LLC

American Electric Power Company, Inc.
Arizona Public Service Company
Cinergy Climate Change Investments, LLC
CIPSCO Investment Company (Ameren)
Conectiv Energy
Detroit Edison Company
Diversified Lands LLC (Cleco)
Duke Energy Corporation
Entergy Arkansas, Inc.
Exelon Generation Company, LLC
First Energy Generation Corp.
Kansas City Power & Light
Oglethorpe Power Corporation
Oklahoma Gas & Electric
Peabody PowerTree Investments, LLC (Peabody Energy)
Progress Energy EnviroTree, Inc.
PNM Resources, Inc. (Public Service New Mexico)
PSEG Services Corporation
Reliant Resources, Inc.
Tennessee Valley Authority
TXU Generation Company LP
Virginia Electric & Power Company
We Energies
Wisconsin Public Service Corporation
Xcel Energy Ventures Inc

April 21, 2005
Senate Finance Committee Letter

Question 10

Please explain the process pursuant to which TNC became involved in the various emissions credit or allowance arrangements. Did TNC approach the financial participants, was TNC approached by the financial participants, or were these arrangements structured and marketed by third parties such as law firms, accounting firms, or consultants. Please describe this process with respect to each of the eight arrangements you have reported to the Committee

It is important to note that the projects described herein provide rights to prospective carbon benefits (also known as carbon dioxide (CO_2) offsets); it is incorrect to say at this time that any of the projects have generated "emissions credits or allowances." None of these projects or reductions and emissions have yet been certified or used to help participating companies comply with current regulatory programs that limit CO_2 emissions. At this point, participating companies have voluntarily supported these conservation projects for a number of reasons including for the purposes of obtaining rights to CO_2 benefits to meet a company's own internal emissions reduction goals, possible use in future regulatory regimes, experimentation and learning about carbon sequestration methods and verification, and achieving conservation results. Some of the companies involved in this work have registered reductions in voluntary registry programs (e.g. the Department of Energy 1605(b) program and the Chicago Climate Exchange). However, the projects reported herein have not resulted in officially recognized allowances to emit pollution elsewhere.

The Conservancy's initial experience with climate change projects grew slowly out of an experimental project undertaken with Wisconsin Electric Power in 1995. Subsequent to that project, the Conservancy's work in this area became more formalized and the Conservancy began seeking other entities to participate in similar projects. Thus, the Conservancy has categorized its work in this area as being in two phases: Phase I: Learning from Specific Project Experience and Phase II: Active Project Development and Marketing.

It is fair to say that the conservation results that have been achieved with the funding provided under the terms of these agreements would not have happened otherwise and that significant threats to the loss of biodiversity at these sites has been reduced or eliminated as a result of these arrangements. It is also important to remember that each of the properties identified as conservation sites under these climate change arrangements were selected based on a scientific assessment and strategic analysis of the

biological features and their relative importance to achieve recognized conservation objectives.

Phase I: Learning from Specific Project Experience

Rio Bravo Carbon Sequestration Pilot Project, Belize
Agreement executed November 1, 1995

This project represents the Conservancy's first formal introduction to the concept of working with companies interested in reducing or mitigating their CO_2 emissions footprint through the beneficial activities involved in land conservation and habitat protection. Though the Conservancy and partners had been doing conservation work in the Rio Bravo region previously, the Conservancy had not considered the particular approach of securing funds from carbon emitters to offset such emissions by making payments for activities that would result in carbon being stored or sequestered. This first project was conceived in discussions between a Conservancy staff person and an attorney colleague who had been working with Wisconsin Electric Power Company (now WE Energies.) The two discussed the prospects for using funding from companies which were seeking to reduce CO_2 emissions through appropriate mitigation actions such as forest protection to accomplish important biodiversity conservation project goals. The two discussed the feasibility of a project in which WEPCO might play a financial role in such a project.

Although the Conservancy did not have any experience using this funding mechanism to support its habitat conservation projects, the Conservancy did have a long-standing goal to find ways to better capture the economic value of ecosystem services provided by TNC's work in habitat conservation. Carbon sequestration and storage is one of the values provided to society, so the Conservancy found the project concept and the prospects of working with a funder such as WEPCO as having great potential. The Conservancy identified an opportunity in Belize where a land protection project would help both to reduce CO_2 emissions and to achieve significant biodiversity benefits. The Conservancy formally approached WEPCO with the specific project idea and the company indicated a willingness to support the project. However, because WEPCO was not in a position to finance the full project cost, the Conservancy and WEPCO sought and found additional industry support for the project.

As indicated in previously submitted materials, because of the financial support obtained under this agreement, the Conservancy and our partner organization, The Programme for Belize were able to protect 14,880 acres of highly threatened tropical forest that is home to a myriad of important plants and animals, including the black howler monkey, and jaguar. The group of power companies that provided funding was able to voluntarily reduce gases that cause global warming. Finally, the successful completion of this initial project indicated that there might be potential for the Conservancy to use this funding mechanism with other project participants.

Phase II: Active Project Development and Marketing

After this initial experience, the Conservancy began to identify other possible projects where TNC's conservation goals could be met through this funding mechanism and to identify other possible project funding participants. The Conservancy believed that this funding could be applied to conserving forests at a number of priority international conservation sites identified by the Conservancy that would contribute to TNC's mission of preserving the diversity of life on earth.

After identifying these important conservation projects, TNC then collaborated with outside scientific experts to better quantify the potential amounts of emissions reductions that might result from the forest protection. TNC sought the advice of a third-party climate change expert, Mark Trexler of Trexler and Associates (now Trexler Climate and Energy Services). Trexler reviewed TNC's international conservation priority sites and determined which, if any, of the site based forest protection work for which TNC needed financial support would, if funded, result in measurable reductions in CO_2. Trexler identified a number of projects that met the carbon sequestration criteria.

Using TNC project descriptions, cost information, and estimated CO_2 reductions, the Conservancy then began to actively market the projects to potential financial participants, principally electric power and utility companies. TNC also submitted many of these same project proposals to the U.S. Initiative on Joint Implementation for its consideration and possible approval. TNC marketed these project proposals through presentations at conferences and by setting up meetings with potential contributors.

Over time, TNC also began to look at options for reducing emissions by sequestering carbon through reforestation activities, not just through forest land acquisition. TNC also found that there were suitable projects that could be developed in the U.S. to meet TNC's conservation goals and the carbon sequestration criteria. TNC's work to identify feasible projects in the U.S. has been and continues to be funded in part by a grant from the U.S. Dept of Energy.

In this phase of the Conservancy's approach to carbon sequestration/habitat protection/reforestation projects, the following projects were completed and are presented chronologically:

Noel Kempff Mercado Climate Action Project, Bolivia
Agreement executed March 9, 1998

Noel Kempff is home to a number of unique species including the jaguar, giant river otter, and nine species of macaw. The Park itself encompasses five important ecosystems, ranging from Amazonian rainforest, gallery forest, and semi-deciduous tropical forest to flooded savanna and cerrado. On April 3, 2003, The John F. Kennedy School of Government at Harvard University presented the 2003 Roy Family Award to

the Noel Kempff Mercado Climate Action Project in Bolivia. The award was established to recognize an outstanding effort by public and private sector organizations working together to protect our environment or preserve uniquely valuable natural resources.

The Conservancy began working in the area near the Noel Kempff Mercado National Park in the late 1980s. At that time the park was only half the size it is today. The other half was being logged legally under concessions purchased from the Bolivian government. While the government, the Conservancy, and a local conservation partner organization, Fundación Amigos de la Naturaleza (FAN,) were interested in expanding the park, funding was needed to purchase the logging rights.

The TNC project screening exercise had indicated that cessation of logging activities on 1.6 million acres of land and the incorporation of those lands into the existing park would result in substantial CO_2 benefits. TNC began to share the Noel Kempff project idea with various companies, including American Electric Power (AEP), that TNC believed might have an interest in carbon offsets and AEP was, in fact, interested in supporting the park and obtaining possible carbon offsets. However, AEP was not able to support the total project costs; AEP and TNC together actively wrote letters to and met with a number of other companies that might be interested in supporting the project. Two other project participants, Pacificorp and British Petroleum, ultimately also decided to provide the funds needed to complete the project agreement.

Reforestation and Biodiversity Projects Agreement between The Nature Conservancy and Cinergy Services, Ohio and Indiana.
Agreement executed January 5, 1999

The Edge of Appalachia Preserve is one of the most biologically diverse collections of natural systems in the Midwestern United States. It is a nationally recognized ecologically significant preserve complex encompassing 12,000 acres of rugged woodland, prairie openings, waterfalls, giant promontories and clear streams.

The Conservancy initiated discussions with Cinergy about general organizational financial support. After discussing a number of proposals, The Conservancy found that Cinergy was most interested in the idea of supporting a carbon sequestration project. TNC proposed that a project of mutual interest, reforestation activity for biodiversity and carbon sequestration at a number of sites within Indiana and Ohio, would be developed by the Conservancy and funded by Cinergy. Reforestation activities using this source of funding have since occurred at several project sites in the area, including at the Edge of Appalachia Preserve.

Rio Bravo Carbon Sequestration Pilot Project Expansion, Belize
Agreement executed August 31, 1999

When some 21,000 acres of land became available for purchase to expand and better integrate the management of the Ro Bravo protected area, the Conservancy and TNC's conservation partner, Programme for Belize, sought to find the funding for the

acquisition costs. The land purchase would help to better connect the different parts of the park created through the first Rio Bravo conservation project. TNC actively sought funding from numerous companies to cover the land costs and ultimately secured the needed project funding from WEPCO, Suncor Energy, Inc., and Canadian Occidental Petroleum. Ltd.(now Nexen, Inc.)

Central and South West Services Guaraquecaba Climate Action Project, Brazil
Agreement executed March 18, 2000

Brazil's Atlantic Forest is recognized by UNESCO as one of the planet's most important priorities for conservation and is designated a World Biosphere Reserve. More than half of its tree species and nearly three-quarters of its other plants are found nowhere else on earth. Though most of the Atlantic Forest has been lost, at least 15 species of globally endangered birds a well as a recently discovered primate – the black-faced lion tamarin – survive in its remnants. Aggressive forest protection and reforestation to enlarge the protected habitat area is needed to ensure survival of these species.

The Conservancy developed a project concept to protect and restore 17,000 acres of ecologically critical forests in the Atlantic Forest region of Brazil that would substantially and measurably reduce CO_2. After developing the project concept, TNC actively sought and secured meetings with numerous companies to attract funding for forest protection and restoration in the area. Central and South West Services, Inc. (CSW), an electric utility company, expressed interest in the work and after a visit to the site eventually funded the project.

General Motors Atlantic Rainforest Reforestation Project, Brazil
Agreement executed June 23, 2000

This project is similar in concept and is located in close proximity to the project funded by Central and South West, Inc. The Conservancy actively marketed the project concept to General Motors and others. After repeated visits and meetings, General Motors made the decision to provide financial support to this project that resulted in the restoration and protection of approximately 30,000 acres of critically important forests.

Texaco Antonina Pilot Reforestation Project, Brazil
Agreement executed December 12, 2000

This project is similar in concept and is located in close proximity to the other projects in the Atlantic Forest of Brazil. The Conservancy actively marketed the project concept to Texaco and others. After repeated visits and meetings, Texaco made the decision to provide financial support to this project that resulted in the restoration and protection of 2,500 acres of critically important forests.

Bayou Pierre Floodplain Climate Action Project, Louisiana
Agreement executed April 19, 2004

D-21

The Red River Valley represents a historic and critical migration corridor for migratory birds funneling out of North America to the Gulf Coast and beyond to as far as Tierra del Fuego in South America. The Red River Valley provides habitat for numerous wildlife species that require large, contiguous forests such as the red wolf, the Louisiana black bear, and many bird species. In order to achieve conservation goals for these species, it is important to undertake reforestation activities to enlarge and enhance already protected habitat in the area.

In April 2002, Utilitree Carbon Company requested proposals for carbon projects from several organizations, including The Nature Conservancy, The Conservation Fund, and Ducks Unlimited. The Nature Conservancy responded to this request for proposals with a project that sought funding for the Bayou Pierre project. In June 2003, PowerTree Carbon Company was created, as a successor organization to Utilitree Carbon Company. The Bayou Pierre Climate Action Project was funded by PowerTree Carbon Company - based on the TNC proposal submitted to and requested by Utilitree Carbon Company. PowerTree funded five other similar projects that were proposed by different organizations.

Also, please explain how the approximately $35 million official commitments made by the various financial participants in the emissions arrangements was reported by TNC on its Forms 990 (contributions, program service revenue, other).

Under written guidance received from its outside accountants in 1998, The Nature Conservancy has treated the majority of payments under Climate Change Projects on its Form 990 as contribution revenue, line 1. In a few cases where the financial obligations of the participating contributors to make payments to a project over time were secured by a note receivable, such obligations were reported on Form 990 as Notes Receivable.

Has TNC completed, or is TNC involved in negotiations involving, any other emissions credit or allowance arrangements not previously reported to the Committee?

The Conservancy continues to work on climate change projects to advance our conservation goals. The following two projects are in current negotiations.

<u>Cat Island Climate Action Project – Detroit Edison, Louisiana</u>

Cat Island contains the highest density of old-growth bald cypress trees left in the Lower Mississippi Valley with literally thousands of trees exceeding eight feet in diameter. This forest contains the world champion bald cypress tree, the largest tree in the United States east of the Sierra Nevada Mountains, which measures 53 feet in circumference. The site is home to a large variety of wildlife species including river otters, giant alligator snapping turtles, nesting herons and egrets, an array of songbird species and the federally threatened Louisiana black bear. Reforesting areas adds to and buffers the old-growth habitat at Cat Island and reduces the threat of habitat destruction.

D-22

The Conservancy has approached Detroit Edison with the proposed project in which the utility would make a payment which would be used for land protection/reforestation purposes. On April 14, 2005, the Conservancy signed a letter of intent with Detroit Edison to fund reforestation activities on land around the Cat Island National Wildlife Refuge, in Louisiana. Detroit Edison will receive the rights to carbon sequestered from the reforestation activities.

Rio Blanco Climate Action Project - World Bank BioCarbon Fund, Dominican Republic

Rio Blanco is located in the Madre de las Aguas Conservation Area, which has a unique assemblage of species with high rates of endemism. Over 90% of amphibians and reptiles, 50% of butterflies, 35% of birds and 40% of plants in Madre de las Aguas are found only in the Dominican Republic. Reforestation and protection of existing forests helps abate the significant deforestation threat occurring in and around the site.

The Conservancy has submitted a proposal to the World Bank BioCarbon Fund to provide funding to protect forested and reforested areas within and around Juan B. Perez Rancier/Valley Nuevo National Park. BioCarbon Fund project participants will receive the rights to carbon sequestered which may arise from the project activities. The project proposal was tentatively approved on March 30, 2005.

D-23

Carbon Investments not Charitable Contributions

Contribution revenue is reported by the Conservancy on Line 1, page 1 of its Form 990, which line reads "Contributions, gifts, grants, and similar amounts received." These contributions, gifts, and grants can be unrestricted, temporarily restricted (generally as to purpose), or permanently restricted (generally for endowments). The contributions can be in the form of cash, stock, gifts of land (both conservation land and trade lands), and other tangible goods (such as trucks, PCs, etc). The carbon sequestration revenues (included in this category of revenue) are considered temporarily restricted contributions or grants; i.e., they are restricted as to their purpose - TNC must spend them on carbon sequestration projects, which furthers our mission in a specified way.

Whether these contributions are treated as "charitable contributions" depends on the taxpayer's own characterization of such a payment not on the reporting of such contributions by the recipient. As the recipient of such a contribution for a designated carbon sequestration project, The Nature Conservancy has never sent letters or other reports representing or acknowledging that such contributions were to be characterized as a charitable contribution. The Conservancy has provided letters to thank the investors for their support related to the specific project, an example of which is attached. These letters are to be distinguished from the Conservancy's standard acknowledgement letter to a donor who has made a charitable contribution, a sample of which is attached.

In each of the carbon sequestration projects reported to the Committee, the Conservancy has orally told the company to consult with their own lawyers as to the proper characterization of the payments. In addition, the Conservancy has orally represented to the project participants that, because of the retained rights to the carbon benefits, such payments would not be able to be reported as charitable contributions.

To best of the Conservancy's knowledge, none of the project investments made in the carbon sequestration projects reported the Committee has been reported as a charitable contribution. Moreover, it is the Conservancy's understanding that the funds for the General Motors project in particular, came from GM's North American operations budget rather from GM's charitable foundation.

RECEIVED 2005

The Nature Conservancy®
Saving the Last Great Places

John C. Sawhill
President & Chief Executive Officer

International Headquarters
4245 North Fairfax Drive
Suite 100
Arlington, Virginia 22203-1606

TEL 703 841-5300
FAX 703 841-8796

January 13, 2000

Mr. Jack Smith
Chairman, Chief Executive and President
General Motors Corporation
100 Renaissance Corporation
Post Office Box 100
Detroit, Michigan 48265-1000

Dear Jack,

I wanted to formally thank you for General Motors' decision to proceed with the project development phase of the Atlantic Rainforest Climate Action Project in Brazil and for the $500,000 check we received today to begin that work. General Motors has been a tremendous supporter of The Nature Conservancy under your leadership and I think this project will create a lasting legacy from our relationship.

Thanks again for all your help. Best regards.

Sincerely,

JCS/mc

recycled paper

The Nature Conservancy®
Saving the Last Great Places

W. William Weeks
Executive Vice President

International Headquarters
4245 North Fairfax Drive
Suite 100
Arlington, Virginia 22203-1606

TEL 703 841-2023
FAX 703 841-0273

July 13, 2000

Mr. Jack Smith
Chairman of the Board
General Motors Corporation
300 Renaissance Center
MC 482-C39-B10
P.O. Box 300
Detroit, Michigan 48265-3000

Dear Jack:

I have just learned that General Motors has transferred $9.5 million to The Nature Conservancy to allow us to proceed with the Atlantic Rainforest Climate Action Project in Brazil. This is great news indeed, and I would like to thank you again, now, for your role in making it happen. General Motors has been a tremendous supporter of The Nature Conservancy under your leadership. This project, particularly, will create a critically important, and lasting legacy. There is now much work to be done, of course, but the people on the Conservancy team for this project are so enthusiastic about what has already happened that we want to acknowledge at this time the great work put in by Denny Minano and his team – Terry Pritchett and Fred Sciance, in particular.

Again, thanks for all your help. Best regards.

Sincerely,

Cc: Denny Minano, Vice President, Public Policy, General Motors Corporation
Terry Pritchett, Manager, Global Climate Issue Team, Public Policy Center
General Motors Corporation
Fred Sciance, Industry-Government Relations, GM Global Headquarters

APPENDIX I

INFORMATION RE: FUNDRAISING AND CHARITABLE CONTRIBUTIONS

QUESTION 3: Trade Land

JUL 25 2003

"TNC has a program called 'Trade Lands' that targets donations or below market sales of land by corporations and individuals for resale by TNC. Please describe in detail this program, including the number and value of gifts from corporations and individuals."

Under certain circumstances, The Nature Conservancy accepts gifts of real estate with limited or no ecological significance. The Conservancy calls such properties "trade lands" because they are donated with explicit understanding that they may be sold, sometimes with restrictions on their use, and the proceeds invested in priority conservation work. Since its inception in 1981 the trade lands gift program has generated more than $180 million for conservation.

The Conservancy receives many types of property through the trade lands program, including single-family homes, apartment buildings, farms, office buildings and building lots. Due to the costs involved in evaluating a potential gift and maintaining property until it is sold, the Conservancy has established a minimum gift of $50,000.

In below-market sales to TNC (bargain purchases) the Conservancy buys a trade land at less than fair market value. Such transactions have been rare in the Conservancy's history, and policy dictates that the Board of Governors approve any bargain purchases of $100,000 or more. Between July 1, 1997 and June 30, 2002 one of 287 trade land transactions was a bargain sale. In this instance the donation of property to TNC was contingent upon the Conservancy paying back taxes of $70,000 for a property valued at $750,000. The Conservancy sold the property for $1.3 million.

AUG 2 1 2003

QUESTION 3: Trade Land

TNC sometimes receives trade land gifts through bequests. With these gifts, Form 8283 is not required since the donor died prior to the gift being made. Similarly, Form 8282 is not required. We have included sale information on these types of gifts. Moreover, Form 8283 is not required unless the donor is taking a charitable deduction on income taxes.

October 27, 2004
Senate Finance Committee Letter

Question 17: Narrative Re: Trade Lands

Please provide an aggregate trade lands account reconciliation from 6/30/97 to 6/30/2003 (beginning account balance, book value of trade lands acquired, gains on trade lands, losses on trade lands, etc., ending balance). Confirm whether any writedowns in value to reflect lower of cost or value were made for trade land holdings during this period.

A summary trade lands chart for FY 98 through FY 02, along with an explanation of the headings of the summary chart, is enclosed.

During this five year period both writeups and writedowns occurred with respect to trade lands held by The Nature Conservancy. The aggregate of these writeups and writedowns is reflected in the "Valuation Adj Up or Down" column. Writeups or writedowns occur for a variety of reasons. With respect to retained life estate trade lands, The Nature Conservancy adjusts the book value of all retained life estates to reflect its increasing interest in the assets with passing time. The adjustments are based on the life tenant's year of birth and the fair market value of the property (usually at the time of the gift). These figures are entered into a software program which calculates the actuarial book value of the retained life estates based on an IRS formula. While book values for retained life estates typically increase each year, in 2000 the IRS changed the formula for making this calculation, resulting in a significant decrease (writedown) in book values for FY 2000. The Nature Conservancy also reevaluates the fair market value of trade lands that have been on its books for a period of three years. If there is a substantial decrease in value, an adjustment is made and the book value is written down.

Summary of Trade Lands
Heading Explanations

Fiscal Year begins July 1 of the previous calendar year and ends June 30 of the year stated.

Beginning Book Value represents the total book value of all trade land assets on the General Ledger as of the first day of the fiscal year.

Land In represents any additions to the total book value of trade land assets by virtue of the acquisition of new trade land assets or reacquisition of disposed trade land assets due to foreclosures on financed sales during the fiscal year. The value of each trade land is added to the General Ledger when each acquisition or reacquisition occurs.

Land Out represents the total book value of all trade land assets that have been disposed of during the fiscal year. The value of each trade land is removed from the General Ledger as each disposition occurs.

Land Recl represents the net of total book value of trade land assets that are reclassified to conservation land assets and the total book value of conservation land assets that are reclassified to trade land assets during the fiscal year.

Valuation Adj Up or (Down) represents the total book value adjustments that were made during the fiscal year. These adjustments include the annual book value adjustments to Retained Life Estate trade lands based on changing actuarial valuations, any book value write-downs on trade lands that have lost substantial value, and any corrections to original book values and updates to original book values that were estimated at the time of acquisition but were later substantiated with 8283s or appraisals. It is The Nature Conservancy's practice to re-evaluate the fair market value of trade lands that have been on its books for a period of three years.

Ending Book Value represents the total book value of all trade lands assets as of the last day of the fiscal year after all book value adjustments were made.

Regular (Gain) or Loss on Sale represents the difference between the book values of all trade lands sold during the fiscal year and their sales prices, excluding those sold with conservation restrictions. A trade land sold for more than the book value is represented as a gain and a trade land sold for less than the book value is represented as a loss. Any sale made within two years of the gift is reported to the IRS on Form 8282.

Subtotal (Gain) Loss for 990 represents the sum of the valuation adjustments and the regular gains and losses on sales, as reported on Form 990.

Consv Loss on Sale represents the losses attributed to selling trade lands at a reduced sales price due to deed restrictions and/or a conservation easement placed on the property. It is a portion or all of the difference between the sales price and book value of the trade land.

April 21, 2005
Senate Finance Committee Letter

Question 11

Please describe the activities used by TNC to solicit contributions of trade land properties, as well as the activities TNC conducts (directly or through its agents) to develop or sell such properties. Please provide a breakdown (based on approximate dollar amounts of sales or number of sales transactions) of commercial office buildings, personal residences, and other types of trade land properties. Please provide a list of trade land properties currently held by TNC with an appraised value exceeding $100,000 and information regarding the date of acquisition by TNC, the type of property, and current asking price by TNC, with respect to such properties.

Please note that the Conservancy defines trade lands as properties that do not qualify for preservation under Conservancy preserve criteria and which have little or no ecological significance. The Conservancy acquires these areas, usually by gift, to be resold with the net sale proceeds used to protect unique natural lands. Before the Conservancy disposes of trade land properties, an ecological evaluation is performed to determine whether the property warrants protection for conservation purposes.

The Conservancy expends minimal effort to solicit trade land gifts, and such efforts are largely confined to the Conservancy's membership. The three methods of trade land solicitation employed by the Conservancy are: 1) occasional advertisements in the Conservancy's quarterly magazine; 2) personal discussions between TNC staff and potential donors; and 3) as a funding option in general planned giving materials, including information on the internet. The Conservancy does not use agents to solicit or develop trade land gifts, nor do we actively pursue the purchase of trade lands.

Once clear title is obtained to a given trade land gift, staff arrange for its sale, which is usually handled by third-party real estate agents in the area where the trade land is located. The Conservancy takes no steps to develop or enhance the value of the property prior to sale, although general maintenance of the property (payment of taxes, arranging for upkeep, etc.) is allowed.

The Conservancy trade land sales records are not maintained by property type, so we are unable to provide a breakdown of the dollar amount and number of sales by property type. However, we can state with some confidence that the vast majority of trade lands received and sold by the Conservancy are unimproved or improved residential real estate. To the best of our knowledge the Conservancy has never received a commercial office building as a trade land gift.

A list of trade lands currently held by the Conservancy with an appraised value in excess of $100,000 is attached. Where the Conservancy is currently marketing the property for sale a current asking price is indicated. Since many of these gifts are subject to retained life estates (indicated by RLE on the schedule) and may not be sold until the resident with the right to occupy the property vacates, no current asking price is noted.

MAY 12 2005

Owned Trade Lands Exceeding $100,000

Trade Land	Date of Acquisition	Type	Current Asking Price
[redacted](RLE)	12/16/1996	Improved Residential	N/A
[redacted](RLE)	1/8/2004	Improved Residential	N/A
[redacted](RLE)	10/15/2004	Improved Residential	N/A
[redacted] (RLE)	7/25/1984	Unimproved	N/A
[redacted](RLE)	12/27/1994	Improved Residential	N/A
[redacted](RLE)	1/23/1993	Improved Residential	N/A
[redacted](RLE)	11/19/1997	Improved Residential	N/A
[redacted](RLE)	7/13/1987	Improved Residential	N/A
[redacted](RLE)	2/5/2003	Improved Residential	$ 129,000.00
[redacted] (RLE)	6/29/1998	Improved Residential	N/A
[redacted](RLE)	10/13/1999	Improved Residential	N/A
[redacted] (RLE)	3/12/1996	Improved Residential	N/A
[redacted](RLE)	6/10/1999	Improved Residential	N/A
[redacted]	12/30/1997	Unimproved	N/A
[redacted]	12/29/1994	Unimproved	N/A
[redacted][1]	12/28/1994	Improved Residential	N/A
[redacted][3]	3/17/1982	Unimproved	N/A
[redacted]	12/18/2002	Unimproved	$ 165,000.00
[redacted]	5/18/2004	Improved Residential	$ 324,900.00
[redacted]	7/9/2004	Unimproved	$ 199,000.00
[redacted](Unitrust)[2]	10/28/2004	Improved Residential	$ 3,600,000.00
[redacted]	11/24/2004	Improved Residential	$ 239,000.00
[redacted]	12/28/2004	Improved Residential	$ 389,000.00
[redacted] (Unitrust)	12/27/2004	Unimproved	$ 144,000.00
[redacted]	3/15/1989	Unimproved	$ 600,000.00

[1] [redacted]: The Nature Conservancy owns a 20% undivided interest.
[2] [redacted]Unitrust: The unitrust receives 50% of the net proceeds.
[3] [redacted]: The Conservancy owns a 40% interest in certain mineral rights.

April 21, 2005
Senate Finance Committee Letter

Question 8

Please provide a list of the donor advised funds that TNC has established over the past three years, including the name of the donor, the dates and amounts of the contributions to the fund, the type of property contributed, the relationship (if any) the donor has with TNC, the type of investment the fund has entered into, and the present account balance of the fund overall and for each individual. Also describe whether any of the individual fund balances have been used for expenditures relating to donor review of the grants from the fund or investment of the fund balances. Please provide an estimate of the current aggregate donor advised fund balances that have been established by TNC. Please provide all policies of TNC in managing the donor advised fund.

A list of Donor Advised Funds established since April 1, 2002 is provided in the attached excel document, TNC Donor Advised Fund - Participants since April 1, 2002. (Please note, only two participants set up donor advised funds with The Nature Conservancy prior to this date.) The list includes the name of the donor, dates and amounts of contributions, type of property contributed, relationship between the donor and the Conservancy, and the 3/31/05 account balances of each fund. The total balance of The Nature Conservancy's Donor Advised Fund as of 3/31/2005 was $4,436,198.

The Donor Advised Fund is invested in a segregated account within the The Nature Conservancy's investment portfolio. This account is managed to the standards established in The Nature Conservancy's Investment Policy (attached). As of April 22, 2005, the Donor Advised Fund was invested as follows:

Domestic Equity: 30.7%
Fixed Income: 35.9%
Cash 4.8%
International Equity: 8.8%
Hedge Funds: 8.4%
Private Equity: 0.2%
Global Equity 11.2%

None of the individual fund balances have been used for expenditures relating to donor review of the grants from the fund or investment of the fund balances.

When The Nature Conservancy Donor Advised Fund was established in 2000, the parameters of the fund and the procedures developed for administering the Fund were set up in accordance with the regulations proposed at that time by the Internal Revenue Service for Donor Advised Funds. The attached *Donor Advised Fund Procedures, Protocol for Distributions,*

Distribution to Charity Cover Letter, and Memorandum of Understanding (with Exhibit A) provides further information and details regarding the Conservancy's procedures for managing the Donor Advised Fund.

TNC Donor Advised Fund - Participants since April 1, 2002

Name of Fund	Name of Donor	Related Party*	Initial Contribution	Manner of Funding	Date	Add'l Contributions	Manner of Funding	Date	3/31/2005 Value
[redacted]	[redacted]	None	1,000,000	Check	12/26/2003	1,000,000	Check	12/27/2004	1,800,525
		None	100,000	Check	12/11/2003				82,025
		None	113,201	Stock	5/4/2004	17,990	Stock	3/22/2005	72,297
		Florida Board of Trustees	598,884	Stock/Mutual Fund/Bond/Cash	6/30/2004				551,309
		None	100,000	Check	3/11/2003				46,407
		None	1,407,848	Electronic Funds Transfer	4/30/2004				1,341,086
		[redacted] TNC employee	105,000	Check	12/22/2004				100,264
		None	339,998	Stock	10/14/2004				324,231

*Related Party: all employees, Board members, Chapter Trustees, close relatives of the foregoing, and related organizations

THE NATURE CONSERVANCY

INVESTMENT POLICY

INTRODUCTION

This policy is designed to provide a framework within which to manage the investments of The Nature Conservancy (the "Conservancy").

The Board of Governors of the Conservancy (the "Board") recognizes that it is the "named fiduciary" with respect to control or management of the investment assets of the Conservancy. Among its other duties, the Board directs the management and control of the investment assets in accordance with prudent standards of care. The Board may appoint an investment manager or managers to manage any investment assets. The investment assets addressed in this policy are distinguished from short-term cash managed by the Assistant Treasurer. Management of short-term cash accounts falls under the Centralized Banking and Signature Authority policy that has been established by the Board.

Decisions relating to the implementation of this policy reside with the Finance Committee of the Board of Governors. The Finance Committee is authorized to take any and all actions consistent with this policy and may further delegate authority to act within the guidance provided by this policy to Conservancy management and, specifically, the Director of Finance & Investments. The Finance Committee may also designate and appoint a fiduciary advisor to make recommendations to the Conservancy.

This Investment Policy provides a structure consistent with a standard of care necessary for the Board of Governors' to exercise its fiduciary responsibility in managing the funds of the organization. To that end, this policy includes separate sections on: investment objectives; assets, including strategic asset allocation; investment management; performance standards; and miscellaneous matters, including endowment spending rates, investments of other funds (i.e. planned giving and retirement plan assets), and certain trustee responsibilities.

In developing this policy, the Conservancy considered liquidity requirements, the need to diversify assets, and the financial impact (including the possibility of a significant loss) of a wide range of possible policies. It is anticipated that a new strategic asset allocation will be created whenever there is a significant change in cash requirements or capital market expectations, and at least every five years. This policy will be updated to reflect the results of each such study.

INVESTMENT OBJECTIVES

The primary purpose of the investment program is to invest assets in a manner that ensures sufficient resources will be available to meet immediate and long-term requirements. The Funds of the Conservancy should be invested in institutional assets that are prudently managed and well diversified. The overall investment objective is to provide adequate cash flows to meet requirements of the Conservancy, while preserving principal and maximizing returns, given appropriate risk constraints.

A. Investment Objectives of the Funds

The investment of these funds should provide current investment income to be used for operations, while maintaining and enhancing the purchasing power of the original principal in perpetuity.

B. Performance Objectives

It is expected that the returns achieved will be accompanied by capital market risk, but that the returns, adjusted for this risk, will compare favorably to the return of the applicable markets and similar endowments. Over complete market cycles, the Conservancy's assets should generate a return, net of fees, greater than the benchmark index, consisting of a combination of appropriate capital market indexes

weighted in the same proportions as the Conservancy's strategic asset allocation (as defined in Exhibit I) net of fees associated with passively investing in the benchmark.

ASSETS

A. Acceptable Asset Classes

The following asset classes are considered acceptable for inclusion in the strategic asset allocation outlined in Exhibit I. Investment in these asset classes is subject to the restrictions on asset allocation, credit, and diversification as outlined in this policy.

1. Equity Securities:

   a. Domestic Equities—United States equities, including only publicly traded common, preferred, and convertible securities.

   b. International Equities—including only publicly traded common, preferred, and convertible securities, and American Depository Receipts.

2. Fixed Income Securities:

   a. Domestic and international debt, including both public and privately traded.

   b. Government, government agency, and corporate debt.

   c. Asset backed securities, including mortgages.

3. Cash, including:

   a. Money market instruments such as commercial paper, certificates of deposit, time deposits, bankers' acceptances, repurchase agreements, and short-term fixed income securities.

   b. Collective short-term investment funds such as money market funds.

4. Real Estate:

   a. Equity real estate and other real property.

   b. Real Estate Investment Trusts (REITs).

5. Alternative Investments:

   Alternative investments, generally assets that are not publicly or freely traded, including such assets or strategies as venture capital funds, mezzanine financing and hedge funds.

Derivatives, which include options, futures, swaps, and similar derivatives of securities; or options, futures, swaps, and similar derivatives of indexes of securities; or options, futures, swaps, and similar derivatives of currencies, are an acceptable alternative to investing in the types of securities permitted in A. 1. through A. 5., above. Derivatives are subject to the restrictions detailed in B. 4. below.

B. Restrictions

1. The entire portfolio shall have no more than 10% of its assets (at market value) invested in the securities of any one issuer, with the exception of the U.S. government and its agencies.

2. Initial purchases of fixed income securities are restricted to obligations with a minimum rating of B by Standard & Poor's or B by Moody's. The weighted average quality of the overall fixed income portfolio must be rated at least A as rated by Standard & Poor's and A by Moody's. In addition, no more than 15% of the securities in the overall fixed income allocation may be rated below investment grade. Investment grade securities are defined as those with a minimum rating of BBB by Standard & Poor's or Baa by Moody's. Further, no more than 15% of the overall fixed income securities may be in 144A securities, and no more than 10% may be non-U.S. securities.

3. Initial purchases of money market securities are restricted to obligations with a minimum rating of A-2 by Standard & Poor's, P-2 by Moody's, or their equivalent.

4. Derivatives, for the purpose of these restrictions, include (i) derivatives as defined in A. above, (ii) notes whose interest rate is tied to the movement of an index or another security or otherwise contain embedded options, and (iii) pass-through securities and traunches of pass-through securities. Derivatives are subject to the following additional restrictions:

   a. Derivatives may be used only for the purpose of reducing or controlling known risks (hedging), reducing transaction costs, shifting a portfolio's asset allocation, establishing positions in securities or indexes as an alternative to establishing positions in the cash markets, modifying the duration or convexity of a portfolio, or changing its yield.

   b. Derivatives may not be used to leverage the portfolio beyond what would otherwise have been experienced by investing in underlying cash market obligations.

   c. A derivative's fundamental risk/reward profile as well as the market(s) or security(ies) from which the derivatives financial character flows must be consistent in both letter and spirit with this policy.

   d. Derivative positions shall not be taken if payments are linked to indices or assets inconsistent with this investment policy.

   e. Potential downside risks (e.g., financial performance and market liquidity), assuming a severely stressed financial environment, must be considered before undertaking any positions in derivative instruments.

   f. For non-exchange traded derivatives, counterparties must maintain a minimum credit rating of A by Standard & Poor's or Moody's. Counterparty credit ratings must be continuously monitored. If the credit rating of a counterparty falls below A, the manager must advise the Conservancy immediately and the Conservancy will determine if the positions with that counterparty will be unwound or transferred to an acceptable counterparty.

   g. Except for exchange traded derivatives, the total notional (underlying) value of the position with any one counterparty which are not subject to two-way collateral agreements are limited to 10% of the entire portfolio.

   h. For transactions which are the equivalent of being short the cash market, cash, readily marketable and deliverable securities, or an offsetting exposure must be

maintained to cover the entire contingent delivery obligation represented by such contracts.

5. The fund may invest in commingled funds maintained by third parties that invest in securities authorized by this policy. Investment guidelines for commingled funds should be consistent with the intent of this policy, but need not comply with this policy in its entirety.

C. Strategic Asset Allocation

The Board has delegated the authority to establish the acceptable asset class allocations to the Finance Committee. The Board will confirm the asset allocation on an annual basis. The Director of Finance and Investments, as advised by an appointed fiduciary advisor, if any, has discretion with respect to implementation of asset allocation decisions within these acceptable ranges and may employ an overlay manager to implement allocation changes.

INVESTMENT MANAGEMENT

A. Structure

1. It is not anticipated that the Conservancy will manage assets directly, but that the assets will be managed by independent investment managers. It is expected that the Conservancy will employ a Director of Finance and Investments and may appoint a trading advisor to assist in portfolio liquidations and restructurings.

2. To maintain prudent diversification and to avoid undue risk, the assets will be divided among a group of managers. The number of managers used will be determined by such factors as the total funds committed to an investment asset category; diversification, monitoring and cost considerations; and the investment style of the selected managers (e.g. value vs. growth).

3. Emphasis will be placed on seeking high quality investment managers. A proven style of investment that offers the best opportunity for meeting the investment objectives of the Conservancy is a basic requirement. Characteristics of selected firms will include a clear investment strategy, proven investment record and a disciplined decision-making process. In all cases, careful analysis will be conducted to evaluate the likelihood of the organization's prior track record being maintained (or in the case of a new organization, the prior track records of its principals).

B. Manager Guidelines

1. Except in case of the alternative asset class allocation, each manager must be either an investment adviser registered as an investment adviser under the Investment Advisers Act of 1940 and qualified to act as an investment manager for the Funds under Section 3(38) or a bank as defined in that Act, and must execute an "Investment Manager Agreement" which will include fee structure, investment guidelines and restrictions contained in this policy, and any additional guidelines or restrictions specific to the manager.

2. Assets are to remain in the custody of the Trustee unless (1) specifically assigned to a trusteed pooled account maintained by the investment manager, in which case the investment manager will furnish the Trustee with evidence of ownership of the units of the pooled account, or (2) as required to support margin requirements related to investments in derivatives.

3. Assets are to be managed in such a way that they are subject to prudent standard of care and any other applicable governmental or legal requirements. The manager may rely on information furnished from time to time by the Conservancy. If there is any doubt or concern as to the

prudence of any investment or as to interpretation of this paragraph, the investment manager must notify the Conservancy of such doubt or concern before making the investment.

4. Managers are to seek " best execution" on all trades as measured by market impact and commissions.

STANDARDS OF PERFORMANCE

A. Total Fund Performance

To evaluate the overall performance of the Endowment, Capital, and Operating Funds, a special performance index will be maintained. This will serve as the minimum performance objective and is based on the strategic asset allocation of each Fund. The index is calculated by multiplying monthly benchmark returns for each asset class associated with passively investing in the benchmark, by the respective portfolio weighting in each asset class.

B. Manager Performance

1. Over full market cycles (typically 3-5 years) each active manager's performance, net of fees and custody costs, is expected to be greater than an appropriate benchmark. It is expected that the excess return will be greater for higher risk asset classes than for lower risk asset classes.

2. Over interim periods (less than full market cycles), the Conservancy will compare each active manager's performance to its peer group in an appropriate investment manager database. Recognizing that peer group comparisons are imprecise, these comparisons will only be used to help evaluate the manager's progress towards achieving its goal to exceed its benchmark over a full market cycle.

3. Investment managers are expected to comply with the prudent standard of care and all applicable laws, rules and regulations of appropriate regulatory bodies.

C. Performance Measurement Periods

1. The measurement period for complete evaluation of the individual investment managers will be trailing 12 quarter periods in comparison with historic returns and complete market cycles. A market cycle is defined as a period containing one sub-period each of positive security returns and of negative security returns. Market cycles usually last for periods of 3-5 years.

2. Quarterly performance will be evaluated to test progress toward attainment of longer-term targets and reported to the Finance Committee in the Conservancy's regular quarterly financial report. It is understood that there are likely to be short-term periods during which performance deviates from market indices. During such times, manager performance relative to an appropriate peer group can be used to help evaluate the manager's progress towards achieving longer-term objectives.

3. Investment managers will meet at least annually with the Director of Finance and Investments or with the appointed fiduciary advisor, if any, to report performance and with the Finance Committee as requested.

4. The Director of Finance and Investments will review the investment performance of the Funds, and the individual investment managers, with the Finance Committee at each Board meeting.

MISCELLANEOUS

A. Contract Authorization

The Finance Committee approves and authorizes staff to execute any documents in form and substance satisfactory to him or her to facilitate implementation of this policy, including but not limited to, contracts with consultants, trustees, and investment managers for providing services.

B. Proxy Voting

It is recognized that the proxy vote attached to a security has a value and is therefore an asset of the Endowment and Capital Funds. All proxies are to be voted solely in the interest of the Conservancy and for the exclusive purpose of providing benefits and with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character. Proxies should be voted for issues which enhance shareholder economic value, maintain or improve shareholder rights, are not dilutive and provide reasonable accountability for management.

To the extent the Conservancy invests in pooled or commingled funds, the Conservancy assents to the proxy voting guidelines adopted by the managers of these funds.

C. Securities Lending

Securities held by the Trustee may be loaned to others, only if continuously secured by cash or government securities with a market value equal to the minimums prescribed by regulation or at least 102% of the market value plus accrued interest for domestic securities or 105% of the market value plus accrued interest for international securities loaned if no regulations apply. Collateral shall be invested in a diversified, non-leveraged, portfolio of cash and fixed income securities with a maximum average effective portfolio duration of 120 days. Individual securities must qualify as a Tier I security for securities with a maturity of 13 months or less, or be rated A or better for securities with a maturity in excess of 13 months and a maximum remaining effective maturity of 5 years.

D. Brokerage

It is recognized that brokerage commissions have value and are to be used to the exclusive benefit of the Endowment, Capital, and Operating Funds. Commissions can be incurred for execution, clearance and settlement of securities transactions, research or to defray reasonable expenses of administering the Endowment and Capital Funds. Consistent with obtaining "best execution" transactions are to be directed to brokers who provide discounted commissions or will rebate a portion of the commission to the Conservancy. Proceeds from these commission recapture programs are to be deposited in the Conservancy and used to defray expenses otherwise payable by the Conservancy.

E. Endowment Funds Spending Rate

Annually, the Board determines the rate at which the income generated from the investment of Endowment Funds can be spent. The endowment "spending rate" is expressed as a percentage of the fair market value of the Endowment Funds for a period to be determined by the Board (the spending rate "base"). The endowment spending rate, when applied to the approved spending rate base, determines the maximum amount which may be allocated from a given endowment annually in accordance with the restrictions, if any, which may have been specified by the donor. This maximum, per endowment, is communicated to each management unit as a part of the annual budgeting process.

F. Investment of Other Funds

The Conservancy also has a central investment function pertaining to the assets of its 401K Savings and Retirement Plan, and of its Gift and Legacy Planning Program. The Board is responsible for the selection, retention and oversight of the Savings and Retirement Plan fund manager(s), and all trustees and investment managers employed to maintain and manage the assets of the Gift and Legacy Planning Program. The Board may also be responsible for other funds for which the Conservancy serves as Trustee or otherwise has a fiduciary responsibility.

G. Amendments

The Conservancy reserves the right to change this policy at its discretion. Any authority not delegated by this policy remains with the Conservancy including, but not limited to, changing acceptable asset classes and investments and changing the allocation ranges. Managers are not obligated to changes in this policy until communicated and accepted by them.

ORIGIN:

Approved by the Board of Governors in March 1996. Revised July 1997, February 2000, and September 2004 to reflect Board-approved established procedure.

Donor Advised Fund Procedures

[GPA = Gift Planning Administration, PPT =Philanthropy Planning Team]

Prior to Donation (PPT and development staff)

Potential donors and their legal and/or financial advisors, as well as TNC staff, must thoroughly understand the contents of the Memorandum of Understanding (MOU) and must be aware of the structure of the DAF.
Critical points:

- A donation is an outright contribution to The Nature Conservancy.
- Donors may advise on, but do not control distributions from the fund
- Suggested distributions can not represent the payment of any pledge or other financial obligation of the donor and donors may not accept any benefits offered them in connection with suggested distributions.

Donation Processing

- Donors will transfer cash or stocks to TNC under the same procedures as an outright gift with date of gift established under the same procedures as an outright gift. GPA processes the asset as usual.
- PPT sends MOU and Schedule A (two copies) with cover along with blank distributions forms and protocol sheet. Cover will include thank you and and language required by IRS in support of the donor's deduction.
- Donor signs both MOUs and keeps one copy of the signed MOU and Schedule A and forwards the other to Senior Philanthropic Advisor at WO
- PPT notifies GPA to submit a Center/Sub-Center Opening Request. The DAF budget center number is 298 032 0001. If stock gift, stock team handles processing. If cash, PPT completes a Miscellaneous Cash Receipts form and sends it with the check to Treasury. The Revenue Code is 4001.
- FMS interaction entry is made by PPT

Note: additional donations do not require MOU and schedule

Acknowledgment (handled by PPT)

- PPT orders Presidential Acknowledgement which serves as thank you for tax purposes
- See MOU inclusion of IRS language above

Distributions (handled by GPA)

- Distributions are made quarterly and request deadlines are the 15th of September, December, March and June

- Donor requests distributions using the distribution letter (delivered to TNC in hard copy, fax okay)
- Request is reviewed and, if appropriate, approved
- For non-TNC distributions, a check request is ordered and check is sent with explanatory letter to recipient organization (*confirm with donor whether or not the distribution should be anonymous)*. Funds are taken from the DAF budget center and corresponding sub-center, account number 5750
- For TNC distributions, a JERF is processed
- TNC, moves manager, PPT and finance officer for the project are informed
- Form letter confirmation of the distribution is sent to donor
- FMS entry is made to record distribution

Required distributions (GPA tracks)

- The minimum distribution required each year is 5% of the January 1 fund value for existing funds and 5% of initial value for new funds established prior to June 30. Funds established after June 30 will not be required to distribute in the year of creation.
- If minimum distributions are not made by November 1, ST notifies moves manager with cc to PPT.
- If no action by December 1, PPT calls donor to remind and suggest possible distributions.
- If no request is made, amount to meet required minimum is transferred to TNC fund at year-end.

Quarterly Report (GPA)

- A report including beginning and ending balance of the fund, distributions, any changes to value and the minimum distribution requirement for the year (if not met) is sent to donor approximately 30 days after the end of each quarter.
- Two copies of the Distribution Request Letter are sent with the annual report.

Protocol for Distributions from The Nature Conservancy's Donor Advised Fund

In return for making an irrevocable charitable gift into The Nature Conservancy's Donor Advised Fund, donors retain the right to advise The Nature Conservancy as to the distribution of those funds. The Nature Conservancy will also provide donors with information about a variety of funding opportunities in the communities it serves. These distribution recommendations shall be communicated on a regular basis as an informational service to Donor Advised Fund donors by The Nature Conservancy.

Although the Nature Conservancy is not required to follow any donor advisory request, it shall give each such request full consideration. In approving donor requests, The Nature Conservancy will consider several criteria, including recommendations by The Nature Conservancy's Board of Directors and independent investigation by The Nature Conservancy staff. Annual distributions must be at least 5% of the Fund's assets; and at least 20% of the distributions must be designated to The Nature Conservancy.

Upon receiving a donor distribution request, The Nature Conservancy will determine whether the organization has been previously approved by The Nature Conservancy for funding. If it has, if it continues to be listed in the current Internal Revenue Service Publication 78 (which lists organizations with 501(c)(3) status), and if The Nature Conservancy is not aware of any significant changes in the organization's standing since the distribution was made, no further investigation is necessary. If the organization has not been previously approved, The Nature Conservancy will research the organization, including its charitable purpose and activities, legal and financial status, and compliance with community ethical and fund raising standards (based upon information provided by oversight groups such as the National Charities Information Bureau, the American Institute of Philanthropy, and the Council of Better Business Bureaus Philanthropy Advisory Service).

Distribution requests to bona fide charitable organizations and purposes will generally be approved, unless those requests are in conflict with the mission and the values of The Nature Conservancy. The Nature Conservancy's mission is to preserve plants, animals and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive. The Nature Conservancy's core values include:

- maintaining the highest ethical standards,
- working through non-confrontational means toward tangible and lasting results,
- operating as a single, unified organization working locally to achieve Conservancy-wide objectives,
- forging strong productive partnerships with all sectors of society,
- encouraging the pursuit of innovation and excellence,
- initiating a commitment to men and women from a broad spectrum of ethnic and cultural backgrounds, ages and abilities, lifestyles and beliefs, and

- demonstrating a commitment to the future.

Examples of charitable organizations and activities that The Nature Conservancy would consider contrary to its mission and core values include: (a) organizations that do not adhere to legal and ethical standards regarding fund raising operations and practices; (b) organizations that do not practice responsible stewardship of resources; (c) organizations that undermine the mission of The Nature Conservancy; and (d) organizations whose activities would engender undue controversy and divisiveness within The Nature Conservancy's donor community.

If there is a question as to whether the organization meets The Nature Conservancy's guidelines for funding, a Donor Advised Fund Review Committee composed of senior Nature Conservancy management from the Legal, Finance, and Development Department will review the request. The Committee will consider both the donor's advice as well as recommendations by appropriate Nature Conservancy personnel. Following this review, the Committee will make a final determination regarding funding approval.

If a donor advisory request is approved, The Nature Conservancy will make a distribution to the charity designated by the donor, either in the name of the donor's fund or anonymously according to the donor's wishes. Donors will receive periodic reports detailing distributions from the funds that they have contributed to The Nature Conservancy as well as the current balance and overall investment performance of these funds.

Date

Organization
Address
City, State

Dear:

I am very pleased to enclose a check in the amount of _____ which represents a distribution to your organization from the _____ Donor Advised Fund at The Nature Conservancy.

By endorsing the check, your organization acknowledges that the disbursement does not represent the payment of any personal pledge or other financial obligation of _____ or members of his family and that no benefits or privileges will be offered them in connection with the distributions.

Should you have any further questions about this distribution , please do not hesitate to contact me at 703-841-4539.

Sincerely,

Susan Gutchess
Director, Planned Giving Administration

Enclosures

Cc: Donor
Address

MEMORANDUM OF UNDERSTANDING
FUND

MEMORANDUM OF UNDERSTANDING, made effective the day of , 200_ between , currently residing at and THE NATURE CONSERVANCY, INC. ("The Nature Conservancy"), a non-profit corporation organized under the laws of the District of Columbia with its principal office currently at 4245 North Fairfax Drive, Suite 100, Arlington, Virginia, 22203.

1. ***Irrevocable Gift.*** The Donor has made a complete and irrevocable charitable gift of property described on the attached "Exhibit A" to The Nature Conservancy, which is accepted by The Nature Conservancy to be administered and distributed under the following terms and conditions.

2. ***Creation of Fund.*** A fund will be established on the books of The Nature Conservancy to be known as FUND (the "Fund"). The Fund will include the original gift to the Fund, such other property as may be transferred to The Nature Conservancy by the Donor and accepted by The Nature Conservancy for inclusion in the Fund, such property as from time to time may be received by The Nature Conservancy from any other source and accepted by it for inclusion in the Fund, and income credited and other net proceeds of the Fund. If the property transferred to the Fund is securities, the Fund will receive the proceeds from the sale of the securities reduced by the fees associated with the sale. If the property transferred to the Fund is real property, the Fund will receive the proceeds from the sale of the property, with a reduction for any holding costs incurred by the Fund, such as, but not limited to, property taxes, insurance, home owner association fees, and utilities as well as costs incurred from the sale of the property such as but not limited to sales commissions, title insurance, settlement costs and transfer taxes.

3. ***Use of Fund.*** The Fund may be used only for educational, scientific and charitable purposes (or any combination of such purposes). The parties intend that the Fund not violate the restrictions on uses of funds in section 4945 of the Internal Revenue Code of 1986, as amended (the "Code").

4. ***Control of Fund.*** The Fund will be the property of The Nature Conservancy and held by it in its corporate capacity; it will not be deemed a trust fund held by The Nature Conservancy in a fiduciary capacity; and it may be commingled with other funds held by The Nature Conservancy. The Nature Conservancy in its corporate capacity will have ultimate authority and control over all property in the Fund, including any income earned by the Fund.

5. ***Investment of Fund.*** All property in the Fund is invested at the sole discretion of The Nature Conservancy. The Nature Conservancy will, from time to time, credit income and other proceeds as provided by its investment policies in force to the Fund.

6. ***Term of Fund.*** The term of the Fund shall begin upon the initial contribution of property to the Fund and shall end upon the death of the survivor of the Donor. If, however, the Donor has designated a successor advisor (as provided in Paragraph 9) and if the account value of the Fund shall exceed $5,000.00 on the date of death of the survivor of the Donor, then the

Fund shall terminate upon the earlier of (i) the death of the designated successor advisor or (ii) 20 years after the death of the Donor.

7. ***Distributions from Fund during its Term.*** The Nature Conservancy shall designate distributions from the Fund of income and principal and will consider several criteria in determining the amount and timing of such distributions, with special weight given to donor advisory requests. Other criteria include recommendations from the Board of Governors of The Nature Conservancy. The minimum annual amount The Nature Conservancy shall distribute from the Fund must equal at least five percent (5%) of the net fair market value of the Fund's net assets. Twenty percent (20%) of distributions from the Fund shall be used directly by The Nature Conservancy in its own programs and up to eighty percent (80%) may be used for the support of other public charities and private operating foundations, provided that all such funds shall be used exclusively for charitable purposes within the meaning of Section 170(c)(2)(B) of the Code and provided further that the purposes of other public charities and private operating foundations are not inconsistent with those of The Nature Conservancy, as determined by The Nature Conservancy in its sole and absolute discretion. The parties intend that distributions from the Fund comply with the minimum requirements for distributions by private foundations in section 4942 of the Code.

8. ***Donor Advisory Requests.*** The Nature Conservancy staff will independently investigate and evaluate the donor advisory requests to ensure that they are consistent with the needs and programs most deserving of support by The Nature Conservancy. The Nature Conservancy is not bound to follow the advice of the Donor and under no circumstances shall the Donor be permitted to mandate the distribution of funds. Distributions shall not represent the payment of any personal pledge or other financial obligation of the Donor. The Donor shall not accept any benefits or privileges offered them in connection with distributions from the Fund. The Nature Conservancy will investigate allegations of improper use of donor advisory requests for the private benefit of the Donor. If the Donor fail to request distributions which total the minimum distribution from the Fund which may be used for the support of other public charities and private operating foundations in any given year, the remaining portion of the minimum annual amount required to be distributed will be distributed to The Nature Conservancy.

9. ***Successor Advisor.*** The Donor may designate a successor advisor (a) by an instrument in writing delivered to The Nature Conservancy prior to the death of the Donor or (b) in a last will and testament duly accepted for probate in the jurisdiction of a Donor's death within one hundred eighty (180) days of that Donor's death. Provided that the account value of the Fund shall exceed $5,000.00 on the date of death of the Donor, at that time, and not before, the latest or first irrevocably designated successor advisor shall have the same powers and restrictions and be subject to the same rules as the Donor for the balance of the term of the Fund. The power to appoint a successor advisor is personal to the Donor and may not be exercised by any successor advisor.

10. ***Minimum Fund Balance.*** To establish a Fund, the Donor must contribute a minimum of $100,000.00. If the balance of the Fund declines below $5,000.00, The Nature Conservancy shall, at its option, terminate the Fund and distribute the proceeds as provided in Paragraph 11.

11. ***Distribution of Fund upon its Termination.*** All assets remaining in the Fund upon its termination shall be withdrawn and used by The Nature Conservancy for its general purposes.

12. ***Intentions of Parties.*** Nothing in this Memorandum of Understanding is intended to affect nor in fact shall affect the status of The Nature Conservancy as an organization described in Section 501(c)(3) of the Code. It is the express intention of The Nature Conservancy that the Fund be organized and operated to comply with Treasury Department requirements for donor advised funds operated by public charities. This Memorandum shall be interpreted accordingly and so as to conform to the requirements of federal tax law and any regulations issued pursuant thereto. The Nature Conservancy is authorized to amend this Memorandum to conform to the provisions of any applicable law or government regulation in order to carry out the foregoing intention by an instrument in writing delivered to the Donor or to the designated successor advisor if the Donor is no longer living.

IN WITNESS WHEREOF, the Donor and The Nature Conservancy have made this Memorandum effective the date first written above.

DONOR:

_____

Name

THE NATURE CONSERVANCY, INC.:

By: _____

Name: _____

Title: _____

EXHIBIT A

Fund

Memorandum of Understanding dated , 200_ between and and The Nature Conservancy, Inc.

Schedule of Assets

Item No.	Property Description

Receipt of the above-described assets is hereby acknowledged this day of , 200 .

The Nature Conservancy, Inc.

By: _____

Question 7 - Estimated Contributions Breakdown (in $millions)

Fiscal Year	Conservation (total)	Conservation Land	Conservation Easement	Trade Lands	Securities	Other In-kind
2000	$86.1	$44.3	$41.8	$4.9	$40.9	1.8
2001	$72.3	$36.0	$36.3	$7.1	$88.2	4.5
2002	$259.0	$57.5	$201.5	$4.9	$36.3	1.7
2003	$134.3	$41.3	$93.0	$5.1	$24.5	1.5
2004	$81.3	$26.0	$55.3	$5.1	$28.1	10.7

April 21, 2005
Senate Finance Committee Letter

Question 3

Please provide estimates of the amounts or values of cash or inkind contributions that have been made to TNC's conservation buyer fund since it was established, and state when it was established.

The Nature Conservancy has been attempting to establish a national conservation buyer fund via our web site since 2002. We have received five gifts totaling $870. Beginning in 1998, three state programs (Wyoming, Missouri, and Kentucky) also established conservation buyer funds at the state level. Total contributions to these three states for their conservation buyer funds are approximately $13,000,000. These funds are invested in conservation buyer properties; when properties are sold the proceeds are returned to the fund for use in other conservation buyer projects. Expenditures from these funds are governed by the Conservancy's corporate policies and procedures.

QUESTION 11: Valuation

JUL 25 2003

"The Washington Post quotes a TNC state trustee regarding charitable deductions:

'Generally, the buyer puts too much value on it [for tax purposes]. Land donators almost always try to value their land at more than the [true] value. This is a business. We sort of wince and look away at some of the values buyers put on these transactions. We're not the IRS.' (Emphasis added).

Please provide TNC's viewpoint on this statement."

While donors of land often try to maximize the tax benefits of a gift, it has not been TNC's experience that land donors "almost always over value their lands." Although we do not track donor controversies with the IRS, we have rarely been contacted by donors or the IRS because of such controversies. Because an accurate and responsible appraisal process has been critical to the Conservancy's success, there are instances where TNC has given the donor notification in writing as part of the Form 8283 that there are serious concerns with the donor's valuation. Poor appraisals are bad for our business and will not be encouraged or ignored.

APR 2 3 2004

XVIII. Cash Donations Greater than $50,000: Individual donors from whom TNC has purchased land or interests in land, from FY 98 through FY 2002

Has TNC ever entered into agreements with donors that provided TNC will indemnify or reimburse the donor for lost tax benefits from the loss or reduction of the charitable contribution deduction claimed by the donor? If so, please provide a copy of each such agreement.

To the best of our knowledge, there are no such agreements. See also, p.8 of the Conservancy's "Responses to Questions on Conservation Buyer Program" dated April 15, 2004.

;FC II RESPONSE
(I. Valuation

'lease provide copies of documentation to support TNC's statement that "TNC has given the donor notification in writing as part of he Form 8283 that there are serious concerns with the donor's valuation." Please provide copies of all such letters sent within the ast 5 years.

Donor Contact	Address	Subject	Attachment
		Santa Catalina (Weiss) AZ	Letter dated 8.17.01 to [redacted] from A[redacted], memo dated 10.30.00 to Santa Catalina [redacted] File from [redacted] re: documentation of value
		Red Barn Development Corporation Tract	Letter dated 3.3.98 to [redacted] from [redacted]
		Donation of a fully paid-up life insurance Policy	Letter dated 3.6.02 to [redacted] from [redacted]
		Mihall Tract Fayette County, Iowa	Letter dated 5.18.01 to [redacted] from [redacted]
		Kankakee Sands (DeYoung 2 Tract)	Letter dated 7.3.01 to [redacted] and [redacted] from [redacted]
		Mackinaw River (Rynerson Tract)	Letter dated 8.1.01 to [redacted] and [redacted] from [redacted]
		Senachwine Lake 9Trust 118177-07) Putnam County, Illinois IRS Form 8283	Memorandum dated 1.6.95 to "the file" from [redacted]
		Indian Boundary Prairies (Heritage Trust Company Tract)	Letter dated 3.10.97 to [redacted] from [redacted]
		Indian Boundary Prairies (Heritage Trust Company Tract)	Letter dated 3.7.97 to [redacted] from [redacted]

The Nature Conservancy®

August 17, 2001

BY CERTIFIED MAIL
RETURN RECEIPT REQUESTED
#7000 1670 0003 8738 0930

[redacted]

Re: Santa Catalinz (Weiss) AZ

Dear [redacted]

As you requested, I am returning on behalf of The Nature Conservancy the signed IRS form 8283 with regard to the transfer of approximately 2.6 acres in Pima County, Arizona to The Nature Conservancy.

The Nature Conservancy's delivery of IRS form 8283 is merely to indicate the Conservancy's receipt of the property and not to agree with the value of the property as stated in that form. The documentation of value used by the Conservancy indicates the value of the property to be approximately $150,000, and that is the value shown on the books of the Conservancy. Two real estate agents who specialize in land in northeast Tucson were contacted to determine a range of values. Factors taken into account in valuing this property were the location and lack of water or utilities on the property. In addition it was noted that this property had been listed for sale in early 2000 at $197,500 and that no offers were made at that price.

In the event the IRS audits this transaction and contacts us, The Nature Conservancy will be required to disclose the information which is summarized here.

Sincerely,

[redacted]

[redacted]
Division Counsel

Enclosure
cc: [redacted] (via fax)

Western Regional Office • 2060 Broadway • Suite 230 • Boulder, Colorado 80302 • tel 303 444-1060 • fax 303 449-4328
Alaska • Arizona • Colorado • Idaho • Montana • Nevada • New Mexico • Oregon • Utah • Washington • Wyoming
International Headquarters • Arlington, VA

TNC ARIZONA CHAPTER INTEROFFICE MEMORANDUM

TO: SANTA CATALINA (WEISS) FILE

FROM: [redacted]

SUBJECT: DOCUMENTATION OF VALUE

DATE: OCTOBER 30, 2000

CC: [redacted]

The [redacted] tract is a 2.6 acre parcel on the north side of Catalina Highway adjacent to Coronado National Forest. The tract consists of high Sonoran Desert scrub: palo verde, ocotillo, prickly pear. It is within a curve of the highway, not easily accessible, shows no sign of human use, and has no improvements. There is no water or other utilities to the property, but such services do exist across the highway and a couple of hundred yards down the slope. The property is basically on a rocky outcropping above the highway, but a small drainage could provide access to a building lot in the center of the property. It would be one of the highest building lots in the Tucson area and has stunning views of the valley.

Valuing the [redacted] parcel is difficult. One the one hand, it is a "trophy" lot, perhaps the highest elevation in the Tucson valley, unique location on north side of Catalina Highway, with spectacular views, no neighbors, and thousands of acres of national forest as the "backyard." On the other hand, building would be an engineering challenge, accessing water and power would be very expensive, traffic noise from the highway would be an issue, and vandalism might be a problem.

I spoke with two real estate agents who specialize in land in northeast Tucson.

1. [redacted] Century 21 Realty listed the property briefly in early 2000 at $197,500. He had numerous inquiries, but no offers. After a short time, the listing was cancelled. [redacted] thinks the "right" person would be willing to pay close to $200,000 for such a unique, trophy lot. He compared the lot to ones at nearly the same elevation and topography in Ventana that are selling at close to $500,000. The Ventana lots are in a gated community, with water and power, and far from any noisy roads, justifying the higher price.

2. [redacted] Coldwell Banker estimated the value at $125,000 to $160,000. Lots across the highway in Milagrosa Hills subdivision are selling for $125,000 to $170,000, with water and power close at hand.

I think [redacted] estimate is too optimistic, and the fact that he received no offers at a list price of $197,500 suggests that the lot was over-priced. The lot's exposure to the Catalina Highway makes it far less attractive than lots in Ventana. Milagrosa Hills provides better comparables. On the plus side, the [redacted] is slightly higher in elevation, has unrestricted views, and has no neighbors. On the minus side, accessing utilities and developing the lot would be very expensive, the highway can be noisy at times, the highway right-of-way easement impacts a significant portion of the property, and vandalism could be a significant problem. Based upon the above, I estimate the value of the [redacted] tract at $150,000.

The Nature Conservancy
NEW YORK REGIONAL OFFICE

415 River Street, 4th Floor
Troy, New York 12180
TEL 518 273-9408
MAIN FAX 518 273-5022
LEGAL FAX 518 273-5178

570 Seventh Avenue, Suite 601
New York, New York 10018
TEL 212 997-1880
FAX 212 997-8451

International Headquarters
Arlington, Virginia
TEL 703 841-5300

To [redacted]

March 3, 1998

File [redacted]

[redacted]

Re: Red Barn Development Corporation Tract

Dear [redacted]

Enclosed please find two (2) signed copies of IRS Form 8283 with regard to the donation to The Nature Conservancy of the 83 acre Red Barn Development Corporation Tract in the Town of Claverack, Columbia County, New York.

As I am sure you are aware, The Nature Conservancy's signing of Form 8283 is merely an indication of the Conservancy's receipt of donated property; the Conservancy takes no position as to the donor's appraised value for donated property as stated on Form 8283.

I know that [redacted] of our Eastern New York Chapter Office has discussed with you the fact that the appraised value stated on the Form 8283 being returned to you is substantially different from the informal market values the Conservancy has obtained for the Red Barn Development Corporation property. According to the two Columbia County realtors with whom we have consulted, if the property were sold as one parcel its current market value would be approximately $80,000-100,000. If it were subdivided into eight lots and the lots were sold separately, the total market value of the lots would be approximately $280,000.

In the event the IRS audits this transaction and contacts us The Nature Conservancy will be required to disclose this information.

Sincerely,

[redacted]
Regional Counsel

MAR 5 1998

Enclosures

cc: Michael Dennis, Esq., [redacted], Eastern New York Chapter Office

ick Nature Conservancy/Adirondack Land Trust - Eastern NY Chap...

The Nature Conservancy®

March 6, 2002

VIA FEDERAL EXPRESS

[redacted]

Dear Mr. and Mrs. [redacted]

I have received the IRS Form 8283 for the donation of a fully paid-up life insurance policy that you sent to this office for my signature. However, since the amount you are claiming as a tax deduction is greater than $5,000.00, the IRS requires you to have an independent appraisal of the policy value. Therefore, I am returning the form to you so that you may obtain an appraisal. Once an appraiser has completed Part III, please return the completed form to [redacted] Legal Assistant, The Nature Conservancy, 2060 Broadway, Suite 230, Boulder, CO 80302. She will forward the form to me for signature on behalf of the Conservancy and return it to you.

I have noted that the amount you are claiming as a deduction is greater than your cost. Although I cannot provide you with tax advice, generally your deduction is equal to the lesser of the cost basis or the interpolated terminal reserve value on the date of the gift. You may want to check with a tax counselor or accountant to make sure that you are claiming the lawful deduction.

If you have any questions, do not hesitate to contact Betsy Baur, Associate State Director for Development & Marketing, at (406) 443-0303.

Sincerely,

[redacted]

Rocky Mountain Divisional Attorney

Enclosure
cc: [redacted] (w/o enclosure)
[redacted] (w/o enclosure)

Western Regional Office • 2060 Broadway • Suite 230 • Boulder, Colorado 80302 • tel 303 444 1060 • fax 303 449 4328

The Nature Conservancy®

Midwestern Resource Office
1313 Fifth Street Southeast, Suite 314
Minneapolis, Minnesota 55414-1588
TEL 612 331-0700
FAX 612 331-0770

International Headquarters
Arlington, Virginia
TEL 703 841-5300

May 18, 2001

[redacted]

Re: [redacted]
Fayette County, Iowa

Dear [redacted]:

Since you are claiming a deduction of exactly $5,000, it is not necessary for me to sign the IRS Form 8283. When I sent it to you, I mistakenly assumed that you would be completing Section B of Form 8283 (for deductions in excess of $5,000). Only Section B must be signed on behalf of The Nature Conservancy. You will note that Part IV which includes the acknowledgement of the donee includes a statement that the donee "received the donated property as described in Section B, Part I above." I apologize that you sent the form to me unnecessarily based on my letter.

However, I noted that you indicated that your gift is a gift of five acres of property. Although you should receive advice from your own attorney when he returns, I believe that your Form 8283 should reflect the fact that you conveyed 14.5 acres of property to the Conservancy and received payment of a purchase price of $12,755 that your appraiser has concluded is worth $17,755 (resulting in a $5,000 deduction).

I am returning the IRS Form 8283 that you completed and I am also enclosing an additional copy should you choose to revise the way that you described your gift.

Sincerely,

[redacted]
Division Counsel

LG:kk
enclosures - also sent clean copy of IRS 8283

recycled paper

The Nature Conservancy®

Midwestern Resource Office
1313 Fifth Street Southeast, Suite 314
Minneapolis, Minnesota 55414-1588
TEL 612 331-0700
FAX 612 331-0770

International Headquarters
Arlington, Virginia
TEL 703 841-5300

July 3, 2001

[redacted]

Re: Kankakee Sands ([redacted] 2 Tract)

Gentlemen:

I recently received a copy of IRS Form 8283 that you completed and provided to [redacted] in February 2000. At this point, I assume that you have filed your income tax returns and attached Form 8283 to your return or returns. The purpose of this letter is to advise you that, as completed, Form 8283 appears to contain certain inaccuracies that may cause confusion by the IRS and that may have resulted in your claiming a greater tax deduction than may be warranted.

I would like to call your attention to the following items in Form 8283 as completed by you and submitted to [redacted]:

1. The form was completed for [redacted] with a taxpayer identification number of 36 217 1361. The title to the property was held by you individually and the conservation easement was also granted to the Conservancy by you individually. As a result, my letter of August 16, 2000 was addressed to you and described a gift from you individually rather than a gift from [redacted]. If [redacted] is a partnership and the benefits of the deduction would pass out from the partnership to you, this discrepancy may not affect the actual tax benefits to you. However, the easement, the Conservancy's acknowledgement of the gift and Form 8283 are not fully consistent and these discrepancies might create some confusion should you be audited.

2. In Section B, Part I, you described the gift as "18.36 acres of wooded real estate" with an appraised fair market value of $1,429 per acre and $26,236 total. The actual gift to The Nature Conservancy was of a conservation easement. I understand that $1,429 per acre is the price that was paid for fee title to adjacent property that you sold to the Conservancy. A conservation easement generally has a value which is substantially less than the value of the fee title. It is, therefore, likely that the deduction that was claimed exceeds the actual value of the conservation easement that was donated.

3. In Section B, Part III, an appraiser has signed the declaration of appraiser. However, given the description of the property in Section B, Part I, I assume that the appraisal was for the fair market value of fee title rather than of the conservation easement itself.

4. When [redacted] signed Section B, Part IV, he did not insert the taxpayer identification number of The Nature Conservancy. In addition, he did not indicate whether the Conservancy intended to use the property for an unrelated use. The absence of this information might have an adverse effect on your deduction should you be audited.

Before signing Form 8283, [redacted] did note on Section A, Part I that the donated property was a conservation easement. With this notation, The Nature Conservancy did acknowledge receipt of the conservation easement on August 3, 2000. However, Section B was not modified in the same manner, and issues concerning valuation of the donation easement were not called to your attention.

I apologize that Form 8283 was returned to you without advising you of these issues before your income tax returns for 2000 were due. However, I think it is important that you have this information so you can evaluate it with your tax adviser to determine whether you would like to prepare an amended Form 8283 and send it to me for signature on behalf of The Nature Conservancy.

Sincerely,

[redacted]

Division Counsel

LG:kk

[redacted]

The Nature Conservancy®
Saving the Last Great Places

Midwestern Resources Office
1313 Fifth Street Southeast, Suite 314
Minneapolis, Minnesota 55414-1588
TEL 612 331-0700
FAX 612 331-0770

International Headquarters
4245 North Fairfax Drive
Suite 100
Arlington, Virginia 22203-1606
TEL 703 841-5300

Sent via Priority Mail

August 1, 2001

[redacted]

Re: Mackinaw River ([redacted] Tract)

Dear [redacted]:

As we discussed, I am sending you IRS form 8283 which I have signed on behalf of The Nature Conservancy to indicate receipt of a donation on October 30, 2000.

Because The Nature Conservancy has an appraisal of the property that is significantly less than the appraised fair market value stated in the enclosed form 8283 and because it is my understanding that the declaration of appraisal must be for an effective date no more than 60 days prior to the date of the gift, you may wish to investigate the appraised value stated on the 8283. The Nature Conservancy, of course, is signing this form only to indicate receipt of the property and not to concur in the value of the property as stated on the form.

Sincerely,

[redacted]

Division Counsel

LG:kk
enclosure
cc: [redacted]
[redacted], sent via FAX - 847-564-3087

MEMORANDUM

To: The file

From: [redacted] MRO

Date: January 6, 1995

Re: Senachwine Lake [redacted]
Putnam County, Illinois
IRS Form 8283

We received copies of IRS Forms 8283 fro[redacted] for the individuals who donated property to the Conservancy. The contribution was made on December 15, 1994 and the date of the appraisal which was stated in the IRS forms was April 21, 1994. I left a message on [redacted]s voice mail letting him know that the date of the appraisal can be no earlier than 60 days prior to the contribution and that if he wanted to submit new 8283's, we would sign them.

The Nature Conservancy®

Sent via Certified Mail

March 10, 1997

[redacted]

Re: Indian Boundary Prairies
(Heritage Trust Company Tract)

Dear [redacted]

At the direction of the general counsel for The Nature Conservancy, I am sending you a duplicate copy of my letter of March 7, 1997 concerning IRS form 8283. Because of the extremely wide discrepancy between the value stated on the IRS form and the value provided to The Nature Conservancy by its appraiser, our general counsel has required that we have proof of delivery of the enclosed letter.

Sincerely,

[redacted]

IL-INDIAN BOUNDARY PRAIRIES (HERITAGE TRUST)

SENDER:
- Complete items 1 and/or 2 for additional services.
- Complete items 3, and 4a & b.
- Print your name and address on the reverse of this form so that we can return this card to you.
- Attach this form to the front of the mailpiece, or on the back if space does not permit.
- Write "Return Receipt Requested" on the mailpiece below the article number.
- The Return Receipt will show to whom the article was delivered and the date delivered.

I also wish to receive the following services (for an extra fee):
1. ☐ Addressee's Address
2. ☐ Restricted Delivery

Consult postmaster for fee.

3. Article Addressed to:
[redacted]
[redacted] Ave
[redacted]

4a. Article Number
P384720999

4b. Service Type
☐ Registered ☐ Insured
☒ Certified ☐ COD
☐ Express Mail ☐ Return Receipt for Merchandise

7. Date of Delivery
3-13-97

5. Signature (Addressee)
[signature]

6. Signature (Agent)

8. Addressee's Address (Only if requested and fee is paid)

Thank you for using Return Receipt Service.

...s your RETURN ADDRESS completed on the reverse side?

...512) 331-0770
...UTH DAKOTA • WISCONSIN

MRO LEGAL DEPT
MAR 14 1997
RECEIVED

Sent via Federal Express

March 7, 1997

[redacted]

Re: Indian Boundary Prairies
(Heritage Trust Company Tract)

Dear [redacted]

As you requested, I am returning three signed copies of IRS form 8283 with regard to the transfer of 11.433 acres in Cook County to The Nature Conservancy.

After receiving the forms, I called [redacted] to clarify with him the name of the taxpayer appearing on form 8283 since the deed to The Nature Conservancy was from [redacted] Trust Company rather than from Orland Inc. [redacted] advised me that it would be acceptable to him to change the taxpayer to read "[redacted] Inc. as beneficiary of [redacted] Trust Company Trust Number 92-4512." I believe that this change should be acceptable to [redacted] Inc.

As I have discussed with [redacted] The Nature Conservancy's delivery of IRS form 8283 is merely to indicate the Conservancy's receipt of the property and not to agree with the value of the property as stated in that form. The appraisal that was provided to The Nature Conservancy for this property is substantially different from that stated on the enclosed form 8283 in that our appraiser indicated that the property has a value of about $1,000 per acre. The Conservancy's appraiser assumed, based on the nature of the

MIDWEST REGIONAL OFFICE
1313 Fifth Street SE, Suite 314, Minneapolis, MN 55414-1588 • (612) 331-0700 • Fax (612) 331-0770
ILLINOIS • INDIANA • IOWA • KANSAS • MICHIGAN • MINNESOTA • MISSOURI • NEBRASKA • NORTH DAKOTA • OHIO • SOUTH DAKOTA • WISCONSIN

wetland, surrounding embankments, and probable limitations on development from environmental regulations, that the best use of the property was not an economic use but was that of conserving natural wetlands. I would also like to note that the property conveyed to The Nature Conservancy was subject to a previously recorded deed restriction/covenant which was executed as a condition of a U.S. Army Corps of Engineers permit. The deed restriction prohibits dredging or filling the property, any structures, any removal or destruction of flora or fauna, and operation of any motorized vehicles on the property without prior written consent of the Corps of Engineers. It does not appear that [redacted] Inc.'s appraiser has taken these restrictions into account in valuing the property when it was conveyed to the Conservancy.

In the event the IRS audits this transaction and contacts us, The Nature Conservancy will be required to disclose the information which is summarized here.

Finally, you may wish to ask your appraiser to update the appraisal which your form 8283 indicates was completed in May 1996. The instructions for form 8283 indicate that appraisals "must be made not earlier than 60 days before the date you contribute the property."

As you requested, I am returning the enclosed forms by Federal Express and appreciate your offer to reimburse the Conservancy the $7.97 cost of doing so.

Sincerely,

[redacted]

[redacted]
Regional Counsel

LG/kk
enclosures
cc: Illinois Field Office
[redacted]
Mike Dennis

[redacted] - enclosed is reimbursement for Federal Express

April 21, 2005
Senate Finance Committee Letter

Question 9

Please provide an estimate of the aggregate dollar value and number of transactions, for which TNC has received conservation easements or other conservation restrictions for which donors expected or intended to claim a charitable deduction as a qualified conservation contribution under Code section 170(h), for each of the last three years, including a breakdown for each year based on the predominant conservation purpose: outdoor recreation by or education of the general public, protection of natural habitat, or preservation of open space.

The Nature Conservancy received approximately 165 conservation easement transactions during Fiscal Year 2003 and Fiscal Year 2004 (as per agreement with the Committee this question has been modified to cover FY 2003 and FY 2004). The aggregate value of the conservation easements acquired during this period totaled approximately $150 million dollars. These easements were acquired at a cost of approximately $25 million dollars (some easements were acquired as outright gifts and some easements were acquired by purchase at a price below the appraised fair market value with the difference being eligible for treatment as a bargain-sale under Code section 1011(b)). Please note that these figures do not include the value or number of easement transactions in which the Conservancy purchased a conservation easement for its full fair market value.

In virtually every case, the predominant conservation purpose served by the conservation easement is for "the protection of a relatively natural habitat" and the properties over which the Conservancy has accepted such easements are in furtherance of a systematic, ecoregional assessment identifying the conservation significance of such properties. Although it is difficult to determine with accuracy whether donors "expected or intended" to claim a charitable deduction for the conveyance of these easements without verifying such facts with individual donors and because documents indicating evidence of such intentions are located in numerous Conservancy offices throughout the country, it is the Conservancy's assumption that the majority, if not all, of these transactions involved a claim for a charitable contribution deduction. Also, please note that in March, 2004, the Conservancy adopted new standard operating procedures with regard to the substantiation of the value of conservation easement gifts using Form 8283 that has been described previously to the Committee.

Internal Revenue Service IRS.gov
DEPARTMENT OF THE TREASURY

Internal Revenue Bulletin: 2004-28
July 12, 2004

Notice 2004-41

Charitable Contributions and Conservation Easements

Table of Contents

- Contributions of Conservation Easements
- Purchases of Real Property from Charitable Organizations
- Penalties, Excise Taxes, and Tax-Exempt Status
- DRAFTING INFORMATION

The Internal Revenue Service is aware that taxpayers who (1) transfer an easement on real property to a charitable organization, or (2) make payments to a charitable organization in connection with a purchase of real property from the charitable organization, may be improperly claiming charitable contribution deductions under § 170 of the Internal Revenue Code. The purpose of this notice is to advise participants in these transactions that, in appropriate cases, the Service intends to disallow such deductions and may impose penalties and excise taxes. Furthermore, the Service may, in appropriate cases, challenge the tax-exempt status of a charitable organization that participates in these transactions. In addition, this notice advises promoters and appraisers that the Service intends to review promotions of transactions involving these improper deductions, and that the promoters and appraisers may be subject to penalties.

Contributions of Conservation Easements

Section 170(a)(1) allows as a deduction, subject to certain limitations and restrictions, any charitable contribution (as defined in § 170(c)) that is made within the taxable year. Generally, to be deductible as a charitable contribution under § 170, a transfer to a charitable organization must be a gift of money or property without receipt or expectation of receipt of adequate consideration, made with charitable intent. *See U.S. v. American Bar Endowment*, 477 U.S. 105, 117-18 (1986); *Hernandez v. Commissioner*, 490 U.S. 680, 690 (1989); *see also* § 1.170A-1(h)(1) and (2) of the Income Tax Regulations.

Section 170(f)(3) provides generally that no charitable contribution deduction is allowed for a transfer to a charitable organization of less than the taxpayer's entire interest in property. Section 170(f)(3)(B)(iii) provides an exception to this rule in the case of a qualified conservation contribution.

A qualified conservation contribution is a contribution of a qualified real property interest to a qualified organization exclusively for certain conservation purposes. Section 170(h)(1), (2), (3), and (4); § 1.170A-14(a). A qualified real property interest includes a restriction (granted in perpetuity) on the use that may be made of the real property. Section 170(h)(2)(C); *see also* § 1.170A-14(b)(2). For purposes of this notice, qualified real property interests described in § 170(h)(2)(C) are referred to as conservation easements.

One of the permitted conservation purposes listed in § 170(h)(4) is the protection of a relatively natural habitat of fish, wildlife, or plants, or similar ecosystem. Section 170 (h)(4)(A)(ii); *see also* § 1.170A-14(d)(1)(ii) and (3). Another of the permitted conservation purposes is the preservation of open space ("open space easement"), including farmland and forest land, for the scenic enjoyment of the general public or pursuant to a clearly delineated governmental conservation policy. However, if the public benefit of an open space easement is not significant, the charitable contribution deduction will be disallowed. *See* § 170(h)(4)(A)(iii); *see also* § 1.170A-14(d)(1)(iii) and (4)(iv), (v), and (vi). Section 170(h) and § 1.170A-14 contain many other requirements that must be satisfied for a contribution of a conservation easement to be allowed as a deduction.

A charitable contribution is allowed as a deduction only if substantiated in accordance with regulations prescribed by the Secretary. Section 170(a)(1) and (f)(8). Under § 170(f)(8), a taxpayer must substantiate its contributions of $250 or more by obtaining from the charitable organization a statement that includes (1) a description of any return benefit provided by the charitable organization, and (2) a good faith estimate of the benefit's fair market value. *See* § 1.170A-13 for additional substantiation requirements. In appropriate cases, the Service will disallow deductions for conservation easement transfers if the taxpayer fails to comply with the substantiation requirements. The Service is considering changes to forms to facilitate compliance with and enforcement of the substantiation requirements.

If all requirements of § 170 are satisfied and a deduction is allowed, the amount of the deduction may not exceed the fair market value of the contributed property (in this case, the contributed easement) on the date of the contribution (reduced by the fair market value of any consideration received by the taxpayer). *See* § 1.170A-1(c)(1), (h)(1) and (2). Fair market value is the price at which the contributed property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell, and each having reasonable knowledge of relevant facts. Section 1.170A-1(c)(2). *See* § 1.170A-14(h)(3) and (4) for a discussion of valuation.

If the donor (or a related person) reasonably can expect to receive financial or economic benefits greater than those that will inure to the general public as a result of the donation of a conservation easement, no deduction is allowable. Section 1.170A-14(h)(3)(i). If the donation of a conservation easement has no material effect on the value of real property, or enhances rather than reduces the value of real property, no deduction is allowable. Section 1.170A-14(h)(3)(ii).

Purchases of Real Property from Charitable Organizations

Some taxpayers are claiming inappropriate charitable contribution deductions under § 170 for cash payments or easement transfers to charitable organizations in connection with the taxpayers' purchases of real property.

In some of these questionable cases, the charitable organization purchases the property and places a conservation easement on the property. Then, the charitable organization sells the property subject to the easement to a buyer for a price that is substantially less than the price paid by the charitable organization for the property. As part of the sale, the buyer makes a second payment, designated as a "charitable contribution," to the charitable organization. The total of the payments from the buyer to the charitable organization fully reimburses the charitable organization for the cost of the property.

In appropriate cases, the Service will treat these transactions in accordance with their substance, rather than their form. Thus, the Service may treat the total of the buyer's payments to the charitable organization as the purchase price paid by the buyer for the property.

Penalties, Excise Taxes, and Tax-Exempt Status

Taxpayers are advised that the Service intends to disallow all or part of any improper deductions and may impose penalties under § 6662.

The Service intends to assess excise taxes under § 4958 against any disqualified person who receives an excess benefit from a conservation easement transaction, and against any organization manager who knowingly participates in the transaction. In appropriate cases, the Service may challenge the tax-exempt status of the organization, based on the organization's operation for a substantial nonexempt purpose or impermissible private benefit.

In addition, the Service intends to review promotions of transactions involving improper deductions for conservation easements. Promoters, appraisers, and other persons involved in these transactions may be subject to penalties under §§ 6700, 6701, and 6694.

DRAFTING INFORMATION

The principal author of this notice is Patricia M. Zweibel of the Office of Associate Chief Counsel (Income Tax & Accounting). For further information regarding this notice, contact Ms. Zweibel at (202) 622-5020 (not a toll-free call).

Prev Up Next
Home

APPENDIX J

INFORMATION RE: JOINT VENTURES AND RELATED ENTITIES

The Nature Conservancy
SAVING THE LAST GREAT PLACES ON EARTH

Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283
nature.org

CONFIDENTIAL

Responses To Question XII 1-8, Related Organizations

March 3, 2004, Letter From U.S. Senate Committee on Finance

To The Nature Conservancy

XII. RELATED ORGANIZATIONS

OVERVIEW STATEMENT

In 1995, The Nature Conservancy ("TNC") created the Center for Compatible Economic Development ("CCED") to be a new and distinct operating unit of TNC, to work with communities in developing new conservation tools that would develop businesses, products, and land uses that conserve ecosystems, enhance local economies and achieve community goals.

TNC's then 45 years of experience in protecting significant ecosystems confirmed that long-term conservation would succeed only with strong support from the people who live and work in these areas. Economic development is vitally important to these communities, but inappropriate development often presents serious threats to local ecosystems.

Examples of development that conserve ecosystems, generate profits and enhance qualify of life were rare. Therefore, successful, locally-based, compatible development initiatives were to be fostered, and the results documented and shared, to inspire efforts in other ecosystems and communities.

CCED placed special emphasis on compatible forestry, agriculture, tourism and residential development. CCED helped plan and launch sustainable development programs like the Virginia's Eastern Shore, in Appalachia's Clinch Valley, and in South Carolina's ACE Basin. CCED worked with cattle ranchers in six major ecosystems and communities during its early years to create and enhance businesses and identify markets that reinforce environmentally responsible production.

CCED's mission furthers conservation purposes by creating new jobs, helping local entrepreneurs plan, capitalize and launch new compatible businesses, and acting as a place for teaching, as well as learning, about conservation and compatible development.

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1. REPORT TO MANAGEMENT

Following the report to the management for the year ending June 30, 2002, The Nature Conservancy ("TNC") took the following actions with respect to identifying related entities, monitoring the relationships with related entities, and ensuring the proper reporting of related entity financial information:

- TNC staff produced an up-to-date listing of related organizations;
- a uniform definition of a "related entity" was produced by TNC staff and reviewed by PricewaterhouseCoopers (PwC) for use in the preparation of Form 990 and for accounting determinations;
- the appropriate accounting treatment for each entity was discussed with PwC;
- TNC produced a new policy and standard operating procedure, attached as Exhibit XII la;
- Information was collected on related organizations in order to accurately prepare the FY03 Form 990; and
- TNC staff identified several entities that were considered candidates for termination:
    - Bear Mountain Lodge, Inc. (in process of termination)
    - Conservation Beef, LLC (TNC withdrew from the LLC effective February 19, 2004)
    - Sustainable Forest Resources PNG-US, LLC (in process of termination)

As you are also aware, the Board of Directors of TNC has implemented new governance and monitoring procedures. And the outside Governance Advisory Panel has issued its final report on centralized oversight, which recommendations are before TNC's Board for review.

TNC Interim Report on Governance, Policies and Procedures, March 2, 2004 and Report of the Governance Advisory Panel to the Executive Committee and the Board of Governors of TNC, March 19, 2004 are attached as Exhibit XII 1b.

2. CONSERVATION BEEF, LLC

The Nature Conservancy, through its operating unit Center for Compatible Economic Development ("CCED"), formed Conservation Beef, LLC ("CBL") in partnership with Artemis Wildlife Foundation ("AWF") in 1999. On January 1, 2003, TNC was formally substituted for CCED in CBL's Operating Agreement. Until February 19, 2004, when TNC withdrew from CBL, TNC and AWF each had a 50% equity interest in CBL.

In business terms, CBL is a sales and direct-marketing organization that markets fully mature, range-fed, additive-free, healthful beef ("Conservation Beef") to the consumer and corporate gift markets and to a small number of highly visible, food-source-conscious restaurants.

CBL's mission is to conserve biologically significant lands in the western United States by developing market forces that will support economically sustainable and ecologically sound cattle ranching. CBL's means to accomplish that mission is to create a niche market for Conservation Beef that will return a premium price to ranchers who commit to long-term land conservation strategies.

Conservation Beef is produced only on western landscapes of the highest ecological value by ranchers who commit, through strategic alliances with CBL, to long-term conservation of their open lands through ecologically sound land stewardship practices, land-use planning, and conservation easements. CBL works with its rancher-suppliers to develop those stewardship standards and coordinates the work of an independent panel of scientists and ecologists who monitor and certify adherence to the standards and evaluate their beneficial impacts on ecosystem health and wildlife habitat.

CBL has had a loss in each of the last four years with negative net income as follows: 2000, $93,409.14; 2001, $176,162.45; 2002, $369,473.77; and 2003, $441,182.52.

RESPONSES TO SPECIFIC QUESTIONS NOT ADDRESSED ABOVE

2a CBL's Articles of Organization, Operating Agreement, as of October 20, 1999, First Amended and Restated Operating Agreement, as of January 1, 2003, and Agreement to Withdraw and Promissory Note, dated February 19, 2004, are attached as Exhibit XII 2a.

2b Capital contributions and profit/loss allocations are addressed in CBL's Operating Agreement, which specifies a sharing ratio of 50% for each equity owner (section 1.44) as applied to profits and losses (section 9.1). Although AWF contributed only 28% of the cash capital to CBL, the parties agreed to equal sharing ratios because AWF also contributed its relationships and contacts and staff expertise and time. Neither equity owner was required to make any additional capital contributions under the provisions of the Operating Agreement (section 8.2). Note: references are to the 2003 Restated Operating Agreement.

2c Because AWF is an independent organization, TNC does not have a copy of its determination letter.

2d Because AWF is an independent organization, TNC does not have a copy of its most recent Form 990.

2e The concept of Conservation Beef originated with William Weeks and Brian Kahn, both senior staffers of TNC, in 1995. Mr. Kahn subsequently moved to AWF, where he remained interested in the idea. TNC (through its operating unit CCED) and AWF together approached the W. Alton Jones Foundation for initial support for the project. The Foundation expressed support and recommended that TNC and AWF explicitly work together on developing the concept of Conservation Beef, with AWF contributing its connections and relationships with cattle ranchers and the time and expertise of its staff.

2f The "loss allocable to exempt purposes" of $372,512 on CBL's Form 1065 for 2000 was erroneously included as a line item in Statement 2. That number actually represents the total of deductions listed in lines 9-18 plus the other deductions listed in Statement 2 (exclusive of the erroneous line item for "loss allocable to exempt purposes"). Despite that error, the correct amount of loss was entered in Schedules M-1 and M-2 and the correct allocations were made on each of the members' Schedule K-1.

2g CBL's 2003 Form 1065 and 2000-2003 Financial Statements are attached as Exhibit XII 2g. TNC was unable to locate a Financial Statement for 1999, although the opening (negative) equity balance from 1999 is included on the 2000 Balance Sheet.

2h All employees of CBL are eligible to participate in the retirement plan. For the 2000 fiscal year, CBL had three employees, only one of whom was full time. For the 2002 fiscal year it had four, three of whom were full time; hence the increase in plan contributions.

2i AWF provided the $40,000 loan to CBL in 2002. TNC was neither a lender nor a guarantor with respect to this loan.

2j CBL's activities further TNC's exempt land conservation purposes by promoting sustainable land use while providing western ranch operators with financial reward for good stewardship. Such rewards, in turn, help economically sustain responsible operators and thus encourage further sound land stewardship for large blocks of both publicly and privately owned land in critical areas of the western United States.

2k, ii Form of Joint Venture Agreement with PM Holdings, LLC; PM-Conservation Beef Protocol for Live Animal Handling, Harvest, Beef Fabrication, Portioning and Shipping; Conservation Beef Option/Purchase Agreement with John Crumley (missing last 2 pages); Conservation Beef Option/Purchase Agreement with Karl Ohs, dated May 5, 2000; Conservation Beef Option/Purchase Agreement with Sun Ranch, LLC, dated September 18, 2000; Conservation Beef Purchase Agreement with John Crumley, dated September 10, 2001; Conservation Beef Purchase Agreement with Sun Ranch, LLC, dated October 15, 2001, are attached as Exhibit XII 2k,ii. Financial Statements are attached as Exhibit XII 2g.

2k, iii For the fiscal years ending June 30, 1999 through June 30, 2001, TNC reported its contributions to CBL on the Form 990 as grants and allocations (Part II, line 22). Effective for the June 30, 2002 Form 990, prior contributions to CBL were reclassified as investments and the losses allocable to TNC were reported in the Form 990 as a component of gain or loss from sales of assets other than inventory (Part I, line 8). Based on consultation with our present auditors, PricewaterhouseCoopers, we will report any income or loss amount reported on the 2003 K-1 from CBL, consistent with the characterization of the amount on CBL's Form 1065.

3. NATURESERVE

NatureServe (see www.NatureServe.org) is an independent nonprofit conservation organization that provides the scientific information and tools needed to help guide effective biodiversity conservation action. NatureServe and its network of Natural Heritage programs are the leading source for information in the United States about rare and endangered species and threatened ecosystems. NatureServe was originally organized in the 1980s under the name the Association of Biodiversity Information ("ABI").

NatureServe has no structural or legal relationship with The Nature Conservancy ("TNC") other than through a Comprehensive Strategic Agreement that was entered into between TNC and ABI.

TNC has had a longstanding involvement in the creation and ongoing activities of NatureServe. Beginning in the 1970s, TNC worked to encourage the creation of Natural Heritage programs and Conservation Data Centres in each of the states in the US, in the Canadian provinces, and in several countries in Latin America. These programs worked with TNC to engage in a number of activities critical to biodiversity conservation including:

- establishing scientific standards for biological inventory and biodiversity data management;
- developing comprehensive and current databases on at-risk species and ecological communities;
- designing advanced biodiversity data management systems in partnership with information technology leaders;
- making biodiversity information available to the public through websites, publications, and custom services to clients and partners; and
- providing information products and conservation services to guide natural resource decision-making.

Today, there are 74 independent Heritage programs and Conservation Data Centres. They are typically housed in and funded by state or provincial governments. These programs also work closely with many federal government agencies. NatureServe both represents the international network of biological inventories and provides critical services to the network such as developing standards for data classification and managing data exchanges and compilations that are critical to the functioning of the network. NatureServe and the associated network not only collect and manage detailed local information on plants, animals, and ecosystems, but develop information products, data management tools, and conservation services to help meet local, national, and global conservation needs. The objective scientific information about species and ecosystems developed by NatureServe is used by all sectors of society—conservation groups, government agencies, corporations, academia, and the public—to make informed decisions about managing our natural resources. NatureServe is governed by a Board made up of prominent scientists, representatives of State Heritage Programs, and independent philanthropists. TNC's Director of External Affairs is a member of the Board of NatureServe.

TNC's substantial financial support for NatureServe is driven by our belief that NatureServe and its associated network of Heritage programs and Conservation Data Centres are critical to our mission: the conservation of biodiversity. During the formative years of the Network, TNC financed and undertook all of the activities currently performed by NatureServe. Many of TNC's central scientific staff were devoted to the support of the Heritage Network and its data have been critical in setting TNC's conservation priorities as well as the conservation priorities of many other public and private organizations. In 1999, TNC and the Heritage Network together decided that the Network would be more successful if its central functions were housed in an independent organization rather than in TNC. Because of the Heritage Network's importance to TNC's mission, TNC agreed to continue to provide funding at a level that would ensure the continuance of the bulk of the central activities of the Network (formally housed in TNC but now housed in NatureServe) for several years in order to help the new organization be successful. In return, NatureServe agreed to continue to provide TNC with access to its biological data, which is central to our conservation planning.

RESPONSES TO SPECIFIC QUESTIONS NOT ADDRESSED ABOVE AND EXHIBITS

3a Comprehensive Agreement between TNC and ABI, dated July 1, 1999, is attached as Exhibit XII 3a.

3b Because ABI/NatureServe is an independent organization, TNC does not have copies of its governing instruments and organizational documents.

3c Because ABI/NatureServe is an independent organization, TNC does not have a copy of its determination letter.

3d TNC does not receive any fee income from ABI/NatureServe. All payments under the comprehensive agreement are from TNC to NatureServe. TNC does receive interest income from a loan to NatureServe (see response to Question XII 3e below), and modest amounts of rental income and office cost reimbursements. It should also be noted that interest and rental income are excluded from unrelated trade or business income under section 512(b)(1) and (b)(3) of the Internal Revenue Code of 1986.

3e Line of Credit Agreement between TNC and ABI is attached as Exhibit XII 3e.

3f As explained in the overview discussed above, ABI/NatureServe provides data base access to TNC and support services to Heritage Enterprise as described in the Agreement. Those services assist the Heritage Enterprise and TNC to carry out its programs in preserving biodiversity. Promoting a natural heritage program through collecting data on the distributions of species in endangered ecosystems of conservation concern is consistent with and furthers TNC's mission and programs.

3g As indicated in the discussion in response to the questions discussed above, payments to Nature Serve from TNC are in accordance with the Comprehensive agreement. The differences in the level of payments for years 1999, 2000 and 2001 are due to the timing of the payments and through mutual agreements to accelerate certain cost payments for new "software" or other services. The agreement was not formally amended for these changes and the total amount to be paid by TNC to Nature Serve remains the same.

3h Because NatureServe is an independent organization, TNC is not in a position to comment on why NatureServe responded as it did on its information return Form 990.

3i Because NatureServe is an independent organization, TNC is not in a position to comment on the independent contractors listed on Schedule A to NatureServe's Form 990.

3j Because NatureServe is an independent organization, TNC is not in a position to comment on the increase in NatureServe's employees from 1999 to 2000.

3k Because NatureServe is an independent organization, TNC is not in a position to comment on the database service fees listed on Nature/Serve's Forms 990 for 2000 and 2001.

3l Because NatureServe is an independent organization, TNC does not have a copy of its financial statements for 2002.

4. EASTERN SHORE ENTERPRISES, LLC

Eastern Shore Enterprises, LLC ("ESE"), a limited liability company, was established in 1999 following the dissolution of Virginia Eastern Shore Sustainable Development Corporation ("VESC") (see below) to operate one of VESC's remnant business lines: the development and marketing of Hayman Potato Chips. The shareholders of VESC were given the opportunity to exchange their shares in VESCE for interests in the newly created ESE. The interests were ultimately apportioned as follows: Suzanne Wescoat received 1%; Franey, Parr and Meha, 3%; Sun Trust Bank, 5%; and The Nature Conservancy ("TNC"), 91%. These capital and profit and loss percentages remained the same as reflected in all subsequent tax returns. TNC was the only member to make additional contributions.

The Operating Agreement of ESE, entered on October 15, 1999, and the four letter agreements concerning the exchange of shares of VESC for interests in ESE are attached as Exhibit XII 4c.

TNC has determined, after consultation with our accountants, that we do not have any corrected information with regard to ESE's 1999 tax filings.

With respect to the reported schedule of other deductions in years 2001 and 2002 in Question XII 4e, we believe that they are primarily comprised of the operating costs of ESE which were the ordinary and necessary administrative costs of operating the company including

bookkeeping, filing of tax returns, marketing, and other expenses. See Form 1065 Supporting Schedules for 2001 and 2002, which are attached as Exhibit XII 4e.

5. VIRGINIA EASTERN SHORE SUSTAINABLE DEVELOPMENT CORPORATION

OVERVIEW OF VESC

The Nature Conservancy ("TNC") has been working since 1969 to protect the Virginia Eastern Shore's globally significant resources. TNC's 45,000 acre Virginia Coast Reserve encompasses 14 barrier islands, pristine coastal wetlands and mainland farms, has been designated by the United Nations as a Biosphere Reserve. While the Eastern Shore is rich in natural and cultural resources, it has poor economic conditions raising the threat of incompatible development that over time could destroy rather than protect the environment. TNC worked with local community partners through its Center for Compatible Economic Development ("CCED") to develop a strategic plan for compatible economic development on the Eastern Shore. In 1995, the Virginia Eastern Shore Sustainable Development Corporation ("VESC") was created to: (1) develop and support products, and land uses that enhanced the local economy; (2) design and develop compatible businesses and promote compatible land uses that sought to reduce key stresses or potential stresses to Virginia Eastern Shores ecological systems, such as pollution of coastal waters that could lead to deterioration of the Virginia Eastern Shore; and (3) provide a healthy, sustainable economic base that obviated environmental threats and promoted opportunities for business development and job opportunities for low income individuals.

TNC, through its CCED, established the for-profit corporation VESC, financed with $2.5 million of equity and debt capitalization from eleven institutional and individual investors. VESC, with the assistance of TNC, assembled a distinguished Board of Directors that included leaders from various public and private sector organizations.

VESC'S MISSION AND STRUCTURE

When VESC was created, there were few sustainable development projects in the United States and abroad, and there was no working example of a successful sustainable development program. VESC was to be a permanent organization to implement sustainable development at the local ecosystem and community level. VESC established three operating entities: (1) Eastern Shore Products, to develop, license, and market a range of products intended to focus initially on compatible nature-based tourism, especially agricultural products sustainably produced on seaside farms and local crafts and other products that would provide businesses and job opportunities for low income citizens; (2) Eastern Shore Venture Fund, to provide loans and capital to new and existing business enterprises that employed ecologically compatible and economically sound development practices but could not secure financing from conventional sources; and (3) Eastern Shore Lands, to serve as a vehicle to implement

sustainable development of the landscape through the acquisition, lease and resale of seaside farm and village properties with conservation plans and restrictions.

During its early start-up period, many of its initial plans were tested and revised. The VESC Business Plan had called for the farming of organically grown produce. Few farmers were interested, however, in making this commitment to convert to organic farming. Rather there was some interest in selling the indigenous Hayman potato locally grown for generations but never aggressively marketed off the Eastern Shore. Local artists and crafts people resisted moving toward the required large production volumes that were necessary to bring in arts and crafts businesses on a financially sustainable scale. Eastern Shore Venture Fund was faced with low levels of entrepreneurial activity which produced limited opportunities for the proposed Venture Fund. Eastern Shore Lands planned to develop compatible residential development and related products. However, these activities were not pursued and delays in marshalling a constituency for a nature-based tourism lodging facility prompted the corporation to reconsider and to begin marketing nature-based programs. After reevaluation of the business plan programs, the VESC decided to concentrate on test marketing the Hayman Potato and Hayman Potato Chip project and establish a list of weekend tourism package called Eastern Shore Escapes. In 1999, CCED reassessed VESC's viability and ultimately the program was dissolved.

RESPONSES TO SPECIFIC QUESTIONS NOT ADDRESSED ABOVE AND EXHIBITS

5a List of VESC's investors and lenders is attached as Exhibit XII 5a.

5b VESC's Articles of Incorporation; Bylaws; Register of Shares of Stock Issued and Outstanding and Individual Shareholders Record of Shareholdings; and Subscription Agreements with TNC, Mary Eyre Peacock, Crestar Financial Corporation, Virginia Environmental Endowment, and Allen & Company, and other documents regarding share transfers are attached as Exhibit XII 5d.

5c See Exhibit XII 5a.

5d Loan documents for loans from the Ford Foundation, Mary Flagler Cary Charitable Trust, and Lincoln-Lane Foundation are attached as Exhibit XII 5d.

Our understanding of the loans are as follows:

(1) Note payable to the Ford Foundation in the amount of $1,000,000. During 1995, VESC borrowed a principal sum of $500,000 from the Foundation. The principal sum was payable in two annual installments of $150,000 each due on December 1, 2001 and December 1, 2002 and one annual installment of $200,000 due on December 1, 2003. The interest rate was 2% per annum and is payable on a quarterly basis. The note agreement requires VESC to maintain a current ratio of at least 1.25 and net worth as a percentage of total assets of at least 35%. In addition, distributions to shareholders were not

allowed prior to December 1, 2000, and, in certain circumstances, limited thereafter. VESC was not in compliance with the net worth covenant at December 31, 1998. As a result, this note was callable at the option of the Ford Foundation and was classified as a current liability on VESC's Financial Statement.

(2) Note payable to Mary Flagler Cary Charitable Trust for $400,000. The entire principal amount outstanding was convertible at the holder's option into Class A Voting Common Stock of VESC at a price between $1,030 and $1,150 per share on June 1 of the years 1996 - 2000. If the holder does not exercise the Optional Conversion, the principal amount was payable in 19 consecutive and equal quarterly installments of $10,000 commencing on September 1, 2000. The maturity date is June 1, 2005. This note did not bear interest until June 1, 2000, at which time interest shall accrue on a quarterly basis at the rate equal to the 3-months' London Interbank Offered Rate.

(3) Note payable to Lincoln-Lane Foundation of $100,000. The entire outstanding amount was convertible at the holder's option (Optional Conversion) into Class A Voting Common Stock of VESC at $1,275 per share on December 1, 2000. If the holder does not exercise the Option Conversion, the principal amount of this note shall be payable in 11 consecutive and equal quarterly installments of $8,333 commencing on March 1, 2001. The maturity date is December 3, 2003. The interest rate is 3% per annum and is payable on a quarterly basis.

On liquidation of VESC, the amounts owed on notes payable were: Ford Foundation, $106,000; Mary Flagler Carey Charitable Trust, $84,800; and Lincoln Lane Foundation, $219,592.

5e To the best of our knowledge and belief, VESC entered into no royalty agreements. It is possible that royalty expenses were paid incident to payments related to the work of local artisans.

5f Copies of VESC's Form 1120 for 1996 through 1997 are attached as Exhibit XII 5f. TNC was unable to locate VESC's Form 1120 for 1995. Instead, VESC's Financial Statements for the four months ended December 31, 1995 are also attached as Exhibit XII 5f.

5g Promissory Note from TNC to VESC, dated December 1, 1998, and accompanying payment ledger; and Promissory Note from TNC to VESC, dated May 20, 1999, and accompanying payment ledger are attached as Exhibit XII 5g.

5h Waterside Capital Corporation is a federally chartered Small Business Investment Company based in Hampton Roads, Virginia, which made loans to qualified small businesses on the Eastern Shore. VESC invested $50,000 in Waterside Capital in lieu of establishing the "Eastern Shore Venture Fund" that was to provide loans and investment capital to new and existing enterprises which met certain criteria for ecologically compatible and economically

sound development. Later, after the investment had been made in Waterside Capital, Alan Lindauer, its President and CEO, joined the VESC Board of Directors.

5i See Exhibit XII 5a.

5j The debt was held by the Ford Foundation, the Mary Flagler Cary Trust, and Lincoln Lane Foundation. See response to Question XII 5d above.

VESC entered into a series of negotiations with its debt holders. In a memorandum dated May 26, 1998, the Ford Foundation agreed to a waiver of the default provisions under certain circumstances because of VESC's impending failure to meet certain loan requirements. As a result, CCED agreed to engage an independent group of experts to conduct a strategic review and evaluation of VESC. Using this strategic review, VESC would update and revise its business strategy and financial projections and a proposed "downside plan" for the next two years for those assumptions in the business plan that were not borne out. The Ford Foundation would then make the second installment of $500,000 under certain conditions: the $500,000 full recourse loan would be made to TNC rather than VESC and TNC would invest the $500,000 in VESC with the approval of the TNC Board.

The Final Report of the Assessment of VESC was prepared by the independent advisory group on December 7, 1998. The report found that VESC required ongoing capital infusions and concluded that the trends did not support VESC's March 1998 Financial Pro Forma Projection that the Company would be operated on a break even basis. The report considered four options for VESC:

- recapitalization;
- liquidation;
- assignment or sale of separate business lines; or
- acquisition of VESC trademarks accounts, product lines, and customer lists by a for-profit company.

After reviewing the preliminary findings, TNC and VESC decided to recapitalize a scaled-back VESC.

Following the issuance of this report, VESC, on February 17, 1999, contacted Ford Foundation to formally request a modification of the terms of the initial loan agreement of December 1, 1995. Under that loan agreement, Section 6.8.1, VESC was required by December 31, 1997 to establish that its net worth as a percentage of total assets was not less than 35%. When VESC advised Ford that it had failed to meet the target percentage, a request was made to extend the period of time required to meet the percentage. Ford agreed to a one time extension to September 30, 1998 to waive the Event of Default clause by violation of section 6.81 of the loan agreement. Subsequent to September 30, 1998, VESC was not able to show that it met the terms of section 6.8.1 of the loan agreement. In a letter dated May 3, 1999, the Ford Foundation project manager, Jeffrey T. Olson, advised TNC that he had recommended that the Foundation make no further grants to The Nature Conservancy and that VESC was in default under the loan agreement causing the balance of the note plus interest

accrued to become immediately due and payable unless a satisfactory proposal to remedy the default was submitted within the next few weeks. On June 3, 1999, in preparation for a final decision meeting with Ford Foundation on June 8, VESC submitted a five-year financial projection, financial statements as of April 1999, and newly conducted audit by Goodman and Company, LLP of Norfolk. On June 8, 1999, Ford Foundation did not approve payment of the second $500,000 installment.

5k No real estate investments were made, although the VESC Business Plan had originally provided for Eastern Shore Lands Project to serve as a vehicle to lease and resell seaside farms. That program was never initiated or pursued by VESC. VESC, however, did hold one property, MillCreek Farm, which was transferred to VESC by TNC as an initial capital investment, valued at $500,000. In 1998, VESC still owned a 60% interest in the property.

5l See the Chart in Exhibit XII 5a listing the Class A and B stockholders. VESC was authorized to issue 2,000 shares of Class A voting common stock, no par value, 500 shares of Class B voting common, no par value stock. VESC's Articles of Incorporation, Section B, provided for the shareholder rights on the distribution of dividends and other preferences. Class B shareholders elected the majority of the Board but were subordinate to Class A shareholders on liquidation.

5m TNC, through CCED, established VESC. See "Overview of VESC" above and response to Question XII 5l.

5n VESC Board Minutes of August 3, 1999 regarding the orderly dissolution of the company, and Unanimous Consent of Shareholders to Dissolve Corporation, effective as of October 26, 1999, are attached as Exhibit XII 5n.

6. ADIRONDACK LAND TRUST

The Nature Conservancy ("TNC") and the Adirondack Land Trust ("ALT") entered into a memorandum of understanding to promote mutual goals of protecting the land and water resources of the Adirondack-North Country region. TNC continues to be involved in this program. Under this relationship, TNC provides administrative services to ALT.

6a Memorandum of Understanding, dated October 3, 1988, and the successor Contractual Agreement, effective February 23, 2004, are attached as Exhibit XII 6a.

6b As indicated in the agreements attached in Exhibit XII 6a, TNC staff provides services to the ALT as a matter of economic efficiency.

7. STM/TNC LLC

STM/TNC LLC ("STM") was formed in 1993 to facilitate the program-related investments of the Summner T. McKnight Foundation (the "Foundation") to protect the fragile ecosystem and historic way of life of the watermen at Willis Warf on the Virginia Eastern Shore. In furtherance of those goals, STM has owned three parcels of land at Willis Wharf and offers bare ground leases for appropriate tenants and thus seeks to promote development of the waterfront in a sustainable and ecologically sensitive manner, while promoting the economic well-being of the local community, including by the establishment of a Willis Wharf Waterfront Center to include waterfront facilities, a visitors' center, stores, restaurants, a marine research center, and improved water access for both fishermen and other community members. STM has sold one of the properties but continues to hold the other two.

The only relationship between the Foundation and TNC is the joint ownership of STM. TNC's ownership of STM and partnership with the Foundation furthers TNC's long-term goal of protecting the Virginia Eastern Shore's globally significant resources by acting in concert with other local community partners in encouraging compatible economic development on the Virginia Eastern Shore.

There was no formal relationship between STM and Virginia Eastern Shore Sustainable Development Corporation ("VESC"). They had mutually shared goals of conservation and economic development on the Virginia Eastern Shore and STM thus called upon VESC to assist it in preparation of model development options that were to be a part of STM's Business Plan.

8. THE FOREST BANK LLC

The Nature Conservancy formed The Forest Bank, LLC ("TFBL") as a Delaware limited liability company in January of 2001. TFBL's goal was to acquire from owners of forest land the rights to maintain, conserve, selectively cut, manage, sell, retain the proceeds from, and regenerate the trees located on each owner's property in exchange for units of membership interest in TFBL. TFBL's membership units would have entitled the holders to preferred annual distributions based on the value of the timber rights contributed to TFBL.

TFBL had two primary objectives. First, it sought to conserve the forests, lands, and watersheds of the regions in which it was to acquire timber rights. Second, it sought to maximize the sustainable financial return to the members who contributed timber rights to it. TFBL's limited liability company agreement expressly required, however, that if there were a conflict between the forest conservation objectives on one hand and any of the economic objectives on the other hand, TFBL's forest conservation objectives were to take priority.

Despite a public offering of its membership units, TFBL was unable to attract any investors to its novel concept and so was dissolved on November 6, 2002.

RESPONSES TO SPECIFIC QUESTIONS NOT ADDRESSED ABOVE

8a Certificate of Cancellation of TFBL is attached as Exhibit XII 8a.

8b TFBL's SEC filings are provided in separate binders as Exhibit XII 8b.

8c TFBL's Certificate of Formation and Amended and Restated Limited Liability Company Agreement are attached as Exhibit XII 8c.

8d The subscription process and a summary of what the subscription agreement would entail are described in TFBL's Form S-1. No subscription agreements were ever executed. TFBL's Form of Subscription and Contribution Agreement is attached as Exhibit XII 8d.

8f TFBL was liquidated because it was unable to attract any investors and therefore had no capital with which to conduct its operations.

8g TFBL's legal expenses pertain primarily to the review and preparation of the public registration materials for the offering of securities.

8h TNC anticipated selling ownership interests in TFBL and therefore would not remain the sole owner of TFBL. As was noted in the response to Question 8f above, no securities were sold and TFBL was dissolved. For federal tax purposes, TFBL was treated as a partnership under the assumption that any tax effects from the operation of TFBL would be shared by its multiple owners. The U.S. Federal Income Tax Opinion provided by Hunton & Williams in draft form is attached as Exhibit XII 8h.

Exhibits Accompanying Responses to
Question XII 1-8
Related Organizations
March 3, 2004, Letter
From U.S. Senate Committee On Finance
To The Nature Conservancy

Tabs

1. Exhibit XII 1a TNC Policy and Standard Operating Procedure
2. Exhibit XII 1b Governance Advisory Panel Reports
3. Exhibit XII 2a CBL Organizational Documents
4. Exhibit XII 2g CBL 2003 Tax Return and 2000-2003 Financial Statements
5. Exhibit XII 2k,ii CBL Contracts
6. Exhibit XII 3a Comprehensive Agreement
7. Exhibit XII 3e Line of Credit Agreement
8. Exhibit XII 4c ESE Operating Agreement and Exchange Letter Agreements
9. Exhibit XII 4e ESE Form 1065 Supporting Schedules
10. Exhibit XII 5a VESC Lists of Investors and Lenders
11. Exhibit XII 5b VESC Organizational Documents and Share Subscription Documents
12. Exhibit XII 5d VESC Loan Documents
13. Exhibit XII 5f VESC Forms 1120 for 1996-1997 and Financial Statements for 1995
14. Exhibit XII 5g VESC Promissory Notes
15. Exhibit XII 5j VESC Form 1120 for 1999
16. Exhibit XII 5n VESC Liquidation Documents
17. Exhibit XII 6a Memorandum of Understanding and Contractual Agreement
18. Exhibit XII 8a TFBL Certificate of Cancellation
19. Exhibit XII 8c TFBL Organizational Documents
20. Exhibit XII 8d TFBL Form of Subscription Agreement
21. Exhibit XII 8h TFBL Form of Tax Opinion

Finance

Related Entities

POLICY:

Definitions

Related entities, as the term is used herein, refers to the following categories of relationship:

- Wholly-owned Conservancy Not-for-Profit Corporations - incorporated as legal entities, but conducting no substantive operations; generally necessary to hold title/do business in a given state/country;
- Controlled Not-for-Profit Organizations – through majority board membership or other form of controlling financial interest;
- Owned or Controlled For-profit Entities - through majority stock ownership or majority LLC ownership;
- Partnerships/Joint Ventures – relationships established by formal legal agreements with others where the Conservancy is a named partner in an ongoing conservation or business operation and has a greater than 50% interest in the venture;
- Trusts – separately created entities where the Conservancy is a trustee or acts in a similar management capacity, but is not merely a beneficiary (excludes, for example, planned giving trust arrangements and the like); and
- Other – arrangements where the Conservancy acts as financial fiduciary or agent for other organizations, coalitions, etc., who are using our Tax Identification Number or are otherwise conducting their activities under the duly authorized auspices of The Nature Conservancy.

Acquisition/Creation of Related Entities

Relationships with any entities falling within any of the above categories that result from the receipt of a gift to the Conservancy, the purchase of an interest in an entity by the Conservancy, or the creation of a new entity by the Conservancy must be approved by the Board of Governors prior to the acceptance/purchase/creation of the entity. Considerations for approval include, but are not limited to: 1) consistency with the Conservancy's mission, strategy and values; 2) need for a separate legal entity; 3) additional risks/costs; and 4) tax/reporting implications. Exceptions to the requirement for Board approval may be made by the President or Chief Financial Officer when interests in entities are contributed by gift solely to enable the Conservancy to acquire and sell the underlying assets for fundraising purposes.

Actions taken by the Conservancy to acquire/create any new related entity must be reported to the Worldwide Office Legal Function and Worldwide Office Finance Function at the time of acquisition/creation to ensure proper inclusion in the Conservancy's corporate records and financial reports. Original documentation relating to the acquisition/creation of related entities (e.g. articles of

incorporation, by-laws, partnership agreements, trust documents, etc...) should be provided to, and maintained by, the Worldwide Office Legal Function. Copies should be sent to Worldwide Office Finance Function and maintained in files of the responsible Operating Unit (i.e. State, Country, Division, Region, or Worldwide Office Function).

Ongoing Responsibilities

Once the relationship is established, organizational responsibility for governance, oversight, filing of required reports (audited financial statements, tax returns, etc.) and other administrative actions necessary to fulfill the Conservancy's responsibilities in the relationship rest with the Operating Unit responsible for the acquisition/creation of the related entity. Annual financial statements and any other documentation necessary to meet the Conservancy's corporate filing responsibilities shall be provided to the Worldwide Office Finance Function within 90 days of the close of the fiscal year of the related entity. If full financial statements, with footnotes, are not prepared, notification of significant transactions between the related entity and the Conservancy must be reported to Worldwide Office Finance Function in addition to any other financial information provided.

A current listing of related entities will be maintained by Worldwide Office Finance Function on the Conservancy Intranet. The list will be validated by Worldwide Office Finance Function personnel annually in conjunction with the preparation and filing of the Conservancy's informational return - IRS Form 990.

PURPOSE:

Approval of new business relationships is necessary to ensure that all activities are consistent with Conservancy strategy and that related risks are identified and managed.

ORIGIN:

New, as Policy. Revision of former Standard Operating Procedure entitled "Controlled Corporations, Partnerships or Joint Ventures." Approved by the Board of Governors January 30, 2004.

REFERENCES, RESOURCES and EXPLANATORY NOTES:

Guidance relating to the reporting of related entities by Not-for-Profit Organizations is provided by American Institutes of Certified Public Accountants' Statement of Position 94-3. A full reading of the document is encouraged. For purposes of this policy, circumstances where the Conservancy is required to, or has the option to, consolidate the activities of another not-for-profit organization define it as a related entity. Beyond majority voting control, this includes situations where the Conservancy controls another not-for-profit entity through a combination of less than majority voting and an economic interest. Control is defined as the direct or indirect ability to determine the direction of management and policies through ownership, contract, or otherwise.

Finance

Significant Business Interests in Separate Legal Entities

STANDARD OPERATING PROCEDURE:

Application

This standard operating procedure applies to any transaction that involves the Conservancy's acquisition of a significant business interest in a separate legal entity that does not constitute a controlling interest in such entity but that does constitute more than a purely passive investment. For purposes of this standard operating procedure:

1. A "separate legal entity" includes any for-profit corporation, nonprofit corporation or nonprofit organization, general partnership or limited partnership, limited liability company, joint venture or other comparable organization or entity.

2. A "significant business interest" is:

a. Any ownership interest in a separate legal entity that (i) has a fair market value in excess of $100,000 and (ii) is more than a purely passive investment in the separate legal entity but is not a controlling interest in the separate legal entity. The fair market value of the Conservancy's ownership interest shall be determined at the time the ownership interest is acquired, whether by purchase or by gift. If ownership interests in the same separate legal entity are acquired over time, then the fair market value of the entire ownership interest that will be owned by the Conservancy as the result of each acquisition will be determined. If such cumulative value exceeds $100,000, the ownership interest is then a "significant business interest."

OR

b. Any management, voting or other decision-making right or interest in a separate legal entity which involves an investment on the part of the Conservancy in excess of $100,000 (or value equivalent), whether initially or cumulatively over time. Examples of such management, voting or other decision-making interests include: (i) the Conservancy's right to appoint a director, trustee or other member to the entity's

governing body or executive or management committee (but not including an advisory committee) or to exercise voting rights on entity management matters (including voting rights to elect the entity's executive officers) and (ii) service of a Conservancy Board member or officer as a member of the governing body of the separate legal entity.

For guidance regarding the Conservancy's creation or acquisition of a controlling ownership or controlling management interest in a separate legal entity, reference should be made to the Conservancy's policy entitled "Related Entities."

Approvals and Notifications

Any transaction involving the Conservancy's acquisition of a significant business interest in a separate legal entity must be approved by the President prior to such acquisition. Approval of the Conservancy's acquisition of a significant business interest in a separate legal entity will be based on an evaluation of the following factors: (1) consistency with the Conservancy's mission, strategy and values; (2) the financial, legal and other risks and costs; (3) the tax and other legal and financial reporting implications; and (4) public perception. An exception to the requirement for Presidential approval may be made by the Chief Financial Officer when the Conservancy acquires a significant business interest in a separate legal entity as a gift with the sole intention of promptly re-selling such significant business interest for fundraising purposes. In any case, the President and Chief Financial Officer should apprise the Board of Governors of any acquisition of a significant business interest in a separate legal entity that poses significant financial, legal or other risks to the Conservancy. Once approved, the Conservancy's acquisition, and subsequent handling, of a significant business interest in a separate legal entity should be reviewed and approved by a Conservancy attorney.

Responsibilities

The Conservancy staff directly responsible for carrying through with the Conservancy's acquisition of a significant business interest in a separate legal entity which has received the required approvals must report all actions relating to such acquisition to the Worldwide Office Finance Department and provide to the Worldwide Office Finance Department copies of relevant documentation evidencing such significant business interest. All original documentation relating to the Conservancy's initial acquisition and subsequent holding or handling of such significant business interest should be maintained by the Worldwide Office Legal Function. Once the Conservancy has acquired a significant business interest in a separate legal entity, the Operating Unit or Worldwide Office function responsible for the Conservancy's acquisition of such significant business interest will (1) be responsible for fulfilling all of the Conservancy's legal, tax and reporting obligations relating to such significant business interest, and (2) use its best efforts to obtain the annual financial information for such separate legal entity as soon as reasonably possible following the fiscal year end of such entity and promptly provide a copy of same to the Worldwide Office Finance Department in order to ensure proper recording of such significant business interest in the Conservancy's financial records.

PURPOSE:

Approval of the Conservancy's acquisition of any significant business interest in a separate legal entity is necessary to ensure that all activities are consistent with the Conservancy's strategy and that related risks are identified and managed. Reporting financial information in a timely manner helps to ensure proper recording in the Conservancy's financial records.

ORIGIN:

Established February 2004, recommended by the Audit Committee of the Board of Governors as a companion to the policy entitled "Related Entities."

REFERENCES, RESOURCES AND EXPLANATORY NOTES:

Refer to policies entitled "Related Entities" and "Conflict of Interest," and to standard operating procedure entitled "Non-Real Estate Contracts."

RESPONSIBLE FUNCTION/PARTY:

Worldwide Office Finance Function

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Last Updated On 03/04/2004

March 2, 2004

The Nature Conservancy
Interim Report on Governance, Policies and Procedures

The mission of The Nature Conservancy is to preserve the animals, plants and natural communities representing the diversity of life on Earth by protecting the lands and waters they need to survive. This mission is pursued through a science-based planning process ("Conservation by Design"), which enables the Conservancy to identify the highest priority places that, if conserved, promise to result in meaningful and lasting conservation results.

The Conservancy has been and remains committed to carrying out this mission in accordance with the letter and spirit of all applicable laws and the highest ethical standards. In recent years, the Conservancy has grown substantially, both in absolute size and in the number and complexity of the transactions it undertakes to carry out its conservation mission. During this same period, policymakers and others have properly focused increased attention on the governance and activities of non-profit organizations, including the Conservancy.

Recognizing the need to strengthen its organizational governance and oversight, the Conservancy's Board of Governors and staff in June 2003 launched a comprehensive review of its governance processes and its specific policies and procedures for land transactions and other activities. The principal changes resulting from this review are described below. The Conservancy is continuing with its review and will announce further changes as they are made.*

Governance Structure and Processes

At the direction of the Conservancy's Board of Governors in June 2003, the Conservancy initiated a comprehensive review of its governance structure and processes. This review has resulted in four sets of changes intended to strengthen the Conservancy's ability to carry out its mission successfully while maintaining an appropriate balance between decentralized functioning (one of the Conservancy's core strengths) and centralized oversight.

1. *Restructuring of the Board of Governors.* With the assistance of an independent panel with substantial experience in governance issues, the Board of

* Many of the changes described in this memorandum have previously been approved by the Conservancy's Board of Governors. Certain of the remaining changes requiring Board ratification will be presented to the Board for approval on March 12, 2004.

Governors has been restructured to enable it to assume a more active oversight role as well as define and manage the important relationship between the Conservancy and its State chapters and their trustees. To accomplish these goals, the Board of Governors created an Executive Committee that will meet frequently and revitalized its other committees, which will be directly and actively engaged in oversight and strategic decisions. The Board committees are each chaired by a non-employee member of the Board and include the following: strategy; governance; conservation project review; audit; finance; and marketing and philanthropy.

2. *Business and Reputational Risk Committee*. The Conservancy has a broad range of specific policies and procedures, but no set of policies and procedures can identify in advance all possible instances that may present financial, legal, ethical or reputational risk to an organization such as the Conservancy as a whole. Moreover, there may be instances where established policies and procedures would prohibit the accomplishment of critical conservation goals and it occasionally may be appropriate in certain specific situations to permit critical conservation goals to be accomplished in a manner consistent with the intent and purposes of the applicable policies and procedures.

To address these issues, the Conservancy has authorized creation of a Business and Reputational Risk Committee whose activities will be modeled on the committee review process increasingly used by decentralized firms, in the financial services sector and elsewhere, for risk review. The committee will conduct advance reviews of those projects and transactions that meet its criteria for review (e.g., transactions that are new, novel or particularly complex and transactions that comply with all applicable legal requirements and Conservancy policies but nevertheless involve potentially substantial financial, legal, ethical or reputational risk to the Conservancy).

The committee's members will consist of experienced Conservancy personnel representing all relevant disciplines necessary to evaluate critically the organizational risks associated with the projects and transactions it reviews. The committee will endeavor to promote intelligent and prudent entrepreneurship by helping innovative conservation projects succeed whenever feasible. Thus, the committee will have the ability not simply to approve or disapprove a proposed project or transaction as presented, but to grant approval conditioned on restructuring the project or transaction in ways that would address organizational risks effectively and ensure full compliance with all applicable laws and relevant ethical considerations.

3. *Conflicts of Interest*. The Conservancy has long had a conflicts of interest policy intended to ensure proper advance review of transactions involving employees, directors, State trustees and other related parties. This policy has been administered by the Conservancy's law department and the review process focused primarily on the potential misuse of proprietary information and ensuring that terms of all such transactions met the arm's length standards of applicable law.

The Conservancy has adopted a strengthened conflicts of interest policy. This strengthened policy has two components. First, as discussed elsewhere in this memorandum, some transactions (such as land sales to related parties) are prohibited. Second, other transactions involving related parties are permitted only following review and approval to ensure compliance with all applicable laws and relevant ethical considerations.

The strengthened conflicts of interest policy contains a series of new procedures, including the following: (a) all transactions with major donors will now be subject to review; (b) a new interdisciplinary committee of experienced Conservancy staff will supplement law department review of all potential conflicts; (c) actual or potential conflicts involving special circumstances (e.g., those with organization-wide implications and those involving members of the Conservancy's Board of Governors) will be referred by the staff committee to the Audit Committee of the Board of Governors for decision; and (d) additional guidance will be provided to Conservancy employees to enable them to identify and evaluate potential conflict situations, and seek review on a timely basis.

4. *Sarbanes-Oxley Reforms*. Although the Sarbanes-Oxley Act generally does not apply to non-profit organizations such as the Conservancy, the Board of Governors concluded that several of the principles of governance underlying that legislation should be incorporated into the Conservancy's policies and procedures.

Specifically, the Conservancy has adopted a written *"whistleblower" policy* to ensure that any employee who wishes to report a suspected violation of law may do so without fear of retaliation. In addition, the Conservancy will publish a *code of conduct* and key managers will be required to execute an *annual certification* that they have complied with the code and other applicable Conservancy policies and procedures. The Conservancy has also strengthened its *internal audit* function. Under the supervision of the *audit committee* of the Board, the internal audit staff will expand the scope of its audit program to include land transactions; managers will be required to provide written reports on the manner in which they have implemented internal audit findings and recommendations; and procedures will be implemented to identify and take appropriate remedial action with respect to internal audit findings that have systemic implications. Finally, the Board of Governors has authorized the creation of a senior level position for a *chief compliance officer* who will have organization-wide responsibilities with respect to ongoing training of all staff and establishing systems to promote compliance with all applicable laws and the highest ethical standards.

Specific Policies and Procedures

The Conservancy's review of its specific policies and procedures governing the structure and execution of land conservation transactions and other activities and practices of the Conservancy has resulted in numerous changes, as described below.

1. *Prohibition of Purchases and Sales of Land Involving Related Parties.* Under current tax laws, transactions between organizations such as the Conservancy and related parties are permitted so long as they are structured to satisfy arm's-length standards. Nevertheless, the Conservancy has prohibited all purchases and sales of land (including interests in land, such as easements) involving related parties. For this purpose, a "related party" means any person who, within the 12 months preceding a proposed purchase or sale, was a member of the Board of Governors, a Chapter Trustee or an employee. In addition, the prohibition applies to close relatives of any such individual and entities in which the individual and/or a close relative owns more than a five percent equity interest. (Related party transactions not involving the purchase or sale of land will be subject to enhanced scrutiny under the Conservancy's strengthened conflicts of interest policy.)

2. *Special Rules for Purchases and Sales of Land Involving Major Donors.* All purchases and sales of land (including interests in land, such as easements) involving major donors will be subject to advance scrutiny under the Conservancy's strengthened conflicts of interest policy. For this purpose, a "major donor" means any individual, corporation, foundation or other entity that has made gifts or pledges of at least $100,000 (in cash or in kind) on a cumulative basis within the 5-year period preceding the proposed transaction.

3. *Special Rules for Conservation Buyer Transactions.* Conservation Buyer transactions involve the purchase of land by the Conservancy followed by the resale of the land to an individual or organization (other than a governmental entity or other non-profit organization) subject to conservation restrictions, typically in the form of a permanent easement, limiting the uses to which the land may be put and thus reducing its value. In some instances, the Conservancy may seek a contribution from the conservation buyer or a third party in order to offset its costs, including the costs of purchasing the property prior to the imposition of the conservation easement. Of the approximately 10,000 land transactions in which the Conservancy was involved in the last 10 years, 169 were Conservation Buyer transactions.

As noted previously, Conservation Buyer transactions may no longer be undertaken with related parties and, in the case of major donors, they may be undertaken only following advance review under the Conservancy's strengthened conflicts of interest policy. In the case of those Conservation Buyer transactions that are permitted, additional special rules and procedures are now applicable. Specifically:

(a) to ensure that there is a conservation benefit to the public, the land must fall within a priority conservation site established by Conservancy scientists (which frequently involves consultation with appropriate governmental entities and others); and the terms of the easement (and the plan to monitor compliance with those terms) must be structured to achieve the desired conservation result on a permanent basis;

(b) to provide an open and equitable purchase opportunity to all potentially interested parties, the land must be offered in a manner that allows for broad exposure and fair competition among interested buyers;

(c) to ensure that the Conservancy receives fair value for the land, the Conservancy must obtain its own independent appraisal documenting the value of the property both before and after the imposition of the conservation easement;

(d) to ensure compliance with all applicable tax law requirements, all associated gifts to the Conservancy must be explicitly documented as a legally enforceable element of the Conservation Buyer transaction and the transaction must be structured in a manner that will not relieve the buyer from responsibility for substantiating the value of the gift; and

(e) to ensure that such projects are consistent with local community standards, the Conservancy will obtain community input regarding the future uses of the land.

4. *Special Rules for Gifts of Land by Related Parties and Major Donors*. Gifts of land (including interests in land such as easements), may be accepted by the Conservancy from related parties and major donors, but only if the Conservancy receives a written certification from the appraiser retained by the related party or major donor to value the gift for tax purposes. The appraiser must certify that he/she is aware of the relationship between the related party or major donor and the Conservancy and that the relationship did not influence the appraiser's conclusion as to value. The certification must also state that the appraisal satisfies all requirements for a "qualified appraisal" issued by the Internal Revenue Service. In addition, all such transactions would be subject to advance scrutiny under the Conservancy's strengthened conflicts of interest policy.

5. *Special Rules for Conservation Easements*. Conservation easements (including those imposed as part of a Conservation Buyer transaction) are now subject to strengthened procedures requiring, among other things (a) that prospective donors be informed of the Conservancy's general policies and practices to ensure a clear understanding of mutual expectations and obligations with respect to the easement; (b) standardized decision-making on the appropriate location, terms and conditions of easements; and (c) consistent monitoring and enforcement by the Conservancy of the terms of the conservation easements to which it is a party. In addition, proposed modification to easements involving related parties or major donors will be subject to advance review and approval under the strengthened conflicts of interest procedures and, as appropriate, by the Business and Reputational Risk Committee. Finally, the Conservancy will not participate in transactions which do not conform to these special

rules (including the rules discussed below governing execution of IRS Form 8283) or which are otherwise suspect or unreasonable.

6. *Special Rules for Valuation of Gifts of Land and Easements.* All gifts of land and conservation easements (including those imposed as part of a Conservation Buyer transaction) are subject to strengthened policies governing tax valuations and the execution by the Conservancy of IRS Form 8283 (required under IRS regulations in order to acknowledge receipt of the gift of the easement by the Conservancy). Specifically, the Conservancy will execute a Form 8283 given to it by a donor only if:

(a) the Form contains all information required by applicable Internal Revenue Service procedures;

(b) the donor provides to the Conservancy a copy of the appraisal to be used by the donor to establish the tax valuations shown on the Form; and

(c) the donor provides to the Conservancy a written certification by the donor's appraiser attesting that the appraiser is (i) is State-certified, (ii) has used generally accepted appraisal standards in making the appraisal, (iii) has the requisite expertise and experience to make appraisals of conservation easements and conservation lands, (iv) is not barred from practice before the Internal Revenue Service or Treasury Department or other administrative bodies, (v) has accounted for any value enhancements to other property of the donor or parties related to the donor, (vi) if the appraisal is being made for a person who is a related party or major donor with respect to the Conservancy, the appraiser is aware of the relationship and attests that it did not influence the appraiser's valuation, and (vii) the appraisal otherwise satisfies all of the requirements for a "qualified appraisal" issued by the Internal Revenue Service.

7. *Conservation Land Sales to Governments.* The Conservancy has long had a "no net profit" policy for transfers of land or interests in land to governmental agencies for conservation purposes. This policy is intended to ensure that the Conservancy only recovers its costs upon such a transfer. Recovery of such costs is of course limited by the fact that governmental agencies may only pay fair value for the property. The strengthened policy provides more detailed rules governing the calculation of direct and indirect recoverable costs, as well as special rules governing partial sales, aggregate sales and multiple sales.

8. *Compatible Human Uses.* The Conservancy has long recognized that people are an integral part of the landscape and that a reasonable amount of human use of conservation lands must be allowed. To ensure that such uses on property owned by the Conservancy are compatible with basic conservation objectives, the Conservancy has taken the following steps:

(a) to improve its decision-making, the Conservancy will initiate, in cooperation with the United States Fish and Wildlife Service, a review of scientific studies and other literature related to compatible human use;

(b) to improve its understanding of risks and inform future decisions, the Conservancy will conduct a broad survey, based on recommendations of independent scientists, of existing uses of the Conservancy's preserves; and

(c) innovative, large scale, or untested proposed human uses will be subject to advance review by the Business and Reputational Risk Committee.

In addition, in June 2003, the Conservancy's Board of Governors adopted a policy prohibiting any new oil, gas or hard rock mineral activities on the Conservancy preserves except where required by pre-existing contracts.

9. *Legislative Advocacy*. To accomplish its conservation objectives, the Conservancy often takes positions on bond referenda and other public policy issues. The Board of Governors has clarified that the Conservancy will take public positions regarding U.S. federal, State, local or international legislation, adjudicatory or rule-making proceedings, or other policy matters only if:

(a) there is a substantial and direct impact on the Conservancy's ability to accomplish its mission; and

(b) the Conservancy's participation is essential to achieve the desired outcome of the matter in question.

To ensure continued compliance with the tax law requirement that "no substantial part" of its activities consists of attempts to influence legislation (as defined), the Conservancy has strengthened its policies to provide increased training to its employees.

10. *Loans to Employees and other Related Parties*. The Board of Governors has adopted a policy prohibiting loans of Conservancy funds to any employee or member of the Board of Governors. Eligible employees may be provided with an equity advance by an independent relocation vendor if they close on a new residence prior to selling their former residence where the new residence is acquired due to a relocation by an existing employee.

11. *Cause-Related Marketing*. The Board of Governors has adopted a policy under which all new uses of the Conservancy's name and logo by third parties must be approved by the President of the Conservancy. This responsibility cannot be delegated.

12. *Related Entities*. The Board of Governors has adopted a policy with respect to the formation and operation of related entities to ensure that their activities are consistent with the Conservancy's goals and objectives and that related risks are identified and appropriately managed.

The Nature Conservancy
SAVING THE LAST GREAT PLACES ON EARTH

c/o The Goldman Sachs Group, Inc.
85 Broad Street
New York, New York 10004

tel [212] 902.5904
fax [212] 902.0633
nature.org
henry.paulson@gs.com

HENRY M. PAULSON, JR.
Chairman of the Board

March 29, 2004

Statement of Henry M. Paulson, Jr., Chairman, Board of Governors: Receipt of Final Report from Governance Advisory Panel

The Board of Governors of The Nature Conservancy acknowledges with gratitude the final report of the Governance Advisory Panel dated March 19, 2004. Under the outstanding leadership of Ira M. Millstein, the Panel has fulfilled its mandate to provide a set of forward-looking recommendations on key issues facing the organization in the areas of governance, risk management, transparency, and accountability.

From the outset, the Panel immersed itself in the Conservancy, spending time with not only the Board of Governors' Liaison Committee, but also with senior staff, chairs of state chapter boards and chapter trustees. We commend the Panel for its commitment to understanding the Conservancy's mission and its unique, highly decentralized organizational structure prior to developing its recommendations. We also appreciate the speed with which the Panel produced its report.

The key recommendations from the Panel include:

- Strengthen the Conservancy Board's oversight of the organization by creating a more active Executive Committee and restructuring the Board's other committees.
- Build into the organization's management and board structure the means to carefully and thoroughly assess and manage organizational and reputational risks.
- Establish clear roles and responsibilities and more uniform governance standards for the Conservancy state chapters' boards of trustees.
- Seek opportunities to promote greater transparency and disclosure to more effectively inform supporters and partners of the organization's activities and policies.

Over nine months ago, the Conservancy made an organization-wide commitment to strive for the best standards in governance in the non-profit sector. With the assistance of this esteemed Panel, and through our own comprehensive internal review of our governance structure, we have made significant progress toward that commitment.

We have implemented many of the Panel's recommendations to enhance governance, including strengthening the Board's structure, which were outlined in the Panel's interim report dated January 30, 2004. We have significantly strengthened our policies and procedures, and we are well along in the process of strengthening our risk control measures. We are pleased to note that all the actions we are currently taking are consistent with the Panel's recommendations.

In addition to Ira Millstein, the Board of Governors wishes to thank the entire Panel: Derek C. Bok; Claudine B. Malone, Richard T. Schlosberg III, and Thomas J. Tierney; the staff of the Conservancy; Conservancy state chapter chairs and trustees; and those outside our organization whose collaboration with the Panel resulted in this highly constructive report.

The Nature Conservancy looks forward to continuing its leadership role in conserving lands and waters around the world and in nonprofit governance and operation, employing best practices as we seek to save the last great places on Earth.

REPORT

OF THE GOVERNANCE ADVISORY PANEL

TO THE

EXECUTIVE COMMITTEE

AND THE

BOARD OF GOVERNORS

OF

THE NATURE CONSERVANCY

MARCH 19, 2004

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Introduction

On June 13, 2003, following a series of stories in *The Washington Post*, the Board of Governors of The Nature Conservancy announced a number of substantive changes it would make in its programs, focusing on five areas: conservation buyer transactions; cause-related marketing partnerships; resource extraction activities on Conservancy-owned lands; loans to employees; and related-party transactions. The lengthy discussion of the June 13 changes ended with these sentences:

". . . the Board decided today to enlist outside perspective and expertise to help the organization continue to strengthen its governance, transparency and accountability. In the very near future, the Board will determine the exact scope and time frame of this process and announce the participants."

By mid-August the undersigned had agreed to serve as TNC's Governance Advisory Panel. We began our discussions and operations in late August with extensive meetings involving the current and incoming TNC Board of Governors Chairs, as well as its President, followed by extensive meetings in Arlington with TNC senior staff.

In its September 29, 2003 press release formally announcing the Panel, TNC stated its goal was to become "a recognized non-profit sector leader in the areas of governance, transparency, and accountability" and that it hoped "the Panel's recommendations will be of great value to the Conservancy specifically, and the non-profit sector more broadly."

A paper -- "Work of Outside Advisors on Key Issues" -- prepared by the Board of Governors for the Panel asked it to make a preliminary report to the Board at its January 2004 meeting, followed by the Panel's final report in March 2004 which would make detailed recommendations on governance, transparency, and accountability. The paper is annexed to this Report as Appendix A.

A Board Liaison Committee was appointed, consisting of Roger Milliken, Jr., John P. Morgridge, Admiral Joseph W. Prueher, John P. Sall, and Christine M. Scott, who served along with then-Chair Anthony P. Grassi, the incoming Chair, Carol E. Dinkins, and Henry M. Paulson, Jr., who was later elected Chair after Ms. Dinkins resigned for reasons of health. The Panel and the Board Liaison Committee met on September 24, followed by a session with the senior staff of TNC at its Arlington headquarters on September 25.

Following the Arlington meeting, the Panelists began a series of meetings and interviews, as well as frequent telephonic discussions. Beginning on November 5 and ending just prior to the Panel's meeting with the Board of Governors on January 28 and 29, 2004, the Panel met on five separate occasions. The usual format consisted of an executive session in the morning, followed by a working lunch with members of the Board Liaison Committee, ending with a second executive session in the afternoon.

As requested by the Board in the September press release, the Panel made its initial recommendations at the Board meeting on January 28, 2004 in Arlington. The memorandum accompanying the January 28 recommendations noted that the Panel's efforts with respect to the Board were now nearing completion, and that it therefore intended to complete its assignment by focusing on TNC's local chapters as well as assisting TNC's new Chair in his efforts to examine TNC's programs from the standpoint of transparency and accountability. The Panel was very pleased that independently of its efforts, Chair Paulson had already begun, at a lengthy meeting on January 9, intensive efforts to study each of the programmatic areas in question, and recommend appropriate changes as necessary with special emphasis on risk and reputation.

The Panel was not established to investigate past practices, but it necessarily had to become aware of them in order to make its recommendations. Accordingly, when the Panel turned its attention to the issues discussed in Part III, it did so recognizing that those issues were within the province of the newly restructured Board. The Panel notes that the Board and senior staff have already made important changes to TNC processes and procedures, and that the process of review and change is fluid and continuing under the Board's supervision. The Panel's discussion in Part III, therefore, is general and intended to be of guidance.

The Panel compliments Chair Paulson, the Board, and the senior staff on the speed and diligence with which they are evolving TNC -- it bodes well for the future.

Since the Panel began its work last year, it has spoken often and at length with a number of people who have been extremely helpful in assisting Panel Members with their deliberations, in addition to extensive interviews with TNC volunteers and staff at all levels, including, of course, Chairs Grassi, Dinkins, and Paulson, and the President and his staff at TNC's world headquarters, all of whom cooperated fully with the Panel and provided the Panel with full and free access to TNC.

The Panel also wishes to express its appreciation for the time and counsel the following individuals provided: Bob Ackerman, Chapter Chair, Massachusetts; Graham Chisholm, State Director, California; Bryant Danner, Trustee, California; Dennis Fitzpatrick, Chapter Chair, Idaho; Tom Harville, Chapter Chair, Washington; Wayne Klockner, State Director, Massachusetts; Geoff Pampush, State Director, Idaho; Wendy Paulson, outgoing Chapter Chair, New York; Jan Portman, Member, Board of Governors; Roy Rogers, Chapter Chair, Florida; Alan Seelenfreund, Trustee, California; Henry Tepper, State Director, New York; Vicki Tschinkel, State Director, Florida; and David Weekes, State Director, Washington.

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Finally, the Panel wishes to thank David B. Hird, John A. Neuwirth, and Robert C. Odle, Jr. of Weil, Gotshal & Manges LLP for their invaluable assistance in gathering information and organizing the work of the Panel.

Ira M. Millstein, Chair

Derek C. Bok

Claudine B. Malone

Richard T. Schlosberg III

Thomas J. Tierney

I. The Board

The past years have witnessed a dramatic shift in public expectations regarding the accountability of private organizations and the responsibilities of their governing boards. This has involved highly publicized scandals at large for-profit corporations, and media and U.S. Government attention to philanthropic and other non-profit entities. *The Washington Post* series on The Nature Conservancy is illustrative of the trend, but there have been similar reporting and editorial comment in newspapers and magazines throughout the nation. This process is likely to accelerate as Congress examines the manner in which the tax code is currently used by non-profit organizations.

These developments promise to bring new pressures to bear on non-profit boards to become more informed and more active in overseeing their operations. Faced with this changing environment, the Governance Advisory Panel offered a preliminary proposal to TNC's Board of Governors on January 28, 2004. Following a series of lengthy, interactive, and productive meetings with the Board's Liaison Committee; it attempted to outline how TNC might initiate changes at the Board level in its structure and functioning to help it respond more proactively to the challenges that currently confront it. The Board of Governors adopted this proposal at its meeting on January 29, 2004, and since that time, refinements have been incorporated based on comments from TNC officials and others.

The Panel believes that a central issue of board governance is ensuring that the board serves as an active and objective body for monitoring management activities. Because non-profits receive private donations and public benefits, it is essential that a non-profit board ensure that managers use organizational assets for their intended purpose, and scrupulously operate in a transparent, lawful, and ethical manner.

Board duties should include:

- Articulating expectations and standards related to organizational culture and the "tone at the top";
- Establishing the basic policies of TNC and reviewing any proposed deviations from them;
- Selecting, monitoring, evaluating, compensating, and if necessary, replacing the president, and in some circumstances, senior staff;
- Reviewing and approving management's strategic and programmatic plans (consistent with the non-profit mission) and monitoring performance against the strategic and programmatic plans to evaluate whether the organization is being properly managed;
- Reviewing and approving the organization's financial objectives and major plans and actions;

- Reviewing and approving significant transactions;
- Reviewing and approving the auditing and accounting principles and practices used in preparing the organization's financial statements;
- Providing oversight of disclosure and transparency, risk assessment, internal controls, and processes designed to promote legal and ethical compliance; and
- Assessing the board's own effectiveness.

It is in this spirit that the following has been formulated:

A. The current Board of Governors ("BOG") would select the Members of a new Executive Committee ("EC") to consist of the Chair, two Vice Chairs, President, Secretary/Treasurer, and the Chairs of six Committees, for a total of eleven Members of the new EC. The Chair and the two Vice Chairs would each inform themselves as to the activities of two Committees and would each act as liaison to two committees.

B. The Committees would consist of approximately five Members each, would be drawn from the entire membership of the BOG, and would meet at least quarterly. The Governance Committee would lead the process by which Members of the BOG are assigned to Committees. The President would not serve on Committees. Because each BOG Member would make a serious and significant commitment of time to Committee work, to the extent practical no one would be expected to serve on more than one Committee, although the Chair could attend any Committee meeting ex officio, as could the President, unless excused by the Members of the Committee. Written charters stressing each Committee's accountability for its missions would be prepared by each Committee, and reviewed annually for submission to the Governance Committee, and then to the EC and the BOG. The Vice Chairs of each Committee, who would serve on the BOG but not on the EC, would be responsible for each Committee's liaison efforts with local chapters. Further, while it is inevitable that the work of one Committee may overlap with that of another, such overlap is not necessarily undesirable.

The Committees would be:

(1) Audit:

- Normal audit functions (retain, evaluate, and work with outside auditors; internal audit function)
- Financial Reporting and Regulatory Reporting
- Compliance (ensuring procedures support policies and monitor compliance with procedures)
- Legal (address broad legal issues that have ramifications across TNC)
- Ethics (compliance with organization's values and code of conduct, including whistleblower issues)

- Compliance with lobbying regulations
- Conflicts of interest

N.B.: At some point in the future, the EC might shift certain of these assignments to other Committees if they result in precluding the Audit Committee from a sharp focus on basic Audit Committee tasks.

(2) Strategy:

- Mission, Strategy, Values
- Strategic and Annual Planning
  - Science, including annual "Science Audit"
  - Measures and Results
  - Public Policy and Government Relations

(3) Governance:

- Nominating
- Orientation
- Board and Committee Self Assessment
- Volunteer Leadership
  - Role of state/country volunteer leaders
  - Relationship of trustees and BOG in governance
  - Engagement of state/country volunteers to maximize influence and reach
  - Standards, Best Practices, and BOG Guidelines
- Human Resources
- CEO evaluation and succession
- Compensation

(4) Conservation Project Review:

N.B.: The purpose of this Committee would be to ensure adequate oversight and risk management of TNC's conservation programs, with a particular emphasis on large or novel conservation projects -- i.e., high-dollar value conservation buyer transactions and transactions with government entities, compatible human use activities, etc. Other functions of this Committee would include:

- Strategic fit/conservation, return on investment
- Risk assessment and management (financial, reputational, legal, and ethical)
- Easements (valuation, monitoring, amendments, enforcement, conservation value)
- Scientific rationale

(5) Finance:

- Investment policy and oversight
- Budgeting
- Long-term financial planning
- Financial status
- Performance benchmarks

(6) Marketing and Philanthropy:

- Donor Relations
- Fundraising Strategy and Results
  - Membership
  - Annual Funding
  - Capital Funding
- Fundraising Efficiency
- Communications
  - Marketing
  - Public Relations

C. It would be important for some of the EC Members to be persons who are not current Members of the BOG. This would be accomplished as soon as reasonably possible. All BOG Members would participate in an extensive orientation course and the Governance Committee would regularly review BOG Member performance. Over time, some Members who leave the BOG would not be replaced so that the size of the BOG did not increase beyond its current size due to the fact that any person elected to the EC would automatically become a member of the BOG.

D. Members of the BOG and EC would be independent of TNC pursuant to standards to be established, but at a minimum, no Member of the EC could hold any other TNC position, except for that of President. It would be, however, desirable if some Members of the EC had previously served as trustees.

E. TNC financial supporters would be eligible for election as BOG and EC Members, but no Member or his/her company could take an income tax deduction for any gift of land to TNC nor could any Member or his/her company purchase land from or sell land or easements to TNC while serving as a Member. Monetary gifts would of course be welcomed but Members and their companies would not be permitted to have cause-related marketing agreements with TNC.

F. While BOG and EC Members would not be chosen to represent TNC "constituencies," selecting Members who have expertise and competency in various areas in addition to conservation and the environment would be strongly encouraged, especially in governance, but also in other areas such as international affairs, ethics, audit and accounting, finance and investment, tax policy, conservation science, public and governmental affairs, real estate, law, etc.

G. BOG and EC Members would be elected for staggered three-year terms. Members would be eligible to serve two consecutive three-year terms, and would be eligible for election again one year after serving two consecutive three-year terms.

H. The EC would have in-person meetings at least quarterly. The EC and the Committees could and would meet telephonically between regular meetings. The BOG would meet two or three times a year, and could meet telephonically. Other than the President, BOG and EC Members would not be compensated.

I. The Chair would be responsible for the development of the agenda for each EC meeting. The outside EC Members would devote a portion of each meeting to a session which would not include the President.

J. An independent, outside auditor and the Director of Internal Audit would be appointed by the EC annually upon the recommendation of the Audit Committee and would report to the Audit Committee. The fees for the outside auditor would be set by the Audit Committee. The Audit Committee would decide no less frequently than every five years whether a new outside auditor should be selected, and if the then-current auditor is retained, a new lead partner would be selected. The General Counsel and a new Compliance Director would be selected by the President, subject to the prior approval of the EC. The Internal Audit Director's position description would be expanded to include responsibilities similar to those in U.S. Government departments held by Inspectors General, i.e., an internal investigatory function. The General Counsel and the new Compliance Director would report directly to the EC as well as to the President. Annual audits of legal issues and science programs would be performed.

K. In the interest of accountability to the internal and external and numerous and varied constituencies that have an interest in TNC, a major focus of the EC would be the promotion of transparency in all facets of TNC's governance, businesses, programs, and performance, including oversight of all mandatory and discretionary reporting.

L. The new structure would be phased in as soon as possible. Thereafter, the EC would develop formal elaborated guidelines for its future operation and conduct. These guidelines would include, among other things, Committee charters more particularly specifying the respective responsibilities and organization of each of the Committees (including the EC). A draft Audit Committee Charter is annexed to this Report as Appendix B.

II. The Field

The Panel has focused on TNC's local chapters because it believes that great and enduring enterprises are built around a robust core that defines and drives an institution. In TNC's case, that core is represented by its local chapters. For decades, relatively independent field operations have worked to conserve land, develop membership, engage local trustees, and generate significant financial support – primarily within the boundaries of their separate geographies. The unparalleled success of these chapters sets TNC apart from other conservation organizations, and provides an opportunity for TNC to impact ecosystems throughout the world.

Despite the grassroots nature of the chapters, TNC is organized as a single non-profit entity, reflecting the inherent interdependence of local organizations pursuing a regional, national, and global mission. The operating implications of Conservation by Design, TNC's overarching strategic framework, amplify this interdependence, as does the imperative to minimize organization-wide risk in an era of increasing public scrutiny.

If local chapters are primarily accountable for pursuing TNC's strategy within their boundaries, then the BOG and EC will ultimately be accountable for insuring that the whole is greater than the sum of the parts; that is, enhancing the overall long-term success of the mission, while mitigating its inherent risks. Because TNC is fundamentally chapter-driven, its world headquarters is highly dependent upon the behavior of the chapters – and vice versa. Given TNC's strategy and circumstances, there can only be shared accountability for future outcomes. And because the reputation of each chapter is affected in today's world by the behavior of other chapters, all chapters have a stake in an effective system of standards and accountability administered nationally and coordinated with the field.

The issues of governance, accountability and transparency are complicated for TNC due to its chapter structure. There are currently fifty-five relatively independent chapters in the U.S., each with its own board of local trustees. Although these boards have no real fiduciary responsibility, they are, in practice, highly engaged in the strategy and operations of the chapters. Their activities range from reviewing land transactions, fundraising, approving budgets, advising local staff on various management issues, and actively participating in the hiring of the State Director. Some trustees have served in this role for many years, while others are new to TNC. As a group they number approximately 1,500 and represent an essential asset in pursuit of TNC's mission to preserve the world's last great places.

TNC's historic growth and success can be traced directly back to the achievements of these chapters. What began in 1951 as a local effort in New York State to preserve parcels of land grew to encompass twenty state chapters by 1975. In the following decades, grass roots efforts were supplemented by a more proactive strategy as TNC expanded internationally in places such as South and Central America, the Caribbean, the Pacific Rim, Canada, and China. TNC's ability to blend strong local presence with centralized leadership and collaboration has been essential in protecting ecosystems that naturally transcend state and regional boundaries. Nevertheless, to the broad range of members, TNC has been very much "placed based," with particular enthusiasm centered on projects which are generally close to home. It is a great strength of the organization that so many members think of it as "my TNC."

This organizational approach also explains why TNC is structured as a single 501(c)(3) entity. The Panel examined other large geographically diverse charities and found that most are organized as a "federation" of separate legal entities (examples include: The United Way, Habitat for Humanity, Catholic Charities, and the Boy Scouts of America). Although this federation approach may help clarify the accountability and role of local directors, there is no evidence that it significantly improves overall governance of the entity.

On balance, the Panel is convinced that TNC's local chapters form the fundamental core of TNC's operations, and that those chapters should continue to be integrated within the boundaries of a single 501(c)(3) entity.

In that context, the Panel evaluated actual governance practices of a cross section of TNC chapters. We found the local trustees to be extremely competent, highly engaged and committed to TNC's success, and in general agreement about TNC's overall strategic direction. "Conservation by Design" had wide support among local trustees and staff. That said, the inherently grass roots and independent nature of the chapters led to many inconsistencies relating to governance practices. No single inconsistency was particularly alarming; in general, chapter trustees are well organized and productive. However, there were a number of variations around the exact role of the individual trustees, the structure and functioning of local "boards", the application of by-laws, and the participation in local decision-making (both strategic and operational).

Given our recommendations concerning TNC's Board, and our understanding of local chapter governance within TNC, the Panel proposes three areas for improvement:

- Establish minimum uniform governance standards for each chapter trustee board;
- Clarify decision making roles and responsibilities between the BOG, EC, local chapter boards, and senior staff, especially as pertains to land transactions and strategic decisions; and
- Enhance transparency and communication between the BOG, EC, and chapter trustees and staff.

We briefly elaborate on each of these recommendations below:

A. Governance Standards for Chapter Boards

Minimum standards should build upon a combination of historic best practices and the restructuring of the Board. The following areas should be addressed:

- Committee structure, membership, and charters
- Audit and evaluation practices
- Eligibility and participation requirements for chapter trustees
- Terms and term limits
- Minimum meeting requirements
- Reporting requirements
- A trustee orientation/training program

This process should produce an updated set of chapter by-laws and a process for evaluating compliance across all TNC chapters.

B. Decision-Making Roles and Responsibilities

While TNC should continue to promote innovation and entrepreneurship by the chapter boards, the Panel believes that ultimate authority should remain with the BOG and the EC, which are responsible for supervising the actions of the chapter boards and reviewing their decisions.

The Panel believes that chapter boards should review and ratify the most important decisions confronting local chapters, subject to the ultimate authority and oversight of the BOG and the EC. These decisions should parallel the types of decision made at the BOG and EC level as well as the standards for making such decisions, and would likely fall in the following categories:

- Chapter strategy, particularly its alignment with TNC's overall strategy
- Operations: e.g., approval of annual budgets, hiring targets, financial plans, fundraising practices
- Land transactions: e.g., any and all potentially "high risk" transactions
- Compliance with policies and procedures: e.g., TNC-wide policies requiring chapter compliance such as conflict of interest

By specifying that certain decisions must be debated and approved by chapter boards, TNC will encourage accountability of local leadership, improve the quality of its decisions, and enhance its ability to effectively govern its complex organization. And, of course, significant decisions of chapter boards must be subject to review by world headquarters to insure consistency.

C. Transparency and Communication

Given the need for greater coordination and integration between the BOG, EC, and chapter trustees, it is the Panel's recommendation that TNC identify mechanisms to insure better transparency and communication among the various leadership groups. While current practices are admirable, they fall short given the growth of TNC, the dynamics of its environment and the new pressures surrounding non-profit boards to be more diligent in the oversight and evaluation

of operations. At least in the short term, TNC should do its best to over-communicate regarding any significant issues, initiatives or decisions.

Of course, there are inherent tensions between the center and its constituent parts in every organization with strong local units; this can best be minimized through ample coordination and exchange of information.

These three sets of recommendations around chapter governance standards, decision-making, and communication are intended to complement the Panel's recommended modifications to the Board, while reinforcing the changes to policies and procedures that have and will be made.

These recommendations regarding the functions of the chapters and their interaction with world headquarters are key to the future credibility and efficiency of TNC. Implementation of these necessarily generic recommendations obviously will take a great deal of time, goodwill, effort, and forthright communication.

The EC must assume this responsibility promptly, and with special effort, in the hope that within a reasonable time concrete policies and processes will be in place that adhere to these general principles.

III. Programs, Transparency, and Accountability

In addition to recommendations concerning the issues addressed in Parts I and II of this Report, the Panel's charter also requests recommendations on ways to improve and enhance TNC's transparency and accountability, particularly as these issues relate to TNC's programs and policies.

Progress continues with steps taken by TNC's new chairman, Henry M. Paulson, Jr., and by the senior staff. Shortly after his election, Mr. Paulson convened on January 9, 2004, an "issues meeting" of TNC senior staff members to discuss proposed changes to, and risks posed by, TNC's policies relating to conflicts of interest, easements, land transactions with government, project review, compatible human use, and compensation. This ongoing process of review and change at TNC is comprehensively documented in a February 12, 2004 memorandum prepared by TNC Managing Director of External Affairs, Michael Coda, entitled "Processes for Managing Reputational Risks" (the "Memo"). The Panel believes the Memo represents a substantial effort by TNC's senior staff to develop policies and practices to address many of the key issues of transparency and accountability facing TNC. The Panel notes that the Memo has undergone a series of revisions reflecting the progress TNC is making with regard to the identification of issues and appropriate ways to address these issues.

Given the ongoing modifications that TNC is making in these areas, and as discussed in the Introduction, the Panel's comments are necessarily general.

A. Valuations and Appraisals in Land Donations and Conservation Easements

Land donations and conservation easements play a critical role in TNC's mission. For many years, TNC has appropriately measured the success of its efforts in terms of the number of acres of ecologically sensitive land held in fee or controlled through easements.

Clearly, the availability of a federal tax deduction is a major incentive for donors to contribute land or easements to TNC. Although current law requires TNC, as the donee organization, to acknowledge receipt of the gift on IRS Form 8283, it does not require that TNC take a position on the value of the gift. In the past, TNC's policies have been consistent with the law: TNC would not take a position on the value or deductibility of any easement or gift of land; TNC would undertake its own appraisals usually for the purpose of determining whether the sale price which TNC paid or received for land or easements were supported, but not to determine the propriety of the donor's appraisal.

Recently, however, concerns have been raised -- also appropriately -- about the validity of appraisals used to support the claims for tax deductions made by donors of land and easements to non-profits. Given the understandable concerns about valuations and donor contributions to non-profits, the Panel recommends that TNC put in place careful, systematic, and strict procedures that will ensure compliance with all aspects of the spirit and letter of the rules for charitable contributions of conservation donations, with particular emphasis on appraisals and other elements of valuation substantiation of such gifts.

The Panel applauds the recommendations of the senior staff in the Memo which propose that TNC refuse to sign a Form 8283 unless the donor's appraiser is state-certified, not barred from practicing before the IRS, and has experience appraising conservation lands and easements. The Memo also recommends that TNC determine that the appraiser uses generally accepted professional appraisal standards, accounts for the enhancement to any neighboring property owned by the donor, and certifies his or her awareness of any conflict of interest. The Panel considers these recommendations to be important steps in the right direction.

The Panel suggests that potential donors be informed at the outset of the transaction that TNC will closely examine the qualifications of the appraiser, the methods used, and the appraisal itself.[1]

In addition, the Panel recommends that TNC undertake a "desk review" of all aspects of a proposed conservation transaction, which would include a review of the donor's appraisal, to determine whether the transaction is appropriate.

The Panel believes that TNC must demonstrate that it is willing to "walk away" from an otherwise advantageous transaction where all aspects of the transaction do not meet TNC's new standards, including where a donor wishes to claim a tax deduction based on an appraisal that is not justified.

Finally, the Panel notes that the Memo (at p. 24) recommends training in TNC compliance policies, which the Panel certainly encourages; the Panel recommends that such training be expanded to cover tax issues relevant to both TNC and donors. The Panel also suggests that TNC encourage law and business schools to include these subjects in courses.

B. Monitoring and Enforcement of Easements

A closely related issue is the monitoring and enforcement of easements. The conservation value of easements could be undermined if property owners do not comply with the terms. Moreover, adequate monitoring and enforcement of easements is critical to achieving long-term conservation results. The Panel believes that TNC should regularly monitor compliance with easements, should require property owners to disclose plans for changes in easements, and take rigorous enforcement action where landowners act inconsistently with easement terms.

TNC recognizes these concerns, and in addition to the easement policy it adopted in 2001, the Memo (at pp. 22-23) sets forth several proposals for ensuring more effective monitoring and enforcement of conservation easements. The Panel recommends that TNC's General Counsel and its Compliance Director take steps to implement programs to enforce the easement amendment policy and take aggressive action, where appropriate, against land owners who infringe upon easements.

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[1] TNC should consider whether the review of the donor's appraisal could take place at the time the gift is made, not after the fact when the Form 8283 is submitted. Because the Form 8283 need not be completed before the donor files a tax return, it may not be submitted for many months (especially if the taxpayer seeks an extension of the filing date) after the end of the calendar year in which the donation was made.

C. Conflicts of Interest

At TNC's June 2003 Board of Governors meeting, the Board modified TNC's conflicts of interest policy to prohibit the purchase or sale of land, easements or any other interests in land involving members of the Board, trustees and employees (and their immediate families). In addition, the Board made clear that parties entering into land transactions with TNC must be unrelated to TNC for a minimum of one year before entering into a land transaction.

Following these changes, at the January 29, 2004 Board of Governors meeting, the Board adopted the Panel's Proposal requiring that no member of the Board or Executive Committee of the Board (or his or her company) (i) take an income tax deduction for any gift of land to TNC; (ii) purchase land from, or sell land or easements to, TNC; or (iii) have a cause-related marketing agreement with TNC.

Additional improvements to TNC's conflicts of interest policy are comprehensively set forth in the Memo, including one that "major donors" be considered "covered persons" and, thus, subject to the policy. The Panel understands that TNC is in the process of redefining the term "major donor" for purposes of conflict of interest analysis to include anyone who donated cash or assets worth $100,000 or more in the aggregate during the five years prior to the transaction.

It is especially important that the Audit Committee remain actively involved in overseeing and monitoring TNC's policies and procedures with respect to conflicts of interest, and that TNC's conflicts of interest policy be transparent (i.e., clearly articulated in TNC's Form 990 which would, in turn, be posted on its website).[2]

D. Transactions with Governmental Entities: the "No Net Profit" Policy

The Panel believes that it is important for TNC's reputation that not only it comply with its "No Net Profit" policy, but also be able to document that compliance in a transparent manner.

The Panel recommends that the "No Net Profit" policy be fully disclosed on its Form 990. In order to achieve even greater transparency, the Panel further suggests that TNC consider whether to publicly disclose the actual prices paid and received by TNC in transactions involving government entities.

The Panel believes that the Memo properly articulates the specifics of TNC's "No Net Profit" policy, and explains how to calculate the sales price in order to comply with that policy.

E. Compatible Human Use

TNC has long recognized that conservation of biodiversity must allow for a reasonable amount of human use of conservation lands. It is important that TNC be able to demonstrate that

[2] The Panel agrees with the recognition in the Memo (at p. 12) that "having a sound Conflict of Interest Policy will help The Nature Conservancy comply with the Standards for Charity Accountability established by the BBB Wise Giving Alliance, with Internal Revenue Service rules against private inurement and private benefit, and with state statutes addressing conflict transactions."

it is consistently following a policy of allowing only those human uses that are compatible with TNC's conservation goals and adhere to it.

In this regard, at the June 13, 2003 Board of Governors meeting, the Board affirmed that human use on TNC preserves may occur in four circumstances:

- The activity has little predicted impact and poses no identified threat to TNC's conservation targets;
- The activity has limited predicted impact but has an educational or other value that outweighs the predicted impact;
- The activity is part of a strategy to reduce or eliminate threats to conservation targets or is designed to mimic or restore essential ecological processes; or
- The activity contributes significantly to learning and demonstration opportunities for compatible use and biological diversity preservation when weighed against potential impacts.

The Board also (i) resolved that TNC will not initiate new oil and gas drilling or mining of hard rock minerals on TNC preserves unless already required by existing contracts; and (ii) organized a team of Board members and independent ecologists and economists to advise on human use activities. The team of Board members, ecologists and economists submitted a report to the Board in October 2003, focusing on the need for a greater scientific understanding of the impacts of proposed human uses and their financial implications. The report also addressed issues regarding appropriate levels of decision making and governance with respect to human use activities.

The Panel believes that the Board's articulation of TNC's compatible human use policy on June 13, 2003 is appropriate. In addition, the Panel agrees with the recommendation in the Memo that a committee composed of senior staff be formed to review "innovative, large scale, or untested proposed human uses." The Panel would also suggest that any proposed transactions approved by this committee be presented to the newly-formed Conservation Project Review Committee for final approval. For purposes of transparency, the Panel recommends that TNC also include an explanation of its compatible human use policy, with examples, in its Form 990.

F. Executive Compensation

In recent years, executive compensation at for-profit organizations has come under intense scrutiny. If anything, this issue is even more sensitive in the context of not-for-profit organizations. Both for purposes of public perception and for maintaining its tax-exempt status, TNC should maintain a consistent policy of paying executives amounts comparable with those paid by other similar not-for-profit organizations. It is especially important that the Governance Committee play an active and independent role in reviewing the performance and setting the compensation of the President, as well as reviewing and approving the compensation of senior

staff positions; and the compensation of the President and senior staff should be disclosed in great detail in the Form 990. Any compensation consultant retained by TNC should be chosen by the Committee.

The Panel could not agree more with the statement in the Memo (at p. 5) that "it is important to ensure that TNC has a well-structured and transparent policy toward determining compensation levels for its senior executives." Accordingly, the Panel recommends that the EC adopt the suggestions of the TNC Compensation Working Group (outlined on pp. 5-6 of the Memo) with respect to the manner in which the new Governance Committee should oversee matters of senior management compensation.

G. Lobbying

In order to maintain its tax-exempt status, section 501(c)(3) organizations such as TNC are required under the Internal Revenue Code to limit their lobbying activities to less than a "substantial part" of their overall operations. In this regard, as noted in the Memo, the TNC Board of Governors has approved an expenditure of up to only two percent of TNC's charitable budget on lobbying activities. The Panel believes that this threshold is more than consistent with the letter and spirit of IRS policies.

H. Compliance

The Panel's recommendation that TNC hire a permanent Compliance Director was adopted by the Board at the January 29, 2004 meeting, and the Memo properly articulates the responsibilities attendant to such a position.

Unlike the Internal Auditor whose function would be to review past events and transactions, the Compliance Director would essentially operate on a going-forward basis. The Compliance Director would implement programs to ensure that TNC operates in accordance with the law and its policies, and would review specific transactions and events as they transpire for adherence to the law and TNC policies. By contrast, the Internal Auditor's role would be to review completed transactions and events, in addition to duties such as those of an inspector general in a government agency, which also involve the review of completed transactions and events.

In the Memo (at p. 8), senior staff has suggested that the Compliance Director be housed in the office of TNC's General Counsel, and report to both the General Counsel and the Audit Committee. As set forth in the Panel's Board Proposal, the Panel recommends that the Compliance Director report directly to the EC as well as to the President. In addition, while the Panel recognizes that the costs of establishing the new position of Compliance Director will be significant, the Panel does not believe the Compliance Working Group should specify in advance that the Compliance Director should have no additional direct reports other than an administrative assistant. The Panel recommends that the Compliance Director be recruited from outside TNC.

I. Reputation and Transparency

In addition to the recommendations made above with respect to individual issues, the Panel has observations involving generic questions of reputation and transparency. The first concerns establishing mechanisms to review conservation projects before committing to them in order to ensure that they not only meet TNC's conservation objectives and comport with its policies, but do not raise issues of compliance or reputational risk. The second concerns using TNC's IRS Form 990 as a voluntary disclosure device in order to promote transparency.

(1) Conservation Project and Activity Review

The Panel's Proposal in Part I recommended the creation of a Conservation Project Review Committee of the EC to ensure adequate oversight and risk management of TNC's conservation programs, with a particular focus on large or novel conservation projects. For example, the Conservation Project Review Committee would closely examine high-dollar value conservation buyer transactions and transactions with government entities, as well as proposed compatible human use activities. The Panel believes as does the BOG that such EC level review is essential to protect TNC's reputation, assure legal compliance, and serve the organization's conservation objectives.

The Memo proposes to augment the work of this Committee by creating processes for managing risk at the staff level (Memo at pp. 33-36), including the proposed creation of a staff level committee to oversee such processes (which committee itself would report to the Conservation Project Review Committee). The Panel agrees with this approach which should go a long way toward achieving this end and preventing any single project from damaging TNC's reputation.

(2) TNC's Form 990

The Panel believes that the Form 990, which the Internal Revenue Service requires all non-profits to file annually, provides an opportunity for transparency and disclosure. Although the Form 990 does not require disclosure as detailed as that required in annual reports filed by public companies with the Securities and Exchange Commission, it can serve as a non-profit's version of what is now required by Sarbanes-Oxley for public companies. Therefore, the Panel suggests that TNC voluntarily disclose as much as possible (about its mission, policies, programs, goals, etc.) in its annual Form 990 in order to keep donors, the public, and interested governmental entities well informed about its activities. The Panel suggests that the changes and initiatives implemented since the June 13, 2003 BOG meeting be discussed in TNC's next Form 990, and that thereafter each Form 990 should include a report on the work of the Conservation Project Review Committee during the prior year.

The Panel observes that the Form 990 filed by Memorial Sloan-Kettering serves as an example of a model Form 990.

Simply put, TNC could use its Form 990, in the words of one commentator, "to detail the activities, experiences, and ethical record of the organization during the previous year."

Appendix A: Work of Outside Advisors on Key Issues

August 20, 2003

The Nature Conservancy aspires to set a standard for best practices for a highly-decentralized, global non-profit organization, committed to a culture of innovation through competent risk taking. While confident that TNC has the right values and strategy to serve its mission, the Board is constantly seeking to improve and enhance its governance, transparency, and accountability. Therefore, the Board decided at its meeting on June 13, 2003 to enlist outside perspective and expertise to help in these areas. This memo will further define this work.

The objective of the work with independent advisors will be to provide the Board of Governors of TNC with a set of forward-looking recommendations on key issues facing the organization in the areas of governance, transparency, and accountability.

The outside advisors will be given latitude in determining the scope of their work with the caveat that we are not looking for an evaluation of the past but rather advice on how to move forward in the areas of governance, transparency, and accountability. This Governance Advisory Panel will be chartered by the Board of Governors and the group will deliver the recommendations to the Board and keep the Board informed throughout the group's process. The Panel will have the opportunity to make recommendations related to other issues discussed at the June 13 Board meeting but its focus will be on questions that were not addressed or remain unresolved after that session. These outside advisors will not be staff or Board members of TNC. The outside advisors will be asked to serve pro bono, however they will be reimbursed for their expenses. A final report of the Panel's recommendations will be made available to the public.

The group will include up to seven individuals with diverse and broad experience in the issues of governance, both in the for-profit and non-profit arenas. These individuals will have a reputation for integrity and a commitment to conservation. The Panel will be fully supported by professional staff hired for this purpose. TNC will raise funding to cover the costs of this staff.

The Panel will make an interim report to the TNC Board at its meeting in January. It is anticipated that final recommendations will be made by March, 2004. The advisors will be asked to develop answers to a series of questions. These questions are drawn from the discussion of the Board of Governors at the June 13 Board meeting. The questions are in the following areas.

Governance

The Board would like the outside advisors to provide their advice on how the Board ensures that we use our governance processes to achieve the highest levels of integrity throughout the organization. Some questions the advisors might choose to address are:

- How can the Conservancy's governance approach better ensure that it achieves its foremost value - integrity beyond reproach?

- What types of backgrounds and experiences should be reflected on the Board of Governors and in what proportion to the total Board membership? How many members should the Board have? Should there be any other entities created (i.e. advisory councils) to help the Board do its work?

- What is the optimal committee structure arrangement and what should be the charges to those committees?

- How should issues be identified for Board consideration and review?

- How should potential Board members be identified?

- How does the Board ensure that our procedures are designed and executed so as to support the policies established by the Board?

Transparency

We would like the advisors to give us their opinion on the meaning of transparency in the non-profit sector and how to apply this perspective within the context of TNC. Some questions the advisors might choose to address are:

- What can TNC do to reach its desired standard of becoming a model of transparency in the non-profit sector?

- What categories of information should be easily available to all the constituencies that are important to TNC?

- How do we ensure there is no gap between how we describe ourselves and who we really are?

Accountability

We are seeking assistance in thinking about the issue of accountability. To what constituencies are we accountable and how are we accountable? Other questions the advisors might provide an opinion on are:

- What are the key areas in which the Board of Governors needs to step up its oversight of TNC activities in order to minimize risk to the organization?

- What benchmarks should the Board establish to monitor the organization's performance?

- What role should members, donors, and partners play in evaluating TNC's effectiveness?

Appendix B: Draft Audit Committee Charter

As New York State Assistant Attorney General William Josephson has noted, in today's world the Audit Committee is the sine qua non of a non-profit. The Panel agrees, has emphasized the importance of the Audit Committee in Part I of this Report, and has also prepared the following draft charter for the EC's consideration.

Purposes

The Audit Committee will assist the BOG and the EC in fulfilling its oversight responsibilities by monitoring (1) the overall systems of internal control and risk mitigation; (2) the integrity of the financial statements of TNC; (3) compliance by TNC with legal and regulatory requirements and ethical standards; and (4) the independence and performance of TNC's internal and independent auditors.

Membership and Meetings

Committee members shall have a basic understanding of finance, accounting and fundamental financial statements, and at least one member of the Committee shall be a financial expert as determined by the EC.

The Committee shall meet quarterly with the internal auditor and twice each year with the independent auditor in separate executive sessions to provide the opportunity for full and frank discussion without members of senior management present.

Authority

The Committee's role is one of oversight. TNC's management is responsible for preparing TNC's financial statements and the independent auditors are responsible for auditing those financial statements. The Committee recognizes that TNC's management, the internal audit staff and the independent auditors have more time, knowledge, and detailed information about TNC than do the Committee members. Consequently, in carrying out its oversight responsibilities, the Committee is not providing any expert or special assurance as to TNC's financial statements or any professional certification as to the independent auditor's work.

The Committee shall have the power to conduct or authorize investigations into any matters within the Committee's scope of responsibilities, with access to all books, records, facilities and personnel of TNC. The Committee shall have the power to retain special legal, accounting, or other consultants to assist in the conduct of such investigations or to advise the Committee, at TNC's expense and without further BOG or EC approval.

The Committee may request any person, including but not limited to any officer or employee of TNC or the independent auditor, to attend Committee meetings or to meet with any members of, or advisors to, the Committee.

Responsibilities

The Committee shall undertake the following responsibilities, which are set forth as a guide. The Committee is authorized to carry out these activities and other actions reasonably related to the Committee's purposes or assigned by the BOG or EC from time to time.

Internal and Independent Audits

Internal Audit

- Recommend the appointment, compensation, performance evaluation and replacement of the Director of Internal Audit, who shall report functionally to the Audit Committee;
- Review the risk assessment that drives the internal audit plan and annually approve the plan;
- Review the activities of the internal audit function; and
- Review the effectiveness of the internal audit function including staffing.

Independent Audit

- Recommend the appointment of the independent auditor, and evaluate, compensate, and oversee the work of, and if appropriate terminate, the independent auditor, who shall report directly to the Committee;
- Review and approve the terms of the independent auditor's retention, engagement, and scope of the annual audit, and pre-approve any audit–related and permitted non-audit services (including the fees and terms thereof) to be provided by the independent auditor;
- Review and confirm the independence of the independent auditor annually by obtaining and reviewing a report from the independent auditor delineating all relationships between the independent auditor and TNC and discussing with the independent auditor any such disclosed relationships and their impact on the independent auditor's independence and by obtaining the auditor's assertion of independence in accordance with professional standards;
- At least annually, review a report from the independent auditor describing the auditing firm's internal quality-control procedures and any material issues raised by the most recent quality-control review of the firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, with respect to one or more independent audits carried out by the firm, and any steps taken to deal with any such issues; and

- Review with the independent auditor any problems the auditor has encountered performing the audit and any management letter provided and TNC's response to that letter, and matters that the independent auditor is required to communicate to the Committee.

Internal Control and Risk Mitigation

- Review with management and the independent auditor TNC's major financial risk exposures and evaluate the steps management has taken to monitor and minimize such exposures;

- Monitor the effectiveness of TNC's internal control systems, review, including through regular executive sessions, whether internal control recommendations identified by internal and independent auditors have been implemented by management, review annually the ethics code of TNC and the effectiveness of the procedures established to monitor compliance at every level and ensure through inquiry and other appropriate means that management is communicating the importance of the organization's values, code of conduct and ethics, and internal controls;

- Review adherence to the conflicts of interest and related entities policies, and recommend action as appropriate; and

- Establish procedures for receiving, retaining and treating complaints received by TNC regarding accounting, internal accounting controls or auditing matters and the confidential, anonymous submission by employees of TNC regarding questionable accounting or auditing matters.

Financial Reporting

General

- Review with the independent auditor significant accounting and reporting issues, and alternatives, including recent professional and regulatory pronouncements, understand their impact on the financial statements and ensure that all such issues have been considered in the preparation of the financial statements; and

- Review with the general counsel, management and the independent auditor, including in separate executive sessions, key functional activities of TNC, including legal, tax, or regulatory matters that may have a material impact on the financial statements and any material reports or inquiries received from regulators or government agencies.

Annual Financial Statements

- Review with management and the independent auditor any complex and/or unusual transactions;

- Review with management and the independent auditor, including in separate executive sessions, issues related to judgments made involving valuation of assets and liabilities and commitments and contingencies;

- Review with management and the independent auditor, in separate executive sessions, the annual financial statements and the results of the audit;
- Review with management the annual audit report and recommendations of the independent auditor, including any audit problems or difficulties and management's response; and

- Meet annually with management and the external paid tax preparer to review any issues or judgmental areas relating to the disclosures in TNC's IRS forms.

Compliance with Laws, Regulations, Ethics, and Policies

- Conduct an annual review of TNC's compliance with law, and with its ethical standards and policies;

- Review with management, including the General Counsel and Compliance Director, all legal and ethical compliance issues;

- Oversee the functions of the Compliance Director;

- Act on findings of the Compliance Director with respect to issues of non-compliance;

- Review with management and the independent auditor, including in separate executive sessions, the findings of any examinations by regulatory agencies; and

- Review with the internal auditors any possible areas of noncompliance with laws and ensure that management follows up with relevant procedures where appropriate.

Conflict of Interest

- Review, with the General Counsel and Compliance Director, all issues of conflict of interest;

- Coordinate, with the Conservation Project Review Committee, the resolution of conflict of interest issues with respect to conservation projects; and

- Oversee compliance with TNC's conflict of interest policy.

Other Responsibilities

- Ensure that significant findings and recommendations made by the internal and independent auditors are received and addressed by management on a timely basis;

- Annually review and update the Committee's charter, as needed;
- Conduct an annual performance evaluation of the Committee and make any changes to the Committee's composition or function necessary to address areas of improvement revealed in the evaluation; and
- Maintain minutes of meetings and periodically report Committee actions and make such recommendations as the Committee deems appropriate.

Appendix C: Curricula Vitae of Governance Advisory Panel Members

Ira M. Millstein (Chair): Mr. Millstein is a senior partner of Weil, Gotshal & Manges LLP, an international law firm based in New York City. He has counseled numerous high-profile publicly-held corporate boards and state and private philanthropic boards on issues of corporate governance. He is the Honorary Chairman of the Board of Advisors of the International Institute for Corporate Governance at the Yale School of Management and a Professor at the Yale School of Management. He is an elected member of the American Academy of Arts and Sciences and author of books and articles on Corporate Governance.

Derek C. Bok: Mr. Bok, a former president of Harvard University and Dean of the Harvard School of Law, now serves Harvard as the Chair of the Hauser Center for the study of nonprofit organizations and philanthropy. He is the author of numerous books on higher education, government, and executive and professional compensation.

Claudine B. Malone: Ms. Malone is President of Financial and Management Consulting, Inc. She serves or has served on the Boards of several large companies, non-profit organizations, and academic institutions. She is a former chairman of the Federal Reserve Bank of Richmond.

Richard T. Schlosberg III: Mr. Schlosberg is the immediate past president and CEO of the David and Lucile Packard Foundation, a position he held since May 1999. Prior to joining the foundation, he served 23 years in the communications business and was publisher and chief executive officer of the Los Angeles Times and executive vice president of The Times Mirror Company.

Thomas J. Tierney: Mr. Tierney is the former chief executive of Bain & Company, an international consulting firm, recognized as one of the premier strategy consulting firms in the world. He is also the founder and Chairman of The Bridgespan Group, an independent, non-profit affiliate of Bain & Company designed to provide high-quality consulting services to foundations and non-profit organizations. He serves on the boards of several non-profit organizations and co-authored Aligning the Stars, an organization and leadership book published by the Harvard Business School Press in 2002.

October 27, 2004
Senate Finance Committee Letter

Question 20: Narrative Re: Board Approval of Related Organizations

Many of the most serious Federal tax issues involving an exempt organization can arise when the exempt organization participates in a joint venture arrangement in which it does not own a controlling interest in the venture. Under TNC's recently adopted policies regarding related organizations and significant business holdings, approval of such ventures seems to rest with the President of TNC, rather than with the TNC Board of Governors. Is that a correct understanding, and if so, why is Board approval not required in such instances?

As described more fully in TNC's prior submissions to the Committee, TNC's specific activities are undertaken pursuant to policies adopted by the Board of Governors or standard operating procedures adopted by TNC's senior leadership team either to implement Board policies or to prescribe standards for activities that may be undertaken without advance case-by-case approval by the Board.

TNC's current policy on Related Entities (copy enclosed) was adopted by the Board on January 30, 2004. It requires that relationships with any entity in which TNC acquires a controlling interest, or where TNC is authorized to act on behalf of such an entity, must be approved in advance by the Board on a case-by-case basis. This is true whether the relationship results from a gift or bequest, a purchase of an interest in an existing entity or the creation of a new entity and the policy applies with respect to a broad range of entities. The covered entities include, but are not limited to, wholly-owned or controlled non-profit corporations; owned or controlled for-profit entities; partnerships and joint ventures; trusts; or other arrangements where TNC acts as a financial fiduciary or agent for another organization, coalition or entity which is otherwise conducting its activities under the auspices of TNC. Under generally accepted accounting principles, these entities are generally treated as a part of TNC and their financial statements generally must be consolidated with those of TNC. As a result, Board approval is necessary and Board considerations are governed by all relevant factors, including those set forth in the policy.

A written standard operating procedure (copy enclosed), also adopted on January 30, 2004, and approved by TNC's Board of Governors, governs cases in which TNC acquires significant business interests in separate legal entities that are not controlled by TNC. Under this procedure, entitled Significant Legal Interests in Separate Legal Entities, such acquisitions may be approved by the President of TNC, subject to a reporting obligation to the Board. As set forth in the procedure, the President's discretion is not unfettered. The approval process must take into account all relevant factors, including those specified in the procedure such as: consistency with TNC's mission, strategy, and values; financial, legal and other costs and risks: tax and other legal and financial reporting implications; and public perception. While the financial statements of entities covered by

this procedure are not consolidated with those of TNC, the procedure does require that the President and Chief Financial Officer specifically apprise the Board where any such interests pose significant potential financial, legal or other risks to TNC.

The absence of a requirement for advance Board approval of non-controlling interests in entities reflects a variety of factors. First, and foremost, in such situations, TNC does not have the right to exercise control over the activities of the entity involved, but is instead responsible primarily to determine that TNC's investment is consistent with its exempt purposes and thereafter to oversee the financial investment. Second, experience has demonstrated that the volume and time-sensitivity of many such investments is such that advance Board approval may be impractical as well as unnecessary. Third, as discussed below, the acquisition of such non-controlling interests may trigger special review by TNC's newly established Risk Assessment Committee and, consequently, by the Board.

As described more fully in TNC's prior submissions to the Committee, TNC has created a Risk Assessment Committee comprised of its senior staff, including the General Counsel and the Chief Ethics and Compliance Officer, among others. The Risk Assessment Committee's organizing documents (see attached memo) contemplate that the Committee will conduct advance reviews of all projects and transactions, including the acquisition of non-controlling interests in other entities, that meet its criteria for review (e.g., transactions or investments that are new, novel or particularly complex; as well as those that comply with all applicable legal and tax law requirements, and with TNC's policies and procedures, but nevertheless involve potentially substantial financial, legal, ethical or reputational risk to TNC). The Board of Governors oversaw the creation of the Risk Assessment Committee, and the Board through a committee thereof -- specifically the Project and Activities Review Committee -- receives reports of all actions of the Risk Assessment Committee.

The policies and procedures described above followed a comprehensive review of TNC's governance by its Board, senior staff and outside experts. These policies and procedures are intended to ensure that all considerations, including the Federal tax issues referred to in the Committee's question, are addressed in advance in the case of non-controlled as well as controlled separate entities. In this connection, it should be emphasized that the procedure governing investments in non-controlled entities does not preclude the Board, in the exercise of its oversight functions, from directing at any time that TNC dispose of any investment made in accordance with the procedure.

October 27, 2004
Senate Finance Committee Letter

Question 21: Narrative Re: Related Organizations

Please explain how the revised TNC policies regarding related organizations and significant business interests would apply to arrangements such as the GM-TNC emissions arrangement?

TNC's current policies and procedures with respect to the acquisition of interests, both controlling and non-controlling, in separate entities are described above (Question 20). In the case of the TNC-GM emissions arrangement, regardless of the characterization of the nature of TNC's investment therein at the time of the transaction, under TNC policy and procedures then in effect, prior approval of the Board of Governors acting through its Executive Committee, was sought and obtained.

Were this project to come before TNC's Board of Governors today under the previously described policy and procedure, since TNC's interest in such entity most likely would be characterized as a joint venture, the applicable and relevant TNC policy would be the policy on Related Entities. The reasons for this conclusion are: (1) the venture is established by a formal legal agreement with another party where TNC is a named partner in an ongoing conservation operation; (2) TNC has a controlling interest in the venture by virtue of its ability to veto decisions with respect to the expenditure of funds; and (3) TNC is acting as a "financial fiduciary" with respect to the management and oversight of the funds of this venture. Therefore, TNC's involvement in such an entity would require prior Board approval, as was obtained for the project originally.

Given that the primary purposes of the TNC-GM emissions agreement are to ". . . promote the protection of plants and animals, sequester carbon from the atmosphere, otherwise reduce so-called greenhouse gases in the atmosphere and achieve sustainable development through community conservation. . ." and in light of the fact that that the funds were intended to be (and were, in fact) used to acquire, manage and restore important habitat in the Brazil Atlantic Rainforest Restoration project in the Guaratuba region of Brazil, an area of recognized biodiversity importance and designated as a UNESCO world biosphere reserve, it is likely that the project would have met the criteria for approval for the Conservancy's involvement in this project under the Conservancy's current policy and procedure.

The Nature Conservancy
SAVING THE LAST GREAT PLACES ON EARTH

Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283
nature.org

June 18, 2004

The Nature Conservancy
Strengthened Governance, Policies and Procedures

The mission of The Nature Conservancy is to preserve the plants, animals and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive. This mission is pursued through a science-based planning process called "Conservation by Design", which enables the Conservancy to identify lands and waters for inclusion in its conservation programs and then design site-specific strategies for the protection of those lands and waters while preserving compatible human uses.

The Conservancy has been and remains committed to carrying out this mission in accordance with the letter and spirit of all applicable laws and its organizational values, which speak to "integrity beyond reproach." In recent years, the Conservancy has grown substantially, both in absolute size and in the number and complexity of the transactions it undertakes to carry out its conservation mission. The Conservancy has also become increasingly decentralized, operating with professional staff in every state in the U.S., and in twenty-eight other countries. During this same period, policymakers and others have properly focused increased attention on the governance and activities of non-profit organizations, including the Conservancy.

In June 2003, the Conservancy initiated a comprehensive effort to strengthen its general governance and its specific policies and procedures, including those applicable to its various conservation programs. The principal changes adopted by the Conservancy in the past year are summarized in this memorandum. These changes are intended to achieve the following goals: (1) enable the Conservancy's Board of Governors to provide increased strategic guidance and undertake more active oversight; (2) incorporate many of the governance principles contained in the Sarbanes-Oxley Act; (3) promote tax law compliance by all parties to conservation transactions in which the Conservancy is a participant; (4) address on a comprehensive and consistent basis issues involving actual or potential conflicts of interest; (5) provide more specific rules guiding key conservation programs such as easements, conservation buyer transactions and sales to governments; and (6) ensure high-level advance review of transactions that may present financial, legal, ethical or other reputational risk to the Conservancy as a whole.

(d) if the donor is a related party or a major donor (as defined) with respect to the Conservancy, the appraiser must also certify that he or she is aware of this fact and that it did not influence the appraiser's valuation.

Additional Tax Compliance Procedures

Consistent with the practices of many tax-exempt organizations, the Conservancy provides general information to third parties with respect to the potential tax consequences of contributions to and conservation transactions with the Conservancy, but it has long had a written procedure prohibiting the providing of legal and tax advice to third parties. The Conservancy is adopting a more comprehensive procedure to promote tax compliance. Among other things, this new procedure places explicit limits on the types of conservation transactions in which the Conservancy will participate. Specifically, the Conservancy will not enter into any *conservation land transaction that provides tax benefits to a third party* unless the transaction enhances, directly or indirectly, the ability of the Conservancy to carry out its conservation mission; *and* the Conservancy determines that the transaction:

(a) is not a "reportable transaction" within the meaning of section 6011 of the U.S. Internal Revenue Code, relating to tax shelters;

(b) has not been structured to enhance the ability of any person to avoid a tax reporting or substantiation obligation under any federal, state or local tax law; and

(c) is substantially similar to the types of transactions previously approved by the Conservancy.

In general, a type of transaction will be approved by the Conservancy only if an independent and qualified tax counsel could reasonably render an opinion that, upon audit by the IRS or other appropriate tax authority, the anticipated tax benefits "should" be upheld by the tax authority or a court, as opposed to opinions that merely say it is "more likely than not" that the tax benefits claimed would be allowed, or that there is a "reasonable basis" for such a claim.

Conflicts of Interest

The Conservancy has for many years had a formal conflicts of interest policy intended to ensure proper advance review of transactions involving employees, members of the Board of Governors, state chapter trustees and other related parties. This policy has been administered by the Conservancy's Legal Department and the review process has focused primarily on the potential misuse of proprietary or inside knowledge and on whether the terms of all such transactions meet the arm's length standards of applicable law.

The Conservancy has strengthened its conflicts of interest policies in several key areas. First, *purchases and sales of land (including interests in land, such as easements) involving related parties have been prohibited* even though they are permitted under applicable tax laws if structured in accordance with arm's length standards. For this purpose, a "related party" means any person who, within the 12-month period preceding a proposed purchase or sale, was a member of the Board of Governors, a Chapter trustee or an employee. In addition, the prohibition applies to close relatives of any such individual and entities in which the individual and/or a close relative owns more than five percent equity interest.

Second, *other transactions with related parties* (i.e., those that do not involve the purchase and sale of land) will be subject to advance review under the Conservancy's *expanded conflicts procedures*. Under the expanded procedures, a new interdisciplinary committee of experienced Conservancy staff will supplement legal review of all proposed transactions; actual or potential conflicts involving special circumstances (e.g., those with organizational implications and those involving members of the Board of Governors) will be referred to the Audit Committee of the Board for decision; and additional training and guidance will be provided to all employees to enable them to identify potential conflict situations and seek review on a timely basis.

Third, *purchases and sales of conservation lands involving major donors* will be subject to advance scrutiny under the expanded conflicts of interest policy. For this purpose, a "major donor" means any individual, corporation, foundation or other entity that has made gifts or pledges of at least $100,000 (in cash or in kind) on a cumulative basis within the five-year period preceding the proposed transaction.

Fourth, special rules will apply in the case of *gifts of land (including easements) by related parties and major donors.* In these cases, such gifts will be accepted only if the Conservancy receives a written certification from the appraiser used by the donor to value the land for tax purposes that the appraiser is aware of the relationship between the related party or major donor and the Conservancy and that the relationship did not influence the appraiser's conclusion as to value. In addition, all such gifts would be subject to advance review under the Conservancy's expanded conflicts of interest procedures.

Fifth, while financial supporters of the Conservancy can be elected to the Board of Governors, *if a member of the Board or a company with which he or she is affiliated intends to claim a tax deduction for a gift of land (or an interest in land, such as a conservation easement) to the Conservancy, the transaction will be subject to strict scrutiny by the Conservancy and must be approved by the disinterested members of the Board.* Among other things, this new policy requires *independent assessments by unrelated and qualified persons* of both the conservation value of the land to the Conservancy's mission and of the tax valuations of the gift to be used by the donor.

Procedures for Specific Conservation Programs

Conservation Easements

Conservation easements are used in the United States by more than 1,200 organizations and many governmental agencies and have been used by the Conservancy for more than four decades for a broad range of purposes (e.g., providing buffers for core conservation areas, including national parks and other public lands; preserving critical habitats; and conserving watersheds and aquifers to protect aquatic biodiversity and help ensure clean drinking water).

For many years, the Conservancy has had specific procedures governing when conservation easements will be accepted or purchased; requiring preparation of a detailed "baseline" report at the time of acquisition to facilitate future monitoring and enforcement; and mandating the establishment of stewardship funds for finance monitoring and enforcement. In 2001, following consultations with the IRS, the Conservancy established comprehensive procedures governing proposed modifications to easements.

In June 2003, the Conservancy established an Easement Working Group to conduct a comprehensive review of the processes by which the Conservancy acquires, uses, monitors and enforces conservation easements. Based on the Working Group's recommendations, the Conservancy adopted strengthened procedures requiring, among other things (a) that, consistent with prior practices, prospective donors of easements be informed of the Conservancy's policies and practices to ensure a clear understanding of mutual expectations and obligations with respect to easements; (b) standardized decision-making on the appropriate location, terms and conditions of easements; and (c) consistent monitoring and enforcement of the terms of the Conservancy's easements. Proposed modifications to easements have always been subject to advance review by the Legal Department. In addition, proposed modifications involving related parties or major donors now will be subject to advance review and approval under the Conservancy's strengthened conflicts of interest policies and, as appropriate, by the newly formed Risk Assessment Committee (discussed below).

The Working Group's final report was presented to and accepted by the Board of Governors in June 2004. At that time, the Board directed the Conservancy's staff to implement the Working Group's recommendations through seven specific actions. One of these actions is the establishment of a new centralized easement management electronic database that will include all easements held by the Conservancy and the terms and conditions of each easement. When fully operational, the protocol will (a) notify Conservancy field offices of appropriate monitoring dates for each easement; (b) provide a standardized monitoring checklist; and (c) require that all records of monitoring, property transfer notices, regular owner cultivation, periodic verification of the baseline, and enforcement actions be entered into the system.

Conservation Buyer Transactions

Conservation buyer transactions typically involve the purchase of land by the Conservancy at its fair market value followed by the sale of the land to an individual or organization (other than a governmental unit or another conservation organization) subject to a conservation easement permanently limiting the uses to which the land may be put. As a result, the restricted value of the land acquired by the conservation buyer is less than the value of the unrestricted land purchased by the Conservancy. In some instances, the Conservancy may seek a contribution from the buyer or a third party to offset its costs, including the cost of acquiring the property.

These transactions permit important conservation objectives to be achieved while the property remains in private hands, on the local tax rolls, and in most cases allowing some compatible economic activity to occur. Of the approximately 10,000 land transactions in which the Conservancy was involved in the last 10 years, 169 were conservation buyer transactions.

As noted previously, conservation buyer transactions may no longer be undertaken with related parties and, in the case of major donors, they may be undertaken only following advance review under the Conservancy's strengthened conflicts of interest procedures. In the case of those conservation buyer transactions that are permitted, additional special policies and procedures are now applicable. Specifically:

(a) to ensure that there is a conservation benefit to the public, the land must fall within a priority conservation site established by Conservancy scientists (which frequently involves consultation with appropriate governmental entities, outside scientists and other knowledgeable sources), and the terms of the easement (and the plan to monitor compliance with those terms) must be structured to achieve the desired conservation result on a permanent basis;

(b) to provide an open and equitable purchase opportunity to all potentially interested parties, the land must be offered for sale in a manner that allows for broad exposure and fair competition among interested buyers;

(c) to ensure that the Conservancy receives fair value for the land, the Conservancy must obtain its own independent appraisal documenting the value of the land both before and after the imposition of the conservation easement;

(d) to ensure compliance with all applicable tax law requirements, if a contribution is solicited in connection with a conservation buyer transaction (i) the Conservancy must document that fact and provide the buyer with a statement of the link between the gift and the sale, and (ii) the transaction must be structured by the Conservancy so as not to relieve the

buyer from substantiating the amount of the contribution for tax purposes; and

(e) to ensure that such projects are consistent with local community standards, the Conservancy will obtain community input regarding future uses of the land.

Conservation Land Sales to Governments

The Conservancy has for many years had a "no net profit" policy for transfers of land (and interests in land, such as easements) to governmental agencies for conservation purposes. This policy is intended to ensure that the Conservancy only recovers its costs upon such a transfer. Recovery of such costs is also generally limited by the fact that governmental units may only pay fair value for property.

In March 2004, the Conservancy strengthened its "no net profit" policy to provide more specific guidance with respect to inclusion of direct and indirect costs in the Conservancy's sales prices to governmental entities. In addition, the strengthened policy requires that certain amounts be deducted from the otherwise permissible purchase price. These required reductions include: (1) the value of gifts (including private grants) received and restricted to the conservation lands involved; (2) any government funding received for acquisition or other costs (including costs of capital improvements) relating to the conservation lands involved; and (3) net income received by the Conservancy from any activities (e.g., a significant timber harvest) that have a material effect on the value of the conservation lands involved.

Compatible Human Uses

The Conservancy has long recognized that people are an integral part of the landscape and that a reasonable amount of human use of conservation lands must be allowed. To ensure that such uses on property owned by the Conservancy are compatible with basic conservation objectives, the Conservancy has taken the following steps:

(a) to improve its decision-making, the Conservancy will initiate, in cooperation with the United States Fish and Wildlife Service, a review of scientific studies and other literature related to compatible human use;

(b) to improve its understanding of risk and inform future decisions, the Conservancy will conduct a broad survey, based on recommendations of independent scientists, of existing uses of the Conservancy's preserves; and

(c) innovative, large scale, or untested proposed human uses will be subject to advance review by the Risk Assessment Committee.

In addition, in June 2003, the Board of Governors adopted a policy prohibiting any new oil, gas or hard rock mineral activities on the Conservancy's preserves, except where required by pre-existing contracts or other legal requirements.

Cause-Related Marketing

The Board of Governors has adopted a policy under which all new uses of the Conservancy's name and logo by third parties must be approved by the Conservancy's President. This responsibility cannot be delegated.

Legislative Advocacy

To accomplish its conservation mission, the Conservancy often takes a leadership role on ballot funding referenda and other public policy issues. The Board of Governors has clarified that the Conservancy will take positions regarding legislation, rule-making, adjudicatory and other policy matters only if (a) there is a substantial and direct impact on the Conservancy's ability to accomplish its mission, and (b) the Conservancy's position is essential to achieve the desired outcome of the matter in question.

To ensure continued compliance with the tax law requirement that "no substantial part" of its activities consist of attempts to influence legislation, etc., the Conservancy, the Board of Governors has approved an expenditure cap of up to two percent of the Conservancy's budget for such activities. In addition, the Conservancy has provided increased training to its staff.

Risk Assessment Committee

As the preceding discussion illustrates, the Conservancy has a broad range of policies and procedures and many of these have been strengthened over the past year. No set of policies and procedures can identify in advance all possible instances that may present financial, legal, ethical or reputational risks to an organization such as the Conservancy as a whole. Moreover, there are many instances where established policies and procedures would, if literally applied, prohibit the accomplishment of important conservation goals and it therefore may be appropriate in certain specific situations to permit those goals to be accomplished in an alternative manner consistent with the intent and purposes of the applicable policies and procedures.

To address these issues, the Conservancy has created a Risk Assessment Committee whose activities are modeled on the committee review process increasingly used by decentralized firms, in the financial services sector and elsewhere, for risk review. The committee conducts advance reviews of those projects, transactions, and issues that meet its criteria for review (e.g., transactions that are new, novel or particularly complex, and transactions that comply with applicable legal and tax requirements and Conservancy policies, but nevertheless involve potentially substantial financial, ethical or reputational risk to the Conservancy). Particular attention is given to ensuring consistency of projects with the Conservancy's stated values.

The committee's members consist of experienced Conservancy personnel representing all relevant disciplines necessary to evaluate critically the organizational risks associated with the types of projects, transactions, and issues to be reviewed. The committee endeavors to promote intelligent and prudent entrepreneurship by helping innovative conservation projects succeed wherever feasible. Thus, the committee has the ability not simply to approve or disapprove a proposed project or transaction, but to grant approval conditioned on restructuring the project or transaction in ways that will address organizational risks effectively and ensure full compliance with all applicable laws and relevant ethical considerations.

The Nature Conservancy
SAVING THE LAST GREAT PLACES ON EARTH

Strengthened Governance

Summary of Actions Taken to Strengthen Governance, Policies and Procedures
June 2003 – March 15, 2005

Over the past 22 months, The Nature Conservancy conducted a comprehensive, top-to-bottom review of its practices with the assistance of an expert and independent advisory panel. The panel presented a set of far-reaching recommendations for strengthening organizational oversight. The Conservancy has adopted virtually all of the panel's recommendations, and made numerous additional changes that affect nearly every aspect of the Conservancy's day-to-day operations. All told, the Conservancy has made dozens of changes to ensure it is acting in accordance with the highest standards. Highlights of these changes follow.

Strengthening Governance Roles and Responsibilities
The Board of Governors increased its day-to-day organizational oversight of the Conservancy by creating a more active Executive Committee (now meets a minimum of seven times a year) and restructuring its other committees. Board members serve on only one committee so that they can focus their time and be more deeply involved in oversight and management. The Conservancy also created a new management and Board structure that enhances the Board's ability to carefully and thoroughly assess and manage organizational and reputational risks.

In the past, the Conservancy's decentralized structure made it difficult to oversee the conservation decisions of the organization's various chapters. Now, a new trustee council is helping bridge the span between central and local operations with new written standards and comprehensive operating principles for all 1,500+ trustees serving on more than 50 chapter boards.

Sarbanes-Oxley Reforms
While not required for nonprofits, the Conservancy has adopted many of the core principles of the Sarbanes-Oxley Act of 2002. Its financial statements are audited, with auditors selected by the Board's Audit Committee, and the lead audit partner is rotated every five years. Internal audit staff's investigative role has been expanded, and additional procedures are in place to ensure internal audit findings are acted upon and compliance is documented. The Conservancy has created and filled the position of chief compliance officer. This person is responsible for ongoing training of all staff and establishing systems to promote compliance with all applicable laws, the Conservancy's policies and procedures, and the highest ethical standards. All key managers attend training and execute an annual certification saying that they and their staff have complied with the Conservancy's policies and procedures and certifying that any conflicts have been disclosed. A whistleblower policy and hotline are in place to protect employees who wish to report a potential violation. The Board determines executive compensation, and no loans can be made to directors, officers or employees. The Conservancy has also taken important steps to improve the transparency and public understanding of its Form 990 filings. The Conservancy's Form 990 for Fiscal Year 2003 included more information about the Conservancy's governance and its direct charitable programs and accomplishments.

Addressing Potential Conflicts of Interest
The Conservancy's long standing conflicts of interest policy has been strengthened in several respects that go well beyond legal requirements, including an expanded definition of who is considered a related party. The Conservancy considers Board members, trustees, staff and their immediate families and major donors to be related parties. This expanded definition not only increases the number of potential conflicts that require advance review and approval, but also ensures that actual, as well as perceived, conflicts of interest are disclosed, reviewed, and properly handled. The process for reviewing conflicts has also been expanded

MORE

beyond the General Counsel's office to involve review by a high-ranking staff Conflicts Committee. Cases involving Board members and major donors require review and approval from the Board's Audit Committee. New training programs have been implemented to help staff spot and properly address cases that involve even the appearance of a conflict.

In addition, some transactions – although allowed by law – have been prohibited completely to avoid even the appearance of impropriety (e.g. purchases and sales of land, including conservation easements, involving related parties such as Board members, trustees, employees, and the families of these groups).

Strengthening Policies for Specific Conservation Transactions

Conservation Easements. The Conservancy accepts conservation easements only on lands that fall within scientifically identified ecologically important priority landscapes. Based on the yearlong efforts of its Conservation Easement Working Group, the Conservancy is strengthening its policies and procedures on the documentation, monitoring, and enforcement of easements. In 2001, following consultations with the IRS, the Conservancy established comprehensive procedures governing proposed modifications to easements. These procedures were strengthened in 2003 as part of the Conservation Easement Working Group changes. The Conservancy will not agree to a substantive modification of an easement unless the original conservation purpose of the easement is not compromised, the General Counsel's office determines that the modification does not result in a net private economic benefit, and approval is granted from the relevant state authority. To promote tax law compliance by donors, the Conservancy will not sign IRS Form 8283 certifying receipt of a land contribution, such as an easement, unless the Conservancy receives a copy of the appraisal to be used by the donor in establishing tax values, and a written certification by the appraiser that IRS "qualified appraisal" standards have been followed. Additionally, in situations involving donations from Board of Governors members, trustees, staff, the immediate family of those three groups, and major donors the appraiser must also certify that the relationship did not influence his or her appraisal. (Existing tax law requires only that the Conservancy certify receipt of the gift.)

Land Sales to Governments. The Conservancy's long-standing "no net profit" policy is designed to ensure that the organization recovers only its costs, even if the land has increased in value while held by the Conservancy. The organization strengthened this policy to better account for the direct and indirect costs associated with acquiring, holding, and managing land pending a sale to the government. The policy also was strengthened to ensure that the value of a land gift, any government funding related to the acquisition of that property, and any other significant income derived from the property are passed on to the government.

Conservation Buyer Transactions. Conservation buyer transactions are designed to keep conservation lands in private hands. In these transactions, the Conservancy acquires a piece of property and sells it to a private buyer subject to a conservation easement designed to permanently preserve the land's ecological values. The easement reduces the value of the land and the Conservancy sells the property for its new fair market value reflective of the easement encumbrance. All of the Conservancy's conservation buyer transactions served important conservation purposes and complied with all applicable laws. Of the 10,000 Conservancy land transactions conducted over the past 10 years, less than two percent, or 169, were conservation buyer transactions. Of those 169, only 19 were with trustees or employees of The Nature Conservancy. All of these properties were sold for fair market value and subjected to conflicts of interest review. Nevertheless, the Conservancy no longer engages in conservation buyer transactions with related parties. All conservation buyer properties must be in a priority site as identified by Conservancy scientists. The organization now widely advertises each property to provide a fair purchase opportunity to all, relies on independent appraisals to ensure it receives fair market value, and follows specific procedures to make transactions more transparent and to promote appropriate tax treatment.

March 18, 2005

TNC Proposals for Legislative Changes
to Improve Conservation Transactions

This memorandum outlines a series of possible changes that The Nature Conservancy supports that would be made to the Internal Revenue Code to strengthen existing law and regulations to improve conservation transactions. These proposals seek 1) to ensure that the valuations of land and interests in land, such as conservation easements, that are used for federal tax purposes are established in accordance with the highest professional standards and are proper; 2) to ensure that a significant conservation benefit to the public will be achieved in conservation transactions; and 3) to ensure that there is compliance with the terms and restrictions in conservation easements and that the organizations and entities that hold conservation easements fulfill their obligations to monitor and enforce such interests in land. The Conservancy also supports new incentives that are needed to help private landowners who wish to voluntarily protect their land.

Tax Valuations[1]

1. Require Second Appraisal for Certain Contributions. Contributions of property described in section 170(h) for which a tax deduction is otherwise allowable under section 170(a) must be supported by a "qualified appraisal" as defined in Treas. Regs. 1.170A-(c)(3). A second qualified appraisal could be required for certain large contributions (e.g., where the value of the property exceeds a certain dollar threshold including the value of similar contributions within the preceding five years) and for property involving a potential for self-dealing (e.g., subject to a *de minimis* rule for small gifts, contributions to a nongovernmental donee organization where the donor would be a disqualified person under section 4946 if the donee organization were a private foundation as defined in section 509(a)). Under this special two appraisal rule, the donor could not claim a deduction in excess of the average of the two appraisals. To prevent abuse, the deduction could in no event exceed a specified percentage (e.g., 125 percent) of the lowest appraisal. Donors subject to the two appraisal rule could be required to identify the contribution transactions on their tax returns in the same manner as transfers to foreign trusts are now required to be reported. They also could be required to disclose any additional appraisals obtained in connection with the contribution. Finally, in order to provide an incentive to landowners to obtain such appraisals, a 'safe harbor' would be provided such that the deduction claimed would be presumed to be valid where the donor complied with the rules and procedures in this area.

2. Codify the Offsetting Increase in Value Rule. The current rule contained in the easement regulations requiring qualified appraisals to take into account any increases in value resulting from the contribution for which a tax deduction is claimed could be codified and expanded to include all gifts of land (not just easements) provided that such

[1] The valuation and penalty proposals could also be applied to all gifts (including bargain purchases) of land for conservation purposes (as described in section 170(h)(4) of the Code).

land contributed was to be devoted to an open space or conservation land use. This would ensure that the requirement would be applied in all cases and that the effects on the value of other property owned by the donor (e.g., cases involving land adjacent to residential developments that incorporate greenways and other open spaces) would be taken into account whenever appropriate.

3. Improve Appraiser Qualifications and Appraisal Methods. The person making the qualified appraisal could be required to certify under penalties of perjury that (a) he/she is a State General Certified appraiser, as those terms are defined by the Appraiser Qualifications Board under authority of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989; (b) in making the appraisal, the appraiser applied generally accepted appraisal standards which would be interpreted to mean conformance with the Uniform Standards of Professional Appraisal Practice (USPAP) standards; and (c) the appraiser has not been barred from presenting evidence or testimony in any administrative proceeding before the Department of the Treasury or the Internal Revenue Service.

4. Increase Penalties for Improper Valuations of Conservation Easements. Section 6662 could be amended to provide increased penalties with respect to the valuation of conservation easements and section 6700 could be amended to extend the penalties provided therein to persons who make or furnish appraisals of conservation easements.

Assuring Conservation Purposes and Public Benefits

5. Public Disclosure of Conservation Easements, Purpose and Modifications. Each nongovernmental donee organization could be required to prepare annually a list of all easements it has received as a donation and for which tax benefits had been claimed setting forth the location of the property; the acreage of the property; the conservation purpose of the easement; and whether there has been any modification to the easement (and, if so, the terms of the modification). This list would be required to be filed with the donee organization's Form 990 and made available for public inspection in the same manner as other portions of the organization's Form 990 are made available.

6. Prohibit Easement Deductions for Specific Transactions. Specific conservation transactions that would by definition lack any significant conservation purpose or public benefit should be identified and specifically excluded from being eligible for the tax benefits provided to encourage legitimate conservation transactions. Such transactions might include easements over golf courses for example. Explicit criteria could also be included in legislation to identify the specific types of projects that would be ineligible for favorable tax treatment. Procedures could be established for the IRS to consider exceptions for approval on a case by case basis, if specified conservation purpose criteria were met.

7. Accreditation. The Secretary of the Treasury could be authorized, but not required, to select a private, nonprofit entity with appropriate expertise and experience to

form an accrediting body to establish a voluntary accreditation system to evaluate and accredit the competence of qualified organizations to manage donations of qualified conservation easements. Any donee organization that voluntarily sought and was accredited would be deemed to have met the statutory requirements for reasonable conservation easement monitoring and enforcement procedures and adequate resources for same.

Easement Compliance, Monitoring and Enforcement

7. Limitations on Modifications to Easements. Deductions for a grant of a conservation easement to a nongovernmental donee could be disallowed unless the terms of the easement provide that no amendment to the conservation terms of the easement (including any amendment reducing the acreage subject to the easement) may be made having the effect of reducing the overall level of conservation purposes sought to be achieved under the original easement unless the donor (or his/her successor in interest) and the donee organization secure the advance written approval of the relevant State authority that provides oversight of charitable organizations within the State where the property is located (or, if there is no such authority, a court of competent jurisdiction within that State). The donor (or his/her successor in interest, if applicable) would be required to report any such modification on his/her tax return for the year in which the modification occurred.

8. Monitoring of Compliance with Easements. Each nongovernmental donee organization could be required to certify annually on its Form 990 that it has established and implemented reasonable written procedures for monitoring compliance with the terms of the conservation easements it receives and that (as now required by regulations) it has adequate resources to enforce those restrictions. No single set of specific monitoring procedures would be established for all donees. The legislative history could make clear that this requirement would be met if, for example, a donee organization required each owner of property subject to an easement in the donee's favor annually to certify to the donee that the terms of the easement had not been violated and if the donee had a program in place to verify such certifications on a "test check" basis. As in the case of procedures used by private foundations in making grants to individuals, a donee organization could obtain a ruling from the Internal Revenue Service that its procedures were reasonable.

9. Violations of Terms of Easements. The tax benefits attributable to a prior donation of a conservation easement could be recaptured, with interest, if the terms of the easement are violated intentionally by the donor or a related person. (This proposal has been included in President Bush's Administration current Budget proposal.) Provisions would need to be included to ensure that procedures were in place to allow such violations to be cured. Until the property burdened by the easement had been transferred to an unrelated party, the donor could be required annually to certify on Form 1040 that there has been no violation (caused by the donor or related person) of the conservation terms of a previously donated easement.

10. Additional Resources Provided to the IRS. In order to ensure effective enforcement of the conservation easement rules and valuation procedures, additional resources must be provided to the IRS to conduct its audit and enforcement activities in this area. It would be appropriate to levy modest fees based on the annual tax benefits to be claimed and realized by the donor to create a pool of funds to support IRS activities in this area. In addition, any over-valuation penalties levied against improper valuations claimed by taxpayers or their advisors should also be allocated to this fund.

Additional Incentives for Private Landowners to Encourage Conservation Activities

TNC strongly supports passage of additional incentives for private landowners who voluntarily choose to protect their land for conservation purposes. Such incentives have been sponsored by Senators Grassley and Baucus and are included in the current version of the CARE bill (S. 6, introduced by Senator Santorum in the 109th Congress) . These incentives are needed to ease the financial burden and to enhance the net after tax return to the typical 'land-rich, cash poor' private landowner for whom the current set of incentives is not meaningful. These incentives would reduce the capital gains tax on sales of land or interests in land for conservation purposes and would enable the landowner who makes a living from the land to use all of the available tax benefits from a gift of an easement against their income. President Bush included the proposal to reduce the capital gains tax on sales of land or interests in land for conservation in the Administration's current Budget proposal, as he has done since he was elected President.

Overview of Reforms at The Nature Conservancy

Based on recommendations from an internal top-to-bottom review, a Board of Governors' Audit Committee review of the Sarbanes-Oxley Act, and the recommendations of a Board-chartered panel of outside experts, The Nature Conservancy initiated a series of organization-wide changes to strengthen its governance practices and oversight; improve risk assessment and management; increase transparency and accountability; clarify potential conflicts of interest; enhance the roles of trustees; and implement key Sarbanes-Oxley principles. Below is a brief overview of the extent and nature of these organizational changes.

March 15, 2005

	Previous Practice	Current Practice/Changes
Governance & Oversight	▪ *Composition:* A Board of Governors was chartered for 41 members that met at least three times each year. ▪ *Committees:* Six committees each led by two co-chairs; members served on multiple committees. ▪ *Executive Committee:* Executive Committee chartered but was not active.	▪ *Composition*: The Board of Governor's size and frequency of meetings has remained the same. ▪ *Committees:* Restructured each of the six committees based on comprehensive and formal charters to provide strategic guidance; conduct active oversight; including executive compensation; and define and manage relationships with chapters. Board members serve on only one committee so that they can focus their time and be more deeply involved in oversight and management. Entire Board is required to meet in person three times a year, and often additionally meets by telephone conference. ▪ *Executive Committee:* The Executive Committee is comprised of the chairmen of the six committees, the Chairman, Vice Chairman, and Secretary of the Board of Governors. In addition to the regularly scheduled thrice-yearly Board meetings, the Executive Committee also meets a minimum of four times a year.

	Previous Practice	Current Practice/Changes
Sarbanes-Oxley Reforms	▪ The Sarbanes-Oxley law does not pertain to charities and was only enacted a few years ago. ▪ In 2002, the Audit Committee commissioned a Sarbanes-Oxley review to determine applicability of the principles to charitable organizations.	▪ Several Sarbanes-Oxley-related enhancements were implemented, including a "whistleblower" policy; adoption of new policies concerning related parties; prohibiting any loans to directors, officers or staff; increased transparency about the organization and its activities; and a new approach to identifying and assessing potential business risk. ▪ Details on the implementation of these and other policies are listed below: ▪ *External Audits*: The Conservancy's external auditor is approved annually by the Board, and the Audit Committee reviews the Conservancy's contract with its external auditor every five years, the lead audit partner is rotated every five years. ▪ *Internal Audits*: Under the supervision of the Audit Committee of the Board, the scope of internal audits was expanded and internal auditors are authorized to perform internal investigatory functions similar to those performed by Inspectors General in federal governmental agencies. There are procedures to ensure internal audit findings are acted upon. Procedures, including focused training for senior managers, have been implemented to identify and take appropriate remedial actions with respect to internal audit findings that have system-wide implications. ▪ *Compliance Documentation:* Requirement that all key mangers attend training and execute an annual certification that they and their staff have complied with the Conservancy's policies and procedures and certifying that any conflicts of interest have been disclosed. ▪ *Whistleblower policy*: Adoption of a "whistleblower" policy and procedure to ensure that any employee who wishes to report a potential violation of law, policy or procedure may do so without fear of retaliation. ▪ *Chief Compliance Officer*: Creation of a new senior-level position responsible for establishing systems to promote training and compliance with all applicable laws, the Conservancy's policy and procedures, and the highest ethical standards. ▪ *Increased Transparency*: The Conservancy's IRS Form 990 for fiscal year 2003 has been expanded to include more information about the Conservancy's governance and its direct charitable programs and accomplishments. This and past 990 Forms are available on the Conservancy's Web site.

	Previous Practice	Current Practice/Changes
Assessing & Managing Risk	▪ *Risk Assessment*: The Board of Governors reviewed only land acquisition transactions in excess of $2 million. ▪ *Managing Risk*: The Board focused on financial risks posed by the Conservancy's land acquisition work.	▪ *Risk Assessment and Management*: The Projects and Activities Review Committee of the Board assesses a wide variety of projects, transactions, and issues that meet its criteria for review (e.g. transactions that are new, novel or particularly complex, or involve potentially substantial financial, ethical or reputational risks to the Conservancy). ▪ The Board created a staff Risk Assessment Committee to supplement the Board's review process. The staff committee reports directly and regularly to the Projects and Activities Review Committee. ▪ All land acquisition transactions in excess of $2 million still require review by the Board of Governors.
Conflicts of Interest	▪ *Policy*: A formal conflicts of interest policy intended to ensure any transaction involving a related party was handled appropriately, including ensuring advance review of transactions involving employees, members of the Board, and state chapter trustees. ▪ *Review*: Potential conflicts reviewed by General Counsel. ▪ No mandatory prohibitions on transactions with related parties.	▪ *Policy:* Expanded definition of "related parties" to include major donors and the immediate families of Board of Governor members, trustees, and staff. ▪ *Review:* Formation of a multi-disciplinary Staff Conflicts of Interest Committee to supplement legal review. ▪ Sales and purchases of land and interests in land to or from Board of Governors members, trustees, staff, and the immediate families of these groups are expressly prohibited. ▪ Other transactions with related parties (not purchases or sales of land) are subject to advance review under conflicts procedure. ▪ Land and other transactions involving major donors are subject to advance review and approval under conflicts procedure. ▪ All conflicts involving Board of Governor members, major donors or other insiders are referred to the Audit Committee of the Board. ▪ A Board member or his/her company may not claim a tax deduction for a gift of land unless the transaction is independently reviewed, scrutinized, and approved by Board of Governors. ▪ Board of Governors members and their companies cannot engage in cause related marketing agreements with the Conservancy. ▪ Training programs have been initiated to enable staff to identify and address cases that involve even the appearance of a conflict.

	Previous Practice	Current Practice/Changes
Promoting Tax Compliance	▪ In compliance with IRS regulations, the Conservancy would certify that it received a gift by signing an IRS Form 8283. In signing the form, the Conservancy was only acknowledging receipt of the gift, not agreeing with or having knowledge of the donor's valuation of the gift or the deduction claimed.	▪ 8283 Review: Created stricter policies above and beyond IRS requirements for executing Form 8283, including a requirement that all required information be filled out, that the Conservancy receive a copy of the appraisal to be used by the donor to substantiate the value of a donation, and a written certification by the appraiser that the IRS "qualified appraisal" standards have been followed. ▪ The Conservancy will not participate in transactions in which the appearance of the transaction is suspect or unreasonable, or where the transaction does not conform to the 8283 policy. ▪ If the donor is a Board member, trustee, staff or immediate family of those groups, or a major donor, the certification must include a statement that the appraiser is aware of the donor's relationship to the Conservancy and that the relationship did not influence the appraisal.

	Previous Practice	Current Practice/Changes

Conservation Easements	▪ Conservancy had specific procedures governing when conservation easements will be accepted or purchased; requiring preparation of a detailed "baseline" report at the time of acquisition to facilitate future monitoring and enforcement; and mandating the establishment of stewardship funds to finance monitoring and enforcement.
	▪ In 2001, following consultations with the IRS, the Conservancy established comprehensive procedures governing proposed modifications to easements.
		▪ Donations of conservation easements by related parties including major donors are still permitted, subject to advance review and approval under strengthened conflicts of interest procedures.
		▪ The Conservancy adopted new policies and procedures for the way the Conservancy acquires, documents, monitors, and enforces conservation easements, including:
		  ▪ Standardized decision-making on location, terms and conditions of easements.
		  ▪ Stricter set of standards for approving easement modifications involving related parties.
		  ▪ Consistent monitoring and enforcement of the terms of Conservancy easements to ensure that conservation goals are met and easement terms are enforced. Now as part of routine audits, the Conservancy's internal audit staff checks to see if easements are being monitored and that monitoring site reports are being filed.
		  ▪ Particularly large, risky or potentially controversial easement donations will be referred to the Risk Committee.
		  ▪ The Conservancy will inform prospective donors of the terms and conditions for acceptance of easements to ensure a clear understanding of mutual expectations and obligations.
		▪ The Conservancy ensured that the organization was prepared to implement new procedures by taking actions such as establishing a new centralized database that lists all easements, and once fully operations will notify Conservancy field staff when a specific easement should be monitored, and provide a standardized monitoring checklist.

Conservation Land Sales to Governments	▪ Long standing "no net profit" policy.	▪ Although the Conservancy has a long standing (1995) policy of recovering only its costs when transferring real estate to a government agency, additional procedures were implemented to better define allowable costs and to ensure that the value of gifts received and restricted to the property, any prior government funding related to that property, and any other significant net income derived from the property are passed on to the government entity.

	Previous Practice	Current Practice/Changes
Conservation Buyer Transactions	▪ Less than 2% of land transactions in the last 10 years were conservation buyer transactions (169 of 10,000) Only 19 of the 169 were with Conservancy staff or trustees. ▪ All transactions served important conservation goals and complied with all applicable laws.	▪ In addition to the prohibition of land purchases from or sales to Board of Governors members, trustees, staff and their families, the Conservancy created five new procedures providing that: ▪ Land must be in a priority site as identified by Conservancy scientists; ▪ Property must be publicly marketed; ▪ Conservancy must obtain independent appraisal for property before and after easement; ▪ Specific rules are implemented to make transactions more transparent to ensure appropriate tax treatment; and ▪ Conservancy will obtain community input about future uses of land.
Compatible Human Uses		▪ Prohibition on any new oil, gas or hard rock mineral activities on Conservancy preserves, except where required by law. ▪ Board determined that human-use can occur on Conservancy preserves in four circumstances. Untested, innovative or large-scale human uses must be reviewed by Risk Assessment Committee. ▪ Conservancy initiated review of scientific literature and a survey about existing human use on the Conservancy's land.
Cause Related Marketing	▪ The Conservancy followed the cause-related guidelines recommended by the Better Business Bureau's Wise Giving Alliance in its "Standards for Charitable Accountability." ▪ Cause related marketing agreements approved by the Vice-President of Marketing and Philanthropy.	▪ All new uses of the Conservancy's name and logo by third parties must be approved by the Conservancy's President. ▪ The Board of Governors reviews cause related marketing agreements annually and must approve all agreements with companies whose businesses, products or services may appear in conflict with the Conservancy's mission. ▪ The Conservancy will not enter into a cause related marketing agreement with a Board of Governor member or his/her company.
Related Organizations	▪ General Counsel and Director of Finance could approve the formation of a related entity if the financial commitment for the entity was under $2 million. ▪ Board of Governors approval was required for the formation and operation of any related organizations which would exceed a financial commitment of $2 million.	▪ The Conservancy adopted a policy requiring Board approval for the formation and operation of any related organizations to ensure that the related entities are consistent with the Conservancy's goals and objectives and that related risks are identified and appropriately managed. ▪ Related entities where the Conservancy has a significant business interest (investment of $100,000+), but not a controlling interest must be approved by the President.

	Previous Practice	Current Practice/Changes
Roles of Trustees	▪ *Role of Trustees*: A document outlining the role of trustees was developed, but it was not well understood. ▪ *Responsibilities:* Each of the more than 50 chapter boards had its own by-laws and standards of governance.	▪ *Role of Trustees:* Four consistent roles have been identified for chapter board of trustee members: Ambassador, Conservationist, Fundraiser, and Advisor. ▪ *Responsibilities:* Developed an effective system of minimum standards for chapter boards and individual trustees as well as a set of best practices to be administered consistently across the organization. ▪ *Trustee Advisory Council:* Provides input to Board of Governors on major policy decisions and organizational initiatives.

APPENDIX K

RELATED PARTY TRANSACTIONS AND TNC REFORMS

The Nature Conservancy
EIN: 53-0242652

STATEMENT 21

Form 990, Schedule A, Part III - Statement About Activities

(1) The Nature Conservancy has a contract valued at $50,000 with McKinsey and Company, to defray direct expenses of a McKinsey Consultant. In addition, TNC reimbursed $104,291 to McKinsey for travel and travel related expenses. Mr. Carter Bales, an officer with McKinsey and Company, is a member of the Conservancy's Board of Governors.

(2) The Nature Conservancy utilized office space which was provided free of charge to the Great Basin Field office in Salt Lake City, Utah by Ian Cumming, a member of the Conservancy's Board of Governors.

(3) TNC has two contracts with WILLTEL, Inc. for support and maintenance of voice mail systems. WILLTEL is a part of the Williams Company. Mr. Joe Williams is the CEO of the Williams Company and is also a member of TNC's Board of Governors. The contract was awarded through a full competitive bidding process. Total expenses under this contract in fiscal year 1993 were $8,165.

STATEMENT 21

STATEMENT 17

SCHEDULE A, PART III - EXPLANATION FOR LINE 4

MR. JOE WILLIAMS, A MEMBER OF THE CONSERVANCY'S BOARD OR GOVERNORS, FURNISHED OFFICE SPACE FOR TNC STAFF PREPARING THE BISON RELEASE. HE ALSO OFFERED FIELD SERVICE TO ASSIST TALLGRASS PRAIRIE STAFF IN REPAIRING GAS LINES AND OTHER FACILITIES.

MR. JOHN SMALE IS CHAIRMAN OF THE BOARD OF GENERAL MOTORS CORPORATION AND IS A MEMBER OF THE NATURE CONSERVANCY'S BOARD OF GOVERNORS. GENERAL MOTORS ENTERED INTO THE FOLLOWING DESCRIBED TRANSACTIONS WITH THE CONSERVANCY
1)AN AGREEMENT TO RENT MEMBERSHIP MAILING LISTS FROM THE CONSERVANCY AT FULL FAIR MARKET VALUE
2)AN AGREEMENT TO SUPPORT THE NATURE CONSERVANCY WHICH PROVIDES THE CONSERVANCY CASH, VEHICLE, POTENTIAL GIFTS OF LAND, DATA SYSTEMS EQUIPMENT AND OTHER MISCELLANEOUS ASSETS OF VALUE.
MR. SMALE HIMSELF RECUSED HIMSELF FROM PARTICIPATING IN AND VOTING UPON SAID TRANSACTIONS.
MR. ROBERT MITCHELL, A MEMBER OF THE CONSERVANCY'S BOARD OF GOVERNORS, SOLD A MAJORITY OF HIS RANCH TO HIS RANCH MANAGER. THE RANCH MANAGER, IN TURN, SOLD ONE-THOUSAND ACRES TO THE NATURE CONSERVANCY AND GAVE A CONSERVATION EASEMENT ON ONE-THOUSAND EIGHT HUNDRED ACRES.

MR. WARD W. WOODS, A BOARD MEMBER OF THE NATURE CONSERVANCY, IS ALSO A BOARD MEMBER OF FREEPORT MACMORAN, INC. THE NATURE CONSERVANCY SOLD 4,282 ACRES TO FM PROPERTIES OPERATING COMPANY, A PARTNERSHIP RELATED TO FREEPORT MACMORAN, INC., SUBJECT TO THE LEGAL CONDITION THAT 4,070 ACRES WERE DONATED BACK TO THE NATURE CONSERVANCY FOR CONSERVATION. MR. WOODS RECUSED HIMSELF FROM ANY INVOLVEMENT IN THIS PROJECT.

THE NATURE CONSERVANCY HAD A CONTRACT WITH MCKINSEY AND COMPANY, UPON WHICH, TNC REIMBURSED $15,901 TO MCKINSEY FOR TRAVEL AND TRAVEL RELATED EXPENSES. MR. CARTER BALES, AN OFFICER WITH MCKINSEY AND COMPANY, IS A MEMBER OF THE CONSERVANCY'S BOARD OF GOVERNORS.

STATEMENT 14
FORM 990, SCHEDULE A, PART III - Explanation for line 2a

Mr. John Smale is Chairman of the Board of General Motors Corporation. General Motors entered into the following described transactions with The Nature Conservancy:

> An agreement to support The Nature Conservancy which provides the Conservancy cash, vehicles, potential gifts of land, data systems equipment and other miscellaneous assets of value.

Mr. Smale recused himself from participating in and voting upon said transactions.

STATEMENT 21
FORM 990, SCHEDULE A, PART III - Explanation for line 2a

Mr. John Smale is Chairman of the Board of General Motors Corporation. General Motors entered into the following described transactions with The Nature Conservancy:

> An agreement to support The Nature Conservancy which provides the Conservancy cash, vehicles, potential gifts of land, data systems equipment and other miscellaneous assets of value.

Mr. Smale recused himself from participating in and voting upon said transactions.

Mr. David C. Cole is President of AOL Enterprises. America Online entered into the following described transactions with The Nature Conservancy:

> The Nature Conservancy is a content provider on America Online, and maintains a forum that provides information on the Conservancy's work both domestically and abroad.

Mr. Cole recused himself from participating in and voting upon said transactions.

Mr. Samuel C. Johnson is Chairman of the Board of S.C. Johnson & Sons, Inc. S.C. Johnson entered into the following described transactions with The Nature Conservancy:

> The Nature Conservancy has a one-year contract with S.C. Johnson Wax which permits S.C. Johnson to use The Nature Conservancy's trademark in a national product promotion in exchange for $100,000.

Mr. Johnson recused himself from participating in and voting upon said transactions.

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STATEMENT 21
FORM 990 - SCHEDULE A, PART III - EXPLANATION FOR LINE 2a

Mr. A.D. Correll is the Chief Operating Officer of Georgia Pacific. Nekoosa Papers Inc., at the time a wholly-owned subsidiary of Georgia Pacific, entered into the following described transactions with The Nature Conservancy:

> The Nature Conservancy acquired 1,000 acres of land in Wisconsin for the fair-market-value price of $575,000.

Mr. Correll recused himself from participating in and voting upon said transactions.

Mr. Ward W. Woods owns the Quentin Corporation. Quentin Corporation entered into the following described transactions with The Nature Conservancy:

> In a partial sale, The Nature Conservancy acquired property on September 23, 1996 and February 19, 1997 in the amounts of $279,851 and $359,950, respectively.
> An unsecured promissory note dated February 19, 1997 was entered into and is payable September 12, 1997.

Mr. Woods recused himself from participating in and voting upon said transactions.

Mr.John Smale is a Director, and former Chairman, of the General Motors Corporation. General Motors entered into the following described transactions with The Nature Conservancy:

> An agreement to support The Nature Conservancy which provides The Nature Conservancy cash for its general purposes, as it chooses; vehicles; and other miscellaneous assets of value.

Mr. Smale recused himself from participating in and voting upon said transactions.

Mr. Leigh Perkins is the President and Chief Executive Officer of The Orvis Company. The Orvis Company entered into the following transactions with The Nature Conservancy:

> General activities on Mays Pond; and sale of fly fishing tackle to the Belize Program.

Mr. Perkins recused himself from participating in and voting upon said transactions.

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53-0242652

STATEMENT 21(CONTINUED)
FORM 990 - SCHEDULE A, PART III - EXPLANATION FOR LINE 2a

Mr. John Sawhill serves on the Board of Proctor and Gamble. Proctor and Gamble owns and controls Millstone Coffee, Incorporated. Millstone Coffee, Incorporated entered into the following described transactions with The Nature Conservancy:

> An agreement executed January 10, 1997, between The Nature Conservancy and Millstone Coffee, Incorporated, grants Millstone the rights to use Conservancy trademarks on licensed product packaging, advertisements, point-of-purchase displays, and other material. Licensed product is defined as Organic, Estate, and Limited Edition coffees. The license is exclusive for whole bean coffee. The term is five years, from December 1, 1996, to December 2001. Millstone will pay the Conservancy royalties of a minimum of $400,000 over five years plus two percent of net sales of licensed product.

Mr. Sawhill did not participate in said transactions.

Mr. Johnson is the Chairman of the Board of Directors of S.C. Johnson & Son, Inc. and the owner, personally, or as Trustee, of more than 50% of its voting Common Stock. S.C. Johnson & Son, Inc. entered into following described transactions with The Nature Conservancy:

> During the fiscal year commencing on July 1, 1995, and terminating on June 30, 1996, S.C. Johnson & Son, Inc. paid $100,000 to The Nature Conservancy for a trademark license to use the name The Nature Conservancy in a promotion. We have extended this arrangement for a second year and have also added two royalty streams to the $100,000. The two additional sources were 1) royalties paid by S.C. Johnson & Son, Inc. on behalf of participating retailers, and, 2) royalties generated by customers buying a self-liquidating premium.

Mr. Johnson recused himself from participating in and voting upon said transactions.

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990 TAX RETURN
ADDITIONAL STATEMENTS
FY98

53-0242652

STATEMENT 24
FORM 990 - SCHEDULE A, PART III - EXPLANATION FOR LINE 2a

Mr. John Smale is a Director, and former Chairman, of the General Motors Corporation. General Motors entered into the following described transaction with The Nature Conservancy:

> An agreement to support The Nature Conservancy which provides The Nature Conservancy cash for its general purposes, as it chooses; vehicles; and other miscellaneous assets of value.

Mr. Smale recused himself from participating in and voting upon said transactions.

Mr. John S. Hendricks is the founder, chair and chief executive officers of Discovery Communications, Inc. Discovery Communications entered into the following described transactions with The Nature Conservancy:

> Effective September 17, 1997, in cooperation with the National Audubon Society, The Nature Conservancy licensed its name and logo to Discovery Communications for use in connection with the "All Bird Television" series. The non profits also provided funding for the series and performed editorial consulting services. In return, they received royalty rights, rights to use the original footage from the series, rights to purchase home video copies of the series at cost, and credits at the opening and end titles of every broadcast.
>
> Effective June 1, 1998, The Nature Conservancy granted Discovery Communications permission to use its name to promote the Discovery Channel credit card. In return, the Conservancy receives revenues generated from the card.

Mr. Hendricks did not participate in said transactions.

Ms. Glenn Janss entered into the following described transactions with The Nature Conservancy:

> Mr. Janss entered into an option agreement with The Nature Conservancy to sell property to the Conservancy for the original purchase price. On March 13, 1998, The Nature Conservancy exercised the option and purchased the property.

Ms. Janss recused herself from participating in and voting upon said transactions.

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STATEMENT 24
FORM 990 - SCHEDULE A, PART III - EXPLANATION FOR LINE 2a

Mr. A.D. Correll is Chairman of the Board and Chief Executive Officer of Georgia-Pacific Corporation, which entered into the following transaction with The Nature Conservancy:

> The Nature Conservancy acquired 1108 acres in Maine from Georgia-Pacific Resins, Inc., on June 9, 1999 for consideration of $380,000. Georgia-Pacific Resin, Inc., is closely affiliated with Georgia-Pacific Corporation.

Mr. Correll recused himself from participating in and voting upon said transactions.

Mr. John S. Hendricks is the founder, chair and chief executive officers of Discovery Communications, Inc. Discovery Communications entered into the following described transactions with The Nature Conservancy:

> Effective September 17, 1997, in cooperation with the National Audubon Society, The Nature Conservancy licensed its name and logo to Discovery Communications for use in connection with the "All Bird Television" series. The non profits also provided funding for the series and performed editorial consulting services. In return, they received royalty rights, rights to use the original footage from the series, rights to purchase home video copies of the series at cost, and credits at the opening and end titles of every broadcast.
>
> Effective June 1, 1998, The Nature Conservancy granted Discovery Communications permission to use its name to promote the Discovery Channel credit card. In return, the Conservancy receives revenues generated from the card.

Mr. Hendricks did not participate in said transactions.

Mr. Durk I. Jager, Chairman of the Board, President and Chief Executive of the Proctor & Gamble Co. Millstone Coffee, Inc. (a subsidiary of Proctor & Gamble) entered into the following transaction with The Nature Conservancy:

> An agreement executed January 10, 1997, between The Nature Conservancy and Millstone Coffee, Inc., grants Millstone the rights to use Conservancy trademarks on licensed product packaging, advertisements, point-of-purchase displays, and other material. Licensed product is defined as Millstone Exotics brand Organic Mayan/Black Onyx and Organic Aztec Star & Sky coffees. The term is five years, from December 1,1996 to December 2001. Millstone will pay the Conservancy royalties of a minimum of $400,000 over five years plus two percent of net sales of licensed product.

Mr. Jager did not participate in said transaction.

Mr. Samuel C. Johnson is the chair of S.C. Johnson, Inc. S.C. Johnson Inc., entered into following described transactions with The Nature Conservancy:

> During the fiscal year commencing on July 1, 1998, and terminating on June 20, 1999, S.C. Johnson & Son, Inc., paid $100,000 to The Nature Conservancy in a promotion.

Mr. Johnson recused himself from participating in and voting upon said transaction.

STATEMENT 24
FORM 990 - SCHEDULE A, PART III - EXPLANATION FOR LINE 2a (CONTINUED)

Mr. John P. Morgridge is chairman of Cisco Systems, Inc. which entered into the following transaction with The Nature Conservancy:

> The Nature Conservancy acquires computer upgrades and purchases from Cisco Systems, Inc., at a substantial discount. Before any orders are placed Mr. Morgridge reviews the order and approves the discounts.

Mr. Leigh H. Perkins, Jr. is President and Chief Executive Officer of the Orvis Company, Inc., which entered into the following described transaction with The Nature Conservancy:

> The Nature Conservancy acquired a conservation easement covering approximately 1622.48 acres in Florida from Orvis Services, Inc., for consideration of $648,992. Orvis Services, Inc. is closely affiliated with The Orvis Company, Inc.

Mr. Perkins recused himself from participating in and voting upon said transactions.

Mr. John C. Sawhill serves on the Board of Proctor & Gamble. Proctor & Gamble owns and controls Millstone Coffee, Inc. Millstone Coffee, Inc. entered into the following described transaction with The Nature Conservancy:

> An agreement executed January 10, 1997, between The Nature Conservancy and Millstone Coffee, Inc., grants Millstone the rights to use Conservancy trademarks on licensed product packaging, advertisements, point-of-purchase displays, and other material. Licensed product is defined as Millstone Exotics brand Organic Mayan/Black Onyx and Organic Aztec Star & Sky coffees. The term is five years, from December 1,1996 to December 2001. Millstone will pay the Conservancy royalties of a minimum of $400,000 over five years plus two percent of net sales of licensed product.

Mr. Sawhill did not participate in said transactions.

Mr. Jack Smith, Jr., is Chairman and Chief Executive Officer of General Motors Corporation. General Motors entered into the following described transaction with The Nature Conservancy:

> An agreement to support The Nature Conservancy which provides The Nature Conservancy cash for its general purposes, as it chooses; vehicles; and other miscellaneous assets of value.

Mr. Smith did not participate or vote on said transactions.

STATEMENT 24
FORM 990 - SCHEDULE A, PART III - EXPLANATION FOR LINE 2a

Mr. A.D. Correll is Chairman of the Board and Chief Executive Officer of Georgia-Pacific Corporation, which entered into the following transaction with The Nature Conservancy:

> Purchased by The Nature Conservancy (TNC) in February 2000, of 9,477 acres of land in Louisiana from North American Timber Corp. (dba) The Timber Company, a subsidiary of Georgia Pacific, for $7.5 million. This transaction occurred in three partial closings, two of which occurred in FY00 (total of 1264 acres for $1 million). The final closing on the remaining acreage occurred in November 2000. On October 7,1999, TNC bought 5,481.9 acres (known as Van Swamp in North Carolina) from The Timber Co., a subsidiary of Georgia Pacific).

Mr. Correll recused himself from participating in and voting upon said transaction.

Mr. Durk I. Jager, retired Chairman of the Board, former President and Chief Executive of the Proctor & Gamble Co. Millstone Coffee, Inc. (a subsidiary of Proctor & Gamble) entered into the following transaction with The Nature Conservancy:

> An agreement executed January 10, 1997, between The Nature Conservancy and Millstone Coffee, Inc., grants Millstone the rights to use Conservancy trademarks on licensed product packaging, advertisements, point-of-purchase displays, and other material. Licensed product is defined as Millstone Exotics brand Organic Mayan/Black Onyx and Organic Aztec Star & Sky coffees. The term is five years, from December 1,1996 to December 2001. Millstone will pay the Conservancy royalties of a minimum of $400,000 over five years plus two percent of net sales of licensed product.

Mr. Jager did not participate in said transaction.

Mr. John P. Morgridge is chairman of Cisco Systems, Inc. which entered into the following transaction with TNC:

> The Nature Conservancy acquires computer upgrades and purchases from Cisco Systems, Inc., at a substantial discount. Before any orders are placed Mr. Morgridge reviews the order and approves the discounts.

Mr. John C. Sawhill serves on the Board of Proctor & Gamble. Proctor & Gamble owns and controls Millstone Coffee, Inc. Millstone Coffee, Inc. entered into the following described transaction with The Nature Conservancy:

> An agreement executed January 10, 1997, between The Nature Conservancy and Millstone Coffee, Inc., grants Millstone the rights to use Conservancy trademarks on licensed product packaging, advertisements, point-of-purchase displays, and other material. Licensed product is defined as Millstone Exotics brand Organic Mayan/Black Onyx and Organic Aztec Star & Sky coffees. The term is five years, from December 1,1996 to December 2001. Millstone will pay the Conservancy royalties of a minimum of $400,000 over five years plus two percent of net sales of licensed product.

Mr. Sawhill did not participate in said transactions.

Mr. Jack Smith, Jr., is former Chairman and Chief Executive Officer of General Motors Corp. General Motors entered into the following described transaction with The Nature Conservancy:

> An agreement to support The Nature Conservancy which provides The Nature Conservancy cash for its general purposes, as it chooses; vehicles; and other miscellaneous assets of value. General Motors signed an agreement with TNC to undertake a climate change project under which TNC received $10 million and General Motors may potentially receive greenhouse gas mitigation offsets.

Mr. Smith did not participate or vote on said transactions.

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990 TAX RETURN
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FY01

53-0242652

STATEMENT 24 - PAGE 1 OF 2
FORM 990 - SCHEDULE A. PART III - EXPLANATION FOR LINE 2a

Mr. A.D. Correll is Chairman of the Board and Chief Executive Officer of Georgia-Pacific Corporation. which entered into the following transaction with The Nature Conservancy:

> Purchased by The Nature Conservancy (TNC) in February 2000, of 9.477 acres of land in Louisiana from North American Timber Corp. (dba) The Timber Company, a subsidiary of Georgia Pacific, for $7.5 million. This transaction occurred in three partial closings, two of which occurred in FY00 (total of 1264 acres for $1 million) and one of which occurred in FY01 in November 2000 (total of 8199.12 acres for $6,489,396).

Mr. Correll recused himself from participating in and voting upon said transaction.

Mr. Durk I. Jager, retired Chairman of the Board, former President and Chief Executive of the Proctor & Gamble Co. Millstone Coffee, Inc. (a subsidiary of Proctor & Gamble) entered into the following transaction with The Nature Conservancy:

> An agreement executed January 10, 1997, between The Nature Conservancy and Millstone Coffee, Inc., grants Millstone the rights to use Conservancy trademarks on licensed product packaging, advertisements, point-of-purchase displays, and other material. Licensed product is defined as Millstone Exotics brand Organic Mayan/Black Onyx and Organic Aztec Star & Sky coffees. The term is five years, from December 1,1996 to December 2001. Millstone will pay the Conservancy royalties of a minimum of $400,000 over five years plus two percent of net sales of licensed product.

Mr. Jager did not participate in said transaction.

Mr. John P. Morgridge is chairman of Cisco Systems, Inc. which entered into the following transaction with TNC:

> The Nature Conservancy acquires computer upgrades and purchases from Cisco Systems. Inc., at a substantial discount. Before any orders are placed Mr. Morgridge reviews the order and approves the discounts.

Mr. Jeffrey N. Watanabe, is senior Partner, with the law firm of Watanabe, Ing & Kawashima. Watanabe, Ing & Kawashima entered into the following transaction with The Nature Conservancy:

> Representation of The Nature Conservancy in reviewing a fishing license agreement encumbering Palmyra Atoll and addressing related legal issues, both prior and subsequent to the acquisition of Palmyra Atoll. The law firm contributed a substantial discount on legal fees to the Conservancy. Initiated possible acquisition of Kahuka Ranch on the Big Island of Hawaii from Damon Estate, a client of Watanabe, Ing & Kawashima. Watanabe, Ing & Kawashima, retained to assist The Nature Conservancy in the acquisition and management of the Palmyra Atoll.

Mr. Watanabe did not participate in said transactions.

Mr. John Smith, Jr., is former Chairman and Chief Executive Officer of General Motors Corp. General Motors entered into the following described transaction with The Nature Conservancy:

> An agreement to support The Nature Conservancy which provides The Nature Conservancy cash for its general purposes, as it chooses; vehicles; and other miscellaneous assets of value. General Motors signed an agreement with TNC to undertake a climate change project under which TNC received $10 million and General Motors may potentially receive greenhouse gas mitigation offsets.

Mr. Smith did not participate or vote on said transactions.

Mr. William W. Murdoch, is a Professor of Ecology at the University of California in Santa Barbara and entered into the following transaction with The Nature Conservancy:

> A $1,200 consulting fee was paid to Mr. Murdoch as consideration for his attendance at a two-day meeting focusing on Science for Sustainable Conservation including discussions concerning establishing a Conservation Science Institute and developing plans for specific conservation projects.

Mr. Murdoch did not vote on said transaction.

Mr. Ian M. Cumming is chairman of Leucadia National Corporation. Silver Mountain Industries (SMI) is a subsidiary of Leucadia Corporation which entered into the following transaction with The Nature Conservancy:

> On June 30,2000, SMI donated a conservation easement (439.22 acres) valued at $3,950,000, which included a public train easement to The Nature Conservancy. In addition, SMI made a cash endowment contribution to the Conservancy in the amount of $25,000, which was received in July 2000.

Mr. Cumming recused himself from participating in and voting upon said transaction.

Note> All transactions described occurred at fair market value, and appraisals were obtained as appropriate.

THE NATURE CONSERVANCY
990 TAX RETURN
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STATEMENT 24 - PAGE 1 OF 2
FORM 990 - SCHEDULE A, PART III - EXPLANATION FOR LINE 2a

Mr. A.D. Correll is Chairman of the Board and Chief Executive Officer of Georgia-Pacific Corporation, which entered into the following transaction with The Nature Conservancy:

> Purchased by The Nature Conservancy (TNC) of the Integrated Forestry Management System from the North American Timber Corp. (NATC), a subsidiary of Georgia Pacific, for $65,000 plus a $100 per user fee, occurred in October 2001. This fee, half the current market price, will be guaranteed for a period of five years.

Mr. Correll did not participate in the negotiations and approvals of said transactions.

Mr. Leigh H. Perkins, Jr., is President and Chief Executive Officer of The Orvis Company, Inc., which entered into the following transaction with The Nature Conservancy:

> The Nature Conservancy purchased a number of items of personal property from The Orvis Company, Inc., through its catalogue. The items were acquired for the purpose of furnishing the ranch house at the Conservancy's Matador Ranch property. Pursuant to an existing arrangement with The Orvis Company, Inc., allowing Conservancy employees to purchase items from the Orvis catalogue at a 40% discount, the Conservancy's Montana Program purchased discounted merchandise in the amount of $2,482.60. The merchandise, which included bedding and other household items, was invoiced on June 5,2002.

Mr. John P. Morgridge is chairman of Cisco Systems, Inc. which entered into the following transactions for which TNC paid a total of $145,477:

> From July 2001 to around March/April 2002 the arrangement was:
> 1) CISCO gives TNC an automatic 30% off their list price
> 2) TNC purchases its equipment DIRECTLY from CISCO.
> 3) TNC submits to Mr. Morgridge the amount paid to CISCO

This resulted in an effective 76% discount from list to TNC.

Mr. Jeffrey N. Watanabe, is senior Partner, with the law firm of Watanabe, Ing, Kawashima & Komeiji.
He also serves as Chair of the Board of Trustees of TNC of Hawaii and as a member of TNC's Board of Governors.
TNC paid $2,371 for the following services:

> TNC sought specialized advice and representation to address legal issues arising from a fishing license in place at TNC's recently acquired preserve, Palmyra Atoll, from the law firm of Watanabe, Ing, Kawashima & Komeiji LLP. The law firm has provided the services of Ed Rogin and Jim Kawashima at 50% of their usual rates. Jeff Watanabe has also provided legal counsel from time to time; his services have been donated to TNC.
>
> TNC is in the process of acquiring certain property known as Kahuku Ranch on the Big Island of Hawaii, owned by the Estate of Samuel M. Damon, deceased ("Damon Estate"). The law firm of Watanabe, Ing, Kawashima & Komeiji LLP represents Damon Estate on a limited basis on other matters, not on the Kahuka Ranch transaction.

Mr. Watanabe did not participate in or vote on either the Palmyra Atoll or Kahuku Ranch acquisitions.

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STATEMENT 24 - PAGE 2 OF 2

Mr. John Smith, Jr., is Chairman of General Motors Corp. General Motors entered into the following described transaction with The Nature Conservancy:

An agreement covering a five year (1999-2004) which provides The Nature Conservancy cash for its general purposes, as it chooses; vehicles; and other miscellaneous assets of value. General Motors signed an agreement with TNC to undertake a climate change project under which TNC received $10 million and General Motors may potentially receive greenhouse gas mitigation offsets.

Mr. Smith did not participate or vote on said transactions.

STATEMENT 24 - PAGE 1 OF 2
FORM 990 - SCHEDULE A, PART III - EXPLANATION FOR LINE 2a

Mr. A.D. Correll is Chairman of the Board and Chief Executive Officer of Georgia-Pacific Corporation, which entered into the following transaction with The Nature Conservancy:

> Purchased by The Nature Conservancy (TNC) of the Integrated Forestry Management System from the North American Timber Corp. (NATC), a subsidiary of Georgia Pacific, for $65,000 plus a $100 per user fee, occurred in October 2001. This fee, half the current market price, will be guaranteed for a period of five years.

Mr. Correll did not participate in the negotiations and approvals of said transactions.

Mr. Leigh H. Perkins, Jr., is President and Chief Executive Officer of The Orvis Company, Inc., which entered into the following transaction with The Nature Conservancy:

> The Nature Conservancy purchased a number of items of personal property from The Orvis Company, Inc., through its catalogue. The items were acquired for the purpose of furnishing the ranch house at the Conservancy's Matador Ranch property. Pursuant to an existing arrangement with The Orvis Company, Inc., allowing Conservancy employees to purchase items from the Orvis catalogue at a 40% discount, the Conservancy's Montana Program purchased discounted merchandise in the amount of $2,482.60. The merchandise, which included bedding and other household items, was invoiced on June 5,2002.

Mr. John P. Morgridge is chairman of Cisco Systems, Inc. which entered into the following transactions for which TNC paid a total of $145,477:

> From July 2001 to around March/April 2002 the arrangement was:
> 1) CISCO gives TNC an automatic 30% off their list price
> 2) TNC purchases its equipment DIRECTLY from CISCO.
> 3) TNC submits to Mr. Morgridge the amount paid to CISCO

This resulted in an effective 76% discount from list to TNC.

Mr. Jeffrey N. Watanabe, is senior Partner, with the law firm of Watanabe, Ing, Kawashima & Komeiji.
He also serves as Chair of the Board of Trustees of TNC of Hawaii and as a member of TNC's Board of Governors.
TNC paid $2,371 for the following services:

> TNC sought specialized advice and representation to address legal issues arising from a fishing license in place at TNC's recently acquired preserve, Palmyra Atoll, from the law firm of Watanabe, Ing, Kawashima & Komeiji LLP. The law firm has provided the services of Ed Rogin and Jim Kawashima at 50% of their usual rates. Jeff Watanabe has also provided legal counsel from time to time; his services have been donated to TNC.
>
> TNC is in the process of acquiring certain property known as Kahuku Ranch on the Big Island of Hawaii, owned by the Estate of Samuel M. Damon, deceased ("Damon Estate"). The law firm of Watanabe, Ing, Kawashima & Komeiji LLP represents Damon Estate on a limited basis on other matters, not on the Kahuka Ranch transaction.

Mr. Watanabe did not participate in or vote on either the Palmyra Atoll or Kahuku Ranch acquisitions.

THE NATURE CONSERVANCY
990 TAX RETURN
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53-0242652

STATEMENT 24 - PAGE 2 OF 2

Mr. John Smith, Jr., is Chairman of General Motors Corp. General Motors entered into the following described transaction with The Nature Conservancy:

An agreement covering a five year (1999-2004) which provides The Nature Conservancy cash for its general purposes, as it chooses; vehicles; and other miscellaneous assets of value. General Motors signed an agreement with TNC to undertake a climate change project under which TNC received $10 million and General Motors may potentially receive greenhouse gas mitigation offsets.

Mr. Smith did not participate or vote on said transactions.

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990 TAX RETURN
ADDITIONAL STATEMENTS
FY03

53-0242652

STATEMENT 24
FORM 990 - SCHEDULE A, PART III - EXPLANATION FOR LINE 2a

Mr. Leigh H. Perkins, Jr. (TNC board member), is President and Chief Executive Officer of The Orvis Company, Inc. Orvis entered into the following transactions with The Nature Conservancy:

> Orvis paid The Nature Conservancy $59,000 for licenses to conduct two experimental ecotourist fishing trips to its acquired Palmyra Atoll property. The first trip took place from about April 5, 2003 until about April 11,2003; the second, from about May 25,2003 until about June 1,2003. The major purpose of these trips was to evaluate the long-term feasibility of conducting environmentally compatible ecotourism on Palmyra.

Mr. John P. Morgridge (TNC board member) is chairman of Cisco Systems, Inc. , which entered into the following transaction with The Nature Conservancy:

> The Nature Conservancy purchased computer equipment directly from Cisco Systems, Inc. for $8,366.

Mr. John Smith Jr.(TNC board member), retired as Chairman of the Board of General Motors Corporation in March, 2003. General Motors entered into the following two transactions with The Nature Conservancy:

> An agreement covering a five-year period (1999-2004) which provides The Nature Conservancy cash for its general purposes, as it chooses, vehicles, and other miscellaneous assets of value, in exchange for the right to publicize this relationship subject to Conservancy approval.
>
> An agreement with the Conservancy to undertake a climate change project under which the Conservancy received $10 million and General Motors may potentially receive greenhouse gas mitigation offsets.

Mr. Smith did not participate in or vote on said transactions.

JUL 25 2003

QUESTION 4: Loans

"TNC provided a home loan of $1.55 million with a 1-year adjustable interest rate at 4.59 percent to Mr. McCormick. TNC states that this rate was based on 'outside advice as to what a market rate would be.' Please provide a copy of that advice."

On April 29, 2002 Nature Conservancy staff determined market rates for five-year term interest-only ARM loans ranged from 5.17% to 5.30%, resulting in monthly payments exceeding $6,250. Between April 29 and May 6, Nature Conservancy staff undertook additional research on interest rates for one-year ARM loans. The Wall Street Journal national average for one-year ARMs, as published on May 3, 2002, was 4.59% (see attached page C-2 of WSJ). One-year Treasury yields on that date approximated 2.6%. This one-year Treasury bill rate was, and remains, one of the more popular indexes for one-year ARM loans. Nature Conservancy staff also researched one-year Treasury security rates over the prior ten years, May 1991 through May 2001, and found that those rates had exceeded 6.00% on only one occasion, May 2000, over the ten-year period. Steve McCormick's loan rate was capped at eight percent over the life of the loan.

These Bonds may not be sold, nor may offers to buy be accepted, prior to the time an Official Statement is delivered in final form. Under no circumstances shall this announcement constitute an offer

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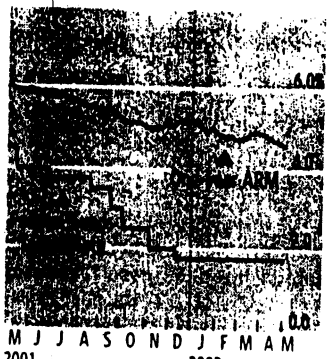
MARKETS LINEUP

INTEREST RATES & BONDS

Consumer Rates

Benchmark personal borrowing rate vs. Federal-funds target rate, the interest rate on overnight loans between banks.



	NAT'L AVG	WK'S CHG
Credit card	13.59%	-0.05
Money market APY	1.89	-0.02
Five-year CD APY	4.94	-0.04
New car loan	7.23	-0.03
30-year fixed mortgage	6.35	-0.07
Jumbo mortgages*	6.54	-0.07
One-year ARM	4.59	-0.11
Home equity loan	7.89	-0.01

*Over $300,700

Most Competitive Rates Available

One-year ARM

Republic Bank ..... 4.78% APR
Cleveland, OH, 440-918-0801

Your Best Rate Financial 4.82%
Atlanta, GA, 877-587-5363

American Home Mortgage Co. 4.82%
Cleveland, OH, 216-883-7123

<EL1.Thornburg Mortgage 4.85%
San Francisco, CA, 877-862-2002

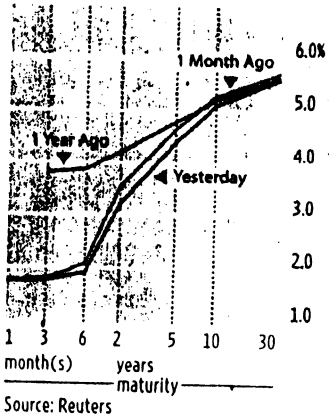
All-Florida Mortgage Centers. 4.87%
New Port Richey, FL, 727-372-6060

Note: Rates and fees are quoted on loans not exceeding $300,700, with an 80% loan-to-value ratio.

Source: Bankrate.com

Treasury Yield Curve

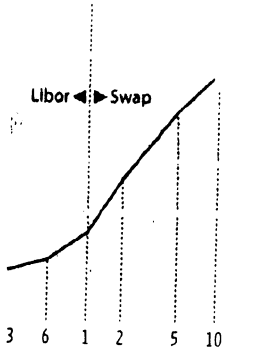
Yield to maturity of current bills, notes and bonds.



Source: Reuters

Libor/Swap Curve

Counterparty receives (mid-mark semi-annual swap rates for 2 to 3 and pays floating 3-month Libor.



Source: Prebon Yamane (USA)

Major Bond Indexes

U.S. Treasury Securities Lehman Brothers	CLOSE	NET CHG	% CHG	52-WEEK HIGH	52-WEEK LOW	% CHG
Intermediate	6796.29	-12.65	-0.19	6823.78	6353.64	
Long-term	10157.56	-62.88	-0.62	10726.90	9305.67	
Composite	7527.37	-25.12	-0.33	7696.71	6983.75	
Broad Market Lehman Brothers (preliminary)						
U.S. Aggregate	929.03	- 1.43	-0.15	934.85	852.03	+7.83
U.S. Gov't/Credit	1057.19	- 1.70	-0.16	1077.96	973.23	+7.14
U.S. Corporate Debt Issues Merrill Lynch						
Corporate Master	1211.30	- 2.83	-0.23	1230.20	1128.12	+6.07
High Yield	537.05	- 0.81	-0.15	537.86	491.28	+3.44
Yankee Bonds	896.72	- 3.10	-0.34	907.35	831.56	+6.81
Mortgage-Backed Securities current coupon; Merrill Lynch; Dec. 31, 1986=100						
Ginnie Mae (GNMA)	382.32	- 2.28	-0.59	384.60	357.51	+5.69
Fannie Mae (FNMA)	377.77	- 2.17	-0.57	379.94	352.22	+6.37
Freddie Mac (FHLMC)	230.50	- 1.34	-0.58	231.84	215.38	+6.05
Tax-Exempt Securities Merrill Lynch; Dec. 22, 1999						
6% Bond Buyer Muni	104.00	- 0.19	-0.18	108.09	101.25	+1.77
7-12 Yr G.O.	173.34	- 0.08	-0.05	173.42	162.15	+6.90
12-22 Yr G.O.	180.50	- 0.21	-0.12	181.25	169.24	+6.65
22+ Yr Revenue	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

AUG 2 1 2003

QUESTION 4: Loans

"Please describe in particular all of the above loans that have a 0% interest rate and all loans that defaulted or in which there was partial or full loan forgiveness. Please describe the process of TNC in approving loans, how the interest rate is determined and the material that is prepared in support of such loans."

The process of approving loans follows the same delegation of authority which applies to the Conservancy's other transactions. Interest rates are determined by reference to prevailing economic conditions and to criteria for particular types of loans, when applicable. The material prepared in support of loans primarily consists of the loan documents themselves, along with documentation of the value of any collateral.

AUG 2 1 2003

QUESTION 4: Loans

As previously reported to the Committee, the Conservancy has made twelve loans to employees. Seven of the twelve loans were made with interest at or above the Applicable Federal Rate and are therefore not below-market loans as defined in § 7872.

Four of the twelve loans were made at zero interest. The borrowers were Wayne Klockner, $4,000 in 1996; William Possiel, $35,000 in 1997; Bruce Runnels, $80,000 in 1998; and Rodney Salm, $10,000 in 1999.

The loans to Klockner and Salm are exempt from the provisions of § 7872 under an exception for compensation-related loans of $10,000 or less that do not have tax avoidance as a principal purpose (§ 7872(c)(3)). The loan to Runnels is exempt from § 7872 under an exception for bridge loans made in connection with the purchase of a new principal residence at a new place of work (§ 7872(c)(1)(E); Reg. § 1.7872-5T(c)(ii)).

The loan to Possiel was subject to the provisions of § 7872. The Nature Conservancy complied with those requirements by imputing interest on the loan and reporting it on Possiel's 1998 Form W-2 (attached).

The twelfth loan was the Shared Appreciation loan to Graham Chisholm. This loan is exempt from § 7872 under an exception for mortgage loans on a new principal residence acquired in connection with transfer to a new place of work.

NOV 18 2003

QUESTION 4: Loans

Senate Finance Committee staff asked for an expanded description regarding the process TNC follows in deciding when and how it will make loans. The following expands on earlier information submitted by The Nature Conservancy regarding loans.

The Nature Conservancy's process for approving loans is based on, and flows from, the legal authority and responsibility that the Board of Governors has for all business of TNC. Loans made by the Conservancy generally fall within one of three separate categories: loans involving conservation land transactions; loans involving disposition of trade lands (non-conservation land); and, in a few instances, loans to employees associated with housing due to job relocation.

Loans Involving Conservation Real Estate Transactions

With respect to conservation transactions, dollar levels of authority have been specifically delegated for conservation real estate projects to the President and to other staff of TNC. Under TNC's Policy for "Presidential Real Estate Project Authority, as amended February 5, 1999," among other things, the Board delegated to the TNC President authority to "acquire and transfer any real estate in any transaction provided the purchase price does not exceed Two Million Dollars." In addition, the Board delegated authority to make "...loans...to...other conservation organizations for land protection activities provided that such loans will not exceed Two Million Dollars." The President, in turn, has delegated his project authority to the General Counsel and has made further delegations of his authority, at lower dollar levels, to TNC Regional Managing Directors, Division Directors and Operating Unit Directors. Any acquisition and transfer of real estate or making of a loan above two million dollars must be approved by the Board of Governors.

Whether a loan for a conservation project is to be made in a particular situation is determined based on considerations made by the local TNC operating unit that is attempting to undertake the conservation project. If the local operating unit of TNC believes a loan to support the work of another conservation group will advance TNC's conservation goals at a particular site, that operating unit would prepare a "project package" with project explanations and justifications. This would include information about the conservation objectives to be served by such project, the nature of TNC's involvement and its relationship to the other conservation organization, and an explanation of the financial aspects of the project (the 'credit-worthiness' of the conservation organization-borrower, what the loan will be used for, how and when it will be repaid, the terms of the loan, and any security for the loan). Depending on the level of dollars involved, the project package would be submitted for review and approval to the relevant TNC unit with the delegated legal authority to approve the loan project (i.e. the Board of Governors, the President, the General Counsel, a Regional Managing Director, a Division Director or an Operating Unit Director). A copy of a project package is attached as an example.

With regard to loans made to private individuals or entities involving a conservation land transaction, authority for making such loans similarly flows from the authority delegated by the Board to the President. As noted above, under TNC's Policy for "Presidential Real Estate Project Authority, as amended February 5, 1999," among other things, the Board delegated to the TNC President authority to "...transfer any real estate in any transaction provided the purchase price does not exceed Two Million Dollars." The President, in turn, has delegated his project authority to the General Counsel and has made further delegations of his authority, at lower dollar levels, to TNC Senior Managers. Any sale of conservation real estate or making of a loan in connection therewith above two million dollars must be approved by the Board of Governors.

Typically, loans to private individuals and entities may appear on TNC's books in connection with the sale of conservation land to a conservation buyer where TNC provides some of the financing to enable the sale to be concluded. The repayment of the seller financing provided by TNC is secured by a promissory note and mortgage. Certainly, it would be TNC's first choice for such sales to be structured on an all-cash basis. There are, however, a limited number of cases where such financing is necessary to make the transaction feasible and TNC will conduct due diligence with respect to the credit worthiness of the buyer to whom such financing is being provided. When TNC sells conservation buyer property subject to a note and mortgage, TNC will charge an interest rate based on market rates and on other terms to encourage the buyer to refinance or pay off the loan quickly. Many notes are amortized over 15 to 30 years but include a balloon payment in 3 to 5 years, for example.

Depending on the level of dollars involved in the sale of the conservation buyer land, the project package, as described above, would be submitted for review and approval to the relevant TNC unit with the delegated legal authority to approve the loan project (i.e. the Board of Governors, the President, the General Counsel, a Regional Managing Director, a Division Director or an Operating Unit Director).

Finally, there are often cases where private companies or individuals will work with TNC to support a large conservation project, in effect becoming a conservation (but not legal) partner in the project. In certain limited cases where the Conservancy is making a large commitment of funds, the Conservancy will ask for and receive a legally enforceable commitment (in the form of a promissory note as distinct from a charitable pledge) from that individual or company to pay to the Conservancy sums pledged as their contributions toward that project. These commitments which are, in effect, notes receivable, show up on the Conservancy's 990 Tax Return, Statement 26, Part IV – Other Notes and Loans Receivable. An example of this type of situation can be found in the WEBCO transaction where Wisconsin Electric Power (WEPCO) made a pledge to support the Conservancy's Rio Bravo Conservation Project in Belize. Because there was some possibility that WEPCO would receive carbon dioxide mitigation credits from the project, we asked them to convert their pledge into a promissory note with an interest rate of 7 percent. They agreed to do this and have made regular payments on this note since that time.

The determination of the interest rates to be used in any of the particular transactions described above are made by reference to prevailing economic conditions, to the other financial or conservation benefits to be obtained in a particular transaction and whether or not such loan is to be made to another tax-exempt conservation organization or to a private entity or individual. In the later case, special care is taken to make sure that the terms of such loans are made on market rate terms to ensure that no private benefit takes place. Financial market information is obtained in house from TNC's Finance Department. The material prepared in support of such loans will also include the loan documents themselves, tax-exempt status and financial information from the conservation borrower, along with documentation of the value of any collateral.

Loans Made in Connection with the Sale of Trade Lands (Real Estate Held for Other Than Conservation Purposes)

The bulk of non-conservation real estate loans involve Trade Lands. "Trade Land" is the term the Conservancy applies to real estate given to the Conservancy (both developed and undeveloped), that has limited or no conservation value, and that is resold by the Conservancy with the proceeds used for general conservation purposes.

With respect to loans made for purposes relating to the sale of Trade Lands, authority for making such loans flows from the authority delegated by the Board to the President. As noted above, under TNC's Policy for "Presidential Real Estate Project Authority, as amended February 5, 1999," among other things, the Board delegated to the TNC President authority to "...transfer any real estate in any transaction provided the purchase price does not exceed Two Million Dollars." The President, in turn, has delegated his project authority to the General Counsel and has made further delegations of his authority, at lower dollar levels, to TNC Senior Managers. Any sale of trade land real estate or making of a loan in connection therewith above two million dollars must be approved by the Board of Governors.

Since 1993, of the 782 Trade Land sales only 69 were sold with a note receivable. This represents only 8.8% of total sales. The Conservancy does not like to sell property subject to a note. We prefer to collect all the sales proceeds in cash up front, at the time of the sale, so we can apply the proceeds to our mission related programs. There is a lost opportunity cost for the Conservancy on money loaned. However, commercial lending institutions often will not extend mortgages on undeveloped properties. Therefore, it is sometimes necessary for the Conservancy to carry a note if the individual cannot pay all cash and we wish to sell the property for the highest amount possible. When we sell property subject to a note, we often charge an interest rate at the high end of the market to encourage the buyer to refinance or pay off the loan quickly. Many notes are amortized over 15 to 30 years but include a balloon payment in 3 to 5 years. As described above, TNC's takes special care to ensure that such financing is made on a market basis to avoid problems with issues of private benefit. Statement 26, Part IV of the Conservancy's 990 shows a large number of Trade Land notes because the list is cumulative; these loans stay on the Conservancy's books until they are paid in full.

An example of a property sold with a note receivable is the Beutell Trade Land in Jackson County, NC. The 61-acre property was donated in 1996 with instructions from the donor that the unimproved land be sold and the net proceeds be split 60% to the Conservancy and 40% to the World Wildlife Fund. The donor appraisal was $123,360. The land was sold in 1997 for $200,000 with $40,000 down and a note for $160,000 at 7.25%. The note calls for 8 annual payments of $27,055.01.

Loans Made by TNC in Connection with Other Purposes

With respect to loans made for purposes other than related to conservation real estate or trade lands, authority for making such loans flows from the implicit authority delegated by the Board to the President and his senior managers to conduct the day-to-day affairs of the organization.

Prior to June 13, 2003, TNC from time-to-time made loans to employees. All of these loans were compensation-related loans, made in conjunction with employee relocations to new positions, and were negotiated with the employees as part of the relocation package. Whether a loan was made in a particular situation, and the terms and conditions of the loan, was determined case-by-case by the manager extending the job offer in consultation with TNC's Human Resources and Legal departments and in accordance with generally accepted terms meeting benefits package standards. A schedule detailing these 12 loans was previously conveyed to the Committee.

QUESTION 13: Travel, Conferences, Meetings and Other

JUL 3 1 2003

The Nature Conservancy
Travel Procedures Effective in Fiscal Year 2002

When an employee of The Nature Conservancy completes a trip, the employee is obliged to submit a Travel Expense Report (TER) to seek reimbursement for their business related expenditures. The TER provides for the recording of expenditures across several different travel categories, which each represent separate detailed line items (i.e., accounts) in our general ledger. Among those line items (i.e., accounts) on the TER are:

Airfare	5101
Mileage	5104
Car Rental	5104
Meals/lodging	5107
Other travel	5108
Business entertainment	5109

The $13 million of travel expenses represented on the Conservancy's Form 990 for fiscal year 2002 are effectively the sum of charges to all of the above accounts. However, the TER's alone do not account for all of the expenditures found in account numbers 5101 through 5109. For example, many employee travelers located at the Worldwide Office of the Conservancy utilized the services of a travel agency. If airfare for travel was booked utilizing the services of the travel agency then the resulting airfare expense is NOT a reimburseable item reportable on the employee's TER. Rather, the travel agency bills the Conservancy directly through the use of the Conservancy's corporate credit card number. This billing is then paid and the various airfare charges (i.e., account #5101 expenses) are allocated amoung the myriad of cost centers related to the underlying charge. Since these expenses are paid by the Conservancy directly, there is no reimbursement made to the employee. The "vendor" which is paid for the airfare is effectively the credit card vendor itself (e.g., Diner's Club) rather than the employee.

This process makes determining the total amount expended "on behalf of" a traveler for any given trip very difficult to expediently obtain. Some of the expenses are to be found directly on the TER of the employee, some are charge directly to the Conservancy under corporate purchasing arrangements, and all of the above charges are grouped by line item (e.g., mileage) and by date rather than by trip.

JUL 3 1 2003

QUESTION 13: Travel, Conferences, Meetings and Other

As a general rule, members of the Board of Governors are not reimbursed for expenses incurred performing services as Board members. As each new Board member joins the Board, the Chairman will apprise them that this is the practice. Occasional exceptions have been made for Board members from academia because they do not have the same level of financial independence as other Board members. Below you will find the documentation for reimbursements that have been provided to Board members going back to January 1, 2002.

		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
		January	June	October	January	June
1.	Joel E. Cohen	$364.15	*	*	$701.70	**
2.	John W. Fitzpatrick	**	*	$1,409.83	$1,179.07	**
3.	Frances C. James	$360.50	$190.75	**	$582.50	$808.50
4.	William W. Murdoch	*	$587.67	$964.00	*	$1,351.00
5.	Joy B. Zedler	*	$535.51	$422.00	*	*

*Did not attend.
**Has not requested reimbursement.

Question 8: Executive Compensation

JUL 25 2003

"In addition, please provide the minutes of the Compensation Committee or Board of Governors meetings relating to compensation (including loans) for officials listed in Form 990 since January 1, 1998, as well as all employment contracts for these individuals."

The Nature Conservancy Board of Governors does not utilize a Compensation Committee. The Board of Governors has a process for determining the executive compensation. First, the Executive Committee of the Board of Governors holds an executive session where they discuss the performance and total remuneration of the President/CEO, there are no minutes kept for the Executive Session. The Executive Committee receives information on comparison market compensation, competitive trends, and performance assessments from the Human Resources department prior to the executive session. Second, at that Executive Session the President/CEO presents information about the salaries of the officers and top five non-officers, consistent with what is reported in the Form 990. This is for their information. Third, the Executive Committee concludes the Executive Session with a compensation recommendation on the President/CEO to the Board of Governors at the January meeting for approval. The compensation for the President/CEO is effective January 1 of each year. The Chairman of the Board of Governors sends a letter to the Vice President of Human Resources detailing the compensation decisions for the President/CEO. The President/CEO then finalizes the compensation for the Executive Leadership Team members.

The portions of the executive session presentations on ELT and top 5 compensation for the Executive Committee of the BOG for 2002 and 2003 are attached, as are the letters from the Chairman of the BOG to the Vice President of Human Resources for the compensation of the President/CEO for 2002 and 2003. The executive session presentation for 2003 erroneously excluded Michael Coda, a long-time officer. We have added his name to the presentation materials attached. The ELT salaries listed in the 2003 presentation do not reflect the 5% voluntary pay reduction adopted by the ELT members effective July 1, 2003.

The Nature Conservancy does not have formal employment contracts with employees. We have included the offer letters located to date for any individual listed in the Form 990 from January, 1998 to present.

JUL 2 5 2003

Question 8: Executive Compensation

"Please provide a detailed discussion, including value, of any deferred compensation programs that TNC or its related organizations operates for any of it employees."

In June, 2000, The Nature Conservancy implemented a 457(f) non-qualified deferred compensation plan for Executive Vice Presidents of the organization. Eligible participants could defer a portion of their salary into the plan, and The Nature Conservancy, at its discretion, could make contributions to the plan on behalf of the employee. It was designed as a retention tool for the topmost officers, excluding the President/CEO. At the time of implementation, there was only one eligible participant, W. William Weeks. The intent was to gradually establish other Executive Vice Presidents, however, the President/CEO, John Sawhill, unexpectedly passed away. In July, 2000, Bill Weeks began deferring 1% of his salary and TNC contributed $15,000. Following the death of John Sawhill, the search for a successor, and the subsequent management changes, there were no further participants added to the plan. In October, 2001, Mr. Weeks' title and position changed and he was no longer an eligible participant. According to the plan design, Mr. Weeks was required to submit a deferral election form each year to postpone the asset payout. In October, 2002, Mr. Weeks did not submit the deferral election form and his plan assets were paid to him in March, 2003. He received $14,187.80. There are no other participants or plan assets in the 457(f) plan at this date – July 21, 2003.

The executive summary of the plan is attached, as are the relevant communications.

Note, although not a deferred compensation plan, TNC does have a 401(k) plan available to all staff.

JUL 25 2003

Question 9: President's Discretionary Fund

"The Committee would like information regarding the policies and procedures with respect to the President's discretionary fund (and its successor the Quick Strike Fund). Please explain how funds become part of the discretionary fund; whether there are or have ever been any limitations on the amount of money in the discretionary fund; who can authorize the fund's use; and any limits on the use of the funds."

The President's Discretionary Fund was an internal budget center of The Nature Conservancy. It was created to facilitate budgeting and internal allocation of certain private contributions that are given to the Conservancy by private donors who do not designate particular projects or geographic areas in which they want their funds used. Within TNC, these are referred to as undesignated contributions. Some of the sources of undesignated contributions are inherently difficult to predict. These include bequests and revenue from the sale of tradelands.

The sources of revenue to the President's Discretionary Fund are almost exclusively these - undesignated bequests and revenue from the sale of tradelands in cases where the donors of the tradelands did not designate a particular project or program for the use of the revenue generated by selling the tradeland properties. In some instances, a significant undesignated gift (other than a bequest or tradeland) from a private contributor has been placed into the President's Discretionary Fund.

Senior management, in consultation with the Board of Governors, has made decisions about the allocation of the money in the Fund among TNC programs and projects. This is generally done as part of the budgeting process several months before the beginning of the fiscal year in July, taking into account the amount of money in the Fund at that time and using a conservative estimate of what is likely to come in from the undesignated sources described above. Ultimate authority for the allocation of the Fund rests with the President of the organization, as part of his responsibility in preparing a budget for the organization. The Board approves the detailed annual expense budget for the organization, which includes expenses supported by the allocations from the President's Discretionary Fund. Final authority for the actual spending of the funds which are in the President's Discretionary Fund is governed by the Conservancy's delegation of authority policy. In general, these authorizations are made by Country or State Program Directors or by Division Directors. Expenditures from the President's Discretionary Fund are governed by the same restrictions imposed on all TNC expenditures under TNC's policies and procedures. In only a handful of instances over the last 10 years have funds that have passed through the President's Discretionary Fund been sent directly from the Fund to outside entities.

The guiding objective that has prevailed since the Fund was created has been to direct these funds toward the most urgent needs of the organization. For example, the President's Discretionary Fund has been a critical source of operations funding for our international programs, which have been a top conservation priority for the past 10 years. These funds have also provided important support to our science work and to our information systems programs.

Another important criteria in deciding on the use of these funds is to cover organizational expenses that are difficult targets for fundraising activities. An example in this area is the assembly and installation of the Fundraising Management System, the software that houses our membership information.

There are no limitations on the amount of money that passes through the President's Discretionary Fund. Indeed, such limitations would be counterproductive since the revenue that passes through the Fund is used for organizational priorities. As a general practice, management seeks to allocate the money that passes through the Fund to operating programs as quickly as possible, following the process described above.

JUL 25 2003

THE BOARD OF GOVERNORS AND ROLE OF THE TRUSTEES

The Nature Conservancy is organized as a 501(c)3 not-for-profit corporation. The Board of Governors of The Nature Conservancy has the ultimate authority for exercising all fiduciary responsibilities, creating and maintaining policies and procedures, approving annual operating plans and budgets and selecting, evaluating and compensating the President and Chief Executive Officer of The Nature Conservancy. With the exception of the President and Chief Executive Officer who serves as a Board member, none of the Board members are compensated for Board service. The Board of Governors as well as all staff are subject to the Conservancy's Conflict of Interest Policy.

The key operating units of The Nature Conservancy are its state and country programs which are led by staff directors. Because much of The Nature Conservancy's success over the years is attributable to the support and work of volunteers, the state and country program directors have identified key volunteers to serve as advisors. While these advisors are often referred to as Trustees or State Board Directors, they have no legal authority to commit The Nature Conservancy to act. Therefore, these advisory boards are structured very loosely and their membership is continually changing. Our operating unit directors are given the flexibility to organize and utilize these volunteers in a way that best enhances their particular operating units.

It is very difficult to track all the activities of our volunteer advisors which number in excess of 1500. The Conservancy asks our volunteer advisors and staff to treat any transactions between volunteer advisors and the Conservancy as perceived conflicts if the transaction relates to an activity within that advisor's operating unit. When these perceived conflicts are identified we address them in accordance with the Conservancy's Conflict of Interest Policy (copy attached).

The Conservancy does own and control several subsidiaries. These subsidiaries have often been established in order to satisfy some particular state law. Because these subsidiaries are legal extensions of The Nature Conservancy, their Boards and staff are usually identical to the Board and staff of The Nature Conservancy Corporation and these subsidiaries are subject to the Conservancy Conflict of Interest Policy.

JUL 25 2003

QUESTION 14: Transactions with Board Members

Prior to June 13, 2003, any transactions which had real or perceived conflicts are addressed under the Conservancy's Conflict of Interest Policy (copy attached). For example, a purchase of land from a Board member would have created a conflict and would have been addressed in accordance with the Conflict of Interest Policy. At its June 13, 2003 Board meeting, the Board passed a policy which would prohibit any purchases or sales of land or interests in land between the Conservancy, Board members, chapter advisors, employees and close relatives (see attached). In addition, we attempt to identify any transactions with conflicts involving chapter advisors. Therefore, to satisfy the request under paragraph 14, we will provide documentation of any such transactions where there was a possibility of a perceived or real conflict.

JUL 25 2003

Conflict of Interest

POLICY:

It is the policy of The Nature Conservancy to identify real or perceived conflicts of interest involving The Nature Conservancy, to assure that these real or perceived conflicts of interest are fully disclosed, and then to take the appropriate action.*

PURPOSE:

To assure and ensure that The Nature Conservancy will live up to its high fiduciary obligations and operate in compliance with our highest corporate value: "Integrity Beyond Reproach."

ORIGIN:

Approved by the Board of Governors in June, 1995. Revised March 15, 1996 and October 2, 2002.

REFERENCES, RESOURCES, and EXPLANATORY NOTES:

All Board of Governors members have read and signed. All staff and Chapter/local trustees and advisors will read, understand, and comply.

Refer to the President and to the Worldwide Office Legal Function for additional information.

* See attached complete Conflict Policy as approved by the Board of Governors, June 1995. See Conservation Sales to or From Related Parties Policy as approved by the Board of Governors, June 13, 2003.

Attachment

Conflict of Interest

Policy:

It is the policy of The Nature Conservancy to attempt to identify real or perceived conflicts of interest involving The Nature Conservancy, to assure that these real or perceived conflicts of interest are fully disclosed and then to take the appropriate action.

Purpose:

The Mission of The Nature Conservancy is to preserve the plants, animals, and natural communities that represent the full diversity of life on Earth by protecting the lands and waters they need to survive.

The Conservancy's effectiveness depends upon its record of accomplishment and its reputation. Our success results directly from maintaining the confidence of the individuals, groups and organizations with whom we work. The Conservancy's greatest asset is its good name. "Integrity beyond reproach" is one of The Nature Conservancy's defining values and is crucial to the success of our mission. For that reason it is crucial that we have a responsible and well conceived Conflict of Interest policy. In addition, the Conservancy Board of Governors is required to have a Conflict of Interest policy by outside watchdog organizations such as the National Charities Information Bureau.

The Conservancy's Code of Ethics, which was most recently adopted by the Board of Governors in 1984, is designed to protect The Nature Conservancy's reputation and effectiveness by providing guidance in making decisions that have ethical implications, including potential conflicts of interest.

To accommodate tremendous growth in an ever-changing and more complex world, The Nature Conservancy has decided to amend and replace the above-referenced Code of Ethics with the following Conflict of Interest policy. Its purpose is to protect the organization's reputation by helping our staff and Board members define some key conflict terms, set out some rules of conduct with appropriate examples, and explain the administrative process that governs conflict issues.

Administration:

One of the principal purposes of this policy is to help staff and Board members identify and then avoid getting involved in conflicts of interest with The Nature Conservancy. For that reason, employees and Board members must read and retain a copy of this Conflict of Interest Policy at the outset of their tenure with the Conservancy. There may be certain volunteers who, because of the level of their involvement in Conservancy business, and because of their access to inside information, may be covered by this Conflict of Interest policy and will be fully informed of its contents. Should you have any questions concerning the possible impact of this Conflict of

Interest policy upon any volunteers, please contact Conservancy Legal Counsel. In addition, the Conflict of Interest policy will be discussed at all orientation sessions for new employees and Board members.

Disclosure:

If a real or perceived conflict of interest involves a member of the staff, it must be brought by the affected staff to his or her supervisor. There may be occasions in which a conflict is unavoidable or engaging in a potential conflict may be permissible. In such instances, the facts and circumstances surrounding the potential conflict will be brought by the supervisor to the attention of the General Counsel with a recommended course of action. The General Counsel will then submit the request to the President, along with a recommended course of action, with the President being the final arbiter of the issue. While the request is pending, the employee will refrain from participating in the questionable activity or withdraw from any discussion of or decision on the matter. Each request will describe in detail the particular activity in question, the reasons why the individual believes the request should be granted, and any special circumstance surrounding the case. A member of the Board of Governors or member of a Chapter Board involved in a real or perceived conflict will bring the matter to the attention of the General Counsel who will work with the member to develop an appropriate recommended course of action, which will then be submitted to the President as the final arbiter of the issue. If such a conflict is brought to the attention of a staff member, then the staff member will immediately notify the General Counsel of the matter.

At a minimum, the recommended course of action will ask the individual to recuse and absent him/herself from any involvement in decisions pertaining to the potential conflict.

Definitions:

COVERED PERSONS: All employees, Board of Governors and Chapter Trustees, and related organizations and close relatives.

EMPLOYEE: Any individual employed in the service of The Nature Conservancy, whether exempt, non-exempt, full-time or part-time, but excluding independent contractors.

RELATED ORGANIZATION: Any organization in which the covered person directly or indirectly:

a. owns or controls 5% or more of any voting security; or

b. is a director, executive officer, executor, administrator, trustee, beneficiary, controlling partner, or otherwise serves in a fiduciary capacity or holds a substantial beneficial interest; or

c. has legal or de facto power to control the election of a majority of directors; or

d. has legal or de facto power to exercise a controlling influence over the management or policies.

"Organization" includes a corporation, partnership, trust, estate, joint venture, and unincorporated affiliation of any kind.

INTEREST: An individual or organization has an interest in an issue, matter or transaction when he, she or it, directly or indirectly:

a. has an identifiable economic or political stake or will stand to gain or lose financially from an issue, matter or transaction in a manner identifiably different from the general public; or

b. is an agent for an entity with an identifiable goal of influencing a decision by The Nature Conservancy on an issue, matter or transaction.

CLOSE RELATIVE: Spouse, child (natural or adoptive), parent and step-parent, in-laws, grandchild, grandparent, brother or sister of the employee or Governor or Trustee are all close relatives. Also any person with whom a covered person shares living quarters under circumstances that closely resemble a marital relationship or is financially dependent upon the employee, Governor, or Trustee is considered a close relative for purposes of this policy.

INSIDE INFORMATION: Any material information that is identified as confidential and proprietary, pertaining to the business and affairs of The Nature Conservancy, whether related to a specific transaction or to matters pertaining to The Nature Conservancy's interests, activities and policies.

CONFLICT OF INTEREST: A conflict exists when a covered person:

a. acts as an agent, representative or spokesperson for any business, group or organization in order to influence the Conservancy on any issue, matter or transaction in which the foregoing has an interest; or

b. has an interest in an issue, matter or transaction in which the Conservancy has an economic or political stake.

Attachment (Cont'd)

Potential Conflicts:

1. INSIDE INFORMATION: A conflict or perceived conflict exists when inside information is used by a covered person either for the purpose of gaining advantage for the covered person, or for any other purpose not specifically approved by The Nature Conservancy.

2. ACCEPTING OF GIFTS: A conflict or perceived conflict exists when a covered person accepts from any individual or organization that has an interest in any issue, matter or transaction in which the Conservancy also has an interest, any personal gift, benefit, service, loan, discount, concession or other item of more than nominal value. For the purpose of this document, nominal value shall mean less than $100 in value.

3. EMPLOYMENT OF CLOSE RELATIVES: A conflict or perceived conflict exists when an employee will be placed in a division where the employee and a close relative will have the same supervisor or manager. Likewise, a conflict or perceived conflict will exist when an employee will be placed in a position where he/she will report, either directly or indirectly, to a close relative.

4. FEES FOR ADVISORY SERVICES: A conflict or perceived conflict exists when a covered person provides advisory or consulting services to an individual or organization that has an interest in any issue, matter, or transaction in which the Conservancy has an interest whether or not a fee or other consideration is paid for the services rendered.

5. OUTSIDE WORK: A conflict or perceived conflict exists if an employee, Trustee or Governor engages in any employment or activity outside the Conservancy that:

   a. competes with Conservancy business or takes an opportunity from the Conservancy; or

   b. implies Conservancy sponsorship or support of the outside employment or activity that may adversely affect the public image of the Conservancy.

EXAMPLES: For specific examples of conflict or perceived conflict situations see attached Appendix A.

Attachment (Cont'd)

Conclusion:

The Nature Conservancy has maintained a high standard of ethics and integrity throughout the years. It is important to all of its employees, Board members and Trustees that these standards continue to be maintained as one of our key corporate values. Adhering to this Conflict Policy is a condition of association with The Nature Conservancy as an employee, Board member or Trustee. Violations of the Conflict of Interest policy may be grounds for dismissal as an employee or severance from the Board of Governors or a Chapter board. The Conservancy will review this policy on a regular basis and notify employees, Board members and Trustees of any proposed deletions or additions.

SEEN AND AGREED TO:

_____ DATE: _____

Signature

Attachment (Cont'd)

Appendix A

Examples:

EXAMPLE: The Nature Conservancy has offered $500,000 to acquire parcel X that belongs to the brother of a Chapter Trustee. The Conservancy had fund-raised $1 million for this project and would be prepared to pay up to $1 million, which happens to be the fair market value of the property. It would be an inappropriate use of inside information if the Chapter Trustee were to disclose to his brother that the Conservancy had $1 million available for this land. In addition, the Chapter Trustee will disclose the relationship and recuse himself from any involvement in the decision to acquire this land.

EXAMPLE: Employee X has worked for The Nature Conservancy's science program for several years. X serves as a volunteer board member on a local land trust. The land trust has undertaken a project to try to figure out priority sites for protection within its covered region. X volunteers to provide heritage methodology training to the staff of the land trust. Although this may be a worthy goal, because heritage methodology is proprietary to The Nature Conservancy it is treated as inside information and should not be used by X in this fashion without getting the written permission of The Nature Conservancy.

EXAMPLE: X, who is a land-protection specialist for The Nature Conservancy, is negotiating to acquire a critical natural area from the Y corporation. X has developed a good working relationship with the real estate director of the Y corporation. The Y corporation invites X to use the Y corporation's mountain retreat for a weekend getaway. Assuming that the value of the use of the mountain retreat to X is in excess of $100, X is confronted with a potential conflict situation. For example, this arrangement could create the perception that X has received this benefit from Y corporation in exchange for some concession in the business negotiations. X should not accept this offer.

EXAMPLE: The facts are the same as above except the real estate director of the Y corporation will be using the retreat at the same time as X. In addition, X and the real estate director have decided that they will hammer out the final details of negotiations while at the mountain retreat. Although X's use of the mountain retreat in this instance is not a conflict situation, there still is a risk of a perceived conflict. Therefore, X still would have an obligation to disclose.

EXAMPLE: X is the head of the benefits program for TNC and is recruiting for a position to have responsibility for TNC's health insurance program. X's spouse has expertise in managing health insurance programs. Unless there are some very unusual circumstances, X would be discouraged from hiring his or her spouse because of the potential conflict of interest. For example: if X hired his or her spouse, X would be in the position of making salary decisions which would directly, or at least indirectly, have a financial impact upon X.

EXAMPLE: XYZ Corporation is selling property to The Nature Conservancy. The Conservancy's Board member, Jones, is also a member of the board of XYZ Corporation. Jones appraises the property for XYZ Corporation. Even if Jones waives all appraisal fees, a conflict exists both because Jones is a director of both corporations and both corporations have an interest in the transaction, and because Jones rendered consulting services. Jones should recuse himself, on the record, from any involvement in this project.

EXAMPLE: X is on the Board of The Nature Conservancy and is also the chairman of the Board of the Y Corporation. The Y Corporation owns land which is of great ecological interest to the Conservancy. Through the intervention of X, Y Corporation is willing to sell this property to the Conservancy at a substantial discount, the discount being confirmed by the Conservancy's independent appraisals. Because of X's relationship with both Y Corporation and the Conservancy, X has a conflict. However, provided that there is full disclosure of the situation to both Y Corporation and the Conservancy, and provided that X recuses himself from any involvement in the decision concerning this property, there is no reason why the Conservancy could not proceed with the transaction. The Conflict of Interest policy is not intended in any way to discourage covered persons from helping the Conservancy acquire property through gifts or partial gifts.

CONSERVATION SALES TO OR FROM RELATED PARTIES

POLICY:

It is the policy of The Nature Conservancy to prohibit both the purchase of real estate (or any interest therein) from and the sale of real estate (or any interest therein) to any "covered person." For this purpose, a covered person includes:

a) Any individual who is, or who was at any time during the 12-month period ending on the date of the purchase or sale, a member of the Board of Governors, a Trustee, or an employee of the Conservancy;
b) Any individual who is a close relative of such an individual; or
c) An entity in which the individual owns and/or his close relatives own directly or indirectly more than five percent of the equity interest therein.

PURPOSE:

To assure and ensure that The Nature Conservancy lives up to its high fiduciary obligations and operate in accordance with our highest corporate value: "Integrity Beyond Reproach."

This policy deals specifically with transactions involving the potential sale or purchase of real estate to or from a Board of Governors member, a Trustee, or a Conservancy employee (or their close relatives). While these transactions have been governed in the past by the Conservancy's Conflict of Interest Policy (requiring disclosure and potential action), this Policy goes beyond the existing Conflict of Interest Policy and absolutely prohibits these transactions. Although sales of real estate to Board of Governors, Trustees, or employees have been infrequent, the Board of Governors felt that any sale or purchase of real estate to these related parties could be perceived as a breach of the high standard set for the organization, and accordingly, prohibited any of these transactions. This policy also specifically prohibits sales to or purchases from Board of Governors, Trustees, or employees of interests in real estate --including sales and purchases of conservation easements.

This policy is separate but complementary to the existing Conflict of Interest Policy. All potential conflicts of interest – other than purchases and sales of lands – will continue to be handled in accordance with the Conservancy's existing Conflict of Interest Policy.

For purposes of this Policy, "close relative" has the same definition as applied in the Conservancy's Conflict of Interest Policy: Spouse, child (natural or adoptive), parent and step-parent, in-laws, grandchild, grandparent, brother or sister. Note, the definition of a related "entity" as set forth in this policy ("an entity in which the individual owns and/or his close relatives own directly or indirectly more than five percent of the equity interest therein") applies to this policy only. For purposes of this policy, "related organizations" will not be included unless the party owns more than a five percent equity interest in the organization.

ORIGIN:

Approved by the Board of Governors on June 13, 2003.

REFERENCES, RESOURCES, and EXPLANATORY NOTES:

See Conflict of Interest Policy as approved by the Board of Governors, June 1995, revised October 4, 2002.

AUG 2 6 2003

QUESTION 14: Transactions with Board Members

Question 14 requests a list of all land transactions between The Nature Conservancy and any Trustees, Governors or staff (national and state) since January 1, 1998. We have already provided the Senate Finance Committee with Form 990 for the past five years which includes any transactions, land or otherwise between The Nature Conservancy and its Board of Governors and Key Employees. In addition, we have provided the Senate Finance Committee with a spreadsheet and background documents covering Conservation Buyer Transactions between The Nature Conservancy, Trustees, Governors or staff covering the period of time from FY 1998 through FY 2002. Any other such land transactions of which The Nature Conservancy is aware appear in our Conflict Of Interest files. In a review of those files we have identified three transactions set forth in the following spreadsheet (with attachments). As part of the Conservancy's conflict procedure, the individuals involved in these transactions were not permitted to participate in any discussions on behalf of The Nature Conservancy.

SFC II RESPONSE
XIV. Transactions with Board Members, Question 1a

Discuss in detail all the land and service transactions between TNC and Georgia Pacific Corp., International Paper Co., and Orvis Services Co., or their subsidiaries, while an executive of these companies sat on TNC's Board of Governors or Leadership Council. In discussing your answer, include the following:

a. Identify the period that the executive of each company sat on the TNC Board of Governors or Leadership Council.

TNC Board of Governors	Membership Period
Georgia-Pacific	1995-Present
International Paper, Co.	None
Orvis Services Co.	1996-Present

ILC Member	Membership Period
Georgia-Pacific	1995-Present
International Paper, Co.	1995-Present
Orvis Services Co.	None

: ll RESPONSE
. Transactions with Board Members, Question 1b, c

ıuss in detail all the land and service transactions between TNC and Georgia Pacific Corp., International
er., and Orvis Service Co., or their subsidiaries, while an executive of these companies sat on TNC's Board of
ernors or Leadership Council. In discussing your answer, include the following:
lentify each particular transaction with each company in a gross amount of over $200,000.
tate whether TNC realized a gain or a loss on each transaction with such companies identified in your answer
ıe preceding question

.AND TRANSACTIONS

STATE	PROJECT NAME	GRANTOR	GRANTEE	DATE	ACRES IN	INTEREST	IN/OUT	FMV	PRICE IN	PROTECTION TRANSACTION	DISPOSITION	ACRES OUT	DATE	PRICE OUT	GAIN
ME	DENNYS RIVER (GEORGIA PACIFIC 1 AND 2)	GEORGIA-PACIFIC RESINS, INC.	TNC	June 9, 1999	1,096.67	FEE	IN	$380,000.00	$380,000.00	Deed in over Georgia Pacific 1 and 2 tracts.	Sold to State of ME Atlantic Salmon Commission	1,096.67	03/29/02	$224,000.00	N
NC	ROANOKE RIVER (THE TIMBER CO. - SHINGLETON)	GEORGIA-PACIFIC CORPORATION	TNC	September 27, 1999	1,807.70	FEE	IN	$406,732.00	$406,732.00	Deed in.	Sold to Weyerhaeuser Co. with retained cons. easement valued at $300,943	1,807.70	10/03/00	$436,468.00	Y
NC	VAN SWAMP (THE TIMBER COMPANY)	GEORGIA-PACIFIC CORPORATION	TNC	October 8, 1999	5,481.90	FEE	IN	$4,370,000.00	$4,370,000.00	Deeds in (3). One deed each for Washington County and Beaufort County and a Quitclaim deed in for 28.9 acres that GP could not find title to. The Timber Co. also assigns all right, title, and interest in and to the hunting lease with West Side Hunt Club.	Sold to NC Wildlife Resources Commission	5,481.90	11/15/00	$4,370,000.00	N
AR	FALCON BOTTOMS (INTERNATIONAL PAPER TRACTS)	INTERNATIONAL PAPER COMPANY	TNC	June 11, 2001	456.00	FEE	IN	$308,000.00	$308,000.00	Deed in.	Sold to AR Natural Heritage Commission	456.00	06/13/01	$308,000.00	N
FL	STYX/PERDIDO RIVER CORRIDOR (INTERNATIONAL PAPER)	INTERNATIONAL PAPER COMPANY	TNC	November 10, 2003	2,331.00	FEE	IN	$2,704,365.00	$2,704,365.00	Deed in - Gift (Donated funds)	TNC preserve	N/A	N/A	N/A	N
ME	UPPER ST JOHN RIVER WATERSHED (INTERNATIONAL PAPER 1-12)	INTERNATIONAL PAPER COMPANY	TNC	December 30, 1998	158.00	FEE	IN	$100,000.00	$100,000.00	Deed-in.	This 158 acres combined with 3,522 acres for next transaction (#7) - see below				N
ME	UPPER ST JOHN RIVER WATERSHED (INTERNATIONAL PAPER 1-12)	INTERNATIONAL PAPER COMPANY	TNC	December 30, 1998	218,018.00	FEE UDV	IN	$35,000,000.00	$35,000,000.00	Deed-in, undivided interest in, and assignment in of multiple timber leases (leases shown in TRACTS INT.RIGHT section.)	1) Sold to New England Forestry Foundation (NEFF) as part of an exchange with Pingree Associates, Inc. This transaction is part of a TNC assist to NEFF. NEFF acquired an enhanced conservation easement from Pingree Associates, Inc. over 4 Pingree tracts in exchange for this portion of TNC owned IP. NEFF transferred this IP tract to Pingree subject to a conservation easement immediately after acquiring it from TNC. 2) Sold undivided interest to J.M. Huber Corp. in exchange Huber gave TNC their undivided interest in 4 tracts, RFR over 3 tracts, option for a no development easement over 4 tracts, and option for Forever Wild easements over 7 tracts.	3678.00 220,683.90	3/14/01 3/26/01	$1,024,410.00 $5,490,337.00	N
NC	NORTHEAST CAPE FEAR RIVER (INTERNATIONAL PAPER REALTY CO. - BELLHAMMON)	INTERNATIONAL PAPER COMPANY	TNC	April 30, 1999	1,143.33	FEE	IN	$868,415.00	$868,415.00	Deed in.	Sold to NC Wildlife Resources Commission	1,143.33	09/29/99	$868,415.00	N
NC	SOUTHEASTERN COASTAL PLAIN (INTERNATIONAL PAPER FORESTRY CO.)	INTERNATIONAL PAPER COMPANY	TNC	May 8, 2002	38,605.00	FEE	IN	$23,996,000.00	$23,996,000.00	Deeds in.	1) Sale to cons. buyer (David & Debra Franklp) with retained cons. easement valued at $39,011 2) Trade land sale to Harrelson	287.50 .44	12/31/02 4/23/03	$108,596.00 $2,000.00	N
NH	CONNECTICUT RIVER HEADWATERS BIORESERVE MEGASITE (INTERNATIONAL PAPER)	INTERNATIONAL PAPER COMPANY	TRUST FOR PUBLIC LAND	March 29, 2002	171,500.00	FEE	ASSIST	$32,700,000.00	$32,700,000.00	Deed from SP Forests, LLC (acting through its officers, International Paper Company) to The Trust For Public Land. TNC assist: TNC helped with negotiations and acquired a portion of this property	2) then TNC sold the 25,000 acres to NH Fish & Game Dept. 3) then NH F&G donated a cons. easement to TNC valued at $4,225,000	25,000.00 25,000.00 25,000.00	3/29/02 12/30/02 12/30/02	$5,500,000.00 $3,056,766.69 $0.00	N
NY	FIVE PONDS FOREST MATRIX (INTERNATIONAL PAPER COMPANY)	SP FORESTS, LLC & INTERNATIONAL PAPER COMPANY	TNC	December 28, 2000	25,462.00	FEE	IN	$9,453,800.00	$9,453,800.00	DEED FROM SP FORESTS LLC (SUBSIDIARY OF IP); DEED OF MINERAL RIGHTS FROM IP	Conservation easement donated to Sweet Water Trust	15,536.00	12/03/03	$0.00	N
SC	FRANCIS MARION (INTERNATIONAL PAPER - WANDO)	INTERNATIONAL PAPER COMPANY	TNC	December 20, 2001	3,834.41	FEE	IN	$8,000,000.00	$8,000,000.00	Deed in.	Sold to US Forest Service	3,834.41	04/17/03	$8,000,000.00	N
ME	MACHIAS RIVER WATERSHED (SP FORESTS, LLC/PHASE 1)	SP FORESTS, LLC (IP Subsidiary)	ME BUREAU OF PARKS & LAND	December 23, 2003	18,406.00	FEE	ASSIST	$3,200,000.00	$3,200,000.00	Deed from SP Forest LLC to State of Maine. TNC assist. TNC contributed $1.55 million to the combined purchase price of the fee transfer and the easement from SP Forest	N/A	N/A	N/A	N/A	N
ME	MACHIAS RIVER WATERSHED (SP FORESTS, LLC/PHASE 1)	SP FORESTS, LLC & INTERNATIONAL PAPER COMPANY	STATE OF ME ATLANTIC SALMON COMMISSION	December 23, 2003	18,406.00	EAS	ASSIST	$4,600,000.00	$4,600,000.00		N/A	N/A	N/A	N/A	N
NY	FIVE PONDS FOREST MATRIX (INTERNATIONAL PAPER COMPANY)	SP FORESTS, LLC & INTERNATIONAL PAPER COMPANY	TNC	December 20, 2001	1,100.00	FEE	IN	$1,046,200.00	$1,046,200.00	DEED FROM SP FORESTS LLC (SUBSIDIARY OF IP); DEED OF MINERAL RIGHTS FROM IP	Possible future transfers to govt agencies or appropriate conservation organizations; none to date	N/A	N/A	N/A	N
LA	SUMMERFIELD SPRINGS (SALE)	TNC	INTERNATIONAL PAPER COMPANY	September 10, 2002	140.00	LIC	OUT	$44,104.00	$44,104.00	Timber Deed out (bill of sale for the timber and license for cutting and removing same). Buyer is limited to timbering operations only months outside of October-December and other restrictions.	N/A	N/A	N/A	N/A	N

SFC II RESPONSE
XIV. Transactions with Board Members, Question 1b, c

1. Discuss in detail all the land and service transactions between TNC and Georgia Pacific Corp., International paper Co., and Orvis Services Co., or their subsidiaries, while an executive of these companies sat on TNC's Board of Governors or Leadership Council. In discussing your answer, include the following:
   b. Identify each particular transaction with each company in a gross amount of over $200,000
   c. State whether TNC realized a gain or a loss on each transaction with such companies identified in your answer to the preceding question.

SERVICE TRANSACTIONS

Date	Name of Entity	Description of Transaction	Amount Paid by TNC to Orvis
June 5, 2002	The Orvis Company, Inc.	The Nature Conservancy purchased a number of items of personal property from The Orvis Company, Inc., through its catalogue. The items were acquired for the purpose of furnishing the ranch house at the Conservancy's Matador Ranch property. Pursuant to an existing arrangement with the Orvis Company, Inc., allowing Conservancy employees to purchase items from the Orvis catalogue at a 40% discount, the Conservancy's Montana Program purchased discounted merchandise in the amount of $2,482.60. The merchandise, which included bedding and other household items, was invoiced on June 5, 2002.	$2,482.60
Date	**Name of Entity**	**Description of Transaction**	**Amount Paid by Orvis to TNC**
April 2003	The Orvis Company, Inc.	Orvis conducted ecotourism trips to Palmyra on behalf of TNC. Prior to proceeding with these trips, The Nature Conservancy discussed potential trips with other ecotourism companies and service providers. Pursuant to these discussions and its evaluations of other companies and providers, The Nature Conservancy made a determination to proceed with Orvis. (The Conservancy also conducted one trip with The Oceanic Society, an entity unrelated to The Nature Conservancy.) These amounts defrayed Conservancy costs, and no profits were made on either trip	$59,000.00

SFC II RESPONSE
XIV. Transactions with Board Members, Question 1d

1. Discuss in detail all the land and service transactions between TNC and Georgia Pacific Corp., International paper Co., and Orvis Services Co., or their subsidiaries, while an executive of these companies sat on TNC's Board of Governors or Leadership Council. In discussing your answer, include the following:

   d. Describe TNC's Leadership Council and discuss its official function with TNC.

The International Leadership Council (ILC) was created as a corporate "giving club" in 1995. Each company on the council contributes $25,000 per year to the Conservancy. Up to $10,000 of that amount may be designated to a local Conservancy project or program. Alternatively, a company can receive a credit of up to $10,000 against the $25,000 contribution if it is currently contributing at least that amount directly to a local Conservancy project or program. The balance that is not designated to a local Conservancy project or program is counted as unrestricted fundraising. ILC contributions totaled $722,500 in FY03, $663,764 in FY02, and $696,957 in FY01.

The Conservancy facilitates a meeting for ILC supporters approximately every nine months. The purpose of the meetings are to showcase Conservancy projects and programs as opportunities for further corporate development. Meeting attendees typically are the vice president or director for environmental affairs or public/community affairs. The Conservancy's President & CEO and corporate CEOs are sometimes invited as keynote speakers. Attendees are responsible for covering their own travel and hotel expenses.

The ILC is co-chaired by Alfred R. Berkeley, a member of the Conservancy Board of Governors, and Thomas Jorling, Vice President for Environmental Affairs at International Paper. There are no formal committees or subcommittees. It is staffed by the Conservancy's Corporate Partnerships Department.

The ILC has no governance function within the Conservancy.

SFC II RESPONSE
XIV. Transactions with Board Members, Question 2, 3

2. Identify similar large transactions with other corporations having an executive serving on TNC's Board of Governors at the time of the transaction, beginning in 1998 to the present.

- To the best of our knowledge, all transactions involving a corporation with an executive serving on The Nature Conservancy's Board of Governors at the time of the transaction are set forth in the Conservancy's 990s, previously supplied to the Committee.

3. Please provide a list of lawyers, accountants, and other outside counsel who have provided tax opinions or other tax advice (including opinions or advice regarding compliance with relevant conflicts of interests requirements) to TNC with respect to the consequences to TNC or other parties regarding transactions between TNC and its board members, trustees, officers, executives or local chapter officials; please provide a copy of such opinions or written advice.

- To the best of our knowledge, there are none.

October 27, 2004
Senate Finance Committee Letter

NOV 23 2004

Question 19

Has TNC adopted a revised Conflicts of Interest Policy after that policy which was revised on October 2, 2002?

The Nature Conservancy Board of Governors has adopted numerous changes related to conflicts of interest. In June of 2003, the Board of Governors adopted a policy prohibiting the purchase or sale of real estate to any "covered person." In March of 2004, the Board of Governors also adopted a revised conflict of interest policy and standard operating procedure, as well as a policy and procedure concerning donations of land and IRS Forms 8282 and 8283. In addition, in September, 2004, the Board of Governors adopted a policy regarding gifts of land from Board members. These six policies and procedures are included as part of this transmittal letter.

The Conservancy has for many years had a formal conflicts of interest policy intended to ensure proper advance review of transactions involving employees, members of the Board of Governors, state chapter trustees and other related parties. This policy has been administered by the Conservancy's Legal Department and the review process has focused primarily on the potential misuse of proprietary or inside knowledge and on whether the terms of all such transactions meet the arm's length standards of applicable law.

The Conservancy has strengthened its conflicts of interest policies in several key areas. First, *purchases and sales of land (including interests in land, such as easements) involving related parties have been prohibited* even though they are permitted under applicable tax laws if structured in accordance with arm's length standards. For this purpose, a "related party" means any person who, within the 12-month period preceding a proposed purchase or sale, was a member of the Board of Governors, a Chapter trustee or an employee. In addition, the prohibition applies to close relatives of any such individual and entities in which the individual and/or a close relative owns more than five percent equity interest.

Second, *other transactions with related parties* (i.e., those that do not involve the purchase and sale of land) will be subject to advance review under the Conservancy's *expanded conflicts procedures*. Under the expanded procedures, a new interdisciplinary committee of experienced Conservancy staff will supplement legal review of all proposed transactions; actual or potential conflicts involving special circumstances (e.g., those with organizational implications and those involving members of the Board of Governors) will be referred to the Audit Committee of the Board for decision; and additional training and guidance will be provided to all employees to enable them to identify potential conflict situations and seek review on a timely basis.

Third, *purchases and sales of conservation lands involving major donors* will be subject to advance scrutiny under the expanded conflicts of interest policy. For this purpose, a "major donor" means any individual, corporation, foundation or other entity that has made gifts or pledges of at least $100,000 (in cash or in kind) on a cumulative basis within the five-year period preceding the proposed transaction.

Fourth, special rules will apply in the case of *gifts of land (including easements) by related parties and major donors.* In these cases, such gifts will be accepted only if the Conservancy receives a written certification from the appraiser used by the donor to value the land for tax purposes that the appraiser is aware of the relationship between the related party or major donor and the Conservancy and that the relationship did not influence the appraiser's conclusion as to value. In addition, all such gifts would be subject to advance review under the Conservancy's expanded conflicts of interest procedures.

Fifth, while financial supporters of the Conservancy can be elected to the Board of Governors, *if a member of the Board or a company with which he or she is affiliated intends to claim a tax deduction for a gift of land (or an interest in land, such as a conservation easement) to the Conservancy, the transaction will be subject to strict scrutiny by the Conservancy and must be approved by the disinterested members of the Board.* Among other things, this new policy requires *independent assessments by unrelated and qualified persons* of both the conservation value of the land to the Conservancy's mission and of the tax valuations of the gift to be used by the donor.

Conflict of Interest

POLICY:

It is the policy of The Nature Conservancy to identify conflicts of interest involving The Nature Conservancy and related parties as well as situations which may give rise to an appearance of a conflict of interest and to address such conflicts and situations in a manner that will fully protect the integrity and reputation of The Nature Conservancy as well as related parties.

PURPOSE:

To assure and ensure that The Nature Conservancy will live up to its high fiduciary obligations and operate in compliance with our highest corporate value: "Integrity Beyond Reproach."

ORIGIN:

Approved by the Board of Governors June, 1995. Revised March 15, 1996, October 2, 2002 and revised March 12, 2004 to delete former attachment which was revised and incorporated into a new Conflict of Interest standard operating procedure.

REFERENCES, RESOURCES, AND EXPLANTORY NOTES:

All Board of Governors members have read and signed. All staff and Chapter Trustees/Advisors will read, understand, and comply.

Refer to the President and to the Worldwide Office legal Function for additional information.

See Conflict of Interest standard operating procedure.

Conflict of Interest

STANDARD OPERATING PROCEDURE:

INTRODUCTION:

The Conservancy's effectiveness depends on its record of accomplishment and its reputation. The Conservancy's success results directly from maintaining the confidence of the individuals, groups, and organizations with whom it works. The Conservancy's greatest asset is its good name. For that reason, it is crucial that the Conservancy have a responsible and well-conceived Conflict of Interest policy and procedure. In addition, having a sound Conflict of Interest policy and procedure will help the Conservancy comply with the Standards for Charity Accountability established by the BBB Wise Giving Alliance, the premiere charity watchdog organization in the United States. The policy and procedure will also help assure compliance with the Internal Revenue Service rules against private inurement and private benefit and with state statutes addressing conflict transactions.

One of the principal purposes of the Conflict of Interest policy and of this procedure is to help Conservancy staff and Board members identify and avoid or resolve conflicts of interest with The Nature Conservancy. For that reason, Conservancy employees and Board members must read and retain a copy of this Conflict of Interest Policy and Procedure at the outset of their tenure with the Conservancy and at such time as the policy or procedure is amended. There may be certain volunteers, such as Chapter Trustees, who, because of the level of their involvement in Conservancy business, and because of their access to inside information, are covered by this Conflict of Interest policy and must be fully informed of its contents. Any questions concerning the scope or possible impact of the Conflict of Interest policy or procedure upon any volunteers should be addressed to the Worldwide Office Legal Function. In addition, the Conflict of Interest policy and this procedure will be discussed at all orientation sessions for new employees and Board members.

This Standard Operating Procedure provides guidance in three areas:

1. Understanding conflict concepts and definitions;
2. Key questions to evaluate conflicts and potential conflicts; and
3. The Conservancy's administration and procedure for reviewing and managing conflicts.

I. UNDERSTANDING CONFLICT CONCEPTS AND DEFINITIONS

A. Conflict of Interest: A conflict exists when a covered person (as defined below) proposes to act on any issue, matter, or transaction in which the Conservancy has an interest, and the covered person may have an interest separate from the Conservancy. A conflict of interest also exists in situations in which there is an appearance that a covered person is utilizing inside information that is proprietary to the Conservancy for his or her benefit, is acting in his or her own interests rather than the best interests of the Conservancy, has the ability to exercise undue influence over Conservancy decisions, or is receiving favorable treatment by the Conservancy because of his or her status as a covered person.

B. Covered Persons: All employees, Board members, Chapter Trustees/Advisors, and, as defined below, close relatives, major donors, related organizations, and other insiders.

C. Close Relative: Spouse, child (natural or adopted), parent and step-parent, in-laws, grandchild, grandparent, brother or sister of a covered person, and any person with whom a covered person shares living quarters under circumstances that closely resemble a marital relationship or who is financially dependent upon the covered person.

D. Inside Information: Any material information that is identified as confidential and proprietary, pertaining to the business and affairs of The Nature Conservancy, whether related to a specific transaction or to matters pertaining to The Nature Conservancy's interests, activities, and policies.

E. Major Donor: An individual, corporation, or foundation that makes a gift or pledge of $100,000 or more at any one time or cumulatively within a 5 year period prior to the occurrence of the conflict either in cash, appreciated securities, other assets or in land, easement, or bargain-sale value.

G. Other Insiders: Individuals, such as former BOG members, former Chapter Trustees, members of Conservancy advisory boards or committees, members of the President's Conservation Council, volunteers or former employees who, by virtue of their continued involvement with the Conservancy, either have access to inside information that could place them within a conflict situation or could give the appearance of such persons having the ability to unduly influence the Conservancy. Depending on the facts and circumstances, an independent contractor may be an "other insider" where that person or entity has access to inside information.

C. Related Organization: Any organization in which a covered person directly or indirectly:
   a. owns or controls 5% or more of any voting security; or
   b. is a director, executive officer, executor, administrator, trustee, beneficiary, controlling partner, or otherwise serves in a fiduciary capacity or holds a substantial beneficial interest; or
   c. has legal or de facto power to control the election of a majority of directors; or
   d. has legal or de facto power to exercise a controlling influence over the management or policies.

   "Organization" includes a corporation, partnership, trust, estate, joint venture, and unincorporated affiliation of any kind as well as public boards and commissions and not-for-profit organizations.

II. KEY QUESTIONS TO EVALUATE CONFLICTS AND POTENTIAL CONFLICTS:

There are many difficult and ambiguous issues associated with the types of conflict issues that confront the Conservancy. In order to help those involved with Conservancy activities to understand and evaluate those actual and potential conflicts as well as situations that give rise to the appearance of a conflict, the following are typical categories of situations where conflicts might arise. While not all-inclusive, the following represent the great majority of types of conflict situations confronted by the Conservancy. Key questions and issues that must be addressed for each of these types of conflicts are set out below:

1. Hiring individuals who are close relatives of covered persons.

- Is this job integral to the success of the Conservancy?
- Have all Conservancy policies and procedures relevant to employment been followed?
- Can this position be structured so that the conflicted party has no supervisory responsibilities with the employee without disrupting the Conservancy's business practices?
- Will the conflicted party play any role in the hiring process?
- Has the Conservancy assessed the public relations and political environment at all scales to be sure that this hire will not damage the Conservancy's reputation?
- Does this person have a unique expertise that the service cannot be obtained anywhere else?
- What are the alternatives if this person is not employed by the Conservancy?
- Has the Conservancy balanced the financial benefits to the Conservancy with the reputational risk to the Conservancy of the hire?
- How will this appear in the eyes of the public when tested against the value of "integrity beyond reproach?"

2. Contracting for products or services with covered persons.

- Is this product or service integral to the success of the Conservancy?
- Has the Conservancy taken appropriate measures to ensure that the Conservancy obtains the best market price for the work or services?
- Has the Conservancy received information from parties other than the conflicted party that address the quality of the service or products being acquired or provided?
- Has the Conservancy accessed the local public relations and political environment to be sure that this hire will not damage the Conservancy's reputation?

- Will the management of the delivery of the service or product within the Conservancy be done by someone other than the conflicted party or other than someone who is supervised by the conflicted party?
- How will this appear in the eyes of the public when tested against the value of "integrity beyond reproach?"

3. Purchases or Gifts of Interests in Land from or Sales of Interests in Land to Covered Persons.

- For acquisitions, has the Conservancy determined that this is an interest in land that would be acquired by The Nature Conservancy regardless of ownership?
- Has the proposed transaction been characterized accurately in the legal documents and with the public?
- Have appropriate independent valuations been obtained in compliance with the Conservancy's Real Estate - Documentation of Value and Conservation Buyer Transactions procedures?
- Has the proposed transaction been reviewed to ensure that appropriate conservation benefits are obtained?
- Are the terms and conditions of the purchase sufficient to protect the land and on terms favorable to TNC?
- Will the covered person obtain any direct or indirect economic benefit from the transaction and, if so, have such benefits have been properly reflected in pricing the transaction and determining values?
- Has the transaction been structured to ensure that the Conservancy's standards of transparency will be achieved?
- Does the transaction comply with the Conservancy's policy on Conservation Sales To or From Related Parties? (Note: There may be cases where the Conservancy will want to grant exceptions to that policy. The questions in this paragraph may be relevant for an analysis of when an exception may be appropriate.)
- For sales, has the Conservancy marketed the property in an open, equitable, and transparent marketing process?
- Has the Conservancy done a political and public relations assessment of the impact of this donation, purchase, or sale on the Conservancy's reputation.
- How will this transaction appear in the eyes of the public when tested against the value of "integrity beyond reproach?"

4. A covered person serving on public and/or private boards, commissions, or councils transacting business with the Conservancy or with which the Conservancy may have a potential adverse interest.

- Is the covered person serving on the board of that entity as part of his or her job responsibility for the Conservancy?
- Was there an advance disclosure and have both parties agreed that, in cases of conflict or where there was a direct and adverse interest/competition, there would be a mechanism for recusal, disclosure, or any other safeguards to protect the Conservancy?
- Is there a plan in place for how staff will conduct themselves when serving on other Boards?
- Will the individual's time spent working on issues for the other board take away from his or her ability to perform his or her job for the Conservancy and if so, what is the benefit to the Conservancy?
- What impact will this service have on the Conservancy's ability to do its business and on the Conservancy's reputation?
- Will any decisions made by the individual working for the other organization be made with regard to the Conservancy's best interests?
- What are the costs and benefits to the Conservancy?
- What are the alternatives, if any?
- How will this appear in the eyes of the public when tested against the value of "integrity beyond reproach?"

5. Use of inside information by a covered person.

- Is the information proprietary to the Conservancy?
- What steps have been taken to protect the information?
- What are the costs and benefits to the Conservancy?
- Is there any private benefit or private inurement?
- What are the alternatives, if any?
- How will this appear in the eyes of the public when tested against the value of "integrity beyond reproach?"

In evaluating conflict situations in order to determine an appropriate course of action, the Conservancy shall be guided by the following criteria and considerations:

- Compliance with the letter and the spirit of all applicable laws relevant to all parties to the transaction;
- Adherence to Conservancy policies and procedures;
- Ability to act within the scope of the Conservancy's values, such as "integrity beyond reproach;"
- Avoidance of private benefit and inurement;
- Transparency;
- Conservation benefits likely to be achieved;
- Consequence to the Conservancy from declining to participate;
- Financial or other benefit to the Conservancy;
- Nature and extent of risk to the Conservancy's reputation;
- Availability of other alternatives;
- Ability to mitigate reputational risks; and
- Financial or other benefits to the other party.

III. CONSERVANCY ADMINISTRATION AND PROCEDURE FOR REVIEWING AND MANAGING CONFLICTS

Procedure:

A member of the staff involved in a conflict or appearance of a conflict will disclose and bring the matter to the attention of his or her supervisor. The supervisor will bring the matter to the attention of the appropriate Conservancy attorney with a recommended course of action. Each request for approval of a proposed course of action will describe in detail the particular activity in question that gives rise to the conflict or appearance of conflict, the reasons why the proposed course of action should be approved, and any special circumstances surrounding the situation. The attorney will then submit the request to the General Counsel, along with a recommended course of action. The General Counsel will convene a Conflicts Review Committee as the final arbiter of the matter. The Committee will be comprised of the Director of External Affairs, the Director of Finance, the Chief Administrative Officer and the Chief Conservation Officer and the General Counsel and will review and approve, approve with modifications, or disapprove the recommended course of action.

A Chapter Trustee/Advisor involved in a conflict or appearance of a conflict will disclose and bring the matter to the attention of the appropriate Operating Unit Director and Conservancy attorney who will work with the Chapter Trustee/Advisor to develop an appropriate recommended course of action, which will be reviewed and approved by the Chapter Board and which will then be submitted to the General Counsel. Each request for approval of a proposed course of action will describe in detail the particular activity in question that gives rise to the conflict or appearance of conflict, the reasons why the proposed course of action should be approved, and any special circumstances surrounding the situation. The General Counsel will bring such conflict and the recommended course of action to the above-referenced Conflicts Review Committee as the final arbiter of the issue. The Committee will review and approve, approve with modifications, or disapprove the recommended course of action. If a conflict involving a member of a Chapter Board of Trustees is brought to the attention of a Conservancy staff member, the staff member will immediately notify the appropriate operating unit director and the Conservancy attorney of the matter.

A member of the Board of Governors involved in a conflict or appearance of a conflict will disclose and bring the matter to the attention of the appropriate Conservancy attorney who will work with the Board member to develop an appropriate recommended course of action, which will then be submitted to the General Counsel. Each request for approval of a proposed course of action will describe in detail the particular activity in question that gives rise to the conflict or appearance of conflict, the reasons why the proposed course of action should be approved, and any special circumstances surrounding the situation. The General Counsel will bring such conflict

The Nature Conservancy

SAVING THE LAST GREAT PLACES ON EARTH

MEMORANDUM

From: Bob Bendick for the Risk Assessment Committee

To: Board of Governors Project Review Committee

Subject: Operation of Risk Assessment Committee

Date: June 2, 2004

Risk Committee Established

A ten-member Risk Assessment Committee (RAC) has now been appointed by the Chief Conservation Officer to help evaluate the risks of exceptionally complex or precedent-setting land acquisition, partnership and policy projects undertaken by field and headquarters units. The committee is part of the effort of the Board of Governors and senior management to ensure that actions taken by The Nature Conservancy (TNC) are consistent with our values. The committee held an organizational meeting on April 14, 2004, and is now ready to accept project proposals for review. The remainder of this memo is a description of the committee's purpose, composition and the process by which it will accomplish its work.

Background

As part of the project for managing reputational risk at The Nature Conservancy, the Board of Governors and the senior managers of TNC determined that the organization should have an internal staff committee that will evaluate the organizational risk associated with projects or activities that:

- fall outside of existing TNC policies;
- represent a high profile "first instance" for the organization or operating unit; and
- otherwise involve substantial financial, legal, ethical or other reputational risk to the organization.

Reputational risk to the organization is meant specifically to include actions that in some manner may be or seem to be inconsistent with TNC's stated values.

A working group of senior staff was appointed to propose how this Risk Assessment Committee should be structured and operated. The group was chaired by Kent Wommack and included Katherine Skinner, Dennis Wolkoff, Ian Dutton and Mike Dennis. Bob Bendick joined the working group for its final discussions.

The working group drafted a paper that defines how the committee will operate. This paper was discussed at the Senior Managers meeting in Atlanta in March and has now been adopted by the Executive Leadership Team.

Purpose and Approach of the Committee

The Risk Assessment Committee's purpose is to aid Conservation Region Directors and Worldwide Office (WO) Department Heads in reviewing projects for risk to the organization. The committee will not supplant day-to-day line management responsibility but will act on matters of precedent and potential risk such that its decisions can further guide effective decision-making by managers at TNC. The RAC will evaluate exceptional projects and/or actions proposed by Operating Units or by the Worldwide Office and advise the relevant Conservation Region Directors or WO Department Heads whether those projects and/or actions should proceed, be modified, or be abandoned. On infrequent occasions, Conservation Region Directors or Department Heads may request that the RAC review existing projects with newly-emerging risks to determine whether and how they should continue, but the primary function of the committee is to review projects in the planning stage. As a committee of peers made up largely from the field, the RAC is intended to play a constructive role in assessing risk and conveying lessons derived from its decisions to the rest of the organization. The committee is not intended to avoid risk, but to better ensure that risks and benefits of projects to the entire organization are carefully weighed.

Size and Composition

Mike Andrews solicited nominations to the committee from the field in early March. The committee has now been appointed and consists of 10 members plus one Ex-Officio member, all of whom have direct experience in the development and implementation of complex land conservation projects and policies. The committee represents a variety of perspectives, geographic areas and responsibilities within TNC, is largely drawn from the field, and includes both domestic and international experience. The committee members are:

Bob Bendick, Director, Southeast Conservation Region, Chair
Charles Bedford, Director of Conservation Programs, Colorado Chapter
Karen Berky, Acting Director of External Affairs
Mike Dennis, Director of Conservation Real Estate and Private Lands
Andrea Erickson, Director, Southern Mexico Program
Bill Ginn, Northern Forest Representative
Alan Holt, Director of Conservation Programs, Northwest Division
Katherine Skinner, Director, North Carolina Chapter
Robert Troya, Director, Equator Country Program
David Weekes, Director, Washington Chapter
Phil Tabas, Ex Officio

A representative from legal staff will be available (or assigned) to provide advice to the committee at every meeting. Experts from within and outside TNC will be invited to provide input to specific project and program discussions. The committee members will serve for terms such that other staff will rotate through the committee over time.

Field of Projects

The kinds of projects subject to review are:

- Extremely complex and unusual land transactions
- Complex exceptions to the No Net Profit Rule on sales of land to the government
- Compatible human use/resource extraction projects
- Land transactions involving substantial financial risk
- Unusual, risky or precedent setting partnerships
- Certain kinds of public policy involvement
- Land acquisitions involving retained rights
- Major legal actions

Attachment 1 to this memo contains a longer list of the kinds of projects envisioned to come before the committee.

The committee will not address waivers from formal policies adopted by the Board of Governors unless the board refers such a waiver to the committee. The committee may consider elements of financial risk as part of its review of projects, but the RAC will not supplant the financial reviews and approvals required by and from the Board of Governors for conservation projects.

Review After Six Months

After six months of operation the committee will work with the Chief Conservation Officer and Chief Administrative Officer to evaluate its work and make process changes as required.

Relationship to Board of Governors Project Review Committee

The RAC will report regularly on its decisions to the Project Review Committee of the Board of Governors. The board committee will provide periodic input and advice to the RAC. In the few cases where the policy issues involved require board decision-making, the RAC will refer projects with its recommendations through the Chief Conservation Officer to the Project Review Committee for a final decision.

Process

1. Projects from the field will be referred to the committee only through Regional Directors or Worldwide Office Department Heads. Operating Unit Directors should, in turn, notify their Regional Directors of projects that may warrant consideration by the committee. It will be the responsibility of each Regional Director or Department Head to determine when a project within their division or department is appropriate for referral to the committee. They will be held accountable when a project or action poses substantial risk if they have not brought it to the committee. As noted above, the committee is not intended as a substitute for day-to-day management judgement, but rather to provide advice, guidance and decision-making for projects with exceptional risks. It is expected that regions or the Worldwide Office will

employ whatever procedures they deem useful to identify projects within their areas of responsibility that should be brought to the committee.

2. A regular schedule of committee meetings has been established (every two weeks); submission deadlines, and decision timeframes have also been established by the committee. The schedule has been designed insofar as possible to avoid project delays and to fit with other elements of the project approval process, including Board of Governors meetings. Initially the RAC will meet every two weeks by conference call. The schedule for the balance of this program year is Attachment 2.

3. Informal consultation about whether a project or action is suitable for referral may take place with the committee chair or other designated members of the committee designated by the committee to provide such consultations. The process for such pre-submission consultation will be refined after some initial experience.

4. Referrals will be by way of the referral form filed with the secretary of the committee. The form is Attachment 3. In filling out the form, the applicant should already have consulted the legal department and should describe the status of legal review to answer or at least raise basic questions of legality. It is the obligation of the applicant to include all the information needed on the form to assess risks and benefits of the project. The committee will not ordinarily conduct independent fact finding. The committee may request that additional information be provided through the Regional Director or Department Head. The committee may invite experts from within or outside TNC to participate in discussions. Applicants should avoid lobbying individual committee members about projects or providing information to individual members not provided to the committee as a whole. The Regional Director and/or another representative of the unit undertaking the project should be present by telephone at the RAC meeting where the project is to be discussed.

5. Projects should be referred to the committee before there is a substantial or irrevocable commitment of resources to the project and/or before withdrawal from the project would in itself be a risk to TNC's reputation. Projects should be brought to the committee once the outlines of the project and risk are well known, but before it is too late to change the strategy or the key terms of the transaction.

6. As the committee gains experience with the process, it will further develop guidelines and will use examples from past decisions to assist managers in determining suitable projects for referral.

7. Upon receipt of the form, the secretary will distribute it to the members of the committee and schedule it for discussion at a committee meeting.

8. Committee meetings will require a quorum of not fewer than five of the ten committee members to ensure that a meeting schedule can be maintained to meet project timetables. The RAC will attempt to make decisions by consensus of those present. In the event that the committee cannot make a decision, the project will be referred to the Chief Conservation Officer, who will determine what further evaluation will be required.

9. The committee will make one of the following findings:
    - that the project may proceed;
    - that the project may only proceed with modifications and conditions; or
    - that the project should not be allowed to proceed without the approval of the Chief Conservation Officer and Chief Administrative Officer as noted in 10, below.

10. While an oral decision may be provided at the meeting, all final decisions will be in writing and will be provided by the secretary back to the Regional Director with a copy to the Chief Conservation Officer and the chair of the Project Review Committee of the Board of Governors (or to another Board committee chair appropriate to the subject matter of the decision). Decisions will clearly state what has been decided and why. A summary of decisions and lessons learned will be distributed to the Board of Governors at each of their meetings and to senior managers. The Board of Governors' Project Review Committee will oversee the committee's work and suggest course corrections based upon reports from the committee and detailed discussions with committee as required. The Board of Governors Conservation Strategies and Marketing Committees will participate in such reviews where decisions affect their jurisdictions.

11. The Board of Governors may request that the committee review and comment on major policy issues in advance of Board discussions.

12. Appeals from decisions of the committee will be by the relevant Regional Director or Department Head to the Chief Conservation Officer and the Chief Administrative Officer. The committee may also refer exceptionally complex or difficult projects to the Chief Conservation Officer and the Chief Administrative Officer for a decision along with a clear recommendation and rationale from the committee.

13. Recognizing that projects will be brought to the committee at early stages of development, project forms and committee meetings will be confidential. Committee members will not be permitted to discuss projects with others unless authorized to do so by the committee. Decisions back to applicants will be confidential, but, as noted below, summaries of such decisions that extract critical lessons will be distributed to senior managers and Board members.

Training and Information

Information about the committee and its operation will be conveyed to senior staff. A question and answer session with Regional Directors will be held as soon as possible. A session on the committee should be included in the July Senior Managers meeting. An information package, including this document and questions and answers, will be provided to chapter boards with follow-up presentations by committee members as required. The periodic reports of the committee will be written and distributed as educational tools designed to highlight concepts and precedents illustrated by committee decisions. These lessons should help guide decisionmaking in the field and future submissions to the committee.

Attachment 1

Types of Projects Likely to Be Submitted to the Committee

1 Extremely complex and unusual land transactions
- Taking security interests in land which can result in refinancing
- Multi-state negotiations with a single landowners
- Acquiring land through a corporate acquisition
- Application of a new or untested tax or legislative concept

2. Complex exceptions to the No Net Profit Rule on sales of land to government
3. Compatible human use/resource extraction
- Exceptions to TNC policies on oil drilling, timber harvesting, ranching and trapping, or new uses which may be controversial or appear inconsistent with TNC's public image
- Building on tropical rain forest timber concessions
- Limited development activity
- Involvement in land use planning where TNC's efforts to mitigate threats may be viewed as "enabling" incompatible uses (e.g. allowing road building in "less sensitive" areas)

4. Land transactions involving substantial financial risk
- Undertaking financial commitments for land acquisition far beyond the operating unit's capacity based on historical track records
- Unusually large land transactions (e.g., where more than $10 million is at risk)
- Significant loans to partner organizations (where more than $5 million of TNC assets are at risk)

5. Partnerships
- Cause related marketing agreements with companies of questionable reputation
- Staff joining politically controversial boards or committees
- Partnering with donors or landowners with questionable reputation
- Joining advocacy coalitions whose missions extend well beyond TNC's or whose public image may be inconsistent with our own

6. Natural resource use certification programs
7. Public Policy Involvement
- Major administrative action (such as filing for intervener status in a dam relicensing)
- Major controversial legislative initiatives
- Complex and politically charged issues whose public profile usurps conservation issues (e.g., indigenous rights, free trade, etc.)

8. Land acquisition involving retained rights
- Easement enforcement action on easements involving "covered persons"
- Fee acquisition subject to economic rights held by third parties

9. Legal action
- Legal claims or actions against sensitive parties
- Major lawsuits initiated by the Conservancy

All of the above types of projects may be, but are not required to be, reviewed by the RAC.

Attachment 2

RISK ASSSESSMENT COMMITTEE
SCHEDULED MEETINGS
APRIL – JULY 2004

MEETING DAY/TIME: WEDNESDAY, 3:30 PM (EDT)
DURATION: APPROXIMATELY 2 HOURS

PROJECT SUBMISSION DEADLINE & DISTRIBUTION TO RAC COMMITTEE	MEETING DATE
APRIL 23, 2004	APRIL 28, 2004
MAY 7, 2004	MAY 12, 2004
MAY 21, 2004	MAY 26, 2004
JUNE 4, 2004	JUNE 9, 2004
JUNE 18, 2004	JUNE 23, 2004
JULY 2, 2004	JULY 7, 2004
JULY 16, 2004	JULY 21, 2004

Attachment 3

Organizational Risk Identification and Assessment Report (ORIAR)

Project Submission Form

A: Origin Information

Proposal or Project Name: _____

Contact Person(s):

A. OU Director or Department Head_____

B. Conservation Region Director or Chief Administrative Officer_____

Date Submitted: _____

Date Decision is needed by: _____

Person(s) Presenting Project to RAC: _____

Contact Person for Additional Information: _____

Name of Attorney Who Has Provided Initial Review: _____

B: Risk Description

1. **Why is this proposal of concern**
   (circle or underline to indicate the "trigger" for submission of this ORIAR)

   - Complex and unusual land transactions
   - Waiver to the No Net Profit Rule on Sales of land to the Government
   - Compatible Human Use/Resource Extraction
   - Land transactions involving substantial financial risk
   - Partnerships that may represent a conflict with the mission or values of TNC
   - Public Policy Involvement
   - Land Acquisition involving retained rights
   - Administrative Action
   - Litigation
   - Other reputational risk

If none of the above applies, please indicate why Committee review is nonetheless appropriate:

_____

2. Brief Project History

(a) Please provide a summary of the salient facts of the specific proposed action.

_____

_____

_____

(b) Describe very briefly the origin and history of the project including contacts and relationships with other parts of TNC and with key partners or other participants.

_____

_____

_____

3. Nature of Risk

Please describe in as much detail as appropriate, the nature and magnitude of potential risks of this conservation proposal, including (as applicable), but not limited to TNC's reputation, relationship with donors/ partners, legal/political risk, security, etc.

_____

_____

4. Benefits Assessment

(Summarize the key benefits of the proposal and how they relate to the risks described above)

_____

_____

5. Risk Mitigation

Describe what steps (if any) have already been taken or are proposed to mitigate/reduce risk and what further action is proposed. Most importantly describe what we can not mitigate.

_____

_____

_____

_____

6. Overall Conclusion and Request

(*Summarize the case here – what will/could happen if we proceed/don't proceed and define in one sentence exactly what you are requesting from Committee*)

_____

_____

7. Need for Confidentiality

Describe level of confidentiality required in discussion or transmission of reports

_____

_____

C: Committee Process:

1. Date reviewed by Committee:

_____

2. Reviewed by Committee Members
(*list names of members who reviewed*)

_____
_____
_____
_____

3. Basis of Decision
(*one page max. summary of reasons/conclusions*)

_____
_____
_____
_____
_____
_____
_____
_____
_____
_____
_____
_____

4. Documentation prepared by

_____

D: Decision of the Committee:

1. Decision

_____

_____

_____

2. Recommended Next Steps

_____

_____

_____

_____

_____

_____

3. Signed + Dated

Member Name	Date

GUIDELINES FOR PROJECT SUBMISSION

1. Projects should be referred to the Risk Assessment Committee by Conservation Region Directors. Projects from the Worldwide Office, including the Office of the President, External Affairs and Marketing, will be referred to the committee through Department Heads.

2. Informal consultation about whether a project or action is suitable for referral may take place with the committee chair or other designated members of the committee.

3. Contact the secretary of the committee to obtain a schedule of committee meetings, submission deadlines, and decision deadlines, and to submit an *ORIAR* form to the committee.

4. Projects should be referred to the committee before there is a substantial or irrevocable commitment of resources to the project and/or before withdrawal from the project would in itself be a risk to TNC's reputation. Projects should be brought to the committee once the outlines of the project and risk are well known, but before it is too late to change the strategy or the key terms of the transactions.

5. The committee will make one of the following findings:

   - that the project may proceed;
   - that the project may only proceed with modifications and conditions; or
   - that the project should not be allowed to proceed without the approval of the Chief Conservation Officer and Chief Administrative Officer.

   Final decisions will be in writing and will be provided by the secretary back to the relevant Conservation Region Director or Department Head with a copy to the Chief Conservation Officer and the Chair of the Projects Review Committee of the Board of Governors.

6. Appeals from decisions of the committee will be by the Conservation Region Director or Department Head to the Chief Conservation Officer and the Chief Administrative Officer. The committee may also refer exceptionally complex or difficult projects to the Chief Conservation Officer and Chief Administrative Officer for a decision, along with a clear recommendation and rationale from the committee.

APPENDIX L

IRS FILINGS

October 27, 2004
Senate Finance Committee Letter

Question 11

Please provide a complete description of each of the activities listed in Tab 1, Analysis of Income Producing Activities, to supplement your response to this question.

The Analysis of Income-Producing Activities schedule includes the total amounts derived from a list of specific accounts in the Conservancy's general ledger financial system. Attached is an excerpt from the Conservancy's Chart of Accounts that more fully describes the nature of the revenue items included in each category.

THE NATURE CONSERVANCY
GENERAL LEDGER CHART OF ACCOUNTS
FISCAL YEAR 2001-2002 - Selected Accounts & Descriptions

A/C #	ACCOUNT NAME	DESCRIPTION
4200	FED. GOVT. GRANTS & CONTRACTS	Grant, cooperative agreement, or contract from federal or federal pass-thru agency. Includes federal funding of Heritage programs. Excludes sale of land to govt; use 4505, etc. for sale of land and 4235 for option assignments. For state or local, see 4210, for foreign government, see 4221. (4200 by Finance Dept only). Code cash receipts to account 1237 for operating center grants.
4202	FED. GOVT INDIRECT COST RECOVERY ON GRANTS	Indirect cost recovery on a federal or federal pass-through agency grant, cooperative agreement, or contract. Includes federal funding of Heritage programs. Excludes sale of land to govt; use 4520 for overhead on sale of land. For state or local, see 4212, for foreign government, see 4221. (4202 by Finance Dept only). Code cash receipts to account 1237 for operating center grants.
4210	STATE/LOCAL GOVT GRANTS & CONTRACTS	State or local govt grant, cooperative agreement, or contract, for which the source of funding is truly at the state or local level and does not involve the pass-through of US federal funds. For federal pass-through type state or local grants, account is 4200. For foreign govt grants, see 4221. Excludes sale of land to govt; use 4505, etc for sale of land and 4235 for option assignments. (4210 by Finance Dept. only). Code cash receipts to account 1237 for operating center grants.
4212	STATE/LOCAL GOVT GRANTS INDIR COST RECOVERY	Indirect cost recovery on a state or local govt grant, cooperative agreement, or contract, for which the source of funding is truly at the state or local level and does not involve the pass-through of US federal funds. For federal pass-through state or local grants, account is 4202. For foreign govt grants, see 4221. Excludes sale of land to govt; use 4520 for overhead on sale of land. (4212 by Finance Dept. only). Code cash receipts to account 1237 for operating center grants.
4221	FOREIGN GOVT/MULTILATERAL DEV BANK GRANTS	Grants, Contracts, or Contributions from foreign governments or mulitlateral development banks for international programs.

A/C #	ACCOUNT NAME	DESCRIPTION
4225	MITIGATION FEES	Receipts of mitigation monies, eg, a corporation is ordered by law to give money to a conservation entity such as TNC to make up for environmental damages caused by that corporation. Includes revenue received from contracts signed under the Joint Implementation Treaty for carbon mitigation. Also includes mitigation bank revenue.
4230	FEE--CONTRACT	Fee for service provided by TNC under contract or memorandum of understanding to a private entity or person. For Federal contracts, see 4200, for State or Local, see 4210. Exception; includes private matching donation part of NFWF or other govt payments to TNC where donor on receipt is unknown. If donor is known on a particular receipt, receipt should be recorded as donor support via FMS-4001, 4002, or 4003.
4232	FEE-CONTRACT OVERHEAD RECOVERY	Overhead recovery portion of fee for service by TNC under contract to a private entity or person. For Federal contracts, see 4202. For State or Local, see 4212, and for Foreign govt contracts, see 4221.
4235	FEE-OPTION ASSIGNMENTS/ASSISTS	Reimbursement to TNC for transfer of option to purchase real estate and any associated fees charged by TNC for handling the option. Includes fees for assists (land projects in which TNC is not in the chain of title).
4605	HOTEL AND LODGING	Income received for the use of TNC lodging facilities (guest ranch, conference center, etc). For sales tax portion of receipts, if any, use 2600. For tips portion of receipts, if any, use 2007.
4607	SPEAKING/LECTURE FEES	Receipt of fees or reimbursement paid by outside organization to TNC for staff to give lecture, attend seminar, participate in panel or committee, etc, including reimbursement for reports and other products and travel, not covered under formal grants & contracts. Also includes miscellaneous fees, eg., photo contest. Also includes jury duty recovery payments.

THE NATURE CONSERVANCY
GENERAL LEDGER CHART OF ACCOUNTS
FISCAL YEAR 2001-2002 - Selected Accounts & Descriptions

A/C #	ACCOUNT NAME	DESCRIPTION
4610	LEASE & RENT	Receipt from property leases or rents; Includes leases for real estate, grazing, hunting, gas, oil, water, timber, and easements.
4620	FEE-MEETINGS	Receipt from TNC-sponsored meeting, such as board meetings. (For receipts from field trips, use account 4621, for receipts from special fund raising events such as dances, raffles, craft fairs, sporting events, use account 4624).
4621	FEE-FIELD TRIPS	Receipt from TNC-sponsored field trip. (For receipts from meetings, use account 4620, for receipts from special fund raising events such as dances, raffles, craft fairs, sporting events, use account 4624).
4625	DATA BASE USER FEE	Fee for the use of TNC data base, such as BCD (Biological & Conservation Data) System.

NOV 23 2004

October 27, 2004
Senate Finance Committee Letter

Question 13

Please confirm the IRS has never conducted an examination or audit prior to the ongoing examination announced in December 2002.

To the best of TNC's research and knowledge, the only examination or audit that the IRS conducted of The Nature Conservancy prior to the ongoing audit announced in December 2003 is an examination of the Conservancy's Form 990 Return for the tax year ended December 31, 1980. In March, 1982, the IRS wrote to the Conservancy that, after reviewing TNC's "...activities and examin(ing TNC's) financial records for the year ended December 31, 1980, (the IRS found) that TNC's tax exempt status continues. Your (TNC's) Form 990 for the period indicated is accepted as filed." The letter did request a list of names and address of TNC's officers, directors and trustees, which was subsequently provided to the IRS by TNC.

October 27, 2004
Senate Finance Committee Letter

Question 15: Narrative Re: Material Changes

Please confirm whether TNC has provided a letter to the IRS notifying the IRS of any material changes in TNC's character, purposes or methods of operation since June 30, 1992 (the end of TNC's 1991 fiscal year.) If TNC has provided any such letters to the IRS, please provide us a copy of such letters and any responses from the IRS.

TNC's General Counsel and legal staff regularly review TNC's activities on an ongoing basis to ensure that they comply not only with all applicable laws, but also with TNC's governing instruments on which its tax-exempt status is based. This review process has to date not disclosed any changes that, in the legal staff's opinion, warranted a formal notice to the IRS notifying the IRS of any material changes in TNC's character, purposes, or methods of operation since June 30, 1992.

October 27, 2004
Senate Finance Committee Letter

Question 22: Narrative Re: Corporate Subsidiaries

Why did TNC report between 19 and 21 corporate subsidiaries on a consolidated basis for its fiscal years 1992 through 1999, and then discontinue such consolidated reporting in its fiscal year 2000 Form 990? Did such entities constitute title holding corporations described within section 501(c)(2) that were includible corporations within the section 1504(e)?

As disclosed on Statement 22 of the Form 990's for the years ended June 30, 1993 through June 30, 2000, TNC reported between 19 and 21 corporate subsidiaries on a consolidated basis. On Form 990 for the year ended June 30, 2001, the corporate subsidiaries were again reported on a consolidated basis. However, the Statement 22 disclosure inadvertently omitted the language relating to the consolidated reporting for this year. These corporate subsidiaries represent the state corporations covered by TNC's group exemption ruling and are not corporations described within IRC section 501(c)(2) that are includible corporations within the meaning of IRC section 1504(e).

October 27, 2004
Senate Finance Committee Letter

Question 10

Please discuss the prior and/or existing relationship of PricewaterhouseCoopers LLP (PwC) to TNC. Did PwC have a relationship with TNC prior to the January 31, 2001, analysis PwC prepared for TNC on executive compensation? If so, please discuss. Did PwC in 2001 have an ongoing relationship with TNC providing tax, accounting, consulting, or other services to TNC? If so, please describe. What payments were made for Services rendered by PwC to TNC?

Prior to January 31, 2001, The Conservancy employed Arthur Andersen as its primary service provider for the type of financial services most typically provided by public accounting firms. As a result, prior to January 31, 2001, Arthur Andersen was the Conservancy's external financial statement auditor and the paid preparer of our IRS Forms 990 and 990T.

Prior to January 31, 2001, in addition to Arthur Andersen, the Conservancy also periodically utilized other accounting and consulting firms – including PwC -- to provide other necessary services. Selection of these firms was based upon a variety of factors including relevant expertise, pricing, and timing of needed service. While the Conservancy did not have "an ongoing" relationship with PwC prior to January 31, 2001, (in the sense that PwC was not a primary service provider) the Conservancy did periodically utilize PwC to perform select services prior to January 31, 2001.

A review of invoices paid to PwC prior to January 31, 2001, reflect payment for the following services:

- Fourteen payments for consulting services concerning financial and tax requirements related to operating Conservancy programs in countries outside the United States. (Total: $40,361.99.)
- Review of Information Technology controls to assist the Conservancy's Internal Audit Department. (Total: $36,000.00.)
- Appraisal report relating to real property in Georgia. (Total: $11,700.00.)
- National Salary Management Study – 5 payments (Total: $78,365.36.)
- One payment of $1,014.42, for which a detailed description is not available.

The Conservancy currently employs PwC as its primary service provider for the type of financial services most typically provided by public accounting firms. As a result, PwC is the current auditor of the Conservancy's external financial statements and paid preparer of the Conservancy's IRS Forms 990 and 990T. In addition, PwC currently acts as TNC's authorized representative with respect to the ongoing IRS examination.

April 21, 2005
Senate Finance Committee Letter

Question 15

Please provide your estimate of the number of TNC employees (on a full-time equivalent basis) who were responsible for analyzing and reviewing Federal income tax issues pertaining to TNC's Form 990 and Form 990-T filing responsibilities for each of the last five fiscal years.

For an organization as complex and decentralized as the Conservancy, collecting, reviewing, and reporting, the appropriate amounts and narrative information to be included in the annual IRS Forms 990 and 990T consumes considerable time of a variety of staff. Personnel in the Finance Department expend the bulk of the time as they actually prepare the document, but many others are involved. To illustrate with some examples: information pertaining to conflicts of interest is maintained and submitted by personnel in the Legal Department; information about contributions is maintained and submitted by the Philanthropy Department; information about compensation and benefits is maintained and submitted by the Human Resources Department; information about the conservation programs is submitted by personnel in the Communications Department; and so on. In addition, many others are involved in the review of the IRS Forms 990 and 990T as described below.

The Conservancy does not track personnel time spent working on the elements that go into the completion of IRS Forms 990 and 990T, or reviewing drafts of these documents, as a separate cost factor. Owing to a lack of reliable data and because the level of effort in preparing the IRS Forms 990 and 990T has varied from year to year, we are not comfortable in estimating the hours spent annually on this process.

On the other hand, the Conservancy performs a comprehensive review and analysis of the annual IRS Forms 990 and 990T. The return now totals nearly 100 pages. Described below is the current process the Conservancy follows for preparing, analyzing and reviewing these tax forms.

- The majority of financial information contained in the Forms 990 and 990T is generated by the Conservancy's general ledger financial accounting system. Personnel in the Finance Department utilize these reports (produced annually) to complete the relevant sections of the forms.
- Requests are then submitted to all other departments for the other information, financial and otherwise, necessary to complete the return. There is considerable back and forth that ensues during this period in an effort to gain complete and accurate information.

- After the bulk of the material has been received and questions resolved, Finance department personnel prepare a first draft of the forms. Supporting the return is a binder containing detailed analysis of every item in the return, including the system generated reports, accompanying spreadsheets and analysis, etc.
- The return and the accompanying binder are then provided to the Conservancy's Internal Audit Department to review. Internal Audit personnel review the entire return, and tie key figures to the underlying support contained in the binder. In appropriate instances, the amounts are traced to supporting documentation. Any mistakes found are corrected, questions are resolved, and another draft of each form is produced.
- These "internally audited" drafts of IRS Forms 990 and 990T are provided to the professional staff of PricewaterhouseCoopers (PwC) for their review. Any mistakes are corrected, questions are resolved, and another draft is completed for further review. PwC is not only consulted throughout the fiscal year and during the preparation of the return on matters relating to the completion of the return and treatment of transactions, and then also reviews the return and signs it as paid preparer.
- This draft is circulated to key management personnel, both for a general review, but also to pay particular attention to the presentation of figures and narratives, and to the Form 990 questions that are relevant to their functional area. The Chief Financial Officer, Chief Administrative Officer, General Counsel, Director of Communications, Director of Government Relations, and Compliance Officer all review the return during this stage. This draft is also reviewed by the PwC partner responsible for the Conservancy's tax work. The feedback of all of these parties is collected and analyzed by the CFO, in concert with PwC and Finance Department personnel, and any final revisions to the forms are made.
- Prior to filing, the final draft of the Forms 990 and 990T is provided to the President and CEO and Audit Committee for review. A special Audit Committee meeting is held to answer any questions or address any issues generated by the President and CEO and/or the members of the Audit Committee.
- Following feedback from this final group, the return is prepared for signature, signed by the CFO as an officer of the organization, and also signed by PWC as paid preparer.

We believe the process outlined above results in the filing of a complete and accurate return. The process used in earlier years was similar to the current process but may not have been as extensive. The Conservancy continues to work on improving the efficiency and effectiveness of its preparation of IRS Forms 990 and 990-T.

PUBLIC DISCLOSURE COPY JUL 25 2003

Form **990**

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

Department of the Treasury
Internal Revenue Service

The organization may have to use a copy of this return to satisfy state reporting requirements.

OMB No 1545-0047

2001

Open to Public Inspection

A For the 2001 calendar year, OR tax year beginning 7/1/2001 **, and ending** 6/30/2002

B Check if applicable:
- [ ] Address change
- [ ] Name change
- [ ] Initial return
- [ ] Final return
- [X] Amended return
- [ ] Application pending

Please use IRS label or print or type. See Specific Instructions.

C Name of organization: THE NATURE CONSERVANCY

Number and street (or P. O. box if mail is not delivered to street address): 4245 NORTH FAIRFAX DRIVE — Room/suite: 100

City or town: ARLINGTON — State or country: VA — ZIP + 4: 22203-1606

D Employer identification number: 53-0242652

E Telephone number: (703)841-5300

F Accounting method: [ ] Cash [X] Accrual [ ] Other (specify)

Section 501(c)(3) organizations and 4947(a)(1) nonexempt charitable trusts must attach a completed Schedule A (Form 990 or 990-EZ).

H and I are not applicable to section 527 organizations.

H(a) Is this a group return for affiliates? [ ] Yes [X] No

H(b) If "Yes," enter number of affiliates N/A

H(c) Are all affiliates included? [ ] Yes [ ] No (If "No," attach a list. See instructions.) N/A

H(d) Is this a separate return filed by an organization covered by a group ruling? [ ] Yes [X] No

I Enter 4-digit GEN N/A

M Check [ ] if the organization is not required to attach Sch. B (Form 990, 990-EZ, or 990-PF).

G Web site: WWW.NATURE.ORG

J Organization type (check only one) [X] 501(c) (3) (insert no.) [ ] 4947(a)(1) or [ ] 527

K Check here [ ] if the organization's gross receipts are normally not more than $25,000. The organization need not file a return with the IRS; but if the organization received a Form 990 Package in the mail, it should file a return without financial data. Some states require a complete return.

L Gross receipts: Add lines 6b, 8b, 9b, and 10b to line 12 3,076,749,537

Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances (See Specific Instructions on page 16.)

Revenue	1	Contributions, gifts, grants, and similar amounts received:				
	a	Direct public support	1a	628,339,364		
	b	Indirect public support	1b			
	c	Government contributions (grants)	1c			
	d	Total (add lines 1a through 1c) (cash $ 362,649,680 noncash $ 265,689,684)			1d	628,339,364
	2	Program service revenue including government fees and contracts (from Part VII, line 93)			2	315,081,859
	3	Membership dues and assessments			3	
	4	Interest on savings and temporary cash investments			4	1,836,947
	5	Dividends and interest from securities			5	4,700
	6a	Gross rents	6a	1,326,307		
	b	Less: rental expenses	6b	769,532		
	c	Net rental income or (loss) (subtract line 6b from line 6a)			6c	556,775
	7	Other investment income (describe Royality & Licensing and Cause Related Marketin)			7	4,452,536
	8a	Gross amount from sales of assets other than inventory — (A) Securities: 2,121,198,563	8a	(B) Other: 0		
	b	Less: cost or other basis and sales expenses: 2,102,211,243	8b			
	c	Gain or (loss) (attach schedule) See STMT 3: 18,987,320	8c	0		
	d	Net gain or (loss) (combine line 8c, columns (A) and (B))			8d	18,987,320
	9	Special events and activities (attach schedule)				
	a	Gross revenue (not including $ 724,886 of contributions reported on line 1a)	9a	1,084,842		
	b	Less: direct expenses other than fundraising expenses See STMT 4	9b	296,081		
	c	Net income or (loss) from special events (subtract line 9b from line 9a)			9c	788,761
	10a	Gross sales of inventory, less returns and allowances	10a	683,018		
	b	Less: cost of goods sold See STMT 5	10b	1,104,059		
	c	Gross profit or (loss) from sales of inventory (attach schedule) (subtract line 10b from line 10a)			10c	-421,041
	11	Other revenue (from Part VII, line 103)			11	2,741,401
	12	Total revenue (add lines 1d, 2, 3, 4, 5, 6c, 7, 8d, 9c, 10c, and 11)			12	972,368,622
Expenses	13	Program services (from line 44, column (B))			13	520,684,599
	14	Management and general (from line 44, column (C))			14	57,671,633
	15	Fundraising (from line 44, column (D))			15	54,162,393
	16	Payments to affiliates (attach schedule)			16	0
	17	Total expenses (add lines 16 and 44, column (A))			17	632,518,625
Net Assets	18	Excess or (deficit) for the year (subtract line 17 from line 12)			18	339,849,997
	19	Net assets or fund balances at beginning of year (from line 73, column (A))			19	2,670,120,790
	20	Other changes in net assets or fund balances (attach explanation) See STMT 6			20	-77,952,643
	21	Net assets or fund balances at end of year (combine lines 18, 19, and 20)			21	2,932,018,144

For Paperwork Reduction Act Notice, see the separate instructions. (HTA) Form 990 (2001)

Form **8868**
(December 2000)
Department of the Treasury
Internal Revenue Service

Application for Extension of Time To File an Exempt Organization Return

File a separate application for each return.

OMB No. 1545-1709

If you are filing for an Automatic 3-Month Extension, complete only Part I and check this box . . . . . [X]
If you are filing for an Additional (not automatic) 3-Month Extension, complete only Part II (on page 2 of this form).
Note: Do not complete Part II unless you have already been granted an automatic 3-month extension on a previously filed Form 8868.

Part I Automatic 3-Month Extension of Time- Only submit original (no copies needed)

Note: Form 990-T corporations requesting an automatic 6-month extension-check this box and complete Part I only . . . . . [ ]

All other corporations (including Form 990-C filers) must use Form 7004 to request an extension of time to file income tax returns. Partnerships, REMICs and trusts must use Form 8736 to request an extension of time to file Form 1065, 1066, or 1041.

Type or print	Name of Exempt Organization	Employer identification number
	The Nature Conservancy	53-0242652
File by the due date for filing your return. See instructions.	Number, street, and room or suite no. If a P.O. box, see instructions. 4245 North Fairfax Drive, Suite 100	
	City, town or post office, state, and ZIP code. For a foreign address, see instructions. Arlington, VA 22203-1606	

Check type of return to be filed (file a separate application for each return):

[X] Form 990	[ ] Form 990-T (corporation)	[ ] Form 4720
[ ] Form 990-BL	[ ] Form 990-T (sec. 401(a) or 408(a) trust)	[ ] Form 5227
[ ] Form 990-EZ	[ ] Form 990-T (trust other than above)	[ ] Form 6069
[ ] Form 990-PF	[ ] Form 1041-A	[ ] Form 8870

If the organization does not have an office or place of business in the United States, check this box . . . . . [ ]
If this is for a Group Return, enter the organization's four digit Group Exemption Number (GEN) _____. If this is for the whole group, check this box [ ]. If it is for part of the group, check this box [ ] and attach a list with the names and EINs of all members the extension will cover.

1 I request an automatic 3-month (6-month, for 990-T corporation) extension of time until 2/15/2003 to file the exempt organization return for the organization named above. The extension is for the organization's return for:
[ ] calendar year _____
[X] tax year beginning 7/1/2001 and ending 6/30/2002.

2 If this tax year is for less than 12 months, check reason: [ ] Initial return [ ] Final return [ ] Change in accounting period

3a If this application is for Form 990-BL, 990-PF, 990-T, 4720, or 6069, enter the tentative tax, less any nonrefundable credits. See instructions . . . . . _____

b If this application is for Form 990-PF or 990-T, enter any refundable credits and estimated tax payments made. Include any prior year overpayment allowed as a credit . . . . . _____

c Balance Due. Subtract line 3b from line 3a. Include your payment with this form, or, if required, deposit with FTD coupon or, if required, by using EFTPS (Electronic Federal Tax Payment System). See instructions 0

Signature and Verification

Under penalties of perjury, I declare that I have examined this form, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete, and that I am authorized to prepare this form.

Signature [signature] Title LAURA HOLMS CONTROLLER Date 11/6/2002

For Paperwork Reduction Act Notice, see Instruction (HTA) Form 8868 (12-2000)

Part II Statement of Functional Expenses

All organizations must complete column (A). Columns (B), (C), and (D) are required for section 501(c)(3) and (4) organizations and section 4947(a)(1) nonexempt charitable trusts but optional for others. (See Specific Instructions on page 21.)

Do not include amounts reported on line 6b, 8b, 9b, 10b, or 16 of Part I.		(A) Total	(B) Program services	(C) Management and general	(D) Fundraising
22 Grants and allocations (See Stmt 7) (cash $ 34,472,290 noncash $)	22	34,472,290	34,472,290		
23 Specific assistance to individuals (attach schedule)	23	0	0		
24 Benefits paid to or for members (attach schedule)	24	0	0		
25 Compensation of officers, directors, etc.	25	1,643,099	1,067,047	304,247	271,805
26 Other salaries and wages	26	133,503,467	90,289,888	25,744,301	17,469,278
27 Pension plan contributions	27	5,648,302	3,862,874	1,101,419	684,009
28 Other employee benefits	28	11,372,261	7,385,276	2,105,759	1,881,226
29 Payroll taxes	29	9,611,015	6,572,973	1,874,148	1,163,894
30 Professional fundraising fees	30	75,511	0	0	75,511
31 Accounting fees	31	222,088	151,886	43,307	26,895
32 Legal fees	32	1,017,770	766,742	191,266	59,762
33 Supplies	33	5,873,239	4,071,584	1,103,274	698,381
34 Telephone	34	5,136,987	3,507,675	996,456	632,856
35 Postage and shipping	35	12,046,233	2,222,785	613,878	9,209,570
36 Occupancy	36	8,248,886	5,669,849	1,594,885	984,152
37 Equipment rental and maintenance	37	2,488,413	1,764,132	443,696	280,585
38 Printing and publications	38	12,518,071	4,171,040	1,178,659	7,168,372
39 Travel	39	13,065,718	8,931,947	2,516,208	1,617,563
40 Conferences, conventions, and meetings	40	3,282,216	3,017,662	158,777	105,777
41 Interest	41	3,969,752	3,964,571	3,196	1,985
42 Depreciation, depletion, etc. (See STMT 25)	42	3,057,908	2,998,064	36,917	22,927
43 Other expenses not covered above (itemize): a See STMT 8	43a	365,265,399	335,796,314	17,661,240	11,807,845
b	43b	0			
c	43c	0			
d	43d	0			
e	43e	0			
f	43f	0			
44 Total functional expenses (add lines 22 through 43). Organizations completing columns (B) - (D), carry these totals to lines 13 - 15	44	632,518,625	520,684,599	57,671,633	54,162,393

Joint Costs. Check [X] if you are following SOP 98-2.

Are any joint costs from a combined educational campaign and fundraising solicitation reported in (B) Program services? [ ] Yes [X] No

If "Yes," enter (i) the aggregate amount of these joint costs $ N/A ; (ii) the amount allocated to Program services $ N/A ; (iii) the amount allocated to Management and general $ N/A ; and (iv) the amount allocated to Fundraising $ N/A

Part III Statement of Program Service Accomplishments

(See Specific Instructions on page 24.)

What is the organization's primary exempt purpose? See STMT 9

All organizations must describe their exempt purpose achievements in a clear and concise manner. State the number of clients served, publications issued, etc. Discuss achievements that are not measurable. (Section 501(c)(3) and (4) organizations and 4947(a)(1) nonexempt charitable trusts must also enter the amount of grants and allocations to others.)

	Program Service Expenses (Required for 501(c)(3) and (4) orgs., and 4947(a)(1) trusts; but optional for others.)
a SEE STATEMENT 10 (Grants and allocations $ 34,472,290)	520,684,599
b (Grants and allocations $)	
c (Grants and allocations $)	
d (Grants and allocations $)	
e Other program services (attach schedule) (Grants and allocations $)	
f Total of Program Service Expenses (should equal line 44, column (B), Program services)	520,684,599

Part IV Balance Sheets (See Specific Instructions on page 24.)

Note: Where required, attached schedules and amounts within the description column should be for end-of-year amounts only.			(A) Beginning of year		(B) End of year
Assets					
45 Cash - non-interest-bearing			6,880,630	45	7,298,539
46 Savings and temporary cash investments			12,830,487	46	12,142,228
47a Accounts receivable	47a	9,766,460			
b Less: allowance for doubtful accounts	47b	0	3,865,902	47c	9,766,460
48a Pledges receivable	48a	110,514,534			
b Less: allowance for doubtful accounts	48b	2,600,000	90,002,690	48c	107,914,534
49 Grants receivable			7,541,939	49	10,446,447
50 Receivables from officers, directors, trustees, and key employees (attach schedule) See STMT 26A			0	50	1,550,000
51a Other notes and loans receivable (attach schedule) See STMT 26B	51a	26,189,007			
b Less: allowance for doubtful accounts	51b	0	30,702,166	51c	26,189,007
52 Inventories for sale or use			0	52	0
53 Prepaid expenses and deferred charges			1,319	53	39,901
54 Investments - securities See STMT 11 ☐ Cost ☒ FMV			878,787,475	54	815,281,091
55a Investments - land, buildings, and equipment: basis	55a	16,463,740			
b Less: accumulated depreciation (attach schedule)	55b	0	26,375,113	55c	16,463,740
56 Investments - other (attach schedule) See STMT 12			165,040,942	56	156,574,296
57a Land, buildings, and equipment: basis	57a	2,122,924,892			
b Less: accumulated depreciation (attach schedule See STMT 13	57b	9,177,552	1,704,000,308	57c	2,113,747,340
58 Other assets (describe See STMT 14)			8,555,841	58	4,266,163
59 Total assets (add lines 45 through 58) (must equal line 74)			2,934,584,812	59	3,281,679,746
Liabilities					
60 Accounts payable and accrued expenses			12,369,223	60	14,920,276
61 Grants payable			0	61	0
62 Deferred revenue			19,756,673	62	20,938,302
63 Loans from officers, directors, trustees, and key employees (attach schedule)			0	63	0
64a Tax-exempt bond liabilities (attach schedule) See STMT 15			20,915,000	64a	20,485,000
b Mortgages and other notes payable (attach schedule) See STMT 16			88,548,986	64b	165,116,713
65 Other liabilities (describe See STMT 17)			122,874,140	65	128,201,311
66 Total liabilities (add lines 60 through 65)			264,464,022	66	349,661,602
Net Assets or Fund Balances					
Organizations that follow SFAS 117, check here ☒ and complete lines 67 through 69 and lines 73 and 74.					
67 Unrestricted			2,137,358,141	67	2,364,969,423
68 Temporarily restricted			312,419,504	68	341,140,405
69 Permanently restricted			220,343,145	69	225,908,316
Organizations that do not follow SFAS 117, check here ☐ and complete lines 70 through 74.					
70 Capital stock, trust principal, or current funds			0	70	0
71 Paid-in or capital surplus, or land, building, and equipment fund			0	71	0
72 Retained earnings, endowment, accumulated income, or other funds			0	72	0
73 Total net assets or fund balances (add lines 67 through 69 OR lines 70 through 72; column (A) must equal line 19; column (B) must equal line 21)			2,670,120,790	73	2,932,018,144
74 Total liabilities and net assets/fund balances (add lines 66 and 73)			2,934,584,812	74	3,281,679,746

Form 990 is available for public inspection and, for some people, serves as the primary or sole source of information about a particular organization. How the public perceives an organization in such cases may be determined by the information presented on its return. Therefore, please make sure the return is complete and accurate and fully describes, in Part III, the organization's programs and accomplishments.

Part IV-A Reconciliation of Revenue per Audited Financial Statements with Revenue per Return (See Specific Instructions, page 26.)

a	Total revenue, gains, and other support per audited financial statements	a	923,010,736
b	Amounts included on line a but not on line 12, Form 990:		
(1)	Net unrealized gains on investments $ -77,952,640		
(2)	Donated services and use of facilities $ 26,425,083		
(3)	Recoveries of prior year grants $ 0		
(4)	Other (specify): See STMT 18 $ 2,169,672		
	Add amounts on lines (1) thru (4)	b	-49,357,885
c	Line a minus line b	c	972,368,621
d	Amounts included on line 12, Form 990 but not on line a:		
(1)	Investment expenses not included on line 6b, Form 990 $		
(2)	Other (specify): rounding $ 1		
	Add amounts on lines (1) and (2)	d	1
e	Total revenue per line 12, Form 990 (line c plus line d)	e	972,368,622

Part IV-B Reconciliation of Expenses per Audited Financial Statements with Expenses per Return

a	Total expenses and losses per audited financial statements	a	661,113,380
b	Amounts included on line a but not on line 17, Form 990:		
(1)	Donated services and use of facilities $ 26,425,083		
(2)	Prior year adjustments reported on line 20, Form 990 $		
(3)	Losses reported on line 20, Form 990 $		
(4)	Other (specify): See STMT 19 $ 2,169,672		
	Add amounts on lines (1) thru (4)	b	28,594,755
c	Line a minus line b	c	632,518,625
d	Amounts included on line 17, Form 990 but not on line a:		
(1)	Investment expenses not included on line 6b, Form 990 $		
(2)	Other (specify): $		
	Add amounts on lines (1) and (2)	d	0
e	Total expenses per line 17, Form 990 (line c plus line d)	e	632,518,625

Part V List of Officers, Directors, Trustees, and Key Employees (List each one even if not compensated; see Specific Instructions on page 26.)

(A) Name and address	(B) Title and average hours per week devoted to position	(C) Compensation (If not paid, enter -0-.)	(D) Contributions to employee benefit plans & deferred compensation	(E) Expense account and other allowances
See STMT 20				

75 Did any officer, director, trustee, or key employee receive aggregate compensation of more than $100,000 from your organization and all related organizations, of which more than $10,000 was provided by the related organizations? ☐ Yes ☒ No
If "Yes," attach schedule - see Specific Instructions on page 27.

Part VI Other Information (See Specific Instructions on page 27.)

			Yes or No
76	Did the organization engage in any activity not previously reported to the IRS? If "Yes," attach a detailed description of each activity	76	
77	Were any changes made in the organizing or governing documents but not reported to the IRS? If "Yes," attach a conformed copy of the changes.	77	No
78a	Did the organization have unrelated business gross income of $1,000 or more during the year covered by this return?	78a	Yes
b	If "Yes," has it filed a tax return on Form 990-T for this year?	78b	Yes
79	Was there a liquidation, dissolution, termination, or substantial contraction during the year? If "Yes," attach a statement	79	No
80a	Is the organization related (other than by association with a statewide or nationwide organization) through common membership, governing bodies, trustees, officers, etc., to any other exempt or nonexempt organization?	80a	Yes
b	If "Yes," enter the name of the organization See STMT 21 and check whether it is ☐ exempt OR ☐ nonexempt.		
81a	Enter direct or indirect political expenditures. See line 81 instructions 81a NONE		
b	Did the organization file Form 1120-POL for this year?	81b	No
82a	Did the organization receive donated services or the use of materials, equipment, or facilities at no charge or at substantially less than fair rental value?	82a	Yes
b	If "Yes," you may indicate the value of these items here. Do not include this amount as revenue in Part I or as an expense in Part II. (See instructions in Part III.) 82b 26,425,083		
83a	Did the organization comply with the public inspection requirements for returns and exemption applications?	83a	YES
b	Did the organization comply with the disclosure requirements relating to quid pro quo contributions?	83b	YES
84a	Did the organization solicit any contributions or gifts that were not tax deductible?	84a	No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	84b	No
85	501(c)(4), (5), or (6) organizations. a Were substantially all dues nondeductible by members?	85a	N/A
b	Did the organization make only in-house lobbying expenditures of $2,000 or less?	85b	N/A
	If "Yes" was answered to either 85a or 85b, do not complete 85c through 85h below unless the organization received a waiver for proxy tax owed for the prior year.		
c	Dues, assessments, and similar amounts from members 85c N/A		
d	Section 162(e) lobbying and political expenditures 85d N/A		
e	Aggregate nondeductible amount of section 6033(e)(1)(A) dues notices 85e N/A		
f	Taxable amount of lobbying and political expenditures (line 85d less 85e) 85f N/A		
g	Does the organization elect to pay the section 6033(e) tax on the amount on line 85f?	85g	N/A
h	If section 6033(e)(1)(A) dues notices were sent, does the organization agree to add the amount on line 85f to its reasonable estimate of dues allocable to nondeductible lobbying and political expenditures for the following tax year?	85h	N/A
86	501(c)(7) orgs. Enter: a Initiation fees and capital contributions included on line 12 86a N/A		
b	Gross receipts, included on line 12, for public use of club facilities 86b N/A		
87	501(c)(12) orgs. Enter: a Gross income from members or shareholders 87a N/A		
b	Gross income from other sources. (Do not net amounts due or paid to other sources against amounts due or received from them.) 87b N/A		
88	At any time during the year, did the organization own a 50% or greater interest in a taxable corporation or partnership, or an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? If "Yes," complete Part IX	88	Yes
89a	501(c)(3) organizations. Enter: Amount of tax imposed on the organization during the year under: section 4911 NONE ; section 4912 NONE ; section 4955 NONE		
b	501(c)(3) and 501(c)(4) orgs. Did the organization engage in any section 4958 excess benefit transaction during the year or did it become aware of an excess benefit transaction from a prior year? If "Yes," attach a statement explaining each transaction	89b	NONE
c	Enter: Amount of tax imposed on the organization managers or disqualified persons during the year under sections 4912, 4955, and 4958	NONE	
d	Enter: Amount of tax on line 89c, above, reimbursed by the organization	NONE	
90a	List the states with which a copy of this return is filed See STMT 22		
b	Number of employees employed in the pay period that includes March 12, 2001 (See instructions.) 90b 2,271		
91	The books are in care of THE NATURE CONSERVANCY Telephone no. (703)841-5300		
	Located at 4245 NORTH FAIRFAX DRIVE; ARLINGTON, VA ZIP + 4 22203-1606		
92	Section 4947(a)(1) nonexempt charitable trusts filing Form 990 in lieu of Form 1041 - Check here ☐ and enter the amount of tax-exempt interest received or accrued during the tax year 92 N/A		

Part VII Analysis of Income-Producing Activities

(See Specific Instructions on page 32.)

Note: Enter gross amounts unless otherwise indicated.	Unrelated business income (A) Business code	(B) Amount	Excluded by section 512, 513, or 514 (C) Exclusion code	(D) Amount	(E) Related or exempt function income
93 Program service revenue:					
a ACTIVITY FEES					23,342,883
b CONTRACT FEES					2,502,486
c GOVERNMENT SALE					181,883,542
d SALE OF TRADELANDS					2,756,338
e					
f Medicare/Medicaid payments					
g Fees and contracts from government agencies					104,596,610
94 Membership dues and assessments					
95 Interest on savings and temporary cash investments			14	1,836,947	
96 Dividends and interest from securities			14	4,700	
97 Net rental income or (loss) from real estate:					
a debt-financed property	531120	504,310			
b not debt-financed property	532000	-52,375	16	104,840	
98 Net rental income or (loss) from personal property					
99 Other investment income			15	4,452,536	
100 Gain or (loss) from sales of assets other than inventory			18	18,987,320	
101 Net income or (loss) from special events	541800,541900	-69,577	01	858,338	
102 Gross profit or (loss) from sales of inventory					-421,041
103 Other revenue: a					
b					
c MEMBER LIST SALES (OTHER)			15	592,490	
d INSURANCE PROCEEDS			03	533,346	
e MISC INCOME	511120	93,402			1,522,163
104 Subtotal (add cols. (B), (D), and (E))		475,760		27,370,517	316,182,981
105 Total (add line 104, columns (B), (D), and (E))					344,029,258

Note: Line 105 plus line 1d, Part I, should equal the amount on line 12, Part I.

Part VIII Relationship of Activities to the Accomplishment of Exempt Purposes

(See Specific Instructions on page 32.)

Line No.	Explain how each activity for which income is reported in column (E) of Part VII contributed importantly to the accomplishment of the organization's exempt purposes (other than by providing funds for such purposes).
	See STMT 23

Part IX Information Regarding Taxable Subsidiaries and Disregarded Entities

(See Specific Instructions on page 33.)

(A) Name, address, and EIN of corporation, partnership, or disregarded entity	(B) Percentage of ownership interest	(C) Nature of activities	(D) Total income	(E) End-of-year assets
See STMT 2	%			
	%			
	%			
	%			

Part X Information Regarding Transfers Associated with Personal Benefit Contracts

(See Specific Instructions on page 33.)

(a) Did the organization, during the year, receive any funds, directly or indirectly, to pay premiums on a personal benefit contract? ☐ Yes ☒ No

(b) Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? ☐ Yes ☒ No

Note: If "Yes" to (b), file Form 8870 and Form 4720 (see instructions).

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Signature of officer — Date 5/29/03

STEPHEN C. HOWELL, CHIEF FINANCIAL OFFICER

Type or print name and title.

Paid Preparer's Use Only

Preparer's signature	Date	Check if self-employed	Preparer's SSN or PTIN (See Gen. Inst. W)
	5/29/2003	☐	229-17-1756

Firm's name (or yours if self-employed), address, and ZIP + 4: PriceWaterhouseCoopers LLP, 1301 K Street NW,800W; Washington, DC 20005

EIN 13-4008324

Phone no. (202)414-1000

Part III Statements About Activities (See page 2 of the instructions.)

		Yes	No
1 During the year, has the organization attempted to influence national, state, or local legislation, including any attempt to influence public opinion on a legislative matter or referendum? If "Yes," enter the total expenses paid or incurred in connection with the lobbying activities. $ 4,890,943 **(Must equal amounts on line 38, Part VI-A, or line i of Part VI-B.)**	1	X	
Organizations that made an election under section 501(h) by filing Form 5768 must complete Part VI-A. Other organizations checking "Yes," must complete Part VI-B AND attach a statement giving a detailed description of the lobbying activities.			
2 During the year, has the organization, either directly or indirectly, engaged in any of the following acts with any substantial contributors, trustees, directors, officers, creators, key employees, or members of their families, or with any taxable organization with which any such person is affiliated as an officer, director, trustee, majority owner, or principal beneficiary? (If the answer to any question is "Yes," attach a detailed statement explaining the transactions.)			
a Sale, exchange, or leasing of property? See STMT 24	2a	X	
b Lending of money or other extension of credit? See STMT 26	2b	X	
c Furnishing of goods, services, or facilities?	2c		X
d Payment of compensation (or payment or reimbursement of expenses if more than $1,000)? See STMT 20	2d	X	
e Transfer of any part of its income or assets?	2e		X
3 Does the organization make grants for scholarships, fellowships, student loans, etc.? (See Note below.)	3		X
4 Do you have a section 403(b) annuity plan for your employees?	4		X
Note: Attach a statement to explain how the organization determines that individuals or organizations receiving grants or loans from it in furtherance of its charitable programs "qualify" to receive payment See STMT 1			

Part IV Reason for Non-Private Foundation Status (See pages 3 through 6 of the instructions.)

The organization is not a private foundation because it is: (Please check only ONE applicable box.)

5 [ ] A church, convention of churches, or association of churches. Section 170(b)(1)(A)(i).

6 [ ] A school. Section 170(b)(1)(A)(ii). (Also complete Part V.)

7 [ ] A hospital or a cooperative hospital service organization. Section 170(b)(1)(A)(iii).

8 [ ] A Federal, state, or local government or governmental unit. Section 170(b)(1)(A)(v).

9 [ ] A medical research organization operated in conjunction with a hospital. Section 170(b)(1)(A)(iii). Enter the hospital's name, city, and state _____

10 [ ] An organization operated for the benefit of a college or university owned or operated by a governmental unit. Section 170(b)(1)(A)(iv). (Also complete the Support Schedule in Part IV-A.)

11a [X] An organization that normally receives a substantial part of its support from a governmental unit or from the general public. Section 170(b)(1)(A)(vi). (Also complete the Support Schedule in Part IV-A.)

11b [ ] A community trust. Section 170(b)(1)(A)(vi). (Also complete the Support Schedule in Part IV-A.)

12 [ ] An organization that normally receives: (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its charitable, etc., functions- subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975. See section 509(a)(2). (Also complete the Support Schedule in Part IV-A.)

13 [ ] An organization that is not controlled by any disqualified persons (other than foundation managers) and supports organizations described in: (1) lines 5 through 12 above; or (2) section 501(c)(4), (5), or (6), if they meet the test of section 509(a)(2). (See section 509(a)(3).)

Provide the following information about the supported organizations. (See page 5 of the instructions.)

(a) Name(s) of supported organization(s)	(b) Line number from above

14 [ ] An organization organized and operated to test for public safety. Section 509(a)(4). (See page 6 of the instructions.)

Part IV-A Support Schedule (Complete only if you checked a box on line 10, 11, or 12.) Use cash method of accounting.

NOTE: You may use the worksheet in the instructions for converting from the accrual to the cash method of accounting.

Calendar year (or fiscal year beginning in)	(a) 2000	(b) 1999	(c) 1998	(d) 1997	(e) Total
15 Gifts, grants, and contributions received. (Do not include unusual grants. See line 28.)	461,001,831	445,326,081	403,484,807	289,774,421	1,599,587,140
16 Membership fees received					0
17 Gross receipts from admissions, merchandise sold or services performed, or furnishing of facilities in any activity that is related to the organization's charitable, etc., purpose	184,608,010	164,414,164	154,360,891	108,279,538	611,662,603
18 Gross income from interest, dividends, amounts received from payments on securities loans (section 512(a)(5)), rents, royalties, and unrelated business taxable income (less section 511 taxes) from businesses acquired by the organization after June 30, 1975	9,536,660	21,309,785	9,582,197	10,594,121	51,022,763
19 Net income from unrelated business activities not included in line 18	0	0	0	0	0
20 Tax revenues levied for the organization's benefit and either paid to it or expended on its behalf	0	0	0	0	0
21 The value of services or facilities furnished to the organization by a governmental unit without charge. Do not include the value of services or facilities generally furnished to the public without charge	0	0	0	0	0
22 Other income. Attach a schedule. Do not include gain or (loss) from sale of capital assets	3,306,403	4,061,586	2,013,697	2,538,369	11,920,055
23 Total of lines 15 through 22	658,452,904	635,111,616	569,441,592	411,186,449	2,274,192,561
24 Line 23 minus line 17	473,844,894	470,697,452	415,080,701	302,906,911	1,662,529,958
25 Enter 1% of line 23	6,584,529	6,351,116	5,694,416	4,111,864	

26 Organizations described on lines 10 or 11: a Enter 2% of amount in column (e), line 24 . . . **26a** 33,250,599

b Prepare a list for your records to show the name of and amount contributed by each person (other than a governmental unit or publicly supported organization) whose total gifts for 1997 through 2000 exceeded the amount shown in line 26a. Do not file this list with your return. Enter the total of all these excess amounts . . . **26b**

c Total support for section 509(a)(1) test: Enter line 24, column (e) . . . **26c** 1,662,529,958

d Add: Amounts from column (e) for lines: 18 51,022,763 19 0 22 11,920,055 26b 0 **26d** 62,942,818

e Public support (line 26c minus line 26d total) . . . **26e** 1,599,587,140

f **Public support percentage (line 26e (numerator) divided by line 26c (denominator))** . . . **26f** 96.21%

27 Organizations described on line 12: a For amounts included in lines 15, 16, and 17 that were received from a "disqualified person," prepare a list for your records to show the name of, and total amounts received in each year from, each "disqualified person." Do not file this list with your return. Enter the sum of such amounts for each year:

(2000) _____ (1999) _____ (1998) _____ (1997) _____

b For any amount included in line 17 that was received from each person (other than "disqualified persons"), prepare a list for your records to show the name of, and amount received for each year, that was more than the larger of (1) the amount on line 25 for the year or (2) $5,000. (Include in the list organizations described in lines 5 through 11, as well as individuals.) Do not file this list with your return. After computing the difference between the amount received and the larger amount described in (1) or (2), enter the sum of these differences (the excess amounts) for each year:

(2000) _____ (1999) _____ (1998) _____ (1997) _____

c Add: Amounts from column (e) for lines: 15 0 16 0 17 0 20 0 21 0 . . . **27c** 0

d Add: Line 27a total . . . 0 and line 27b total 0 . . . **27d** 0

e Public support (line 27c total minus line 27d total) . . . **27e** 0

f Total support for section 509(a)(2) test: Enter amount from line 23, column (e) . . . **27f** 0

g **Public support percentage (line 27e (numerator) divided by line 27f (denominator))** . . . **27g** 0.00%

h **Investment income percentage (line 18, column (e) (numerator) divided by line 27f (denominator))** . . . **27h** 0.00%

28 **Unusual Grants:** For an organization described in line 10, 11, or 12 that received any unusual grants during 1997 through 2000, prepare a list for your records to show, for each year, the name of the contributor, the date and amount of the grant, and a brief description of the nature of the grant. Do not file this list with your return. Do not include these grants in line 15.

Part V Private School Questionnaire (See page 7 of the instructions.)
(To be completed ONLY by schools that checked the box on line 6 in Part IV) NOT APPLICABLE

		Yes	No
29 Does the organization have a racially nondiscriminatory policy toward students by statement in its charter, bylaws, other governing instrument, or in a resolution of its governing body?	29		
30 Does the organization include a statement of its racially nondiscriminatory policy toward students in all its brochures, catalogues, and other written communications with the public dealing with student admissions, programs, and scholarships?	30		
31 Has the organization publicized its racially nondiscriminatory policy through newspaper or broadcast media during the period of solicitation for students, or during the registration period if it has no solicitation program, in a way that makes the policy known to all parts of the general community it serves?	31		
If "Yes," please describe; if "No," please explain. (If you need more space, attach a separate statement.)			
32 Does the organization maintain the following:			
a Records indicating the racial composition of the student body, faculty, and administrative staff?	32a		
b Records documenting that scholarships and other financial assistance are awarded on a racially nondiscriminatory basis?	32b		
c Copies of all catalogues, brochures, announcements, and other written communications to the public dealing with student admissions, programs, and scholarships?	32c		
d Copies of all material used by the organization or on its behalf to solicit contributions?	32d		
If you answered "No" to any of the above, please explain. (If you need more space, attach a separate statement.)			
33 Does the organization discriminate by race in any way with respect to:			
a Students' rights or privileges?	33a		
b Admissions policies?	33b		
c Employment of faculty or administrative staff?	33c		
d Scholarships or other financial assistance?	33d		
e Educational policies?	33e		
f Use of facilities?	33f		
g Athletic programs?	33g		
h Other extracurricular activities?	33h		
If you answered "Yes" to any of the above, please explain. (If you need more space, attach a separate statement.)			
34a Does the organization receive any financial aid or assistance from a governmental agency?	34a		
b Has the organization's right to such aid ever been revoked or suspended?	34b		
If you answered "Yes" to either 34a or b, please explain using an attached statement.			
35 Does the organization certify that it has complied with the applicable requirements of sections 4.01 through 4.05 of Rev. Proc. 75-50, 1975-2 C.B. 587, covering racial nondiscrimination? If "No," attach an explanation	35		

Part VI-A Lobbying Expenditures by Electing Public Charities (See page 9 of the instructions.)

(To be completed ONLY by an eligible organization that filed Form 5768) N/A

Check a ☐ if the organization belongs to an affiliated group. Check b ☐ if you checked "a" and "limited control" provisions apply.

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)		(a) Affiliated group totals	(b) To be completed for ALL electing organizations
36 Total lobbying expenditures to influence public opinion (grassroots lobbying)	36		
37 Total lobbying expenditures to influence a legislative body (direct lobbying)	37		
38 Total lobbying expenditures (add lines 36 and 37)	38	0	0
39 Other exempt purpose expenditures	39		
40 Total exempt purpose expenditures (add lines 38 and 39)	40	0	0
41 Lobbying nontaxable amount. Enter the amount from the following table -			
If the amount on line 40 is - / **The lobbying nontaxable amount is -**			
Not over $500,000 — 20% of the amount on line 40			
Over $500,000 but not over $1,000,000 — $100,000 plus 15% of the excess over $500,000			
Over $1,000,000 but not over $1,500,000 — $175,000 plus 10% of the excess over $1,000,000	41	0	0
Over $1,500,000 but not over $17,000,000 — $225,000 plus 5% of the excess over $1,500,000			
Over $17,000,000 — $1,000,000			
42 Grassroots nontaxable amount (enter 25% of line 41)	42	0	0
43 Subtract line 42 from line 36. Enter -0- if line 42 is more than line 36	43	0	0
44 Subtract line 41 from line 38. Enter -0- if line 41 is more than line 38	44	0	0

Caution: If there is an amount on either line 43 or line 44, you must file Form 4720.

4 - Year Averaging Period Under Section 501(h)

(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 45 through 50 on page 11 of the instructions.) N/A

	Lobbying Expenditures During 4-Year Averaging Period				
Calendar year (or fiscal year beginning in)	(a) 2001	(b) 2000	(c) 1999	(d) 1998	(e) Total
45 Lobbying nontaxable amount					0
46 Lobbying ceiling amount (150% of line 45(e))					0
47 Total lobbying expenditures					0
48 Grassroots nontaxable amount					0
49 Grassroots ceiling amount (150% of line 48(e))					0
50 Grassroots lobbying expenditures					0

Part VI-B Lobbying Activity by Nonelecting Public Charities

(For reporting only by organizations that did not complete Part VI-A) (See page 12 of the instructions.)

During the year, did the organization attempt to influence national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of:	Yes	No	Amount
a Volunteers	X		
b Paid staff or management (Include compensation in expenses reported on lines c through h.)	X		
c Media advertisements	X		1,424
d Mailings to members, legislators, or the public	X		72,350
e Publications, or published or broadcast statements	X		117,804
f Grants to other organizations for lobbying purposes	X		3,266,183
g Direct contact with legislators, their staffs, government officials, or a legislative body	X		1,281,756
h Rallies, demonstrations, seminars, conventions, speeches, lectures, or any other means	X		151,426
i Total lobbying expenditures (Add lines c through h.)			4,890,943

If "Yes" to any of the above, also attach a statement giving a detailed description of the lobbying activiti See Stmt 27

THE NATURE CONSERVANCY **53-0242652**
990 TAX RETURN
ADDITIONAL STATEMENTS
FY02

STATEMENT 1
FORM 990 SCHEDULE A, PART III LINE 4b

Grants are given to other non-profit conservation organizations and government grant sub-recients to do conservation work as detailed in the associated grant, contracts and cooperative agreements.

Loans relate either to purchase of conservation land for conservation or are mortgages on trade lands which The Nature Conservancy sells in order to generate funds for conservation.

THE NATURE CONSERVANCY
990 TAX RETURN
ADDITIONAL STATEMENTS
FY02

53-0242652

STATEMENT 2
Part IX Information Regarding Taxable Subsidiaries and Disregarded Entities

Name, address, and EIN of corporation, partnership, or disregarded entity	(B) Percentage of ownership interest	(C) Nature of activities	(D) Total income	(E) End-of-year assets of entity
NORTHWAY CORPORATION	100%	Mgmt of Maypond Pres	0	45,000
MONTARK, INC.	100%	Conservation Easement (land asset)	0	2,600,000
SOLDIER CREEK PRESERVE , INC.	100%	Manage Land -FEE&EAS (TNC land asset)	53,846	1,486,058
FOREST BANK LLC	10.0%	Own Class M & A shares	222,600	277,400
CONSERVATION BEEF, LLC	50.0%	Purchase cattle w/ Artemis Wildlife	388,711	147,416
CLEAR LAKE CLUB (dissolved FY02)	100%	Manage Land	0	0
LOST LAKE CLUB (dissolved FY02)	100%	Manage Land	0	0
STM/TNC L.L.C.	50.0%	Manage property	64,459	373,591
Eastern Shore Enterprises, LLC (to be dissolved)	100.0%	Hayman Potato Product	0	0

THE NATURE CONSERVANCY **53-0242652**
990 TAX RETURN
ADDITIONAL STATEMENTS
FY02

STATEMENT 1
FORM 990 SCHEDULE A, PART III LINE 4b

Grants are given to other non-profit conservation organizations and government grant sub-recients to do conservation work as detailed in the associated grant, contracts and cooperative agreements.

Loans relate either to purchase of conservation land for conservation or are mortgages on trade lands which The Nature Conservancy sells in order to generate funds for conservation.

THE NATURE CONSERVANCY
990 TAX RETURN
ADDITIONAL STATEMENTS
FY02

53-0242652

STATEMENT 2
Part IX Information Regarding Taxable Subsidiaries and Disregarded Entities

Name, address, and EIN of corporation, partnership, or disregarded entity	(B) Percentage of ownership interest	(C) Nature of activities	(D) Total income	(E) End-of-year assets of entity
NORTHWAY CORPORATION	100%	Mgmt of Maypond Pres	0	45,000
MONTARK, INC.	100%	Conservation Easement (land asset)	0	2,600,000
SOLDIER CREEK PRESERVE , INC.	100%	Manage Land -FEE&EAS (TNC land asset)	53,846	1,486,058
FOREST BANK LLC	10.0%	Own Class M & A shares	222,600	277,400
CONSERVATION BEEF, LLC	50.0%	Purchase cattle w/ Artemis Wildlife	388,711	147,416
CLEAR LAKE CLUB (dissolved FY02)	100%	Manage Land	0	0
LOST LAKE CLUB (dissolved FY02)	100%	Manage Land	0	0
STM/TNC L.L.C.	50.0%	Manage property	64,459	373,591
Eastern Shore Enterprises, LLC (to be dissolved)	100.0%	Hayman Potato Product	0	0

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STATEMENT 3
FORM 990, PART I - SALES OF SECURITIES

Proceeds from sale of Investments	2,121,198,563
Cost or basis of Sales	(2,102,211,243)
Gain(Loss) on sale on investments	18,987,320

Investments sold during the year were comprised of publicly traded securities.

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STATEMENT 4
FORM 990, PART I - SPECIAL FUNDRAISING EVENTS AND ACTIVITIES

Description	Gross Receipts	Contributions	Direct Revenue	Direct Expenses	Net Income not including Contributions
EVENTS					
JT Concert	97,007	31,014	65,994	34,560	31,434
LIC Gala Party	335,684	272,558	63,125	131,034	(67,909)
Mashomack Dinner Dance	435,360	327,912	107,448	60,910	46,538
All Other Centers with Special Event Rev.	848,275	0	848,275	0	848,275
Total	1,716,326	631,484	1,084,842	226,504	858,338
ACTIVITIES (UBIT)					
Supporter Tour to South America	0	33,402	0	7,185	(7,185)
Magazine advertisements		60,000		62,392	(62,392)
Total	0	93,402	0	69,577	(69,577)
TOTAL BOTH EVENTS & ACTIVITIES	1,716,326	724,886	1,084,842	296,081	788,761

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STATEMENT 6
FORM 990, PART I - OTHER CHANGES IN NET ASSETS

Unrealized Losses on Investments	(77,952,640)
Rounding	(3)
Total	(77,952,643)

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STATEMENT 7
FORM 990, PART II - GRANTS AND ALLOCATIONS

Description	Total	Program Services
Grants and Allocations to Conservation Organizations	34,472,290	34,472,290
Total	34,472,290	34,472,290

Due to the volume of grants, a detailed list of grantees is not provided. All grantees are unrelated to TNC.

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STATEMENT 8
FORM 990, PART II - OTHER EXPENSES

Description	Total	Program Services	Management and General	Fundraising
Recruitment	620,761	417,922	119,162	83,677
Taxes and Licenses	1,029,861	717,225	121,118	191,518
Repairs and Maintenance	1,777,634	1,238,129	352,123	187,382
Insurance	2,145,290	1,498,352	382,346	264,592
Real Estate Taxes	4,385,664	3,293,114	741,466	351,084
Survey and Appraisals	3,061,014	2,990,296	50,138	20,580
Professional & Contract Fees	49,008,552	34,072,917	8,897,763	6,037,872
Other	23,617,386	13,911,393	5,034,853	4,671,140
Closing Costs	10,265,810	8,303,539	1,962,271	0
Cost of Goods Sold to Govt. - Cost	223,360,733	223,360,733	0	0
Cost of Goods Sold to Govt. - Gift	45,992,694	45,992,694	0	0
Total	**365,265,399**	**335,796,314**	**17,661,240**	**11,807,845**

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STATEMENT 9
FORM 990, PART III - PRIMARY EXEMPT PURPOSE

The Nature Conservancy is a conservation organization. The mission of the Conservancy is to preserve plants, animals, and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive.

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STATEMENT 10
FORM 990, PART III - STATEMENT OF PROGRAM SERVICE ACCOMPLISHMENTS

Description	Program Expenses	Program Grants	Total Program Grants & Expenses
Conservation Activities and Actions Expenditures related to the broad spectrum of activities and actions critical to advancing The Conservancy's ecoregion-based approach to conservation. Expenditures related to understanding, monitoring, maintaining, restoring and managing natural areas owned by The Conservancy and others are included, as are expenditures for developing and enhancing The Conservancy's ability to gather and share ecological information and to assess and evaluate threats to the elements of natural diversity within ecoregions in which The Conservancy works. In addition, this area includes expenditures necessary for developing and implementing ecoregion-based plans and strategies to mitigate, prevent, or slow the effects of threats to the elements of biodiversity, including investments in the institutional development of domestic and international conservation organizations. Also includes expenditures related to introducing, educating, and informing members and the public at large about the mission of the Conservancy and the issues, progress and performance it has made in reaching its strategic objectives.	486,212,309	34,472,290	520,684,599
Total	486,212,309	34,472,290	520,684,599

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STATEMENT 12
FORM 990, PART IV - INVESTMENTS - OTHER

	Beginning of Year	End of Year
Real Estate Trusts (Endowments)	48,115	28,616
Life Income Trusts	164,085,435	155,847,500
Limited Liability Companies	635,324	426,112
Life Insurance Policy	250,000	250,000
Limited Partnerships	22,068	22,068
Total	165,040,942	156,574,296

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STATEMENT 13
FORM 990, PART IV - LAND, BUILDINGS, & EQUIPMENT

	End of Year		
Asset Description	Cost	Accumulated Depr./Amort.	Book Value
Conservation Land	2,040,357,005		2,040,357,005
Land For Operations	4,263,055		4,263,055
Land Improvements	3,437,797	829,223	2,608,574
Construction in Progress	6,606,820		6,606,820
Buildings for Operations	63,856,852	6,340,106	57,516,747
Furniture & Fixtures	2,332,195	496,783	1,835,412
Computer Equipment	1,921,167	1,427,274	493,893
Trademark	150,000	84,166	65,834
Total	2,122,924,892	9,177,552	2,113,747,340

	Beginning of Year		
Asset Description	Cost	Accumulated Depr./Amort.	Book Value
Conservation Land	1,639,407,976		1,639,407,976
Land For Operations	4,263,055		4,263,055
Land Improvements	2,976,300	484,364	2,491,936
Construction in Progress	13,296,034		13,296,034
Buildings for Operations	47,333,549	4,050,202	43,283,347
Furniture & Fixtures	659,075	159,596	499,479
Computer Equipment	1,690,215	1,012,567	677,648
Trademark	150,000	69,166	80,834
Total	1,709,776,204	5,775,896	1,704,000,308

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STATEMENT 14
FORM 990, PART IV - OTHER ASSETS

	Beginning of Year	End of Year
Other receivables	(128,687)	(128,687)
Advances and Deposits	7,105,630	3,717,252
Other Chapter Assets	1,578,898	677,598
Total	8,555,841	4,266,163

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STATEMENT 15
FORM 990, PART IV - TAX EXEMPT BOND LIABILITY

Issue Date	01-Jun-97	13-May-99
Purpose	To finance the acquisition, construction, and equipping of a headquarters office building.	To finance (a) renovation of an old coast guard station into a conservation lodge (b) construction and equipping of the Virginia Coast Reserve headquarters facility (c) renovation of Parramore Island Coast Guard Station.
Original Amount of Issue	$18,170,000	$3,500,000
Forms Filed	The Industrial Development Authority of Arlington County, VA, as issuer, filed a Form 8038 in June, 1997.	The Industrial Authority of the City of Alexandria, VA, as issuer, was to file Form 8038 when the obligation was issued.
Actual/Anticipated Project Completion Date	November 1998; Approximately 25% of the facility was available for use by a third party; TNC began renting a portion of this space in its fiscal 1999.	June 2001; no portion of the facility was utilized by a third party.
Amount of issue outstanding	$17,195,000	$3,290,000
Unexpended Bond Proceeds	$0	$0

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STATEMENT 16
FORM 990, PART IV - MORTGAGES AND OTHER NOTES PAYABLE

	Beginning of Year	End of Year
Current maturities of long-term debt	40,901,282	81,794,524
Long-term debt	47,647,704	83,322,189
(Loan and mortgages on land held for conservation, collateralized by the land payable in monthly installments including interest ranging from 0% to 11%; final payments are due at various dates through 2024)		
Total	88,548,986	165,116,713

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STATEMENT 18
FORM 990, PART IV - A REVENUE RECONCILIATION

Line (4) - Other adjustments to revenue:

Merchandise inventory - cost of goods sold	1,104,059
Direct Fundraising expenses for special events	296,081
PK Ranch/Soldier Creek Expenses	106,221
Rental Related Expenses	663,311
Total	2,169,672

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STATEMENT 19
FORM 990, PART IV - B EXPENSE RECONCILIATION

Line (4) - Other adjustments to expenses:

Merchandise inventory - cost of goods sold	1,104,059
Direct Fundraising expenses for special events	296,081
PK Ranch/Soldier Creek Expenses	106,221
Rental Related Expenses	663,311
Total	2,169,672

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STATEMENT 20

Name and Address	Title	Time Devoted	Compensation	Contributions to employee benefit plans & deferred compensation	Expense account and other allowances
Michael Dennis	General Counsel	40.00	180,127	20,494	0
Rebecca Patton	Managing Dir-Pac/Western	40.00	111,538	2,356	0
Darryl Varnado	Managing Dir-HR	40.00	143,846	2,613	0
Stephen C. Howell	Chief Financial Officer	40.00	197,631	21,771	0
Stephanie Meeks	Managing Dir-Marketing	40.00	198,122	19,875	0
Steven J. McCormick	President & CEO	40.00	378,366	20,867	0
Michael Andrews	Managing Dir-Mid Americas	40.00	162,764	19,636	0
Michael Coda	Managing Dir-External Affairs	40.00	169,474	20,795	0
Joy Grant	Managing Dir-Atlantic	40.00	85,846	5,533	0
Jean-Louis Ecochard	Chief Information Officer	40.00	15,385	0	0
	TOTAL		1,643,099	133,940	0

Address for All Above
4245 N. Fairfax Drive, Arlington, VA 22203

THE NATURE CONSERVANCY'S
BOARD OF GOVERNORS'
2001-2002

Catherine G. Abbott
Alfred R. Berkeley III
Joel E. Cohen
A.D. Correll, Jr.
Edward E. Crutchfield
Edward N. Dayton
Livio D. DeSimone
Carol E. Dinkins
E. Linn Draper, Jr.
Louisa C. Duemling
John W. Fitzpatrick
Christopher H. Forman, Jr.
Anthony P. Grassi
Harry Groome
John S. Hendricks
William L. Horton
Frances C. James
Philip J. James
Glenn C. Janss
John C. Malone
Steven J. McCormick
Meredith Meiling
Roger Milliken, Jr.
John P. Morgridge
William W. Murdoch
Henry M. Paulson, Jr.
Leigh H. Perkind, Jr.
Jan V. Portman
Joseph W. Prueher
Christine M. Scott
John F. Smith, Jr.
Cameron M. Vowell
Douglas W. Walker
Jeffrey N. Watanabe
Georgia Welles
Edward O. Wilson
Joanne Woodward
Julie A. Wrigley
Joy B. Zedler

*No compensation, contributions, expense accounts, or other benefits were received by any members of the Board of Governors. All are part-time volunteers with a mailing address of:

The Nature Conservancy
4245 N. Fairfax Drive
Arlington, VA 22203

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STATEMENT 21
FORM 990, PART VI, LINE 80b

Related Organizations Include:

	Exempt	Non-Exempt
Sustainable Forest Resources of PNG		X
Montark, Inc.		X
Eastern Shore Enterprises, LLC		X
Northway Corporation		X
STM/TNC L.L.C.		X
Lost Island Club Corp.		X
TNC San Rafael Ranch Inc.		X
TNC do Brazil		X
PK Ranch Co./Soldier Creek Preserve		X
The Nature Conservancy Action Fund	X	
Association for Biodiversity Information (NatureServe)	X	
Adirondack Land Trust	X	
Lake George Basin Land Trust	X	
Clear Lake Club Corp.	X	
Delta Island Reclamation District	X	
Albany Pine Bush Commission	X	

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STATEMENT 22
FORM 990

FEDERAL FOOTNOTES

The states listed below are where TNC files charitable registrations and a copy of the 990 has to be submitted with the charitable registrations.

Alabama
Alaska
Arkansas
Arizona
California
Colorado
Connecticut
Florida
Georgia
Illinois
Kansas
Kentucky
Louisiana
Maine
Maryland
Massachusetts
Michigan
Minnesota
Mississippi
New Hampshire
New Jersey
New Mexico
New York
North Carolina
North Dakota
Ohio
Oklahoma
Oregon
Pennsylvania
Rhode Island
South Carolina
Tennessee
Utah
Virginia
Washington
West Virginia
Wisconsin

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STATEMENT 23
FORM 990, PART VIII - ACCOMPLISHMENT OF EXEMPT PURPOSES

Row	Description
93a	ACTIVITY FEES - The Conservancy derives revenues from fees paid by a variety of acitivities associated with meetings and educational conferences on Conservancy property, which are related to the Conservancy's purpose to promote conservation and proper use of natural resources
93b	CONTRACT FEES - The Conservancy provides information, data, and consulting related to biological conservation science, and protected areas design and management to private organizations. This information assists these organizations in planning, implementing, and managing Conservancy programs which furthers the exempt purpose goals of the Conservancy.
93c	GOVERNMENT SALES REVENUE - The Conservancy derives revenues from the sale of land to federal and local governments for use by these as parklands and other recreational and natural preserves in the interest of preservation, protection, and conservation of natural habitat.
93g	FEES AND CONTRACTS FROM GOVERNMENT AGENCIES - The Conservancy provided information, data, and consulting related to biological conservation science and protected areas design and management to various government agencies.
102	SALE OF INVENTORY - The Conservancy derives revenues from the sale of low cost merchandise and memorabilia containing the Conservancy's logo which further promotes the educational goals of the Conservancy.
103b	MISCELLANEOUS INCOME - During the course of operations, the Conservancy derives revenues from various sources which support its fundamental exempt purpose of preserving, protecting, conserving, and managing natural habitat, and educating the public about these matters.

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STATEMENT 24 - PAGE 1 OF 2
FORM 990 - SCHEDULE A, PART III - EXPLANATION FOR LINE 2a

Mr. A.D. Correll is Chairman of the Board and Chief Executive Officer of Georgia-Pacific Corporation, which entered into the following transaction with The Nature Conservancy:

> Purchased by The Nature Conservancy (TNC) of the Integrated Forestry Management System from the North American Timber Corp. (NATC), a subsidiary of Georgia Pacific, for $65,000 plus a $100 per user fee, occurred in October 2001. This fee, half the current market price, will be guaranteed for a period of five years.

Mr. Correll did not participate in the negotiations and approvals of said transactions.

Mr. Leigh H. Perkins, Jr., is President and Chief Executive Officer of The Orvis Company, Inc., which entered into the following transaction with The Nature Conservancy:

> The Nature Conservancy purchased a number of items of personal property from The Orvis Company, Inc., through its catalogue. The items were acquired for the purpose of furnishing the ranch house at the Conservancy's Matador Ranch property. Pursuant to an existing arrangement with The Orvis Company, Inc., allowing Conservancy employees to purchase items from the Orvis catalogue at a 40% discount, the Conservancy's Montana Program purchased discounted merchandise in the amount of $2,482.60. The merchandise, which included bedding and other household items, was invoiced on June 5,2002.

Mr. John P. Morgridge is chairman of Cisco Systems, Inc. which entered into the following transactions for which TNC paid a total of $145,477:

> From July 2001 to around March/April 2002 the arrangement was:
> 1) CISCO gives TNC an automatic 30% off their list price
> 2) TNC purchases its equipment DIRECTLY from CISCO.
> 3) TNC submits to Mr. Morgridge the amount paid to CISCO

This resulted in an effective 76% discount from list to TNC.

Mr. Jeffrey N. Watanabe, is senior Partner, with the law firm of Watanabe, Ing, Kawashima & Komeiji.
He also serves as Chair of the Board of Trustees of TNC of Hawaii and as a member of TNC's Board of Governors.
TNC paid $2,371 for the following services:

> TNC sought specialized advice and representation to address legal issues arising from a fishing license in place at TNC's recently acquired preserve, Palmyra Atoll, from the law firm of Watanabe, Ing, Kawashima & Komeiji LLP. The law firm has provided the services of Ed Rogin and Jim Kawashima at 50% of their usual rates. Jeff Watanabe has also provided legal counsel from time to time; his services have been donated to TNC.
>
> TNC is in the process of acquiring certain property known as Kahuku Ranch on the Big Island of Hawaii, owned by the Estate of Samuel M. Damon, deceased ("Damon Estate"). The law firm of Watanabe, Ing, Kawashima & Komeiji LLP represents Damon Estate on a limited basis on other matters, not on the Kahuka Ranch transaction.

Mr. Watanabe did not participate in or vote on either the Palmyra Atoll or Kahuku Ranch acquisitions.

Mr. John Smith, Jr., is Chairman of General Motors Corp. General Motors entered into the following described transaction with The Nature Conservancy:

> An agreement covering a five year (1999-2004) which provides The Nature Conservancy cash for its general purposes, as it chooses; vehicles; and other miscellaneous assets of value. General Motors signed an agreement with TNC to undertake a climate change project under which TNC received $10 million and General Motors may potentially receive greenhouse gas mitigation offsets.

Mr. Smith did not participate or vote on said transactions.

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STATEMENT 25
FORM 990, PART II - DEPRECIATION, DEPLETION, ETC.

Asset Description	Cost	Estimated Useful Life	Depreciation Expense for FY01
Conservation Land	2,040,357,005	N/A	N/A
Land For Operations	4,263,055	N/A	N/A
Land Improvements	3,437,797	10 years	344,859
Construction in Progress	6,606,820	N/A	N/A
Buildings for Operations	63,856,852	30 years	1,946,155
Furniture & Fixtures	2,332,195	5 years	337,187
Computer Equipment	1,921,167	4 years	414,707
Trademark	150,000	10 years	15,000
Total	2,122,924,892		3,057,908

Depreciation is calculated using the straight-line method.

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STATEMENT 26A
FORM 990, PART IV - RECEIVABLE FROM OFFICERS, DIRECTORS, TRUSTEES AND KEY EMPLOYEES

BORROWER:	STEVEN MCCORMICK-PRESIDENT & CEO
ORIGINAL AMOUNT:	1,550,000.00
BALANCE DUE:	1,550,000.00
DATE OF NOTE:	22-May-02
MATURITY DATE:	01-Jun-12
REPAYMENT TERMS:	BALLOON
INTEREST RATE:	4.59% (adjusted annually)
SECURITY FOR NOTE:	Home in McLean, VA
PURPOSE OF LOAN:	To finance acquisition of principal residence in Virginia
DESCRIPTION AND FMV OF CONSIDERATION:	Interest-only, $1,550,000 mortgage loan, collaterized by property with payments due monthy. Loan paid off 4/25/03.

RECEIVABLES FROM OTHER TNC MANAGERS REFERENCED STMT 26B:

BORROWER:	GRAHAM CHISHOLM
ORIGINAL AMOUNT:	500,000.00
BALANCE DUE:	500,000.00
DATE OF NOTE:	09-Jul-01
MATURITY DATE:	12-Jul-01
REPAYMENT TERMS:	BALLOON
INTEREST RATE:	0.00%
SECURITY FOR NOTE:	Home in California
PURPOSE OF LOAN:	To finance acquisition of principal residence in California

BORROWER:	JOHN A. WIENS & BEATRICE VAN HORNE
ORIGINAL AMOUNT:	375,000.00
BALANCE DUE:	373,281.13
DATE OF NOTE:	31-May-02
MATURITY DATE:	30-Nov-02
REPAYMENT TERMS:	BALLOON (repaid 9/24/02)
INTEREST RATE:	5.00%
SECURITY FOR NOTE:	Home in Virginia
PURPOSE OF LOAN:	To finance acquisition of principal residence in Virginia

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STATEMENT 26B
FORM 990, PART IV - OTHER NOTES AND LOANS RECEIVABLE

BORROWER:	ORIGINAL AMOUNT:	BALANCE DUE:	DATE OF NOTE:	MATURITY DATE:	REPAYMENT TERMS:	INTEREST RATE:
GARY L. HENDERSON	6,000.00	5,605.86	16-Oct-01	16-Apr-02	ANNUAL	7.00%
GARY L. JACKSON & FRED G. KARLE	26,970.12	26,970.12	01-Jun-02	01-Jun-04	ANNUAL	6.00%
ANCON	215,000.00	200,000.00	27-Jun-00	31-Aug-02	BIANNUAL	7.00%
GRAHAM CHISHOLM	500,000.00	500,000.00	09-Jul-01	12-Jul-11	BALLOON	0.00%
JOHN A. WIENS & BEATRICE VAN HORNE	375,000.00	373,281.13	31-May-02	30-Nov-02	BALLOON	5.00%
NATURESERVE	500,000.00	500,000.00	10-Jun-02	30-Apr-03	BALLOON	2.19%
BRICKYARD INVESTMENTS, LLLP	2,350,000.00	1,436,322.26	23-Feb-00	23-Aug-02	BALLOON	7.00%
SW WILDLIFE REHABILITATION & EDUC FNDTN	460,000.00	310,000.00	20-Apr-01	31-Jan-04	ANNUAL	0.00%
LAWRENCE SCHOEN	225,000.00	45,065.71	27-Sep-96	15-Dec-02	MONTHLY	8.00%
LAST CHANCE RANCH, INC.	431,387.00	344,830.16	08-Jul-94	08-Jul-04	ANNUAL	5.75%
VIRGIL DON OLSON	110,000.00	42,817.93	01-Apr-95	01-Apr-05	ANNUAL	8.50%
B. W., INC.	215,000.00	71,701.99	16-Jun-00	16-Jun-03	ANNUAL	9.00%
B. W., INC.	60,000.00	20,000.00	29-Nov-00	29-Nov-02	ANNUAL	9.00%
THE THIRD & OAK CORP	17,595.90	10,054.81	14-Jul-98	30-Sep-07	QUARTERLY	0.00%
WILLIAM & GEORGIA HENKLE	141,666.66	84,999.99	23-Aug-00	23-Aug-04	ANNUAL	5.00%
GREAT NORTHERN PAPER INC	2,000,000.00	2,000,000.00	27-Jun-02	01-Aug-03	BALLOON	8.73%
TOWN OF EGREMONT	800,000.00	800,000.00	27-Jun-02	27-Jun-04	ANNUAL	0.00%
THE SHEFFIELD LAND TRUST, INC.	100,000.00	100,000.00	02-Feb-02	02-Feb-05	BALLOON	0.00%
KRATT BROTHERS CREATURE HERO SOCIETY	1,102,220.00	521,420.00	03-Nov-99	03-Nov-01	BALLOON	7.50%
PHILIP C. BLAGG & BEVERLY C. BLAGG	140,500.00	135,259.89	30-Jun-01	30-Jun-06	MONTHLY	8.50%
ALAN J. BORNER & CHRISANNE S. BORNER	850,500.00	850,500.00	08-Jul-99	30-Jul-00	BALLOON	8.00%
THE SHAWANGUNK CONSERVANCY	37,500.00	37,500.00	01-Aug-95	30-Jun-01	BALLOON	7.00%
TERRY SEVERSON	30,000.00	30,000.00	12-Apr-02	15-Oct-02	BALLOON	2.88%
HIGHLANDS NATURE SANCTUARY	172,000.00	122,032.03	22-Oct-96	21-Oct-01	BALLOON	7.00%
LARRY W. & LINDA DIRKSEN	136,000.00	131,832.20	15-Jan-99	01-Feb-29	MONTHLY	8.00%
THE NEW EARTH COMPANY	675,000.00	375,000.00	19-Jul-96	19-Jul-05	ANNUAL	0.00%
NARROW RIVER LAND TRUST, INC.	200,000.00	200,000.00	31-Dec-01	31-Dec-02	BALLOON	6.00%
CUSTER COUNTY HOUSING & RE. COMM	586,581.00	243,726.00	01-Mar-01	31-Jan-02	BALLOON	10.00%
BARRY WALKER, MICHAEL KENOYER	3,100,000.00	3,100,000.00	30-May-00	01-Jun-05	BALLOON	8.00%
LAKE CHAMPLAIN ISLANDS TRUST	500,000.00	227,985.37	30-Nov-01	31-Dec-02	ANNUAL	7.50%
BENJAMIN BAIRD	44,000.00	33,000.00	06-May-97	06-May-02	BALLOON	0.00%
JOHN H. & DONNA MEADE	183,856.00	183,856.00	15-Apr-99	15-Apr-04	BALLOON	8.50%
DAVID F.LAPP	500,000.00	500,000.00	28-May-99	30-Jan-01	BALLOON	9.00%
SKAGIT LAND TRUST	800,000.00	800,000.00	12-Dec-01	12-Dec-03	BALLOON	5.00%
CHESTNUT WOODS ASSOCIATION	152,000.00	111,466.68	24-Nov-97	24-Nov-12	ANNUAL	0.00%
WEPCO	1,000,000.00	171,854.85	05-Aug-98	N/A	ANNUAL	7.00%
WEPCO/LOAN EXTENSION	1,190,219.00	636,204.65	05-Aug-98	15-Feb-08	ANNUAL	7.00%
SUNCOR ENERGY, INC.	400,000.00	275,965.31	04-Aug-98	N/A	ANNUAL	7.00%
FUNDACION MOISES BER	300,000.00	175,128.95	01-Apr-96	30-Nov-08	ANNUAL	8.00%
MOUNT WARREN, LLC	900,000.00	700,000.00	23-Jun-00	23-Jun-03	BALLOON	7.50%
MILL CREEK RETREAT	450,000.00	450,000.00	22-Jan-02	01-Jan-04	ANNUAL	6.00%
EMMETT G. TAYLOR, JR.	374,674.52	374,674.52	29-Mar-96	29-Mar-11	ANNUAL	8.50%
BAYVIEW CITIZEN	28,200.00	28,200.00	11-Mar-02	31-Jan-03	BALLOON	0.00%
WILDLIFE MGMT, LLC	350,000.00	350,000.00	26-Mar-02	26-Mar-08	ANNUAL	8.00%
FINNEY CREEK, LLC	175,000.00	150,000.00	15-Jan-02	25-Jan-09	ANNUAL	4.75%
ANIMAS FOUNDATION	6,500,000.00	6,500,000.00	01-Jun-94	01-Jun-08	BALLOON	5.00%
DONALD SAMPSON	310,000.00	138,277.52	16-Mar-88	16-Dec-02	QUARTERLY	8.50%
CENTRAL CINEMA LIMITED PARTNERSHIP	935,000.00	824,005.62	04-Aug-99	04-Aug-06	MONTHLY	7.00%
SILVERN WEST LIMITED	79,200.00	77,377.20	27-Feb-89	27-Feb-02	ANNUAL	7.00%
SILVERN WEST LIMITED	79,200.00	83,127.33	02-Nov-88	02-Nov-02	ANNUAL	7.00%
SILVERN WEST LIMITED	33,000.00	28,984.96	30-Mar-89	30-Mar-02	ANNUAL	7.00%
W.F. CONSTRUCTION CO., INC.	302,400.00	284,785.87	18-Dec-99	18-Nov-04	MONTHLY	8.00%
94 L.C. WCJ ENTERPRISE	18,200.00	18,200.00	01-Jan-98	01-Jan-07	ANNUAL	8.00%
BILLY G. ASHBY	58,500.00	51,414.61	01-Aug-98	30-Jun-03	MONTHLY	8.00%
COREY R. PRICE	7,500.00	2,023.39	28-Feb-00	28-Feb-03	MONTHLY	9.00%
THOMAS BARTHOLOMEW	54,000.00	43,227.90	19-Jul-97	19-Jun-12	MONTHLY	9.00%
RAY L. HOXIT	160,000.00	91,126.20	22-Dec-97	22-Dec-05	ANNUAL	7.25%
REDMOND SISTERS, LLC	165,000.00	165,000.00	24-Apr-02	24-Sep-02	BALLOON	6.75%
JOHN S. SAMMON	94,200.00	94,200.00	24-Jul-96	24-Jul-06	QUARTERLY	7.00%
Total		26,189,007.01				

NOV 23 2004

Form **990**

Department of the Treasury
Internal Revenue Service

Return of Organization Exempt From Income Tax

Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation)

▶ The organization may have to use a copy of this return to satisfy state reporting requirements.

OMB No. 1545-0047

2002

Open to Public Inspection

A For the 2002 calendar year, or tax year beginning 7/1/2002 **and ending** 6/30/2003

B Check if applicable:
- ☐ Address change
- ☐ Name change
- ☐ Initial return
- ☐ Final return
- ☐ Amended return
- ☐ Application pending

Please use IRS label or print or type. See Specific Instructions.

C Name of organization: The Nature Conservancy

Number and street (or P.O. box if mail is not delivered to street address): 4245 North Fairfax Drive — Room/suite: 100

City or town: Arlington — State or country: VA — ZIP + 4: 22203-1606

D Employer identification number: 53-0242652

E Telephone number: (703)841-5300

F Accounting method: ☐ Cash ☒ Accrual ☐ Other (specify) ▶

• **Section 501(c)(3) organizations and 4947(a)(1) nonexempt charitable trusts must attach a completed Schedule A (Form 990 or 990-EZ).**

H and I are not applicable to section 527 organizations.

H(a) Is this a group return for affiliates? ☐ Yes ☒ No

H(b) If "Yes," enter number of affiliates ▶ N/A

H(c) Are all affiliates included? ☐ Yes ☐ No (If "No," attach a list. See instructions.) N/A-Stmt 21

H(d) Is this a separate return filed by an organization covered by a group ruling? ☐ Yes ☒ No

I Enter 4-digit GEN ▶ N/A

M Check ▶ ☐ if the organization is NOT required to attach Sch. B (Form 990, 990-EZ, or 990-PF).

G Web site: ▶ www.nature.org

J ORGANIZATION TYPE (check only one) ▶ ☒ 501(c) (3) ◀ (insert no.) ☐ 4947(a)(1) OR ☐ 527

K Check here ▶ ☐ if the organization's gross receipts are normally not more than $25,000. The organization need not file a return with the IRS; but if the organization received a Form 990 Package in the mail, it should file a return without financial data. SOME STATES REQUIRE A COMPLETE RETURN.

L Gross receipts: Add lines 6b, 8b, 9b, and 10b to line 12 ▶ 2,462,686,049

Part I Revenue, Expenses, and Changes in Net Assets or Fund Balances (See page 17 of the instructions.)

Revenue	1	Contributions, gifts, grants, and similar amounts received:			
	a	Direct public support	1a	480,250,396	
	b	Indirect public support	1b		
	c	Government contributions (grants)	1c		
	d	TOTAL (add lines 1a through 1c) (cash $ 332,366,496 noncash $ 147,883,899)		1d	480,250,396
	2	Program service revenue including government fees and contracts (from Part VII, line 93)		2	272,361,232
	3	Membership dues and assessments		3	
	4	Interest on savings and temporary cash investments		4	3,741,650
	5	Dividends and interest from securities		5	
	6 a	Gross rents	6a	1,176,160	
	b	Less: rental expenses	6b	926,209	
	c	Net rental income or (loss) (subtract line 6b from line 6a)		6c	249,951
	7	Other investment income (describe ▶ Royality &Licensing and Cause Related Marketing)		7	3,366,437
	8 a	Gross amount from sales of assets other than inventory — (A) Securities 1,684,351,937; (B) Other	8a	15,027,932	
	b	Less: cost or other basis and sales expenses — (A) 1,686,809,283; (B)	8b	11,918,433	
	c	Gain or (loss) (attach schedule) See STMT 3 — (A) -2,457,346; (B)	8c	3,109,499	
	d	Net gain or (loss) (combine line 8c, columns (A) and (B))		8d	652,153
	9	Special events and activities (attach schedule)			
	a	Gross revenue (not including $ 807,482 of contributions reported on line 1a)	9a	1,047,513	
	b	Less: direct expenses other than fundraising expenses See STMT 4	9b	545,739	
	c	Net income or (loss) from special events (subtract line 9b from line 9a)		9c	501,774
	10 a	Gross sales of inventory, less returns and allowances	10a	1,798,454	
	b	Less: cost of goods sold See STMT 5	10b	788,164	
	c	Gross profit or (loss) from sales of inventory (attach schedule) (subtract line 10b from line 10a)		10c	1,010,290
	11	Other revenue (from Part VII, line 103)		11	-435,662
	12	TOTAL REVENUE (add lines 1d, 2, 3, 4, 5, 6c, 7, 8d, 9c, 10c, and 11)		12	761,698,221
Expenses	13	Program services (from line 44, column (B))		13	452,997,972
	14	Management and general (from line 44, column (C))		14	63,608,971
	15	Fundraising (from line 44, column (D))		15	52,922,958
	16	Payments to affiliates (attach schedule)		16	0
	17	TOTAL EXPENSES (add lines 16 and 44, column (A))		17	569,529,901
	18	Excess or (deficit) for the year (subtract line 17 from line 12)		18	192,168,320
	19	Net assets or fund balances at beginning of year (from line 73, column (A))		19	2,932,018,144
	20	Other changes in net assets or fund balances (attach explanation) See STMT 6		20	52,511,981
	21	Net assets or fund balances at end of year (combine lines 18, 19, and 20)		21	3,176,698,445

(HTA) **For Paperwork Reduction Act Notice, see the separate instructions.** Form **990** (2002)

Part II Statement of Functional Expenses All organizations must complete column (A). Columns (B), (C), and (D) are required for section 501(c)(3) and (4) organizations and section 4947(a)(1) nonexempt charitable trusts but optional for others. (See page 21 of the instructions.)

Do not include amounts reported on line 6b, 8b, 9b, 10b, or 16 of Part I.		(A) Total	(B) Program services	(C) Management and general	(D) Fundraising
22 Grants and allocations (Stmt 7) (cash $ 20,733,683 noncash $ none)	22	20,733,683	20,733,683		
23 Specific assistance to individuals (attach schedule)	23	0	0		
24 Benefits paid to or for members (attach schedule)	24	0	0		
25 Compensation of officers, directors, etc.	25	2,152,824	1,424,404	454,656	273,764
26 Other salaries and wages	26	141,245,036	93,453,972	29,829,611	17,961,453
27 Pension plan contributions	27	7,314,296	4,877,968	1,557,001	879,327
28 Other employee benefits	28	14,806,547	9,573,578	3,054,924	2,178,045
29 Payroll taxes	29	10,258,737	6,842,578	2,184,085	1,232,074
30 Professional fundraising fees	30	14,867	0	0	14,867
31 Accounting fees	31	66,949	44,655	14,253	8,041
32 Legal fees	32	1,235,327	859,678	284,734	90,915
33 Supplies	33	10,937,621	6,699,203	2,103,225	2,135,193
34 Telephone	34	5,367,531	3,586,060	1,132,262	649,209
35 Postage and shipping	35	11,659,442	1,757,563	568,166	9,333,713
36 Occupancy	36	10,187,826	6,814,595	2,157,246	1,215,985
37 Equipment rental and maintenance	37	4,458,821	2,980,173	944,752	533,896
38 Printing and publications	38	10,096,440	3,410,110	1,072,337	5,613,993
39 Travel	39	13,094,465	8,758,901	2,763,096	1,572,468
40 Conferences, conventions, and meetings	40	3,932,763	2,616,954	835,306	480,503
41 Interest	41	8,111,186	8,103,997	4,596	2,593
42 Depreciation, depletion, etc. (See STMT 25)	42	3,374,718	3,304,894	44,641	25,183
43 Other expenses not covered above (itemize): a See STMT 8	43a	290,480,822	267,155,006	14,604,080	8,721,736
b	43b	0			
c	43c	0			
d	43d	0			
e	43e	0			
f	43f	0			
44 TOTAL FUNCTIONAL EXPENSES (add lines 22 through 43). ORGANIZATIONS COMPLETING COLUMNS (B)-(D), CARRY THESE TOTALS TO LINES 13-15	44	569,529,901	452,997,972	63,608,971	52,922,958

JOINT COSTS. Check ▶ [X] if you are following SOP 98-2.

Are any joint costs from a combined educational campaign and fundraising solicitation reported in (B) Program services? ▶ [ ] Yes [X] No

If "Yes," enter (i) the aggregate amount of these joint costs $ N/A ; (ii) the amount allocated to Program services $ N/A ; (iii) the amount allocated to Management and general $ N/A ; and (iv) the amount allocated to Fundraising $ N/A

Part III Statement of Program Service Accomplishments (See page 24 of the instructions.)

What is the organization's primary exempt purpose? ▶ See STMT 9

All organizations must describe their exempt purpose achievements in a clear and concise manner. State the number of clients served, publications issued, etc. Discuss achievements that are not measurable. (Section 501(c)(3) and (4) organizations and 4947(a)(1) nonexempt charitable trusts must also enter the amount of grants and allocations to others.)

	Program Service Expenses (Required for 501(c)(3) and (4) orgs., and 4947(a)(1) trusts; but optional for others.)
a SEE STATEMENT 10 (Grants and allocations $ 20,733,683)	452,997,972
b (Grants and allocations $)	
c (Grants and allocations $)	
d (Grants and allocations $)	
e Other program services (attach schedule) (Grants and allocations $)	
f TOTAL OF PROGRAM SERVICE EXPENSES (should equal line 44, column (B), Program services) ▶	452,997,972

Part IV Balance Sheets (See page 24 of the instructions.)

Note: *Where required, attached schedules and amounts within the description column should be for end-of-year amounts only.*			(A) Beginning of year		(B) End of year
Assets					
45 Cash - non-interest-bearing			7,298,539	45	13,078,395
46 Savings and temporary cash investments			12,142,228	46	9,753,673
47 a Accounts receivable	47a	32,876,279			
b Less: allowance for doubtful accounts	47b	0	9,766,460	47c	32,876,279
48 a Pledges receivable	48a	104,820,902			
b Less: allowance for doubtful accounts	48b	2,200,000	107,914,534	48c	102,620,902
49 Grants receivable			10,446,447	49	11,742,301
50 Receivables from officers, directors, trustees, and key employees (attach schedule) . See STMT 26A			1,550,000	50	0
51 a Other notes and loans receivable (attach schedule) . . See STMT 26B	51a	54,490,492			
b Less: allowance for doubtful accounts	51b	0	26,189,007	51c	54,490,492
52 Inventories for sale or use			0	52	0
53 Prepaid expenses and deferred charges			39,901	53	59,081
54 Investments - securities (See STMT 11) ▶ ☐ Cost ☒ FMV			815,281,091	54	1,112,712,911
55 a Investments - land, buildings, and equipment: basis . . . Tradelands	55a	11,915,014			
b Less: accumulated depreciation (attach schedule)	55b	0	16,463,740	55c	11,915,014
56 Investments - other (See STMT 12)			156,574,296	56	175,407,877
57 a Land, buildings, and equipment: basis	57a	2,220,792,754			
b Less: accumulated depreciation (See Stmt 13)	57b	12,380,737	2,113,747,340	57c	2,208,412,017
58 Other assets (describe ▶ See STMT 14)			4,266,163	58	5,989,275
59 TOTAL ASSETS (add lines 45 through 58) (must equal line 74)			3,281,679,746	59	3,739,058,217
Liabilities					
60 Accounts payable and accrued expenses			14,920,276	60	11,993,527
61 Grants payable			0	61	0
62 Deferred revenue			20,938,302	62	25,564,595
63 Loans from officers, directors, trustees, and key employees (attach schedule)			0	63	0
64 a Tax-exempt bond liabilities (See STMT 15)			20,485,000	64a	25,053,000
b Mortgages and other notes payable (See STMT 16)			165,116,713	64b	72,870,786
65 Other liabilities (describe ▶ See STMT 17)			128,201,311	65	426,877,864
66 TOTAL LIABILITIES (add lines 60 through 65)			349,661,602	66	562,359,772
Net Assets or Fund Balances					
Organizations that follow SFAS 117, check here ▶ ☒ and complete lines 67 through 69 and lines 73 and 74.					
67 Unrestricted			2,364,969,423	67	2,620,862,470
68 Temporarily restricted			341,140,405	68	323,811,743
69 Permanently restricted			225,908,316	69	232,024,232
Organizations that do not follow SFAS 117, check here ▶ ☐ and complete lines 70 through 74.					
70 Capital stock, trust principal, or current funds			0	70	0
71 Paid-in or capital surplus, or land, building, and equipment fund			0	71	0
72 Retained earnings, endowment, accumulated income, or other funds			0	72	0
73 TOTAL NET ASSETS OR FUND BALANCES (add lines 67 through 69 OR lines 70 through 72; column (A) MUST equal line 19; column (B) MUST equal line 21)			2,932,018,144	73	3,176,698,445
74 TOTAL LIABILITIES AND NET ASSETS / FUND BALANCES (add lines 66 and 73)			3,281,679,746	74	3,739,058,217

Form 990 is available for public inspection and, for some people, serves as the primary or sole source of information about a particular organization. How the public perceives an organization in such cases may be determined by the information presented on its return. Therefore, please make sure the return is complete and accurate and fully describes, in Part III, the organization's programs and accomplishments.

Part IV-A Reconciliation of Revenue per Audited Financial Statements with Revenue per Return (See page 26 of the instructions.)

a	Total revenue, gains, and other support per audited financial statements	a	840,961,710
b	Amounts included on line a but not on line 12, Form 990:		
(1)	Net unrealized gains on investments $ 52,050,909		
(2)	Donated services and use of facilities $ 24,491,393		
(3)	Recoveries of prior year grants $		
(4)	Other (specify): See STMT 18 $ 2,721,187		
	Add amounts on lines (1) through (4)	b	79,263,489
c	Line a minus line b	c	761,698,221
d	Amounts included on line 12, Form 990 but not on line a:		
(1)	Investment expenses not included on line 6b, Form 990 $		
(2)	Other (specify): $		
	Add amounts on lines (1) and (2)	d	0
e	Total revenue per line 12, Form 990 (line c plus line d)	e	761,698,221

Part IV-B Reconciliation of Expenses per Audited Financial Statements with Expenses per Return

a	Total expenses and losses per audited financial statements	a	596,281,406
b	Amounts included on line a but not on line 17, Form 990:		
(1)	Donated services and use of facilities $ 24,491,393		
(2)	Prior year adjustments reported on line 20, Form 990 $		
(3)	Losses reported on line 20, Form 990 $		
(4)	Other (specify): See STMT 19 $ 2,260,112		
	Add amounts on lines (1) through (4)	b	26,751,505
c	Line a minus line b	c	569,529,901
d	Amounts included on line 17, Form 990 but not on line a:		
(1)	Investment expenses not included on line 6b, Form 990 $		
(2)	Other (specify): $		
	Add amounts on lines (1) and (2)	d	0
e	Total expenses per line 17, Form 990 (line c plus line d)	e	569,529,901

Part V List of Officers, Directors, Trustees, and Key Employees (List each one even if not compensated; see page 26 of the instructions.)

(A) Name and address	(B) Title and average hours per week devoted to position	(C) Compensation (IF NOT PAID, ENTER -0-.)	(D) Contributions to employee benefit plans & deferred compensation	(E) Expense account and other allowances
See STMT 20		2,152,824	170,505	40,704

75 Did any officer, director, trustee, or key employee receive aggregate compensation of more than $100,000 from your organization and all related organizations, of which more than $10,000 was provided by the related organizations? ▶ ☐ Yes ☒ No
If "Yes," attach schedule-see page 26 of the instructions.

Part VI Other Information (See page 27 of the instructions.)

			Yes	No
76	Did the organization engage in any activity not previously reported to the IRS? If "Yes," attach a detailed description of each activity	76		X
77	Were any changes made in the organizing or governing documents but not reported to the IRS? If "Yes," attach a conformed copy of the changes. See Stmt 29 Change of Policies	77		X
78 a	Did the organization have unrelated business gross income of $1,000 or more during the year covered by this return?	78a	X	
b	If "Yes," has it filed a tax return on FORM 990-T for this year?	78b	X	
79	Was there a liquidation, dissolution, termination, or substantial contraction during the year? If "Yes," attach a statement	79		X
80 a	Is the organization related (other than by association with a statewide or nationwide organization) through common membership, governing bodies, trustees, officers, etc., to any other exempt or nonexempt organization?	80a	X	
b	If "Yes," enter the name of the organization ► See STMT 21 and check whether it is [X] exempt OR [X] nonexempt.			
81 a	Enter direct or indirect political expenditures. See line 81 instructions 81a NONE			
b	Did the organization file FORM 1120-POL for this year?	81b		X
82 a	Did the organization receive donated services or the use of materials, equipment, or facilities at no charge or at substantially less than fair rental value?	82a	X	
b	If "Yes," you may indicate the value of these items here. Do not include this amount as revenue in Part I or as an expense in Part II. (See instructions in Part III.) 82b 24,491,393			
83 a	Did the organization comply with the public inspection requirements for returns and exemption applications?	83a	X	
b	Did the organization comply with the disclosure requirements relating to quid pro quo contributions?	83b	X	
84 a	Did the organization solicit any contributions or gifts that were not tax deductible?	84a		X
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible? N/A	84b		
85	501(c)(4), (5), or (6) organizations. a Were substantially all dues nondeductible by members? N/A	85a		
b	Did the organization make only in-house lobbying expenditures of $2,000 or less? N/A	85b		
	If "Yes" was answered to either 85a or 85b, DO NOT complete 85c through 85h below unless the organization received a waiver for proxy tax owed for the prior year.			
c	Dues, assessments, and similar amounts from members 85c N/A			
d	Section 162(e) lobbying and political expenditures 85d N/A			
e	Aggregate nondeductible amount of section 6033(e)(1)(A) dues notices 85e N/A			
f	Taxable amount of lobbying and political expenditures (line 85d less 85e) 85f N/A			
g	Does the organization elect to pay the section 6033(e) tax on the amount on line 85f? N/A	85g		
h	If section 6033(e)(1)(A) dues notices were sent, does the organization agree to add the amount on line 85f to its reasonable estimate of dues allocable to nondeductible lobbying and political expenditures for the following tax year? N/A	85h		
86	501(c)(7) orgs. Enter: a Initiation fees and capital contributions included on line 12 86a N/A			
b	Gross receipts, included on line 12, for public use of club facilities 86b N/A			
87	501(c)(12) orgs. Enter: a Gross income from members or shareholders 87a N/A			
b	Gross income from other sources. (Do not net amounts due or paid to other sources against amounts due or received from them.) 87b N/A			
88	At any time during the year, did the organization own a 50% or greater interest in a taxable corporation or partnership, or an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? If "Yes," complete Part IX	88	X	
89 a	501(c)(3) organizations. Enter: Amount of tax imposed on the organization during the year under: section 4911 ► NONE ; section 4912 ► NONE ; section 4955 ► NONE			
b	501(c)(3) and 501(c)(4) orgs. Did the organization engage in any section 4958 excess benefit transaction during the year or did it become aware of an excess benefit transaction from a prior year? If "Yes," attach a statement explaining each transaction	89b		X
c	Enter: Amount of tax imposed on the organization managers or disqualified persons during the year under sections 4912, 4955, and 4958 ► NONE			
d	Enter: Amount of tax on line 89c, above, reimbursed by the organization ► NONE			
90 a	List the states with which a copy of this return is filed ► See Stmt 22			
b	Number of employees employed in the pay period that includes March 12, 2002 (See instructions.) 90b 2,955			
91	The books are in care of ► The Nature Conservancy Telephone no. ► (703)841-5300 Located at ► 4245 North Fairfax Drive; Arlington, VA ZIP + 4 ► 22203-1606			
92	Section 4947(a)(1) nonexempt charitable trusts filing Form 990 in lieu of FORM 1041 - Check here ► [ ] and enter the amount of tax-exempt interest received or accrued during the tax year ► 92 N/A			

Part VI Analysis of Income-Producing Activities (See page 31 of the instructions.)

Note: *Enter gross amounts unless otherwise indicated.*

		Unrelated business income		Excluded by section 512, 513, or 514		(E)
		(A) Business code	(B) Amount	(C) Exclusion code	(D) Amount	Related or exempt function income
93	Program service revenue:					
a	ACTIVITY FEES					22,316,804
b	CONTRACT FEES					4,722,289
c	LAND SALES TO GOVT & OTHER (stmt 28)					172,566,571
d						
e						
f	Medicare/Medicaid payments					
g	Fees and contracts from government agencies					72,755,568
94	Membership dues and assessments					
95	Interest on savings and temporary cash investments			14	3,741,650	
96	Dividends and interest from securities					
97	Net rental income or (loss) from real estate:					
a	debt-financed property	531120	272,547			
b	not debt-financed property	532000	-60,937	16	38,341	
98	Net rental income or (loss) from personal property					
99	Other investment income			15	3,366,437	
100	Gain or (loss) from sales of assets other than inventory	900000	1,285	18	650,868	
101	Net income or (loss) from special events	511120	135,945	01	365,829	
102	Gross profit or (loss) from sales of inventory					1,010,290
103	Other revenue: a Member List Sales			15	587,266	
b	Miscellaneous Income/Loss					-1,022,928
c						
d						
e						
104	Subtotal (add columns (B), (D), and (E))		348,840		8,750,391	272,348,594
105	TOTAL (add line 104, columns (B), (D), and (E)) ▶					281,447,825

Note: *Line 105 plus line 1d, Part I, should equal the amount on line 12, Part I.*

Part VII Relationship of Activities to the Accomplishment of Exempt Purposes (See page 32 of the instructions.)

Line No. ▼	Explain how each activity for which income is reported in column (E) of Part VII contributed importantly to the accomplishment of the organization's exempt purposes (other than by providing funds for such purposes).
	See STMT 23

Part IX Information Regarding Taxable Subsidiaries and Disregarded Entities (See page 32 of the instructions.)

(A) Name, address, and EIN of corporation, partnership, or disregarded entity	(B) Percentage of ownership interest	(C) Nature of activities	(D) Total income	(E) End-of-year assets
See STMT 2	%			
	%			
	%			
	%			

Part X Information Regarding Transfers Associated with Personal Benefit Contracts (See page 33 of the instructions.)

(a) Did the organization, during the year, receive any funds, directly or indirectly, to pay premiums on a personal benefit contract? ☐ Yes ☒ No

(b) Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract? ☐ Yes ☒ No

Note: *If "Yes" to (b), file Form 8870 AND Form 4720 (see instructions).*

Please Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Signature of officer ▶ Date 5/17/04

Stephen Howell, Chief Financial Officer

Type or print name and title.

Paid Preparer's Use Only

Preparer's signature ▶	Date 5/13/2004	Check if self-employed ▶ ☐	Preparer's SSN or PTIN (See Gen. Inst. W)
Firm's name (or yours if self-employed), address, and ZIP + 4 ▶ PricewaterhouseCoopers LLP 1301 K Street NW, 800W, Washington, DC (202)414-1000			EIN ▶ Phone no. ▶

SCHEDULE A
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Organization Exempt Under Section 501(c)(3)

(Except Private Foundation) and Section 501(e), 501(f), 501(k), 501(n), or Section 4947(a)(1) Nonexempt Charitable Trust

Supplementary Information - (See separate instructions.)

MUST be completed by the above organizations and attached to their Form 990 or 990-EZ

OMB No. 1545-0047

2002

Name of the organization: The Nature Conservancy

Employer identification number: 53-0242652

Part I Compensation of the Five Highest Paid Employees Other Than Officers, Directors, and Trustees

(See page 1 of the instructions. List each one. If there are none, enter "None.")

(a) Name and address of each employee paid more than $50,000	(b) Title and average hours per week devoted to position	(c) Compensation	(d) Contributions to employee benefit plans & deferred compensation	(e) Expense account and other allowances
William Weeks 4245 North Fairfax Drive Arlington, VA 22203-1606	Senior Advisor 35	178,175	15,029	0
Louis Low 4245 North Fairfax Drive Arlington, VA 22203-1606	Dir Conserv Action Training 35	190,383	21,408	0
Nancy Crozier 4245 North Fairfax Drive Arlington, VA 22203-1606	Dir Brand Marketing 35	181,168	17,950	0
David Williamson 4245 North Fairfax Drive Arlington, VA 22203-1606	Dir Conservation Marketing 35	193,904	15,749	0
Christopher Hest 4245 North Fairfax Drive Arlington, VA 22203-1606	Dir Development California 35	185,769	3,547	0
Total number of other employees paid over $50,000	951			

Part II Compensation of the Five Highest Paid Independent Contractors for Professional Services

(See page 2 of the instructions. List each one (whether individuals or firms). If there are none, enter "None.")

(a) Name and address of each independent contractor paid more than $50,000	(b) Type of service	(c) Compensation
Cornerstone Partners, LLC 1900 Arlington Blvd. Charlottesville, VA 22903	Investment Management Consulting	840,935
Quad/Graphics, Inc. PO Box 930505 Atlanta, GA 31193	Graphic Design	787,331
Community Counselling Service 461 Fifth Ave., Third Floor New York, NY 10017	Fund Raising, P.R., and Research	572,500
PricewaterhouseCoopers, LLP 1301 K Street NW, Suite 800W Washington, DC 20005	Accounting Services	483,335
Watson Wyatt & Company PO Box 277665 Atlanta, GA 30384-7665	Financial Services	465,213
Total number of others receiving over $50,000 for professional services 169		

(HTA) **For Paperwork Reduction Act Notice, see the Instructions for Form 990 and Form 990-EZ.**

Schedule A (Form 990 or 990-EZ) 2002

Part III Statements About Activities (See page 2 of the instructions.)

			Yes	No
1	During the year, has the organization attempted to influence national, state, or local legislation, including any attempt to influence public opinion on a legislative matter or referendum? If "Yes," enter the total expenses paid or incurred in connection with the lobbying activities $ 2,036,706 **(Must equal amounts on line 38, Part VI-A, or line i of Part VI-B.)**	1	X	
	Organizations that made an election under section 501(h) by filing Form 5768 must complete Part VI-A. Other organizations checking "Yes," must complete Part VI-B AND attach a statement giving a detailed description of the lobbying activities.			
2	During the year, has the organization, either directly or indirectly, engaged in any of the following acts with any substantial contributors, trustees, directors, officers, creators, key employees, or members of their families, or with any taxable organization with which any such person is affiliated as an officer, director, trustee, majority owner, or principal beneficiary? (If the answer to any question is "Yes," attach a detailed statement explaining the transactions.)			
a	Sale, exchange, or leasing of property? . . . . . See STMT 24	2a	X	
b	Lending of money or other extension of credit? . . . See STMT 26A	2b	X	
c	Furnishing of goods, services, or facilities?	2c		X
d	Payment of compensation (or payment or reimbursement of expenses if more than $1,000)? . . Form 990,Part V	2d	X	
e	Transfer of any part of its income or assets?	2e		X
3	Does the organization make grants for scholarships, fellowships, student loans, etc.? (See NOTE below.)	3		X
4	Do you have a section 403(b) annuity plan for your employees?	4		X

Note: *Attach a statement to explain how the organization determines that individuals or organizations receiving grants or loans from it in furtherance of its charitable programs "qualify" to receive payments.* See Stmt 1

Part IV Reason for Non-Private Foundation Status (See pages 3 through 5 of the instructions.)

The organization is not a private foundation because it is: (Please check only ONE applicable box.)

5 ☐ A church, convention of churches, or association of churches. Section 170(b)(1)(A)(i).

6 ☐ A school. Section 170(b)(1)(A)(ii). (Also complete Part V.)

7 ☐ A hospital or a cooperative hospital service organization. Section 170(b)(1)(A)(iii).

8 ☐ A Federal, state, or local government or governmental unit. Section 170(b)(1)(A)(v).

9 ☐ A medical research organization operated in conjunction with a hospital. Section 170(b)(1)(A)(iii). ENTER THE HOSPITAL'S NAME, CITY, AND STATE _____

10 ☐ An organization operated for the benefit of a college or university owned or operated by a governmental unit. Section 170(b)(1)(A)(iv). (Also complete the SUPPORT SCHEDULE in Part IV-A.)

11 a ☒ An organization that normally receives a substantial part of its support from a governmental unit or from the general public. Section 170(b)(1)(A)(vi). (Also complete the SUPPORT SCHEDULE in Part IV-A.)

11 b ☐ A community trust. Section 170(b)(1)(A)(vi). (Also complete the SUPPORT SCHEDULE in Part IV-A.)

12 ☐ An organization that normally receives: (1) MORE THAN 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its charitable, etc., functions - subject to certain exceptions, and (2) NO MORE THAN 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975. See section 509(a)(2). (Also complete the SUPPORT SCHEDULE in Part IV-A.)

13 ☐ An organization that is not controlled by any disqualified persons (other than foundation managers) and supports organizations described in: (1) lines 5 through 12 above; or (2) section 501(c)(4), (5), or (6), if they meet the test of section 509(a)(2). (See section 509(a)(3).)

Provide the following information about the supported organizations. (See page 5 of the instructions.)

(a) Name(s) of supported organization(s)	(b) Line number from above

14 ☐ An organization organized and operated to test for public safety. Section 509(a)(4). (See page 5 of the instructions.)

Part IV-A Support Schedule (Complete only if you checked a box on line 10, 11, or 12.) USE CASH METHOD OF ACCOUNTING.

Note: *You may use the worksheet in the instructions for converting from the accrual to the cash method of accounting.*

Calendar year (or fiscal year beginning in)	(a) 2001	(b) 2000	(c) 1999	(d) 1998	(e) Total
15 Gifts, grants, and contributions received. (Do not include unusual grants. See line 28.)	607,523,012	475,908,190	408,504,800	360,612,731	1,852,548,733
16 Membership fees received	0	0	0	0	0
17 Gross receipts from admissions, merchandise sold or services performed, or furnishing of facilities in any activity that is related to the organization's charitable, etc., purpose	310,949,161	191,203,897	161,385,700	155,630,200	819,168,958
18 Gross income from interest, dividends, amounts received from payments on securities loans (section 512(a)(5)), rents, royalties, and unrelated business taxable income (less section 511 taxes) from businesses acquired by the organization after June 30, 1975	3,167,954	822,735	12,000,723	8,926,075	24,917,487
19 Net income from unrelated business activities not included in line 18	0	0	0	0	0
20 Tax revenues levied for the organization's benefit and either paid to it or expended on its behalf	0	0	0	0	0
21 The value of services or facilities furnished to the organization by a governmental unit without charge. Do not include the value of services or facilities generally furnished to the public without charge	0	0	0	0	0
22 Other income. Attach a schedule. Do not include gain or (loss) from sale of capital assets	2,741,401	3,306,403	4,061,586	2,013,697	12,123,087
23 Total of lines 15 through 22	924,381,528	671,241,225	585,952,809	527,182,703	2,708,758,265
24 Line 23 minus line 17	613,432,367	480,037,328	424,567,109	371,552,503	1,889,589,307
25 Enter 1% of line 23	9,243,815	6,712,412	5,859,528	5,271,827	

26 ORGANIZATIONS DESCRIBED ON LINES 10 OR 11: a Enter 2% of amount in column (e), line 24 . . . 26a 37,791,786

b Prepare a list for your records to show the name of and amount contributed by each person (other than a governmental unit or publicly supported organization) whose total gifts for 1998 through 2001 exceeded the amount shown in line 26a. DO NOT FILE THIS LIST WITH YOUR RETURN. Enter the total of all these excess amounts . . . 26b none

c Total support for section 509(a)(1) test: Enter line 24, column (e) . . . 26c 1,889,589,307

d Add: Amounts from column (e) for lines: 18 24,917,487 19 0 22 12,123,087 26b none . . . 26d 37,040,574

e Public support (line 26c minus line 26d total) . . . 26e 1,852,548,733

f PUBLIC SUPPORT PERCENTAGE (LINE 26E (NUMERATOR) DIVIDED BY LINE 26C (DENOMINATOR)) . . . 26f 98.04%

27 ORGANIZATIONS DESCRIBED ON LINE 12: a For amounts included in lines 15, 16, and 17 that were received from a "disqualified person," prepare a list for your records to show the name of, and total amounts received in each year from, each "disqualified person." DO NOT FILE THIS LIST WITH YOUR RETURN. Enter the sum of such amounts for each year:

(2001) _____ (2000) _____ (1999) _____ (1998) _____

b For any amount included in line 17 that was received from each person (other than "disqualified persons"), prepare a list for your records to show the name of, and amount received for each year, that was more than the LARGER of (1) the amount on line 25 for the year or (2) $5,000. (Include in the list organizations described in lines 5 through 11, as well as individuals.) DO NOT FILE THIS LIST WITH YOUR RETURN. After computing the difference between the amount received and the larger amount described in (1) or (2), enter the sum of these differences (the excess amounts) for each year:

(2001) _____ (2000) _____ (1999) _____ (1998) _____

c Add: Amounts from column (e) for lines: 15 0 16 0 17 0 20 0 21 0 . . . 27c 0

d Add: Line 27a total 0 and line 27b total 0 . . . 27d 0

e Public support (line 27c total minus line 27d total) . . . 27e 0

f Total support for section 509(a)(2) test: Enter amount from line 23, column (e) . . . 27f 0

g PUBLIC SUPPORT PERCENTAGE (LINE 27E (NUMERATOR) DIVIDED BY LINE 27F (DENOMINATOR)) . . . 27g 0.00%

h INVESTMENT INCOME PERCENTAGE (LINE 18, COLUMN (E) (NUMERATOR) DIVIDED BY LINE 27F (DENOMINATOR)) 27h 0.00%

28 UNUSUAL GRANTS: For an organization described in line 10, 11, or 12 that received any unusual grants during 1998 through 2001, prepare a list for your records to show, for each year, the name of the contributor, the date and amount of the grant, and a brief description of the nature of the grant. DO NOT FILE THIS LIST WITH YOUR RETURN. Do not include these grants in line 15.

Part V **Private School Questionnaire** (See page 7 of the instructions.)
(To be completed ONLY by schools that checked the box on line 6 in Part IV) **NOT APPLICABLE**

			Yes	No
29	Does the organization have a racially nondiscriminatory policy toward students by statement in its charter, bylaws, other governing instrument, or in a resolution of its governing body?	29		
30	Does the organization include a statement of its racially nondiscriminatory policy toward students in all its brochures, catalogues, and other written communications with the public dealing with student admissions, programs, and scholarships?	30		
31	Has the organization publicized its racially nondiscriminatory policy through newspaper or broadcast media during the period of solicitation for students, or during the registration period if it has no solicitation program, in a way that makes the policy known to all parts of the general community it serves?	31		
	If "Yes," please describe; if "No," please explain. (If you need more space, attach a separate statement.)			
32	Does the organization maintain the following:			
a	Records indicating the racial composition of the student body, faculty, and administrative staff?	32a		
b	Records documenting that scholarships and other financial assistance are awarded on a racially nondiscriminatory basis?	32b		
c	Copies of all catalogues, brochures, announcements, and other written communications to the public dealing with student admissions, programs, and scholarships?	32c		
d	Copies of all material used by the organization or on its behalf to solicit contributions?	32d		
	If you answered "No" to any of the above, please explain. (If you need more space, attach a separate statement.)			
33	Does the organization discriminate by race in any way with respect to:			
a	Students' rights or privileges?	33a		
b	Admissions policies?	33b		
c	Employment of faculty or administrative staff?	33c		
d	Scholarships or other financial assistance?	33d		
e	Educational policies?	33e		
f	Use of facilities?	33f		
g	Athletic programs?	33g		
h	Other extracurricular activities?	33h		
	If you answered "Yes" to any of the above, please explain. (If you need more space, attach a separate statement.)			
34 a	Does the organization receive any financial aid or assistance from a governmental agency?	34a		
b	Has the organization's right to such aid ever been revoked or suspended?	34b		
	If you answered "Yes" to either 34a or b, please explain using an attached statement.			
35	Does the organization certify that it has complied with the applicable requirements of sections 4.01 through 4.05 of Rev. Proc. 75-50, 1975-2 C.B. 587, covering racial nondiscrimination? If "No," attach an explanation	35		

Part VI-A **Lobbying Expenditures by Electing Public Charities** (See page 9 of the instructions.)
(To be completed ONLY by an eligible organization that filed Form 5768) N/A

Check a ☐ if the organization belongs to an affiliated group. Check b ☐ if you checked "a" and "limited control" provisions apply.

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)		(a) Affiliated group totals	(b) To be completed for ALL electing organizations
36 Total lobbying expenditures to influence public opinion (grassroots lobbying)	36		
37 Total lobbying expenditures to influence a legislative body (direct lobbying)	37		
38 Total lobbying expenditures (add lines 36 and 37)	38	0	0
39 Other exempt purpose expenditures	39		
40 Total exempt purpose expenditures (add lines 38 and 39)	40	0	0
41 Lobbying nontaxable amount. Enter the amount from the following table -			
If the amount on line 40 is - / **The lobbying nontaxable amount is -**			
Not over $500,000 — 20% of the amount on line 40			
Over $500,000 but not over $1,000,000 — $100,000 plus 15% of the excess over $500,000			
Over $1,000,000 but not over $1,500,000 — $175,000 plus 10% of the excess over $1,000,000	41	0	0
Over $1,500,000 but not over $17,000,000 — $225,000 plus 5% of the excess over $1,500,000			
Over $17,000,000 — $1,000,000			
42 Grassroots nontaxable amount (enter 25% of line 41)	42	0	0
43 Subtract line 42 from line 36. Enter -0- if line 42 is more than line 36	43	0	0
44 Subtract line 41 from line 38. Enter -0- if line 41 is more than line 38	44	0	0

Caution: *If there is an amount on either line 43 or line 44, you must file Form 4720.*

4-Year Averaging Period Under Section 501(h)

(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 45 through 50 on page 11 of the instructions.)

	Lobbying Expenditures During 4-Year Averaging Period				
Calendar year (or fiscal year beginning in)	(a) 2002	(b) 2001	(c) 2000	(d) 1999	(e) Total
45 Lobbying nontaxable amount					0
46 Lobbying ceiling amount (150% of line 45(e))					0
47 Total lobbying expenditures					0
48 Grassroots nontaxable amount					0
49 Grassroots ceiling amount (150% of line 48(e))					0
50 Grassroots lobbying expenditures					0

Part VI-B **Lobbying Activity by Nonelecting Public Charities**
(For reporting only by organizations that did not complete Part VI-A) (See page 11 of the instructions.)

During the year, did the organization attempt to influence national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of:	Yes	No	Amount
a Volunteers	X		
b Paid staff or management (Include compensation in expenses reported on lines c through h.)	X		
c Media advertisements	X		10,000
d Mailings to members, legislators, or the public	X		50,360
e Publications, or published or broadcast statements	X		47,093
f Grants to other organizations for lobbying purposes	X		644,300
g Direct contact with legislators, their staffs, government officials, or a legislative body	X		1,137,959
h Rallies, demonstrations, seminars, conventions, speeches, lectures, or any other means	X		146,994
i Total lobbying expenditures (Add lines c through h.)			2,036,706

If "Yes" to any of the above, also attach a statement giving a detailed description of the lobbying activities. See STMT 27

Part VII Information Regarding Transfers To and Transactions and Relationships With Noncharitable Exempt Organizations (See page 12 of the instructions.)

51 Did the reporting organization directly or indirectly engage in any of the following with any other organization described in section 501(c) of the Code (other than section 501(c)(3) organizations) or in section 527, relating to political organizations?

		Yes	No
a Transfers from the reporting organization to a noncharitable exempt organization of:			
(i) Cash	51a(i)	X	
(ii) Other assets	a(ii)		X
b Other transactions:			
(i) Sales or exchanges of assets with a noncharitable exempt organization	b(i)		X
(ii) Purchases of assets from a noncharitable exempt organization	b(ii)		X
(iii) Rental of facilities, equipment, or other assets	b(iii)		X
(iv) Reimbursement arrangements	b(iv)		X
(v) Loans or loan guarantees	b(v)		X
(vi) Performance of services or membership or fundraising solicitations	b(vi)		X
c Sharing of facilities, equipment, mailing lists, other assets, or paid employees	c	X	

d If the answer to any of the above is "Yes," complete the following schedule. Column (b) should always show the fair market value of the goods, other assets, or services given by the reporting organization. If the organization received less than fair market value in any transaction or sharing arrangement, show in column (d) the value of the goods, other assets, or services received:

(a) Line no.	(b) Amount involved	(c) Name of noncharitable exempt organization	(d) Description of transfers, transactions, and sharing arrangements
51 a (i)	580,000	The Nature Conservancy Action Fund	Cash transferred to Action Fund is reported as lobbying costs
51 a (i)	2,000	Brookhaven's Quality of Life Coalition	Cash transferred to Brookhaven is reported as lobbying costs
51 c	74,855	The Nature Conservancy Action Fund	Supporting administrative services paid by The Nature Conservancy attributed to the Action Fund
51 c	45,814	The Nature Conservancy Action Fund	In-kind Services: supporting administrative services donated by The Nature Conservancy attributed to the Action Fund.

52 a Is the organization directly or indirectly affiliated with, or related to, one or more tax-exempt organizations described in section 501(c) of the Code (other than section 501(c)(3)) or in section 527? [X] Yes [ ] No

b If "Yes," complete the following schedule:

(a) Name of organization	(b) Type of organization	(c) Description of relationship
The Nature Conservancy Action Fund	501C4	Affiliate

Schedule B
(Form 990, 990-EZ, or 990-PF)
rtment of the Treasury
mal Revenue Service

Schedule of Contributors

Supplementary Information for line 1 of Form 990, 990-EZ and 990-PF (see instructions)

OMB No. 1545-0047

2002

me of organization	Employer identification number
The Nature Conservancy	53-0242652

ORGANIZATION TYPE (check one):

Filers of:	**Section:**
Form 990 or 990-EZ	[X] 501(c)(3) (enter number) organization
	[ ] 4947(a)(1) nonexempt charitable trust NOT treated as a private foundation
	[ ] 527 political organization
Form 990-PF	[ ] 501(c)(3) exempt private foundation
	[ ] 4947(a)(1) nonexempt charitable trust treated as a private foundation
	[ ] 501(c)(3) taxable private foundation

Check if your organization is covered by the GENERAL RULE or a SPECIAL RULE. (NOTE: Only a section 501(c)(7), (8), or (10) organization can check box(es) for both the General rule and a Special rule - see instructions.)

eral Rule -

[ ] For organizations filing Form 990, 990-EZ, or 990-PF that received, during the year, $5,000 or more (in money or property) from any one contributor. (Complete Parts I and II.)

Special Rules -

[X] For a section 501(c)(3) organization filing Form 990, or Form 990-EZ, that met the 33 1/3% support test of the regulations under sections 509(a)(1)/170(b)(1)(A)(vi) and received from any one contributor, during the year, a contribution of the greater of $5,000 or 2% of the amount on line 1 of these forms. (Complete Parts I and II.)

[ ] For a section 501(c)(7), (8), or (10) organization filing Form 990, or Form 990-EZ, that received from any one contributor, during the year, aggregate contributions or bequests of more than $1,000 for use exclusively for religious, charitable, scientific, literary, or educational purposes, or the prevention of cruelty to children or animals. (Complete Parts I, II, and III.)

[ ] For a section 501(c)(7), (8), or (10) organization filing Form 990, or Form 990-EZ, that received from any one contributor, during the year, some contributions for use exclusively for religious, charitable, etc., purposes, but these contributions did not aggregate to more than $1,000. (If this box is checked, enter here the total contributions that were received during the year for an exclusively religious, charitable, etc., purpose. Do not complete any of the Parts unless the GENERAL RULE applies to this organization because it received nonexclusively religious, charitable, etc., contributions of $5,000 or more during the year.) . . . . . $ _____

CAUTION: Organizations that are not covered by the General Rule and/or the Special Rules do not file Schedule B (Form 990, 990-EZ, or 990-PF), but they MUST check the box in the heading of their Form 990, Form 990-EZ, or on line 1 of their Form 990-PF, to certify that they do not meet the filing requirements of Schedule B (Form 990, 990-EZ, or 990-PF).

(HTA) **For Paperwork Reduction Act Notice, see the Instructions for Form 990 and Form 990-EZ.**

Schedule B (Form 990, 990-EZ, or 990-PF) (2002)

Name of organization	Employer identification number
Nature Conservancy	53-0242652

Part II Noncash Property (See Specific Instructions.)

(a) No. from Part I	(b) Description of noncash property given	(c) FMV (or estimate) (see instructions)	(d) Date received
1	Fee and Easement on Maine land (Debsconeags Matrix Area-ME)	$ 20,800,000	August 2002
2	Easement on land (San Joaquin Hills Portfolio Site-CA)	$ 11,394,480	January 2003
3	Easement on land (South Lowcountry-SC)	$ 9,808,380	October 2002
4	Fee Interest on land (Palmyra Atoll)	$ 10,000,000	November 2000
		$	
		$	

THE NATURE CONSERVANCY
990 TAX RETURN
ADDITIONAL STATEMENTS
FY03

53-0242652

STATEMENT 2
Part IX Information Regarding Taxable Subsidiary Corporations, Partnerships and Disregarded Entities

Name, address, and EIN of corporation, partnership, or disregarded entity	(B) Percentage of ownership interest	(C) Nature of activities	(D) Total income	(E) End-of-year assets of entity
SUSTAINABLE FOREST RESOURCES OF PNG-US, LLC c/o The Nature Conservancy 1116 Smith Street Honolulu, HI 96817 EIN 52-2065275	100%	Inactive (created to manage a sustainable forestry program)	none	none
MONTARK, INC. c/o American Express Tax & Business Services, Inc. 1185 Avenue of Americas New York, NY 10036-2602 EIN 13-3386301	100%	Holds a conservation restriction on mineral rights deeded to USFWS	none	none
CONSERVATION FARMS AND RANCHES-MERCED 201 Mission St., 4th floor San Francisco, CA 94105 EIN 94-2705692	100%	Maintenance of restoration projects & management of lands in California Acquired March 2003	102,998	3,881,132
SOLDIER CREEK PRESERVE , INC. 23 E. Brundage St., #15 Sheridan, WY 82801 EIN 83-0180913	100%	Holds title to conservation real estate in Wyoming	-85,886	1,475,467
BEAR MOUNTAIN LODGE, INC. P.O. Box 1163 Silver City, NM 88062	100%	Inactive To be dissolved in 2004	none	none
NORTHWAY CORPORATION nonavailable—dissolved	100%	Dissolved FY03	none	none
FOREST BANK LLC 339 East Avenue Suite 300 Rochester, NY 14604 EIN 16-1598585	100%	Dissolved FY03	-221,060	none
CONSERVATION BEEF 25 S. Ewing #415 Helena, MT 59601 EIN 81-0530132	50%	Purchase cattle with Artemis Wildlife	-151,708	271,504
EASTERN SHORE ENTERPRISES, LLC 4245 North Fairfax Drive Arlington, VA 22203 EIN 54-1960845	91.0%	Dissolved FY03	-30,315	none
PUTRI NAGA KOMODO JV Wisma Kemang 3rd Floor, Jl. Kemang Raya Selatan 1 Jakarta 12560, Indonesia	100%	Inactive waiting for legal approval collaborative management of Komodo National Park	none	241,451

THE NATURE CONSERVANCY 53-0242652
990 TAX RETURN
ADDITIONAL STATEMENTS
FY03

STATEMENT 3
FORM 990, PART I - SALES OF OTHER

FY03 Trade Land Dispositions

TL Name	Acquisitio Date	Settlement Date	Book Value	Gross Sales Price	Buyer(s)
Beauchamp	28-Dec-99	06-Mar-03	$48,000.00	$60,000.00	James & Geraldine Newnum
Winston	27-Dec-99	16-Sep-02	$137,068.62	$182,250.40	Philippos T. Philippou
Clemens	04-Feb-00	01-Jul-02	$21,228.89	$7,000.00	Louie J. & Barbara E. Stone
Clemens	04-Feb-00	31-Jul-02	$14,776.49	$8,000.00	R & L Decker,C & D Haynes
Clemens	04-Feb-00	20-Dec-02	$46,792.22	$23,000.00	David & Wendy Baker
Scheu	25-Apr-00	13-Jan-03	$77,000.00	$50,000.00	David & Janet Stephens TTEES
Graham	15-Aug-00	29-Aug-02	$260,000.00	$182,480.00	William F. & Ann Marie Willard
Owens (320 acres)	29-Dec-00	27-Feb-03	$111,000.00	$96,000.00	Bobby & Leslie Dobbs
Owens (40 acres)	29-Dec-00	16-Jan-03	$3,700.00	$486.80	Rainbow Well Service
Owens (80 acres)	29-Dec-00	16-Jan-03	$3,900.00	$513.20	Rainbow Well Service
Prisciantelli	21-Dec-00	13-Sep-02	$38,000.00	$27,500.00	Nancy Lee Hayden
Persen (Devise)	10-Jul-00	19-Jul-02	$134,416.00	$134,442.00	Dr. Martin Albert
Persen (Devise)	10-Jul-00	19-Jul-02	$8,000.00	$0.00	Patricia Page
Cangelosi	06-Apr-01	01-Oct-02	$94,800.00	$70,000.00	Sonja A. Smith
Blaisdell-Blanton	27-Jul-01	05-Jul-02	$82,000.00	$125,000.00	Dennis J. Reuss
Figg (Devise)(Tierra Grande)	07-Aug-01	27-Sep-02	$61,626.75	$58,000.00	Richard & Pamela Rast
Figg (Devise)(Tierra Grande)	07-Aug-01	30-Sep-02	$72,411.43	$80,000.00	Eric & Buena Kaylor
Figg (Devise)(Tierra Grande)	07-Aug-01	27-Jan-03	$30,813.37	$27,500.00	Paul & Terry Diane Acuff
Brielman (Sarasota) (Devise)	25-Apr-99	15-Jul-02	$9,100.00	$10,000.00	New Vista Properties
Brielman (Brevard)(Devise)	25-Apr-99	31-Jul-02	$9,200.00	$8,000.00	Daryl R & Phyllis A Mertens
Wilke (Devise)	19-Nov-01	03-Feb-03	$225,000.00	$225,000.00	Lynn Wilson
Wolford	28-Dec-01	16-Aug-02	$60,000.00	$42,000.00	Steve & Marsha Embry
Grant	16-Jan-02	15-Aug-02	$32,000.00	$34,000.00	Robert K. Sheetz
Ayer	19-Jun-02	06-Sep-02	$163,000.00	$162,500.00	Brett Parry & Janee Houser
Bush (Devise)	22-Dec-01	29-Aug-02	$45,000.00	$42,000.00	Randall & Abby Lea
Heimforth (Devise)	05-Oct-01	04-Nov-02	$135,000.00	$135,900.00	Bart Rublico & Bonnie Bell
Edwards (Devise)	15-Feb-02	22-Nov-02	$175,000.00	$165,000.00	William P. & Eva T. Eakes
Beam (Devise)	22-Aug-00	15-May-03	$37,500.00	$40,000.00	William Ralph Appleton
Jusko-Leniart (PSO)	12-Jun-01	07-Mar-03	$125,000.00	$129,000.00	Robert A. Bjorklund
Century 1	06-Jun-02	26-Sep-02	$49,200.00	$79,000.00	George L & Sandra L Bonney
Century 2	06-Jun-02	19-Sep-02	$67,650.00	$129,500.00	Jurandax LLC
Century 2	06-Jun-02	01-Oct-02	$78,720.00	$175,500.00	Kenneth R & Jeremy L Krock
Century 3	06-Jun-02	10-Sep-02	$67,650.00	$111,000.00	James F. Mistic
Century 3	06-Jun-02	26-Aug-02	$67,650.00	$115,000.00	Sawtooth Ranch, Inc.
Century 3	06-Jun-02	31-Jul-02	$30,750.00	$26,250.00	Sawtooth Ranch
Century 3	06-Jun-02	19-Sep-02	$67,650.00	$88,000.00	Darren & Lisa Gardner
Century 3	06-Jun-02	25-Sep-02	$127,920.00	$201,000.00	HR 243 LLC
Century 4	06-Jun-02	04-Oct-02	$43,164.92	$90,000.00	Michael P. Edgerton Trust
Century 4	06-Jun-02	29-Aug-02	$24,665.67	$27,350.40	Charles Womack/Stacey Shelton
Century 4	06-Jun-02	25-Oct-02	$16,032.68	$32,000.00	Kenneth & Carol Urban
Century 4	06-Jun-02	26-Aug-02	$68,447.23	$93,000.00	Louis & Tricia Hecox
Century 4	06-Jun-02	30-Oct-02	$184,992.51	$355,000.00	Gordon Larsen
Century 4	06-Jun-02	03-Oct-02	$59,197.60	$81,000.00	Edward & Renee Lowe
Century 4	06-Jun-02	10-Sep-02	$24,665.67	$38,000.00	Kenneth & LaVon Atchley
Century 4	06-Jun-02	29-Aug-02	$32,065.37	$34,000.00	Paul B. Bone
Century 4	06-Jun-02	17-Sep-02	$38,231.79	$40,000.00	Jay & Terri Smith
Century 4	06-Jun-02	19-Sep-02	$11,099.55	$15,000.00	Anthony & Shelly Plumer
Century 4	06-Jun-02	29-Aug-02	$9,866.27	$9,000.00	Timothy L. Henderson
Century 4	06-Jun-02	10-Sep-02	$64,130.74	$80,567.40	Charles & Marilyn Carter
Sioux Prairie (Rice 2) PSO	21-Sep-01	17-Jul-02	$189,259.00	$108,000.00	Travis & Katie Krein
Ives Road Fen (Vaughn 2) PSO	29-Jun-01	30-Jul-02	$107,396.00	$165,000.00	Bryan K & Theresa E Coleman
Tamarack Swamp (Vander.) PSO	26-Oct-01	05-Aug-02	$122,000.00	$122,000.00	Joseph & Rachel Tone
Williams	06-Sep-02	16-Jan-03	$125,000.00	$115,250.00	Abigail Brandt
Organ Mtns (Cox 2) BLM Exch	06-Sep-02	10-Sep-02	$757,460.00	$840,000.00	Jake's Development Corp.

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STATEMENT 4
FORM 990, PART I LINE 9- SPECIAL FUNDRAISING EVENTS AND ACTIVITIES

Description	Gross Receipts	Contributions	Direct Revenue	Direct Expenses	Net Income not including Contributions
EVENTS					
CO Outreach	95,885	14,420	81,465	252,374	(170,909)
LIC Gala Party	586,283	487,382	98,902	164,715	(65,813)
Mashomack Dinner Dance	409,690	305,680	104,010	52,069	51,941
All Other Centers with Special Event Rev.	550,610	0	550,610	0	550,610
Total	1,642,468	807,482	834,987	469,158	365,829
ACTIVITIES (UBIT)					
Magazine advertisements (applied corp contrib for UBIT)			212,526	76,581	135,945
TOTAL BOTH EVENTS & ACTIVITIES	1,642,468	807,482	1,047,513	545,739	501,774

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STATEMENT 6
FORM 990, PART I LINE 20- OTHER CHANGES IN NET ASSETS

Unrealized Gains on Investments	52,050,909
Valuation Gain on Tradelands	464,918
Unrealized Gains on R&P Anderson Partnership	(3,846)
Total	52,511,981

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Effective Date	Vendor Name	Amount	Vendor Address	Class of Activity	Relationship to TNC
1-Jul-02	SVREP	2,500.00	SOUTHWEST VOTER REGIS. EDU. PROJECT 2914 NORTH MAIN STREET 2ND FLOOR LOS ANGELES CA 90031	Conservation Acitivties	N/A
1-Jul-02	MICHIGAN STATE UNIVERSITY	(5,000.00)	MICHIGAN NATURAL FEATURE INVENTORY STEVENS T. MASON BUILDING PO BOX 30444 LANSING MI 48909-7944	Conservation Acitivties	N/A
1-Jul-02	DEPARTMENT OF THE INTERIOR	1,400.00	US GEOLOGICAL SURVEY, JOINT FUNDING P O BOX 100706 ATLANTA GA 30384-0706	Conservation Acitivties	N/A
1-Jul-02	GREEN RIVER VALLEY LAND TRUST	24,166.67	PO BOX 1580 PINEDALE WY 82941	Conservation Acitivties	N/A
3-Jul-02	THE TOWN OF FRYEBURG	2,000.00	MUNICIPAL OFFICE FRYEBURG ME 04037	Conservation Acitivties	N/A
3-Jul-02	RI NATURAL HISTORY SURVERY, INC.	(400,000.00)	C/O C.E. EDUCATION CENTR 3 EAST ALUMNI AVENUE URI KINGSTON RI 02881-0804	Conservation Acitivties	N/A
9-Jul-02	THE VALLEY LAND FUND	100.00	2400 N. 10TH ST., STE A MCALLEN TX 78501	Conservation Acitivties	N/A
9-Jul-02	LAND TRUST FOR THE MISSISSIPPI COASTAL PLAIN	(2,500.00)	P O BOX 245 BILOXI MS 39533	Conservation Acitivties	N/A
9-Jul-02	LAND TRUST FOR THE MISSISSIPPI COASTAL PLAIN	(2,500.00)	P O BOX 245 BILOXI MS 39533	Conservation Acitivties	N/A
12-Jul-02	FUNDS FOR THE FUTURE	5,000.00	2101 WOOD STREET LANSING MI 48912	Conservation Acitivties	N/A
16-Jul-02	ILLINOIS ENVIRONMENTAL CO	500.00	107 WEST COOK STREET SUITE E SPRINGFIELD IL 62704	Conservation Acitivties	N/A
17-Jul-02	GREEN VALLEY COALITION	(250.00)	Allentown, PA 18101	Conservation Acitivties	N/A
18-Jul-02	LAKE GEORGE LAND CONSERVANCY	2,443.63	PO BOX 1250 LAKE SHORE DRIVE BOLTON LANDING NY 12814	Conservation Acitivties	N/A
19-Jul-02	GRAND TRAVERSE REGIONAL LAND CONSERVANCY	9,006.84	624 Third Street, Traverse City, MI 49684	Conservation Acitivties	N/A
19-Jul-02	CARSON VALLEY TRAILS ASSOCIATION	10,000.00	P O BOX 961 MINDEN NV 89423	Conservation Acitivties	N/A
22-Jul-02	SOUTHEASTERN CAVE CONSERVANCY, INC.	20,000.00	4311 7TH AVENUE CHATTANOOGA TN 37407	Conservation Acitivties	N/A
22-Jul-02	SOUTHEASTERN CAVE CONSERVANCY, INC.	10,836.00	4311 7TH AVENUE CHATTANOOGA TN 37407	Conservation Acitivties	N/A
23-Jul-02	NORTH FORK ENVIRONMENTAL COUNCIL, INC.	150.00	PO BOX 799 MATTITUCK NY 11952	Conservation Acitivties	N/A
23-Jul-02	OKLAHOMA DEPT. OF WILDLIFE CONSERVATION FUND	3,000.00	P O BOX 53465 OKLAHOMA CITY OK 73152	Conservation Acitivties	N/A
25-Jul-02	CARMEL VALLEY RIVER WATERSHED COUNCIL	5,000.00	P O BOX 871 CARMEL VALLEY CA 93924	Conservation Acitivties	N/A
25-Jul-02	CARMEL VALLEY RIVER	(5,000.00)	WATERSHED CONSERVANCY 75 POPPY RD CARMEL VALLEY CA 93924	Conservation Acitivties	N/A
25-Jul-02	CARMEL VALLEY RIVER	5,000.00	WATERSHED CONSERVANCY 75 POPPY RD CARMEL VALLEY CA 93924	Conservation Acitivties	N/A
26-Jul-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	5,151.98	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
26-Jul-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	18,009.98	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
26-Jul-02	Grupo Ecologista Antares (GEA)	4,216.83	Paseo Hidalgo, esq. Colegio, Col. Centro, Loreto, Baja California SUR	Grant pursuant to federal award.	N/A
26-Jul-02	Protección del Medio Ambiente Tarija (PROMETA)	9,500.00	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
26-Jul-02	Protección del Medio Ambiente Tarija (PROMETA)	(9,500.00)	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
26-Jul-02	Protección del Medio Ambiente Tarija (PROMETA)	(34,616.00)	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
26-Jul-02	Protección del Medio Ambiente Tarija (PROMETA)	44,116.00	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
26-Jul-02	Protección del Medio Ambiente Tarija (PROMETA)	34,616.00	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
26-Jul-02	Fundación para el Desarrollo del Sistema Nacional de Areas Protegidas (FUNDESNAP)	(44,116.00)	Edificio Capitán Ravelo # 2101, Piso 12, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
26-Jul-02	Fundación Ecuatoriana de Estudios Ecologicos (EcoCiencia)	39,254.94	Francisco Salazar E14-34 y Coruña, Quito, ECUADOR	Grant pursuant to federal award.	N/A
26-Jul-02	Fundación Ecuatoriana de Estudios Ecologicos (EcoCiencia)	(39,254.94)	Francisco Salazar E14-34 y Coruña, Quito, ECUADOR	Grant pursuant to federal award.	N/A
26-Jul-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	8,419.57	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
26-Jul-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	6,258.98	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
26-Jul-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	169.57	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
26-Jul-02	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	133.41	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
26-Jul-02	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	(47,135.49)	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
26-Jul-02	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	(47,135.49)	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
26-Jul-02	Jamaica Conservation and Development Trust (JCDT)	(9,924.32)	1st floor, Workforce Development Consortium Building, 22b Old Hope Road, Kingston 5, JAMAICA	Grant pursuant to federal award.	N/A
26-Jul-02	Jamaica Conservation and Development Trust (JCDT)	(9,924.32)	1st floor, Workforce Development Consortium Building, 22b Old Hope Road, Kingston 5, JAMAICA	Grant pursuant to federal award.	N/A
26-Jul-02	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	(21,711.92)	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A

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26-Jul-02	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	(21,711.92)	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
29-Jul-02	NATIONAL FISH & WILDLIFE	15,000.00	3330 SUNDANCE DRIVE BOZEMAN MT 59715	Grant pursuant to federal award.	N/A
29-Jul-02	US FISH & WILDLIFE SERVIC	50,000.00	1875 Century Blvd, Room 420, Atlanta, GA 30345	Grant pursuant to federal award.	N/A
30-Jul-02	ALABAMA COASTAL HERITAGE	865,388.26	TREASURER FOR THE ALABAMA COASTAL HERITAGE TRUST, THIRY & CADDELL 1911 GOVERNMENT ST MOBILE AL 36606	Grant pursuant to federal award.	N/A
31-Jul-02	Associação Caatinga (AC)	4,347.00	Av. Santos Dumont, 3060 - Salas 516 e 518 - Aldeota - 60150-161 Fortaleza – CE, BRAZIL	Grant pursuant to federal award.	N/A
31-Jul-02	Associação Caatinga (AC)	26,141.00	Av. Santos Dumont, 3060 - Salas 516 e 518 - Aldeota - 60150-161 Fortaleza – CE, BRAZIL	Grant pursuant to federal award.	N/A
31-Jul-02	Associação Caatinga (AC)	15,887.00	Av. Santos Dumont, 3060 - Salas 516 e 518 - Aldeota - 60150-161 Fortaleza – CE, BRAZIL	Grant pursuant to federal award.	N/A
31-Jul-02	Fundación Amigos de la Naturaleza (FAN)	31,686.00	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
31-Jul-02	Fundación Moises Bertoni para la Conservación de la Naturaleza (FMB)	18,592.00	Procer Carlos Arguello, 208 entre Av. Mcal. Lopez y Av. Boggiani, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
31-Jul-02	Fundação SOS Amazônia	35,658.00	Rua Pará, 51 - Bairro Cadeia Velha - 69900-440 Rio Branco – AC, BRAZIL	Grant pursuant to federal award.	N/A
31-Jul-02	Fundação SOS Amazônia	35,658.00	Rua Pará, 51 - Bairro Cadeia Velha - 69900-440 Rio Branco – AC, BRAZIL	Grant pursuant to federal award.	N/A
31-Jul-02	Fundación Amigos de la Naturaleza (FAN)	80,235.18	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
31-Jul-02	Pronatura Noreste A.C. (PNE)	7,000.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
31-Jul-02	Associação Caatinga (AC)	23,307.00	Av. Santos Dumont, 3060 - Salas 516 e 518 - Aldeota - 60150-161 Fortaleza – CE, BRAZIL	Grant pursuant to federal award.	N/A
31-Jul-02	Fundación Ecológica Arcoiris (FEA)	10,000.00	Street and Mailing Address: Segundo Cueva Celi 03-15 y, Clodoveo Carrión, Ciudadela Zamora, Loja, ECUADOR	Grant pursuant to federal award.	N/A
31-Jul-02	Asociación Boliviana para la Conservación (TRÓPICO)	919.42	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
31-Jul-02	Pronatura Noreste A.C. (PNE)	16,400.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
31-Jul-02	Fundación Ecológica Rumicocha (FER)	14,521.08	PO Box 17-15-13B, Quito, ECUADOR	Grant pursuant to federal award.	N/A
31-Jul-02	Fundación Ecuatoriana de Estudios Ecologicos (EcoCiencia)	16,088.59	Francisco Salazar E14-34 y Coruña, Quito, ECUADOR	Grant pursuant to federal award.	N/A
31-Jul-02	Pronatura Noreste A.C. (PNE)	15,000.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
31-Jul-02	Asociación Boliviana para la Conservación (TRÓPICO)	25,328.45	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
31-Jul-02	Fondo Pro-Naturaleza (PRONATURA)	15,000.00	Oficinas Gubernamentales, Edificios A, ONAPLAN, 1er Piso Calle Dr. Delgado, Esq. Av. Méjico, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A
31-Jul-02	Fundación Amigos de la Naturaleza (FAN)	566.00	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
31-Jul-02	Sociedad Peruana de Derechos Ambiental (SPDA)	10,250.00	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
31-Jul-02	Fundación Amigos de la Naturaleza (FAN)	26,869.82	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
31-Jul-02	Asociación Boliviana para la Conservación (TRÓPICO)	4,207.75	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
31-Jul-02	Fundación para el Desarrollo del Sistema Nacional de Areas Protegidas (FUNDESNAP)	150,000.00	Edificio Capitán Ravelo # 2101, Piso 12, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
31-Jul-02	Sociedad Peruana de Derechos Ambiental (SPDA)	3,250.00	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
31-Jul-02	Centro Integrado para la Defensa Ecológica y el Desarrollo Rural (CIDEDER)	39,740.00	Av.Simón López # 177, Zona Cala Cala, Cochabamba, P.O. Box: # 2627, BOLIVIA	Grant pursuant to federal award.	N/A
31-Jul-02	Protección del Medio Ambiente Tarija (PROMETA)	(9,842.89)	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
31-Jul-02	Protección del Medio Ambiente Tarija (PROMETA)	9,842.89	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
31-Jul-02	Fundación Natura - Quito	4,000.00	Ave. República 481 y Almagro (antiguo edificio de UNICEF), Quito, ECUADOR	Grant pursuant to federal award.	N/A
31-Jul-02			(Next two entries total $3,000.00)	Grant pursuant to federal award.	N/A
	Fundación Ecológica Rumicocha (FER)	1,500.00	PO Box 17-15-13B, Quito, ECUADOR	Grant pursuant to federal award.	N/A
	Fundación Antisana (FUNAN)	1,500.00	Gonzalo Serrano E10-27 y 6 de Diciembre, P.O. Box 17-03-1486, Quito, ECUADOR	Grant pursuant to federal award.	N/A
31-Jul-02	Pronatura Veracruz	30,000.00	The Veracruz Project, PO Box 73, Kempton, PA 19529-0073	Conservation Acitivties	N/A
31-Jul-02	Kanindé - Associação de Defesa Etno-Ambiental	9,057.97	Avenida Dom Pedro II, 1892 – Sala 07 Bairro, Nossa Senhora das Graças, Porto Velho - RO - Cep: 78901-150	Conservation Acitivties	N/A
31-Jul-02	Conselho Indigena de Roraima (CIR)	6,684.78	Avenida Sebastiao Dinia 2630, Bairro Sao Vincente, Boa Vista - RR, CEP: 69,303-120	Conservation Acitivties	N/A
31-Jul-02	Associação dos Povos Indígenas do Estado de Roraima (APIRR)	4,818.84	Rua Carlos Natrot 881, Bairro Liberdade, 69 309-250 Boa Vista RR	Conservation Acitivties	N/A
31-Jul-02	Conselho Indigena de Roraima (CIR)	3,328.06	Avenida Sebastiao Dinia 2630, Bairro Sao Vincente, Boa Vista - RR, CEP: 69,303-120	Conservation Acitivties	N/A
31-Jul-02	Associação dos Povos Indígenas do Estado de Roraima (APIRR)	1,289.13	Rua Carlos Natrot 881, Bairro Liberdade, 69 309-250 Boa Vista RR	Conservation Acitivties	N/A
31-Jul-02	*AMCA/Sire Fisheries Center	127.69	C/O The Nature Conservancy, PO Box 759, Honiara, Solomon Islands	Conservation Acitivties	N/A
31-Jul-02	*AMCA/Wagina Fisheries Center	279.47	C/O The Nature Conservancy, PO Box 759, Honiara, Solomon Islands	Conservation Acitivties	N/A

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Effective Date	Vendor Name	Amount	Vendor Address	Class of Activity	Relationship to TNC
31-Jul-02	The Great Works Regional Land Trust, Inc.	11,573.48	P.O. Box 151, South Berwick, ME 03908	Land acquisition related funding.	N/A
31-Jul-02	LAKE GEORGE LAND CONSERVANCY	13,903.33	PO BOX 1250 LAKE SHORE DRIVE BOLTON LANDING NY 12814	Conservation Acitivties	N/A
31-Jul-02	(TNC Assist - 1 transaction with 3 grantees)		(TNC Assist - 1 transaction with 3 grantees)		
	State of Rhode Island and Providence Plantations		Office of the Secretary of State, 82 Smith Street, Room 217, Providence, Rhode Island 02903	Land acquisition related funding.	N/A
	Town of South Kingston	78,750.00	180 High Street, Wakefield, RI 02879	Land acquisition related funding.	N/A
	South Kingstown Land Trust		Trustees: Clarkson A. Collins, Sophie Page Lewis, Janet Innis, Helena-Hope Gam, 313 Main Street, Suite C Wakefield RI 02879	Land acquisition related funding.	N/A
31-Jul-02	The Conservation Fund	750,000.00	1800 North Kent Street, Suite 1120, Arlington, VA 22209-2156	Land acquisition related funding.	N/A
31-Jul-02	Pronatura, Peninsula de Yucatan, A.C. (PPY)	17,500.00	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Conservation Acitivties	N/A
31-Jul-02	Pronatura, Peninsula de Yucatan, A.C. (PPY)	40,000.00	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Conservation Acitivties	N/A
1-Aug-02	KACHEMAK HERITAGE LAND TR	413.61	PO BOX 2400 HOMER AK 99603	Conservation Acitivties	N/A
1-Aug-02	CALIFORNIA ACADEMY OF SCI	25,000.00	GOLDEN GATE PARK DEPT. OF ICHTHYOLOGY SAN FRANCISCO CA 94118-9961	Conservation Acitivties	N/A
1-Aug-02	CITIZENS UNITED	200.00	TO PROTECT MAURICE RIVER AND ITS TRIBUTARIES, INC. PO BOX 474 MILLVILLE NJ 08332	Conservation Acitivties	N/A
1-Aug-02	OHIO DEPARTMENT OF NATURAL RESOURCES	8,000.00	ODNR-DIVISION OF WILDLIFE 1840 BELCHER DRIVE G-3 COLUMBUS OH 43224-1300	Conservation Acitivties	N/A
1-Aug-02	VALLEY LAND FUND	500.00	2400 NORTH 10TH ST. SUITE A MCALLEN TX 78501	Conservation Acitivties	N/A
1-Aug-02	VALLEY LAND FUND	125.00	2400 NORTH 10TH ST. SUITE A MCALLEN TX 78501	Conservation Acitivties	N/A
1-Aug-02	VALLEY LAND FUND	250.00	2400 NORTH 10TH ST. SUITE A MCALLEN TX 78501	Conservation Acitivties	N/A
1-Aug-02	VALLEY LAND FUND	125.00	2400 NORTH 10TH ST. SUITE A MCALLEN TX 78501	Conservation Acitivties	N/A
1-Aug-02	UNIVERSITY OF WYOMING	1,000.00	GRADUATE SCHOOL LARAMIE WY 82071-3108	Conservation Acitivties	N/A
1-Aug-02	LAND TRUST FOR THE MISSISSIPPI COASTAL PLAIN	2,500.00	P O BOX 245 BILOXI MS 39533	Conservation Acitivties	N/A
1-Aug-02	HEAD WATERS LAND CONSERVANCY	14,958.65	P. O. BOX 783 GAYLORD MI 49734-0783	Conservation Acitivties	N/A
3-Aug-02	CAPE MAY BIRD OBSERVATORY	200.00	600 ROUTE 47 COURT HOUSE N. CAPE MAY NJ 08210	Conservation Acitivties	N/A
3-Aug-02	NATURAL LANDS TRUST	250.00	GLADES WILDLIFE REFUGE 261 SCHOOL HOUSE ROAD P O BOX 436 NEWPORT NJ 08345	Conservation Acitivties	N/A
5-Aug-02	BETTY THYSEN	100,000.00	23800 AMAPOLO CT NO.V-5 CUPERTINO CA 95014-6501	Conservation Acitivties	None identified.
6-Aug-02	YMCA OF MUNCIE, IN, INC.	133,074.65	500 S MULBERRY STREET MUNCIE IN 47305	Conservation Acitivties	N/A
7-Aug-02	CONSERVATION BEEF	50,000.00	P O BOX 748 HELENA MT 59624	Conservation Acitivties	N/A
7-Aug-02	THE MONTANA LAND RELIANCE	9,182.00	PO BOX 355 HELENA MT 59624	Conservation Acitivties	N/A
8-Aug-02	NATURESERVE	150.00	1101 WILSON BLVD, 15TH FL ARLINGTON VA 22209	Conservation Acitivties	N/A
8-Aug-02	THE ENVIRONMENTAL LAW AND POLICY CENTER	12,500.00	35 EAST WACKER DRIVE, STE 1300 CHICAGO IL 60601	Conservation Acitivties	N/A
8-Aug-02	IOWA DEPT OF NATURAL RESOURCES	1,000.00	ATTN: CASHIER'S OFFICE WALLACE STATE OFFICE BUILDING DES MOINES IA 50319-0034	Conservation Acitivties	N/A
8-Aug-02	LAND TRUST FOR THE MISSISSIPPI COASTAL PLAIN	(2,500.00)	P O BOX 245 BILOXI MS 39533	Conservation Acitivties	N/A
9-Aug-02	NATIONAL PARKS CONSERVATION ASSOCIATION	5,000.00	706 WALNUT ST., SUITE 200 KNOXVILLE TN 37902	Conservation Acitivties	N/A
12-Aug-02	Protección del Medio Ambiente Tarija (PROMETA)	576.23	Cajón Postal #59 Tarija, BOLIVIA	Conservation Acitivties	N/A
12-Aug-02	Fundación Moises Bertoni para la Conservación de la Naturaleza (FMB)	18,592.00	Procer Carlos Arguello, 208 entre Av. Mcal. Lopez y Av. Boggiani, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
12-Aug-02	Fundação O Boticário de Proteção à Natureza (FBPN)	25,000.00	Av. Rui Barbosa, 3450 - Afonso Pena - 83065-260 São José dos Pinhais – PR, BRAZIL	Grant pursuant to federal award.	N/A
12-Aug-02	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	8,000.00	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
12-Aug-02	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	25,000.00	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
12-Aug-02	Fundación Ecológica Arcoiris (FEA)	27,286.75	Street and Mailing Address: Segundo Cueva Celi 03-15 y, Clodoveo Carrión, Ciudadela Zamora, Loja, ECUADOR	Grant pursuant to federal award.	N/A
12-Aug-02	Instituto de Derecho y Economia Ambiental (IDEA)	12,637.00	Nicanor Torales 150, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
12-Aug-02	Fundación Natura - Columbia	12,311.00	Calle 61 #4-26, Santafe de Bogota, Colombia	Grant pursuant to federal award.	N/A
12-Aug-02	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	5,000.00	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
12-Aug-02	Asociación Boliviana para la Conservación (TRÓPICO)	5,000.00	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
12-Aug-02	Fundación Antisana (FUNAN)	58,331.04	Gonzalo Serrano E10-27 y 6 de Diciembre, P.O. Box 17-03-1486, Quito, ECUADOR	Grant pursuant to federal award.	N/A
12-Aug-02	Fundacion Moscoso Puello (FMP)	10,600.00	Ave. John F Kennedy, Km 7 , Edif. AJFA, Los Jardines del Norte, P.O. Box 1533, Zona 1, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A
12-Aug-02	Asociación Patronato Vivamos Mejor	14,032.46	Calle de los Salpores 0-83, zona 3, Barrio Jucanyá, Panajachel, Sololá, Guatemala	Grant pursuant to federal award.	N/A
12-Aug-02	Asociación Patronato Vivamos Mejor	3,730.14	Calle de los Salpores 0-83, zona 3, Barrio Jucanyá, Panajachel, Sololá, Guatemala	Grant pursuant to federal award.	N/A
12-Aug-02	Grupo Ecologista Antares (GEA)	5,600.00	Paseo Hidalgo, esq. Colegio, Col. Centro, Loreto, Baja California SUR	Grant pursuant to federal award.	N/A
12-Aug-02	Grupo Ecologista Antares (GEA)	4,875.00	Paseo Hidalgo, esq. Colegio, Col. Centro, Loreto, Baja California SUR	Grant pursuant to federal award.	N/A

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12-Aug-02	IDAHO WEED CONTROL ASSOCIATION	500.00	55 SW 5TH AVE, SUITE 100 MERIDIAN ID 83642	Conservation Acitivties	N/A
12-Aug-02	TNC ACTION FUND	20,000.00	4245 N. FAIRFAX DR. ARLINGTON VA 22203	Conservation Acitivties	N/A
14-Aug-02	KENAI WATERSHED FORUM	15,000.00	P.O. BOX 2937 SOLDOTNA AK 99669	Conservation Acitivties	N/A
14-Aug-02	CANPO	650.00	225 EAST 16TH AVE, SUITE 1060 DENVER CO 80203-1614	Conservation Acitivties	N/A
14-Aug-02	LAND TRUST ALLIANCE	2,500.00	1331 H STREET NW SUITE 400 WASHINGTON DC 20005-4734	Conservation Acitivties	N/A
15-Aug-02	THE VALLEY LAND FUND	15,000.00	2400 N. 10TH ST., STE A MCALLEN TX 78501	Conservation Acitivties	N/A
15-Aug-02	RIVER ALLIANCE OF WISCONSIN	50.00	306 East Wilson Street, #2W Madison, WI 53703	Conservation Acitivties	N/A
19-Aug-02	NATURESERVE	4,025.21	1101 WILSON BLVD, 15TH FL ARLINGTON VA 22209	Grant pursuant to federal award.	N/A
19-Aug-02	REGENTS OF THE UNIV OF CA, DEPT. OF ENV. SCIENCE & POLICY	12,000.00	ONE SHIELDS AVENUE DAVIS CA 95616	Conservation Acitivties	N/A
20-Aug-02	SEWEE TO SANTEE COMMUNITY	10,000.00	PO BOX 354 AWENDAW SC 29429	Conservation Acitivties	N/A
20-Aug-02	PLANNING ADAMS COUNTY'S TOMORROW, INC.	10,000.00	6809 U.S. RT 52, Manchester, OH 45144	Conservation Acitivties	N/A
20-Aug-02	IDAHO WEED AWARENESS CAMP	166.66	55 SW 5TH AVE, SUITE 100 MERIDIAN ID 83642	Conservation Acitivties	N/A
20-Aug-02	IDAHO WEED AWARENESS CAMP	166.67	55 SW 5TH AVE, SUITE 100 MERIDIAN ID 83642	Conservation Acitivties	N/A
20-Aug-02	IDAHO WEED AWARENESS CAMP	166.67	55 SW 5TH AVE, SUITE 100 MERIDIAN ID 83642	Conservation Acitivties	N/A
21-Aug-02	NATURALAND TRUST	100,000.00	PO BOX 728 GREENVILLE SC 29602	Conservation Acitivties	N/A
22-Aug-02	OUR LAND, WATER, WILDLIFE & PARKS COMMITTEE	15,000.00	PO BOX 533 FLAGSTAFF AZ 86002	Conservation Acitivties	N/A
22-Aug-02	SANTA BARBARA MUSEUM OF NATURAL HISTORY	30,000.00	2559 Puesta del Sol Road, Santa Barbara, California 93105 USA	Conservation Acitivties	N/A
22-Aug-02	INSTITUTE FOR AGRICULTURE & TRADE POLICY	200.00	ATTN:CANDACE F. 2105 FIRST AVENUE SOUTH MINNEAPOLIS MN 55404-2505	Conservation Acitivties	N/A
22-Aug-02	UNIVERSITY OF OKLAHOMA FOUNDATION	50.00	100 West Timberdell Road, Norman, OK 73019	Conservation Acitivties	N/A
22-Aug-02	COFFEE COUNTY SOIL CONSERVATION DISTRICT	250.00	1008 EAST END RD MANCHESTER TN 37355	Conservation Acitivties	N/A
22-Aug-02	PALAU CONSERVATION SOCIETY	5,000.00	PO BOX 340 KOROR PALAU 96940	Conservation Acitivties	N/A
22-Aug-02	PALAU CONSERVATION SOCIETY	2,000.00	PO BOX 340 KOROR PALAU 96940	Conservation Acitivties	N/A
27-Aug-02	BELLINGHAM BENEFITS	450.00	Bellingham, WA 98225	Conservation Acitivties	N/A
29-Aug-02	NATURAL AREAS ASSOCIATION	1,000.00	PO BOX 1504 BEND OR 97709-1504	Conservation Acitivties	N/A
31-Aug-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	13,500.00	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
31-Aug-02	Sociedad de Historia Natural de Niparaja (NIPARAJA)	61,000.00	Calle Alvaro Obregon # 460 Of.209, Colonia Centro, La Paz, Baja California Sur, México 23000	Grant pursuant to federal award.	N/A
31-Aug-02	Grupo Ecologista Antares (GEA)	24,000.00	Paseo Hidalgo, esq. Colegio, Col. Centro, Loreto, Baja California SUR	Grant pursuant to federal award.	N/A
31-Aug-02	Fundación Alianza Jatun Sacha (CDC)	5,000.00	Pasaje Eugenio de Santillán N34-248 y Maurian, Casilla Postal 17-12 867, Quito, ECUADOR	Grant pursuant to federal award.	N/A
31-Aug-02	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	40,000.00	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
31-Aug-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	25,000.00	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
31-Aug-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	10,500.00	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
31-Aug-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	15,302.60	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
31-Aug-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	668.23	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
31-Aug-02	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	7,907.01	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
31-Aug-02	Pronatura Noreste A.C.(PNE)	60,000.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
31-Aug-02	United States Department of Agriculture	370,000.00	Washington, D.C. 20250	Grant pursuant to federal award.	N/A
31-Aug-02	Sociedad Peruana de Derechos Ambiental (SPDA)	7,588.00	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
31-Aug-02	Fundación Amigos de la Naturaleza (FAN)	33,165.00	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
31-Aug-02	Fundación Amigos de la Naturaleza (FAN)	27,000.00	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
31-Aug-02	The Centro de Derecho Ambiental y Promocion para el Desarrollo (CEDAPRODE)	2,000.00	Colonia Centro América, de la Farmacia, Vida, 1 Cuadra al Sur y 20 varas, Arriba a mano derecha # D- 229, Managua, NICARAGUA	Grant pursuant to federal award.	N/A
31-Aug-02	San Dieguito River Valley Conservancy	250,000.00	725 North Granados Avenue, Solana Beach, CA 92075	Land acquisition related funding.	N/A
1-Sep-02	CONNECTICUT COLLEGE	10,000.00	270 MOHEGAN AVENUE NEW LONDON CT 06320	Conservation Acitivties	N/A
1-Sep-02	WORLD WILDLIFE FUND	108,112.93	1250 TWENTY-FOURTH ST., N W WASHINGTON DC 20037	Grant pursuant to federal award.	N/A
1-Sep-02	WORLD WILDLIFE FUND	2,097.19	1250 TWENTY-FOURTH ST., N W WASHINGTON DC 20037	Grant pursuant to federal award.	N/A
1-Sep-02	WORLD WILDLIFE FUND	556.88	1250 TWENTY-FOURTH ST., N W WASHINGTON DC 20037	Grant pursuant to federal award.	N/A
1-Sep-02	CFEE	10,000.00	PIER 35 THE EMBARCADERO SAN FRANCISCO CA 94133	Conservation Acitivties	N/A
1-Sep-02	MESA LAND TRUST	25,000.00	PO BOX 1246 PALISADE CO 81526	Conservation Acitivties	N/A
1-Sep-02	LIMAHULI GARDEN-NATIONAL TROPICAL BOTANICAL GARDEN	3,000.00	PO BOX 808, Hanalei, HI 96714	Conservation Acitivties	N/A
1-Sep-02	TIP OF THE MITT WATERSHED	37,705.00	PO BOX 300 CONWAY MI 49722	Conservation Acitivties	N/A
1-Sep-02	TIP OF THE MITT WATERSHED	12,295.00	PO BOX 300 CONWAY MI 49722	Conservation Acitivties	N/A

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1-Sep-02	MISSOURI CONSERVATION HERITAGE FOUNDATION	250.00	P. O. BOX 366 JEFFERSON CITY MO 65102-0366	Conservation Acitivties	N/A
1-Sep-02	LAKE GEORGE LAND CONSERVANCY	6,379.11	PO BOX 1250 LAKE SHORE DRIVE BOLTON LANDING NY 12814	Conservation Acitivties	N/A
1-Sep-02	PENNSYLVANIA LAND TRUST ASSOCIATION	500.00	105 LOCUST STREET SUITE 300 HARRISBURG PA 17101	Conservation Acitivties	N/A
1-Sep-02	LAND TRUST ALLIANCE	100.00	1331 H STREET NW SUITE 400 WASHINGTON DC 20005-4734	Conservation Acitivties	N/A
1-Sep-02	WEST OFFICE SUPPLY	1,604.00	P.O. BOX 280 KOROR PW 96940	Conservation Acitivties	N/A
3-Sep-02	LEGACY LAND TRUST	2,500.00	3015 RICHMOND AVENUE SUITE 240 HOUSTON TX 77098-3103	Conservation Acitivties	N/A
4-Sep-02	COLORADO COALITION OF LAND TRUSTS	4,000.00	PO BOX 102257 DENVER CO 80250-2257	Conservation Acitivties	N/A
6-Sep-02	ENVISION UTAH	1,000.00	254 S. 600 E., #201 SALT LAKE CITY UT 84102	Conservation Acitivties	N/A
9-Sep-02	Fundacion Moscoso Puello (FMP)	26,170.00	Ave. John F Kennedy, Km 7 , Edif. AJFA, Los Jardines del Norte, P.O. Box 1533, Zona 1, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A
9-Sep-02	Fondo Pro-Naturaleza (PRONATURA)	10,490.00	Oficinas Gubernamentales, Edificios A, ONAPLAN, 1er Piso Calle Dr. Delgado, Esq. Av. Méjico, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A
9-Sep-02	NEVADA ACTION FUND	25,000.00	P O BOX 934 MINDEN NV 89423	Conservation Acitivties	N/A
10-Sep-02	N/A	(330.83)	N/A	Conservation Acitivties	N/A
10-Sep-02	TEXAS SECTION SOCIETY FOR RANGE MANAGEMENT	125.00	C/O Dr. Charles A. Taylor, Jr., PO Box 918, Sonora, TX 76950	Conservation Acitivties	N/A
10-Sep-02	TEXAS SECTION SOCIETY FOR RANGE MANAGEMENT	125.00	C/O Dr. Charles A. Taylor, Jr., PO Box 918, Sonora, TX 76950	Conservation Acitivties	N/A
10-Sep-02	TEXAS SECTION SOCIETY FOR RANGE MANAGEMENT	125.00	C/O Dr. Charles A. Taylor, Jr., PO Box 918, Sonora, TX 76950	Conservation Acitivties	N/A
10-Sep-02	TEXAS SECTION SOCIETY FOR RANGE MANAGEMENT	125.00	C/O Dr. Charles A. Taylor, Jr., PO Box 918, Sonora, TX 76950	Conservation Acitivties	N/A
10-Sep-02	CLINCH POWELL RC&D	100.00	PO BOX 496 RUTLEDGE TN 37861	Conservation Acitivties	N/A
11-Sep-02	ENVIRONMENTAL RESOURCE CE	250.00	P O BOX 819 411 EAST 6TH STREET KETCHUM ID 83340	Conservation Acitivties	N/A
11-Sep-02	MARYLAND ENVIRONMENTAL TRUST (MALTC)	1,000.00	100 COMMUNITY PL 1ST FL CROWNSVILLE MD 21032-2023	Conservation Acitivties	N/A
12-Sep-02	N/A	(5,000.00)	N/A	Conservation Acitivties	N/A
12-Sep-02	OPEN SPACE YES!	1,000.00	PO BOX 273181 FORT COLLINS CO 80527-3181	Conservation Acitivties	N/A
12-Sep-02	NEW MEXICO NATURAL HERITA	124,000.00	UNIVERSITY OF NEW MEXICO DEPARTMENT OF BIOLOGY 167 CASTETTER HALL ALBUQUERQUE NM 87131	Conservation Acitivties	N/A
12-Sep-02	NEW MEXICO NATURAL HERITA	56,342.00	UNIVERSITY OF NEW MEXICO DEPARTMENT OF BIOLOGY 167 CASTETTER HALL ALBUQUERQUE NM 87131	Conservation Acitivties	N/A
12-Sep-02	POSTMASTER	1,000.00	C/O TNC, 559 East South Temple, Salt Lake City, UT 84102	Conservation Acitivties	N/A
12-Sep-02	POSTMASTER	(1,000.00)	C/O TNC, 559 East South Temple, Salt Lake City, UT 84102	Conservation Acitivties	N/A
13-Sep-02	Fundación Amigos de la Naturaleza (FAN)	2,000.00	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
13-Sep-02	Fundación Moises Bertoni para la Conservación de la Naturaleza (FMB)	18,592.00	Procer Carlos Arguello, 208 entre Av. Mcal. Lopez y Av. Boggiani, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
13-Sep-02	Sociedad de Historia Natural de Niparaja (NIPARAJA)	1,200.00	Calle Alvaro Obregon # 460 Of.209, Colonia Centro, La Paz, Baja California Sur, México 23000	Grant pursuant to federal award.	N/A
13-Sep-02	Fundacion Pro-Sierra Nevada de Santa Marta	12,301.81	Calle 17 No: 3-83, Santa Marta, Colombia	Grant pursuant to federal award.	N/A
13-Sep-02	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	30,075.12	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
13-Sep-02	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	60,438.22	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
13-Sep-02	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	35,359.95	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
13-Sep-02	Instituto de Historia Natural y Ecologia (IHNE)	12,600.00	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
13-Sep-02	Instituto de Historia Natural y Ecologia (IHNE)	15,350.00	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
13-Sep-02	Protección del Medio Ambiente Tarija (PROMETA)	45,000.00	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
13-Sep-02	Protección del Medio Ambiente Tarija (PROMETA)	18,000.00	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
13-Sep-02	Protección del Medio Ambiente Tarija (PROMETA)	12,660.00	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
13-Sep-02	Protección del Medio Ambiente Tarija (PROMETA)	3,175.51	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
13-Sep-02	Mahonia na Dari Conservation and Research Centre	3,027.00	P.O. Box 697, Kimbe, West New Britain, Papua New Guinea	Grant pursuant to federal award.	N/A
13-Sep-02	RED BUTTE GARDEN	100.00	UNIVERSITY OF UTAH 300 WAKARA WY. SALT LAKE CITY UT 84108	Conservation Acitivties	N/A
15-Sep-02	BAR NI RANCH	2,127.50	6614 HWY 12 WESTON CO 81091	Conservation Acitivties	N/A
15-Sep-02	GENERAL COFFEE STATE PARK	100.00	46 JOHN COFFEE ROAD NICHOLLS GA 31554	Conservation Acitivties	N/A
16-Sep-02	Pronatura Noreste A.C. (PNE)	(20,000.00)	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
16-Sep-02	Pronatura Noreste A.C. (PNE)	(60,000.00)	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
16-Sep-02	Pronatura Noreste A.C. (PNE)	20,000.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
16-Sep-02	Pronatura Noreste A.C. (PNE)	60,000.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
16-Sep-02	Fundacion Moscoso Puello (FMP)	(7,500.00)	Ave. John F Kennedy, Km 7 , Edif. AJFA, Los Jardines del Norte, P.O. Box 1533, Zona 1, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A
16-Sep-02	Fundacion Moscoso Puello (FMP)	7,500.00	Ave. John F Kennedy, Km 7 , Edif. AJFA, Los Jardines del Norte, P.O. Box 1533, Zona 1, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A

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16-Sep-02	RESTORE AMERICA'S ESTUARIES	10,000.00	3801 NORTH FAIRFAX DRIVE SUITE 53 ARLINGTON VA 22203	Conservation Acitivties	N/A
18-Sep-02	The Nature Conservancy (TNC)	(13,216.00)	Hermosillo - Mexico Office, Calle Guadalupe Victoria, No 15, Int 14, Plaza Fatima, Colonia San Benito, Hermisillo, Sonora, Mexico	Subsequently reclassed from 5078 (Sub-recipient Expense) to 1089 (in country bank account).	N/A
18-Sep-02	Amigos de Sian Ka'an (ASK)	(30,000.00)	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
20-Sep-02	Jose Antonio Saito Diaz	1,775.00	Centro de Datos para la Conservación de Perú (CDC), Universidad Nacional Agraria La Molina, Apartado Postal 456, Lima 100, PERU	Conservation Acitivties	N/A
20-Sep-02	LEAVE A LEGACY	250.00	P.O. BOX 780021 OKLAHOMA CITY OK 73178	Conservation Acitivties	N/A
23-Sep-02	MASSACHUSETTS LAND TRUST	5,000.00	2 CLOCK TOWER PLACE SUITE 500 MAYNARD MA 01754	Conservation Acitivties	N/A
23-Sep-02	LEON RIVER FIELD DAY	150.00	401 ISOM RD, SUITE 237 SAN ANTONIO TX 78216	Conservation Acitivties	N/A
25-Sep-02	FLATHEAD LAND TRUST	250.00	P O BOX 1913 KALISPELL MT 59903-1913	Conservation Acitivties	N/A
25-Sep-02	TEXAS SECTION SOCIETY FOR RANGE MANAGEMENT	(125.00)	1510 29TH ST HONDO TX 78861	Conservation Acitivties	N/A
25-Sep-02	TEXAS SECTION SOCIETY FOR RANGE MANAGEMENT	(125.00)	1510 29TH ST HONDO TX 78861	Conservation Acitivties	N/A
25-Sep-02	TEXAS SECTION SOCIETY FOR RANGE MANAGEMENT	(125.00)	1510 29TH ST HONDO TX 78861	Conservation Acitivties	N/A
25-Sep-02	TEXAS SECTION SOCIETY FOR RANGE MANAGEMENT	(125.00)	1510 29TH ST HONDO TX 78861	Conservation Acitivties	N/A
25-Sep-02	RIVER COUNTRY RC&D COUNCI	75.00	GLCI CONFERENCE P. O. BOX 207 ALTOONA WI 54720	Conservation Acitivties	N/A
25-Sep-02	TREASURER, STATE OF MAINE	25,000.00	39 State House Station, Augusta, ME 04333-0039	Land acquisition related funding.	N/A
26-Sep-02	COUNCIL FOR SUSTAINABLE FLORIDA	500.00	PO BOX 10688 TALLAHASSEE FL 32302	Conservation Acitivties	N/A
26-Sep-02	COUNCIL FOR SUSTAINABLE FLORIDA	500.00	PO BOX 10688 TALLAHASSEE FL 32302	Conservation Acitivties	N/A
26-Sep-02	COUNCIL FOR SUSTAINABLE FLORIDA	(500.00)	PO BOX 10688 TALLAHASSEE FL 32302	Conservation Acitivties	N/A
26-Sep-02	Fundacao Zoobotanica de Maraba (FZM)	3,389.83	Rua Norberto de Melo 1233, Cidade Pioneira, Maraba - PA BRAZIL	Conservation Acitivties	N/A
26-Sep-02	Instituto Socioambiental	6,762.71	Sede Brasilia , SCLN, 210 Bloco C sala 112, Brasilia – DF, CEP:70862-530	Conservation Acitivties	N/A
26-Sep-02	Conselho Indigena de Roraima (CIR)	6,779.66	Avenida Sebastiao Dinia 2630, Bairro Sao Vincente, Boa Vista - RR, CEP: 69,303-120	Conservation Acitivties	N/A
26-Sep-02	Associação dos Povos Indígenas do Estado de Roraima (APIRR)	7,888.14	Rua Carlos Natrot 881, Bairro Liberdade, 69 309-250 Boa Vista RR	Conservation Acitivties	N/A
26-Sep-02	Coordenacao da Uniao das Nacoes e Povos Indigenas de Rondonia (CUNPIR)	8,906.78	Rua Alfazema, 181, COHAB Floresta II - CEP: 78.900-210-Porto Velho- RO	Conservation Acitivties	N/A
30-Sep-02	Fideicomiso para la Conservación de Guatemala (FCG)	330.83	8 Avenida "A" 2-18, zona 1, Colonia Trinidad, Guatemala City, Guatemala 01015	Conservation Acitivties	N/A
30-Sep-02	MUNICIPALIDAD DE LA REINA	10,000.00	BECHCLRM AV. PRINCIPE GALES NUMERO 7027	Grant pursuant to federal award.	N/A
30-Sep-02	Protección del Medio Ambiente Tarija (PROMETA)	576.23	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-Sep-02	Protección del Medio Ambiente Tarija (PROMETA)	(576.23)	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-Sep-02	Fondo Mexicano para la Conservacion de la Naturaleza, A.C. (FMCN)	(67,262.50)	Damas 49, San Jose Insurgentes, 03900, Mexico D.F.	Grant pursuant to federal award.	N/A
30-Sep-02	Fondo Mexicano para la Conservacion de la Naturaleza, A.C. (FMCN)	67,262.50	Damas 49, San Jose Insurgentes, 03900, Mexico D.F.	Grant pursuant to federal award.	N/A
30-Sep-02	Asociación Boliviana para la Conservación (TRÓPICO)	8,000.00	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-Sep-02	Fondo Mexicano para la Conservacion de la Naturaleza, A.C. (FMCN)	278,577.00	Damas 49, San Jose Insurgentes, 03900, Mexico D.F.	Grant pursuant to federal award.	N/A
30-Sep-02	Fundacion Moscoso Puello (FMP)	13,500.00	Ave. John F Kennedy, Km 7 , Edif. AJFA, Los Jardines del Norte, P.O. Box 1533, Zona 1, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A
30-Sep-02	Pronatura Veracruz	(30,000.00)	The Veracruz Project, PO Box 73, Kempton, PA 19529-0073	Conservation Acitivties	N/A
30-Sep-02	NEW MEXICO NATURAL HERITAGE	2,092.00	UNIVERSITY OF NEW MEXICO DEPARTMENT OF BIOLOGY 167 CASTETTER HALL ALBUQUERQUE NM 87131	Conservation Acitivties	N/A
30-Sep-02	WILKE NELSON	7,561.00	C/O NATIONAL PARK FOUNDATION 1101 17TH ST., NW SUITE 1008 WASHINGTON DC 20036	Conservation Activities	None identified.
30-Sep-02	Pronatura Veracruz	30,000.00	The Veracruz Project, PO Box 73, Kempton, PA 19529-0073	Conservation Acitivties	N/A
30-Sep-02	Yayasan bumi	196.30	Jl. Perjuanjan Komplex Alam, Segar B-1 Rt.02, Samarinda 75119	Conservation Acitivties	N/A
30-Sep-02	RT/Chief of Neighbourhood	11.22	C/O TNC, Samarinda FO, Jl Juranji No 1, Samarinda, Kalimantan, Timor , INDONESIA	Conservation Acitivties	N/A
30-Sep-02		10,000.00	P.O. Box 6416, Sackville NB E4L 1G[illegible] CANADA	Conservation Activities	N/A
30-Sep-02	The Nature Conservancy of Canada	50,000.00	110 Eglinton Avenue West-4th Floor, Toronto, Ontario, M4R 1A3	Conservation Activities	N/A
30-Sep-02	York Land Trust, Inc.	8,745.95	P.O. Box 1241, York Harbor, ME 03911	Land acquisition related funding.	N/A
30-Sep-02	The Nature Conservancy of Canada	20,000.00	110 Eglinton Avenue West-4th Floor, Toronto, Ontario, M4R 1A3	Conservation Activities	N/A
1-Oct-02	PRONATURA NORESTE	399.88	TORRE GIA, PISO 3, AVENIDA MORONES PRIETO 2805 PTE, COL. LOMAS DE SAN FRANCISCO , MONTERREY, NUEVO LEON CP. 64710 MX	Conservation Activities	N/A
1-Oct-02	Fundacion Moscoso Puello (FMP)	1,125.00	Ave. John F Kennedy, Km 7 , Edif. AJFA, Los Jardines del Norte, P.O. Box 1533, Zona 1, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A

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1-Oct-02	VERMONT INSTITUTE OF NATURAL SCIENCE	7,000.00	27023 CHURCH HILL ROAD WOODSTOCK VT 05091	Grant pursuant to federal award.	N/A
1-Oct-02	THE RESEARCH FOUNDATION OF THE STATE UNIVERSITY OF NEW YORK (SUNY)	9,863.36	P.O. BOX 9 ATTN: BONNIE SEWARD, TREASURER ALBANY NY 12201	Conservation Activities	N/A
1-Oct-02	WORLD WILDLIFE FUND	11,700.05	1250 TWENTY-FOURTH ST., N W WASHINGTON DC 20037	Grant pursuant to federal award.	N/A
1-Oct-02	WORLD WILDLIFE FUND	54,051.07	1250 TWENTY-FOURTH ST., N W WASHINGTON DC 20037	Grant pursuant to federal award.	N/A
1-Oct-02	WORLD WILDLIFE FUND	6,734.74	1250 TWENTY-FOURTH ST., N W WASHINGTON DC 20037	Grant pursuant to federal award.	N/A
1-Oct-02	WORLD WILDLIFE FUND	1,464.92	1250 TWENTY-FOURTH ST., N W WASHINGTON DC 20037	Grant pursuant to federal award.	N/A
1-Oct-02	TIP OF THE MITT WATERSHED	(12,295.00)	PO BOX 300 CONWAY MI 49722	Conservation Activities	N/A
1-Oct-02	CITIZENS FOR BETTER FLATHEAD	250.00	PO BOX 771 KALISPELL MT 59903	Conservation Activities	N/A
1-Oct-02	CITIZENS FOR BETTER FLATHEAD	250.00	PO BOX 771 KALISPELL MT 59903	Conservation Activities	N/A
1-Oct-02	MADISON COUNTY BOARD OF COMMISSIONERS	1,400.00	MADISON COUNTY COURTHOUSE LONDON OH 43140	Conservation Activities	N/A
1-Oct-02	LAND TRUST ALLIANCE	1,725.00	1331 H STREET NW SUITE 400 WASHINGTON DC 20005-4734	Conservation Activities	N/A
1-Oct-02	LUCIUS BURCH CENTER	2,000.00	PO BOX 896 DUBOIS WY 82513-0896	Conservation Activities	N/A
1-Oct-02	ECO ENTERPRISES FUND	50,000.00	4245 N. FAIRFAX DR. ARLINGTON VA 22203	Conservation Activities	N/A
2-Oct-02	NATURESERVE	2,634.09	1101 WILSON BLVD, 15TH FL ARLINGTON VA 22209	Conservation Activities	N/A
2-Oct-02	NATURESERVE	4,850.80	1101 WILSON BLVD, 15TH FL ARLINGTON VA 22209	Conservation Activities	N/A
2-Oct-02	Instituto de Derecho Ambiental y Desarrlo Sustentable (IDEADS)	6,048.00	3era Avenida 4-68, Apto B. Zona 1, Guatemala City, Guatemala 01001	Grant pursuant to federal award.	N/A
2-Oct-02	PECONIC BAYKEEPER PROGRAM	185.00	206 LINCOLN STREET PO BOX 1308 RIVERHEAD NY 11901	Conservation Activities	N/A
2-Oct-02	PECONIC BAYKEEPER PROGRAM	185.00	206 LINCOLN STREET PO BOX 1308 RIVERHEAD NY 11901	Conservation Activities	N/A
2-Oct-02	TNC ACTION FUND	200,000.00	4245 N. FAIRFAX DR. ARLINGTON VA 22203	Conservation Activities	N/A
3-Oct-02	TOWN OF BEALS	700.00	11 Big Pond Road, Beals, ME 04611	Conservation Activities	N/A
3-Oct-02	COMMUNITY PRESERVATION FUND 2020	5,000.00	296 HAMPTON ROAD SOUTHAMPTON NY 11968	Conservation Activities	N/A
3-Oct-02	COMMUNITY PRESERVATION FUND 2020	5,000.00	296 HAMPTON ROAD SOUTHAMPTON NY 11968	Conservation Activities	N/A
3-Oct-02	1000 FRIENDS LAND USE INSTITUTE	100.00	1000 FRIENDS OF WISCONSIN 16 N. CARROLL ST., SUITE 810 MADISON WI 53703	Conservation Activities	N/A
4-Oct-02	CENTRAL FLORIDA PRESCRIBED FIRE COUNCIL	250.00	FIRE COUNCIL 525 COMMUNITY COLLEGE PKWY SE PALM BAY FL 32909	Conservation Activities	N/A
8-Oct-02	JACKSON COUNTY PARKS DEPT	250.00	PO Box 175, McKee, KY 40447	Conservation Activities	N/A
8-Oct-02	TEXAS SECTION SOCIETY FOR RANGE MANAGEMENT	125.00	C/O DR. CHARLES A. TAYLOR, JR. PO BOX 918 SONORA TX 76950	Conservation Activities	N/A
8-Oct-02	TEXAS SECTION SOCIETY FOR RANGE MANAGEMENT	125.00	C/O DR. CHARLES A. TAYLOR, JR. PO BOX 918 SONORA TX 76950	Conservation Activities	N/A
8-Oct-02	TEXAS SECTION SOCIETY FOR RANGE MANAGEMENT	125.00	C/O DR. CHARLES A. TAYLOR, JR. PO BOX 918 SONORA TX 76950	Conservation Activities	N/A
8-Oct-02	TEXAS SECTION SOCIETY FOR RANGE MANAGEMENT	125.00	C/O DR. CHARLES A. TAYLOR, JR. PO BOX 918 SONORA TX 76950	Conservation Activities	N/A
9-Oct-02	NORTH HARRISON HIGH SCHOOL	250.00	12023 FIR STREET EAGLEVILLE MO 64442	Conservation Activities	N/A
9-Oct-02	THE NATURE CONSERVANCY ACTION FUND	10,000.00	4201 WILSON BLVD. SUITE 110624 ARLINGTON VA 22203	Conservation Activities	N/A
10-Oct-02	BATESNEIMAND, INC.	8,000.00	1025 VERMONT AVENUE WASHINGTON DC 20005	Conservation Activities	N/A
15-Oct-02	TNC ACTION FUND	200,000.00	4245 N. FAIRFAX DR. ARLINGTON VA 22203	Conservation Activities	N/A
15-Oct-02	COLORADO CATTLEMEN'S LAND	1,135.00	8833 RALSTON RD ARVADA CO 80002	Conservation Activities	N/A
15-Oct-02	COMMUNITY PRESERVATION FUND 2020	2,275.00	296 HAMPTON ROAD SOUTHAMPTON NY 11968	Conservation Activities	N/A
15-Oct-02	COMMUNITY PRESERVATION FUND 2020	2,275.00	296 HAMPTON ROAD SOUTHAMPTON NY 11968	Conservation Activities	N/A
15-Oct-02	MIAMI COUNTY PARK DISTRICT	46,000.00	EXECUTIVE DIRECTOR 2535 EAST ROSS ROAD TIPP CITY OH 45371	Grant pursuant to federal award.	N/A
15-Oct-02	COUNTY OF VENTURA	7,500.00	RESOURCE PLANNING AGENCY 800 S. VICTORIA AVE L-1700 VENTURA CA 93009	Conservation Activities	N/A
17-Oct-02	SACRAMENTO RIVER WATERSHED PROGRAM	500.00	327 COLLEGE ST., SUITE 205 WOODLAND CA 95695	Conservation Activities	N/A
17-Oct-02	HAWAII SERVICE TRIP PROGRAM	800.00	1545 NEHOA ST. #301 HONOLULU HI 96822	Conservation Activities	N/A
17-Oct-02	THE NATURE CONSERVANCY ACTION FUND	5,000.00	4201 WILSON BLVD. SUITE 110624 ARLINGTON VA 22203	Conservation Activities	N/A
18-Oct-02	TOWN OF YORK	7,418.00	TAX COLLECTOR 186 YORK STREET YORK ME 03909	Conservation Activities	N/A
18-Oct-02	THE FRIENDS OF THE RIO GRANDE	1,000.00	NATURE CENTER 2901 CANDELARIA N.W. ALBUQUERQUE NM 87107	Conservation Activities	N/A
21-Oct-02	ECOLOGICAL SOCIETY OF AMERICA	50.00	DEPARTMENT 0666 WASHINGTON DC 20073-0666	Conservation Activities	N/A
22-Oct-02	Associação Caatinga (AC)	21,877.00	Av. Santos Dumont, 3060 - Salas 516 e 518 - Aldeota - 60150-161 Fortaleza – CE, BRAZIL	Grant pursuant to federal award.	N/A
22-Oct-02	Fundación Moises Bertoni para la Conservación de la Naturaleza (FMB)	18,592.00	Procer Carlos Arguello, 208 entre Av. Mcal. Lopez y Av. Boggiani, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
22-Oct-02	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	20,000.00	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
22-Oct-02	Fundacion Moscoso Puello (FMP)	11,475.00	Ave. John F Kennedy, Km 7 , Edif. AJFA, Los Jardines del Norte, P.O. Box 1533, Zona 1, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A
22-Oct-02	Pronatura Noreste A.C. (PNE)	25,000.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
22-Oct-02	Sociedad de Historia Natural de Niparaja (NIPARAJA)	33,381.01	Calle Alvaro Obregon # 460 Of.209, Colonia Centro, La Paz, Baja California Sur, México 23000	Grant pursuant to federal award.	N/A
22-Oct-02	Pronatura Noreste A.C. (PNE)	13,180.64	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
22-Oct-02	The Southern Trelawny Environmental Agency (STEA)	6,406.38	#3 Grants Office Complex, Albert Town, Trelawny, Jamaica	Grant pursuant to federal award.	N/A
22-Oct-02	The Southern Trelawny Environmental Agency (STEA)	15,000.00	#3 Grants Office Complex, Albert Town, Trelawny, Jamaica	Grant pursuant to federal award.	N/A
22-Oct-02	Sociedad de Historia Natural de Niparaja (NIPARAJA)	3,000.00	Calle Alvaro Obregon # 460 Of.209, Colonia Centro, La Paz, Baja California Sur, México 23000	Grant pursuant to federal award.	N/A
22-Oct-02	Fondo Pro-Naturaleza (PRONATURA)	7,110.00	Oficinas Gubernamentales, Edificios A, ONAPLAN, 1er Piso Calle Dr. Delgado, Esq. Av. Méjico, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A

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22-Oct-02	ILLINOIS NATURAL HISTORY	8,000.00	607 E. PEABODY DRIVE CHAMPAIGN IL 61820	Conservation Activities	N/A
22-Oct-02	FRIENDS OF THE SONORAN DESERT	5,000.00	PO BOX 2147 TUCSON AZ 85702	Conservation Activities	N/A
22-Oct-02	The Nature Conservancy of Canada	1,000,000.00	110 Eglinton Avenue West-4th Floor, Toronto, Ontario, M4R 1A3	Conservation Activities	N/A
23-Oct-02	Fundación Amigos de la Naturaleza (FAN)	(34,906.03)	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Conservation Activities	N/A
23-Oct-02	Fundación Amigos de la Naturaleza (FAN)	34,906.03	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Conservation Activities	N/A
23-Oct-02	COMMUNITY PRESERVATION FUND 2020	5,000.00	296 HAMPTON ROAD SOUTHAMPTON NY 11968	Conservation Activities	N/A
23-Oct-02	COMMUNITY PRESERVATION FUND 2020	5,000.00	296 HAMPTON ROAD SOUTHAMPTON NY 11968	Conservation Activities	N/A
23-Oct-02	EAGLE VALLEY RAPTOR RESEARCH	8,600.00	C/O BRETT MANDERNACK, MANGR 8411 DUNCAN ROAD GLEN HAVEN WI 53810	Conservation Activities	N/A
23-Oct-02	US FISH & WILDLIFE SERVICE	1,000.00	DIVISION OF MIGRATORY BIRD MGMT. 4401 N. FAIRFAX DRIVE, MBST-4107 ARLINGTON VA 22203	Conservation Activities	N/A
24-Oct-02	Merced Grasslands - Nelson (Revised)	480,000.00	Reclass (see below)	Conservation Activities	N/A
24-Oct-02	HAWKWATCH INTERNATIONAL	1,000.00	1800 SW TEMPLE, #226 SALT LAKE CITY UT 84115	Conservation Activities	N/A
24-Oct-02	NORTHHAMPTON COUNTY CITIZENS FOR OPEN SPACES	3,000.00	FOR OPEN SPACES C/O THE NATURE CONSERVANCY 500 N. THIRD ST. 6TH FLOOR HARRISBURG PA 17101	Conservation Activities	N/A
24-Oct-02	Fundación ANAI/Costa Rica (ANAI)	36,900.00	Apartado 170-2070, Sabanilla de Montes de Oca, COSTA RICA	Conservation Activities	N/A
24-Oct-02	Fundación Alistar	26,534.63	MGA 0111, PO Box 025362, Miami, FL 33102-5362	Conservation Activities	N/A
24-Oct-02	The Centro de Derecho Ambiental y Promocion para el Desarrollo (CEDAPRODE)	14,266.05	Colonia Centro América, de la Farmacia, Vida, 1 Cuadra al Sur y 20 varas, Arriba a mano derecha # D- 229, Managua, NICARAGUA	Conservation Activities	N/A
24-Oct-02	Fundación Alistar	5,301.87	MGA 0111, PO Box 025362, Miami, FL 33102-5362	Conservation Activities	N/A
24-Oct-02	Fundación Alistar	7,000.00	MGA 0111, PO Box 025362, Miami, FL 33102-5362	Conservation Activities	N/A
24-Oct-02	The Centro de Derecho Ambiental y Promocion para el Desarrollo (CEDAPRODE)	19,136.75	Colonia Centro América, de la Farmacia, Vida, 1 Cuadra al Sur y 20 varas, Arriba a mano derecha # D- 229, Managua, NICARAGUA	Conservation Activities	N/A
24-Oct-02	The Centro de Derecho Ambiental y Promocion para el Desarrollo (CEDAPRODE)	8,375.52	Colonia Centro América, de la Farmacia, Vida, 1 Cuadra al Sur y 20 varas, Arriba a mano derecha # D- 229, Managua, NICARAGUA	Conservation Activities	N/A
24-Oct-02	The Centro de Derecho Ambiental y Promocion para el Desarrollo (CEDAPRODE)	6,500.00	Colonia Centro América, de la Farmacia, Vida, 1 Cuadra al Sur y 20 varas, Arriba a mano derecha # D- 229, Managua, NICARAGUA	Conservation Activities	N/A
24-Oct-02	Merced Grasslands - Nelson (Revised)	(480,000.00)	Reclass (see above)	Conservation Activities	N/A
25-Oct-02	SAVE THE RHINO TRUST	1,000.00	4137 NE 70TH AVENUE PORTLAND OR 97218-3670	Conservation Activities	N/A
25-Oct-02	CHEETHA CONSERVATION FUND	1,500.00	4137 N E 70TH AVENUE PORTLAND OR 97218-3670	Conservation Activities	N/A
28-Oct-02	Transreceptores,S.A.	412.32	Ave. Las Americas 18.52, Zona 13, Guatemala, C.A.	Conservation Activities	N/A
29-Oct-02	Fundacion Amigos de la Isla del Coco (FAICO)	8,500.00	Apdo. 276-1005 Barrio Mexico - San Jose, Costa Rica	Conservation Activities	N/A
30-Oct-02	Fideicomiso para la Conservación de Guatemala (FCG)	(2,439.84)	8 Avenida "A" 2-18, zona 1, Colonia Trinidad, Guatemala City, Guatemala 01015	Grant pursuant to federal award.	N/A
30-Oct-02	Fundacion Moscoso Puello (FMP)	(10,600.00)	Ave. John F Kennedy, Km 7 , Edif. AJFA, Los Jardines del Norte, P.O. Box 1533, Zona 1, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A
30-Oct-02	Fundacion Moscoso Puello (FMP)	10,600.00	Ave. John F Kennedy, Km 7 , Edif. AJFA, Los Jardines del Norte, P.O. Box 1533, Zona 1, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A
30-Oct-02	CONSERVATION BEEF	39,704.35	P O BOX 748 HELENA MT 59624	Conservation Activities	N/A
30-Oct-02	Pronatura Noreste A.C. (PNE)	759.47	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Conservation Activities	N/A
30-Oct-02	Pronatura Noreste A.C. (PNE)	(5,000.00)	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Conservation Activities	N/A
30-Oct-02	Pronatura Noreste A.C. (PNE)	5,000.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Conservation Activities	N/A
30-Oct-02	Amigos de Sian Ka'an (ASK)	(537.63)	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Conservation Activities	N/A
30-Oct-02	Amigos de Sian Ka'an (ASK)	537.63	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Conservation Activities	N/A
31-Oct-02	Yayasan Jambata (Jambata Foundation)	1,654.00	Jl Kakatua II No 14, Palu, Sulawesi Tengah, Indonesia	Grant pursuant to federal award.	N/A
31-Oct-02	LPA AWAM Green	1,519.89	Jalan Towua II No. 43 A, Palu - Sulawesi Tengah, 94113	Grant pursuant to federal award.	N/A
31-Oct-02	Yayasan UGH Indonesia	1,519.89	Jl. Kutilang V No. 25, Palu, Sulawesi Tengah, Indonesia	Grant pursuant to federal award.	N/A
31-Oct-02	Fundação O Boticário de Proteção à Natureza (FBPN)	8,452.50	Av. Rui Barbosa, 3450 - Afonso Pena - 83065-260 São José dos Pinhais – PR, BRAZIL	Grant pursuant to federal award.	N/A
31-Oct-02	Fundação O Boticário de Proteção à Natureza (FBPN)	32,102.63	Av. Rui Barbosa, 3450 - Afonso Pena - 83065-260 São José dos Pinhais – PR, BRAZIL	Grant pursuant to federal award.	N/A
31-Oct-02	Fondo Pro-Naturaleza (PRONATURA)	10,000.00	Oficinas Gubernamentales, Edificios A, ONAPLAN, 1er Piso Calle Dr. Delgado, Esq. Av. Méjico, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A
31-Oct-02	Asociación Patronato Vivamos Mejor	582.36	Calle de los Salpores 0-83, zona 3, Barrio Jucanyá, Panajachel, Sololá, Guatemala	Grant pursuant to federal award.	N/A
31-Oct-02	Asociación Patronato Vivamos Mejor	5,758.54	Calle de los Salpores 0-83, zona 3, Barrio Jucanyá, Panajachel, Sololá, Guatemala	Grant pursuant to federal award.	N/A
31-Oct-02	Fundación Defensores de la Naturaleza (FDN)	35,000.00	7 Avenida 7-09, zona 13, Guatemala City, Guatemala 01013	Grant pursuant to federal award.	N/A
31-Oct-02	Fundación Defensores de la Naturaleza (FDN)	35,000.00	7 Avenida 7-09, zona 13, Guatemala City, Guatemala 01013	Grant pursuant to federal award.	N/A
31-Oct-02		23,000.00		Grant pursuant to federal award.	N/A
31-Oct-02		40,000.00		Grant pursuant to federal award.	N/A
31-Oct-02	EcoNatura	30,000.00	Apdo. 63109, Caracas 1067-A, Venezuela	Grant pursuant to federal award.	N/A
31-Oct-02		6,631.30		Grant pursuant to federal award.	N/A
31-Oct-02	Fundação SOS Amazônia	116,256.98	Rua Pará, 51 - Bairro Cadeia Velha - 69900-440 Rio Branco – AC, BRAZIL	Grant pursuant to federal award.	N/A
31-Oct-02	Fundación Amigos de la Naturaleza (FAN)	3,086.73	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A

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31-Oct-02	Fundación Defensores de la Naturaleza (FDN)	130.70	7 Avenida 7-09, zona 13, Guatemala City, Guatemala 01013	Conservation Activities	N/A
31-Oct-02	Toledo Institute for Development and Environment (TIDE)	5,000.00	P.O. Box 150, Punta Gorda, Toledo District, BELIZE	Grant pursuant to federal award.	N/A
31-Oct-02	Toledo Institute for Development and Environment (TIDE)	55,424.32	P.O. Box 150, Punta Gorda, Toledo District, BELIZE	Grant pursuant to federal award.	N/A
31-Oct-02	Toledo Institute for Development and Environment (TIDE)	17,977.14	P.O. Box 150, Punta Gorda, Toledo District, BELIZE	Grant pursuant to federal award.	N/A
31-Oct-02	Friends of Nature (FoN)	40,160.00	Placencia Village, Stann Creek District, Belize	Conservation Activities	N/A
31-Oct-02	Wu Hua FangYuan Tech. Company	914.04	KunMing, Yunnan, PRC	Conservation Activities	N/A
31-Oct-02	Lashihai Ecotourism Company	2,421.31	Lijiang, Yunnan, China	Conservation Activities	N/A
31-Oct-02	Dyatmika PTFA	354.41	Jalan Pucuk Bank, Banjar Tangtu, Denpasar 80035	Conservation Activities	N/A
31-Oct-02	Yayasan Bumi	719.90	Jl. Perjuangan Kompleks Alam Segar B-1, Samarinda - 75119 Kalimantan Timur	Conservation Activities	N/A
31-Oct-02	*AMCA/Sire Fisheries Center	688.50	C/O The Nature Conservancy, PO Box 759, Honiara, Solomon Islands	Conservation Activities	N/A
31-Oct-02	*AMCA/Wagina Fisheries Center	688.50	C/O The Nature Conservancy, PO Box 759, Honiara, Solomon Islands	Conservation Activities	N/A
1-Nov-02	NATURESERVE	14,322.85	1101 WILSON BLVD, 15TH FL ARLINGTON VA 22209	Conservation Activities	N/A
1-Nov-02	VERMONT INSTITUTE OF NATURAL SCIENCE	(7,000.00)	27023 CHURCH HILL ROAD WOODSTOCK VT 05091	Grant pursuant to federal award.	N/A
1-Nov-02	CONSERVATION BEEF	115,000.00	PO BOX 748 HELENA MT 59624	Conservation Activities	N/A
1-Nov-02	M. BAGLEY WALKER, JR.	(1,545.00)	PO BOX 178 PUNGOTEAGUE VA 23422	Conservation Activities	None identified.
1-Nov-02	MARK S. MCNAIR	(3,685.00)	ISLAND NECK ROAD CRADDOCKVILLE VA 23341	Conservation Activities	None identified.
1-Nov-02	MIKE BRILL	600.00	PO BOX 651 SAGUACHE CO 81149	Conservation Activities	None identified.
1-Nov-02	MONTE VISTA BAKERY	105.00	1042 PARK AVE MONTE VISTA CO 81144	Conservation Activities	N/A
1-Nov-02	WASTE MANAGEMENT OF SOUTHERN COLORADO	350.00	ACCT# 065-0004508-2528-6 P.O. BOX 78251 PHOENIX AZ 85062-8251	Conservation Activities	N/A
1-Nov-02	GOSAR RANCH NATURAL FOODS	292.00	4005 EAST 2-1/2 NORTH MONTE VISTA CO 81144	Conservation Activities	N/A
1-Nov-02	BABCOCK RENTAL CENTER	574.88	PO BOX 1294 ALAMOSA CO 81101	Conservation Activities	N/A
1-Nov-02	RIO GRANDE HEADWATERS LAND TRUST	500.00	PO BOX 780 ALAMOSA CO 81101-9988	Conservation Activities	N/A
1-Nov-02	OHIA PRODUCTIONS	10,000.00	98-027 HEKAHA ST., UNIT 23 AIEA HI 96701	Conservation Activities	N/A
1-Nov-02	RCUH PROJECT 1320	5,800.00	C/O SECRETARIAT FOR CONSERVATION BIOLOGY 3050 MAILE WAY, GILMORE 409 HONOLULU HI 96822	Conservation Activities	N/A
1-Nov-02	BERKSHIRE REGIONAL PLANNING COMMISSION	150.00	1 FENN STREET, SUITE 201 PITTSFIELD MA 01201	Conservation Activities	N/A
1-Nov-02	THE MINING JOURNAL/NIE	75.00	PO BOX 430 MARQUETTE MI 49855	Conservation Activities	N/A
1-Nov-02	MICHIGAN NATURAL FEATURES INVENTORY	14,250.00	530 WEST ALLEGAN 3RD FLOOR, EAST WING LANSING MI 48933	Conservation Activities	N/A
1-Nov-02	AERO	500.00	432 NORTH LAST CHANCE GULCH HELENA MT 59601	Conservation Activities	N/A
1-Nov-02	THE OHIO CHAPTER OF THE WILDLIFE SOCIETY	500.00	OHIO AVIAN ECOLOGY & CONSERVATION CONFERENCE 8589 HORSESHOE ROAD ASHLEY OH 43003	Conservation Activities	N/A
1-Nov-02	SILVER LAKE NATURE CENTER	50.00	1306 BATH ROAD BRISTOL PA 19007-2813	Conservation Activities	N/A
1-Nov-02	GALVESTON BAY FOUNDATION	100.00	17324-A HIGHWAY 3 WEBSTER TX 77598	Conservation Activities	N/A
1-Nov-02	WILDLIFE REHAB & EDUCATION	100.00	PO BOX 340 HOUSTON TX 77005	Conservation Activities	N/A
1-Nov-02	THE MONTPELIER FOUNDATION	3,500.00	11407 CONSTITUTION HWY PO BOX 67 MONTPELIER STATION VA 22957	Conservation Activities	N/A
1-Nov-02	COALITION FOR JOBS & THE ENVIRONMENT	150.00	P O BOX 645 ABINGDON VA 24212	Conservation Activities	N/A
1-Nov-02	GREEN RIVER VALLEY LAND TRUST	(24,166.67)	PO BOX 1580 PINEDALE WY 82941	Conservation Activities	N/A
1-Nov-02	LIGHTHAWK	520.00	P O BOX 653 LANDER WY 82520	Conservation Activities	N/A
1-Nov-02	BERKSHIRE REGIONAL PLANNING COMMISSION	150.00	1 FENN STREET, SUITE 201 PITTSFIELD MA 01201	Conservation Activities	N/A
1-Nov-02	THE BARRIER ISLANDS CENTER	100.00	P O BOX 206 MACHIPONGO VA 23405	Conservation Activities	N/A
1-Nov-02	SHIRLEY HEINZE ENVIRONMENTAL FUND	10,000.00	444 Barker Road, Michigan City, IN 46360	Conservation Activities	N/A
1-Nov-02	SWAN CONSERVATION TRUST	3,700.00	PO BOX 162 SUMMERTOWN TN 38483	Conservation Activities	N/A
1-Nov-02	WYOMING STOCKGROWER'S ASSOCIATION	3,000.00	P.O. BOX 206 CHEYENNE WY 82003	Conservation Activities	N/A
1-Nov-02	GREEN RIVER VALLEY LAND TRUST	24,166.67	PO BOX 1580 PINEDALE WY 82941	Conservation Activities	N/A
4-Nov-02	WINDSOR RESEARCH CENTRE	10,000.00	SHERWOOD CONTENT P O TRELAWNY JAMAICA	Grant pursuant to federal award.	N/A
5-Nov-02	BERT MILLER NATURE CLUB	4,728.70	PO BOX 608 RIDGEWAY, ON CANADA, LOS 1NO CA	Conservation Activities	N/A
7-Nov-02	CHANNEL ISLANDS NATIONAL PARK	19,000.00	1901 SPINNAKER DRIVE VENTURA CA 93001	Conservation Activities	N/A
8-Nov-02	LAND TRUST ALLIANCE	95.00	1331 H STREET, NW SUITE 400 WASHINGTON DC 20005	Conservation Activities	N/A
8-Nov-02	LAND TRUST ALLIANCE	165.00	1331 H STREET, NW SUITE 400 WASHINGTON DC 20005	Conservation Activities	N/A
8-Nov-02	LAND TRUST ALLIANCE	205.00	1331 H STREET, NW SUITE 400 WASHINGTON DC 20005	Conservation Activities	N/A
8-Nov-02	NATURE CONSERVANCY OF CANADA	10,000.00	ATTN: CHUCK RUMSEY 202-26 BASTION SQUARE VICTORIA, BC V8W-1H9 CA	Conservation Activities	N/A
11-Nov-02	KACHEMAK HERITAGE LAND TRUST	460.90	PO BOX 2400 HOMER AK 99603	Conservation Activities	N/A
11-Nov-02	FRIENDS OF THE RIVER	100.00	915 20TH STREET SACRAMENTO CA 95814	Conservation Activities	N/A
11-Nov-02	IDAHO ENVIRONMENTAL FORUM	100.00	PO BOX 2720 BOISE ID 83701-2720	Conservation Activities	N/A
12-Nov-02	ST. JOSEPH RIVER WATERSHED INITIATIVE	20,000.00	2010 INWOOD DRIVE SUITE 103 FORT WAYNE IN 46815	Conservation Activities	N/A
12-Nov-02	ST. JOSEPH RIVER WATERSHED INITIATIVE	20,000.00	2010 INWOOD DRIVE SUITE 103 FORT WAYNE IN 46815	Conservation Activities	N/A
13-Nov-02	Fundación ANAI/Costa Rica (ANAI)	12,500.00	Apartado 170-2070, Sabanilla de Montes de Oca, COSTA RICA	Grant pursuant to federal award.	N/A
13-Nov-02	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	13,658.97	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
13-Nov-02	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	19,456.25	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A

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13-Nov-02	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	734.00	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
13-Nov-02	MOPAWI	(42,400.38)	Apartado Postal 2175, Tegucigalpa, HONDURAS	Grant pursuant to federal award.	N/A
13-Nov-02	MOPAWI	42,183.16	Apartado Postal 2175, Tegucigalpa, HONDURAS	Grant pursuant to federal award.	N/A
13-Nov-02	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	511.40	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
13-Nov-02	MOPAWI	936.05	Apartado Postal 2175, Tegucigalpa, HONDURAS	Grant pursuant to federal award.	N/A
13-Nov-02	MOPAWI	3,003.67	Apartado Postal 2175, Tegucigalpa, HONDURAS	Grant pursuant to federal award.	N/A
13-Nov-02	MOPAWI	6,407.37	Apartado Postal 2175, Tegucigalpa, HONDURAS	Grant pursuant to federal award.	N/A
13-Nov-02	MOPAWI	10,696.61	Apartado Postal 2175, Tegucigalpa, HONDURAS	Grant pursuant to federal award.	N/A
13-Nov-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	780.79	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
13-Nov-02	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	19,985.39	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
13-Nov-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	3,301.96	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
13-Nov-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	17,883.80	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
13-Nov-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	5,191.25	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
13-Nov-02	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	4,606.58	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
13-Nov-02	AMERICAN FARMLAND TRUST	10,000.00	101 UHLAND ROAD SUITE 205 SAN MARCOS TX 78666	Conservation activities.	N/A
13-Nov-02	THE CONSERVATION FUND	50,000.00	1800 N. KENT STREET SUITE 1120 ARLINGTON VA 22209	Conservation activities.	N/A
14-Nov-02	Jamaica Conservation and Development Trust (JCDT)	11,596.11	1st floor, Workforce Development Consortium Building, 22b Old Hope Road, Kingston 5, JAMAICA	Grant pursuant to federal award.	N/A
14-Nov-02	N/A	(100,000.00)	N/A	Conservation activities.	N/A
15-Nov-02	Asociacion de Organizaciones del Corredor Biologico Talamanca Caribe (CBTC)	1,593.00	Curridabat de la Iglesia Católica 300 metros Oeste y 50 Norte, San Jose, Costa Rica	Grant pursuant to federal award.	N/A
15-Nov-02	AGRICULTURAL RESEARCH FOUDATION	5,650.00	SO OREGON AG & RESEARCH CTR 569 HANLEY ROAD MEDFORD OR 97502	Conservation activities.	N/A
19-Nov-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	435.31	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
19-Nov-02	CONSERVATION BEEF	36,000.00	P O BOX 748 HELENA MT 59624	Conservation activities.	N/A
19-Nov-02	COASTAL BEND AUDUBON SOCIETY	100.00	PO BOX 3604 CORPUS CHRISTI TX 78463	Conservation activities.	N/A
20-Nov-02	Instituto de Derecho y Economia Ambiental (IDEA)	(2,500.00)	Nicanor Torales 150, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
20-Nov-02	Instituto de Derecho y Economia Ambiental (IDEA)	(1,500.00)	Nicanor Torales 150, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
20-Nov-02	Instituto de Derecho y Economia Ambiental (IDEA)	(3,000.00)	Nicanor Torales 150, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
20-Nov-02	ST. JOSEPH RIVER WATERSHED INITIATIVE	(20,000.00)	2010 INWOOD DRIVE SUITE 103 FORT WAYNE IN 46815	Conservation activities.	N/A
20-Nov-02	ELENA GUARDIA DE LOMBARDO	627.60	FUNDACION NATURA LLANOS DE CURUNDU, CASA 1992 A B, CORREGIMIENTO DE ANCON PANAMA REPUBLIC OF PANAMA	Conservation activities.	None identified.
21-Nov-02	Fundación Moises Bertoni para la Conservación de la Naturaleza (FMB)	18,592.00	Procer Carlos Arguello, 208 entre Av. Mcal. Lopez y Av. Boggiani, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
21-Nov-02	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	11,250.00	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
21-Nov-02	Fundación Ecológica Arcoiris (FEA)	5,000.00	Street and Mailing Address: Segundo Cueva Celi 03-15 y, Clodoveo Carrión, Ciudadela Zamora, Loja, ECUADOR	Grant pursuant to federal award.	N/A
21-Nov-02	Fundación Ecológica Rumicocha (FER)	28,730.84	PO Box 17-15-13B, Quito, ECUADOR	Grant pursuant to federal award.	N/A
21-Nov-02	Pronatura, Peninsula de Yucatan, A.C. (PPY)	20,000.00	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
21-Nov-02	Instituto de Historia Natural y Ecologia (IHNE)	4,750.00	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
21-Nov-02	Asociación Boliviana para la Conservación (TRÓPICO)	35,207.17	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
21-Nov-02	Fondo Pro-Naturaleza (PRONATURA)	12,000.00	Oficinas Gubernamentales, Edificios A, ONAPLAN, 1er Piso Calle Dr. Delgado, Esq. Av. Méjico, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A
21-Nov-02	Fondo Mexicano para la Conservacion de la Naturaleza, A.C. (FMCN)	17,100.00	Damas 49, San Jose Insurgentes, 03900, Mexico D.F.	Grant pursuant to federal award.	N/A
21-Nov-02	Fundación Natura - Columbia	4,000.00	Calle 61 #4-26, Santafe de Bogota, Colombia	Grant pursuant to federal award.	N/A
21-Nov-02	Instituto de Derecho y Economia Ambiental (IDEA)	7,601.03	Nicanor Torales 150, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
21-Nov-02	Asociación Boliviana para la Conservación (TRÓPICO)	13,201.48	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
21-Nov-02	Instituto de Historia Natural y Ecologia (IHNE)	12,000.00	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
21-Nov-02	Pronatura, Peninsula de Yucatan, A.C. (PPY)	10,000.00	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A

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21-Nov-02	Fondo Pro-Naturaleza (PRONATURA)	7,675.49	Oficinas Gubernamentales, Edificios A, ONAPLAN, 1er Piso Calle Dr. Delgado, Esq. Av. Méjico, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A
21-Nov-02	Centro Integrado para la Defensa Ecológica y el Desarrollo Rural (CIDEDER)	33,173.00	Av.Simón López # 177, Zona Cala Cala, Cochabamba, P.O. Box: # 2627, BOLIVIA	Grant pursuant to federal award.	N/A
21-Nov-02	Fundacion Moscoso Puello (FMP)	10,824.67	Ave. John F Kennedy, Km 7 , Edif. AJFA, Los Jardines del Norte, P.O. Box 1533, Zona 1, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A
21-Nov-02	FRIENDS OF THE MISSISSIPPI	12,000.00	9112 BARNSCLE BLVD. OCEAN SPRINGS MS 39564	Conservation activities.	N/A
21-Nov-02	Fondo Pro-Naturaleza (PRONATURA)	21,000.00	Oficinas Gubernamentales, Edificios A, ONAPLAN, 1er Piso Calle Dr. Delgado, Esq. Av. Méjico, Santo Domingo, REPUBLICA DOMINICANA	Conservation activities.	N/A
21-Nov-02	Toledo Institute for Development and Environment (TIDE)	230,998.33	P.O. Box 150, Punta Gorda, Toledo District, BELIZE	Conservation activities.	N/A
21-Nov-02	ANDROS Conservancy & Trust (ANCAT)	25,000.00	Fresh Creek General Post Office, Fresh Creek, Central Andros BAHAMAS	Conservation activities.	N/A
21-Nov-02	Greening Australia (WA), Inc.	5,085.94	10-12 The Terrace, Fremantle Prison, WA 6160	Conservation activities.	N/A
21-Nov-02	Australian Bush Heritage Fund	1,847.15	GPO Box 101, Hobart Tas 7001, Australia	Conservation activities.	N/A
21-Nov-02	Robert McLean	2,074.82	10 Castra Place, Double Bay, NSW 2028, Australia	Conservation activities.	None identified.
21-Nov-02	Australian Wildlife Conservancy	1,636.65	2/20 Altona Street, West Perth, Western Australia (WA) 6005	Conservation activities.	N/A
21-Nov-02	Trust for Nature	167.00	Level 2, 385 Little Lonsdale Street, Melbourne, Australia 3000	Conservation activities.	N/A
26-Nov-02	PENNSYLVANIA ENVIRONMENTAL COUNCIL	100.00	1211 CHESTNUT STREET SUITE 900 PHILADELPHIA PA 19107	Conservation activities.	N/A
28-Nov-02	Jose Antonio Saito Diaz	(1,775.00)	Centro de Datos para la Conservación de Perú (CDC), Universidad Nacional Agraria La Molina, Apartado Postal 456, Lima 100, PERU	Conservation activities.	None identified.
30-Nov-02	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	4,817.00	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
30-Nov-02	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	13,600.00	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
30-Nov-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	6,281.77	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Nov-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	34,485.67	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Nov-02	MOPAWI	10,000.00	Apartado Postal 2175, Tegucigalpa, HONDURAS	Grant pursuant to federal award.	N/A
30-Nov-02	MOPAWI	50,000.00	Apartado Postal 2175, Tegucigalpa, HONDURAS	Grant pursuant to federal award.	N/A
30-Nov-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	8,596.95	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Nov-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	25,000.00	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Nov-02	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	6,000.00	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-Nov-02	Fundación Ecuatoriana de Estudios Ecologicos (EcoCiencia)	4,604.41	Francisco Salazar E14-34 y Coruña, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-Nov-02	Fundación Amigos de la Naturaleza (FAN)	26,919.00	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
30-Nov-02	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	31,563.46	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
30-Nov-02	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	90,907.00	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
30-Nov-02	Fundacion Cientifica Los Roques (FCLR)	22,500.00	Aptdo. No 1139 - Caracas 1010-A Venezuela	Grant pursuant to federal award.	N/A
30-Nov-02	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	89,370.22	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
30-Nov-02	Fundacion Pro-Sierra Nevada de Santa Marta	30,000.00	Calle 17 No: 3-83, Santa Marta, Colombia	Grant pursuant to federal award.	N/A
30-Nov-02	Fundación Moises Bertoni para la Conservación de la Naturaleza (FMB)	18,592.00	Procer Carlos Arguello, 208 entre Av. Mcal. Lopez y Av. Boggiani, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
30-Nov-02	Yayasan UGH Indonesia	685.31	Jl. Kutilang V No. 25, Palu, Sulawesi Tengah, Indonesia	Grant pursuant to federal award.	N/A
30-Nov-02	Syarifudin S.P.	561.32	Executive Director of East Kalimantan Life Environmental Forum, Jl. M. Yamin Gg. Kasturi No. 90A, Samarinda, East Kalimantan	Conservation activities.	N/A
30-Nov-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	837.97	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Nov-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	3,550.25	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Nov-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	9,187.78	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Nov-02	Instituto de Historia Natural y Ecologia (IHNE)	(16,650.00)	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A

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30-Nov-02	Instituto de Historia Natural y Ecologia (IHNE)	16,650.00	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
30-Nov-02	MOPAWI	(13,205.00)	Apartado Postal 2175, Tegucigalpa, HONDURAS	Grant pursuant to federal award.	N/A
30-Nov-02	MOPAWI	(4,100.00)	Apartado Postal 2175, Tegucigalpa, HONDURAS	Grant pursuant to federal award.	N/A
30-Nov-02	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	41,623.86	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Land acq;uisition funding.	N/A
30-Nov-02	N/A	(500.00)	N/A	Conservation activities.	N/A
30-Nov-02	Toledo Institute for Development and Environment (TIDE)	50.44	P.O. Box 150, Punta Gorda, Toledo District, BELIZE	Grant pursuant to federal award.	N/A
30-Nov-02	N/A	(240,925.08)	N/A	Conservation activities.	N/A
30-Nov-02	Organização Dos Povos Indígenas Cassupá E Salãi - (OPICS)	1,571.43	Rua Indalva Moreira da Silva, nº 3229 Bairro JK I Porto Velho-RO	Conservation activities.	N/A
30-Nov-02	Coordenação Das Organizações Indígenas Da Amazônia Brasileira - (COIAB)	2,571.43	Avenida Ayrão nº 235 Bairro Presidente Vargas Manaus-AM	Conservation activities.	N/A
30-Nov-02	Conselho Indígena de Roraima (CIR)	5,271.43	Avenida Sebastiao Dinia 2630, Bairro Sao Vincente, Boa Vista - RR, CEP: 69,303-120	Conservation activities.	N/A
30-Nov-02	Associação De Produção E Cultura Indígena - Yakinõ	5,714.29	Rua Bernardo Ramos nº 60 Centro Manaus-AM	Grant pursuant to federal award.	N/A
30-Nov-02	Coordenação Das Organizações Indígenas Da Amazônia Brasileira - (COIAB)	5,714.29	Avenida Ayrão nº 235 Bairro Presidente Vargas Manaus-AM	Grant pursuant to federal award.	N/A
30-Nov-02	Associação Indígena Xavante Norotsu'rã	5,714.29	Avenida Rio Grande do Sul, nº 577 Centro Nova Xavantina-MT	Conservation activities.	N/A
30-Nov-02	Instituto Socioambiental	6,644.03	Sede Brasília , SCLN, 210 Bloco C sala 112, Brasília – DF, CEP:70862-530	Conservation activities.	N/A
30-Nov-02	Associação Indígena Xavante Norotsu'rã	1,000.00	Avenida Rio Grande do Sul, nº 577 Centro Nova Xavantina-MT	Conservation activities.	N/A
30-Nov-02	Organização Indígena Da Bacia Do Içana Entreposto Da Oibi	4,266.67	Rua Projetada H$ - S/N Dabaruzinho-AM	Conservation activities.	N/A
30-Nov-02	Fastair Services Pty Ltd.	5,873.59	PO Box 54, Lutwyche, Queensland 4030 Australia	Conservation activities.	N/A
30-Nov-02	Auckland Rescue Helicopter Trust	24.08	PO Box 2252, 3 Solent Street, Mechanics Bay, NZ	Land acquisition related funding.	
30-Nov-02	U.S. Bureau of Land Management - Idaho State Office	5,000.00	1387 S. Vinnell Way Boise, Idaho 83709	Land acquisition related funding.	N/A
30-Nov-02	State of Rhode Island	197,500.00	Department of Environmental Mgmt 235 Promenade Street Providence, RI 02908	Land acquisition related funding.	N/A
30-Nov-02	South County Conservancy	60,053.95	PO Box 1387, Charlestown, RI 02908	Land acquisition related funding.	N/A
30-Nov-02	Fundación Moises Bertoni para la Conservación de la Naturaleza (FMB)	17,615.61	Procer Carlos Arguello, 208 entre Av. Mcal. Lopez y Av. Boggiani, Asuncion, Paraguay	Conservation activities.	N/A
30-Nov-02	Fundación Moises Bertoni para la Conservación de la Naturaleza (FMB)	164,656.13	Procer Carlos Arguello, 208 entre Av. Mcal. Lopez y Av. Boggiani, Asuncion, Paraguay	Conservation activities.	N/A
1-Dec-02	CITY OF JACKSONVILLE	1,500.00	ST. JAMES BUILDING 117 WEST DUVAL ST., SUITE 375 JACKSONVILLE FL 32202	Conservation activities.	N/A
1-Dec-02	LOESS HILLS AUDUBON SOCIETY	1,000.00	P. O. BOX 5133 SIOUX CITY IA 51102-5133	Conservation activities.	N/A
1-Dec-02	TUCKERNUCK LAND TRUST	10,000.00	6 ASH LANE NANTUCKET MA 02554	Conservation activities.	N/A
1-Dec-02	INDIA CHAPTER OF SOCIETY FOR ECOLOGICAL RESTORATION	2,500.00	A-4 SHAGUN APT. 346 SOMWAR PETH PUNE 411011 411011	Conservation activities.	N/A
1-Dec-02	1000 FRIENDS OF CENTRAL OHIO	150.00	1487 W. 5TH AVE. PMB 219 COLUMBUS OH 43212-2403	Conservation activities.	N/A
1-Dec-02	OWEB/OACD JOINT CONFERENCE	1,500.00	MARRAONE HALLINAN ENVENT MANAGEMENT 41909 HOLDEN CREEK LANE SPRINGFIELD OR 97478	Conservation activities.	N/A
1-Dec-02	1000 FRIENDS OF WISCONSIN	1,900.00	16 NORTH CARROLL STREET SUITE 810 MADISON WI 53703	Conservation activities.	N/A
1-Dec-02	1000 FRIENDS OF WISCONSIN	1,900.00	16 NORTH CARROLL STREET SUITE 810 MADISON WI 53703	Conservation activities.	N/A
1-Dec-02	LA RUTA DE SONORA ECOTOURISM ASSOCIATION	800.00	110 S. CHURCH AVE, STE 419 TUCSON AZ 85701	Conservation activities.	N/A
1-Dec-02	TALL TIMBERS RESEARCH STATION	500.00	13093 HENRY BEADEL DRIVE TALLAHASSEE FL 32312-0918	Conservation activities.	N/A
1-Dec-02	NEW ENGLAND FORESTRY FOUNDATION	500,000.00	283 OLD DUNSTABLE ROAD PO BOX 1099 GROTON ME 01450-3099	Conservation activities.	N/A
1-Dec-02	TUCKERNUCK LAND TRUST	13,038.65	6 ASH LANE NANTUCKET MA 02554	Conservation activities.	N/A
1-Dec-02	TUCKERNUCK LAND TRUST	76,961.35	6 ASH LANE NANTUCKET MA 02554	Conservation activities.	N/A
2-Dec-02	WASHINGTON WILDLIFE & RECREATION FOUNDATION	20,000.00	811 1ST AVENUE, SUITE 262 SEATTLE WA 98104	Conservation activities.	N/A
3-Dec-02	MALPAI BORDERLANDS GROUP,	50.00	6626 GERONIMO TRAIL ROAD P O DRAWER 3536 DOUGLAS AZ 85608	Conservation activities.	N/A
4-Dec-02	JENNY ADAMS	1,483.81	2501 K STREET, NW #18 WASHINGTON DC 20037	Conservation activities.	None identified.
4-Dec-02	CONSERVATION BEEF	65,000.00	P O BOX 748 HELENA MT 59624	Conservation activities.	N/A
6-Dec-02	GREEN STAR, INC.	75.00	630 EAST FIFTH AVENUE SUITE 201 ANCHORAGE AK 99501	Conservation activities.	N/A
6-Dec-02	LAND CONSERVANCY OF W.MICHIGAN	5,000.00	1345 MONROE AVENUE NW SUITE 3 GRAND RAPIDS MI 49505	Conservation activities.	N/A
6-Dec-02	OHIO CORN GROWERS ASSOCIATION	500.00	1100 EAST CENTER STREET MARION OH 43302	Conservation activities.	N/A
7-Dec-02	OCEAN NATIONAL BANK	25,000.00	8 NEWMARKET ROAD DURHAM NH 03824	Conservation activities.	N/A
9-Dec-02	LAKE GEORGE LAND CONSERVANCY	2,518.04	PO BOX 1250 LAKE SHORE DRIVE BOLTON LANDING NY 12814	Conservation activities.	N/A
9-Dec-02	GREEN RIVER VALLEY LAND TRUST	24,166.67	PO BOX 1580 PINEDALE WY 82941	Conservation activities.	N/A
10-Dec-02	PIEDMONT LAND CONSERVANCY	7,500.00	P O BOX 4025 ATTN: KATHY TREANOR, EXEC DIR. GREENSBORO NC 27404	Conservation activities.	N/A
10-Dec-02	TALL TIMBERS RESEARCH STATION	15,000.00	13093 HENRY BEADEL DRIVE TALLAHASSEE FL 32312-0918	Conservation activities.	N/A
11-Dec-02	SIERRA LOS TULARES LAND TRUST	500.00	428 S. GARDEN STREET VISALIA CA 93277-9810	Conservation activities.	N/A
11-Dec-02	REGENTS OF THE UNIV OF CA	2,898.00	DEPT. OF ENV. SCIENCE & POLICY ONE SHIELDS AVENUE DAVIS CA 95616	Conservation activities.	N/A
11-Dec-02	CONSERVATION FARMS & RANCHES	100.00	201 MISSION ST. 4TH FLOOR SAN FRANCISCO CA 94105	Conservation activities.	N/A
11-Dec-02	THE KING'S DAUGHTERS' SCHOOL	1,000.00	ATTN: MULES ON THE LOOSE 412 W. 9TH ST. COLUMBIA TN 38401	Conservation activities.	N/A
12-Dec-02	FUNDACION SENDA DARWIN	7,800.00	Av. Seis de Diciembre 4757 y Pasaje California, Casilla 17-01-3891, Quito, ECUADOR	Grant pursuant to federal award.	N/A

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12-Dec-02	1000 FRIENDS OF WISCONSIN	(1,900.00)	16 NORTH CARROLL STREET SUITE 810 MADISON WI 53703	Conservation activities.	N/A
13-Dec-02	Amigos de Sian Ka'an (ASK)	2,175.51	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
13-Dec-02	Asociación Boliviana para la Conservación (TRÓPICO)	2,755.98	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
13-Dec-02	Sociedad de Historia Natural de Niparaja (NIPARAJA)	400.00	Calle Alvaro Obregon # 460 Of.209, Colonia Centro, La Paz, Baja California Sur, México 23000	Grant pursuant to federal award.	N/A
13-Dec-02	Sociedad de Historia Natural de Niparaja (NIPARAJA)	1,650.00	Calle Alvaro Obregon # 460 Of.209, Colonia Centro, La Paz, Baja California Sur, México 23000	Grant pursuant to federal award.	N/A
13-Dec-02	Amigos de Sian Ka'an (ASK)	(2,175.51)	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
13-Dec-02	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	23,754.66	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
13-Dec-02	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	22,886.86	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
13-Dec-02	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	22,865.50	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
13-Dec-02	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	(13,167.68)	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
13-Dec-02	Asociación Boliviana para la Conservación (TRÓPICO)	1,440.08	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
13-Dec-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	9,910.17	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
13-Dec-02	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	7,649.73	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
13-Dec-02	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	5,925.27	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
13-Dec-02	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	(17,368.91)	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
13-Dec-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	31,206.70	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
13-Dec-02	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	17,104.47	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
16-Dec-02	CONSERVATION FARMS & RANCHES	25,000.00	201 Mission St. 4th Floor, San Francisco, CA 94105	Conservation activities.	N/A
16-Dec-02	CONSERVATION FARMS & RANCHES	10,000.00	201 Mission St. 4th Floor, San Francisco, CA 94105	Conservation activities.	N/A
16-Dec-02	GATHERING WATERS CONSERVANCY	1,500.00	211 S. Paterson St., No.270, Madison, WI 53703	Conservation activities.	N/A
17-Dec-02	Jamaica Conservation and Development Trust (JCDT)	11,529.80	1st floor, Workforce Development Consortium Building, 22b Old Hope Road, Kingston 5, JAMAICA	Grant pursuant to federal award.	N/A
17-Dec-02	Instituto de Historia Natural y Ecologia (IHNE)	5,000.00	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
17-Dec-02	Instituto de Historia Natural y Ecologia (IHNE)	2,600.00	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
17-Dec-02	Amigos de Sian Ka'an (ASK)	8,695.86	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
17-Dec-02	Fundación Amigos de la Naturaleza (FAN)	77,934.81	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
17-Dec-02	Fundación Ecuatoriana de Estudios Ecologicos (EcoCiencia)	20,000.00	Francisco Salazar E14-34 y Coruña, Quito, ECUADOR	Grant pursuant to federal award.	N/A
17-Dec-02	Pronatura Noreste A.C. (PNE)	26,249.95	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
17-Dec-02	Fundación Amigos de la Naturaleza (FAN)	38,375.32	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
17-Dec-02	Pronatura Noreste A.C. (PNE)	(55.64)	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
17-Dec-02	The Southern Trelawny Environmental Agency (STEA)	15,000.00	#3 Grants Office Complex, Albert Town, Trelawny, Jamaica	Grant pursuant to federal award.	N/A
17-Dec-02	The Southern Trelawny Environmental Agency (STEA)	10,309.52	#3 Grants Office Complex, Albert Town, Trelawny, Jamaica	Grant pursuant to federal award.	N/A
17-Dec-02	Fondo Pro-Naturaleza (PRONATURA)	100,000.00	Oficinas Gubernamentales, Edificios A, ONAPLAN, 1er Piso Calle Dr. Delgado, Esq. Av. Méjico, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A
17-Dec-02	International Resources Group, Ltd.	78,418.00	1211 Connecticut Avenue, NW · Suite 700, Washington, DC 20036	Grant pursuant to federal award.	N/A
17-Dec-02	Fundacion Moscoso Puello (FMP)	44,580.00	Ave. John F Kennedy, Km 7 , Edif. AJFA, Los Jardines del Norte, P.O. Box 1533, Zona 1, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A
17-Dec-02	Fundacion Moscoso Puello (FMP)	8,000.00	Ave. John F Kennedy, Km 7 , Edif. AJFA, Los Jardines del Norte, P.O. Box 1533, Zona 1, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A
17-Dec-02	Fundacion Moscoso Puello (FMP)	50,000.00	Ave. John F Kennedy, Km 7 , Edif. AJFA, Los Jardines del Norte, P.O. Box 1533, Zona 1, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A
17-Dec-02	Fundación Natura - Columbia	17,726.00	Calle 61 #4-26, Santafe de Bogota, Colombia	Grant pursuant to federal award.	N/A
17-Dec-02	Asociación Red Colombiana De Reservas Naturales De La Socieded Civil (Red de Reservas)	36,710.00	Calle 21 Norte No 8 N - 18, Cali - Valle de Cauca Colombia - Sur America	Grant pursuant to federal award.	N/A
17-Dec-02	MINNESOTA DEPT OF NATURAL RESOURCES	5,000.00	BOX 10, 500 LAFAYETTE ROAD ST. PAUL MN 55155	Conservation activities.	N/A
17-Dec-02	Programme for Belize (PfB)	13,013.23	1 Eyre St., PO Box 749, Belize City, Belize, Central America	Conservation activities.	N/A
17-Dec-02	The Nature Conservancy of Canada	50,000.00	110 Eglinton Avenue West-4th Floor, Toronto, Ontario, M4R 1A3	Conservation activities.	N/A
17-Dec-02	The Nature Conservancy of Canada	75,000.00	110 Eglinton Avenue West-4th Floor, Toronto, Ontario, M4R 1A3	Conservation activities.	N/A

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18-Dec-02	UNITED NATIONS FOUNDATION	730,000.00	1301 CONNECTICUT AVENUE N.W. SUITE 700 WASHINGTON DC 20036	Grant pursuant to federal award.	N/A
19-Dec-02	Fundación Ecologista Héctor Rodrigo Pastor Fasquelle (PASTOR)	9,580.74	1ra y 2da Calle, 1ma Avenida 2do Piso, Pizzeria Italia, Cuadrante Noroeste,San Pedro Sula, Honduras	Grant pursuant to federal award.	N/A
19-Dec-02	Genesee Valley Conservancy	2,000.00	PO Box 73, Geneseo, NY 14454	Land acquisition related funding.	N/A
19-Dec-02	LOWCOUNTRY OPEN LAND TRUST	59,906.00	485 EAST BAY STREET CHARLESTON SC 29403	Conservation activities.	N/A
20-Dec-02	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	(11,250.00)	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
20-Dec-02	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	11,250.00	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
20-Dec-02	CAROLINA BIQUARD	11,000.00	Fundación Compromiso, Arenales 1457 - 7 piso, Buenos Aires, Argentina	Conservation activities.	None identified.
20-Dec-02	FRANCISCO PADRON GIL	11,000.00	Fundación Compromiso, Arenales 1457 - 7 piso, Buenos Aires, Argentina	Conservation activities.	None identified.
26-Dec-02	SPACE (Saving Places in Atlanta's Community Environment, Inc.)	10,000.00	C/O The Trust for Public Land (TPL),1447 Peachtree Street, NE, Suite 601, Atlanta, GA 30309	Land acquisition related funding.	N/A
26-Dec-02	Kratt Brothers Creature Hero Society Inc. (a Massachusetts Corp.)	57,765.00	PO Box 433, Derby, VT 05829-0433	Land acquisition related funding.	N/A
27-Dec-02	State of Rhode Island	300,000.00	Department of Environmental Mgmt 235 Promenade Street Providence, RI 02908	Land acquisition related funding.	N/A
31-Dec-02	Fundación Amigos de la Naturaleza (FAN)	27,300.00	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award	N/A
31-Dec-02	Fundación Amigos de la Naturaleza (FAN)	2,000.00	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award	N/A
31-Dec-02	Fundación Moises Bertoni para la Conservación de la Naturaleza (FMB)	18,592.00	Procer Carlos Arguello, 208 entre Av. Mcal. Lopez y Av. Boggiani, Asuncion, Paraguay	Grant pursuant to federal award	N/A
31-Dec-02	Fundación Moises Bertoni para la Conservación de la Naturaleza (FMB)	38,635.00	Procer Carlos Arguello, 208 entre Av. Mcal. Lopez y Av. Boggiani, Asuncion, Paraguay	Grant pursuant to federal award	N/A
31-Dec-02	Associação de Preservação do Meio Ambiente do Vale do Itajaí (APREMAVI)	9,305.56	Caixa Postal 218 - CEP 89.160-000 - Rio do Sul - Santa Catarina - Brazil	Grant pursuant to federal award	N/A
31-Dec-02	Pronatura Noreste A.C. (PNE)	30,000.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award	N/A
31-Dec-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	8,000.00	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award	N/A
31-Dec-02	Protección del Medio Ambiente Tarija (PROMETA)	22,384.00	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award	N/A
31-Dec-02	Asociación Guyra Paraguay	6,500.00	Cnel. Rafael Franco 381 c/ Leandro Prieto (or: Casilla de Correo 1132), Asuncion, Paraguay	Grant pursuant to federal award	N/A
31-Dec-02	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	4,350.00	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award	N/A
31-Dec-02	Fundación Moises Bertoni para la Conservación de la Naturaleza (FMB)	5,000.00	Procer Carlos Arguello, 208 entre Av. Mcal. Lopez y Av. Boggiani, Asuncion, Paraguay	Grant pursuant to federal award	N/A
31-Dec-02	Fundación para el Desarrollo del Sistema Nacional de Areas Protegidas (FUNDESNAP)	80,000.00	Edificio Capitán Ravelo # 2101, Piso 12, La Paz, BOLIVIA	Grant pursuant to federal award	N/A
31-Dec-02	Protección del Medio Ambiente Tarija (PROMETA)	2,481.36	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award	N/A
31-Dec-02	Pronatura Noreste A.C. (PNE)	15,000.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award	N/A
31-Dec-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	31,206.70	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award	N/A
31-Dec-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(31,206.70)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award	N/A
31-Dec-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	9,910.17	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award	N/A
31-Dec-02	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(9,910.17)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award	N/A
31-Dec-02	Green River Valley Land Trust	5,000.00	PO BOX 1580 PINEDALE WY 82941	Conservation activities.	N/A
31-Dec-02	THE KING'S DAUGHTERS' SCHOOL	1,000.00	ATTN: MULES ON THE LOOSE 412 W. 9TH ST. COLUMBIA TN 38401	Conservation activities.	N/A
31-Dec-02	THE KING'S DAUGHTERS' SCHOOL	(1,000.00)	ATTN: MULES ON THE LOOSE 412 W. 9TH ST. COLUMBIA TN 38401	Conservation activities.	N/A
31-Dec-02	LPA AWAM Green	545.02	Jalan Towua II No. 43.A, Palu - Sulawesi Tengah, 94113	Conservation activities.	N/A
31-Dec-02	Lembaga Ilmu Ilmu Pengetahuan Indonesia (Indonesian Institute of Sciences.)	654.02	Sasana Widya Sarwono, Jl. Jend. Gatot Subroto No. 10, Jakarta 12710	Conservation activities.	N/A
31-Dec-02	Conservation Society of Pohnpei	1,905.00	P.O. Box 2461, Kolonia, Pohnpei FSM 96941	Grant pursuant to federal award	N/A
31-Dec-02	Conservation Society of Pohnpei	3,695.00	P.O. Box 2461, Kolonia, Pohnpei FSM 96941	Grant pursuant to federal award	N/A
31-Dec-02	Utah Open Lands	137,500.00	P. O. Box 680921, Park City, Utah 84068	Land acquisition related funding.	N/A
1-Jan-03	WINROCK INTERNATIONAL	1,562.00	38 WINROCK DRIVE MORRITLTON AR 72110-9370	Grant pursuant to federal award	N/A
1-Jan-03	WINROCK INTERNATIONAL	8,000.00	38 WINROCK DRIVE MORRITLTON AR 72110-9370	Grant pursuant to federal award	N/A
1-Jan-03	WINROCK INTERNATIONAL	6,000.00	38 WINROCK DRIVE MORRITLTON AR 72110-9370	Grant pursuant to federal award	N/A
1-Jan-03	WINROCK INTERNATIONAL	5,000.00	38 WINROCK DRIVE MORRITLTON AR 72110-9370	Grant pursuant to federal award	N/A

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1-Jan-03	WINROCK INTERNATIONAL	20,000.00	38 WINROCK DRIVE MORRITLTON AR 72110-9370	Grant pursuant to federal award	N/A
1-Jan-03	WINDSOR RESEARCH CENTRE	10,000.00	SHERWOOD CONTENT P O TRELAWNY JAMAICA	Grant pursuant to federal award	N/A
1-Jan-03	WINDSOR RESEARCH CENTRE	(10,000.00)	SHERWOOD CONTENT P O TRELAWNY JAMAICA	Grant pursuant to federal award	N/A
1-Jan-03	NATURAL LANDS TRUST	(7,173.33)	HILDACY FARM 1031 PALMERS MILL ROAD MEDIA PA 19063	Grant pursuant to federal award	N/A
1-Jan-03	NATURAL LANDS TRUST	(10,376.67)	HILDACY FARM 1031 PALMERS MILL ROAD MEDIA PA 19063	Grant pursuant to federal award	N/A
1-Jan-03	NATURAL LANDS TRUST	(20,793.06)	HILDACY FARM 1031 PALMERS MILL ROAD MEDIA PA 19063	Grant pursuant to federal award	N/A
1-Jan-03	NATURAL LANDS TRUST	(31,986.39)	HILDACY FARM 1031 PALMERS MILL ROAD MEDIA PA 19063	Grant pursuant to federal award	N/A
1-Jan-03	NATURAL LANDS TRUST	7,173.33	HILDACY FARM 1031 PALMERS MILL ROAD MEDIA PA 19063	Grant pursuant to federal award	N/A
1-Jan-03	NATURAL LANDS TRUST	10,376.67	HILDACY FARM 1031 PALMERS MILL ROAD MEDIA PA 19063	Grant pursuant to federal award	N/A
1-Jan-03	NATURAL LANDS TRUST	20,793.06	HILDACY FARM 1031 PALMERS MILL ROAD MEDIA PA 19063	Grant pursuant to federal award	N/A
1-Jan-03	NATURAL LANDS TRUST	31,986.39	HILDACY FARM 1031 PALMERS MILL ROAD MEDIA PA 19063	Grant pursuant to federal award	N/A
1-Jan-03	CONSERVATION FARMS & RANCHES	2,000.00	201 MISSION ST. 4TH FLOOR SAN FRANCISCO CA 94105	Conservation Activities	N/A
1-Jan-03	CONSERVATION FARMS & RANCHES	2,000.00	201 MISSION ST. 4TH FLOOR SAN FRANCISCO CA 94105	Conservation Activities	N/A
1-Jan-03	ECOSLO	50.00	PO BOX 1014 SAN LUIS OBISPO CA 93406	Conservation Activities	N/A
1-Jan-03	BSA-VOYAGEURS AREA COUNCIL	100.00	3877 STEBNER RD DULUTH MN 55811	Conservation Activities	N/A
1-Jan-03	NATURE CONSERVANCY OF CANADA	10,000.00	SUITE 830, 1202 CENTER ST. SE CALGARY, ALBERTA T2G 5A5 CANADA	Conservation Activities	N/A
1-Jan-03	NATURE CONSERVANCY OF CANADA	25,000.00	PO BOX 2767, 121 7TH AVE INVERMERE, BRITISH COLUMBIA VOA 1K0 CANADA	Conservation Activities	N/A
1-Jan-03	CUMBERLAND COUNTY	1,976.78	DEPT. OF PLANNING AND DEVELOPMENT 800 E. COMMERCE ST. BRIDGETON NJ 08302	Conservation Activities	N/A
1-Jan-03	VOLUNTEERS FOR WILDLIFE	35.00	27 LLOYD HARBOR ROAD HUNTINGTON NY 11743	Conservation Activities	N/A
1-Jan-03	VOLUNTEERS FOR WILDLIFE	35.00	27 LLOYD HARBOR ROAD HUNTINGTON NY 11743	Conservation Activities	N/A
1-Jan-03	SOCIETY FOR ECOLOGICAL RESTORATION	1,500.00	- NORTHWEST C/O CENTER FOR URBAN HORTICULTURE P. O. BOX 354115 SEATTLE WA 98195-4115	Conservation Activities	N/A
1-Jan-03	PENNSYLVANIA ENVIRONMENTAL COUNCIL	50.00	117 SOUTH 17TH STREET SUITE 2300 PHILADELPHIA PA 19103	Conservation Activities	N/A
1-Jan-03	RI NATURAL HISTORY SURVERY, INC.	12,000.00	COASTAL INSTITUTE IN KINGSTON 1 GREENHOUSE RD UNIVERSITY OF RI KINGSTON RI 02881	Conservation Activities	N/A
1-Jan-03	TOWN OF NEW SHOREHAM	1,230.00	TAX COLLECTOR PO BOX 445 BLOCK ISLAND RI 02807	Conservation Activities	N/A
1-Jan-03	GEORGETOWN COUNTY	2,400.00	PO DRAWER 1270 715 PRINCE ST. GEORGETOWN SC 29442-1270	Conservation Activities	N/A
1-Jan-03	CHILDREN'S ADVOCACY CENTER	313.00	117 N. 2ND STREET PMB 2016 ALPINE TX 79830	Conservation Activities	N/A
1-Jan-03	CHAZ & CHELSEA JOHNSON FUND	100.00	PO BOX 1336 C/O FORT DAVIS STATE BANK FORT DAVIS TX 79734	Conservation Activities	None identified.
1-Jan-03	BIG BEND LIVESTOCK SHOW A	100.00	P O BOX 1342 ALPINE TX 79831	Conservation Activities	N/A
1-Jan-03	UTAH FOOD BANK	160.00	1025 S 700 W SALT LAKE CITY UT 84104	Conservation Activities	N/A
1-Jan-03	EASTERN SHORE AGRICULTURAL CONFERENCE	100.00	P.O. BOX 26 ONLEY VA 23418	Conservation Activities	N/A
1-Jan-03	LAKE GEORGE LAND CONSERVANCY	468.65	PO BOX 1250 LAKE SHORE DRIVE BOLTON LANDING NY 12814	Conservation Activities	N/A
2-Jan-03	BROOKHAVEN'S QUALITY OF LIFE COALITION	2,000.00	P. O. BOX 5125 EAST HAMPTON NY 11937	Conservation Activities	N/A
2-Jan-03	HODGE FUND	2,500.00	- BLOCK ISLAND CONSERVANCY	Conservation Activities	N/A
6-Jan-03	CAESAR KLEBERG WILDLIFE RESEARCH INSTITUTE	150.00	700 UNIVERSITY BLVD., MSC 218 TEXAS A&M UNIV-KINGSVILLE KINGSVILLE TX 78363-8202	Conservation Activities	N/A
6-Jan-03	CAESAR KLEBERG WILDLIFE RESEARCH INSTITUTE	100.00	700 UNIVERSITY BLVD., MSC 218 TEXAS A&M UNIV-KINGSVILLE KINGSVILLE TX 78363-8202	Conservation Activities	N/A
6-Jan-03	MONTANA LAND RELIANCE	200,000.00	107 W. LAWRENCE HELENA MT 59601	Conservation Activities	N/A
6-Jan-03	WHIDBEY INSTITUTE	7,163.00	P O BOX 57 CLINTON WA 98236	Conservation Activities	N/A
7-Jan-03	MINNESOTA DEPT OF NATURAL RESOURCES	48,000.00	BOX 10, 500 LAFAYETTE ROAD ST. PAUL MN 55155	Grant pursuant to federal award.	N/A
7-Jan-03	MINNESOTA DEPT OF NATURAL RESOURCES	2,664.00	BOX 10, 500 LAFAYETTE ROAD ST. PAUL MN 55155	Grant pursuant to federal award.	N/A
7-Jan-03	AINSWORTH FIRE DEPARTMENT	(200.00)	P O BOX 425 AINSWORTH NE 69210	Conservation Activities	N/A
7-Jan-03	VISION LONG ISLAND	50.00	24 WOODBINE AVENUE SUITE ONE NORTHPORT NY 11768	Conservation Activities	N/A
7-Jan-03	VOLUNTEER CENTER OF DOOR COUNTY	(25.00)	P O BOX 441 STURGEON BAY WI 54235	Conservation Activities	N/A
8-Jan-03	IDAHO DEPARTMENT OF FISH & GAME	2,000.00	600 SOUTH WALNUT P O BOX 25 BOISE ID 83707-0025	Conservation Activities	N/A
8-Jan-03	WISCONSIN FAMILY FORESTS	200.00	P.O. Box 682, Wisconsin Rapids, WI 54495-0682	Conservation Activities	N/A
8-Jan-03	Friends of Nature (FoN)	23,301.22	Placencia Village, Stann Creek District, Belize	Conservation activities.	N/A
8-Jan-03	Associação Indígena Xavante Norotsu'rã	3,736.76	Avenida Rio Grande do Sul, nº 577 Centro Nova Xavantina-MT	Conservation activities.	N/A
8-Jan-03	Associação dos Povos Indígenas do Estado de Roraima (APIRR)	5,338.24	Rua Carlos Natrot 881, Bairro Liberdade, 69 309-250 Boa Vista RR	Conservation activities.	N/A
9-Jan-03	CONSERVATION BEEF	30,000.00	PO BOX 748 HELENA MT 59624		
9-Jan-03	INTERNATIONAL RESOURCES GROUP, LTD.	11,184.17	FIRST UNION BANK ACCT#20-6670045233-0 P O BOX 2329 MERRIFIELD VA 22116-2329	Conservation Activities	N/A
9-Jan-03	CONSERVATION FARMS & RANCHES	80,000.00	201 MISSION ST. 4TH FLOOR SAN FRANCISCO CA 94105	Conservation Activities	N/A
9-Jan-03	COLORADO CATTLEMEN'S AGRICULTURAL LAND TRUST	100.00	LAND TRUST 8833 RALSTON ROAD ARVADO CO 80002	Conservation Activities	N/A
10-Jan-03	NATURESERVE	35,563.00	1101 WILSON BLVD, 15TH FL ARLINGTON VA 22209	Grant pursuant to federal award.	N/A
10-Jan-03	SNOW GOOSE FESTIVAL	100.00	P O BOX 1063 CHICO CA 95927	Conservation Activities	N/A
14-Jan-03	WORLD WILDLIFE FUND	15,232.97	1250 TWENTY-FOURTH ST., N W WASHINGTON DC 20037	Grant pursuant to federal award.	N/A
14-Jan-03	WORLD WILDLIFE FUND	89,886.88	1250 TWENTY-FOURTH ST., N W WASHINGTON DC 20037	Grant pursuant to federal award.	N/A
14-Jan-03	WORLD WILDLIFE FUND	1,943.97	1250 TWENTY-FOURTH ST., N W WASHINGTON DC 20037	Grant pursuant to federal award.	N/A
14-Jan-03	WORLD WILDLIFE FUND	(253.15)	1250 TWENTY-FOURTH ST., N W WASHINGTON DC 20037	Grant pursuant to federal award.	N/A
14-Jan-03	GREAT SALT LAKE BIRD FEST	1,000.00	PO BOX 618 FARMINGTON UT 84025	Conservation Activities	N/A
14-Jan-03	MAINE COAST HERITAGE TRUST	20,000.00	Bowdoin Mill, One Main Street, Suite 201, Topsham, Maine 04086	Conservation Activities	N/A
15-Jan-03	Reclass	(94,158.13)	Reclass	Grant pursuant to federal award.	N/A
15-Jan-03	FRIENDS OF THE SONORAN DESERT	500.00	PO BOX 2147 TUCSON AZ 85702	Conservation Activities	N/A

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15-Jan-03	FRIENDS OF THE SONORAN DESERT	500.00	PO BOX 2147 TUCSON AZ 85702	Conservation Activities	N/A
15-Jan-03	MONTANA FISH,WILDLIFE & PARKS	5,834.00	RTE 2, BOX 225 CHOTEAU MT 59422	Conservation Activities	N/A
15-Jan-03	The Nature Conservancy of Canada	75,000.00	1202 CENTER ST SE, STE 830 CALGARY, ALBERTA T2G 5A5	Grant pursuant to federal award.	N/A
15-Jan-03	THE NATURE CONSERVANCY ACTION FUND	10,000.00	4201 WILSON BLVD. SUITE 110624 ARLINGTON VA 22203	Conservation Activities	N/A
16-Jan-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(6,406.38)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
16-Jan-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	6,406.38	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
16-Jan-03	VALLEY CONSERVATION COUNCIL	4,000.00	PO BOX 2335 STAUNTON VA 24402	Conservation Activities	N/A
17-Jan-03	TNC ACTION FUND OF CALIFORNIA	50,000.00	C/O THE NATURE CONSERVANCY PO BOX 192466 SAN FRANCISCO CA 94119-2466	Conservation Activities	N/A
20-Jan-03	REAP ALLIANCE	200.00	C/O DICK MCWILLIAMS WILDLIFE RESEARCH STATION 1436 255TH STREET BOONE IA 50036	Conservation Activities	N/A
22-Jan-03	Fundación Amigos de la Naturaleza (FAN)	(5,069.21)	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
22-Jan-03	Fundación Amigos de la Naturaleza (FAN)	5,069.21	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
22-Jan-03	VALLEY CONSERVATION COUNCIL	600.00	PO BOX 2335 STAUNTON VA 24402	Conservation Activities	N/A
23-Jan-03	The Centro de Derecho Ambiental y Promocion para el Desarrollo (CEDAPRODE)	25,475.00	Colonia Centro América, de la Farmacia, Vida, 1 Cuadra al Sur y 20 varas, Arriba a mano derecha # D- 229, Managua, NICARAGUA	Grant pursuant to federal award.	N/A
23-Jan-03	The Centro de Derecho Ambiental y Promocion para el Desarrollo (CEDAPRODE)	76,827.00	Colonia Centro América, de la Farmacia, Vida, 1 Cuadra al Sur y 20 varas, Arriba a mano derecha # D- 229, Managua, NICARAGUA	Grant pursuant to federal award.	N/A
23-Jan-03	Instituto de Derecho y Economia Ambiental (IDEA)	14,375.00	Nicanor Torales 150, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
23-Jan-03	Fundación Amigos de la Naturaleza (FAN)	761.88	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
23-Jan-03	Instituto de Historia Natural y Ecologia (IHNE)	10,900.00	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
23-Jan-03	Fundación Amigos de la Naturaleza (FAN)	671.88	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
23-Jan-03	Fundación Amigos de la Naturaleza (FAN)	761.88	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
23-Jan-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	13,500.00	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
23-Jan-03	Fundación Amigos de la Naturaleza (FAN)	2,195.64	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
23-Jan-03	KEENE VALLEY CONGREGATION	750.00	ROUTE 73 MAINE STREET KEENE VALLEY NY 12943	Conservation activities.	N/A
23-Jan-03	Fundación Ecologista Héctor Rodrigo Pastor Fasquelle (PASTOR)	3,000.00	1ra y 2da Calle, 1ma Avenida 2do Piso, Pizzeria Italia, Cuadrante Noroeste,San Pedro Sula, Honduras	Grant pursuant to federal award.	N/A
23-Jan-03	Instituto Tecnológico y de Estudios Superiores de Monterrey, Universidad Virtual | México (ITESM)	21,669.67	Av. Eugenio Garza Sada #2501 Sur. Col. Tecnologico C.P. 64849, Monterrey N.L. Mexico	Conservation activities.	N/A
23-Jan-03	Fundacion Acceso	20,000.00	Apartado Postal 288-2050,San Jose, Costa Rica	Conservation activities.	N/A
23-Jan-03	Ducks Unlimited, Inc.	10,000.00	Great Plains Regional Office, 2525 River Road, Bismarck, ND, 58503-9011	Conservation activities.	N/A
23-Jan-03	LAND TRUST ALLIANCE	7,500.00	PO BOX 79 SARATOGA SPRINGS NY 12866	Conservation activities.	N/A
27-Jan-03	SOUTHERN ALBERTA LAND TRUST	10,000.00	C/O GLENN PAULEY GENERAL DEL, PINCHER CREEK ALBERTA, TOK 1WO CANADA CA	Conservation activities.	N/A
28-Jan-03	Relcass	435.31	Relcass	Conservation activities.	N/A
28-Jan-03	Relcass	(435.31)	Relcass	Conservation activities.	N/A
28-Jan-03	VALLEY CONSERVATION COUNCIL	(4,000.00)	PO BOX 2335 STAUNTON VA 24402	Conservation activities.	N/A
28-Jan-03	Programme for Belize (PfB)	11,050.00	1 Eyre St., PO Box 749, Belize City, Belize, Central America	Grant pursuant to federal award.	N/A
28-Jan-03	Toledo Institute for Development and Environment (TIDE)	94,158.13	P.O. Box 150, Punta Gorda, Toledo District, BELIZE	Grant pursuant to federal award.	N/A
28-Jan-03	Friends of Nature (FoN)	28,233.01	Placencia Village, Stann Creek District, Belize	Grant pursuant to federal award.	N/A
28-Jan-03	THREE RIVERS LAND CONSERVANCY	3,500.00	PO BOX 1116 LAKE OSWEGO OR 97035-0502	Conservation activities.	N/A
29-Jan-03	IOWA NATIVE PLANT SOCIETY	562.31	720 SANDUSKY DRIVE IOWA CITY IA 52240	Conservation activities.	N/A
29-Jan-03	IOWA PRAIRIE NETWORK	562.31	PRAIRIE RIVERS RC&D P. O. BOX 572 NEVADA IA 50201	Conservation activities.	N/A
29-Jan-03	NCDA & CS	14,211.23	PLANT INDUSTRY DIVISION PO BOX 27647 RALEIGH NC 27611	Conservation activities.	N/A
30-Jan-03	Protección del Medio Ambiente Tarija (PROMETA)	16,864.99	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-Jan-03	Protección del Medio Ambiente Tarija (PROMETA)	520.00	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
31-Jan-03	Centro de Estudios y Acción Social Panameña (CEASPA)	4,000.00	Apartado 6-133 / El Dorado, Panamá	Grant pursuant to federal award.	N/A
31-Jan-03	Fundación AVINA, Suiza	(4,176.63)	P.O. Box 1474, 8640 Hurden, Suiza	Grant pursuant to federal award.	N/A
31-Jan-03	Yayasan UGH Indonesia	1,666.85	Jl. Kutilang V No. 25, Palu, Sulawesi Tengah, Indonesia	Grant pursuant to federal award.	N/A
31-Jan-03	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	(10,709.00)	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
31-Jan-03	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	(5,700.00)	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
31-Jan-03	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	5,700.00	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A

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31-Jan-03	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	10,709.00	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
31-Jan-03	Fundación Antisana (FUNAN)	(58,331.04)	Gonzalo Serrano E10-27 y 6 de Diciembre, P.O. Box 17-03-1486, Quito, ECUADOR	Grant pursuant to federal award.	N/A
31-Jan-03	Fundación Antisana (FUNAN)	58,331.04	Gonzalo Serrano E10-27 y 6 de Diciembre, P.O. Box 17-03-1486, Quito, ECUADOR	Grant pursuant to federal award.	N/A
31-Jan-03	Fundación Ecuatoriana de Estudios Ecologicos (EcoCiencia)	(24,604.41)	Francisco Salazar E14-34 y Coruña, Quito, ECUADOR	Grant pursuant to federal award.	N/A
31-Jan-03	Fundación Ecuatoriana de Estudios Ecologicos (EcoCiencia)	24,604.41	Francisco Salazar E14-34 y Coruña, Quito, ECUADOR	Grant pursuant to federal award.	N/A
31-Jan-03	Fundação SOS Amazônia	(13,966.81)	Rua Pará, 51 - Bairro Cadeia Velha - 69900-440 Rio Branco – AC, BRAZIL	Grant pursuant to federal award.	N/A
31-Jan-03	Fundación Ecológica Rumicocha (FER)	(3,877.00)	PO Box 17-15-13B, Quito, ECUADOR	Grant pursuant to federal award.	N/A
31-Jan-03	Fundación Ecuatoriana de Estudios Ecologicos (EcoCiencia)	(14,141.00)	Francisco Salazar E14-34 y Coruña, Quito, ECUADOR	Grant pursuant to federal award.	N/A
31-Jan-03	Pronatura, Peninsula de Yucatan, A.C. (PPY)	(4,619.00)	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
31-Jan-03	Instituto de Historia Natural y Ecologia (IHNE)	(18,772.00)	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
31-Jan-03	Amigos de Sian Ka'an (ASK)	(17,730.51)	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
31-Jan-03	Pronatura Noreste A.C. (PNE)	(15,000.00)	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
31-Jan-03	Fundacion Moscoso Puello (FMP)	(11,475.00)	Ave. John F Kennedy, Km 7 , Edif. AJFA, Los Jardines del Norte, P.O. Box 1533, Zona 1, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A
31-Jan-03	Pronatura Noreste A.C. (PNE)	(20,183.00)	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
31-Jan-03	Asociación Boliviana para la Conservación (TRÓPICO)	(5,686.00)	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
31-Jan-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	(15,437.00)	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
31-Jan-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	(6,000.00)	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
31-Jan-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(18,039.00)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
31-Jan-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(1,590.00)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
31-Jan-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(6,500.00)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
31-Jan-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(16,932.00)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
31-Jan-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(8,000.00)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
31-Jan-03	Fondo Mexicano para la Conservacion de la Naturaleza, A.C. (FMCN)	(17,100.00)	Damas 49, San Jose Insurgentes, 03900, Mexico D.F.	Grant pursuant to federal award.	N/A
31-Jan-03	Protección del Medio Ambiente Tarija (PROMETA)	(8,000.00)	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
31-Jan-03	Protección del Medio Ambiente Tarija (PROMETA)	(12,568.00)	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
31-Jan-03	University of Hawaii	(83,250.00)	2445 Campus Rd, #101, Honolulu, HI 96822	Grant pursuant to federal award.	N/A
31-Jan-03	University of Hawaii	(16,750.00)	2445 Campus Rd, #101, Honolulu, HI 96822	Grant pursuant to federal award.	N/A
31-Jan-03	MOPAWI	(13,205.00)	Apartado Postal 2175, Tegucigalpa, HONDURAS	Grant pursuant to federal award.	N/A
31-Jan-03	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	(4,350.00)	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
31-Jan-03	Fundación Moises Bertoni para la Conservación de la Naturaleza (FMB)	(5,000.00)	Procer Carlos Arguello, 208 entre Av. Mcal. Lopez y Av. Boggiani, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
31-Jan-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(6,500.00)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
31-Jan-03	Instituto de Derecho y Economia Ambiental (IDEA)	(14,375.00)	Nicanor Torales 150, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
31-Jan-03	Asociación Patronato Vivamos Mejor	(4,175.00)	Calle de los Salpores 0-83, zona 3, Barrio Jucanyá, Panajachel, Sololá, Guatemala	Grant pursuant to federal award.	N/A
31-Jan-03	Sociedad Peruana de Derechos Ambiental (SPDA)	(5,650.00)	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
31-Jan-03	The Southern Trelawny Environmental Agency (STEA)	(42,577.00)	#3 Grants Office Complex, Albert Town, Trelawny, Jamaica	Grant pursuant to federal award.	N/A
31-Jan-03	Pronatura Noreste A.C. (PNE)	(15,000.00)	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
31-Jan-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	(100,000.00)	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
31-Jan-03	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	(23,308.48)	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
31-Jan-03	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	(10,799.00)	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
31-Jan-03	Fundación ANAI/Costa Rica (ANAI)	40,541.13	Apartado 170-2070, Sabanilla de Montes de Oca, COSTA RICA	Grant pursuant to federal award.	N/A
31-Jan-03	Fundación AVINA, Suiza	4,176.63	P.O. Box 1474, 8640 Hurden, Suiza	Grant pursuant to federal award.	N/A
31-Jan-03	Associação Caatinga (AC)	45,589.00	Av. Santos Dumont, 3060 - Salas 516 e 518 - Aldeota - 60150-161 Fortaleza – CE, BRAZIL	Grant pursuant to federal award.	N/A

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31-Jan-03	Instituto de Historia Natural y Ecologia (IHNE)	2,500.00	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
31-Jan-03	Fundación Ecológica Arcoiris (FEA)	60,000.00	Street and Mailing Address: Segundo Cueva Celi 03-15 y, Clodoveo Carrión, Ciudadela Zamora, Loja, ECUADOR	Grant pursuant to federal award.	N/A
31-Jan-03	Fundación Ecológica Arcoiris (FEA)	4,000.00	Street and Mailing Address: Segundo Cueva Celi 03-15 y, Clodoveo Carrión, Ciudadela Zamora, Loja, ECUADOR	Grant pursuant to federal award.	N/A
31-Jan-03	Instituto de Historia Natural y Ecologia (IHNE)	8,400.00	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
31-Jan-03	MONTANA AUDUBON	750.00	PO BOX 595 HELENA MT 59624	Conservation activities.	N/A
31-Jan-03	N/A	240,925.08	N/A	Conservation activities.	N/A
31-Jan-03	N/A	(233,407.58)	N/A	Conservation activities.	N/A
31-Jan-03	Warã, Instituto Indígena Brasileiro, Brasilia	5,908.42	Centro Empresarial, Assis Chateaubriand, SRTVS 701 Bloco I Sala 705, CEP 70358-906 – Brazilia - DF	Conservation activities.	N/A
31-Jan-03	Instituto Internacional de Educação do Brasil (IIEB)	5,908.42	SHIS QI 05, Bloco F, sala 101, Centro Comercial Gilberto Salomão, 71606-900 Brasilia, DF	Conservation activities.	N/A
31-Jan-03	Associação Indígena Xavante Norotsu'rã	6,875.73	Avenida Rio Grande do Sul, nº 577 Centro Nova Xavantina-MT	Conservation activities.	N/A
31-Jan-03	Instituto Socioambiental	7,007.58	Sede Brasilia , SCLN, 210 Bloco C sala 112, Brasilia – DF, CEP:70862-530	Conservation activities.	N/A
31-Jan-03	Conselho Indigena de Roraima (CIR)	1,823.71	Avenida Sebastiao Dinia 2630, Bairro Sao Vincente, Boa Vista - RR, CEP: 69,303-120	Conservation activities.	N/A
31-Jan-03	Coordenação Das Organizações Indigenas Da Amazônia Brasileira - (COIAB)	2,735.56	Avenida Ayrão nº 235 Bairro Presidente Vargas Manaus-AM	Conservation activities.	N/A
31-Jan-03	Conselho Indigena de Roraima (CIR)	3,039.51	Avenida Sebastiao Dinia 2630, Bairro Sao Vincente, Boa Vista - RR, CEP: 69,303-120	Conservation activities.	N/A
31-Jan-03	Conselho Indigena de Roraima (CIR)	3,039.51	Avenida Sebastiao Dinia 2630, Bairro Sao Vincente, Boa Vista - RR, CEP: 69,303-120	Conservation activities.	N/A
31-Jan-03	Fundacao Zoobotanica de Maraba (FZM)	3,039.51	Rua Norberto de Melo 1233, Cidade Pioneira, Maraba - PA BRAZIL	Conservation activities.	N/A
31-Jan-03	Conselho Indigena de Roraima (CIR)	4,179.33	Avenida Sebastiao Dinia 2630, Bairro Sao Vincente, Boa Vista - RR, CEP: 69,303-120	Conservation activities.	N/A
31-Jan-03	Associação dos Povos Indígenas do Estado de Roraima (APIRR)	6,068.39	Rua Carlos Natrot 881, Bairro Liberdade, 69 309-250 Boa Vista RR	Conservation activities.	N/A
31-Jan-03	Instituto Socioambiental	7,209.92	Sede Brasilia , SCLN, 210 Bloco C sala 112, Brasilia – DF, CEP:70862-530	Conservation activities.	N/A
31-Jan-03	Conselho Indigena de Roraima (CIR)	7,477.20	Avenida Sebastiao Dinia 2630, Bairro Sao Vincente, Boa Vista - RR, CEP: 69,303-120	Conservation activities.	N/A
31-Jan-03	Circulo De Pais E Mestres Da Escola Estadual Apolinário Gimenes (Cipamesag Ye'ruan)	7,544.07	Rua Cereju Cruz nº 600 Boa Vista-RR	Conservation activities.	N/A
31-Jan-03	Associação Indígena Xavante Norotsu'rã	7,598.78	Avenida Rio Grande do Sul, nº 577 Centro Nova Xavantina-MT	Conservation activities.	N/A
31-Jan-03	Longgi Village	33.43	C/O TNC, Berau Office, Ji. Pemuda No. 92, Tanjung Rebab, Berau , INDONESIA	Conservation activities.	N/A
31-Jan-03	State of Connecticut	50,000.00	165 Capitol Avenue, Hartford, CT 06106	Land acquisition related funding.	N/A
31-Jan-03	The Great Works Regional Land Trust, Inc.	151,445.42	P.O. Box 151, South Berwick, ME 03908	Land acquisition related funding.	N/A
31-Jan-03	Great Bay (Sargent), NH	(150,695.54)	Reclass - wrong name project name - see Powwow River	Land acquisition related funding.	N/A
31-Jan-03	Great Bay (Sargent), NH	150,695.54	Reclass - wrong name project name - see Powwow River	Land acquisition related funding.	N/A
31-Jan-03	Town of Kingston	150,695.54	PO Box 716, Kingston, NH 03848	Land acquisition related funding.	N/A
31-Jan-03	N/A	(29,389.60)	N/A	Conservation activities.	N/A
31-Jan-03	Pronatura, Peninsula de Yucatan, A.C. (PPY)	13,420.75	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
1-Feb-03	NATURESERVE	(13,442.40)	1101 WILSON BLVD, 15TH FL ARLINGTON VA 22209	Grant pursuant to federal award.	N/A
1-Feb-03	NATURESERVE	(18,299.62)	1101 WILSON BLVD, 15TH FL ARLINGTON VA 22209	Grant pursuant to federal award.	N/A
1-Feb-03	NATURESERVE	31,742.02	1101 WILSON BLVD, 15TH FL ARLINGTON VA 22209	Grant pursuant to federal award.	N/A
1-Feb-03	NATURESERVE	18,299.62	1101 WILSON BLVD, 15TH FL ARLINGTON VA 22209	Grant pursuant to federal award.	N/A
1-Feb-03	NATURESERVE	(31,742.02)	1101 WILSON BLVD, 15TH FL ARLINGTON VA 22209	Grant pursuant to federal award.	N/A
1-Feb-03	NATURESERVE	13,442.40	1101 WILSON BLVD, 15TH FL ARLINGTON VA 22209	Grant pursuant to federal award.	N/A
1-Feb-03	IDAHO COUNCIL ON INDUSTRY	200.00	PO BOX 255 BOISE ID 83701	Conservation activities.	N/A
1-Feb-03	PINCHOT INSTITUTE FOR CONSERVATION	50.00	1616 P STREET NW SUITE 100 WASHINGTON DC 20036	Conservation activities.	N/A
1-Feb-03	NATIONAL PARKS CONSERVATION ASSOCIATION	5,000.00	706 WALNUT ST., SUITE 200 KNOXVILLE TN 37902	Conservation activities.	N/A
1-Feb-03	MINISTRY OF LAND & ENVIRONMENT	15,000.00	IKONOS 1 DEVON ROAD KINGSTON 6	Conservation activities.	N/A
1-Feb-03	TUCKERNUCK LAND TRUST	76,961.35	6 ASH LANE NANTUCKET MA 02554	Conservation activities.	N/A
1-Feb-03	TUCKERNUCK LAND TRUST	(76,961.35)	6 ASH LANE NANTUCKET MA 02554	Conservation activities.	N/A
3-Feb-03	CONSERVATION FARMS & RANCHES	80,000.00	201 MISSION ST. 4TH FLOOR SAN FRANCISCO CA 94105	Conservation activities.	N/A
4-Feb-03	CONSERVATION BEEF	33,000.00	PO BOX 748 HELENA MT 59624	Conservation activities.	N/A
5-Feb-03	NATURAL LANDS TRUST	69,966.17	HILDACY FARM 1031 PALMERS MILL ROAD MEDIA PA 19063	Conservation activities.	N/A
5-Feb-03	NATURAL LANDS TRUST	69,966.17	HILDACY FARM 1031 PALMERS MILL ROAD MEDIA PA 19063	Conservation activities.	N/A
5-Feb-03	NATURAL LANDS TRUST	(69,966.17)	HILDACY FARM 1031 PALMERS MILL ROAD MEDIA PA 19063	Conservation activities.	N/A
5-Feb-03	COLORADO NATURAL HERITAGE	12,500.00	COLLEGE OF NATURAL SCIENCES 254 GENERAL SERVICES - CSU ATTN: DREW MCDOWELL FORT COLLINS CO 80523-1401	Conservation activities.	N/A
5-Feb-03	ST. MARTIN'S OF TOURS CHURCH	1,000.00	18 COLBY ST. MILLINOCKET ME 04462	Conservation activities.	N/A
5-Feb-03	ST. MARTIN'S OF TOURS CHURCH	2,000.00	18 COLBY ST. MILLINOCKET ME 04462	Conservation activities.	N/A
5-Feb-03	ST. MARTIN'S OF TOURS CHURCH	2,000.00	18 COLBY ST. MILLINOCKET ME 04462	Conservation activities.	N/A
5-Feb-03	MAINE DEPT. OF INLAND FISHERIES & WILDLIFE	5,000.00	284 STATE STREET, SHS #41 AUGUSTA ME 04333-0041	Conservation activities.	N/A
5-Feb-03	AMERICAN CHESTNUT LAND TRUST	10,219.79	PO BOX 204 PORT REPUBLIC MD 20676	Conservation activities.	N/A
11-Feb-03	THE TAMARISK COALITION	1,500.00	PO BOX 1907 GRAND JUNCTION CO 81502	Conservation activities.	N/A
12-Feb-03	GREEN RIVER VALLEY LAND TRUST	3,000.00	PO BOX 1580 PINEDALE WY 82941	Conservation activities.	N/A
13-Feb-03	QUODDY REGIONAL LAND TRUST	500.00	PO BOX 49 WHITING ME 04691	Conservation activities.	N/A

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14-Feb-03	FIRST CLASS CONFERENCES	400.00	CONNECTING OH WATERSHEDS/WMAO P. O. BOX 14851 COLUMBUS OH 43214-0851	Conservation activities.	N/A
14-Feb-03	Fundacion Acceso	1,966.00	Apartado Postal 288-2050,San Jose, Costa Rica	Conservation activities.	N/A
20-Feb-03	Fundación Moises Bertoni para la Conservación de la Naturaleza (FMB)	18,592.00	Procer Carlos Arguello, 208 entre Av. Mcal. Lopez y Av. Boggiani, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
20-Feb-03	Centro de Datos para la Conservación de Perú (CDC)	5,000.00	Universidad Nacional Agraria La Molina, Apartado Postal 456, Lima 100, PERU	Grant pursuant to federal award.	N/A
20-Feb-03	Asociación Boliviana para la Conservación (TRÓPICO)	5,000.00	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
20-Feb-03	Comite Nacional Pro Defensa De La Fauna y La Flora (CODEFF)	31,200.00	Portales No 508, Piso 3, Oficina C, Concepcion - Chile	Grant pursuant to federal award.	N/A
20-Feb-03	Fideicomiso para el Ahorro de Energia Electrica (FIDE)	1,111,000.00	Mariano Escobedo No.420, Col. Anzures, México, D.F. C.P. 11590	Grant pursuant to federal award.	N/A
20-Feb-03	Toledo Institute for Development and Environment (TIDE)	70,991.19	P.O. Box 150, Punta Gorda, Toledo District, BELIZE	Grant pursuant to federal award.	N/A
21-Feb-03	UNIVERSITY OF ILLINOIS	100.00	EXTENSION MASON COUNTY UNIT P O BOX 170 HAVANA IL 62644	Conservation activities.	N/A
21-Feb-03	UNIVERSITY OF ILLINOIS	100.00	EXTENSION MASON COUNTY UNIT P O BOX 170 HAVANA IL 62644	Conservation activities.	N/A
21-Feb-03	Toledo Institute for Development and Environment (TIDE)	4,673.37	P.O. Box 150, Punta Gorda, Toledo District, BELIZE	Grant pursuant to federal award.	N/A
21-Feb-03	Toledo Institute for Development and Environment (TIDE)	7,045.30	P.O. Box 150, Punta Gorda, Toledo District, BELIZE	Grant pursuant to federal award.	N/A
24-Feb-03	Maria Gracia Moran Quinones	100.00	C/O ProNaturaleza, Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Conservation activities.	None identified.
24-Feb-03	Rafael Tamashiro	100.00	C/O ProNaturaleza, Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Conservation activities.	None identified.
24-Feb-03	LAND TRUST OF SANTA CRUZ	3,500.00	6146 CAMINO VERDE DR. STE. P SAN JOSE CA 95119-1460	Conservation activities.	N/A
25-Feb-03	CONSERVATION BEEF	30,000.00	P O BOX 748 HELENA MT 59624	Conservation activities.	N/A
27-Feb-03	Asociación Patronato Vivamos Mejor	4,175.00	Calle de los Salpores 0-83, zona 3, Barrio Jucanyá, Panajachel, Sololá, Guatemala	Grant pursuant to federal award.	N/A
27-Feb-03	Reclass	(7,500.00)	Reclass	Conservation activities.	N/A
28-Feb-03	Programme for Belize (PfB)	(5,583.14)	1 Eyre St., PO Box 749, Belize City, Belize, Central America	Grant pursuant to federal award.	N/A
28-Feb-03	Programme for Belize (PfB)	(990.00)	1 Eyre St., PO Box 749, Belize City, Belize, Central America	Grant pursuant to federal award.	N/A
28-Feb-03	Programme for Belize (PfB)	(10,837.86)	1 Eyre St., PO Box 749, Belize City, Belize, Central America	Grant pursuant to federal award.	N/A
28-Feb-03	Fundo Brasileiro para a Biodiversidade (FUNBIO)	40,789.00	Largo do IBAM 1-6o andar – Humaitá, Rio de Jenerio, RF 22271-070, Brazil	Grant pursuant to federal award.	N/A
28-Feb-03	Programme for Belize (PfB)	10,837.86	1 Eyre St., PO Box 749, Belize City, Belize, Central America	Grant pursuant to federal award.	N/A
28-Feb-03	Programme for Belize (PfB)	990.00	1 Eyre St., PO Box 749, Belize City, Belize, Central America	Grant pursuant to federal award.	N/A
28-Feb-03	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	57,500.00	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
28-Feb-03	Programme for Belize (PfB)	5,583.14	1 Eyre St., PO Box 749, Belize City, Belize, Central America	Grant pursuant to federal award.	N/A
28-Feb-03	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	73,800.33	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
28-Feb-03	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	101,449.00	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
28-Feb-03	Fundación Neuquen para la Conservación de la Naturaleza	50,940.00	Florida 622, piso 2 oficina 7, C1005AAN, Buenos Aires, Argentina	Grant pursuant to federal award.	N/A
28-Feb-03	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	44,460.03	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
28-Feb-03	Mahonia na Dari Conservation and Research Centre	8,560.00	P.O. Box 697, Kimbe, West New Britain, Papua New Guinea	Grant pursuant to federal award.	N/A
28-Feb-03	The Bahamas National Trust	33,853.00	PO Box N-4105, Nassau, Bahamas	Grant pursuant to federal award.	N/A
28-Feb-03	Fundación Defensores de la Naturaleza (FDN)	23,253.05	7 Avenida 7-09, zona 13, Guatemala City, Guatemala 01013	Grant pursuant to federal award.	N/A
28-Feb-03	Fundación Defensores de la Naturaleza (FDN)	48,350.00	7 Avenida 7-09, zona 13, Guatemala City, Guatemala 01013	Grant pursuant to federal award.	N/A
28-Feb-03	Instituto de Derecho y Economia Ambiental (IDEA)	14,375.00	Nicanor Torales 150, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
28-Feb-03	Asociación Patronato Vivamos Mejor	2,676.75	Calle de los Salpores 0-83, zona 3, Barrio Jucanyá, Panajachel, Sololá, Guatemala	Grant pursuant to federal award.	N/A
28-Feb-03	Grupo Ecologista Antares (GEA)	689.17	Paseo Hidalgo, esq. Colegio, Col. Centro, Loreto, Baja California SUR	Grant pursuant to federal award.	N/A
28-Feb-03	Asociación Nacional para la Conservación de la Naturaleza (ANCON)	20,500.00	Apartado 1387, Panamá 1, República de PANAMA	Grant pursuant to federal award.	N/A
28-Feb-03	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	45,554.30	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Land acquisition related funding.	N/A
28-Feb-03	Pronatura, Peninsula de Yucatan, A.C. (PPY)	(10,000.00)	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Pronatura, Peninsula de Yucatan, A.C. (PPY)	(20,000.00)	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Pronatura, Peninsula de Yucatan, A.C. (PPY)	4,619.00	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Pronatura, Peninsula de Yucatan, A.C. (PPY)	5,380.64	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Pronatura, Peninsula de Yucatan, A.C. (PPY)	6,324.56	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Pronatura, Peninsula de Yucatan, A.C. (PPY)	7,786.78	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Instituto de Historia Natural y Ecologia (IHNE)	(4,750.00)	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A

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28-Feb-03	Instituto de Historia Natural y Ecologia (IHNE)	(13,600.00)	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Instituto de Historia Natural y Ecologia (IHNE)	(16,650.00)	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Instituto de Historia Natural y Ecologia (IHNE)	4,499.18	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Instituto de Historia Natural y Ecologia (IHNE)	6,979.29	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Instituto de Historia Natural y Ecologia (IHNE)	9,204.83	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Instituto de Historia Natural y Ecologia (IHNE)	12,816.09	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Instituto de Historia Natural y Ecologia (IHNE)	18,772.00	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Amigos de Sian Ka'an (ASK)	(6,755.00)	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
28-Feb-03	Amigos de Sian Ka'an (ASK)	(8,800.00)	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
28-Feb-03	Amigos de Sian Ka'an (ASK)	2,210.36	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
28-Feb-03	Amigos de Sian Ka'an (ASK)	4,884.35	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
28-Feb-03	Amigos de Sian Ka'an (ASK)	9,293.95	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
28-Feb-03	Amigos de Sian Ka'an (ASK)	17,730.51	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
28-Feb-03	Amigos de Sian Ka'an (ASK)	(2,175.51)	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
28-Feb-03	Amigos de Sian Ka'an (ASK)	(2,500.00)	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
28-Feb-03	Amigos de Sian Ka'an (ASK)	536.56	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
28-Feb-03	Amigos de Sian Ka'an (ASK)	1,681.56	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
28-Feb-03	Instituto de Historia Natural y Ecologia (IHNE)	(3,000.00)	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Instituto de Historia Natural y Ecologia (IHNE)	(12,000.00)	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Instituto de Historia Natural y Ecologia (IHNE)	1,762.16	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Instituto de Historia Natural y Ecologia (IHNE)	3,209.17	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Instituto de Historia Natural y Ecologia (IHNE)	3,594.24	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Instituto de Historia Natural y Ecologia (IHNE)	3,837.77	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Pronatura, Peninsula de Yucatan, A.C. (PPY)	(5,000.00)	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Pronatura, Peninsula de Yucatan, A.C. (PPY)	(10,000.00)	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Pronatura, Peninsula de Yucatan, A.C. (PPY)	134.00	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Pronatura, Peninsula de Yucatan, A.C. (PPY)	7,266.00	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
28-Feb-03	Fundação O Boticário de Proteção à Natureza (FBPN)	(32,102.63)	Av. Rui Barbosa, 3450 - Afonso Pena - 83065-260 São José dos Pinhais – PR, BRAZIL	Grant pursuant to federal award.	N/A
28-Feb-03	Fundação O Boticário de Proteção à Natureza (FBPN)	19,348.35	Av. Rui Barbosa, 3450 - Afonso Pena - 83065-260 São José dos Pinhais – PR, BRAZIL	Grant pursuant to federal award.	N/A
28-Feb-03	Fundação O Boticário de Proteção à Natureza (FBPN)	(8,452.50)	Av. Rui Barbosa, 3450 - Afonso Pena - 83065-260 São José dos Pinhais – PR, BRAZIL	Grant pursuant to federal award.	N/A
28-Feb-03	Fundação O Boticário de Proteção à Natureza (FBPN)	4,934.33	Av. Rui Barbosa, 3450 - Afonso Pena - 83065-260 São José dos Pinhais – PR, BRAZIL	Grant pursuant to federal award.	N/A
28-Feb-03	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	(4,606.58)	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
28-Feb-03	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	(5,700.00)	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
28-Feb-03	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	1,613.02	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
28-Feb-03	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	(13,600.00)	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
28-Feb-03	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	(4,817.00)	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
28-Feb-03	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	2,071.29	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
28-Feb-03	Yayasan UGH Indonesia	510.33	Jl. Kutilang V No. 25, Palu, Sulawesi Tengah, Indonesia	Grant pursuant to federal award.	N/A
28-Feb-03	Yayasan Jambata (Jambata Foundation)	1,228.76	Jl Kakatua II No 14, Palu, Sulawesi Tengah, Indonesia	Grant pursuant to federal award.	N/A
28-Feb-03	N/A	(27.06)	N/A	Conservation activities.	N/A
28-Feb-03	Programme for Belize (PfB)	10,837.86	1 Eyre St., PO Box 749, Belize City, Belize, Central America	Grant pursuant to federal award.	N/A
28-Feb-03	Programme for Belize (PfB)	990.00	1 Eyre St., PO Box 749, Belize City, Belize, Central America	Grant pursuant to federal award.	N/A
28-Feb-03	Programme for Belize (PfB)	5,583.14	1 Eyre St., PO Box 749, Belize City, Belize, Central America	Grant pursuant to federal award.	N/A
28-Feb-03	Toledo Institute for Development and Environment (TIDE)	(4,673.37)	P.O. Box 150, Punta Gorda, Toledo District, BELIZE	Grant pursuant to federal award.	N/A

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28-Feb-03	Toledo Institute for Development and Environment (TIDE)	(4,673.37)	P.O. Box 150, Punta Gorda, Toledo District, BELIZE	Grant pursuant to federal award.	N/A
28-Feb-03	Associação Dos Povos Indígenas Do Oiapoque (APIO)	2,005.65	Rua Onório Silva S/nº Oiapoque-AP	Conservation activities.	N/A
28-Feb-03	Associação Indígena Xavante Norotsu'rã	2,824.86	Avenida Rio Grande do Sul, nº 577 Centro Nova Xavantina-MT	Conservation activities.	N/A
28-Feb-03	Instituto Ecológica Palmas/To Palmas-TO	1,412.43	Quadra 103 Sul Conjunto 03 Lote 28 Rua SO-11 Palmas-TO	Conservation activities.	N/A
28-Feb-03	*AMCA/Sire Fisheries Center	767.91	C/O The Nature Conservancy, PO Box 759, Honiara, Solomon Islands	Conservation activities.	N/A
28-Feb-03	*AMCA/Wagina Fisheries Center	767.91	C/O The Nature Conservancy, PO Box 759, Honiara, Solomon Islands	Conservation activities.	N/A
28-Feb-03	Kosrae Conservation and Safety Organization	9,962.00	c/o Kosrae Village Resort, Lelu, Kosrae FSM 96944	Conservation activities.	N/A
28-Feb-03	State of Connecticut	23,433.90	165 Capitol Avenue, Hartford, CT 06106	Land acquisition related funding.	N/A
28-Feb-03	(TNC Assist - 2 separate transactions)		(TNC Assist - 2 separate transactions)		
	Richmond Land Trust	140,000.00	c/o Joseph Lombardo, Town Planner, Richmond Town Hall, 5 Richmond Townhouse Road, Wyoming, RI 02898	Land acquisition related funding.	N/A
	South Kingstown Land Trust		Trustees: Clarkson A. Collins, Sophie Page Lewis, Janet Innis, Helena-Hope Gam, 313 Main Street, Suite C Wakefield RI 02879	Land acquisition related funding.	N/A
28-Feb-03	The Nature Conservancy of Canada	150,000.00	110 Eglinton Avenue West-4th Floor, Toronto, Ontario, M4R 1A3	Conservation activities.	N/A
28-Feb-03	The Nature Conservancy of Canada	30,355.00	110 Eglinton Avenue West-4th Floor, Toronto, Ontario, M4R 1A3	Conservation activities.	N/A
1-Mar-03	INTERNATIONAL RESOURCES GROUP, LTD.	(11,184.17)	FIRST UNION BANK ACCT#20-6670045233-0 P O BOX 2329 MERRIFIELD VA 22116-2329	Conservation activities.	N/A
1-Mar-03	PEOPLE INCORPORATED	100,000.00	1173 WEST MAIN STREET ABINGDON VA 24210	Conservation activities.	N/A
1-Mar-03	KENAI WATERSHED FORUM	250.00	P.O. BOX 2937 SOLDOTNA AK 99669	Conservation activities.	N/A
1-Mar-03	LIGHTHAWK	200.00	P O BOX 653 LANDER WY 82520	Conservation activities.	N/A
1-Mar-03	COEUR D'ALENE CHAMBER OF COMMERCE	70.00	P.O. BOX 850 COEUR D'ALENE ID 83816-0850	Conservation activities.	N/A
1-Mar-03	TRUSTEES OF RESERVATIONS	500.00	C/O VIRGINIA SLACK 572 ESSEX STREET BEVERLY MA 01915	Conservation activities.	N/A
1-Mar-03	TAR RIVER LAND CONSERVANCY	37,500.00	211 N. MAIN ST., SUITE A LOUISBURG NC 27549	Grant pursuant to federal award.	N/A
1-Mar-03	TAR RIVER LAND CONSERVANCY	18,750.00	211 N. MAIN ST., SUITE A LOUISBURG NC 27549	Grant pursuant to federal award.	N/A
1-Mar-03	SOUTH CAROLINA DEPT. OF NATURAL RESOURCES	10,000.00	P. O. BOX 12559 CHARLESTON SC 29422-2559	Conservation activities.	N/A
1-Mar-03	LAND TRUST FOR SANTA CLARA COUNTY	3,500.00	66 1ST ST, STE 2 GILROY CA 95020-5140	Conservation activities.	N/A
1-Mar-03	THE PHILANDER CHASE CORP.	150,000.00	209 CHASE AVENUE GAMBIER OH 43022-9623	Conservation activities.	N/A
3-Mar-03	GREAT WORKS REGIONAL LAND	3,700.00	PO BOX 151 SOUTH BERWICK ME 03908	Conservation activities.	N/A
5-Mar-03	THE COMPACT OF CAPE COD	500.00	CONSERVATION TRUSTS PO BOX 443 BARNSTABLES MA 02630	Conservation activities.	N/A
7-Mar-03	UNIVERSITY OF ILLINOIS	(100.00)	EXTENSION MASON COUNTY UNIT P O BOX 170 HAVANA IL 62644	Conservation activities.	N/A
11-Mar-03	CARLSON & SWANSON, P.C.	(2,310.00)	125 S HOWES, STE 890 FORT COLLINS CO 80521	Conservation activities.	N/A
11-Mar-03	CARLSON & SWANSON, P.C.	2,310.00	125 S HOWES, STE 890 FORT COLLINS CO 80521	Conservation activities.	N/A
11-Mar-03	WISCONSIN ACADEMY	1,000.00	OF SCIENCES, ARTS, LETTERS 1922 UNIVERSITY AVENUE MADISON WI 53705	Conservation activities.	N/A
11-Mar-03	Coordenação Das Organizações Indígenas Da Amazônia Brasileira - (COIAB)	2,869.44	Avenida Ayrão nº 235 Bairro Presidente Vargas Manaus-AM	Conservation activities.	N/A
12-Mar-03	KATAHDIN REGION HOPE & UNITY FUND	10,247.00	C/O TNC Maine FO, 14 Maine Street, Suite 401, Brunswick, ME 04011	Conservation activities.	N/A
13-Mar-03	Mahonia na Dari Conservation and Research Centre	8,560.00	P.O. Box 697, Kimbe, West New Britain, Papua New Guinea	Grant pursuant to federal award.	N/A
13-Mar-03	Mahonia na Dari Conservation and Research Centre	(8,560.00)	P.O. Box 697, Kimbe, West New Britain, Papua New Guinea	Grant pursuant to federal award.	N/A
13-Mar-03	FORESTRY OUTREACH PROGRAMS	200.00	800 Reserve Street, College of Natural Resources, University of Wisconsin - Stevens Point, Stevens Point, WI 54481-3897	Conservation activities.	N/A
13-Mar-03	Programme for Belize (PfB)	6,708.00	1 Eyre St., PO Box 749, Belize City, Belize, Central America	Conservation activities.	N/A
13-Mar-03	Programme for Belize (PfB)	19,225.00	1 Eyre St., PO Box 749, Belize City, Belize, Central America	Conservation activities.	N/A
13-Mar-03	Programme for Belize (PfB)	2,802.00	1 Eyre St., PO Box 749, Belize City, Belize, Central America	Conservation activities.	N/A
13-Mar-03	Programme for Belize (PfB)	12,458.00	1 Eyre St., PO Box 749, Belize City, Belize, Central America	Conservation activities.	N/A
14-Mar-03	FRIENDS OF THE MUSEUM-EVENTS	2,000.00	PO BOX 26928 RALEIGH NC 27611-6928	Conservation activities.	N/A
14-Mar-03	Associação Indígena Xavante Norotsu'rã	434.15	Rua Tapajós, nº 374, Setor Nova Brasília - Centro Nova Xavantina-MT	Conservation activities.	N/A
14-Mar-03	FONDO ECOEMPRESAS, S.A./	300,000.00	Angela Tyson, EcoEnterprises Fund, The Nature Conservancy, 4245 North Fairfax Drive, Arlington, VA 22203	Conservation activities.	N/A
18-Mar-03	Fundación Moises Bertoni para la Conservación de la Naturaleza (FMB)	18,592.00	Procer Carlos Arguello, 208 entre Av. Mcal. Lopez y Av. Boggiani, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
18-Mar-03	Amigos de Sian Ka'an (ASK)	5,446.46	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
18-Mar-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	20,050.00	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
18-Mar-03	Protección del Medio Ambiente Tarija (PROMETA)	4,249.35	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
18-Mar-03	Fundación Alianza Jatun Sacha (CDC)	10,000.00	Pasaje Eugenio de Santillán N34-248 y Maurian, Casilla Postal 17-12 867, Quito, ECUADOR	Grant pursuant to federal award.	N/A
18-Mar-03	Fundación Alianza Jatun Sacha (CDC)	10,000.00	Pasaje Eugenio de Santillán N34-248 y Maurian, Casilla Postal 17-12 867, Quito, ECUADOR	Grant pursuant to federal award.	N/A
18-Mar-03	Fundacion Moscoso Puello (FMP)	21,167.62	Ave. John F Kennedy, Km 7 , Edif. AJFA, Los Jardines del Norte, P.O. Box 1533, Zona 1, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A
18-Mar-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	100,000.00	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A

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18-Mar-03	GUSTAVUS COMMUNITY ASSOCIATION	7,000.00	P. O. BOX 62 GUSTAVUS AK 99826	Conservation activities.	N/A
18-Mar-03	Fundación para el EcoDesarrollo y la Conservación (FUNDAECO)	5,000.00	7ma calle "A" 20-53, Zona 11, Colonia Mirador, Guatemala City, Guatemala 01011	Grant pursuant to federal award.	N/A
19-Mar-03	ASIAN ART MUSEUM FOUNDATION	500.00	CAMPAIGN FOR THE NEW ASIAN P O BOX 7408 SAN FRANCISCO CA 94120-9243	Conservation activities.	N/A
20-Mar-03	SOUTHERN IDAHO LAND TRUST	10,000.00	510 ROSEWOOD DRIVE WEST TWIN FALLS ID 83301	Conservation activities.	N/A
21-Mar-03	ST. MARY'S RIVER MANAGEMENT COMMITTEE	500.00	FARM BUREAU PO BOX 5077 CALLAHAN FL 32011	Conservation activities.	N/A
21-Mar-03	Sociedade Nordestina de Ecologia (SNE)	3,617.95	Avenida Vsconde de Suassuna, nº 923 Sala 204 Edificio Bosque de Versalhes Recife-PE	Conservation activities.	N/A
21-Mar-03	State of Rhode Island	75,000.00	Department of Environmental Mgmt 235 Promenade Street Providence, RI 02908	Land acquisition related funding.	N/A
24-Mar-03	NATURAL LAND INSTITUTE	1,000.00	320 S. THIRD STREET ROCKFORD IL 61104	Conservation activities.	N/A
24-Mar-03	NORTHUMBERLAND COUNTY PLANNING	5,000.00	COMMISSION 399 S FIFTH ST SUNBURY PA 17801	Conservation activities.	N/A
24-Mar-03	WISCONSIN FAMILY FORESTS	(200.00)	P.O. Box 682, Wisconsin Rapids, WI 54495-0682	Conservation activities.	N/A
24-Mar-03	YORK LAND TRUST	2,000.00	P O BOX 1241 YORK HARBOR ME 03911	Conservation activities.	N/A
24-Mar-03	EARTHSPAN, INC.	6,500.00	5454 AMRIEN CIRCLE CHINCOTEAGUE ISLAND VA 23336	Conservation activities.	N/A
25-Mar-03	CITIZENS FOR A BETTER EASTERN SHORE	250.00	PO BOX 882 EASTVILLE VA 23347	Conservation activities.	N/A
25-Mar-03	LOWCOUNTRY OPEN LAND TRUST	25,000.00	485 EAST BAY STREET CHARLESTON SC 29403	Grant pursuant to federal award.	N/A
25-Mar-03	DUCKS UNLIMITED, INC.	25,000.00	3870 LEEDS AVE, STE 114 CHARLESTON SC 29405	Grant pursuant to federal award.	N/A
25-Mar-03	SC COASTAL CONSERVATION LEAGUE	25,000.00	PO BOX 1765 CHARLESTON SC 29402	Grant pursuant to federal award.	N/A
25-Mar-03	NATURALAND TRUST	2,086.32	PO BOX 728 GREENVILLE SC 29602	Conservation activities.	N/A
26-Mar-03	ELM WATCH	600.00	P.O. Box 655, Great Barrington, MA 01230	Conservation activities.	N/A
26-Mar-03	Feather River Land Trust	157,000.00	PO Box 1826, Quincy, CA 95971-1826	Land acquisition related funding.	N/A
26-Mar-03	Egremont Land Trust	35,000.00	c/o Eileen Vining, PO Box 161, South Egremont MA 01258	Land acquisition related funding.	N/A
26-Mar-03	Glocester Land Trust	41,550.00	1145 Putnam Pike, P.O. Drawer B Chepachet, RI 02814-0702	Land acquisition related funding.	N/A
27-Mar-03	Jamaica Conservation and Development Trust (JCDT)	10,628.83	1st floor, Workforce Development Consortium Building, 22b Old Hope Road, Kingston 5, JAMAICA	Grant pursuant to federal award.	N/A
27-Mar-03	MAINE AUDUBON SOCIETY	3,000.00	20 Gilsland Farm Road, Falmouth, Maine 04105	Conservation activities.	N/A
27-Mar-03	THE LLOYD HARBOR HISTORICAL SOCIETY	(20.00)	41 LLOYD HARBOR ROAD LLOYD HABOR NY 11743	Conservation activities.	N/A
27-Mar-03	ERIC CAREY	223.44	C/O TNC Bahamas Country Program, P.O. Box Cb-11398, Nassau , Bahamas	Conservation activities.	N/A
28-Mar-03	Associação dos Povos Indígenas do Estado de Roraima (APIRR)	578.87	Rua Carlos Natrot 881, Bairro Liberdade, 69 309-250 Boa Vista RR	Conservation activities.	N/A
28-Mar-03	Associação Indígena Xavante Norotsu'rã	1,881.33	Avenida Rio Grande do Sul, nº 577 Centro Nova Xavantina-MT	Conservation activities.	N/A
28-Mar-03	Conselho Indigena de Roraima (CIR)	2,426.92	Avenida Sebastiao Dinia 2630, Bairro Sao Vincente, Boa Vista - RR, CEP: 69,303-120	Conservation activities.	N/A
28-Mar-03	Comissão Pró Índios Do Acre	6,222.87	Rua Pernambuco, nº 1025 Bosque Rio Branco-AC	Conservation activities.	N/A
28-Mar-03	Coordenação Das Organizações Indigenas Da Amazônia Brasileira - (COIAB)	8,683.07	Avenida Ayrão nº 235 Bairro Presidente Vargas Manaus-AM	Conservation activities.	N/A
28-Mar-03	Lower Kennebec Regional Land Trust	71,000.00	C/O Mr. Thomas H. Barrington, P. O. Box 1128, Bath, Me 04530	Land acquisition related funding.	N/A
28-Mar-03	Lower Kennebec Regional Land Trust	911.71	C/O Mr. Thomas H. Barrington, P. O. Box 1128, Bath, Me 04530	Land acquisition related funding.	N/A
31-Mar-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	1,500.00	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
31-Mar-03	Rodrigo Calcani	1,110.56	C/O The Nature Conservancy, Chile Program Office, Miraflores 178, 12th Floor, Santiago, CHILE	Conservation activities.	None identified.
31-Mar-03	The Bahamas National Trust	80,767.00	PO Box N-4105, Nassau, Bahamas	Grant pursuant to federal award.	N/A
31-Mar-03	Fundación Amigos de la Naturaleza (FAN)	7,512.00	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
31-Mar-03	Friends of the Earth - Sweden	30,000.00	Box 7048, 402 31 Goteborg (Gothenburg), Sweden	Grant pursuant to federal award.	N/A
31-Mar-03	Fundación Moises Bertoni para la Conservación de la Naturaleza (FMB)	35,376.39	Procer Carlos Arguello, 208 entre Av. Mcal. Lopez y Av. Boggiani, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
31-Mar-03	Fundación Amigos de la Naturaleza (FAN)	84,124.72	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
31-Mar-03	Reclass	(78,418.00)	Reclass	Grant pursuant to federal award.	N/A
31-Mar-03	Comite Nacional Pro Defensa De La Fauna y La Flora (CODEFF)	5,748.00	Portales No 508, Piso 3, Oficina C, Concepcion - Chile	Grant pursuant to federal award.	N/A
31-Mar-03	Comite Nacional Pro Defensa De La Fauna y La Flora (CODEFF)	8,671.00	Portales No 508, Piso 3, Oficina C, Concepcion - Chile	Grant pursuant to federal award.	N/A
31-Mar-03	Efrain Solorzano Guardado	24,892.00	2 Calle, entre 9na y 10ma Avenida, Barrio Cerropasco, El Estor, Izabal, Guatemala	Land acquisition related funding.	None identified.
31-Mar-03	Fundación Alianza Jatun Sacha (CDC)	395.48	Pasaje Eugenio de Santillán N34-248 y Maurian, Casilla Postal 17-12 867, Quito, ECUADOR	Grant pursuant to federal award.	N/A
31-Mar-03	Associação Caatinga (AC)	(40,789.00)	Av. Santos Dumont, 3060 - Salas 516 e 518 - Aldeota 60150-161 Fortaleza – CE, BRAZIL	Grant pursuant to federal award.	N/A
31-Mar-03	SACRAMENTO RIVER PRESERVATION TRUST	275.00	PO BOX 5366 CHICO CA 95927	Conservation activities.	N/A
31-Mar-03	Programme for Belize (PfB)	59,052.82	1 Eyre St., PO Box 749, Belize City, Belize, Central America	Grant pursuant to federal award.	N/A
31-Mar-03	ESTEBAN POLANCO	429.75	FEDERAL DE CAMPESINOS PARA EL PROGRESO DOMINICAN REPUBLIC	Conservation activities.	None identified.
31-Mar-03	VICTOR R. VINAS	323.13	C/O Fondo Pro-Naturaleza (PRONATURA), Oficinas Gubernamentales, Edificios A, ONAPLAN, 1er Piso Calle Dr. Delgado, Esq. Av. Méjico, Santo Domingo, REPUBLICA DOMINICANA	Conservation activities.	None identified.

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31-Mar-03	Yunnan International Non-government Organization Society (YINGOS)	1,210.65	No. 66 Huang Cheng Bei Road, Kunming City, Yunnan Province, PRC	Conservation activities.	N/A
31-Mar-03	Wenhai Lower Village	363.20	C/O TNC, Lijang Office, 70 Wenhua Lane, Wuyi Street, Dayan Old Town, Lijang, Yunnan 674100, PEOPLES REPUBLIC OF CHINA	Conservation activities.	N/A
31-Mar-03	DiQing Tibetan Institute/LiJiang Gender and Culture Institute	3,177.97	DeQin County, YunNan China, Post Code: 674500	Conservation activities.	N/A
31-Mar-03	Bird Studies Canada	5,000.00	P.O. Box 160, Port Rowan, Ontario Canada N0E 1M0	Conservation activities.	N/A
31-Mar-03	City of Central Falls	110,000.00	Central Falls City Clerk, 580 Broad St, Central Falls, RI 02863-2835	Land acquisition related funding.	N/A
1-Apr-03	NATURAL LANDS TRUST	(69,966.17)	HILDACY FARM 1031 PALMERS MILL ROAD MEDIA PA 19063	Conservation activities.	N/A
1-Apr-03	NATURAL LANDS TRUST	69,966.17	HILDACY FARM 1031 PALMERS MILL ROAD MEDIA PA 19063	Conservation activities.	N/A
1-Apr-03	NATURESERVE	9,452.94	1101 WILSON BLVD, 15TH FL ARLINGTON VA 22209	Conservation activities.	N/A
1-Apr-03	Volunteers for Outdoor Colorado	1,000.00	600 South Marion Parkway, Denver, CO 80209	Conservation activities.	N/A
1-Apr-03	DUCKS UNLIMITED, INC.	250.00	HAVANA CHAPTER 312 WEST MAIN HAVANA IL 62644	Conservation activities.	N/A
2-Apr-03	MASSACHUSETTS AUDUBON SOCIETY	6,600.00	2000 MAIN STREET MARSHFIELD MA 02050	Conservation activities.	N/A
3-Apr-03	CONSERVATION COUNCIL FOR HAWAII	200.00	PO BOX 2923 HONOLULU HI 96802	Conservation activities.	N/A
3-Apr-03	UTAH CATTLEMEN'S ASSOCIATION	75.00	150 SO 600 EAST #10B SALT LAKE CITY UT 84102	Conservation activities.	N/A
4-Apr-03	NZINGHA KENDALL	1,258.00	C/O The Nature Conservancy 4245 No. Fairfax Drive, #100, Arlington, VA 22203	Conservation activities.	Employee
4-Apr-03	TALL TIMBERS	250.00	13093 HENRY BEADEL DRIVE TALLAHASSEE FL 32312-0918	Conservation activities.	N/A
4-Apr-03	ILLINOIS CONSERVATION FOUNDATION	8,246.25	100 W. RANDOLPH, #4-300 CHICAGO IL 60601	Conservation activities.	N/A
4-Apr-03	AUDUBON SOCIETY OF GREATER CLEVELAND	50.00	ENVIRONMENTAL AWARD DINNER C/O KENT ENVIRONMENTAL COUNCIL P O BOX 395 KENT OH 44240	Conservation activities.	N/A
4-Apr-03	COASTAL BEND BAYS FOUNDATION	500.00	PO BOX 23025 CORPUS CHRISI,TX 78403	Conservation activities.	N/A
4-Apr-03	COALITION FOR JOBS & THE ENVIRONMENT	100.00	P O BOX 645 ABINGDON VA 24212	Conservation activities.	N/A
8-Apr-03	CHELAN-DOUGLAS LAND TRUST	10,000.00	P. O. BOX 4461 WENATCHEE WA 98807-4461	Conservation activities.	N/A
9-Apr-03	NATURE CONSERVANCY OF CANADA	25,000.00	ATTN: CHUCK RUMSEY 202-26 BASTION SQUARE VICTORIA, BC V8W-1H9 CA	Conservation activities.	N/A
9-Apr-03	ASSOCIATION OF VIRGINIA POTATO AND VEGETABLE GROWERS, INC.	60.00	AND VEGETABLE GROWERS, INC. P O BOX 26 ONLEY VA 23418	Conservation activities.	N/A
9-Apr-03	VIRGINIA SOCIETY OF ORNITHOLOGY	25.00	1230 VIEWMONT DRIVE EVINGTON VA 24550	Conservation activities.	N/A
9-Apr-03	DAUPHIN ISLAND FOUNDATION	10,000.00	PO BOX 946 DAUPHIN ISLAND AL 36528	Conservation activities.	N/A
9-Apr-03	FIVE VALLEYS LAND TRUST	5,000.00	P O BOX 8953 MISSOULA MT 59807	Conservation activities.	N/A
11-Apr-03	AMY A. YACKEL ADAMS	1,000.00	COLORADO STATE UNIVERSITY DEPT. OF FISHERY AND WILDLIFE FORT COLLINS CO 80523-1474	Conservation activities.	None identified.
11-Apr-03	NATHAN E. THOMAS	1,000.00	UNIVERSITY OF SOUTH DAKOTA BIOLOGY DEPARTMENT 414 E. CLARK STREET VERMILLION SD 57069	Conservation activities.	None identified.
11-Apr-03	NMSU ENVIRONMENTAL SCIENCE	100.00	100 VISTA DEL MONTE, #E24A LAS CRUCES NM 88001	Conservation activities.	N/A
11-Apr-03	Conselho Indígena De Roraima (CIR)	2,347.42	Avenida Sebastião Diniz, nº 2630 Bairro São Vicente Boa Vista-RR	Conservation activities.	N/A
11-Apr-03	Coordenação Das Organizações Indígenas Da Amazônia Brasileira - (COIAB)	2,816.90	Avenida Ayrão nº 235 Bairro Presidente Vargas Manaus-AM	Conservation activities.	N/A
11-Apr-03	Centro De Apoio E Pesquisa Aos Pescadores Artesanaid Do Maranhão (CAPPAM)	4,694.84	Rua Santa Isabel, nº 24 Pirapora São Luiz-MA	Conservation activities.	N/A
11-Apr-03	Coordenação Geral Indígena Xavante (CIX)	5,622.85	Avenida Min. João Alberto nº 360 2º Andar Sala 14 Barra do Garças-MT	Conservation activities.	N/A
11-Apr-03	Conselho Indígena De Roraima (CIR)	8,450.70	Avenida Sebastião Diniz, nº 2630 Bairro São Vicente Boa Vista-RR	Conservation activities.	N/A
11-Apr-03	Associação Caatinga (AC)	312.99	Av. Santos Dumont, 3060 - Salas 516 e 518 - Aldeota - 60150-161 Fortaleza – CE, BRAZIL	Conservation activities.	N/A
13-Apr-03	WORLD WILDLIFE FUND	10,538.84	1250 TWENTY-FOURTH ST., N W WASHINGTON DC 20037	Grant pursuant to federal award.	N/A
13-Apr-03	WORLD WILDLIFE FUND	200,974.24	1250 TWENTY-FOURTH ST., N W WASHINGTON DC 20037	Grant pursuant to federal award.	N/A
13-Apr-03	WORLD WILDLIFE FUND	2,495.07	1250 TWENTY-FOURTH ST., N W WASHINGTON DC 20037	Grant pursuant to federal award.	N/A
13-Apr-03	WORLD WILDLIFE FUND	1,174.45	1250 TWENTY-FOURTH ST., N W WASHINGTON DC 20037	Grant pursuant to federal award.	N/A
14-Apr-03	PACIFIC ISLANDS LAND INSTITUTE	1,500.00	270 KU'ULEI RD, STE 201 KAILUA HI 96734	Conservation activities.	N/A
14-Apr-03	OHIA PRODUCTIONS	10,000.00	98-027 HEKAHA ST., UNIT 23 AIEA HI 96701	Conservation activities.	N/A
15-Apr-03	CLINT MEYER	1,000.00	DEPT. OF ZOOLOGY MAILCODE 6501 1125 LINCOLN DRIVE CARBONDALE IL 62901-6501	Conservation activities.	None identified.
16-Apr-03	COASTAL VIRGINIA WILDLIFE	20.00	PO BOX 912 EASTVILLE VA 23347-0912	Conservation activities.	N/A
17-Apr-03	KACHEMAK HERITAGE LAND TRUST	2,500.00	PO BOX 2400 HOMER AK 99603	Conservation activities.	N/A
18-Apr-03	Comissão Pró Índios Do Acre	2,190.92	Rua Pernambuco, nº 1025 Bosque Rio Branco-AC	Conservation activities.	N/A
18-Apr-03	Instituto Ecológica Palmas/To Palmas-TO	2,971.62	Quadra 103 Sul Conjunto 03 Lote 28 Rua SO-11 Palmas-TO	Conservation activities.	N/A
21-Apr-03	Fundación Moises Bertoni para la Conservación de la Naturaleza (FMB)	18,592.00	Procer Carlos Arguello, 208 entre Av. Mcal. Lopez y Av. Boggiani, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
21-Apr-03	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	9,916.58	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
21-Apr-03	Pronatura Noreste A.C. (PNE)	10,000.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
21-Apr-03	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	9,916.58	Rua Gutemberg, 296 - Batel - 8042[illegible] Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
21-Apr-03	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	4,958.29	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
21-Apr-03	DEFENDERS OF WILDLIFE	8,500.00	1101 14TH STREET N.W. SUITE 1400 WASHINGTON DC 20005-5605	Conservation activities.	N/A
21-Apr-03	Fundación Ecologista Héctor Rodrigo Pastor Fasquelle (PASTOR)	2,459.00	1ra y 2da Calle, 1ma Avenida 2do Piso, Pizzeria Italia, Cuadrante Noroeste,San Pedro Sula, Honduras	Grant pursuant to federal award.	N/A
21-Apr-03	The Nature Conservancy of Canada	15,000.00	110 Eglinton Avenue West-4th Floor, Toronto, Ontario, M4R 1A3	Conservation activities.	N/A
21-Apr-03	AMERICAN BIRD CONSERVANCY	50.00	P O BOX 249 THE PLAINS VA 20198-9803	Conservation activities.	N/A
21-Apr-03	The Nature Conservancy of Canada	16,750.00	110 Eglinton Avenue West-4th Floor, Toronto, Ontario, M4R 1A3	Conservation activities.	N/A
22-Apr-03	TAR RIVER LAND CONSERVANCY	30,000.00	211 N. MAIN ST., SUITE A LOUISBURG NC 27549	Conservation activities.	N/A

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22-Apr-03	TAR RIVER LAND CONSERVANCY	40,113.85	211 N. MAIN ST., SUITE A LOUISBURG NC 27549	Conservation activities.	N/A
22-Apr-03	MERCY CORPS	1,000.00	3015 S.W. FIRST AVENUE PORTLAND OR 97201	Conservation activities.	N/A
22-Apr-03	INTERNATIONAL RESCUE COMMITTEE	1,000.00	122 EAST 42ND STREET NEW YORK NY 10168-1289	Conservation activities.	N/A
22-Apr-03	AMERICAN REFUGEE COMMITTE	1,000.00	INTERNATIONAL HEADQUARTERS 430 OAK GROVE STREET #204 MINNEAPOLIS MN 55403	Conservation activities.	N/A
22-Apr-03	DOCTORS WITHOUT BORDERS	1,000.00	6 EAST 39TH STREE 8TH FLOOR NEW YORK NY 10016	Conservation activities.	N/A
23-Apr-03	LAND TRUST ALLIANCE	25,000.00	1331 H. STREET NW SUITE 400 WASHINGTON DC 20005	Conservation activities.	N/A
25-Apr-03	Conservation Society of Pohnpei	26,020.26	P.O. Box 2461, Kolonia, Pohnpei FSM 96941	Grant pursuant to federal award.	N/A
28-Apr-03	Maine Bureau of Parks and Lands	702,330.86	107 State House Station, Augusta, ME 04333	Land acquisition related funding.	N/A
28-Apr-03	Ridge & Valley Conservancy	248,965.00	Bob Canace, President, PO Box 146, 16 Main Street, Blairstown, NJ 07825	Land acquisition related funding.	N/A
28-Apr-03	Pennsylvania Department of Conservation and Natural Resources	10,000.00	Executive Office: 7th Floor, Rachel Carson State Office Building, P.O. Box 8767, Harrisburg, PA 17105-8767	Land acquisition related funding.	N/A
28-Apr-03	Pennsylvania Department of Conservation and Natural Resources	25,000.00	Executive Office: 7th Floor, Rachel Carson State Office Building, P.O. Box 8767, Harrisburg, PA 17105-8767	Land acquisition related funding.	N/A
28-Apr-03	Westerly Land Trust	9,000.00	PO Box 601, Westerly, RI 02891-0601	Land acquisition related funding.	N/A
28-Apr-03	State of Rhode Island	81,500.00	Department of Environmental Mgmt 235 Promenade Street Providence, RI 02908	Land acquisition related funding.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	2,500.00	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	N/A	(21,120.00)	N/A	Grant pursuant to federal award.	N/A
30-Apr-03	Sol de Quito Musuem Hotel	54.90	Alemania 478 (N30-170) y Vancouver, Quito Ecuador	Conservation activities.	N/A
30-Apr-03	Yayasan UGH Indonesia	100.42	Jl. Kutilang V No. 25, Palu, Sulawesi Tengah, Indonesia	Grant pursuant to federal award.	N/A
30-Apr-03	Yayasan Jambata (Jambata Foundation)	329.64	Jl Kakatua II No 14, Palu, Sulawesi Tengah, Indonesia	Grant pursuant to federal award.	N/A
30-Apr-03	LPA AWAM Green	605.18	Jalan Towua II No. 43 A, Palu - Sulawesi Tengah, 94113	Grant pursuant to federal award.	N/A
30-Apr-03	Yayasan Jambata (Jambata Foundation)	932.17	Jl Kakatua II No 14, Palu, Sulawesi Tengah, Indonesia	Grant pursuant to federal award.	N/A
30-Apr-03	Forum Kemitraan Taman Nasional Lore Lindu (FKTNLL)	3,362.10	Jl. Tanjung Tururuka II No. 8. Palu, Indonesia	Grant pursuant to federal award.	N/A
30-Apr-03	Pronatura, Peninsula de Yucatan, A.C. (PPY)	(5,380.64)	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Pronatura, Peninsula de Yucatan, A.C. (PPY)	(6,324.56)	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Pronatura, Peninsula de Yucatan, A.C. (PPY)	(7,786.78)	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Pronatura, Peninsula de Yucatan, A.C. (PPY)	5,386.80	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Pronatura, Peninsula de Yucatan, A.C. (PPY)	6,333.76	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Pronatura, Peninsula de Yucatan, A.C. (PPY)	7,999.64	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Amigos de Sian Ka'an (ASK)	(2,210.36)	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
30-Apr-03	Amigos de Sian Ka'an (ASK)	(4,884.35)	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
30-Apr-03	Amigos de Sian Ka'an (ASK)	(9,293.95)	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
30-Apr-03	Amigos de Sian Ka'an (ASK)	2,218.83	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
30-Apr-03	Amigos de Sian Ka'an (ASK)	5,073.71	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
30-Apr-03	Amigos de Sian Ka'an (ASK)	9,283.68	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(23,000.00)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(25,000.00)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(25,000.00)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	4,960.56	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	17,326.99	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	18,039.00	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	21,719.11	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(7,900.00)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A

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30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(10,500.00)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	1,590.00	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	3,188.84	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	4,310.43	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	6,310.18	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(8,596.95)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(17,850.00)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	917.90	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	10,566.05	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	10,610.20	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	16,932.00	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Sociedad de Historia Natural de Niparaja (NIPARAJA)	(15,623.48)	Calle Alvaro Obregon # 460 Of.209, Colonia Centro, La Paz, Baja California Sur, México 23000	Grant pursuant to federal award.	N/A
30-Apr-03	Sociedad de Historia Natural de Niparaja (NIPARAJA)	(33,381.01)	Calle Alvaro Obregon # 460 Of.209, Colonia Centro, La Paz, Baja California Sur, México 23000	Grant pursuant to federal award.	N/A
30-Apr-03	Sociedad de Historia Natural de Niparaja (NIPARAJA)	466.00	Calle Alvaro Obregon # 460 Of.209, Colonia Centro, La Paz, Baja California Sur, México 23000	Grant pursuant to federal award.	N/A
30-Apr-03	Sociedad de Historia Natural de Niparaja (NIPARAJA)	10,136.00	Calle Alvaro Obregon # 460 Of.209, Colonia Centro, La Paz, Baja California Sur, México 23000	Grant pursuant to federal award.	N/A
30-Apr-03	Sociedad de Historia Natural de Niparaja (NIPARAJA)	18,399.67	Calle Alvaro Obregon # 460 Of.209, Colonia Centro, La Paz, Baja California Sur, México 23000	Grant pursuant to federal award.	N/A
30-Apr-03	Amigos de Sian Ka'an (ASK)	(536.56)	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
30-Apr-03	Amigos de Sian Ka'an (ASK)	(1,681.56)	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
30-Apr-03	Amigos de Sian Ka'an (ASK)	555.75	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
30-Apr-03	Amigos de Sian Ka'an (ASK)	1,679.70	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(15,302.60)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(31,500.00)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(34,485.67)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	3,819.54	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	12,099.10	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	25,087.20	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(668.23)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(6,281.77)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(6,850.00)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	2,174.82	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A

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30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	3,935.61	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	7,060.41	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(4,000.00)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Grupo Ecologista Antares (GEA)	(5,600.00)	Paseo Hidalgo, esq. Colegio, Col. Centro, Loreto, Baja California SUR	Grant pursuant to federal award.	N/A
30-Apr-03	Grupo Ecologista Antares (GEA)	2,938.00	Paseo Hidalgo, esq. Colegio, Col. Centro, Loreto, Baja California SUR	Grant pursuant to federal award.	N/A
30-Apr-03	Grupo Ecologista Antares (GEA)	(4,875.00)	Paseo Hidalgo, esq. Colegio, Col. Centro, Loreto, Baja California SUR	Grant pursuant to federal award.	N/A
30-Apr-03	Grupo Ecologista Antares (GEA)	4,242.10	Paseo Hidalgo, esq. Colegio, Col. Centro, Loreto, Baja California SUR	Grant pursuant to federal award.	N/A
30-Apr-03	Sociedad de Historia Natural de Niparaja (NIPARAJA)	(3,000.00)	Calle Alvaro Obregon # 460 Of.209, Colonia Centro, La Paz, Baja California Sur, México 23000	Grant pursuant to federal award.	N/A
30-Apr-03	Fundação O Boticário de Proteção à Natureza (FBPN)	(19,348.35)	Av. Rui Barbosa, 3450 - Afonso Pena - 83065-260 São José dos Pinhais – PR, BRAZIL	Grant pursuant to federal award.	N/A
30-Apr-03	Fundação O Boticário de Proteção à Natureza (FBPN)	(4,934.33)	Av. Rui Barbosa, 3450 - Afonso Pena - 83065-260 São José dos Pinhais – PR, BRAZIL	Grant pursuant to federal award.	N/A
30-Apr-03	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	(1,613.02)	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
30-Apr-03	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	1,605.04	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
30-Apr-03	Fundación Natura - Columbia	(17,726.00)	Calle 61 #4-26, Santafe de Bogota, Colombia	Grant pursuant to federal award.	N/A
30-Apr-03	Asociación Red Colombiana De Reservas Naturales De La Socieded Civil (Red de Reservas)	(36,710.00)	Calle 21 Norte No 8 N - 18, Cali - Valle de Cauca Colombia - Sur America	Grant pursuant to federal award.	N/A
30-Apr-03	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	(2,071.29)	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
30-Apr-03	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	2,100.23	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
30-Apr-03	Fundação O Boticário de Proteção à Natureza (FBPN)	15,364.41	Av. Rui Barbosa, 3450 - Afonso Pena - 83065-260 São José dos Pinhais – PR, BRAZIL	Grant pursuant to federal award.	N/A
30-Apr-03	Fundação O Boticário de Proteção à Natureza (FBPN)	3,990.80	Av. Rui Barbosa, 3450 - Afonso Pena - 83065-260 São José dos Pinhais – PR, BRAZIL	Grant pursuant to federal award.	N/A
30-Apr-03	Pronatura Noreste A.C. (PNE)	10,000.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
30-Apr-03	Alvaro Garcia Leyva	1,500.00	Nueva York No. 73-602 Col. - Napoles, Mexico D.F. C.P. 03810	Grant pursuant to federal award.	None identified.
30-Apr-03	N/A	(540.87)	N/A	Conservation activities.	N/A
30-Apr-03	The Bahamas Reef Environment Educational Foundation (BREEF)	102,500.00	P.O. Box N-7776, Nassau, New Providence, The Bahamas	Conservation activities.	N/A
30-Apr-03	Organizacion Para Estudios Tropicales	50.00	Apartado 73-8257, San Vito de Coto Brus, COSTA RICA	Conservation activities.	N/A
30-Apr-03	Fundación Defensores de la Naturaleza (FDN)	45,000.00	7 Avenida 7-09, zona 13, Guatemala City, Guatemala 01013	Conservation activities.	N/A
30-Apr-03	LJ Yiseng Instrument Company	338.98	lijianfuhuilujianseyinhangyilou - Yunnan Province, PRC	Conservation activities.	N/A
30-Apr-03	Badan Koordinasi Kelompok Pecinta Alam (BKKPA) Sulawesi Tengah	462.29	Jl. Otto Iskandar Dinata Lr. Kumbara No. 42 Palu	Conservation activities.	N/A
	Lembaga Lingkungan dan Petualang WANAGAUL Indonesia (LLP Wanagaul)		Jl. Otto Iskandar Dinata Lr. II No. 48 B Palu Sulteng	Conservation activities.	N/A
30-Apr-03	Noah Idechong	1,243.09	PO Box 501, Koror, Republic of Palau 96940	Conservation activities.	N/A
30-Apr-03	Australian Wildlife Conservancy	5,406.00	2/20 Altona Street, West Perth, Western Australia (WA) 6005	Conservation activities.	N/A
30-Apr-03	Greening Australia (WA), Inc.	207,731.73	10-12 The Terrace, Fremantle Prison, WA 6160	Conservation activities.	N/A
1-May-03	FRIENDS OF THE SONORAN DESERT	5,500.00	PO BOX 2147 TUCSON AZ 85702	Conservation activities.	N/A
1-May-03	ROCKY MOUNTAIN BIRD OBSERVATORY	3,000.00	14500 LARK BUNTING LANE BRIGHTON CO 80601	Conservation activities.	N/A
1-May-03	AUGUSTA SCHOOLS	150.00	PO BOX 307 AUGUSTA MT 59410	Conservation activities.	N/A
1-May-03	ELIZABETH K. BRENNAN	1,000.00	TEXAS TECH UNIVERSITY DEPT OF RWFM-MAILSTOP 42125 LUBBOCK TX 79409	Conservation activities.	None identified.
1-May-03	ROANOKE RIVER PARTNERS	17,500.00	PO BOX 488 WINDSOR NC 27983-0488	Conservation activities.	N/A
1-May-03	ALABAMA CAVE SURVEY	50.00	623 LARRY PLACE MADISON AL 35758	Conservation activities.	N/A
1-May-03	CEDAR BLUFF BUSINESS & PROFESSIONAL ASSOCIATION	1,000.00	ASSOCIATION BOX 308 CEDAR BLUFF VA 24609	Conservation activities.	N/A
1-May-03	CLINCH RIVER DAYS FESTIVAL	350.00	P O BOX 1094 ST. PAUL VA 24283	Conservation activities.	N/A
1-May-03	AUDUBON WYOMING	100.00	400 E 1ST ST, STE 308 CASPER WY 82601	Conservation activities.	N/A
1-May-03	FONDO ECOEMPRESAS, S.A./	(300,000.00)	Angela Tyson, EcoEnterprises Fund, The Nature Conservancy, 4245 North Fairfax Drive, Arlington, VA 22203	Conservation activities.	N/A
1-May-03	ECO ENTERPRISES FUND	(50,000.00)	4245 N. FAIRFAX DR. ARLINGTON VA 22203	Conservation activities.	N/A
1-May-03	THE EASTERN SHORE OF VIRG	25.00	BARRIER ISLANDS CENTER PO BOX 206 MACHIPONGO VA 23405-0206	Conservation activities.	N/A
1-May-03	MAINE COMMUNITY FOUNDATIO	37,500.00	245 MAINE STREET ELLSWORTH ME 04605	Conservation activities.	N/A
5-May-03	SEQUOIA RIVERLANDS TRUST	10,000.00	428 South Garden Street Visalia, California 93277	Conservation activities.	N/A
5-May-03	DEFENDERS OF WILDLIFE	8,500.00	1101 14TH STREET N.W. SUITE 1400 WASHINGTON DC 20005-5605	Conservation activities.	N/A
5-May-03	Associação Indígena Xavante Norotsu'rã	425.31	Rua Tapajós, nº 374, Setor Nova Brasília - Centro Nova Xavantina-MT	Conservation activities.	N/A
5-May-03	NEW MEXICO SYMPHONY ORCHESTRA	1,000.00	ALBUQUERQUE SYMPHONY ORCHESTRA PO BOX 30208 ALBUQUERQUE NM 87190-0208	Conservation activities.	N/A
6-May-03	THE NATURE CONSERVANCY ACTION FUND	10,000.00	4201 WILSON BLVD. SUITE 110624 ARLINGTON VA 22203	Conservation activities.	N/A
7-May-03	HOSPICE OF JACKSON COUNTY	(250.00)	620 DORMITORY STREET LONDON KY 40741	Conservation activities.	N/A

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7-May-03	BOONE & CROCKETT FOUNDATION	4,000.00	PO BOX 234 DUPUYER MT 59432	Conservation activities.	N/A
7-May-03	CLEMSON UNIVERSITY FOREST	2,265.87	261 LEHOTSKY HALL CLEMSON SC 29634	Conservation activities.	N/A
7-May-03	JONES ECOLOGICAL RESEARCH	2,554.16	RTE 2 BOX 2324 NEWTON GA 31770	Conservation activities.	N/A
7-May-03	LOWCOUNTRY OPEN LAND TRUST	471.50	485 EAST BAY STREET CHARLESTON SC 29403	Conservation activities.	N/A
7-May-03	THE CONSERVATION FUND	664.36	1800 N. KENT STREET SUITE 1120 ARLINGTON VA 22209	Conservation activities.	N/A
7-May-03	SC COASTAL CONSERVATION LEAGUE	1,504.00	PO BOX 1765 CHARLESTON SC 29402	Conservation activities.	N/A
7-May-03	ANEW	3,000.00	10 LANGDON STREET, SUITE 1 MONTPELIER VT 05602	Conservation activities.	N/A
7-May-03	FOREST SOCIETY OF MAINE	38,630.91	PO BOX 775 BANGOR ME 04402	Conservation activities.	N/A
8-May-03	BIG PINE KEY VOLUNTEER FIRE DEPARTMENT	500.00	MR. JACK WATSON, FIRE CHIEF KEY DEER BOULEVARD BIG PINE KEY FL 33043	Conservation activities.	N/A
8-May-03	SOCIETY FOR CONSERVATION	11,000.00	4245 N. FAIRFAX DRIVE 4TH FLOOR PO BOX 3400 ARLINGTON VA 22203	Conservation activities.	N/A
8-May-03	SHEFFIELD LAND TRUST	3,333.34	PO BOX 940 SHEFFIELD MA 01257-0940	Conservation activities.	N/A
9-May-03	SPRINGVIEW FIRE & RESCUE	200.00	P O BOX 204 SPRINGVIEW NE 68778	Conservation activities.	N/A
9-May-03	Conselho Indígena De Roraima (CIR)	7,824.73	Avenida Sebastião Diniz, nº 2630 Bairro São Vicente Boa Vista-RR	Conservation activities.	N/A
9-May-03	Associação dos Povos Indígenas do Estado de Roraima (APIRR)	6,259.78	Rua Carlos Natrodt, nº 928 Bairro Liberdade Boa Vista-RR	Conservation activities.	N/A
9-May-03	Conselho Indígena De Roraima (CIR)	3,129.89	Avenida Sebastião Diniz, nº 2630 Bairro São Vicente Boa Vista-RR	Conservation activities.	N/A
9-May-03	Coordenação Das Organizações Indígenas Suruí (COIS)	1,752.74	Rua Benedito Brigadeiro da Silva, nº 5519 Riozinho Cocal-RO	Conservation activities.	N/A
9-May-03	Associação Indígena Xavante Norotsu'rã	1,283.26	Rua Tapajós, nº 374, Setor Nova Brasilia - Centro Nova Xavantina-MT	Conservation activities.	N/A
13-May-03	AUDUBON ALASKA	7,622.71	308 G STREET, SUITE 217 ANCHORAGE AK 99501	Conservation activities.	N/A
13-May-03	INNISFREE GARDEN	(50.00)	Millbrook, New York 12545	Conservation activities.	N/A
13-May-03	SALEM LAND TRUST	5,000.00	PO BOX 2133 SALEM CT 06420	Conservation activities.	N/A
13-May-03	GREAT PLAINS INSTITUTE	2,500.00	FOR SUSTAINABLE DEVELOPMENT 2801 21ST AVENUE S SUITE 230 MINNEAPOLIS MN 55407	Conservation activities.	N/A
14-May-03	Reclass	(1,500.00)	Reclass	Grant pursuant to federal award.	N/A
14-May-03	Fundación para el EcoDesarrollo y la Conservación (FUNDAECO)	5,000.00	7ma calle "A" 20-53, Zona 11, Colonia Mirador, Guatemala City, Guatemala 01011	Grant pursuant to federal award.	N/A
14-May-03	FLORIDA DEPT. OF ENVIRONMENTAL PROTECTION	(35,864.26)	MS 235 TALLAHASSEE FL 32399	Conservation activities.	N/A
16-May-03	Centro De Apoio E Pesquisa Aos Pescadores Artesanaid Do Maranhão (CAPPAM)	1,385.16	Rua Santa Isabel, nº 24 Pirapora São Luiz-MA	Conservation activities.	N/A
16-May-03	Centro De Apoio E Pesquisa Aos Pescadores Artesanaid Do Maranhão (CAPPAM)	1,385.16	Rua Santa Isabel, nº 24 Pirapora São Luiz-MA	Conservation activities.	N/A
16-May-03	Associação de Preservação do Meio Ambiente do Vale do Itajaí (APREMAVI)	3,817.97	Caixa Postal 218 - CEP 89.160-000 - Rio do Sul - Santa Catarina - Brazil	Conservation activities.	N/A
21-May-03	NORTH DAKOTA STATE UNIVERSITY	5,000.00	DIVISION OF BUSINESS & FINANCE P. O. BOX 5405 FARGO ND 58105-5405	Conservation activities.	N/A
22-May-03	Reclass	(60,438.22)	Reclass	Grant pursuant to federal award.	N/A
22-May-03	Reclass	60,438.22	Reclass	Grant pursuant to federal award.	N/A
22-May-03	FRIENDS OF HEMPSTEAD PLAINS @ NCC, INC.	13,750.00	NCC, INC. DEPT. OF BIOLOGY NASSAU COMMUNITY COLLEGE GARDEN CITY NY 11530	Conservation activities.	N/A
23-May-03	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	23,051.24	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
23-May-03	Fundación Amigos de la Naturaleza (FAN)	(15,683.52)	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
27-May-03	Fundación Amigos de la Naturaleza (FAN)	84,601.01	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
27-May-03	Pronatura, Peninsula de Yucatan, A.C. (PPY)	9,079.25	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
27-May-03	Fundación Moises Bertoni para la Conservación de la Naturaleza (FMB)	5,000.00	Procer Carlos Arguello, 208 entre Av. Mcal. Lopez y Av. Boggiani, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
27-May-03	Asociación Guyra Paraguay	6,500.00	Cnel. Rafael Franco 381 c/ Leandro Prieto (or: Casilla de Correo 1132), Asuncion, Paraguay	Grant pursuant to federal award.	N/A
27-May-03	Pronatura Noreste A.C. (PNE)	5,000.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
27-May-03	The Centro de Derecho Ambiental y Promocion para el Desarrollo (CEDAPRODE)	15,500.00	Colonia Centro Amèrica, de la Farmacia, Vida, 1 Cuadra al Sur y 20 varas, Arriba a mano derecha # D- 229, Managua, NICARAGUA	Grant pursuant to federal award.	N/A
27-May-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	13,000.00	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
27-May-03	Fundación Antisana (FUNAN)	20,000.00	Gonzalo Serrano E10-27 y 6 de Diciembre, P.O. Box 17-03-1486, Quito, ECUADOR	Grant pursuant to federal award.	N/A
27-May-03	Andros Conservancy and Trust (ANCAT)	22,000.00	Fresh Creek General Post Office, Fresh Creek, Central Andros BAHAMAS	Grant pursuant to federal award.	N/A
27-May-03	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	4,350.00	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
27-May-03	Instituto de Derecho y Economia Ambiental (IDEA)	14,375.00	Nicanor Torales 150, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
27-May-03	Trust for Nature (Victoria)	161,511.88	2nd Floor, 385 Little Lonsdale Street, Melbourne Victoria 3000, AUSTRALIA	Conservation activities.	N/A
27-May-03	Australian Wildlife Conservancy	845.87	2/20 Altona Street, West Perth, Western Australia (WA) 6005	Conservation activities.	N/A
27-May-03	FOREST SOCIETY OF MAINE	20,000.00	PO BOX 775 BANGOR ME 04402	Conservation activities.	N/A
29-May-03	Jamaica Conservation and Development Trust (JCDT)	16,871.15	1st floor, Workforce Development Consortium Building, 22b Old Hope Road, Kingston 5, JAMAICA	Grant pursuant to federal award.	N/A
29-May-03	MOPAWI	13,205.00	Apartado Postal 2175, Tegucigalpa, HONDURAS	Grant pursuant to federal award.	N/A

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29-May-03	NYC AUDUBON SOCIETY	5,000.00	71 WEST 23RD STREET, SUITE 606 NEW YORK NY 10010	Conservation activities.	N/A
30-May-03	Fundación Ecológica Rumicocha (FER)	(5,000.00)	PO Box 17-15-13B, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecológica Rumicocha (FER)	(13,706.08)	PO Box 17-15-13B, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecológica Rumicocha (FER)	(14,521.08)	PO Box 17-15-13B, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecológica Rumicocha (FER)	(28,730.84)	PO Box 17-15-13B, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecológica Rumicocha (FER)	(33,042.00)	PO Box 17-15-13B, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecológica Rumicocha (FER)	3,877.00	PO Box 17-15-13B, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecológica Rumicocha (FER)	5,000.00	PO Box 17-15-13B, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecológica Rumicocha (FER)	13,706.08	PO Box 17-15-13B, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecológica Rumicocha (FER)	18,617.21	PO Box 17-15-13B, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecológica Rumicocha (FER)	25,512.13	PO Box 17-15-13B, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecológica Rumicocha (FER)	27,600.00	PO Box 17-15-13B, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecológica Rumicocha (FER)	29,164.58	PO Box 17-15-13B, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecuatoriana de Estudios Ecologicos (EcoCiencia)	(4,604.41)	Francisco Salazar E14-34 y Coruña, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Antisana (FUNAN)	(5,000.00)	Gonzalo Serrano E10-27 y 6 de Diciembre, P.O. Box 17-03-1486, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecuatoriana de Estudios Ecologicos (EcoCiencia)	(20,000.00)	Francisco Salazar E14-34 y Coruña, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Antisana (FUNAN)	(26,940.00)	Gonzalo Serrano E10-27 y 6 de Diciembre, P.O. Box 17-03-1486, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Antisana (FUNAN)	(29,600.00)	Gonzalo Serrano E10-27 y 6 de Diciembre, P.O. Box 17-03-1486, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Antisana (FUNAN)	(58,331.04)	Gonzalo Serrano E10-27 y 6 de Diciembre, P.O. Box 17-03-1486, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Antisana (FUNAN)	5,284.98	Gonzalo Serrano E10-27 y 6 de Diciembre, P.O. Box 17-03-1486, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Antisana (FUNAN)	25,100.96	Gonzalo Serrano E10-27 y 6 de Diciembre, P.O. Box 17-03-1486, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Antisana (FUNAN)	27,124.17	Gonzalo Serrano E10-27 y 6 de Diciembre, P.O. Box 17-03-1486, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Antisana (FUNAN)	30,494.55	Gonzalo Serrano E10-27 y 6 de Diciembre, P.O. Box 17-03-1486, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Antisana (FUNAN)	31,949.06	Gonzalo Serrano E10-27 y 6 de Diciembre, P.O. Box 17-03-1486, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Antisana (FUNAN)	31,995.34	Gonzalo Serrano E10-27 y 6 de Diciembre, P.O. Box 17-03-1486, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecuatoriana de Estudios Ecologicos (EcoCiencia)	(5,000.00)	Francisco Salazar E14-34 y Coruña, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecuatoriana de Estudios Ecologicos (EcoCiencia)	(16,088.59)	Francisco Salazar E14-34 y Coruña, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecuatoriana de Estudios Ecologicos (EcoCiencia)	(30,052.06)	Francisco Salazar E14-34 y Coruña, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecuatoriana de Estudios Ecologicos (EcoCiencia)	(39,254.94)	Francisco Salazar E14-34 y Coruña, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecuatoriana de Estudios Ecologicos (EcoCiencia)	5,000.00	Francisco Salazar E14-34 y Coruña, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecuatoriana de Estudios Ecologicos (EcoCiencia)	12,171.05	Francisco Salazar E14-34 y Coruña, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecuatoriana de Estudios Ecologicos (EcoCiencia)	14,141.00	Francisco Salazar E14-34 y Coruña, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecuatoriana de Estudios Ecologicos (EcoCiencia)	19,165.48	Francisco Salazar E14-34 y Coruña, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecuatoriana de Estudios Ecologicos (EcoCiencia)	21,644.09	Francisco Salazar E14-34 y Coruña, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecuatoriana de Estudios Ecologicos (EcoCiencia)	34,182.00	Francisco Salazar E14-34 y Coruña, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Ecuatoriana de Estudios Ecologicos (EcoCiencia)	35,160.65	Francisco Salazar E14-34 y Coruña, Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	Pronatura Noreste A.C. (PNE)	(16,900.05)	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
30-May-03	Pronatura Noreste A.C. (PNE)	(25,000.00)	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
30-May-03	Pronatura Noreste A.C. (PNE)	(26,249.95)	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
30-May-03	Pronatura Noreste A.C. (PNE)	(36,850.00)	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
30-May-03	Pronatura Noreste A.C. (PNE)	5,316.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
30-May-03	Pronatura Noreste A.C. (PNE)	7,577.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
30-May-03	Pronatura Noreste A.C. (PNE)	16,809.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
30-May-03	Pronatura Noreste A.C. (PNE)	20,183.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
30-May-03	Pronatura Noreste A.C. (PNE)	25,990.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
30-May-03	Pronatura Noreste A.C. (PNE)	42,405.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
30-May-03	Asociación Boliviana para la Conservación (TRÓPICO)	(7,935.93)	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Asociación Boliviana para la Conservación (TRÓPICO)	(23,528.45)	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Asociación Boliviana para la Conservación (TRÓPICO)	(25,328.45)	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Asociación Boliviana para la Conservación (TRÓPICO)	(35,207.17)	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A

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30-May-03	Asociación Boliviana para la Conservación (TRÓPICO)	5,686.00	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Asociación Boliviana para la Conservación (TRÓPICO)	6,326.01	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Asociación Boliviana para la Conservación (TRÓPICO)	17,868.03	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Asociación Boliviana para la Conservación (TRÓPICO)	19,452.27	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	(12,000.00)	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-May-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	(40,000.00)	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-May-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	(45,684.00)	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-May-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	2,014.21	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-May-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	15,437.00	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-May-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	16,017.80	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-May-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	35,329.94	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-May-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	37,863.46	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-May-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	65,618.56	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-May-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	15,113.74	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-May-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	1,663.12	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-May-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	7,994.10	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-May-03	Sociedad Peruana de Derechos Ambiental (SPDA)	(10,250.00)	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
30-May-03	Sociedad Peruana de Derechos Ambiental (SPDA)	4,935.84	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
30-May-03	Sociedad Peruana de Derechos Ambiental (SPDA)	5,449.95	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	(16,448.00)	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	(45,000.00)	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	7,994.50	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	8,000.00	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	14,816.46	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	14,832.53	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	18,288.46	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	(18,000.00)	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	(22,384.00)	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	(34,616.00)	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	5,540.20	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	9,739.64	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	12,568.00	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	14,819.42	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	16,506.02	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	19,655.69	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Sociedad de Historia Natural de Niparaja (NIPARAJA)	11,456.21	Calle Alvaro Obregon # 460 Of.209, Colonia Centro, La Paz, Baja California Sur, México 23000	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	(4,750.00)	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	(12,660.00)	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A

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30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	933.47	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	1,496.27	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	10,183.78	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Asociación Boliviana para la Conservación (TRÓPICO)	(1,388.07)	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Asociación Boliviana para la Conservación (TRÓPICO)	(2,755.98)	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Asociación Boliviana para la Conservación (TRÓPICO)	(4,202.70)	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Asociación Boliviana para la Conservación (TRÓPICO)	(4,207.75)	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Asociación Boliviana para la Conservación (TRÓPICO)	(13,201.48)	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Asociación Boliviana para la Conservación (TRÓPICO)	1,469.14	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Asociación Boliviana para la Conservación (TRÓPICO)	6,314.03	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Asociación Boliviana para la Conservación (TRÓPICO)	8,283.93	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Fundación para el Desarrollo del Sistema Nacional de Areas Protegidas (FUNDESNAP)	(80,000.00)	Edificio Capitán Ravelo # 2101, Piso 12, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Fundación para el Desarrollo del Sistema Nacional de Areas Protegidas (FUNDESNAP)	(150,000.00)	Edificio Capitán Ravelo # 2101, Piso 12, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Fundación para el Desarrollo del Sistema Nacional de Areas Protegidas (FUNDESNAP)	54,676.86	Edificio Capitán Ravelo # 2101, Piso 12, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Fundación para el Desarrollo del Sistema Nacional de Areas Protegidas (FUNDESNAP)	61,607.87	Edificio Capitán Ravelo # 2101, Piso 12, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Fundación para el Desarrollo del Sistema Nacional de Areas Protegidas (FUNDESNAP)	63,370.51	Edificio Capitán Ravelo # 2101, Piso 12, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Pronatura Noreste A.C. (PNE)	(3,675.00)	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
30-May-03	Pronatura Noreste A.C. (PNE)	(9,450.00)	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
30-May-03	Pronatura Noreste A.C. (PNE)	(13,180.64)	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
30-May-03	Pronatura Noreste A.C. (PNE)	55.64	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
30-May-03	Pronatura Noreste A.C. (PNE)	792.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
30-May-03	Pronatura Noreste A.C. (PNE)	1,000.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
30-May-03	Pronatura Noreste A.C. (PNE)	2,468.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
30-May-03	Pronatura Noreste A.C. (PNE)	5,906.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
30-May-03	Pronatura, Peninsula de Yucatan, A.C. (PPY)	(7,266.00)	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
30-May-03	Pronatura, Peninsula de Yucatan, A.C. (PPY)	7,268.41	Calle 17 No.188A x 10 Col. Garcia Gineres, Merida Yucatan, Mexico	Grant pursuant to federal award.	N/A
30-May-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	14,843.97	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-May-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	228.45	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-May-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	(7,675.49)	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-May-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	(7,907.01)	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-May-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	540.00	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-May-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	1,407.97	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-May-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	14,918.77	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-May-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	19,004.03	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-May-03	Sociedad Peruana de Derechos Ambiental (SPDA)	(7,588.00)	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
30-May-03	Sociedad Peruana de Derechos Ambiental (SPDA)	(9,900.00)	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
30-May-03	Sociedad Peruana de Derechos Ambiental (SPDA)	3,004.19	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
30-May-03	Sociedad Peruana de Derechos Ambiental (SPDA)	4,250.50	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A

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30-May-03	Sociedad Peruana de Derechos Ambiental (SPDA)	4,264.73	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
30-May-03	Sociedad Peruana de Derechos Ambiental (SPDA)	5,650.00	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
30-May-03	Sociedad Peruana de Derechos Ambiental (SPDA)	(8,100.00)	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
30-May-03	Sociedad Peruana de Derechos Ambiental (SPDA)	2,644.11	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
30-May-03	Sociedad Peruana de Derechos Ambiental (SPDA)	3,917.85	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
30-May-03	Sociedad Peruana de Derechos Ambiental (SPDA)	5,128.00	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
30-May-03	Sociedad Peruana de Derechos Ambiental (SPDA)	(3,250.00)	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
30-May-03	Sociedad Peruana de Derechos Ambiental (SPDA)	2,300.00	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
30-May-03	Sociedad Peruana de Derechos Ambiental (SPDA)	2,745.15	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
30-May-03	Centro Integrado para la Defensa Ecológica y el Desarrollo Rural (CIDEDER)	(33,173.00)	Av.Simón López # 177, Zona Cala Cala, Cochabamba, P.O. Box: # 2627, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Centro Integrado para la Defensa Ecológica y el Desarrollo Rural (CIDEDER)	(39,740.00)	Av.Simón López # 177, Zona Cala Cala, Cochabamba, P.O. Box: # 2627, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Centro Integrado para la Defensa Ecológica y el Desarrollo Rural (CIDEDER)	18,585.84	Av.Simón López # 177, Zona Cala Cala, Cochabamba, P.O. Box: # 2627, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Centro Integrado para la Defensa Ecológica y el Desarrollo Rural (CIDEDER)	31,112.93	Av.Simón López # 177, Zona Cala Cala, Cochabamba, P.O. Box: # 2627, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	(2,481.36)	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	(3,175.51)	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	(9,500.00)	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	(9,842.89)	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	159.71	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	2,895.13	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	3,780.17	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Protección del Medio Ambiente Tarija (PROMETA)	4,902.73	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Grupo Ecologista Antares (GEA)	2,646.10	Paseo Hidalgo, esq. Colegio, Col. Centro, Loreto, Baja California SUR	Grant pursuant to federal award.	N/A
30-May-03	Grupo Ecologista Antares (GEA)	648.80	Paseo Hidalgo, esq. Colegio, Col. Centro, Loreto, Baja California SUR	Grant pursuant to federal award.	N/A
30-May-03	Fundación Amigos de la Naturaleza (FAN)	(33,165.00)	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Fundación Amigos de la Naturaleza (FAN)	9,466.65	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Fundación Amigos de la Naturaleza (FAN)	12,821.06	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Fundación Amigos de la Naturaleza (FAN)	(27,000.00)	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Fundación Amigos de la Naturaleza (FAN)	27,000.00	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Sociedad de Historia Natural de Niparaja (NIPARAJA)	3,000.00	Calle Alvaro Obregon # 460 Of.209, Colonia Centro, La Paz, Baja California Sur, México 23000	Grant pursuant to federal award.	N/A
30-May-03	Asociación Red Colombiana De Reservas Naturales De La Socieded Civil (Red de Reservas)	26,902.16	Calle 21 Norte No 8 N - 18, Cali - Valle de Cauca Colombia - Sur America	Grant pursuant to federal award.	N/A
30-May-03	Fundacion para el Desarrollo Sustentable del Chaco Sudamericano (DeSdelChaco)	3,553.34	Loma Plata (698), PO Box 883, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
30-May-03	Centro Integrado para la Defensa Ecológica y el Desarrollo Rural (CIDEDER)	16,400.00	Av.Simón López # 177, Zona Cala Cala, Cochabamba, P.O. Box: # 2627, BOLIVIA	Grant pursuant to federal award.	N/A
30-May-03	Fundación Natura - Quito	1,000.00	Ave. República 481 y Almagro (antiguo edificio de UNICEF), Quito, ECUADOR	Grant pursuant to federal award.	N/A
30-May-03	TRACY AVIARY	1,000.00	589 E. 1300 S. SALT LAKE CITY UT 84105	Conservation activities.	None identified.
30-May-03	Mugui S.A.	715.29	El Alto mts. Este del cruce de Moravia y Guadalupe	Conservation activities.	N/A
30-May-03	Reclass	(1,125,000.00)	Reclass	Conservation activities.	N/A
31-May-03	Jamaica Conservation and Development Trust (JCDT)	870.22	1st floor, Workforce Development Consortium Building, 22b Old Hope Road, Kingston 5, JAMAICA	Grant pursuant to federal award.	N/A
31-May-03	Fundación Amigos de la Naturaleza (FAN)	27,300.00	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
31-May-03	Fundación Moises Bertoni para la Conservación de la Naturaleza (FMB)	18,592.00	Procer Carlos Arguello, 208 entre Av. Mcal. Lopez y Av. Boggiani, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
31-May-03	Grupo Ecologista Antares (GEA)	6,000.00	Paseo Hidalgo, esq. Colegio, Col. Centro, Loreto, Baja California SUR	Grant pursuant to federal award.	N/A
31-May-03	Sociedad de Historia Natural de Niparaja (NIPARAJA)	10,000.00	Calle Alvaro Obregon # 460 Of.209, Colonia Centro, La Paz, Baja California Sur, México 23000	Grant pursuant to federal award.	N/A
31-May-03	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	48,682.15	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A

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31-May-03	Fundación Ecológica Arcoiris (FEA)	60,000.00	Street and Mailing Address: Segundo Cueva Celi 03-15 y, Clodoveo Carrión, Ciudadela Zamora, Loja, ECUADOR	Grant pursuant to federal award.	N/A
31-May-03	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	127,443.62	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
31-May-03	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	9,570.42	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
31-May-03	Pronatura Noreste A.C. (PNE)	10,000.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
31-May-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	120,000.00	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
31-May-03	Instituto de Historia Natural y Ecologia (IHNE)	10,260.00	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
31-May-03	INNISFREE GARDEN	50.00	Millbrook, New York 12545	Conservation activities.	N/A
31-May-03	Programme for Belize (PfB)	34,783.00	1 Eyre St., PO Box 749, Belize City, Belize, Central America	Conservation activities.	N/A
31-May-03	Programme for Belize (PfB)	8,882.84	Programme for Belize (PfB)	Conservation activities.	N/A
31-May-03	Programme for Belize (PfB)	14,479.00	Programme for Belize (PfB)	Conservation activities.	N/A
31-May-03	Programme for Belize (PfB)	3,878.06	Programme for Belize (PfB)	Conservation activities.	N/A
31-May-03	Programme for Belize (PfB)	7,459.00	Programme for Belize (PfB)	Conservation activities.	N/A
31-May-03	N/A	(1,385.16)	N/A	Conservation activities.	N/A
31-May-03	MOPAWI	54,724.00	Apartado Postal 2175, Tegucigalpa, HONDURAS	Conservation activities.	N/A
31-May-03	DeQin Government	12,106.54	DeQin, YunNan, China	Conservation activities.	N/A
31-May-03	Noah Idechong	697.90	PO Box 501, Koror, Republic of Palau 96940	Conservation activities.	N/A
31-May-03	Trust for Nature (Victoria)	(161,511.88)	2nd Floor, 385 Little Lonsdale Street, Melbourne Victoria 3000, AUSTRALIA	Conservation activities.	N/A
31-May-03	The Nature Conservancy of Canada	25,000.00	110 Eglinton Avenue West-4th Floor, Toronto, Ontario, M4R 1A3	Conservation activities.	N/A
31-May-03	N/A	(9,450.00)	N/A	Conservation activities.	N/A
31-May-03	City of Cranston	447,500.00	869 Park Avenue, Cranston, RI 02910	Land acquisition related funding.	N/A
31-May-03	Trust for Nature (Victoria)	161,511.88	2nd Floor, 385 Little Lonsdale Street, Melbourne Victoria 3000, AUSTRALIA	Conservation activities.	N/A
1-Jun-03	CONSERVATION BEEF	(30,000.00)	P O BOX 748 HELENA MT 59624	Conservation activities.	N/A
1-Jun-03	CONSERVATION BEEF	(30,000.00)	PO BOX 748 HELENA MT 59624	Conservation activities.	N/A
1-Jun-03	CONSERVATION BEEF	(33,000.00)	PO BOX 748 HELENA MT 59624	Conservation activities.	N/A
1-Jun-03	CONSERVATION BEEF	(65,000.00)	P O BOX 748 HELENA MT 59624	Conservation activities.	N/A
1-Jun-03	CONSERVATION BEEF	(115,000.00)	PO BOX 748 HELENA MT 59624	Conservation activities.	N/A
1-Jun-03	CONSERVATION BEEF	(36,000.00)	P O BOX 748 HELENA MT 59624	Conservation activities.	N/A
1-Jun-03	CONSERVATION BEEF	(39,704.35)	P O BOX 748 HELENA MT 59624	Conservation activities.	N/A
1-Jun-03	CONSERVATION BEEF	(50,000.00)	P O BOX 748 HELENA MT 59624	Conservation activities.	N/A
1-Jun-03	KACHEMAK HERITAGE LAND TRUST	1,380.23	PO BOX 2400 HOMER AK 99603	Conservation activities.	N/A
1-Jun-03	KACHEMAK HERITAGE LAND TRUST	1,539.16	PO BOX 2400 HOMER AK 99603	Conservation activities.	N/A
1-Jun-03	FRIENDS OF THE SONORAN DESERT	(500.00)	PO BOX 2147 TUCSON AZ 85702	Conservation activities.	N/A
1-Jun-03	FRIENDS OF THE SONORAN DESERT	(5,000.00)	PO BOX 2147 TUCSON AZ 85702	Conservation activities.	N/A
1-Jun-03	OUR LAND, WATER, WILDLIFE & PARKS COMMITTEE	(15,000.00)	PO BOX 533 FLAGSTAFF AZ 86002	Conservation activities.	N/A
1-Jun-03	FRIENDS OF THE SONORAN DESERT	500.00	PO BOX 2147 TUCSON AZ 85702	Conservation activities.	N/A
1-Jun-03	FRIENDS OF THE SONORAN DESERT	5,000.00	PO BOX 2147 TUCSON AZ 85702	Conservation activities.	N/A
1-Jun-03	OUR LAND, WATER, WILDLIFE & PARKS COMMITTEE	15,000.00	PO BOX 533 FLAGSTAFF AZ 86002	Conservation activities.	N/A
1-Jun-03	CASCABEL HERMITAGE ASSOCIATION	2,000.00	6146 N. CANYON ROAD BENSON AZ 85602	Conservation activities.	N/A
1-Jun-03	CALPIRG EDUCATION FUND	250.00	CA PUBLIC INTEREST RESEARCH GR. 3435 WILSHIRE BLVD. SUITE 380 LOS ANGELES CA 90010	Conservation activities.	N/A
1-Jun-03	SEQUOIA RIVERLANDS TRUST	2,350.00	428 SOUTH GARDEN STREET VISALIA CA 93277	Conservation activities.	N/A
1-Jun-03	SEQUOIA RIVERLANDS TRUST	(10,000.00)	428 SOUTH GARDEN STREET VISALIA CA 93277	Conservation activities.	N/A
1-Jun-03	DEFENDERS OF WILDLIFE	4,250.00	1101 14TH STREET N.W. SUITE 1400 WASHINGTON DC 20005-5605	Conservation activities.	N/A
1-Jun-03	DEFENDERS OF WILDLIFE	8,500.00	1101 14TH STREET N.W. SUITE 1400 WASHINGTON DC 20005-5605	Conservation activities.	N/A
1-Jun-03	DEFENDERS OF WILDLIFE	4,250.00	1101 14TH STREET N.W. SUITE 1400 WASHINGTON DC 20005-5605	Conservation activities.	N/A
1-Jun-03	DEFENDERS OF WILDLIFE	(8,500.00)	1101 14TH STREET N.W. SUITE 1400 WASHINGTON DC 20005-5605	Conservation activities.	N/A
1-Jun-03	DEFENDERS OF WILDLIFE	(8,500.00)	1101 14TH STREET N.W. SUITE 1400 WASHINGTON DC 20005-5605	Conservation activities.	N/A
1-Jun-03	WILDLIFE CONSERVATION SOCIETY	250.00	182 CAMELLIA ROAD ST. CATHERINE'S ISLAND MIDWAY GA 31320	Conservation activities.	N/A
1-Jun-03	IDAHO WEED AWARENESS CAMP	250.00	55 SW 5TH AVE, SUITE 100 MERIDIAN ID 83642	Conservation activities.	N/A
1-Jun-03	IDAHO WEED AWARENESS CAMP	250.00	55 SW 5TH AVE, SUITE 100 MERIDIAN ID 83642	Conservation activities.	N/A
1-Jun-03	IDAHO WEED AWARENESS CAMP	250.00	55 SW 5TH AVE, SUITE 100 MERIDIAN ID 83642	Conservation activities.	N/A
1-Jun-03	TUCKERNUCK LAND TRUST	3,310.11	6 ASH LANE NANTUCKET MA 02554	Conservation activities.	N/A
1-Jun-03	TUCKERNUCK LAND TRUST	(10,000.00)	6 ASH LANE NANTUCKET MA 02554	Conservation activities.	N/A
1-Jun-03	TUCKERNUCK LAND TRUST	9,728.54	6 ASH LANE NANTUCKET MA 02554	Conservation activities.	N/A
1-Jun-03	TUCKERNUCK LAND TRUST	(13,038.65)	6 ASH LANE NANTUCKET MA 02554	Conservation activities.	N/A
1-Jun-03	TUCKERNUCK LAND TRUST	13,038.65	6 ASH LANE NANTUCKET MA 02554	Conservation activities.	N/A
1-Jun-03	TETON COUNTY 4-H COUNCIL	20.00	PO BOX 130 CHOTEAU MT 59422	Conservation activities.	N/A
1-Jun-03	RURAL OPPORTUNITIES, INC.	600.00	2-453 COUNTY ROAD V LIBERTY CENTER OH 43532	Conservation activities.	N/A
1-Jun-03	BOTANICAL RESEARCH INSTITUTE	500.00	OF TEXAS INC. 509 PECAN STREET FORT WORTH TX 76102-4060	Conservation activities.	N/A
1-Jun-03	VIRGINIA COMMONWEALTH UNIVERSITY	6,750.00	PO BOX 843050 RICHMOND VA 23284-3050	Conservation activities.	N/A
1-Jun-03	MARGARET B. COON	35.00	7616 - 44TH AVENUE SW SEATTLE WA 98136	Conservation activities.	Employee
1-Jun-03	JACK HURD	100.00	The Nature Conservancy, 217 Pine Street, Suite 1100, Seattle, WA 98101	Conservation activities.	Employee
1-Jun-03	NORTHERN WYOMING DAILY NEWS	44.80	PO BOX 508 WORLAND WY 82401	Conservation activities.	N/A
1-Jun-03	SEQUOIA RIVERLANDS TRUST	10,000.00	428 South Garden Street, Visalia, CA, 93277	Conservation activities.	N/A
1-Jun-03	TUCKERNUCK LAND TRUST	10,000.00	6 ASH LANE NANTUCKET MA 02554	Conservation activities.	N/A

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1-Jun-03	TUCKERNUCK LAND TRUST	(13,038.65)	6 ASH LANE NANTUCKET MA 02554	Conservation activities.	N/A
1-Jun-03	GREEN RIVER VALLEY LAND TRUST	24,166.66	PO BOX 1580 PINEDALE WY 82941	Conservation activities.	N/A
2-Jun-03	WINROCK INTERNATIONAL	30,000.00	1621 NORTH KENT STREET,SUITE 1200 ARLINGTON VA 22209	Conservation activities.	N/A
2-Jun-03	WINROCK INTERNATIONAL	10,000.00	1621 NORTH KENT STREET,SUITE 1200 ARLINGTON VA 22209	Conservation activities.	N/A
2-Jun-03	WINROCK INTERNATIONAL	15,000.00	1621 NORTH KENT STREET,SUITE 1200 ARLINGTON VA 22209	Conservation activities.	N/A
2-Jun-03	RED WILLOW RESEARCH, INC.	300.00	FIELD DATA SERVICES 780 FALLS AVE. #390 TWIN FALLS ID 83301-3316	Conservation activities.	N/A
2-Jun-03	OCEAN NATIONAL BANK	25,000.00	8 NEWMARKET ROAD DURHAM NH 03824	Conservation activities.	N/A
3-Jun-03	COLORADO COALITION OF LAND TRUSTS	500.00	PO BOX 102257 DENVER CO 80250-2257	Conservation activities.	N/A
4-Jun-03	MAURY COUNTY VISITORS BUREAU	500.00	8 PUBLIC SQUARE ATTN: ALTON KELLY COLUMBIA TN 38401	Conservation activities.	N/A
4-Jun-03	FOREST SOCIETY OF MAINE	91,050.00	PO BOX 775 BANGOR ME 04402	Conservation activities.	N/A
5-Jun-03	FLERA	750.00	C/O BARBARA MILLER DNRP 218 SW 1ST AVENUE FT LAUDERDALE FL 33301	Conservation activities.	N/A
5-Jun-03	ALDO LEOPOLD FOUNDATION	100.00	P O BOX 77 BARABOO WI 53913	Conservation activities.	N/A
6-Jun-03	SAN MIGUEL WATERSHED COAL	1,000.00	PO BOX 1601 TELLURIDE CO 81435	Conservation activities.	N/A
6-Jun-03	CONNECTICUT RIVER WATERSH	100.00	COUNCIL, INC. 15 BANK ROW GREENFIELD MA 01301	Conservation activities.	N/A
6-Jun-03	Associação dos Povos Indígenas do Estado de Roraima (APIRR)	7,773.85	Rua Carlos Natrodt, nº 928 Bairro Liberdade Boa Vista-RR	Conservation activities.	N/A
6-Jun-03	Instituto Centro De Vida - ICV	3,533.57	Rua 3, nº 85 Bairro Boa Esperança Cuiabá-MT	Conservation activities.	N/A
6-Jun-03	Sociedade Zeladora Do Museu Paraense Emílio Goeldi	3,533.57	Avenida Magalhães Barata, nº 375 Bairro São Braz Belém-PA	Conservation activities.	N/A
6-Jun-03	Fundação Emas - Fundacao Ecologica de Mineiros	653.26	Avenida Onze Quadra 14 Lote 13 Setor Santa Isabel Mineiros-GO	Conservation activities.	N/A
6-Jun-03	Instituto Centro De Vida - ICV	1,766.78	Rua 3, nº 85 Bairro Boa Esperança Cuiabá-MT	Conservation activities.	N/A
9-Jun-03	COBSCOOK BAY RESOURCE CENTER	10,000.00	4 FAVOR STREET EASTPORT ME 04631	Conservation activities.	N/A
9-Jun-03	WISCONSIN OUTDOORS ALLIANCE	2,500.00	401 WISCONSIN AVENUE MADISON WI 53703	Conservation activities.	N/A
10-Jun-03	FREEDOM FROM HUNGER	1,000.00	1644 DAVINCI COURT PO BOX 200 DAVID CA 95617	Conservation activities.	N/A
11-Jun-03	THE UNIVERSITY OF MAINE	3,000.00	COOPERATIVE EXTENSION 5755 NUTTING HALL ORONO ME 04469-5755	Conservation activities.	N/A
11-Jun-03	AUDUBON TEXAS	20,157.15	2525 WALLINGWOOD DRIVE SUITE 301 AUSTIN TX 78746	Conservation activities.	N/A
11-Jun-03	GUILFORD LAND CONSERVATION TRUST	10,000.00	PO Box 200, Guilford, CT 06437-0200	Conservation activities.	N/A
11-Jun-03	Reclass	(50,000.00)	Reclass	Conservation activities.	N/A
12-Jun-03	JPDL-WPC 2003	300.00	1555 PEEL, SUITE 500 MONTREAL QUEBEC, H3A 3L8	Conservation activities.	N/A
12-Jun-03	QUODDY REGIONAL LAND TRUST	500.00	PO BOX 49 WHITING ME 04691	Conservation activities.	N/A
12-Jun-03	FRIENDS OF ALTA	100.00	ALTA UT 84092	Conservation activities.	N/A
13-Jun-03	BOWDOIN COLLEGE	500.00	ENVIRONMENTAL STUDIES PROGRAM 6700 COLLEGE STATION BRUNSWICK ME 04011	Conservation activities.	N/A
16-Jun-03	EAGLEVILLE BASEBALL & SOFTBALL ASSOCIATION	129.35	19273 W 225TH LAND RIDGEWAY MO 64481	Conservation activities.	N/A
16-Jun-03	CITIZENS FOR NEW HAMPSHIR	1,500.00	COMMUNITY HERITAGE PO BOX 1566 CONCORD NH 03302-1566	Conservation activities.	N/A
16-Jun-03	DAMARISCOTTA RIVER ASSOCIATION	5,000.00	P.O. Box 333, 109 - 110 Belvedere Road, Damariscotta, ME 04543	Conservation activities.	N/A
17-Jun-03	IMADES	3,000.00	REYES Y AGUAS CALIENTES ESQ. COL. SAN BENITO HERMOSILLO, SONORA MEXICO 83190 MX	Grant pursuant to federal award.	N/A
17-Jun-03	Fundación Ecológica Arcoiris (FEA)	1,000.00	Street and Mailing Address: Segundo Cueva Celi 03-15 y, Clodoveo Carrión, Ciudadela Zamora, Loja, ECUADOR	Grant pursuant to federal award.	N/A
17-Jun-03	IMADES	1,000.00	REYES Y AGUAS CALIENTES ESQ. COL. SAN BENITO HERMOSILLO, SONORA MEXICO 83190 MX	Conservation activities.	N/A
18-Jun-03	Instituto de Historia Natural y Ecologia (IHNE)	15,000.00	Calzada Cerro Hueco s/n, Colonia El Zapotal, Tuxtla Gutierrez, 29000 Chiapas Mexico	Grant pursuant to federal award.	N/A
18-Jun-03	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	4,109.45	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Conservation activities.	N/A
18-Jun-03	Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS)	10,000.00	Rua Gutemberg, 296 - Batel - 80420-030 Curitiba – PR, BRAZIL	Grant pursuant to federal award.	N/A
18-Jun-03	Fundacion Moscoso Puello (FMP)	15,625.00	Ave. John F Kennedy, Km 7 , Edif. AJFA, Los Jardines del Norte, P.O. Box 1533, Zona 1, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A
18-Jun-03	Grupo Ecologista Antares (GEA)	25,000.00	Paseo Hidalgo, esq. Colegio, Col. Centro, Loreto, Baja California SUR	Grant pursuant to federal award.	N/A
18-Jun-03	Fundação SOS Amazônia	45,000.00	Rua Pará, 51 - Bairro Cadeia Velha - 69900-440 Rio Branco – AC, BRAZIL	Grant pursuant to federal award.	N/A
18-Jun-03	Fundación Moises Bertoni para la Conservación de la Naturaleza (FMB)	18,592.00	Procer Carlos Arguello, 208 entre Av. Mcal. Lopez y Av. Boggiani, Asuncion, Paraguay	Grant pursuant to federal award.	N/A
18-Jun-03	Toledo Institute for Development and Environment (TIDE)	44,766.78	P.O. Box 150, Punta Gorda, Toledo District, BELIZE	Conservation activities.	N/A
18-Jun-03	YORK LAND TRUST	100,000.00	P O BOX 1241 YORK HARBOR ME 03911	Conservation activities.	N/A
18-Jun-03	MONTANA LAND RELIANCE	10,000.00	107 W. LAWRENCE HELENA MT 59601	Conservation activities.	N/A
18-Jun-03	Albany County Land Conservancy, Inc.	2,000.00	Po Box 567, Slingerlands, NY 12159	Land acquisition related funding.	N/A
19-Jun-03	THE NATURE CONSERVANCY ACTION FUND	50,000.00	OF CALIFORNIA C/O OLSON HAGEL LEIDIGH WATERS 555 CAPITOL MALL, SUITE 1425 SACRAMENTO CA 95814	Conservation activities.	N/A
19-Jun-03	THE NATURE CONSERVANCY ACTION FUND	(50,000.00)	OF CALIFORNIA C/O OLSON HAGEL LEIDIGH WATERS 555 CAPITOL MALL, SUITE 1425 SACRAMENTO CA 95814	Conservation activities.	N/A
19-Jun-03	THE NATURE CONSERVANCY ACTION FUND	50,000.00	OF CALIFORNIA C/O OLSON HAGEL LEIDIGH WATERS 555 CAPITOL MALL, SUITE 1425 SACRAMENTO CA 95814	Conservation activities.	N/A
19-Jun-03	HONAKER FRIENDS OF THE LIBRARY	1,000.00	PO BOX 356 HONAKER VA 24260	Conservation activities.	N/A

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19-Jun-03	NATIONAL FOREST FOUNDATION	15,000.00	2715 M ST, NW SUITE 410 WASHINGTON DC 20007	Conservation activities.	N/A
19-Jun-03	Town of Yarmouth	4,900.00	1146 Rte 28, S. Yarmouth, MA 02664	Land acquisition related funding.	N/A
19-Jun-03	Town of Yarmouth	70,000.00	1146 Rte 28, S. Yarmouth, MA 02664	Land acquisition related funding.	N/A
20-Jun-03	AUDUBON ALASKA	2,156.25	308 G STREET, SUITE 217 ANCHORAGE AK 99501	Conservation activities.	N/A
20-Jun-03	DUCHESS LAND CONSERVANCY	1,000.00	2908 Route 44, Millbrook, NY 12545	Conservation activities.	N/A
23-Jun-03	NATURESERVE	1,543.51	1101 WILSON BLVD, 15TH FL ARLINGTON VA 22209	Grant pursuant to federal award.	N/A
23-Jun-03	RHODE ISLAND NATURAL HISTORY SURVEY, INC.	1,000.00	RM 101, COASTAL INST. IN KINGSTON 1 GREENHOUSE ROAD, URI KINGSTON RI 02881	Conservation activities.	N/A
23-Jun-03	THE CLAPPERSTICK INSTITUTE	10,000.00	HEYDAY BOOKS P O BOX 9145 BERKELEY CA 94709	Conservation activities.	N/A
23-Jun-03	FREEDOM FENCE CO.	1,000.00	RT 1, BOX 46B JOHNSTON CITY IL 62951	Conservation activities.	N/A
23-Jun-03	THE POPULATION INSTITUTE	1,000.00	109 SECOND STREET, N.E. WASHINGTON DC 20002	Conservation activities.	N/A
23-Jun-03	GREATER YELLOWSTONE COALITION	1,000.00	13 SOUTH WILSON, SUITE 2 BOZEMAN MT 59715	Conservation activities.	N/A
23-Jun-03	THE GLACIER INSTITUTE	1,000.00	C.O.C.E.E.C. PO BOX 7457 KALISPELL MT 59920	Conservation activities.	N/A
24-Jun-03	WISCONSIN DEPT OF NATURAL RESOURCES	1,000.00	P O BOX 78816 MILWAUKEE WI 53278-0816	Conservation activities.	N/A
24-Jun-03	ST. GEORGE'S EPISCOPAL CHURCH	300.00	915 N. OAKLAND STREET ARLINGTON VA 22203	Conservation activities.	N/A
25-Jun-03	UNIVERSITY OF HAWAII	1,000.00	OFFICE OF RESEARCH SERVICES 2530 DOLE STREET-SAKAMAKI D-200 HONOLULU HI 96822	Conservation activities.	N/A
25-Jun-03	UNIVERSITY OF HAWAII	20,000.00	OFFICE OF RESEARCH SERVICES 2530 DOLE STREET-SAKAMAKI D-200 HONOLULU HI 96822	Conservation activities.	N/A
25-Jun-03	FLORIDA ATLANTIC UNIVERSITY	5,000.00	3932 RCA BLVD, SUITE# 3210 PALM BEACH GARDENS FL 33410	Conservation activities.	N/A
26-Jun-03	Reclass	(22,216.00)	Reclass	Grant pursuant to federal award.	N/A
26-Jun-03	Reclass	22,216.00	Reclass	Grant pursuant to federal award.	N/A
26-Jun-03	COLORADO CATTLEMEN'S AGRICULTURAL LAND TRUST	100.00	8833 RALSTON ROAD ARVADO CO 80002	Conservation activities.	N/A
26-Jun-03	FRIENDS OF ALTA	100.00	ALTA UT 84092	Conservation activities.	N/A
26-Jun-03	FREEDOM FENCE CO.	(1,000.00)	RT 1, BOX 46B JOHNSTON CITY IL 62951	Conservation activities.	N/A
27-Jun-03	SRNR	1,000.00	BIO SERVICES EAST RM 325 UNIVERSITY OF ARIZONA TUCSON AZ 85721-0043	Conservation activities.	N/A
27-Jun-03	Toledo Institute for Development and Environment (TIDE)	2,844.53	P.O. Box 150, Punta Gorda, Toledo District, BELIZE	Conservation activities.	N/A
27-Jun-03	NATURE CONSERVANCY OF CANADA	100,000.00	ATTN: LYNN FOSTER, CFO 110 EGLINGTON AVENUE WEST,SUITE 400 TORONTO, ON M4R 1A3 . . . CA	Conservation activities.	N/A
30-Jun-03	Amigos de Sian Ka'an (ASK)	25,000.00	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
30-Jun-03	Conservation Society of Pohnpei	6,779.74	P.O. Box 2461, Kolonia, Pohnpei FSM 96941	Grant pursuant to federal award.	N/A
30-Jun-03	Fundacion Moscoso Puello (FMP)	28,597.71	Ave. John F Kennedy, Km 7 , Edif. AJFA, Los Jardines del Norte, P.O. Box 1533, Zona 1, Santo Domingo, REPUBLICA DOMINICANA	Grant pursuant to federal award.	N/A
30-Jun-03	Fundación Amigos de la Naturaleza (FAN)	5,561.00	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
30-Jun-03	Associação Caatinga (AC)	54,411.00	Av. Santos Dumont, 3060 - Salas 516 e 518 - Aldeota - 60150-161 Fortaleza – CE, BRAZIL	Grant pursuant to federal award.	N/A
30-Jun-03	Fundación Natura - Columbia	5,541.16	Calle 61 #4-26, Santafe de Bogota, Colombia	Grant pursuant to federal award.	N/A
30-Jun-03	Grupo Ecologista Antares (GEA)	2,646.10	Paseo Hidalgo, esq. Colegio, Col. Centro, Loreto, Baja California SUR	Grant pursuant to federal award.	N/A
30-Jun-03	Grupo Ecologista Antares (GEA)	648.80	Paseo Hidalgo, esq. Colegio, Col. Centro, Loreto, Baja California SUR	Grant pursuant to federal award.	N/A
30-Jun-03	Amigos de Sian Ka'an (ASK)	4,474.39	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
30-Jun-03	Amigos de Sian Ka'an (ASK)	3,036.21	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
30-Jun-03	Asociación Boliviana para la Conservación (TRÓPICO)	2,686.05	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-Jun-03	Sociedad de Historia Natural de Niparaja (NIPARAJA)	11,419.51	Calle Alvaro Obregon # 460 Of.209, Colonia Centro, La Paz, Baja California Sur, México 23000	Grant pursuant to federal award.	N/A
30-Jun-03	Sociedad de Historia Natural de Niparaja (NIPARAJA)	(11,456.21)	Calle Alvaro Obregon # 460 Of.209, Colonia Centro, La Paz, Baja California Sur, México 23000	Grant pursuant to federal award.	N/A
30-Jun-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	1,668.87	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Jun-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(1,663.12)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Jun-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	15,521.74	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Jun-03	Instituto del Medio Ambiente y del Desarrollo Sustentable del Estado de Sonora (IMADES)	(15,113.74)	Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Grant pursuant to federal award.	N/A
30-Jun-03	Asociación Boliviana para la Conservación (TRÓPICO)	13,300.37	Edificio El Ciprés, piso 5, depto. 5B, Calle Campos No 296, esquina Av. 6 de Agosto, Casilla postal No.11250, La Paz, BOLIVIA	Grant pursuant to federal award.	N/A
30-Jun-03	Amigos de Sian Ka'an (ASK)	7,017.47	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
30-Jun-03	Amigos de Sian Ka'an (ASK)	6,686.74	Camino al Ajusto No. 200 3° Piso, Col. Jardines de la Montaña, Delegación Tlalpan, 14210 México D.F.	Grant pursuant to federal award.	N/A
30-Jun-03	Reclass	(24,604.41)	Reclass	Grant pursuant to federal award.	N/A

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30-Jun-03	Reclass	24,604.41	Reclass	Grant pursuant to federal award.	N/A
30-Jun-03	Protección del Medio Ambiente Tarija (PROMETA)	749.72	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-Jun-03	Protección del Medio Ambiente Tarija (PROMETA)	26,862.51	Cajón Postal #59 Tarija, BOLIVIA	Grant pursuant to federal award.	N/A
30-Jun-03	The Southern Trelawny Environmental Agency (STEA)	42,577.00	#3 Grants Office Complex, Albert Town, Trelawny, Jamaica	Grant pursuant to federal award.	N/A
30-Jun-03	Reclass	(10,000.55)	Reclass	Grant pursuant to federal award.	N/A
30-Jun-03	Reclass	10,000.55	Reclass	Grant pursuant to federal award.	N/A
30-Jun-03	Abraham López Célis	122.75	C/O IMADES, Reyes y Aguascalientes esq., Col. San Benito, Hermosillo, Sonora, C.P. 83190, Mexico	Conservation activities.	None identified.
30-Jun-03	Grupo Ecologista Antares (GEA)	(25,000.00)	Paseo Hidalgo, esq. Colegio, Col. Centro, Loreto, Baja California SUR	Grant pursuant to federal award.	N/A
30-Jun-03	Reclass	(22,000.00)	Reclass	Grant pursuant to federal award.	N/A
30-Jun-03	Pronatura Noreste A.C. (PNE)	15,000.00	Loma Larga 235, Monterrey, N.L., 64710. Mexico	Grant pursuant to federal award.	N/A
30-Jun-03	Reclass	(522.08)	Reclass	Grant pursuant to federal award.	N/A
30-Jun-03	Reclass	(480,000.00)	Reclass	Grant pursuant to federal award.	N/A
30-Jun-03	Fundación Ecológica Arcoiris (FEA)	1,000.00	Street and Mailing Address: Segundo Cueva Celi 03-15 y, Clodoveo Carrión, Ciudadela Zamora, Loja, ECUADOR	Grant pursuant to federal award.	N/A
30-Jun-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	11,960.24	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-Jun-03	Conservation Beef, LLC	(79,999.65)	PO Box 748, Helena, MT 59624	Conservation activities.	N/A
30-Jun-03	Sociedad Peruana de Derechos Ambiental (SPDA)	949.86	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
30-Jun-03	Sociedad Peruana de Derechos Ambiental (SPDA)	1,037.15	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
30-Jun-03	Sociedad Peruana de Derechos Ambiental (SPDA)	1,905.38	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
30-Jun-03	Sociedad Peruana de Derechos Ambiental (SPDA)	1,174.45	Prolongación Arenales 437, San Isidro, Lima 27, PERU	Grant pursuant to federal award.	N/A
30-Jun-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	12,840.72	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-Jun-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	4,982.51	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-Jun-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	2,989.56	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-Jun-03	Fundacion Peruana para La Conservacion de la Naturaleza FPCN - (PRONATURALEZA)	6,154.97	Alberto del Campo # 417, Magdalena del Mar, Lima 17, Perú	Grant pursuant to federal award.	N/A
30-Jun-03	Reclass	(789.92)	Reclass	Grant pursuant to federal award.	N/A
30-Jun-03	Reclass	(1,576.59)	Reclass	Grant pursuant to federal award.	N/A
30-Jun-03	Reclass	1,576.59	Reclass	Grant pursuant to federal award.	N/A
30-Jun-03	Reclass	789.92	Reclass	Grant pursuant to federal award.	N/A
30-Jun-03	Fundación Amigos de la Naturaleza (FAN)	9,203.85	Kilómetro 7 ½ carretera antigua a Cochabamba, Santa Cruz, BOLIVIA	Grant pursuant to federal award.	N/A
30-Jun-03	Forum Kemitraan Taman Nasional Lore Lindu (FKTNLL)	(3,362.10)	Jl. Tanjung Tururuka II No. 8. Palu, Indonesia	Grant pursuant to federal award.	N/A
30-Jun-03	Forum Kemitraan Taman Nasional Lore Lindu (FKTNLL)	1,748.46	Jl. Tanjung Tururuka II No. 8. Palu, Indonesia	Grant pursuant to federal award.	N/A
30-Jun-03	Forum Kemitraan Taman Nasional Lore Lindu (FKTNLL)	3,259.00	Jl. Tanjung Tururuka II No. 8. Palu, Indonesia	Grant pursuant to federal award.	N/A
30-Jun-03	Fundacion Cientifica Los Roques (FCLR)	25,000.00	Aptdo. No 1139 - Caracas 1010-A Venezuela	Grant pursuant to federal award.	N/A
30-Jun-03	N/A	(5,061.21)	N/A	Conservation activities.	N/A
30-Jun-03	Reclass	(696.00)	Reclass	Grant pursuant to federal award.	N/A
30-Jun-03	Reclass	696.00	Reclass	Grant pursuant to federal award.	N/A
30-Jun-03	Asociación Patronato Vivamos Mejor	35,201.17	Calle de los Salpores 0-83, zona 3, Barrio Jucanyá, Panajachel, Sololá, Guatemala	Grant pursuant to federal award.	N/A
30-Jun-03	Sociedad Nacional para el Desarrollo de Empresas y Areas Rurales (SONDEAR)	19,551.16	Urbanización Los Angeles, Calle 62 Oeste, Casa 25; Corregimiento de Betania, Ciudad de Panamá	Grant pursuant to federal award.	N/A
30-Jun-03	YORK LAND TRUST	135.56	P O BOX 1241 YORK HARBOR ME 03911	Conservation activities.	N/A
30-Jun-03	FRIENDS OF THE GREAT SWAMP	3,000.00	PO BOX 373 PAULING NY 12564	Conservation activities.	N/A
30-Jun-03	Collector of Customs	524.75	Lot No. 1, 14-16 First Street, Newport West, Kingston, Jamaica, WEST INDIES	Conservation activities.	N/A
30-Jun-03	Programme for Belize (PfB)	13,308.65	1 Eyre St., PO Box 749, Belize City, Belize, Central America	Conservation activities.	N/A
30-Jun-03	Reclass	(1,385.16)	Reclass	Conservation activities.	N/A
30-Jun-03	Fundação Emas - Fundacao Ecologica de Mineiros	4,744.78	Avenida Onze Quadra 14 Lote 13 Setor Santa Isabel Mineiros-GO	Conservation activities.	N/A
30-Jun-03	Reclass	1,385.16	Reclass	Conservation activities.	N/A
30-Jun-03	Hospitalidad Costa Inversiones HCI, S.A.	219.53	Avenida 3a, Calle 38, Costado Norte Centro Colon, San Jose, Costa Rica, C.A.	Conservation activities.	N/A
30-Jun-03	Centro De Derecho Ambiental Y De Los Recursos Naturales (CEDARENA)	3,000.00	Apartado 134-2050, San Pedro, COSTA RICA	Conservation activities.	N/A
30-Jun-03	Balai Taman Nasional Lore Lindu	3,671.76	Jl. Mawar No. 10, 423608 Palu-Sulawesi Tengah	Conservation activities.	N/A
30-Jun-03	Palau Conservation Society	5,000.00	PO Box 1811, Koror, Palau 96940	Conservation activities.	N/A
30-Jun-03	Reclass	(9.95)	Reclass	Conservation activities.	N/A
30-Jun-03	Noah Idechong	860.00	PO Box 501, Koror, Republic of Palau 96940	Conservation activities.	N/A
30-Jun-03	The Nature Conservancy of Canada	11,975.00	110 Eglinton Avenue West-4th Floor, Toronto, Ontario, M4R 1A3	Conservation activities.	N/A
30-Jun-03	Utah State University	2,250.00	College of Natural Resources, Natural Resources 108, Logan, UT 84322-5200	Conservation activities.	N/A
30-Jun-03	Massacusetts Department of Environmental Management	10,000.00	100 Cambridge Street, Boston, MA 02202	Land acquisition related funding.	N/A
30-Jun-03	Town of Yarmouth	130,000.00	1146 Rte 28, S. Yarmouth, MA 02664	Land acquisition related funding.	N/A

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30-Jun-03	South Kingstown Land Trust	44,000.00	Trustees: Clarkson A. Collins, Sophie Page Lewis, Janet Innis, Helena-Hope Gam, 313 Main Street, Suite C Wakefield RI 02879	Land acquisition related funding.	N/A
30-Jun-03	Audubon Society of Rhode Island	75,000.00	12 Sanderson Road, Smithfield, RI 02917	Land acquisition related funding.	N/A
30-Jun-03	South Carolina Department of Natural Resources	15,000.00	State of South Carolina, P. O. Box 167, Columbia, SC 29202	Land acquisition related funding.	N/A
30-Jun-03	The Nature Conservancy of Canada	100,000.00	110 Eglinton Avenue West-4th Floor, Toronto, Ontario, M4R 1A3	Conservation activities.	N/A
30-Jun-03	The Nature Conservancy of Canada	50,000.00	110 Eglinton Avenue West-4th Floor, Toronto, Ontario, M4R 1A3	Conservation activities.	N/A

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FORM 990, PART II LINE 43- OTHER EXPENSES

Description	Total	Program Services	Management and General	Fundraising
Recruitment	592,778	393,971	125,752	73,055
Taxes and Licenses	1,111,097	792,065	203,382	115,650
Repairs and Maintenance	3,231,742	2,176,304	692,376	363,062
Insurance	2,921,337	1,942,351	631,171	347,815
Real Estate Taxes	5,581,818	4,558,624	696,710	326,484
Professional & Contract Fees	51,385,679	36,914,139	8,858,952	5,612,588
Other	13,392,610	9,244,784	2,268,033	1,879,793
Closing Costs	6,010,517	4,879,524	1,127,704	3,289
Net Book Value of Land Disposed	206,253,244	206,253,244	0	0
Total	**290,480,822**	**267,155,006**	**14,604,080**	**8,721,736**

THE NATURE CONSERVANCY
990 TAX RETURN
ADDITIONAL STATEMENTS
FY03

53-0242652

STATEMENT 9
FORM 990, PART III - PRIMARY EXEMPT PURPOSE

The Nature Conservancy is a conservation organization. The mission of the Conservancy is to preserve plants, animals, and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive.

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Program Expenses:	**432,264,289**
Program Grants:	**20,733,683**
Total :	**452,997,972**

Our Approach: Mission Strategy and Values

Throughout our 52-year history, The Nature Conservancy has been known for a unique and highly successful approach to land conservation. We initially used land acquisition to "preserve wild nature," the organization's statement of purpose in the 1950s and 1960s. But as the Conservancy grew over the years and as increasing threats to natural lands created even more demand for action, we tightened our focus and expanded the array of tools we use to achieve lasting conservation results.

Today The Nature Conservancy is widely regarded and respected as an effective, influential conservation organization. We have made laudable progress toward our mission, helping protect more than 117 million acres around the world and with active conservation projects in all 50 states in the United States and in 27 other countries. We have a focused mission; a strategic framework to achieve that mission, Conservation by Design; and a unique set of values that guides how we pursue our work.

Mission

The mission of The Nature Conservancy is to preserve plants, animals and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive.

We aspire to the vision articulated more than 50 years ago by Aldo Leopold in *A Sand County Almanac:* conservation is a state of harmony between man and nature.

Strategy

Conservation by Design is our strategy for guiding conservation results. It is a systematic, science-based approach to identifying and protecting priority conservation areas. It has two key components:

- Through a rigorous, science-based approach, we identify the places most critical for the long-term protection of ecosystems, plants and wildlife within and across ecoregions. (An
- ecoregion is a large geographic area defined by natural features such as vegetation and geology, e.g., the Sonoran Desert.) Together, these places create our Conservation Blueprint.

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- Conservation by Design guides the mix of tools and actions we employ to abate threats and to secure tangible, lasting conservation results. Different places require different strategies. At each place, we tailor our tools and strategies to local circumstances. Given the wide variety of threats we encounter, we must be innovative in developing flexible, uniquely tailored action plans.

Conservation by Design ensures that we focus on the right places and take the right action to achieve conservation results. The efficacy of this approach is increasingly recognized and lauded by others, such as the Doris Duke Foundation, who are eager to use a science-based, pragmatic strategy for fulfilling their own commitments to protecting biodiversity.

- We work *collaboratively with partners*—businesses, government agencies, multilateral institutions, communities, individuals and other non-profit organizations.

- We pursue *non-confrontational, pragmatic, market-based* solutions to conservation challenges.

- We employ the best available *scientific information* and practices to guide our conservation actions.

- We tailor our conservation strategies and tools to *local circumstances.*

- We work *across landscapes and seascapes* at a scale large enough to conserve ecological processes and to ensure that protected lands and waters retain their ecological integrity.

- We work with *willing sellers and donors,* both public and private, to protect ecosystems, plants and wildlife through purchases, gifts, exchanges, conservation easements and management agreements and partnerships.

- *Outside the United States,* we work with government agencies and *like-minded partner organizations* to provide scientific know-how, infrastructure, community development, professional training and long-term resources.

Values

We hold ourselves to high standards, staff and trustees alike. We freely adopted these values to guide our work, for they offer ideals to which we aspire in fulfilling our mission:

- *Integrity Beyond Reproach:* We hold paramount the trust and responsibilities placed in us by our donors, members, colleagues, partners and the public.

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- *Continuity of Purpose:* We look to our mission to provide focus and guidance for everything we do.

- *Commitment to People:* We respect the needs of local communities by developing ways to conserve biological diversity while enabling them to live productively and sustainably. We value the active involvement of individuals from diverse backgrounds and beliefs in conservation efforts.

- *Effective Partnerships:* We are committed to forging public and private partnerships that combine diverse strengths, skills and resources.

- *Innovation and Excellence:* We are strategically entrepreneurial in the pursuit of excellence, encouraging original thought and its application, and willing to take risks based on sound business judgment.

- *One Conservancy:* We act as "One Conservancy," with each program assisting other programs in reaching their full potential, thereby ensuring the success of the overall organization.

- *Commitment to the Future:* We commit ourselves, individually and collectively, to leaving future generations a biologically rich world.

A Message from the President

Conservation is challenging work. Nature, herself, challenges us to transcend our borders in favor of hers, to work at a more expansive scale and to learn more about the complex interaction of natural forces that determine our ecosystems. Similarly, we face the human challenges of economics, political borders and the welfare of local communities at our projects around the world. Fortunately, the Conservancy has a history of responding well to challenges of all kinds.

The economic downturn we experienced last year forced some painful belt-tightening, but it also challenged us to be more effective in how we raise and use funds. Despite the recession, the generosity of individual donors enabled us to complete a five-year, $1.4 billion capital campaign in 2003. And, reflecting the increasing commitment to the global reach of our mission, donations to programs outside the United States nearly doubled over those of the year before, while contributions to domestic projects remained high.

Last year we faced an unprecedented challenge in a series of media stories that questioned our conservation practices and governance. We faced the challenge head-on. We refuted what was inaccurate, but acknowledged and took swift action to correct mistakes we had made and strengthened policy to better guarantee consistent practices in all we do. It was a humbling experience, but we are a better, wiser institution for it.

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Despite these challenges, we continued to garner top ratings from groups like the American Institute of Philanthropy, that evaluate the efficiency and effectiveness of nonprofit organizations. And we accomplished landmark conservation at thousands of sites in some 28 countries. Furthermore, the conservation we and our partners undertook in 2003 secured larger landscapes. It protected river and coastal systems, and it traversed borders to truly maintain the natural processes upon which we, our wildlife and our ways of life depend. We are proud of these achievements.

In 2003, we also tapped talent throughout the organization to develop an ambitious 10-Year Goal that will guide us to the most important places, help us find the best partners and enable us to prescribe the right mix of conservation tools—some yet to be developed—to protect the "the last great places on Earth." We also established a system to measure our true conservation success for the first time; it will launch in the year ahead.

Not long ago, I found myself gazing across a landscape of rolling, sunburned hills that looked beguilingly like the coast of central California, where I am from. But I was on the other side of the planet in Komodo National Park, where the Conservancy is partnering with Indonesian park authorities and the local community on an ambitious and imaginative conservation effort. The visual similarity between these two places was startling, but I was struck by other, less visible links.

In both places, the Conservancy and its partners have aimed high to protect vast natural landscapes and seascapes. On California's central coast, we are buying key lands to head off development pressure and working with private landowners to maintain land uses compatible with natural features. At Komodo—within the epicenter of global marine diversity—we are helping to halt illegal "blast" and cyanide fishing. At the same time, we're developing an ecologically sensitive, community-run mariculture operation to support sustainable and compatible economic activity. Both projects are finding common ground to preserve biodiversity while enriching the quality of life for local people.

At Komodo, where blast fishing has been reduced by 90 percent, the immediate conservation of reefs and fisheries is remarkable. But for me the more hopeful, and long-term, reflection of our success could be seen in the eyes of Komodo school children as they performed for a rapt group of villagers, young and old. Using colorful puppets of their own creation—Komodo dragons, dolphins, fishermen, even tourists—the children told a story they had written about the connection between a healthy natural environment and their own economic well-being. As a "measure of success," these young people's efforts reflect the changing sentiments of the local community and its increasing commitment to conservation.

In scenes like this, we are witnessing a wonderful transformation of the Conservancy. Steadfastly dedicated to our mission, we are building an inspiring momentum of innovation through

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competent risk-taking, increased collaboration and imaginative leveraging of resources. In a year of challenges and transforming events, I thank all those who supported us, expressed confidence in our work and dedicated themselves to our mission.

As the late David Packard, founder of Hewlett-Packard and a staunch Conservancy supporter, said to me years ago, "Never look back. Celebrate your successes; learn from your mistakes; then move on. Get better. Do more."

The Nature Conservancy is always striving to get better – to do more, because I can think of nothing more important for our collective future than "preserving the diversity of life on Earth."

Sincerely,

Steve McCormick
President and Chief Executive Officer
The Nature Conservancy

Highlights of 2003 Accomplishments

Over the course of 2003, The Nature Conservancy, through its dedicated staff of 3,000 employees and its work across all 50 states and 27 other countries, made impressive progress in conserving ecologically important natural areas around the world.

Some of the highlights of the Conservancy's 2003 accomplishments are detailed here. Additional information on the organization's governance, management, projects, finances and accomplishments can be found on the Conservancy's Web site, *nature.org*.

Conservation across Borders
Greater Caribbean Basin

The Challenge: Approximately one-third the size of the continental United States, the Greater Caribbean Basin is a study in complexity. Whereas other ecoregions are connected by land, the states, countries and islands that border the Caribbean are connected by water, sharing currents, fisheries and other aquatic resources. Biologically, the Caribbean is one of the richest places on Earth: its marine habitats sustain 60 species of corals and more than 1,500 species of fish, and an estimated 40 percent of its terrestrial vertebrates and plants exist nowhere else. Intense human pressures also make this one of the world's most threatened places; scientists estimate that less than 10 percent of the region's original vegetation remains intact.

Biology isn't the only source of the Caribbean Basin's unique character. Because the area is made up of more than 30 countries—including Cuba, the Dominican Republic, Haiti, Mexico, Venezuela and the United States—conservation solutions must transcend geographical and

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cultural borders, deal with political sensitivities, address differing conservation priorities and engage diverse stakeholders in a long-term, large-scale conservation strategy.

How We're Making a Difference: To create a science-based conservation strategy that matches the region's scale and complexity, The Nature Conservancy has undertaken an intensive two-year study of the Greater Caribbean Basin, addressing both the biology and the socioeconomics of the region. Data and tools yielded during this intense assessment will guide a state-of-the-art conservation plan, enabling sound, pragmatic conservation decisions.

The assessment is also deepening our strategic partnerships with local organizations—key to achieving lasting conservation results. By pairing Conservancy science with the knowledge and influence of local partners, we will be able to establish a common vision for the Greater Caribbean Basin that identifies and characterizes high-priority sites and sets strategies for protecting the region's irreplaceable terrestrial, freshwater, coastal and marine biodiversity.

Transcending Boundaries
Greater Yellowstone Ecosystem

The Challenge: For more than a century, Yellowstone National Park has been an icon of American conservation, a symbol of what investment and stewardship can do to preserve a landscape that is home to elk, bighorn sheep, bison, grizzlies and rare landscape features from geysers to historic rivers. But survival of the 2.2-million-acre park depends on what happens in an even larger landscape: the 27-million-acre Greater Yellowstone Ecosystem, as big as the state of Tennessee. In recent years, human settlement and development and a bewildering array of public and private entities—three states, two reservations, 20 counties, seven national forests, two national parks and three national wildlife refuges—all with a stake in preserving the area, have had to negotiate with each other.

Protecting Greater Yellowstone means protecting one of Earth's last remaining temperate ecosystems. Across this wide swath of human settlements, pasture lands, forests and federal parks roams the largest population of hoofed wildlife and big predators in the contiguous 48 states. Keeping nature intact in this vast and varied region is a high-stakes, larger-than-life task that must transcend biology to include both sociology and economics, balancing the needs of human beings with the imperative to protect an iconic, at-risk landscape.

How We're Making a Difference: Strategy, collaboration, good science— The Nature Conservancy's Idaho, Montana and Wyoming chapters are investing all this and more to develop a conservation approach that will work to protect the landscape and honor the needs of ranchers, farmers and families. Guided by natural delineations of climate and geology, fire and flood and plants and animals rather than politically created boundaries of state, county or preserve lines,

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the Conservancy is identifying conservation threats, from unplanned residential development to riverside erosion, and developing solutions.

In the long term, the Conservancy is focused on protecting the winter ranges that are home to wildlife, preserving migration corridors for large mammals and keeping the 12 rivers that originate in the area healthy and flowing. This painstaking, delicate work requires building strong relationships among many constituencies—from county governments to family ranchers—and developing solutions that work for all. In an equation of history, economics and conservation, achieving balance is both an art and a science.

A Ribbon of Life
Devils River, Texas

The Challenge: The Devils River winds through 60 miles of arid west Texas as part of a network of streams and rivers contributing to the Rio Grande. At the crossroads of the Edward Plateau, the Chihuahuan Desert and the Tamaulipan Thornscrub ecological regions, this landscape supports many endangered plants and animals. In the river's canyons, where black-capped vireos nest and Texas snowbells grow, pictographs evoke ancient Native American civilizations. The river is also a critical migration corridor for songbirds, raptors and monarch butterflies.

Unpolluted and undammed, the Devils River is considered a benchmark for clean, natural water systems in Texas. The challenge for conservationists and others dependent upon this water is to maintain its pristine condition in the face of threats, including pollution, damage to the watershed and habitat fragmentation.

How We're Making a Difference: In 2003, in what is believed to be the largest private conservation effort ever in Texas, The Nature Conservancy purchased 87,760 acres surrounding the Devils River. This purchase protects the watershed for the river's headwaters and an eight-mile section of the river. Key features of this particular site include a massive sinkhole and a cave system that provides a microclimate for rare plants and shelter for a maternal colony of more than 1 million Mexican free-tailed bats.

The Conservancy plans to retain 100 or more acres as a nature preserve and seeks one or more conservation buyers—people dedicated to keeping the site in its natural state—for the remaining land. A conservation easement will permanently restrict what the new owner or owners can do with the property, ensuring the long-term protection of the land and its water.

This property also adds to the mosaic of lands protected by The Nature Conservancy in this region, now totaling more than 150,000 acres and preserving 25 miles of the river.

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Culture and Nature in Balance
Kahuku Ranch, Hawaii

The Challenge: On the Big Island of Hawaii, between 2,000 feet in elevation and the summit of Mauna Loa volcano at 13,000 feet, spectacular and diverse ecosystems converge. Mesic, wet and subalpine forests, alpine desert and lava flows host many forms of life found nowhere else on Earth, including dozens of rare and endangered Hawaiian birds and plants. One of the world's largest, most active volcanoes and a prime location for volcano research, Mauna Loa is also a rich archaeological site, with ancient trails, religious features, home sites and other links to a Hawaiian culture dating back more than 700 years.

These diverse resources face a variety of threats, from feral animals and invasive, non-native plants to development and subdivision. They also have attracted the interest of a diverse group of supporters, from conservationists and scientists to local Hawaiian communities looking to preserve links to their cultural heritage. Protecting land and water while allowing access to the site for human use will require cooperation among many entities and a flexible long-term conservation strategy.

How We're Making a Difference: To protect Mauna Loa's natural habitat and historic value, the Conservancy partnered with the National Park Service to acquire the 116,000-acre Kahuku Ranch so that it could be added to Hawaii Volcanoes National Park. The acquisition, the largest private conservation purchase in Hawaii history, links conservation land owned by federal, state and private agencies to create 500,000 contiguous acres of protected habitat, expanding the land area of Hawaii Volcanoes National Park by nearly 50 percent. The Conservancy's 8,000-acre Kona Hema Preserve is part of this protected territory.

Kahuku Ranch, a sprawling natural wonder of lava flows, koa-`ohi`a forests, ancient Hawaiian archaeological sites and pasture lands, was purchased from a private estate in July 2003 for $22 million. Adding to federal funds previously secured by Hawaii's congressional delegation, Congress appropriated $8.5 million toward the purchase in 2003, and the National Park Service reallocated $2 million from other projects. Federal support for the acquisition now totals $18 million. The Conservancy provided bridge funding to cover the remainder of the price. Once Congress appropriates the final $4 million, the Conservancy will be reimbursed and ownership of the property will be transferred entirely to the National Park Service. Placing the ranch within the park will help the Park Service manage threats to the land's conservation, scientific and cultural value and deliver lasting results.

Ensuring Permanent Protection
Isla Espiritu Santo, Mexico

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The Challenge: Nine hundred islands dot the Sea of Cortez, the waterway between Baja California and Mexico's mainland. The second most diverse marine body in the world and one of Mexico's most important natural areas, the sea is home to 700 fish species and 31 species of whales and dolphins—one-third of the world's total. It also serves as a breeding ground for sea lions and marine turtles and a migration corridor for 210 bird species. Because of the area's unique biodiversity, The Nature Conservancy designated one island archipelago in the cluster, the 23,000-acre Isla Espiritu Santo complex, a global conservation priority.

In 1978, the Mexican government declared all the Sea of Cortez islands protected areas. However, 12 important islands—including Isla Espiritu Santo—are not under federal ownership, making permanent conservation difficult to ensure.

How We're Making a Difference: Applying science to the protection of the area's rich biodiversity, Mexican and U.S. conservation groups, including the Conservancy, have donated more than $3 million to help the Mexican government acquire Isla Espiritu Santo. Partners include Fundación Mexicana para la Educación Ambiental A.C. (fundea) and the World Wildlife Fund, as well as private and corporate foundations.

The groundbreaking agreement to transfer ownership of the island complex from a local community took three years of negotiations and represents the first time private owners have donated land to the Mexican government to protect critical habitat. The Conservancy will continue to work with local conservation partner FUNDEA and others to ensure permanent protection of 10 other biologically critical islands scattered throughout the Sea of Cortez.

The purchase of Isla Espiritu Santo builds on work the Conservancy has done in the Sea of Cortez since 1998. With partners in Mexico, we have provided technical and financial support for the management and stewardship of various islands in the region, including patrolling and monitoring, tourism management, training of park staff, outreach and education and aquaculture projects with fishermen.

Preserving the Mythic
Blackfoot River, Montana

The Challenge: The book and movie "A River Runs Through It" introduced the world to a place that has long been the soul and pride of Montana: the Blackfoot River Valley. One of the state's most intact landscapes, the valley and the mountains surrounding it support grizzly bear, gray wolf, Canada lynx, elk, bull trout and more than 230 bird species.

As vital and inspiring as the legendary river and the wild country that adjoins it is the human community that inhabits the area. While nearby places become increasingly urban, the Blackfoot River Valley retains its traditional rural way of life, relying on ranching, farming and forestry.

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Local residents are concerned about the land where they live, work and raise their families and see its preservation as key to sustaining a way of life that has defined the valley for generations.

How We're Making a Difference: Because preserving both land and livelihoods requires a cooperative conservation approach, the Conservancy is joining forces with local communities and industry in a historic land deal that will protect 41,000 acres of critical forest in the Blackfoot River Valley. In partnership with The Blackfoot Challenge, a local landowner group, the Conservancy purchased the plot for $30 million from Plum Creek Timber Company. The transaction closed in early 2004.

The goal of the cooperative conservation plan, which addresses the Conservancy's ecoregional priorities, is to manage the land in its unfragmented state, preserving wildlife habitat, local land-use traditions and public access. The Conservancy maintains the option to purchase an additional 48,000 acres over the next three years, which could bring the project total to nearly 89,000 acres in the upper Blackfoot watershed—one of the largest and most complex projects in Conservancy history. To maximize community involvement, the partners expect to raise significant private and public funds toward the area's preservation. Eventually the land will be resold to conservation-minded private and public owners in the area, people who care deeply about the river and its valley.

Restoring the Natural Flow
Neversink River, New York

The Challenge: Two hours outside New York City lies an unspoiled oasis with 60 miles of rushing waters and an amazing array of wildlife. More than 30 rare species and natural communities make their home in the 435-square-mile Neversink River watershed, one of the primary headwaters for the Delaware River and the purest source of drinking water for New York City. The river contains the greatest diversity of freshwater mussels in the Delaware River Basin and an abundance of migratory fish and dragonflies, key indicators of the river's good health.

The Neversink's proximity to civilization makes it both a critical resource and a threatened habitat. Eighty percent of the river's water is diverted into New York City's water supply system. Dams and reservoirs have disturbed the river's flow and temperature, endangering fish, mussels and other aquatic species. Now, while the river remains relatively unspoiled, is the ideal time for conservation action that mobilizes modern science in the interest of long-term river preservation.

How We're Making a Difference: With a broad collection of partners—from the Army Corps of Engineers and U.S. Geological Survey to Trout Unlimited and several local townships—the Conservancy is working to restore and protect the Neversink. The river is now part of the

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Conservancy's Freshwater Initiative, which applies the best scientific methods, management tools and monitoring techniques to mitigate threats to important freshwater ecosystems.

The Conservancy is leading the effort to develop an ecologically sound model for water resource management for the Delaware River Basin. Strategies include, in 2004, removing the inoperative Cuddebackville Dam, which keeps migratory fish from their spawning grounds, and collaborating with New York City and other water resource managers and suppliers to restore natural flow patterns to the Neversink, as well as the other regulated rivers of the Delaware River Basin. Other efforts include restoring imperiled habitats, encouraging compatible economic development and working with local communities to use conservation science to change land-use and development patterns.

Swapping Debt for Nature
Chagres River Basin, Panama

The Challenge: Each day, some 36 ships travel through the Panama Canal. To float through the locks, each ship requires approximately 52 million gallons of fresh water, most of which come from the steep upland tropical rain forests of the Panama Canal Watershed. This vital water source includes Panama's Upper Chagres region, a half-million-acre area beginning just north of Panama City and home to the indigenous Embera people and communities of local farmers.

Containing four of the six main rivers that feed the Panama Canal and provide drinking water for two nearby cities, the Upper Chagres region also encompasses 500,000-acre Chagres National Park. There, diverse species of flora and fauna abound, reflecting Panama's unique ecological niche as a land bridge between North and South America. However, increasing demands on the watershed from agriculture, industry, cattle ranches and urban development threaten the unique creatures that call Chagres home—capybara, jaguar, mantled howler monkey and 560 species of birds—as well as the wildlife that Panama shares with countries to the north and south.

How We're Making a Difference: To preserve the Chagres River Basin as a source of fresh water and a healthy tropical forest habitat, The Nature Conservancy is using an innovative conservation strategy known as a debt-for-nature swap under the U.S. Tropical Forest Conservation Act. In these transactions, the U.S. government forgives part of a developing country's hard-currency debt; in exchange, the country pays an equal or greater amount to in-country forest conservation.

With a $1.1 million contribution of funds raised privately by Conservancy chapters, the U.S. government forgave $10 million of Panama's debt. In exchange, the government of Panama will fund conservation in the Chagres River Basin in the amount of $10 million over the next 14 years. Funds will focus on the protection of Chagres National Park and watershed and establish a $10 million endowment for the area.

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The Chagres basin has been a Conservancy project for several years. With Panamanian partners, the Conservancy created the $25 million Ecological Trust Fund of Panama (FIDECO). Income from the fund finances Panama Park Service activities and provides small grants to nongovernment conservation groups.

Preserving Migratory Bird Habitat
The Migratory Bird Program, North America

The Challenge: Migratory birds travel huge distances each year as they complete the phases of their life cycle. Nearly 7 billion birds make the annual journey from their winter homes in the grasslands, deserts and forests of Latin America to their nesting grounds in the prairies, boreal forests, wetlands, shores and estuaries of the United States and Canada.

Because this network of habitats and sites transcends geographical and political boundaries defined by humans, protecting migratory birds presents a challenge to conservationists. Ensuring the survival of these long-distance travelers requires the protection and restoration of habitat in multiple locations, many of which face the pressures of urban development, destructive agricultural practices, resource extraction and invasive species. Addressing the conservation needs of North American migra-tory birds calls for a cooperative, science-based strategy that spans 10 ecoregions across the Great Plains of Canada, the United States and Mexico and promotes collaboration across political borders.

How We're Making a Difference: In response to the threats faced by preci-pitously declining bird populations—including the mountain plover, lesser prairie chicken and burrowing owl—The Nature Conservancy's Migratory Bird Program created Prairie Wings, the organization's first truly range-wide migratory bird project.

Prairie Wings has made great strides in building partnerships, raising awareness, initiating research and monitoring, conducting state-of-the-art multi-ecoregional planning and supporting on-the-ground conservation from southern Canada through the plains states of the United States to central Mexico. To date, the program has protected more than 100,000 acres of critical habitat. As the Conservancy intensifies its focus on global grasslands over the next 10 years, Prairie Wings offers a model for the design and implementation of conservation solutions that span both migratory ranges and ecosystems.

Ensuring Long-term Success
New Conservation Measures and Audit

The Challenge: As the conservation movement has grown and evolved, people are increasingly asking questions about its impact: How will we know we're really protecting the things we say

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we will? And how will we know our results last? The complexity of conservation solutions and the long time frame required to see results have made answering these questions difficult. No major conservation organization has reliable methods or measures in places to assess the impact of its practices comprehensively—or to predict with confidence that its results will make a significant difference over time.

How We're Making a Difference: Over the past two years, a Conservancy team has been developing and testing tools to determine whether the Conservancy is achieving its goals, whether its results can be verified and how to report these results with credibility. Using the Cosumnes River Project in California and the Komodo National Park Project in Indonesia as case studies, the team discovered that many indicators of long-term conservation impact could be monitored, reported and fed into decision-making processes for future action.

The team's work has generated a universal set of tools to measure and audit conservation results at virtually any project. Starting in 2004, our new Conservation Measures and Audit Group will use these tools to track biodiversity status, monitor the effectiveness of particular conservation actions and emphasize learning and accountability across Conservancy projects.

To increase learning and collaboration within the conservation movement, the Conservancy has joined with the World Wildlife Fund, Wildlife Conservation Society, Conservation International, African Wildlife Foundation and others to form the Conservation Measures Partnership. This effort is coordinated by Foundations of Success, a nonprofit organization that helps conservation groups measure success. Working together, we hope to establish a common framework for auditing our work, much like the generally accepted accounting principles that publicly traded companies use to report their results. These measures will enable us to assess, learn from and report the results of ongoing projects and plan future conservation efforts more effectively.

Restoring American Prairie
Glacial Ridge Preserve, Minnesota

The Challenge: The Red River Valley in northwestern Minnesota was once a lush prairie. But as settlers claimed the land—extracting gravel, growing crops, grazing sheep and cattle—the prairies diminished. Today less than 1 percent of an estimated 15 million acres of tallgrass still exists, sustaining a remarkable abundance of life, from moose to butterflies.

Here, the remaining prairie offers an unequaled opportunity to conserve and restore a unique landscape while improving water quality for nearby towns and reducing flooding in the Red River Valley. However, moving forward with a workable conservation plan is a complex process that requires balancing diverse interests and negotiating toward shared goals.

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How We're Making a Difference: In 2000, the Conservancy purchased 24,132 acres in northwestern Minnesota, initiating the largest prairie and wetland restoration project in U.S. history and creating a large-scale experiment for conservation partnership. Working with local entities, the Conservancy plans to restore nearly 20,000 acres of the project site to grasslands and wetlands. Within 10 years, the resulting protected area—Glacial Ridge Preserve—will become a national wildlife refuge, providing habitat for prairie-nesting birds and threatened prairie plants and animals.

Because Glacial Ridge is important to many communities—local residents, public and private landowners, government agencies, conservation organizations, scientists, recreational groups—collaboration is key to determining stewardship of the land. The Conservancy's partners include the U.S. Fish and Wildlife Service, U.S. Geological Survey, Environmental Protection Agency, the University of Minnesota in Crookston, Audubon and Ducks Unlimited.

With the Conservancy taking the lead, hands-on conservation work began in 2001. Goals include the restoration and long-term protection of more than 80 wetlands totaling 8,000 acres, and the conversion of 17,000 acres of agricultural land back into native prairie. To date, the Conservancy has replanted approximately 4,700 acres of native prairie and restored 50 wetlands. Short-term plans include leasing the unrestored property for sustainable ranching or agriculture while the Conservancy works with owners of surrounding land to develop strategies for compatible management and prairie reconstruction. Many tracts will be enrolled in a federal wetland reserve program; others will be protected from development through conservation easements. The Conservancy has already sold easements to one of its partners, the U.S. Department of Agriculture's Natural Resources Conservation Service.

Cultivating Common Interests
East Kalimantan Province, Indonesia

The Challenge: In 2002, Conservancy scientists at work in the forests of Indonesia's East Kalimantan Province made an amazing discovery: a large population of orangutans. The presence of these creatures offered vivid testimony to the amazing biodiversity, from hornbills to gibbons, sustained by Indonesia's lush but dwindling woodlands.

The forests the orangutans inhabit also serve as a critical source of income for local people who rely on the logging industry. In fact, the forests in which scientists found the orangutan colony have been awarded to timber companies for logging. Unfortunately, unsustainable logging has taken a severe toll on Indonesia's forests and wildlife. Unlawfully cut wood, including protected trees taken from national parks, accounts for two-thirds of the lumber taken annually from Indonesia. If unlawful practices continue, Indonesia's forests will be devastated.

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How We're Making a Difference: This past year the Conservancy signed a joint declaration with the Indonesian government and the local ministry of forestry to conserve and manage orangutan habitat. Key to this agreement is a pledge to protect the area's ecology and promote the trade of certified, sustainably harvested wood.

To support this agreement, the Conservancy has formed a corporate/conservation partnership with The Home Depot, which donated $1 million to combat illegal logging and promote sustainable forest management over the next five years. The project began with a three-month trial of a wood-tracking system, using bar codes to identify legally harvested timber and track it from "the stump to the store." Eventually the project will be expanded to other areas.

To further encourage sustainable timber trade, The Home Depot gives preference to wood certified by the Forest Stewardship Council. The company is also researching the origins of some 50,000 wood products to halt imports from endangered ecosystems. The Home Depot's goal is to place more sustainable products on its U.S. shelves and generate greater consumer demand for them.

Community and Conservation in Harmony
Pribilof Islands, Alaska

The Challenge: At the edge of the continental shelf, where the Eastern Bering Sea meets the deeper western waters of the Aleutian Basin, lies an area so biologically rich that conservationists call it "the Galapagos of the North." Here, ocean currents from the southwest bring nutrient-laden waters to the surface near the Pribilof Islands, attracting some of the largest breeding colonies of marine birds and marine mammals in North America.

Throughout the 20th century, commercial whaling and fishing, pollution and non-native species have stressed the native wildlife of the Bering Sea and its islands, which now may be suffering the added burden of rapid climate change. Many populations of marine mammals, birds and fish have plummeted; fishing, a way of life for local people, has suffered. Preserving this fragile, threatened ecosystem is critical to the survival of the wild creatures and human communities it has sustained for generations.

How We're Making a Difference: The Conservancy is working with Pribilof Island native organizations, the World Wildlife Fund, the fishing industry and government agencies to find common ground among the diverse constituencies with an interest in protecting Bering Sea habitats and species. Together these partners will explore various marine protection strategies and make recommendations to the North Pacific Fisheries Management Council.

Such teamwork builds on the ongoing cooperation between the Conservancy and the local Pribilof Islands Stewardship Program, in which Alaska native youths disentangle fur seals from

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fishing debris, monitor shorelines, help defend against invasive species and reaffirm their role as stewards of their islands' natural heritage. These conservation partners are working to reverse the decline of the Pribilofs' vast gatherings of wildlife, including northern fur seals, whose numbers over the last 50 years have shrunk by more than half, and the area's most important nesting seabird colonies.

Local Solutions, Global Impact
Noel Kempff Mercado Climate Action Project, Bolivia

The Challenge: Northeastern Bolivia is where Sir Arthur Conan Doyle purportedly found the model for the paradise he described in "The Lost World." Here, at this intersection of five important ecosystems, jaguars and giant river otters share habitat with 620 bird species and many other rare or endangered plants and animals.

Over the years, humans have left their mark by colonizing, logging and clearing for farms and ranches. The impact of lost forests reverberates far beyond Bolivia. When trees are cut down, they release carbon dioxide, a greenhouse gas associated with climate change. Preventing deforestation reduces the amount of carbon dioxide in the atmosphere.

Threats to northeastern Bolivia have captured the attention of conservationists, local citizens, government agencies and corporations. Balancing the interests of such diverse groups over the long term will require exemplary levels of cooper-ation and an enduring commitment to the integrity of the land.

How We're Making a Difference: Public and private entities inspired by this spectacular place have formed a singular partnership that offers a model for public-private cooperation in the interest of the environment.

In 2003, Harvard University's John F. Kennedy School of Government awarded the first Roy Family Award, recognizing outstanding public-private partnerships working to protect the environment, to the Noel Kempff Mercado Climate Action Project. Together, the Conservancy, the Bolivian government, American Electric Power, PacifiCorp, BP and local conservationists and citizens are protecting 1.6 million acres in one of the world's most biologically diverse areas. The largest effort of its kind, it is expected to prevent the release of 4.5 million tons of carbon during its 30 years.

In 1997, the project used $1.6 million of its $9.6 million in initial funding to terminate logging rights on 1.6 million acres of government-owned land. With incorporation of that land into Noel Kempff Mercado National Park, the park grew from 2.2 million acres to 3.8 million acres. The project also encourages sustainable development by providing local people with alternatives to

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logging and land-clearing. Although this project will span 30 years, its impact will be felt in perpetuity through new conservation partnerships inspired by its example.

Winning Public Support
State and Local Ballot Initiatives

The Challenge: Preserving the diversity of life on Earth by protecting lands and waters will require the commitment, hard work and resources of many organizations and many individuals. In the United States, where rapid growth often threatens the quality of life by destroying natural areas and resources, the Conservancy must help develop a broad, conservation-minded constituency whose defense of a healthy environment supports work at a scale that addresses these threats.

How We're Making a Difference: Across the United States, ballot measures have become an important tool in securing funds to protect our quality of life by preserving clean water and natural places that support wildlife and enrich the human spirit. By bringing conservation issues before a broad community of voters, ballot initiatives have the potential to leverage more than $100 in public funds for every dollar raised privately, helping to finance key conservation projects, goals and priorities.

The Conservancy works with public officials and other key partners to design, launch, guide and monitor local conservation-focused ballot initiatives. Demonstrating the effectiveness of these partnerships, voters in 15 states, through statewide and local ballot campaigns, passed initiatives generating $4.35 billion for conservation in 2003—especially impressive in the face of a weakened economy.

For example, California voters passed Proposition 50, which provides $3.4 billion toward keeping water clean and protecting beaches, bays and coastline. The Conservancy helped shape the measure and helped develop and finance the campaign, particularly through voter education and outreach. Nevada voters passed an initiative yielding $200 million for water, parks and wildlife. And in Virginia, voters approved a $119 million initiative providing funds for state parks and natural area preserves.

Because state and local ballot initiatives have proven so successful in supporting large-scale conservation, the Conservancy will work with local partners in support of several initiatives in 2004 and is researching the potential for public finance campaigns in Latin America.

Sharing Our Knowledge
Parks in Peril

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The Challenge: Since the late 1980s, UNESCO and individual countries in Latin America and the Caribbean have attempted to preserve important areas of biodiversity by designating them protected places, or "parks." However, because many countries lack funds for long-term preservation, most of these places have had little or
no protection and are parks in name only, dubbed "paper parks" by conservationists.

In addition, areas set aside as protected often are inhabited by people who rely on the forest and its animals for their livelihood. Intrinsically connected to the communities that surround them, these places require experienced management that is sensitive to both human and ecological needs.

How We're Making a Difference: Twelve years ago, with support from the U.S. Agency for International Development (USAID), the Conservancy founded the Parks in Peril program, dedicated to protecting the region's biodiversity by saving its imperiled "paper parks."

The program pursues four goals. First, Parks in Peril works to establish onsite protection for high-biodiversity areas. It then aims to integrate protected areas into the economic and cultural life of the communities that surround them, educating local people about dangers to biodiversity and developing alternative livelihoods consistent with conservation. The program also works to create long-term funding mechanisms that sustain local management of protected places. Finally, areas protected by the program become living laboratories in which scientists can study the destructive forces that threaten biodiversity; their new knowledge can then influence change on a larger scale.

Today, Parks in Peril is one of USAID's most successful programs and provides financial support and scientific expertise to protect and manage more than 28 million acres of national park and other reserves in 37 sites across 15 countries in Latin America and the Caribbean. These areas are now protected from uncontrolled tourism, unsustainable forestry and conversion to agricultural land, and are managed by trained park guards—often recruited from local communities—preventing poaching, working with local inhabitants, monitoring threatened species and ensuring compliance with local regulations.

In 2001, the Conservancy and USAID launched a $30 million initiative to renew Parks in Peril and expand it to eight additional protected areas covering 40 million acres. With this funding, the program, which gained new visibility at the 2003 World Parks Congress, will also be able to train managers of hundreds of additional natural sites and to expand its network of partner organizations, greatly improving the odds for enduring protection of natural areas in the region.

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STATEMENT 11
FORM 990, PART IV LINE 54- INVESTMENTS - SECURITIES

	Beginning of Year	End of Year
Cash & Cash Equivalents	58,735,382	295,065,151
Fixed Income-Bonds	370,605,099	245,746,142
Equities	383,091,400	480,821,760
Montark, Inc.	2,600,000	2,600,000
Conservation Farms & Ranches-Merced	0	8,300,000
Indian Brook Assemblage	20,432	12,614
Mellon Trust Hedge Funds	228,778	80,167,244
Total	815,281,091	1,112,712,911

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STATEMENT 12
FORM 990, PART IV LINE 56- INVESTMENTS - OTHER

	Beginning of Year	End of Year
Real Estate Trusts (Endowments)	28,616	0
Life Income Trusts	155,847,500	171,511,281
Limited Liability Companies	426,112	120,447
Life Insurance Policy	250,000	0
P.T. Putri Naga Komodo, LLC	0	10,000
Mellon Trust Carbon Pool	0	1,239,099
Fondo Ecoempresas, S.A.	0	1,645,000
Headwaters Ranch Partnership	0	131,273
Conservation Beef Partnership	0	728,709
R&P Anderson Enterprises, LP	22,068	22,068
Total	156,574,296	175,407,877

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STATEMENT 14
FORM 990, PART IV LINE 58- OTHER ASSETS

	Beginning of Year	End of Year
Advances and Deposits	3,588,565	5,629,677
Other Assets	677,598	359,598
Total	4,266,163	5,989,275

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STATEMENT 22
FORM 990, PART VI, LINE 90a

FEDERAL FOOTNOTES

The states listed below are where TNC files charitable registrations and a copy of the 990 has to be submitted with the charitable registrations.

Alabama
Alaska
Arkansas
Arizona
California
Colorado
Connecticut
Florida
Georgia
Illinois
Kansas
Kentucky
Louisiana
Maine
Maryland
Massachusetts
Michigan
Minnesota
Mississippi
New Hampshire
New Jersey
New Mexico
New York
North Carolina
North Dakota
Ohio
Oklahoma
Oregon
Pennsylvania
Rhode Island
South Carolina
Tennessee
Utah
Virginia
Washington
West Virginia
Wisconsin

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STATEMENT 24
FORM 990 - SCHEDULE A, PART III - EXPLANATION FOR LINE 2a

Mr. Leigh H. Perkins, Jr. (TNC board member), is President and Chief Executive Officer of The Orvis Company, Inc. Orvis entered into the following transactions with The Nature Conservancy:

> Orvis paid The Nature Conservancy $59,000 for licenses to conduct two experimental ecotourist fishing trips to its acquired Palmyra Atoll property. The first trip took place from about April 5, 2003 until about April 11,2003; the second, from about May 25,2003 until about June 1,2003. The major purpose of these trips was to evaluate the long-term feasibility of conducting environmentally compatible ecotourism on Palmyra.

Mr. John P. Morgridge (TNC board member) is chairman of Cisco Systems, Inc. , which entered into the following transaction with The Nature Conservancy:

> The Nature Conservancy purchased computer equipment directly from Cisco Systems, Inc. for $8,366.

Mr. John Smith Jr.(TNC board member), retired as Chairman of the Board of General Motors Corporation in March, 2003. General Motors entered into the following two transactions with The Nature Conservancy:

> An agreement covering a five-year period (1999-2004) which provides The Nature Conservancy cash for its general purposes, as it chooses, vehicles, and other miscellaneous assets of value, in exchange for the right to publicize this relationship subject to Conservancy approval.
>
> An agreement with the Conservancy to undertake a climate change project under which the Conservancy received $10 million and General Motors may potentially receive greenhouse gas mitigation offsets.

Mr. Smith did not participate in or vote on said transactions.

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STATEMENT 16
FORM 990, PART IV LINE 64B- MORTGAGES AND OTHER NOTES PAYABLE

LENDER:	ORIGINAL AMOUNT:	BALANCE DUE:	DATE OF NOTE:	MATURITY DATE:	REPAYMENT TERMS:	INTEREST RATE:
BENNETT DORRANCE TRUST (due date amended to 6/30/06 in FY04)	10,000,000	10,000,000	07-Jul-00	01-Jul-03	BALLOON	0.00%
AR SOIL & WATER CONSERV COMM	7,780,000	6,500,142	28-Mar-02	28-Mar-07	BALLOON	2.50%
THE DAVID & LUCILLE PACKARD FOUNDATION (due date amended to 3/1/06 in FY04)	10,000,000	6,000,000	30-Nov-99	30-Nov-04	BALLOON	3.00%
BANK OF AMERICA	1,500,000	1,337,500	15-Feb-02	15-Feb-12	MONTHLY	1.54%
EXCHANGE SERVICES, INC.	1,200,000	1,200,000	01-Aug-01	01-Aug-03	BALLOON	7.50%
IDAHO POWER CO. (due date amended to 12/31/04 in FY04)	2,500,000	2,500,000	11-Feb-00	31-Dec-03	BALLOON	0.00%
ADNEE DE MOBREY HAMILTON& THE HOLLINGSHEADS	1,000,000	1,000,000	02-Jan-03	31-Jul-04	BIANNUAL	0.00%
OPEN SPACE CONSERVANCY	2,000,000	1,000,000	11-Sep-02	11-Mar-04	ANNUAL	2.50%
BANK OF AMERICA (due date amended to 1/31/05 in FY04)	16,000,000	15,000,000	18-Jul-01	18-Jul-02	BALLOON	1.87%
STUART R. JOHNSON, TRUSTEE OF HERRING CREEK FARM TRUST	1,000,000	1,000,000	20-Jul-01	19-Jul-04	BALLOON	5.12%
ROBERT N. MCCURDY	1,737,000	1,737,000	27-Dec-01	27-Dec-06	BALLOON	5.00%
THE DAVID & LUCILLE PACKARD FOUNDATION	1,000,000	1,000,000	18-Jul-02	18-Jul-05	BALLOON	3.00%
SUNTRUST	6,300,000	6,223,941	25-Mar-02	25-Mar-07	BALLOON	1.42%
THE GORDON E. & BETTY MOORE FOUNDATION	10,000,000	10,000,000	26-Sep-02	26-Sep-06	BALLOON	1.45%
MATTHEWS & PORTERS	1,000,000	1,000,000	21-Aug-02	21-Aug-04	BALLOON	4.75%
SANDY SIDE CORPORATION	800,000	800,000	12-Jun-03	01-Aug-13	BIANNUAL	0.00%
KEITH A. LEWIS	750,000	500,000	06-Nov-01	06-Nov-04	ANNUAL	7.00%
REMAINING 45 NOTES PAYABLE UNDER $500,000 EACH		6,072,203				
Total		72,870,786				

(Loans and mortgages on land held for conservation, collateralized by the land payable in monthly installments including interest ranging from 0% to 11%; final payments are due at various dates through 2024)

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STATEMENT 18
FORM 990, PART IV LINE a(4)-REVENUE RECONCILIATION

Line (4) - Other adjustments to revenue:

Merchandise inventory - cost of goods sold	788,164
Direct Fundraising expenses for special events & activities	545,739
Rental Related Expenses	926,209
R&P Anderson Partnership Revenue	(3,843)
Valuation Gain on of Tradelands	464,918
Total	2,721,187

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STATEMENT 20
FORM 990, PART V

Name and Address	Title	Time Devoted	Compensation	Contributions to employee benefit plans	Expense account and other allowances**
Michael Dennis	General Counsel	35.00	185,000	20,703	0
Rebecca Patton	Managing Dir-Pacific/Western	35.00	208,923	11,516	0
Darryl Varnado	Managing Dir-HR	35.00	208,615	14,033	0
Stephen C. Howell	Chief Financial Officer	35.00	200,850	19,949	0
Stephanie Meeks	Managing Dir-Marketing	35.00	199,231	16,919	0
Steven J. McCormick*	President & CEO	35.00	375,000	21,956	6,040
Michael Andrews	Managing Dir-Mid Americas	35.00	193,538	18,320	0
Michael Coda	Managing Dir-External Affairs	35.00	194,606	21,713	0
Audrey (Joy) Grant	Managing Dir-Atlantic	35.00	187,061	18,758	0
Jean-Louis Ecochard	Managing Dir-Info Systems	35.00	200,000	6,638	34,664
	TOTAL		2,152,824	170,505	40,704

Address for All Above
4245 N. Fairfax Drive, Arlington, VA 22203

* Mr. McCormick's compensation includes a base salary of $300,000 and additional salary of $75,000 to defray housing costs.
** Expense account and other allowances are comprised of relocation-related cost reimbursements

THE NATURE CONSERVANCY'S
BOARD OF GOVERNORS**
2002-2003

Catherine G. Abbott
Alfred R. Berkeley III
Joel E. Cohen
A.D. Correll, Jr.
Gordon Crawford
Edward E. Crutchfield
Edward N. Dayton
Carol E. Dinkins, Vice Chair
E. Linn Draper, Jr.
John W. Fitzpatrick
Christopher H. Forman, Jr.
Anthony P. Grassi, Chair
Harry Groome
John S. Hendricks
William L. Horton
Frances C. James
Philip J. James, Vice Chair
Glenn C. Janss
Yolanda Kakabadse N.
John C. Malone
Steven J. McCormick, President and CEO
Meredith Meiling
Roger Milliken, Jr.
John P. Morgridge, Treasurer
William W. Murdoch
Henry M. Paulson, Jr.
Leigh H. Perkins, Jr., Vice Chair
Jan V. Portman, Secretary
Joseph W. Prueher
John P. Sall
Christine M. Scott
John F. Smith, Jr.
Cameron M. Vowell
Douglas W. Walker
Jeffrey N. Watanabe
Georgia Welles
Joanne Woodward
Julie A. Wrigley
Shirley A. Young
Joy B. Zedler

**With the exception of the President and CEO no compensation, contributions, expense accounts, or other benefits were received by any members of the Board of Governors. All are part-time volunteers with a mailing address of:

The Nature Conservancy
4245 N. Fairfax Drive
Arlington, VA 22203

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STATEMENT 26A
FORM 990, PART IV - RECEIVABLE FROM OFFICERS, DIRECTORS, TRUSTEES AND KEY EMPLOYEES

A note receivable from the President and CEO in the amount of $1,550,000 was repaid in full on 4/25/03.

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STATEMENT 27
FORM 990 SCHEDULE A, PART VI-B

The Nature Conservancy is a conservation organization that acquires and protects environmentally significant land, conducts scientific research, and educates the public about the importance of conservation. In support of this mission, The Nature Conservancy devoted less than 1% of its operating budget to lobbying on legislation during fiscal year 2003.

The Nature Conservancy engaged in limited advocacy activities at the federal, state, local, and international levels. At the federal level, The Nature Conservancy attempted to influence policy in the following major issue areas: seeking increased appropriations for federal land and water management agencies (Department of Interior, Department of Agriculture, Army Corps of Engineers, National Oceanic and Atmospheric Administration, Council on Environmental Quality, Office of Management and Budget); strengthening natural resource conservation laws and policies, including the Healthy Forests Restoration Act, Climate Stewardship Act, wildlife refuge legislation, clean water legislation, invasive species legislation; and securing federal tax incentives for conservation. Also, The Nature Conservancy expressed views on policies addressing climate change, natural forest restoration and funding for international conservation programs (Neotropical Bird Conservation Act, International Environmental Securing Act, US Forest Service International program). At the state level, The Nature Conservancy through state chapters participated in advocacy activities relating to: funding for state land acquisition and stewardship programs, ballot measures to support open space conservation, state tax credits to encourage conservation activities, state trust land reform, and purchase of development rights and easement programs. At the local level, The Nature Conservancy supported regional conservation programs and several open space bond measures.

In support of these policy objectives, a small number of Nature Conservancy employees and volunteers spent time communicating directly with legislative officials and their staff and sending emails, mailings and newsletters to organizational members and members of the general public. A limited number of the hours volunteers donated to The Nature Conservancy involved attempts to influence legislation. The organization made a limited number of grants to other organizations to support specific legislative initiatives, sponsored media advertisements, and participated in lobbying events and coalition meetings.

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STATEMENT 29
FORM 990, PART VI, Line 77

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The Nature Conservancy
Description of Changes in Governance, Policies and Procedures

The mission of The Nature Conservancy is to preserve the animals, plants and natural communities representing the diversity of life on Earth by protecting the lands and waters they need to survive. This mission is pursued through a science-based planning process ("Conservation by Design"), which enables the Conservancy to identify the highest priority places that, if conserved, promise to result in meaningful and lasting conservation results.

The Conservancy has been and remains committed to carrying out this mission in accordance with the letter and spirit of all applicable laws and the highest ethical standards. In recent years, the Conservancy has grown substantially, both in absolute size and in the number and complexity of the transactions it undertakes to carry out its conservation mission. During this same period, policymakers and others have properly focused increased attention on the governance and activities of non-profit organizations, including the Conservancy.

Recognizing the need to strengthen its organizational governance and oversight, the Conservancy's Board of Governors and staff in June 2003 launched a comprehensive review of its governance processes and its specific policies and procedures for land transactions and other activities. The principal changes resulting from this review are described below. The Conservancy is continuing with its review and will announce further changes as they are made.*

Governance Structure and Processes

At the direction of the Conservancy's Board of Governors in June 2003, the Conservancy initiated a comprehensive review of its governance structure and processes. This review has resulted in four sets of changes intended to strengthen the Conservancy's ability to carry out its mission successfully while maintaining an appropriate balance between decentralized functioning (one of the Conservancy's core strengths) and centralized oversight.

1. *Restructuring of the Board of Governors*. With the assistance of an independent panel with substantial experience in governance issues, the Board of

* Many of the changes described in this memorandum have previously been approved by the Conservancy's Board of Governors. Certain of the remaining changes requiring Board ratification will be presented to the Board for approval on March 12, 2004.

Governors has been restructured to enable it to assume a more active oversight role as well as define and manage the important relationship between the Conservancy and its State chapters and their trustees. To accomplish these goals, the Board of Governors created an Executive Committee that will meet frequently and revitalized its other committees, which will be directly and actively engaged in oversight and strategic decisions. The Board committees are each chaired by a non-employee member of the Board and include the following: strategy; governance; conservation project review; audit; finance; and marketing and philanthropy.

2. *Business and Reputational Risk Committee*. The Conservancy has a broad range of specific policies and procedures, but no set of policies and procedures can identify in advance all possible instances that may present financial, legal, ethical or reputational risk to an organization such as the Conservancy as a whole. Moreover, there may be instances where established policies and procedures would prohibit the accomplishment of critical conservation goals and it occasionally may be appropriate in certain specific situations to permit critical conservation goals to be accomplished in a manner consistent with the intent and purposes of the applicable policies and procedures.

To address these issues, the Conservancy has authorized creation of a Business and Reputational Risk Committee whose activities will be modeled on the committee review process increasingly used by decentralized firms, in the financial services sector and elsewhere, for risk review. The committee will conduct advance reviews of those projects and transactions that meet its criteria for review (e.g., transactions that are new, novel or particularly complex and transactions that comply with all applicable legal requirements and Conservancy policies but nevertheless involve potentially substantial financial, legal, ethical or reputational risk to the Conservancy).

The committee's members will consist of experienced Conservancy personnel representing all relevant disciplines necessary to evaluate critically the organizational risks associated with the projects and transactions it reviews. The committee will endeavor to promote intelligent and prudent entrepreneurship by helping innovative conservation projects succeed whenever feasible. Thus, the committee will have the ability not simply to approve or disapprove a proposed project or transaction as presented, but to grant approval conditioned on restructuring the project or transaction in ways that would address organizational risks effectively and ensure full compliance with all applicable laws and relevant ethical considerations.

3. *Conflicts of Interest*. The Conservancy has long had a conflicts of interest policy intended to ensure proper advance review of transactions involving employees, directors, State trustees and other related parties. This policy has been administered by the Conservancy's law department and the review process focused primarily on the potential misuse of proprietary information and ensuring that terms of all such transactions met the arm's length standards of applicable law.

The Conservancy has adopted a strengthened conflicts of interest policy. This strengthened policy has two components. First, as discussed elsewhere in this memorandum, some transactions (such as land sales to related parties) are prohibited. Second, other transactions involving related parties are permitted only following review and approval to ensure compliance with all applicable laws and relevant ethical considerations.

The strengthened conflicts of interest policy contains a series of new procedures, including the following: (a) all transactions with major donors will now be subject to review; (b) a new interdisciplinary committee of experienced Conservancy staff will supplement law department review of all potential conflicts; (c) actual or potential conflicts involving special circumstances (e.g., those with organization-wide implications and those involving members of the Conservancy's Board of Governors) will be referred by the staff committee to the Audit Committee of the Board of Governors for decision; and (d) additional guidance will be provided to Conservancy employees to enable them to identify and evaluate potential conflict situations, and seek review on a timely basis.

4. *Sarbanes-Oxley Reforms.* Although the Sarbanes-Oxley Act generally does not apply to non-profit organizations such as the Conservancy, the Board of Governors concluded that several of the principles of governance underlying that legislation should be incorporated into the Conservancy's policies and procedures.

Specifically, the Conservancy has adopted a written *"whistleblower" policy* to ensure that any employee who wishes to report a suspected violation of law may do so without fear of retaliation. In addition, the Conservancy will publish a *code of conduct* and key managers will be required to execute an *annual certification* that they have complied with the code and other applicable Conservancy policies and procedures. The Conservancy has also strengthened its *internal audit* function. Under the supervision of the *audit committee* of the Board, the internal audit staff will expand the scope of its audit program to include land transactions; managers will be required to provide written reports on the manner in which they have implemented internal audit findings and recommendations; and procedures will be implemented to identify and take appropriate remedial action with respect to internal audit findings that have systemic implications. Finally, the Board of Governors has authorized the creation of a senior level position for a *chief compliance officer* who will have organization-wide responsibilities with respect to ongoing training of all staff and establishing systems to promote compliance with all applicable laws and the highest ethical standards.

Specific Policies and Procedures

The Conservancy's review of its specific policies and procedures governing the structure and execution of land conservation transactions and other activities and practices of the Conservancy has resulted in numerous changes, as described below.

1. *Prohibition of Purchases and Sales of Land Involving Related Parties*. Under current tax laws, transactions between organizations such as the Conservancy and related parties are permitted so long as they are structured to satisfy arm's-length standards. Nevertheless, the Conservancy has prohibited all purchases and sales of land (including interests in land, such as easements) involving related parties. For this purpose, a "related party" means any person who, within the 12 months preceding a proposed purchase or sale, was a member of the Board of Governors, a Chapter Trustee or an employee. In addition, the prohibition applies to close relatives of any such individual and entities in which the individual and/or a close relative owns more than a five percent equity interest. (Related party transactions not involving the purchase or sale of land will be subject to enhanced scrutiny under the Conservancy's strengthened conflicts of interest policy.)

2. *Special Rules for Purchases and Sales of Land Involving Major Donors*. All purchases and sales of land (including interests in land, such as easements) involving major donors will be subject to advance scrutiny under the Conservancy's strengthened conflicts of interest policy. For this purpose, a "major donor" means any individual, corporation, foundation or other entity that has made gifts or pledges of at least $100,000 (in cash or in kind) on a cumulative basis within the 5-year period preceding the proposed transaction.

3. *Special Rules for Conservation Buyer Transactions*. Conservation Buyer transactions involve the purchase of land by the Conservancy followed by the resale of the land to an individual or organization (other than a governmental entity or other non-profit organization) subject to conservation restrictions, typically in the form of a permanent easement, limiting the uses to which the land may be put and thus reducing its value. In some instances, the Conservancy may seek a contribution from the conservation buyer or a third party in order to offset its costs, including the costs of purchasing the property prior to the imposition of the conservation easement. Of the approximately 10,000 land transactions in which the Conservancy was involved in the last 10 years, 169 were Conservation Buyer transactions.

As noted previously, Conservation Buyer transactions may no longer be undertaken with related parties and, in the case of major donors, they may be undertaken only following advance review under the Conservancy's strengthened conflicts of interest policy. In the case of those Conservation Buyer transactions that are permitted, additional special rules and procedures are now applicable. Specifically:

(a) to ensure that there is a conservation benefit to the public, the land must fall within a priority conservation site established by Conservancy scientists (which frequently involves consultation with appropriate governmental entities and others); and the terms of the easement (and the plan to monitor compliance with those terms) must be structured to achieve the desired conservation result on a permanent basis;

(b) to provide an open and equitable purchase opportunity to all potentially interested parties, the land must be offered in a manner that allows for broad exposure and fair competition among interested buyers;

(c) to ensure that the Conservancy receives fair value for the land, the Conservancy must obtain its own independent appraisal documenting the value of the property both before and after the imposition of the conservation easement;

(d) to ensure compliance with all applicable tax law requirements, all associated gifts to the Conservancy must be explicitly documented as a legally enforceable element of the Conservation Buyer transaction and the transaction must be structured in a manner that will not relieve the buyer from responsibility for substantiating the value of the gift; and

(e) to ensure that such projects are consistent with local community standards, the Conservancy will obtain community input regarding the future uses of the land.

4. *Special Rules for Gifts of Land by Related Parties and Major Donors.* Gifts of land (including interests in land such as easements), may be accepted by the Conservancy from related parties and major donors, but only if the Conservancy receives a written certification from the appraiser retained by the related party or major donor to value the gift for tax purposes. The appraiser must certify that he/she is aware of the relationship between the related party or major donor and the Conservancy and that the relationship did not influence the appraiser's conclusion as to value. The certification must also state that the appraisal satisfies all requirements for a "qualified appraisal" issued by the Internal Revenue Service. In addition, all such transactions would be subject to advance scrutiny under the Conservancy's strengthened conflicts of interest policy.

5. *Special Rules for Conservation Easements.* Conservation easements (including those imposed as part of a Conservation Buyer transaction) are now subject to strengthened procedures requiring, among other things (a) that prospective donors be informed of the Conservancy's general policies and practices to ensure a clear understanding of mutual expectations and obligations with respect to the easement; (b) standardized decision-making on the appropriate location, terms and conditions of easements; and (c) consistent monitoring and enforcement by the Conservancy of the terms of the conservation easements to which it is a party. In addition, proposed modification to easements involving related parties or major donors will be subject to advance review and approval under the strengthened conflicts of interest procedures and, as appropriate, by the Business and Reputational Risk Committee. Finally, the Conservancy will not participate in transactions which do not conform to these special

rules (including the rules discussed below governing execution of IRS Form 8283) or which are otherwise suspect or unreasonable.

6. *Special Rules for Valuation of Gifts of Land and Easements.* All gifts of land and conservation easements (including those imposed as part of a Conservation Buyer transaction) are subject to strengthened policies governing tax valuations and the execution by the Conservancy of IRS Form 8283 (required under IRS regulations in order to acknowledge receipt of the gift of the easement by the Conservancy). Specifically, the Conservancy will execute a Form 8283 given to it by a donor only if:

(a) the Form contains all information required by applicable Internal Revenue Service procedures;

(b) the donor provides to the Conservancy a copy of the appraisal to be used by the donor to establish the tax valuations shown on the Form; and

(c) the donor provides to the Conservancy a written certification by the donor's appraiser attesting that the appraiser is (i) is State-certified, (ii) has used generally accepted appraisal standards in making the appraisal, (iii) has the requisite expertise and experience to make appraisals of conservation easements and conservation lands, (iv) is not barred from practice before the Internal Revenue Service or Treasury Department or other administrative bodies, (v) has accounted for any value enhancements to other property of the donor or parties related to the donor, (vi) if the appraisal is being made for a person who is a related party or major donor with respect to the Conservancy, the appraiser is aware of the relationship and attests that it did not influence the appraiser's valuation, and (vii) the appraisal otherwise satisfies all of the requirements for a "qualified appraisal" issued by the Internal Revenue Service.

7. *Conservation Land Sales to Governments.* The Conservancy has long had a "no net profit" policy for transfers of land or interests in land to governmental agencies for conservation purposes. This policy is intended to ensure that the Conservancy only recovers its costs upon such a transfer. Recovery of such costs is of course limited by the fact that governmental agencies may only pay fair value for the property. The strengthened policy provides more detailed rules governing the calculation of direct and indirect recoverable costs, as well as special rules governing partial sales, aggregate sales and multiple sales.

8. *Compatible Human Uses.* The Conservancy has long recognized that people are an integral part of the landscape and that a reasonable amount of human use of conservation lands must be allowed. To ensure that such uses on property owned by the Conservancy are compatible with basic conservation objectives, the Conservancy has taken the following steps:

(a) to improve its decision-making, the Conservancy will initiate, in cooperation with the United States Fish and Wildlife Service, a review of scientific studies and other literature related to compatible human use;

(b) to improve its understanding of risks and inform future decisions, the Conservancy will conduct a broad survey, based on recommendations of independent scientists, of existing uses of the Conservancy's preserves; and

(c) innovative, large scale, or untested proposed human uses will be subject to advance review by the Business and Reputational Risk Committee.

In addition, in June 2003, the Conservancy's Board of Governors adopted a policy prohibiting any new oil, gas or hard rock mineral activities on the Conservancy preserves except where required by pre-existing contracts.

9. *Legislative Advocacy*. To accomplish its conservation objectives, the Conservancy often takes positions on bond referenda and other public policy issues. The Board of Governors has clarified that the Conservancy will take public positions regarding U.S. federal, State, local or international legislation, adjudicatory or rule-making proceedings, or other policy matters only if:

(a) there is a substantial and direct impact on the Conservancy's ability to accomplish its mission; and

(b) the Conservancy's participation is essential to achieve the desired outcome of the matter in question.

To ensure continued compliance with the tax law requirement that "no substantial part" of its activities consists of attempts to influence legislation (as defined), the Conservancy has strengthened its policies to provide increased training to its employees.

10. *Loans to Employees and other Related Parties*. The Board of Governors has adopted a policy prohibiting loans of Conservancy funds to any employee or member of the Board of Governors. Eligible employees may be provided with an equity advance by an independent relocation vendor if they close on a new residence prior to selling their former residence where the new residence is acquired due to a relocation by an existing employee.

11. *Cause-Related Marketing*. The Board of Governors has adopted a policy under which all new uses of the Conservancy's name and logo by third parties must be approved by the President of the Conservancy. This responsibility cannot be delegated.

12. *Related Entities*. The Board of Governors has adopted a policy with respect to the formation and operation of related entities to ensure that their activities are consistent with the Conservancy's goals and objectives and that related risks are identified and appropriately managed.

NOV 23 2004

Form **990-T**

Department of the Treasury
Internal Revenue Service

Exempt Organization Business Income Tax Return
(and proxy tax under section 6033(e))

For calendar year 2002 or other tax year beginning 7/1/2002, and ending 6/30/2003
See separate instructions.

OMB No. 1545-0687

2002

A [ ] Check box if address changed

B Exempt under section
[X] 501(c3)
[ ] 408(e) 220(e)
[ ] 408A 530(a)
[ ] 529(a)

C Book value of all asset end of year 3,739,058,217

Please Print or Type

Name of organization ([ ] check box if name changed and see instr.)
The Nature Conservancy

Number, street, and room or suite no. (If a P.O. box, see page 7 of instructions.)
4245 North Fairfax Drive, Suite 100

City or town: Arlington | State: VA | ZIP code: 22203-1606

D Employer identification number (Employees' trust, see instructions for Block D on page 7.)
53-0242652

E NEW unrelated business activity codes (See instructions for Block E on page 7.)
531120,511120

F Group exemption number (see instructions for Block F on page 7)

G Check organization type [X] 501(c) corporation [ ] 501(c) trust [ ] 401(a) trust [ ] Other trust

H Describe the organization's primary unrelated business activity. Partial rental of 2 office buildings & advertising

I During the tax year, was the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group? [ ] Yes [X] No
If "Yes," enter the name and identifying number of the parent corporation.

J The books are in care of Telephone number

Part I

			(A) Income	(B) Expenses	(C) Net
1 a	Gross receipts or sales				
b	Less returns and allowances c Balance	1c	0		
2	Cost of goods sold (Schedule A, line 7)	2	0		
3	Gross profit (subtract line 2 from line 1c)	3	0		0
4 a	Capital gain net income (attach Schedule D)	4a	1,285		1,285
b	Net gain (loss) (Form 4797, Part II, line 18) (attach Form 4797)	4b	0		0
c	Capital loss deduction for trusts	4c	0		0
5	Income (loss) from partnerships and S corporations (Stmt 2)	5	-60,937		-60,937
6	Rent income (Schedule C)	6	0	0	0
7	Unrelated debt-financed income (Schedule E)	7	1,112,870	840,323	272,547
8	Interest, annuities, royalties, and rents from controlled organizations (Schedule F)	8	0	0	0
9	Investment income of a section 501(c)(7), (9), or (17) organization (Schedule G)	9	0	0	0
10	Exploited exempt activity income (Schedule I)	10	0	0	0
11	Advertising income (Schedule J)	11	212,526	76,581	135,945
12	Other income (see page 9 of the instructions - attach schedule)	12			0
13	TOTAL (combine lines 3 through 12)	13	1,265,744	916,904	348,840

Part II (See page 9 of the instructions for limitations on deductions.)

14	Compensation of officers, directors, and trustees (Schedule K)			14	0
15	Salaries and wages			15	
16	Repairs and maintenance			16	
17	Bad debts			17	
18	Interest (attach schedule)			18	
19	Taxes and licenses			19	12,714
20	Charitable contributions (see page 11 of the instructions for limitation rules)			20	
21	Depreciation (attach Form 4562)	21	0		
22	Less depreciation claimed on Schedule A and elsewhere on return	22a		22b	0
23	Depletion			23	
24	Contributions to deferred compensation plans			24	
25	Employee benefit programs			25	
26	Excess exempt expenses (Schedule I)			26	0
27	Excess readership costs (Schedule J)			27	135,945
28	Other deductions (attach schedule)			28	0
29	TOTAL DEDUCTIONS (add lines 14 through 28)			29	148,659
30	Unrelated business taxable income before net operating loss deduction (subtract line 29 from line 13)			30	200,181
31	Net operating loss deduction			31	
32	Unrelated business taxable income before specific deduction (subtract line 31 from line 30)			32	200,181
33	Specific deduction (Generally $1,000, but see line 33 instructions for exceptions)			33	1,000
34	UNRELATED BUSINESS TAXABLE INCOME (subtract line 33 from line 32). If line 33 is greater than line 32, enter the smaller of zero or line 32			34	199,181

(HTA) **For Paperwork Reduction Act Notice, see instructions.** Form **990-T** (2002)

Part III Tax Computation

35	ORGANIZATIONS TAXABLE AS CORPORATIONS (see instructions for tax computation on page 12). Controlled group members (sections 1561 and 1563) - check here [X]. SEE INSTRUCTIONS and:		
a	Enter your share of the $50,000, $25,000, and $9,925,000 taxable income brackets (in that order): (1) $ 50,000 (2) $ 25,000 (3) $ 9,925,000		
b	Enter organization's share of: (1) additional 5% tax (not more than $11,750) $ 0		
	(2) additional 3% tax (not more than $100,000) $ 0		
c	Income tax on the amount on line 34	35c	55,972
36	TRUSTS TAXABLE AT TRUST RATES (see instructions for tax computation on page 13) Income tax on the amount on line 34 from: [ ] Tax rate schedule or [ ] or Schedule D (Form 1041)	36	0
37	PROXY TAX (see page 13 of the instructions)	37	
38	Alternative minimum tax	38	
39	TOTAL (add lines 37 and 38 to line 35c or 36, whichever applies)	39	55,972

Part IV Tax and Payments

40 a	Foreign tax credit (corporations attach Form 1118; trusts attach Form 1116)	40a	0		
b	Other credits (see page 13 of the instructions)	40b			
c	General business credit - Check here and indicate which forms are attached: [ ] Form 3800 [ ] Form(s)(specify)	40c	0		
d	Credit for prior year minimum tax (attach Form 8801 or 8827)	40d	0		
e	TOTAL CREDITS (add lines 40a through 40d)			40e	0
41	Subtract line 40e from line 39			41	55,972
42	Other taxes. Check if from: [ ] Form 4255 [ ] Form 8611 [ ] Form 8697 [ ] Form 8866 [ ] Other (attach sch.)			42	0
43	TOTAL TAX (add lines 41 and 42)			43	55,972
44	PAYMENTS: a 2001 overpayment credited to 2002	44a			
b	2002 estimated tax payments	44b	105,000		
c	Tax deposited with Form 8868	44c	9,600		
d	Foreign organizations - Tax paid or withheld at source (see instructions)	44d			
e	Backup withholding (see instructions)	44e			
f	Other credits and payments (see instructions)	44f	0		
45	TOTAL PAYMENTS (add lines 44a through 44f)			45	114,600
46	Estimated tax penalty (see page 4 of the instructions). Check [ ] if Form 2220 is attached			46	0
47	TAX DUE - If line 45 is less than the total of lines 43 and 46, enter amount owed			47	0
48	OVERPAYMENT - If line 45 is larger than the total of lines 43 and 46, enter amount overpaid			48	58,628
49	Enter the amount of line 48 you want: Credited to 2003 estimated tax 0 Refunded			49	58,628

Part V Statements Regarding Certain Activities and Other Information (See instructions on page 15.)

		Yes	No
1	At any time during the 2002 calendar year, did the organization have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? If "Yes," the organization may have to file Form TD F 90-22.1. If "Yes," enter the name of the foreign country here See Stmt 1	X	
2	During the tax year, did the organization receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," see page 15 of the instructions for other forms the organization may have to file.		X
3	Enter the amount of tax-exempt interest received or accrued during the tax year $ 0		

Schedule A - Cost of Goods Sold (See instructions on page 16.)

Method of inventory valuation (specify)

1	Inventory at beginning of year	1		6	Inventory at end of year	6	
2	Purchases	2		7	COST OF GOODS SOLD. Subtract line 6 from line 5. (Enter here and on line 2, Part I.)	7	0
3	Cost of labor	3					
4 a	Additional section 263A costs (attach schedule)	4a		8	Do the rules of section 263A (with respect to property produced or acquired for resale) apply to the organization?	Yes	No
b	Other costs (attach schedule)	4b					
5	TOTAL - Add lines 1 through 4b	5	0				

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer | Date 5/17/04 | Title CFO

May the IRS discuss this return with the preparer shown below (see instructions)? [✓] Yes [ ] No

Paid Preparer's Use Only

Preparer's signature	[signature]	Date 5/13/04	Check if self-employed [ ]	Preparer's SSN or PTIN 229-17-7556
Firm's name (or yours if self-employed), address, and ZIP code	PricewaterhouseCoopers LLP, 1301 K Street NW, Ste 800W; Washington, DC 20005	EIN 13-4008324	Phone no. (202)414-1000	

Schedule C - Rent Income (From Real Property and Personal Property Leased With Real Property)

(See instructions on page 16.)

1 Description of property N/A

(1)
(2)
(3)
(4)

	2 Rent received or accrued		3 Deductions directly connected with the income in columns 2(a) and 2(b) (attach sch.)
	(a) From personal property (if the percentage of rent for personal property is more than 10% but not more than 50%)	(b) From real and personal property (if the percentage of rent for personal property exceeds 50% or if the rent is based on profit or income)	
(1)			
(2)			
(3)			
(4)			
Total	0	Total 0	TOTAL DEDUCTIONS. Enter here and on line 6, column (B), Part I, page 1 . . 0

TOTAL INCOME (Add totals of columns 2(a) and 2(b). Enter here and on line 6, column (A), Part I, page 1.) 0

Schedule E - Unrelated Debt-Financed Income (See instructions on page 17.)

	1 Description of debt-financed property	2 Gross income from or allocable to debt-financed property	3 Deductions directly connected with or allocable to debt-financed property (a) Straight line depreciation (Stmt 3)	(b) Other deductions (Stmt 4)
(1)	Building @4245 N. Fairfax Dr-Arlington,VA	1,236,522	158,679	775,013
(2)				
(3)				
(4)				

	4 Amount of average acquisition debt on or allocable to debt-financed property (Stmt 5)	5 Average adjusted basis of or allocable to debt-financed property (Stmt 6)	6 Column 4 divided by column 5	7 Gross income reportable (col. 2 x col. 6)	8 Allocable deductions (column 6 x total of columns 3(a) and 3(b))
(1)	5,648,790	6,255,632	90%	1,112,870	840,323
(2)			%	0	0
(3)			%	0	0
(4)			%	0	0
				Enter here and on line 7, col. (A), Part I, page 1.	Enter here and on line 7, col. (B), Part I, page 1.
Totals				1,112,870	840,323

TOTAL DIVIDENDS - RECEIVED DEDUCTIONS included in column 8 . . . . . .

Schedule F - Interest, Annuities, Royalties, and Rents From Controlled Organizations (See instructions on page 18.)

Exempt Controlled Organizations

1 Name of Controlled Organization	2 Employer Identification Number	3 Net unrelated income (loss) (see instructions)	4 Total of specified payments made	5 Part of column (4) that is included in the controlling organization's gross income	6 Deductions directly connected with income in col (5)
(1)					
(2)					
(3)					
(4)					

Nonexempt Controlled Organizations

7 Taxable Income	8 Net unrelated income (loss) (see instructions)	9 Total of specified payments made	10 Part of column (9) that is included in the controlling organization's gross income	11 Deductions directly connected with income in column (10)
(1)				
(2)				
(3)				
(4)				
			Add columns 5 and 10. Enter here and on line 8, Column (A), Part I, page 1.	Add columns 6 and 11. Enter here and on line 8, Column (B), Part I, page 1.
12 Totals			0	0

Schedule G - Investment Income of a Section 501(c)(7), (9), or (17) Organization

(See instructions on page 18.)

1 Description of income	2 Amount of income	3 Deductions directly connected (attach schedule)	4 Set-aside (attach schedule)	5 Total deductions and set-asides (col. 3 plus col. 4)
(1)				0
(2)				0
(3)				0
(4)				0
Totals	Enter here and on line 9, column (A), Part I, page 1. 0			Enter here and on line 9, column (B), Part I, page 1. 0

Schedule I - Exploited Exempt Activity Income, Other Than Advertising Income

(See instructions on page 18.)

1 Description of exploited activity	2 Gross unrelated business income from trade or business	3 Expenses directly connected with production of unrelated business income	4 Net income (loss) from unrelated trade or business (column 2 minus column 3). If a gain, compute cols. 5 through 7.	5 Gross income from activity that is not unrelated business income	6 Expenses attributable to column 5	7 Excess exempt expenses (column 6 minus column 5, but not more than column 4).
(1)			0			0
(2)			0			0
(3)			0			0
(4)			0			0
Column totals	Enter here and on line 10, col. (A), Part I, pg. 1. 0	Enter here and on line 10, col. (B), Part I, pg. 1. 0				Enter here and on line 26, Part II, page 1. 0

Schedule J - Advertising Income (See instructions on page 19.)

Part I Income From Periodicals Reported on a Consolidated Basis

1 Name of periodical	2 Gross advertising income	3 Direct advertising costs	4 Advertising gain or (loss) (col. 2 minus col. 3). If a gain, compute cols. 5 through 7.	5 Circulation income	6 Readership costs	7 Excess readership costs (column 6 minus column 5, but not more than column 4).
(1) The Nature Conservancy Magaz	212,526	76,581		1,821,198	3,127,706	
(2)						
(3)						
(4)						
COLUMN TOTALS (carry to Part II, line (5))	212,526	76,581	135,945	1,821,198	3,127,706	135,945

Part II Income From Periodicals Reported on a Separate Basis (For each periodical listed in Part II, fill in columns 2 through 7 on a line-by-line basis.)

(1)						
(2)						
(3)						
(4)						
(5) Totals from Part I	212,526	76,581				135,945
COLUMN TOTALS, Part II	Enter here and on line 11, col. (A), Part I, pg. 1. 212,526	Enter here and on line 11, col. (B), Part I, pg. 1. 76,581				Enter here and on line 27, Part II, page 1. 135,945

Schedule K - Compensation of Officers, Directors, and Trustees (See instructions on page 19.)

1 Name	2 Title	3 Percent of time devoted to business	4 Compensation attributable to unrelated business
TOTAL - Enter here and on line 14, Part II, page 1			0

SCHEDULE D
(Form 1120)

Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

Attach to Form 1120, 1120-A, 1120-F, 1120-FSC, 1120-H, 1120-IC-DISC, 1120-L, 1120-ND, 1120-PC, 1120-POL, 1120-REIT, 1120-RIC, 1120-SF, 990-C, or certain Forms 990-T.

OMB No. 1545-0123

2002

Name: Nature Conservancy

Employer identification number: 53-0242652

Part I Short-Term Capital Gains and Losses - Assets Held One Year or Less

(a) Description of property (Example: 100 shares of Z Co.)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) GAIN OR (LOSS) (Subtract (e) from (d))
1 Pass through from R&P Anderson Enterprises					519

2	Short-term capital gain from installment sales from Form 6252, line 26 or 37	2	0
3	Short-term gain or (loss) from like-kind exchanges from Form 8824	3	0
4	Unused capital loss carryover (attach computation)	4	
5	Net short-term capital gain or (loss). Combine lines 1 through 4	5	519

Part II Long-Term Capital Gains and Losses - Assets Held More Than One Year

(a) Description of property	(b) Date acquired	(c) Date sold	(d) Sales price	(e) Cost or basis	(f) Gain or (loss)
6 Pass through from R&P Anderson Enterprises					766

7	Enter gain from Form 4797, column (g), line 7 or 9	7	0
8	Long-term capital gain from installment sales from Form 6252, line 26 or 37	8	0
9	Long-term gain or (loss) from like-kind exchanges from Form 8824	9	0
10	Capital gain distributions (see instructions)	10	
11	Net long-term capital gain or (loss). Combine lines 6 through 10	11	766

Part III Summary of Parts I and II

12	Enter excess of net short-term capital gain (line 5) over net long-term capital loss (line 11)	12	519
13	Net capital gain. Enter excess of net long-term capital gain (line 11) over net short-term capital loss (line 5)	13	766
14	Add lines 12 and 13. Enter here and on Form 1120, page 1, line 8, or the proper line on other returns	14	1,285

Note: *If losses exceed gains, see CAPITAL LOSSES in the instructions on page 2.*

(HTA) For Paperwork Reduction Act Notice, see the Instructions for Forms 1120 and 1120-A.

Schedule D (Form 1120) 2002

THE NATURE CONSERVANCY
990-T TAX RETURN
ADDITIONAL STATEMENTS
FY03

53-0242652

STATEMENT 2
FORM 990-T, Line 5
Income (loss) from partnerships and S corporations

Description	Soldier Creek Preserve, Inc.	R&P Anderson Enterprises-Limited Partnership
Ordinary Income (loss) from trade or business activities	(85,886)	7
Ordinary Income (loss) from rental real estate activities	19,127	
Interest Income	5,815	
Total	(60,944)	7

THE NATURE CONSERVANCY
990-T TAX RETURN
ADDITIONAL STATEMENTS
FY03

53-0242652

STATEMENT 4
FORM 990-T,SCHEDULE E - 3(B)

Expenses	Arlington VA HO Bldg	HO Bldg
Management Co expenses:	1,454,308	
Direct allocable management expenses	0	
Bond int expenses (both):	2,236,118	
Bond sweep fees (both):	114	
Total expenses	3,690,540	
Allocable Total based on rentable space	@21%	775,013

THE NATURE CONSERVANCY
990-T TAX RETURN
ADDITIONAL STATEMENTS
FY03

53-0242652

STATEMENT 6
FORM 990-T,SCHEDULE E - 5

	HO Bldg-Arlington, VA Average Basis July-02 to June-03
Land for Ops	3,932,805
Land Improvements	125,019
Construction in Progress	0
Building	25,730,901
Total	29,788,725
Allocable Total based on rentable space:	**6,255,632**

The Nature Conservancy
EIN: 53-0242652
For Tax Year Ended: June 30, 1993 Statement 20

Form 990, Part III - Statement of Program Service Accomplishments

Description	Grants & Allocations	Expenses
Biological Information Management Expenditures related to developing and enhancing the Conservancy's ability to gather information about, and assess and evaluate threats and stresses to plants, animals, and ecological systems and communities.		$11,196,138
Conservation Planning & Implementation Expenditures related to formulating and implementing protection plans and strategies to mitigate, prevent, or slow the identified threats and stresses to plants, animals, and ecological systems and communities through land and water protection actions.		$119,789,718
Stewardship, Conservation Science and Biological Management Expenditures related to understanding, monitoring, maintaining, restoring, and managing natural diversity on areas owned by the Conservancy and others.		$ 20,221,597
Communications and Outreach Expenditures related to Introducing, educating, and informing members and the public at large about the mission of the Conservancy and the issues, progress, and performance it has made in reaching its strategic objectives.		$ 10,132,541
Training and Support of Conservation Partners Expenditures related to the enhancing of the Conservancy's ability to achieve its mission through investments in the institutional development of non-governmental conservation partners. This is exemplified through work with international partner organizations.		$ 11,995,862

The Nature Conservancy
EIN: 53-0242652
For Tax Year Ended: June 30, 1993

Form 990, Part III - Statement of Program Service Accomplishments

Description	Grants Allocations	Expenses
Government and Multilateral Programs Expenditures related to developing and implementing conservation programs in co-operation with domestic and international government offices and agencies.		$ 4,341,360
TOTAL		$177,677,216

STATEMENT 20 PAGE 2/2

THE NATURE CONSERVANCY
EIN: 53-0242652
For Tax Year Ended: June 30, 1994

Statement 7

Form 990, Part III-Statement of Program Service Accomplishments

Description	Grants & Allocations	Expenses
Biological Information Management Expenditures related to developing and enhancing the Conservancy's ability to gather information about, and assesss and evaluate stresses to plants, animals, and ecological systems and communities.		13,946,000
Conservation Planning and Implementation Expenditures related to formulating and implementing protection plans and strategies to mitigate, prevent or slow the identified threats and stresses to plants, animals and ecological systems and communities through land and water protection actions.		116,060,153
Stewardship, Conservation, Science and Biological Management Expenditures related to understanding, monitoring, maintaining, restoring and managing natural diversity on areas owned by the Conservancy and others.		23,975,000
Communications and Outreach Expenditures related to introducing, educating, and informing members and the public at large about the mission of the Conservancy and the issues, progress and performance it has made in reaching its strategic objectives.		12,656,000
Training and Support Conservation Partners Expenditures related to the enhancing of the Conservancy's ability to achieve its mission through investments in the institutional development of non-governmental conservation partners. This is exemplified through work with international partner organizations.		14,067,000
Government and Multilateral Programs Expenditures related to developing and implementing conservation programs in cooperation with domestic and international government offices and agencies.		4,822,000
TOTAL		185,526,153

STATEMENT 5
FORM 990, PART III - STATEMENT OF PROGRAM SERVICE ACCOMPLISHMENTS

Description	Program Expenses	Program Grants	Total Program Grants & Expenses
Stewardship, conservation science & biological information mgmt Expenditures related to understanding, monitoring, maintaining, restoring and managing natural diversity on areas owned by the Conservancy and others.	42,477,000		42,477,000
Conservation planning & implementation Expenditures related to formulating and implementing protection plans and strategies to mitigate, prevent or slow the identified threats and stresses to plants, animals and ecological systems and communities through land and water protection actions.	93,706,109	16,072,998	109,779,107
Communications and outreach Expenditures related to introducing, educating, and informing members and the public at large about the mission of the Conservancy and the issues, progress and performance it has made in reaching its strategic objectives.	12,929,000		12,929,000
Government/multilateral programs Expenditures related to developing and implementing conservation programs in cooperation with domestic and international government offices and agencies.	3,949,000		3,949,000
Total	153,061,109	16,072,998	169,134,107

STATEMENT 4
FORM 990, PART III - STATEMENT OF PROGRAM SERVICE ACCOMPLISHMENTS

Description	Program Expenses	Program Grants	Total Program Grants & Expenses
Stewardship, conservation science & biological information mgmt Expenditures related to understanding, monitoring, maintaining, restoring and managing natural diversity on areas owned by the Conservancy and others.	48,549,001	15,792,253	64,341,254
Conservation planning & implementation Expenditures related to formulating and implementing protection plans and strategies to mitigate, prevent or slow the identified threats and stresses to plants, animals and ecological systems and communities through land and water protection actions.	96,782,863	0	96,782,863
Communications and outreach Expenditures related to introducing, educating, and informing members and the public at large about the mission of the Conservancy and the issues, progress and performance it has made in reaching its strategic objectives.	14,817,058		14,817,058
Government/multilateral programs Expenditures related to developing and implementing conservation programs in cooperation with domestic and international government offices and agencies.	4,311,693		4,311,693
Total	164,460,615	15,792,253	180,252,868

THE NATURE CONSERVANCY
990 TAX RETURN
ADDITIONAL STATEMENTS
FY97

53-0242652

STATEMENT 4
FORM 990, PART III - STATEMENT OF PROGRAM SERVICE ACCOMPLISHMENTS

Description	Program Expenses	Program Grants	Total Program Grants & Expenses
Conservation Activities and Actions Expenditures related to understanding, monitoring, maintaining, restoring, and managing natural areas owned by The Conservancy and others as well as expenditures related to formulating and implementing protection plans and strategies to mitigate, prevent or slow the identified threats and stresses to plants, animals and ecological systems and communities through land and water protection objectives.	149,830,317	11,259,409	161,089,726
Communication and Outreach Expenditures related to introducing, educating, and informing members and the public at large about the mission of the Conservancy and the issues, progress and performance it has made in reaching its strategic objectives.	14,289,227	0	14,289,227
Government/Multilateral Programs Expenditures related to developing and implementing conservation programs in cooperation with domestic and international government offices and agencies.	5,676,543	0	5,676,543
Total	169,796,087	11,259,409	181,055,496

THE NATURE CONSERVANCY
990 TAX RETURN
ADDITIONAL STATEMENTS
FY98

53-0242652

STATEMENT 10
FORM 990, PART III - STATEMENT OF PROGRAM SERVICE ACCOMPLISHMENTS

Description	Program Expenses	Program Grants	Total Program Grants & Expenses
Conservation Activities and Actions Expenditures related to the broad spectrum of activities and actions critical to advancing The Conservancy's ecoregion-based approach to conservation. Expenditures related to understanding, monitoring, maintaining, restoring and managing natural areas owned by The Conservancy and others are included, as are expenditures for developing and enhancing The Conservancy's ability to gather and share ecological information and to assess and evaluate threats to the elements of natural diversity within ecoregions in which The Conservancy works. In addition, this area includes expenditures necessary for developing and implementing ecoregion-based plans and strategies to mitigate, prevent, or slow the effects of threats to the elements of biodiversity, including investments in the institutional development of domestic and international conservation organizations.	177,883,722	17,551,214	195,434,936
Communication and Outreach Expenditures related to introducing, educating, and informing members and the public at large about the mission of the Conservancy and the issues, progress and performance it has made in reaching its strategic objectives.	15,649,064	0	15,649,064
Total	193,532,786	17,551,214	211,084,000

THE NATURE CONSERVANCY
990 TAX RETURN
ADDITIONAL STATEMENTS
FY99

53-0242652

STATEMENT 10
FORM 990, PART III - STATEMENT OF PROGRAM SERVICE ACCOMPLISHMENTS

Description	Program Expenses	Program Grants	Total Program Grants & Expenses
Conservation Activities and Actions Expenditures related to the broad spectrum of activities and actions critical to advancing The Conservancy's ecoregion-based approach to conservation. Expenditures related to understanding, monitoring, maintaining, restoring and managing natural areas owned by The Conservancy and others are included, as are expenditures for developing and enhancing The Conservancy's ability to gather and share ecological information and to assess and evaluate threats to the elements of natural diversity within ecoregions in which The Conservancy works. In addition, this area includes expenditures necessary for developing and implementing ecoregion-based plans and strategies to mitigate, prevent, or slow the effects of threats to the elements of biodiversity, including investments in the institutional development of domestic and international conservation organizations.	226,967,950	42,039,632	269,007,582
Communication and Outreach Expenditures related to introducing, educating, and informing members and the public at large about the mission of the Conservancy and the issues, progress and performance it has made in reaching its strategic objectives.	15,994,000	0	15,994,000
Total	242,961,950	42,039,632	285,001,582

STATEMENT 10
FORM 990, PART III - STATEMENT OF PROGRAM SERVICE ACCOMPLISHMENTS

Description	Program Expenses	Program Grants	Total Program Grants & Expenses
Conservation Activities and Actions Expenditures related to the broad spectrum of activities and actions critical to advancing The Conservancy's ecoregion-based approach to conservation. Expenditures related to understanding, monitoring, maintaining, restoring and managing natural areas owned by The Conservancy and others are included, as are expenditures for developing and enhancing The Conservancy's ability to gather and share ecological information and to assess and evaluate threats to the elements of natural diversity within ecoregions in which The Conservancy works. In addition, this area includes expenditures necessary for developing and implementing ecoregion-based plans and strategies to mitigate, prevent, or slow the effects of threats to the elements of biodiversity, including investments in the institutional development of domestic and international conservation organizations.	247,186,031	38,033,748	285,219,779
Communication and Outreach Expenditures related to introducing, educating, and informing members and the public at large about the mission of the Conservancy and the issues, progress and performance it has made in reaching its strategic objectives.	21,644,620	0	21,644,620
Total	268,830,651	38,033,748	306,864,399

THE NATURE CONSERVANCY
990 TAX RETURN
ADDITIONAL STATEMENTS
FY01

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STATEMENT 10
FORM 990, PART III - STATEMENT OF PROGRAM SERVICE ACCOMPLISHMENTS

Description	Program Expenses	Program Grants	Total Program Grants & Expenses
Conservation Activities and Actions Expenditures related to the broad spectrum of activities and actions critical to advancing The Conservancy's ecoregion-based approach to conservation. Expenditures related to understanding, monitoring, maintaining, restoring and managing natural areas owned by The Conservancy and others are included, as are expenditures for developing and enhancing The Conservancy's ability to gather and share ecological information and to assess and evaluate threats to the elements of natural diversity within ecoregions in which The Conservancy works. In addition, this area includes expenditures necessary for developing and implementing ecoregion-based plans and strategies to mitigate, prevent, or slow the effects of threats to the elements of biodiversity, including investments in the institutional development of domestic and international conservation organizations.	272,909,251	36,443,498	309,352,749
Communication and Outreach Expenditures related to introducing, educating, and informing members and the public at large about the mission of the Conservancy and the issues, progress and performance it has made in reaching its strategic objectives.	25,270,510	0	25,270,510
Total	298,179,761	36,443,498	334,623,259

THE NATURE CONSERVANCY
990 TAX RETURN
ADDITIONAL STATEMENTS
FY02

53-0242652

STATEMENT 10
FORM 990, PART III - STATEMENT OF PROGRAM SERVICE ACCOMPLISHMENTS

Description	Program Expenses	Program Grants	Total Program Grants & Expenses
Conservation Activities and Actions Expenditures related to the broad spectrum of activities and actions critical to advancing The Conservancy's ecoregion-based approach to conservation. Expenditures related to understanding, monitoring, maintaining, restoring and managing natural areas owned by The Conservancy and others are included, as are expenditures for developing and enhancing The Conservancy's ability to gather and share ecological information and to assess and evaluate threats to the elements of natural diversity within ecoregions in which The Conservancy works. In addition, this area includes expenditures necessary for developing and implementing ecoregion-based plans and strategies to mitigate, prevent, or slow the effects of threats to the elements of biodiversity, including investments in the institutional development of domestic and international conservation organizations. Also includes expenditures related to introducing, educating, and informing members and the public at large about the mission of the Conservancy and the issues, progress and performance it has made in reaching its strategic objectives.	486,212,309	34,472,290	520,684,599
Total	486,212,309	34,472,290	520,684,599

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Program Expenses:	**432,264,289**
Program Grants:	**20,733,683**
Total :	**452,997,972**

Our Approach: Mission Strategy and Values

Throughout our 52-year history, The Nature Conservancy has been known for a unique and highly successful approach to land conservation. We initially used land acquisition to "preserve wild nature," the organization's statement of purpose in the 1950s and 1960s. But as the Conservancy grew over the years and as increasing threats to natural lands created even more demand for action, we tightened our focus and expanded the array of tools we use to achieve lasting conservation results.

Today The Nature Conservancy is widely regarded and respected as an effective, influential conservation organization. We have made laudable progress toward our mission, helping protect more than 117 million acres around the world and with active conservation projects in all 50 states in the United States and in 27 other countries. We have a focused mission; a strategic framework to achieve that mission, Conservation by Design; and a unique set of values that guides how we pursue our work.

Mission

The mission of The Nature Conservancy is to preserve plants, animals and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive.

We aspire to the vision articulated more than 50 years ago by Aldo Leopold in *A Sand County Almanac:* conservation is a state of harmony between man and nature.

Strategy

Conservation by Design is our strategy for guiding conservation results. It is a systematic, science-based approach to identifying and protecting priority conservation areas. It has two key components:

- Through a rigorous, science-based approach, we identify the places most critical for the long-term protection of ecosystems, plants and wildlife within and across ecoregions. (An
- ecoregion is a large geographic area defined by natural features such as vegetation and geology, e.g., the Sonoran Desert.) Together, these places create our Conservation Blueprint.

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- Conservation by Design guides the mix of tools and actions we employ to abate threats and to secure tangible, lasting conservation results. Different places require different strategies. At each place, we tailor our tools and strategies to local circumstances. Given the wide variety of threats we encounter, we must be innovative in developing flexible, uniquely tailored action plans.

Conservation by Design ensures that we focus on the right places and take the right action to achieve conservation results. The efficacy of this approach is increasingly recognized and lauded by others, such as the Doris Duke Foundation, who are eager to use a science-based, pragmatic strategy for fulfilling their own commitments to protecting biodiversity.

- We work *collaboratively with partners*—businesses, government agencies, multilateral institutions, communities, individuals and other non-profit organizations.

- We pursue *non-confrontational, pragmatic, market-based* solutions to conservation challenges.

- We employ the best available *scientific information* and practices to guide our conservation actions.

- We tailor our conservation strategies and tools to *local circumstances.*

- We work *across landscapes and seascapes* at a scale large enough to conserve ecological processes and to ensure that protected lands and waters retain their ecological integrity.

- We work with *willing sellers and donors,* both public and private, to protect ecosystems, plants and wildlife through purchases, gifts, exchanges, conservation easements and management agreements and partnerships.

- *Outside the United States,* we work with government agencies and *like-minded partner organizations* to provide scientific know-how, infrastructure, community development, professional training and long-term resources.

Values

We hold ourselves to high standards, staff and trustees alike. We freely adopted these values to guide our work, for they offer ideals to which we aspire in fulfilling our mission:

- *Integrity Beyond Reproach:* We hold paramount the trust and responsibilities placed in us by our donors, members, colleagues, partners and the public.

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- *Continuity of Purpose:* We look to our mission to provide focus and guidance for everything we do.

- *Commitment to People:* We respect the needs of local communities by developing ways to conserve biological diversity while enabling them to live productively and sustainably. We value the active involvement of individuals from diverse backgrounds and beliefs in conservation efforts.

- *Effective Partnerships:* We are committed to forging public and private partnerships that combine diverse strengths, skills and resources.

- *Innovation and Excellence:* We are strategically entrepreneurial in the pursuit of excellence, encouraging original thought and its application, and willing to take risks based on sound business judgment.

- *One Conservancy:* We act as "One Conservancy," with each program assisting other programs in reaching their full potential, thereby ensuring the success of the overall organization.

- *Commitment to the Future:* We commit ourselves, individually and collectively, to leaving future generations a biologically rich world.

A Message from the President

Conservation is challenging work. Nature, herself, challenges us to transcend our borders in favor of hers, to work at a more expansive scale and to learn more about the complex interaction of natural forces that determine our ecosystems. Similarly, we face the human challenges of economics, political borders and the welfare of local communities at our projects around the world. Fortunately, the Conservancy has a history of responding well to challenges of all kinds.

The economic downturn we experienced last year forced some painful belt-tightening, but it also challenged us to be more effective in how we raise and use funds. Despite the recession, the generosity of individual donors enabled us to complete a five-year, $1.4 billion capital campaign in 2003. And, reflecting the increasing commitment to the global reach of our mission, donations to programs outside the United States nearly doubled over those of the year before, while contributions to domestic projects remained high.

Last year we faced an unprecedented challenge in a series of media stories that questioned our conservation practices and governance. We faced the challenge head-on. We refuted what was inaccurate, but acknowledged and took swift action to correct mistakes we had made and strengthened policy to better guarantee consistent practices in all we do. It was a humbling experience, but we are a better, wiser institution for it.

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Despite these challenges, we continued to garner top ratings from groups like the American Institute of Philanthropy, that evaluate the efficiency and effectiveness of nonprofit organizations. And we accomplished landmark conservation at thousands of sites in some 28 countries. Furthermore, the conservation we and our partners undertook in 2003 secured larger landscapes. It protected river and coastal systems, and it traversed borders to truly maintain the natural processes upon which we, our wildlife and our ways of life depend. We are proud of these achievements.

In 2003, we also tapped talent throughout the organization to develop an ambitious 10-Year Goal that will guide us to the most important places, help us find the best partners and enable us to prescribe the right mix of conservation tools—some yet to be developed—to protect the "the last great places on Earth." We also established a system to measure our true conservation success for the first time; it will launch in the year ahead.

Not long ago, I found myself gazing across a landscape of rolling, sunburned hills that looked beguilingly like the coast of central California, where I am from. But I was on the other side of the planet in Komodo National Park, where the Conservancy is partnering with Indonesian park authorities and the local community on an ambitious and imaginative conservation effort. The visual similarity between these two places was startling, but I was struck by other, less visible links.

In both places, the Conservancy and its partners have aimed high to protect vast natural landscapes and seascapes. On California's central coast, we are buying key lands to head off development pressure and working with private landowners to maintain land uses compatible with natural features. At Komodo—within the epicenter of global marine diversity—we are helping to halt illegal "blast" and cyanide fishing. At the same time, we're developing an ecologically sensitive, community-run mariculture operation to support sustainable and compatible economic activity. Both projects are finding common ground to preserve biodiversity while enriching the quality of life for local people.

At Komodo, where blast fishing has been reduced by 90 percent, the immediate conservation of reefs and fisheries is remarkable. But for me the more hopeful, and long-term, reflection of our success could be seen in the eyes of Komodo school children as they performed for a rapt group of villagers, young and old. Using colorful puppets of their own creation—Komodo dragons, dolphins, fishermen, even tourists—the children told a story they had written about the connection between a healthy natural environment and their own economic well-being. As a "measure of success," these young people's efforts reflect the changing sentiments of the local community and its increasing commitment to conservation.

In scenes like this, we are witnessing a wonderful transformation of the Conservancy. Steadfastly dedicated to our mission, we are building an inspiring momentum of innovation through

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competent risk-taking, increased collaboration and imaginative leveraging of resources. In a year of challenges and transforming events, I thank all those who supported us, expressed confidence in our work and dedicated themselves to our mission.

As the late David Packard, founder of Hewlett-Packard and a staunch Conservancy supporter, said to me years ago, "Never look back. Celebrate your successes; learn from your mistakes; then move on. Get better. Do more."

The Nature Conservancy is always striving to get better – to do more, because I can think of nothing more important for our collective future than "preserving the diversity of life on Earth."

Sincerely,

Steve McCormick
President and Chief Executive Officer
The Nature Conservancy

Highlights of 2003 Accomplishments

Over the course of 2003, The Nature Conservancy, through its dedicated staff of 3,000 employees and its work across all 50 states and 27 other countries, made impressive progress in conserving ecologically important natural areas around the world.

Some of the highlights of the Conservancy's 2003 accomplishments are detailed here. Additional information on the organization's governance, management, projects, finances and accomplishments can be found on the Conservancy's Web site, *nature.org*.

Conservation across Borders
Greater Caribbean Basin

The Challenge: Approximately one-third the size of the continental United States, the Greater Caribbean Basin is a study in complexity. Whereas other ecoregions are connected by land, the states, countries and islands that border the Caribbean are connected by water, sharing currents, fisheries and other aquatic resources. Biologically, the Caribbean is one of the richest places on Earth: its marine habitats sustain 60 species of corals and more than 1,500 species of fish, and an estimated 40 percent of its terrestrial vertebrates and plants exist nowhere else. Intense human pressures also make this one of the world's most threatened places; scientists estimate that less than 10 percent of the region's original vegetation remains intact.

Biology isn't the only source of the Caribbean Basin's unique character. Because the area is made up of more than 30 countries—including Cuba, the Dominican Republic, Haiti, Mexico, Venezuela and the United States—conservation solutions must transcend geographical and

cultural borders, deal with political sensitivities, address differing conservation priorities and engage diverse stakeholders in a long-term, large-scale conservation strategy.

How We're Making a Difference: To create a science-based conservation strategy that matches the region's scale and complexity, The Nature Conservancy has undertaken an intensive two-year study of the Greater Caribbean Basin, addressing both the biology and the socioeconomics of the region. Data and tools yielded during this intense assessment will guide a state-of-the-art conservation plan, enabling sound, pragmatic conservation decisions.

The assessment is also deepening our strategic partnerships with local organizations—key to achieving lasting conservation results. By pairing Conservancy science with the knowledge and influence of local partners, we will be able to establish a common vision for the Greater Caribbean Basin that identifies and characterizes high-priority sites and sets strategies for protecting the region's irreplaceable terrestrial, freshwater, coastal and marine biodiversity.

Transcending Boundaries
Greater Yellowstone Ecosystem

The Challenge: For more than a century, Yellowstone National Park has been an icon of American conservation, a symbol of what investment and stewardship can do to preserve a landscape that is home to elk, bighorn sheep, bison, grizzlies and rare landscape features from geysers to historic rivers. But survival of the 2.2-million-acre park depends on what happens in an even larger landscape: the 27-million-acre Greater Yellowstone Ecosystem, as big as the state of Tennessee. In recent years, human settlement and development and a bewildering array of public and private entities—three states, two reservations, 20 counties, seven national forests, two national parks and three national wildlife refuges—all with a stake in preserving the area, have had to negotiate with each other.

Protecting Greater Yellowstone means protecting one of Earth's last remaining temperate ecosystems. Across this wide swath of human settlements, pasture lands, forests and federal parks roams the largest population of hoofed wildlife and big predators in the contiguous 48 states. Keeping nature intact in this vast and varied region is a high-stakes, larger-than-life task that must transcend biology to include both sociology and economics, balancing the needs of human beings with the imperative to protect an iconic, at-risk landscape.

How We're Making a Difference: Strategy, collaboration, good science— The Nature Conservancy's Idaho, Montana and Wyoming chapters are investing all this and more to develop a conservation approach that will work to protect the landscape and honor the needs of ranchers, farmers and families. Guided by natural delineations of climate and geology, fire and flood and plants and animals rather than politically created boundaries of state, county or preserve lines,

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the Conservancy is identifying conservation threats, from unplanned residential development to riverside erosion, and developing solutions.

In the long term, the Conservancy is focused on protecting the winter ranges that are home to wildlife, preserving migration corridors for large mammals and keeping the 12 rivers that originate in the area healthy and flowing. This painstaking, delicate work requires building strong relationships among many constituencies—from county governments to family ranchers—and developing solutions that work for all. In an equation of history, economics and conservation, achieving balance is both an art and a science.

A Ribbon of Life
Devils River, Texas

The Challenge: The Devils River winds through 60 miles of arid west Texas as part of a network of streams and rivers contributing to the Rio Grande. At the crossroads of the Edward Plateau, the Chihuahuan Desert and the Tamaulipan Thornscrub ecological regions, this landscape supports many endangered plants and animals. In the river's canyons, where black-capped vireos nest and Texas snowbells grow, pictographs evoke ancient Native American civilizations. The river is also a critical migration corridor for songbirds, raptors and monarch butterflies.

Unpolluted and undammed, the Devils River is considered a benchmark for clean, natural water systems in Texas. The challenge for conservationists and others dependent upon this water is to maintain its pristine condition in the face of threats, including pollution, damage to the watershed and habitat fragmentation.

How We're Making a Difference: In 2003, in what is believed to be the largest private conservation effort ever in Texas, The Nature Conservancy purchased 87,760 acres surrounding the Devils River. This purchase protects the watershed for the river's headwaters and an eight-mile section of the river. Key features of this particular site include a massive sinkhole and a cave system that provides a microclimate for rare plants and shelter for a maternal colony of more than 1 million Mexican free-tailed bats.

The Conservancy plans to retain 100 or more acres as a nature preserve and seeks one or more conservation buyers—people dedicated to keeping the site in its natural state—for the remaining land. A conservation easement will permanently restrict what the new owner or owners can do with the property, ensuring the long-term protection of the land and its water.

This property also adds to the mosaic of lands protected by The Nature Conservancy in this region, now totaling more than 150,000 acres and preserving 25 miles of the river.

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Culture and Nature in Balance
Kahuku Ranch, Hawaii

The Challenge: On the Big Island of Hawaii, between 2,000 feet in elevation and the summit of Mauna Loa volcano at 13,000 feet, spectacular and diverse ecosystems converge. Mesic, wet and subalpine forests, alpine desert and lava flows host many forms of life found nowhere else on Earth, including dozens of rare and endangered Hawaiian birds and plants. One of the world's largest, most active volcanoes and a prime location for volcano research, Mauna Loa is also a rich archaeological site, with ancient trails, religious features, home sites and other links to a Hawaiian culture dating back more than 700 years.

These diverse resources face a variety of threats, from feral animals and invasive, non-native plants to development and subdivision. They also have attracted the interest of a diverse group of supporters, from conservationists and scientists to local Hawaiian communities looking to preserve links to their cultural heritage. Protecting land and water while allowing access to the site for human use will require cooperation among many entities and a flexible long-term conservation strategy.

How We're Making a Difference: To protect Mauna Loa's natural habitat and historic value, the Conservancy partnered with the National Park Service to acquire the 116,000-acre Kahuku Ranch so that it could be added to Hawaii Volcanoes National Park. The acquisition, the largest private conservation purchase in Hawaii history, links conservation land owned by federal, state and private agencies to create 500,000 contiguous acres of protected habitat, expanding the land area of Hawaii Volcanoes National Park by nearly 50 percent. The Conservancy's 8,000-acre Kona Hema Preserve is part of this protected territory.

Kahuku Ranch, a sprawling natural wonder of lava flows, koa-`ohi`a forests, ancient Hawaiian archaeological sites and pasture lands, was purchased from a private estate in July 2003 for $22 million. Adding to federal funds previously secured by Hawaii's congressional delegation, Congress appropriated $8.5 million toward the purchase in 2003, and the National Park Service reallocated $2 million from other projects. Federal support for the acquisition now totals $18 million. The Conservancy provided bridge funding to cover the remainder of the price. Once Congress appropriates the final $4 million, the Conservancy will be reimbursed and ownership of the property will be transferred entirely to the National Park Service. Placing the ranch within the park will help the Park Service manage threats to the land's conservation, scientific and cultural value and deliver lasting results.

Ensuring Permanent Protection
Isla Espiritu Santo, Mexico

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The Challenge: Nine hundred islands dot the Sea of Cortez, the waterway between Baja California and Mexico's mainland. The second most diverse marine body in the world and one of Mexico's most important natural areas, the sea is home to 700 fish species and 31 species of whales and dolphins—one-third of the world's total. It also serves as a breeding ground for sea lions and marine turtles and a migration corridor for 210 bird species. Because of the area's unique biodiversity, The Nature Conservancy designated one island archipelago in the cluster, the 23,000-acre Isla Espiritu Santo complex, a global conservation priority.

In 1978, the Mexican government declared all the Sea of Cortez islands protected areas. However, 12 important islands—including Isla Espiritu Santo—are not under federal ownership, making permanent conservation difficult to ensure.

How We're Making a Difference: Applying science to the protection of the area's rich biodiversity, Mexican and U.S. conservation groups, including the Conservancy, have donated more than $3 million to help the Mexican government acquire Isla Espiritu Santo. Partners include Fundación Mexicana para la Educación Ambiental A.C. (fundea) and the World Wildlife Fund, as well as private and corporate foundations.

The groundbreaking agreement to transfer ownership of the island complex from a local community took three years of negotiations and represents the first time private owners have donated land to the Mexican government to protect critical habitat. The Conservancy will continue to work with local conservation partner FUNDEA and others to ensure permanent protection of 10 other biologically critical islands scattered throughout the Sea of Cortez.

The purchase of Isla Espiritu Santo builds on work the Conservancy has done in the Sea of Cortez since 1998. With partners in Mexico, we have provided technical and financial support for the management and stewardship of various islands in the region, including patrolling and monitoring, tourism management, training of park staff, outreach and education and aquaculture projects with fishermen.

Preserving the Mythic
Blackfoot River, Montana

The Challenge: The book and movie "A River Runs Through It" introduced the world to a place that has long been the soul and pride of Montana: the Blackfoot River Valley. One of the state's most intact landscapes, the valley and the mountains surrounding it support grizzly bear, gray wolf, Canada lynx, elk, bull trout and more than 230 bird species.

As vital and inspiring as the legendary river and the wild country that adjoins it is the human community that inhabits the area. While nearby places become increasingly urban, the Blackfoot River Valley retains its traditional rural way of life, relying on ranching, farming and forestry.

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Local residents are concerned about the land where they live, work and raise their families and see its preservation as key to sustaining a way of life that has defined the valley for generations.

How We're Making a Difference: Because preserving both land and livelihoods requires a cooperative conservation approach, the Conservancy is joining forces with local communities and industry in a historic land deal that will protect 41,000 acres of critical forest in the Blackfoot River Valley. In partnership with The Blackfoot Challenge, a local landowner group, the Conservancy purchased the plot for $30 million from Plum Creek Timber Company. The transaction closed in early 2004.

The goal of the cooperative conservation plan, which addresses the Conservancy's ecoregional priorities, is to manage the land in its unfragmented state, preserving wildlife habitat, local land-use traditions and public access. The Conservancy maintains the option to purchase an additional 48,000 acres over the next three years, which could bring the project total to nearly 89,000 acres in the upper Blackfoot watershed—one of the largest and most complex projects in Conservancy history. To maximize community involvement, the partners expect to raise significant private and public funds toward the area's preservation. Eventually the land will be resold to conservation-minded private and public owners in the area, people who care deeply about the river and its valley.

Restoring the Natural Flow
Neversink River, New York

The Challenge: Two hours outside New York City lies an unspoiled oasis with 60 miles of rushing waters and an amazing array of wildlife. More than 30 rare species and natural communities make their home in the 435-square-mile Neversink River watershed, one of the primary headwaters for the Delaware River and the purest source of drinking water for New York City. The river contains the greatest diversity of freshwater mussels in the Delaware River Basin and an abundance of migratory fish and dragonflies, key indicators of the river's good health.

The Neversink's proximity to civilization makes it both a critical resource and a threatened habitat. Eighty percent of the river's water is diverted into New York City's water supply system. Dams and reservoirs have disturbed the river's flow and temperature, endangering fish, mussels and other aquatic species. Now, while the river remains relatively unspoiled, is the ideal time for conservation action that mobilizes modern science in the interest of long-term river preservation.

How We're Making a Difference: With a broad collection of partners—from the Army Corps of Engineers and U.S. Geological Survey to Trout Unlimited and several local townships—the Conservancy is working to restore and protect the Neversink. The river is now part of the

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Conservancy's Freshwater Initiative, which applies the best scientific methods, management tools and monitoring techniques to mitigate threats to important freshwater ecosystems.

The Conservancy is leading the effort to develop an ecologically sound model for water resource management for the Delaware River Basin. Strategies include, in 2004, removing the inoperative Cuddebackville Dam, which keeps migratory fish from their spawning grounds, and collaborating with New York City and other water resource managers and suppliers to restore natural flow patterns to the Neversink, as well as the other regulated rivers of the Delaware River Basin. Other efforts include restoring imperiled habitats, encouraging compatible economic development and working with local communities to use conservation science to change land-use and development patterns.

Swapping Debt for Nature
Chagres River Basin, Panama

The Challenge: Each day, some 36 ships travel through the Panama Canal. To float through the locks, each ship requires approximately 52 million gallons of fresh water, most of which come from the steep upland tropical rain forests of the Panama Canal Watershed. This vital water source includes Panama's Upper Chagres region, a half-million-acre area beginning just north of Panama City and home to the indigenous Embera people and communities of local farmers.

Containing four of the six main rivers that feed the Panama Canal and provide drinking water for two nearby cities, the Upper Chagres region also encompasses 500,000-acre Chagres National Park. There, diverse species of flora and fauna abound, reflecting Panama's unique ecological niche as a land bridge between North and South America. However, increasing demands on the watershed from agriculture, industry, cattle ranches and urban development threaten the unique creatures that call Chagres home—capybara, jaguar, mantled howler monkey and 560 species of birds—as well as the wildlife that Panama shares with countries to the north and south.

How We're Making a Difference: To preserve the Chagres River Basin as a source of fresh water and a healthy tropical forest habitat, The Nature Conservancy is using an innovative conservation strategy known as a debt-for-nature swap under the U.S. Tropical Forest Conservation Act. In these transactions, the U.S. government forgives part of a developing country's hard-currency debt; in exchange, the country pays an equal or greater amount to in-country forest conservation.

With a $1.1 million contribution of funds raised privately by Conservancy chapters, the U.S. government forgave $10 million of Panama's debt. In exchange, the government of Panama will fund conservation in the Chagres River Basin in the amount of $10 million over the next 14 years. Funds will focus on the protection of Chagres National Park and watershed and establish a $10 million endowment for the area.

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The Chagres basin has been a Conservancy project for several years. With Panamanian partners, the Conservancy created the $25 million Ecological Trust Fund of Panama (FIDECO). Income from the fund finances Panama Park Service activities and provides small grants to nongovernment conservation groups.

Preserving Migratory Bird Habitat
The Migratory Bird Program, North America

The Challenge: Migratory birds travel huge distances each year as they complete the phases of their life cycle. Nearly 7 billion birds make the annual journey from their winter homes in the grasslands, deserts and forests of Latin America to their nesting grounds in the prairies, boreal forests, wetlands, shores and estuaries of the United States and Canada.

Because this network of habitats and sites transcends geographical and political boundaries defined by humans, protecting migratory birds presents a challenge to conservationists. Ensuring the survival of these long-distance travelers requires the protection and restoration of habitat in multiple locations, many of which face the pressures of urban development, destructive agricultural practices, resource extraction and invasive species. Addressing the conservation needs of North American migra-tory birds calls for a cooperative, science-based strategy that spans 10 ecoregions across the Great Plains of Canada, the United States and Mexico and promotes collaboration across political borders.

How We're Making a Difference: In response to the threats faced by preci-pitously declining bird populations—including the mountain plover, lesser prairie chicken and burrowing owl—The Nature Conservancy's Migratory Bird Program created Prairie Wings, the organization's first truly range-wide migratory bird project.

Prairie Wings has made great strides in building partnerships, raising awareness, initiating research and monitoring, conducting state-of-the-art multi-ecoregional planning and supporting on-the-ground conservation from southern Canada through the plains states of the United States to central Mexico. To date, the program has protected more than 100,000 acres of critical habitat. As the Conservancy intensifies its focus on global grasslands over the next 10 years, Prairie Wings offers a model for the design and implementation of conservation solutions that span both migratory ranges and ecosystems.

Ensuring Long-term Success
New Conservation Measures and Audit

The Challenge: As the conservation movement has grown and evolved, people are increasingly asking questions about its impact: How will we know we're really protecting the things we say

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we will? And how will we know our results last? The complexity of conservation solutions and the long time frame required to see results have made answering these questions difficult. No major conservation organization has reliable methods or measures in places to assess the impact of its practices comprehensively—or to predict with confidence that its results will make a significant difference over time.

How We're Making a Difference: Over the past two years, a Conservancy team has been developing and testing tools to determine whether the Conservancy is achieving its goals, whether its results can be verified and how to report these results with credibility. Using the Cosumnes River Project in California and the Komodo National Park Project in Indonesia as case studies, the team discovered that many indicators of long-term conservation impact could be monitored, reported and fed into decision-making processes for future action.

The team's work has generated a universal set of tools to measure and audit conservation results at virtually any project. Starting in 2004, our new Conservation Measures and Audit Group will use these tools to track biodiversity status, monitor the effectiveness of particular conservation actions and emphasize learning and accountability across Conservancy projects.

To increase learning and collaboration within the conservation movement, the Conservancy has joined with the World Wildlife Fund, Wildlife Conservation Society, Conservation International, African Wildlife Foundation and others to form the Conservation Measures Partnership. This effort is coordinated by Foundations of Success, a nonprofit organization that helps conservation groups measure success. Working together, we hope to establish a common framework for auditing our work, much like the generally accepted accounting principles that publicly traded companies use to report their results. These measures will enable us to assess, learn from and report the results of ongoing projects and plan future conservation efforts more effectively.

Restoring American Prairie
Glacial Ridge Preserve, Minnesota

The Challenge: The Red River Valley in northwestern Minnesota was once a lush prairie. But as settlers claimed the land—extracting gravel, growing crops, grazing sheep and cattle—the prairies diminished. Today less than 1 percent of an estimated 15 million acres of tallgrass still exists, sustaining a remarkable abundance of life, from moose to butterflies.

Here, the remaining prairie offers an unequaled opportunity to conserve and restore a unique landscape while improving water quality for nearby towns and reducing flooding in the Red River Valley. However, moving forward with a workable conservation plan is a complex process that requires balancing diverse interests and negotiating toward shared goals.

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How We're Making a Difference: In 2000, the Conservancy purchased 24,132 acres in northwestern Minnesota, initiating the largest prairie and wetland restoration project in U.S. history and creating a large-scale experiment for conservation partnership. Working with local entities, the Conservancy plans to restore nearly 20,000 acres of the project site to grasslands and wetlands. Within 10 years, the resulting protected area—Glacial Ridge Preserve—will become a national wildlife refuge, providing habitat for prairie-nesting birds and threatened prairie plants and animals.

Because Glacial Ridge is important to many communities—local residents, public and private landowners, government agencies, conservation organizations, scientists, recreational groups—collaboration is key to determining stewardship of the land. The Conservancy's partners include the U.S. Fish and Wildlife Service, U.S. Geological Survey, Environmental Protection Agency, the University of Minnesota in Crookston, Audubon and Ducks Unlimited.

With the Conservancy taking the lead, hands-on conservation work began in 2001. Goals include the restoration and long-term protection of more than 80 wetlands totaling 8,000 acres, and the conversion of 17,000 acres of agricultural land back into native prairie. To date, the Conservancy has replanted approximately 4,700 acres of native prairie and restored 50 wetlands. Short-term plans include leasing the unrestored property for sustainable ranching or agriculture while the Conservancy works with owners of surrounding land to develop strategies for compatible management and prairie reconstruction. Many tracts will be enrolled in a federal wetland reserve program; others will be protected from development through conservation easements. The Conservancy has already sold easements to one of its partners, the U.S. Department of Agriculture's Natural Resources Conservation Service.

Cultivating Common Interests
East Kalimantan Province, Indonesia

The Challenge: In 2002, Conservancy scientists at work in the forests of Indonesia's East Kalimantan Province made an amazing discovery: a large population of orangutans. The presence of these creatures offered vivid testimony to the amazing biodiversity, from hornbills to gibbons, sustained by Indonesia's lush but dwindling woodlands.

The forests the orangutans inhabit also serve as a critical source of income for local people who rely on the logging industry. In fact, the forests in which scientists found the orangutan colony have been awarded to timber companies for logging. Unfortunately, unsustainable logging has taken a severe toll on Indonesia's forests and wildlife. Unlawfully cut wood, including protected trees taken from national parks, accounts for two-thirds of the lumber taken annually from Indonesia. If unlawful practices continue, Indonesia's forests will be devastated.

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How We're Making a Difference: This past year the Conservancy signed a joint declaration with the Indonesian government and the local ministry of forestry to conserve and manage orangutan habitat. Key to this agreement is a pledge to protect the area's ecology and promote the trade of certified, sustainably harvested wood.

To support this agreement, the Conservancy has formed a corporate/conservation partnership with The Home Depot, which donated $1 million to combat illegal logging and promote sustainable forest management over the next five years. The project began with a three-month trial of a wood-tracking system, using bar codes to identify legally harvested timber and track it from "the stump to the store." Eventually the project will be expanded to other areas.

To further encourage sustainable timber trade, The Home Depot gives preference to wood certified by the Forest Stewardship Council. The company is also researching the origins of some 50,000 wood products to halt imports from endangered ecosystems. The Home Depot's goal is to place more sustainable products on its U.S. shelves and generate greater consumer demand for them.

Community and Conservation in Harmony
Pribilof Islands, Alaska

The Challenge: At the edge of the continental shelf, where the Eastern Bering Sea meets the deeper western waters of the Aleutian Basin, lies an area so biologically rich that conservationists call it "the Galapagos of the North." Here, ocean currents from the southwest bring nutrient-laden waters to the surface near the Pribilof Islands, attracting some of the largest breeding colonies of marine birds and marine mammals in North America.

Throughout the 20th century, commercial whaling and fishing, pollution and non-native species have stressed the native wildlife of the Bering Sea and its islands, which now may be suffering the added burden of rapid climate change. Many populations of marine mammals, birds and fish have plummeted; fishing, a way of life for local people, has suffered. Preserving this fragile, threatened ecosystem is critical to the survival of the wild creatures and human communities it has sustained for generations.

How We're Making a Difference: The Conservancy is working with Pribilof Island native organizations, the World Wildlife Fund, the fishing industry and government agencies to find common ground among the diverse constituencies with an interest in protecting Bering Sea habitats and species. Together these partners will explore various marine protection strategies and make recommendations to the North Pacific Fisheries Management Council.

Such teamwork builds on the ongoing cooperation between the Conservancy and the local Pribilof Islands Stewardship Program, in which Alaska native youths disentangle fur seals from

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fishing debris, monitor shorelines, help defend against invasive species and reaffirm their role as stewards of their islands' natural heritage. These conservation partners are working to reverse the decline of the Pribilofs' vast gatherings of wildlife, including northern fur seals, whose numbers over the last 50 years have shrunk by more than half, and the area's most important nesting seabird colonies.

Local Solutions, Global Impact
Noel Kempff Mercado Climate Action Project, Bolivia

The Challenge: Northeastern Bolivia is where Sir Arthur Conan Doyle purportedly found the model for the paradise he described in "The Lost World." Here, at this intersection of five important ecosystems, jaguars and giant river otters share habitat with 620 bird species and many other rare or endangered plants and animals.

Over the years, humans have left their mark by colonizing, logging and clearing for farms and ranches. The impact of lost forests reverberates far beyond Bolivia. When trees are cut down, they release carbon dioxide, a greenhouse gas associated with climate change. Preventing deforestation reduces the amount of carbon dioxide in the atmosphere.

Threats to northeastern Bolivia have captured the attention of conservationists, local citizens, government agencies and corporations. Balancing the interests of such diverse groups over the long term will require exemplary levels of cooper-ation and an enduring commitment to the integrity of the land.

How We're Making a Difference: Public and private entities inspired by this spectacular place have formed a singular partnership that offers a model for public-private cooperation in the interest of the environment.

In 2003, Harvard University's John F. Kennedy School of Government awarded the first Roy Family Award, recognizing outstanding public-private partnerships working to protect the environment, to the Noel Kempff Mercado Climate Action Project. Together, the Conservancy, the Bolivian government, American Electric Power, PacifiCorp, BP and local conservationists and citizens are protecting 1.6 million acres in one of the world's most biologically diverse areas. The largest effort of its kind, it is expected to prevent the release of 4.5 million tons of carbon during its 30 years.

In 1997, the project used $1.6 million of its $9.6 million in initial funding to terminate logging rights on 1.6 million acres of government-owned land. With incorporation of that land into Noel Kempff Mercado National Park, the park grew from 2.2 million acres to 3.8 million acres. The project also encourages sustainable development by providing local people with alternatives to

logging and land-clearing. Although this project will span 30 years, its impact will be felt in perpetuity through new conservation partnerships inspired by its example.

Winning Public Support
State and Local Ballot Initiatives

The Challenge: Preserving the diversity of life on Earth by protecting lands and waters will require the commitment, hard work and resources of many organizations and many individuals. In the United States, where rapid growth often threatens the quality of life by destroying natural areas and resources, the Conservancy must help develop a broad, conservation-minded constituency whose defense of a healthy environment supports work at a scale that addresses these threats.

How We're Making a Difference: Across the United States, ballot measures have become an important tool in securing funds to protect our quality of life by preserving clean water and natural places that support wildlife and enrich the human spirit. By bringing conservation issues before a broad community of voters, ballot initiatives have the potential to leverage more than $100 in public funds for every dollar raised privately, helping to finance key conservation projects, goals and priorities.

The Conservancy works with public officials and other key partners to design, launch, guide and monitor local conservation-focused ballot initiatives. Demonstrating the effectiveness of these partnerships, voters in 15 states, through statewide and local ballot campaigns, passed initiatives generating $4.35 billion for conservation in 2003—especially impressive in the face of a weakened economy.

For example, California voters passed Proposition 50, which provides $3.4 billion toward keeping water clean and protecting beaches, bays and coastline. The Conservancy helped shape the measure and helped develop and finance the campaign, particularly through voter education and outreach. Nevada voters passed an initiative yielding $200 million for water, parks and wildlife. And in Virginia, voters approved a $119 million initiative providing funds for state parks and natural area preserves.

Because state and local ballot initiatives have proven so successful in supporting large-scale conservation, the Conservancy will work with local partners in support of several initiatives in 2004 and is researching the potential for public finance campaigns in Latin America.

Sharing Our Knowledge
Parks in Peril

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The Challenge: Since the late 1980s, UNESCO and individual countries in Latin America and the Caribbean have attempted to preserve important areas of biodiversity by designating them protected places, or "parks." However, because many countries lack funds for long-term preservation, most of these places have had little or no protection and are parks in name only, dubbed "paper parks" by conservationists.

In addition, areas set aside as protected often are inhabited by people who rely on the forest and its animals for their livelihood. Intrinsically connected to the communities that surround them, these places require experienced management that is sensitive to both human and ecological needs.

How We're Making a Difference: Twelve years ago, with support from the U.S. Agency for International Development (USAID), the Conservancy founded the Parks in Peril program, dedicated to protecting the region's biodiversity by saving its imperiled "paper parks."

The program pursues four goals. First, Parks in Peril works to establish onsite protection for high-biodiversity areas. It then aims to integrate protected areas into the economic and cultural life of the communities that surround them, educating local people about dangers to biodiversity and developing alternative livelihoods consistent with conservation. The program also works to create long-term funding mechanisms that sustain local management of protected places. Finally, areas protected by the program become living laboratories in which scientists can study the destructive forces that threaten biodiversity; their new knowledge can then influence change on a larger scale.

Today, Parks in Peril is one of USAID's most successful programs and provides financial support and scientific expertise to protect and manage more than 28 million acres of national park and other reserves in 37 sites across 15 countries in Latin America and the Caribbean. These areas are now protected from uncontrolled tourism, unsustainable forestry and conversion to agricultural land, and are managed by trained park guards—often recruited from local communities—preventing poaching, working with local inhabitants, monitoring threatened species and ensuring compliance with local regulations.

In 2001, the Conservancy and USAID launched a $30 million initiative to renew Parks in Peril and expand it to eight additional protected areas covering 40 million acres. With this funding, the program, which gained new visibility at the 2003 World Parks Congress, will also be able to train managers of hundreds of additional natural sites and to expand its network of partner organizations, greatly improving the odds for enduring protection of natural areas in the region.

The Nature Conservancy
EIN: 53-0242652

Statement 16 (1/2)

Form 990, Part VIII - Accomplishment of Exempt Purpose

Line No.	
93A	Activities Fees - This includes revenues from seven separate types of activity: mitigation fees, lodging operations, speaking/lecture fees, fees from meetings and field trips, conservation science data base user fees, and leases and rents associated with the management of protected areas. All these activities are directly related to the Conservancy's programs which contribute to the protection of biodiversity.
93B	Royalty Fees - The Conservancy receives royalty fees from the sale of published items and other merchandise, which bears the Conservancy's logo or name. The publications and other items are all related to the communication of conservation issues and the Conservancy's programs.
93C	Contract Fees - The Conservancy receives fees for the management of protected areas on behalf of private and public organizations. Contract fees are also received for managing and collecting scientific information for the Conservancy's science heritage programs.
93D	Preserve Fees - The Conservancy derives fees, usually paid on a voluntary basis, from public visitation and use of certain of its nature preserves.
93E	Sale of Land to Government and Other Conservation Agencies - The Conservancy undertakes conservation projects involving land acquisition with government agencies and other non-profit organizations. The Conservancy sells and donates conservation land to the government and other conservation agencies for future management subject to restrictions and agreements to insure the on-going protection of these areas.
102	Sale of Inventory - The Conservancy derives revenues from the sale of low cost merchandise , which is intended to communicate information on conservation.

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Statement 16 (2/2)

Form 990, Part VIII - Accomplishment of Exempt Purpose

Line No.	
103B	Miscellaneous Income - The Conservancy derives revenues from various sources in conducting the normal business operations to support its fundamental exempt purpose of preserving, protecting, conserving, and managing natural habitat, and educating the public about these matters.
103C	Loss on Tradelands - The Conservancy sells certain real property, which has little ecological value, and uses the proceeds to support the acquisition of sites which contribute to the protection of biodiversity.
100	Gain and Losses - Represents gains and losses from the sale of equipment and stock used in maintaining and cultivating conservation property.

STATEMENT 16

FORM 990, PART VIII - ACCOMPLISHMENT OF EXEMPT PURPOSES

LINE NO.	EXPLAIN BELOW HOW EACH ACTIVITY FOR WHICH INCOME IS REPORTED IN COLUMN (E) OF PART VII CONTRIBUTED IMPORTANTLY TO THE ACCOMPLISH/ MENT OF YOUR EXEMPT PURPOSES (OTHER THAN BY PROVIDING FUNDS FOR SUCH PURPOSES
93A	ACTIVITIES FEES-THE NATURE CONSERVANCY DERIVES REVENUES FROM FEES PAID BY A VARIETY OF ACTIVITIES ASSOCIATED WITH MEETING AND HOTEL AND LODGING FEES ON CONSERVANCY PROPERTY, WHICH ARE RELATED TO THE CONSERVANCY'S EDUCATIONAL PURPOSE TO PROMOTE CONSERVATION AND PROPER USE OF NATURAL RESOURCES.
93B	LEASE/ROYALTY FEES-THE CONSERVANCY OBTAINS LEASE INCOME FROM GRAZING AND OTHER LEASE RIGHTS OF REAL PROPERTY ON OR ASSOCIATED WITH ITS PROTECTED NATURAL AREAS. THE USES RELATED TO THESE LEASES ARE CONSISTENT WITH MANAGING THESE NATURAL AREAS TO PRESERVE THEIR BIODIVERSITY AND THE FEES RECEIVED ARE USED TO SUPPORT THE MANAGEMENT OF THESE NATURAL AREAS.
93C	CONTRACT FEES-THE CONSERVANCY PROVIDES INFORMATION, DATA AND CONSULTING RELATED TO BIOLOGICAL CONSERVATION SCIENCE, AND PROTECTED AREAS DESIGN AND MANAGEMENT TO BOTH PRIVATE AND GOVERNMENT ORGANIZATIONS. THIS INFORMATION ASSISTS THESE ORGANIZATIONS IN PLANNING, IMPLEMENTING AND MANAGING CONSERVANCY PROGRAMS WHICH ARE SIMILAR TO THE EXEMPT PURPOSE GOALS OF THE CONSERVANCY. THE INCOME GENERATED IS USED TO FURTHER THE CONSERVANCY'S WORK IN CONSERVATION SCIENCE AND NATURAL AREA MANAGEMENT.
93D	PRESERVE FEES-THE CONSERVANCY DERIVES FEES PAID, USUALLY VOLUNTARILY, FOR ENTRY TO CERTAIN OF ITS PRESERVES. PROVIDING ACCESS TO PRESERVES INCREASES PUBLIC AWARENESS AND SUPPORT FOR THE CONSERVANCY'S CONSERVATION MISSION. THE CONSERVANCY USES THESE FUNDS TO SUPPORT THE ONGOING MANAGEMENT OF THE PRESERVE
93E	GOVERNMENT SALES REVENUE-THE CONSERVANCY DERIVES REVENUES FROM THE SALE OF LAND TO FEDERAL AND LOCAL GOVERNMENTS FOR USE BY THESE AS PARKLANDS AND OTHER RECREATIONAL AND NATURAL PRESERVES IN THE INTEREST OF PRESERVATION, PROTECTION, AND CONSERVATION NATURAL HABITAT.
102	SALE OF INVENTORY-THE CONSERVANCY DERIVES REVENUES FROM THE SALE OF LOW COST MERCHANDISE AND MEMORABILIA CONTAINING THE CONSERVANCY'S LOGO. FEES DERIVED FROM THIS ACTIVITY ARE USED TO SUPPORT THE CONSERVANCY'S EXEMPT PURPOSE TO PRESERVE, PROTEC AND CONSERVE NATURAL HABITAT.
103C	MISCELLANEOUS INCOME-DURING THE COURSE OF OPERATIONS, THE CONSERVANCY DERIVES REVENUES FROM VARIOUS SOURCES WHICH ARE TO SUPPORT ITS FUNDAMENTAL EXEMPT PURPOSE OF PRESERVING, PROTECTING, CONSERVING, AND MANAGING NATURAL HABITAT, AND EDUCATING THE PUBLIC ABOUT THESE MATTERS.
103D	LOSS ON TRADELANDS-THE CONSERVANCY PURCHASES AND SELLS LAND WHICH IS NOT ECOLOGICALLY UNIQUE, WITH THE INTENT OF DERIVING REVENUES WHICH IT CAN USE TO PURCHASE NATURAL HABITAT WHICH NEEDS PROTECTION.

STATEMENT 16

STATEMENT 13
FORM 990, PART VIII - ACCOMPLISHMENT OF EXEMPT PURPOSES

Line No	Description
93a	ACTIVITY FEES - The Nature Conservancy derives revenues from fees paid by a variety of activities associated with meetings and educational conferences on Conservancy property, which are related to the Conservancy's purpose to promote conservation and proper use of natural resources.
93b	CONTRACT FEES - The Conservancy provides information, data and consulting related to biological conservation science, and protected areas design and management to both private and government organizations. This information assists these organizations in planning, implementing and managing Conservancy programs which furthers the exempt purpose goals of the Conservancy.
93c	PRESERVE FEES - The Conservancy derives fees paid, usually voluntarily, for entry to certain of its preserves. Providing access to preserves increases public awareness and support for the Conservancy's conservation mission.
93d	GOVERNMENT SALES REVENUE - The Conservancy derives revenues from the sale of land to federal and local governments for use by these as parklands and other recreational and natural preserves in the interest of preservation, protection, and conservation of natural habitat.
102	SALE OF INVENTORY - The Conservancy derives revenues from the sale of low cost merchandise and memorabilia containing the Conservancy's logo which further promotes the educational goals of the Conservancy.
103b	MISCELLANEOUS INCOME - During the course of operations, the Conservancy derives revenues from various sources which support its fundamental exempt purpose of preserving, protecting, conserving, and managing natural habitat, and educating the public about these matters.
103c	LOSS ON TRADELANDS - The Conservancy purchases and sells land which is not ecologically unique, with the intent of deriving revenues which it can use to purchase natural habitat which needs protection.

STATEMENT 12
FORM 990, PART VIII - ACCOMPLISHMENT OF EXEMPT PURPOSES

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93g	FEES AND CONTRACTS FROM GOVERNMENT AGENCIES - The Conservancy provides information, data and consulting related to biological conservation science and protected areas design and management to various government agencies.
102	SALE OF INVENTORY - The Conservancy derives revenues from the sale of low cost merchandise and memorabilia containing the Conservancy's logo which further promotes the educational goals of the Conservancy.
103b	MISCELLANEOUS INCOME - During the course of operations, the Conservancy derives revenues from various sources which support its fundamental exempt purpose of preserving, protecting, conserving, and managing natural habitat, and educating the public about these matters.
103c	GAIN ON TRADELANDS - The Conservancy purchases and sells land which is not ecologically unique, with the intent of deriving revenues which it can use to purchase natural habitat which needs protection.

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Row	Description
93a	ACTIVITY FEES - The Conservancy derives revenues from fees paid by a variety of acitivities associated with meetings and educational conferences on Conservancy property, which are related to the Conservancy's purpose to promote conservation and proper use of natural resources
93b	CONTRACT FEES - The Conservancy provides information, data, and consulting related to biological conservation science, and protected areas design and management to private organizations. This information assists these organizations in planning, implementing, and managing Conservancy programs which furthers the exempt purpose goals of the Conservancy.
93c	GOVERNMENT SALES REVENUE - The Conservancy derives revenues from the sale of land to federal and local governments for use by these as parklands and other recreational and natural preserves in the interest of preservation, protection, and conservation of natural habitat.
93g	FEES AND CONTRACTS FROM GOVERNMENT AGENCIES - The Conservancy provided information, data, and consulting related to biological conservation science and protected areas design and management to various government agencies.
102	SALE OF INVENTORY - The Conservancy derives revenues from the sale of low cost merchandise and memorabilia containing the Conservancy's logo which further promotes the educational goals of the Conservancy.
103b	MISCELLANEOUS INCOME - During the course of operations, the Conservancy derives revenues from various sources which support its fundamental exempt purpose of preserving, protecting, conserving, and managing natural habitat, and educating the public about these matters.

THE NATURE CONSERVANCY
990 TAX RETURN
ADDITIONAL STATEMENTS
FY01

53-0242652

STATEMENT 23
FORM 990, PART VIII - ACCOMPLISHMENT OF EXEMPT PURPOSES

Row	Description
93a	ACTIVITY FEES - The Conservancy derives revenues from fees paid by a variety of acitivities associated with meetings and educational conferences on Conservancy property, which are related to the Conservancy's purpose to promote conservation and proper use of natural resources
93b	CONTRACT FEES - The Conservancy provides information, data, and consulting related to biological conservation science, and protected areas design and management to private organizations. This information assists these organizations in planning, implementing, and managing Conservancy programs which furthers the exempt purpose goals of the Conservancy.
93c	GOVERNMENT SALES REVENUE - The Conservancy derives revenues from the sale of land to federal and local governments for use by these as parklands and other recreational and natural preserves in the interest of preservation, protection, and conservation of natural habitat.
93g	FEES AND CONTRACTS FROM GOVERNMENT AGENCIES - The Conservancy provided information, data, and consulting related to biological conservation science and protected areas design and management to various government agencies.
102	SALE OF INVENTORY - The Conservancy derives revenues from the sale of low cost merchandise and memorabilia containing the Conservancy's logo which further promotes the educational goals of the Conservancy.
103b	MISCELLANEOUS INCOME - During the course of operations, the Conservancy derives revenues from various sources which support its fundamental exempt purpose of preserving, protecting, conserving, and managing natural habitat, and educating the public about these matters.

THE NATURE CONSERVANCY
990 TAX RETURN
ADDITIONAL STATEMENTS
FY02

53-0242652

STATEMENT 23
FORM 990, PART VIII - ACCOMPLISHMENT OF EXEMPT PURPOSES

Row	Description
93a	ACTIVITY FEES - The Conservancy derives revenues from fees paid by a variety of acitivities associated with meetings and educational conferences on Conservancy property, which are related to the Conservancy's purpose to promote conservation and proper use of natural resources
93b	CONTRACT FEES - The Conservancy provides information, data, and consulting related to biological conservation science, and protected areas design and management to private organizations. This information assists these organizations in planning, implementing, and managing Conservancy programs which furthers the exempt purpose goals of the Conservancy.
93c	GOVERNMENT SALES REVENUE - The Conservancy derives revenues from the sale of land to federal and local governments for use by these as parklands and other recreational and natural preserves in the interest of preservation, protection, and conservation of natural habitat.
93g	FEES AND CONTRACTS FROM GOVERNMENT AGENCIES - The Conservancy provided information, data, and consulting related to biological conservation science and protected areas design and management to various government agencies.
102	SALE OF INVENTORY - The Conservancy derives revenues from the sale of low cost merchandise and memorabilia containing the Conservancy's logo which further promotes the educational goals of the Conservancy.
103b	MISCELLANEOUS INCOME - During the course of operations, the Conservancy derives revenues from various sources which support its fundamental exempt purpose of preserving, protecting, conserving, and managing natural habitat, and educating the public about these matters.

STATEMENT 23
FORM 990, PART VIII - ACCOMPLISHMENT OF EXEMPT PURPOSES

Row	Description
93a	ACTIVITY FEES - The Conservancy derives revenues from fees paid by a variety of acitivities associated with meetings and educational conferences on Conservancy property, which are related to the Conservancy's purpose to promote conservation and proper use of natural resources.The Conservancy also receives mitigation fees from corporations which is used to aid conservation.
93b	CONTRACT FEES - The Conservancy provides information, data, and consulting related to biological conservation science, and protected areas design and management to private organizations. This information assists these organizations in planning, implementing, and managing Conservancy programs which furthers the exempt purpose goals of the Conservancy. With regard to sales of conservation real estate to any governmental agency, it is The Nature Conservancy's policy to recover only its direct and indirect expenses incurred in such a transaction and in no event will The Nature Conservancy realize a profit in such transactions. Recoverable costs include land costs, other direct costs relating primarily to The Nature Conservancy's acquisition and/or holding of the property, and overhead. Exceptions can be made only by the President and no such exceptions were granted during the fiscal year ending June 30, 2003.
93c	LAND SALES TO GOVT AND OTHERS - The Conservancy derives revenues from the sale of land to federal and local governments for use by these as parklands and other recreational and natural preserves in the interest of preservation, protection, and conservation of natural habitat.
93g	FEES AND CONTRACTS FROM GOVERNMENT AGENCIES - The Conservancy provided information, data, and consulting related to biological conservation science and protected areas design and management to various government agencies.
102	SALE OF INVENTORY - The Conservancy derives revenues from the sale of low cost merchandise and memorabilia containing the Conservancy's logo which further promotes the educational goals of the Conservancy.
103b	MISCELLANEOUS INCOME - During the course of operations, the Conservancy derives revenues from various sources which support its fundamental exempt purpose of preserving, protecting, conserving, and managing natural habitat, and educating the public about these matters.

Form **990-T**

JUL 25 2003

Exempt Organization Business Income Tax Return
(and proxy tax under section 6033(e))

OMB No 1545-0

Department of the Treasury
Internal Revenue Service

For calendar year 2001 or other tax year beginning 7/1/2001 ending 6/30/2002
See separate instructions.

2001

A [ ] Check box if address changed

B Exempt under section
[X] 501 (C)3
[ ] 408(e) [ ] 220(e)
[ ] 408A [ ] 530(a)
[ ] 529(a)

C Book value of all assets at end of year

Name of organization ([ ] check box if name changed and see instructions)
The Nature Conservancy

Number, street, and room or suite no. (If a P.O. box, see page 7 of instructions.)
4245 North Fairfax Drive, Suite 100

City or town: Arlington
State: VA
ZIP code: 22203-1606

D Employer identification number
(Employees' trust, see instr. for Block D on p
53-0242652

E NEW unrelated business activity codes
(See instructions for Block E on page 7.)
531120,532000,541800,541900

F Group exemption number (see instructions for Block F on page 7)

G Check organization type
[X] 501(c) corporation [ ] 501(c) trust [ ] 401(a) trust [ ] Other trust

H Describe the organization's primary unrelated business activity. Partial rental of 2 office buildings

I During the tax year, was the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group? [ ] Yes [X] No
If "Yes," enter the name and identifying number of the parent corporation.

J The books are in care of
Telephone number ( )

Part I Unrelated Trade or Business Income

			(A) Income	(B) Expenses	(C) Net
1a	Gross receipts or sales	33,402			
b	Less returns and allowances	c Balance	1c 33,402		
2	Cost of goods sold (Schedule A, line 7) See Stmt 1		2 7,185		
3	Gross profit (subtract line 2 from line 1c)		3 26,217		26,21
4a	Capital gain net income (attach Schedule D)		4a 0		(
b	Net gain (loss) (Form 4797, Part II, line 18) (attach Form 4797)		4b 0		(
c	Capital loss deduction for trusts		4c 0		(
5	Income (loss) from partnerships and S corporations (See Stmt 2)		5 -52,375		-52,375
6	Rent income (Schedule C)		6 0	0	(
7	Unrelated debt-financed income (Schedule E)		7 1,167,621	663,311	504,310
8	Interest, annuities, royalties, and rents from controlled organizations (Schedule F)		8 0	0	0
9	Investment income of a section 501(c)(7), (9), or (17) organization (Schedule G)		9 0	0	0
10	Exploited exempt activity income (Schedule I)		10 0	0	0
11	Advertising income (Schedule J)		11 60,000	62,392	-2,392
12	Other income (see page 9 of the instructions - attach schedule)		12		0
13	TOTAL (combine lines 3 through 12)		13 1,201,463	725,703	475,760

Part II Deductions Not Taken Elsewhere

(See page 9 of the instructions for limitations on deductions.)
(Except for contributions, deductions must be directly connected with the unrelated business income.)

14	Compensation of officers, directors, and trustees (Schedule K)		14	0
15	Salaries and wages		15	
16	Repairs and maintenance		16	
17	Bad debts		17	
18	Interest (attach schedule)		18	
19	Taxes and licenses		19	
20	Charitable contributions (see page 11 of the instructions for limitation rules)		20	
21	Depreciation (attach Form 4562)	21 0		
22	Less depreciation claimed on Schedule A and elsewhere on return	22a	22b	0
23	Depletion		23	
24	Contributions to deferred compensation plans		24	
25	Employee benefit programs		25	
26	Excess exempt expenses (Schedule I)		26	0
27	Excess readership costs (Schedule J)		27	0
28	Other deductions (attach schedule)		28	0
29	**Total deductions** (add lines 14 through 28)		29	0
30	Unrelated business taxable income before net operating loss deduction (subtract line 29 from line 13)		30	475,760
31	Net operating loss deduction		31	11,460
32	Unrelated business taxable income before specific deduction (subtract line 31 from line 30)		32	464,300
33	Specific deduction (Generally $1,000, but see line 33 instructions for exceptions)		33	
34	**Unrelated business taxable income** (subtract line 33 from line 32). If line 33 is greater than line 32, enter the smaller of zero or line 32		34	464,300

For Paperwork Reduction Act Notice, see instructions.

(HTA)

Form 990-T (2001)

Part III Tax Computation

35	**Organizations Taxable as Corporations** (see instructions for tax computation on page 12). Controlled group members (sections 1561 and 1563) - check here [X]. See instructions and:		
a	Enter your share of the $50,000, $25,000, and $9,925,000 taxable income brackets (in that order): (1) $ (2) $ (3) $		
b	Enter organization's share of: (1) additional 5% tax (not more than $11,750)	$ 11,750	
	(2) additional 3% tax (not more than $100,000)	$ 0	
c	Income tax on the amount on line 34	35c	157,862
36	**Trusts Taxable at Trust Rates** (see instructions for tax computation on page 13) Income tax on the amount on line 34 from: [ ] Tax rate schedule [ ] or Schedule D (Form 1041)	36	0
37	**Proxy tax** (see page 13 of the instructions)	37	
38	Alternative minimum tax	38	
39	**Total** (add lines 37 and 38 to line 35c or 36, whichever applies)	39	157,862

Part IV Tax and Payments

40a	Foreign tax credit (corporations attach Form 1118; trusts attach Form 1116)	40a	0		
b	Other credits (see page 13 of the instructions)	40b			
c	General business credit - Check here and indicate which forms are attached: [ ] Form 3800 [ ] Form(s) (specify)	40c	0		
d	Credit for prior year minimum tax (attach Form 8801 or 8827)	40d	0		
e	Total credits (add lines 40a through 40d)			40e	0
41	Subtract line 40e from line 39			41	157,862
42	Other taxes. Check if from: [ ] Form 4255 [ ] Form 8611 [ ] Form 8697 [ ] Form 8866 [ ] Other (attach sch.)			42	0
43	**Total tax** (add lines 41 and 42)			43	157,862
44	**Payments:** a 2000 overpayment credited to 2001	44a			
b	2001 estimated tax payments	44b	60,000		
c	Tax deposited with Form 8868	44c	91,000		
d	Foreign organizations - Tax paid or withheld at source (see instructions)	44d			
e	Backup withholding (see instructions)	44e			
f	Other credits and payments (see instructions)	44f	0		
45	**Total payments** (add lines 44a through 44f)			45	151,000
46	Estimated tax penalty (see page 4 of the instructions). Check [ ] if Form 2220 is attached			46	0
47	**Tax due** - If line 45 is less than the total of lines 43 and 46, enter amount owed Federal Electronic Wire			47	6,862
48	**Overpayment** - If line 45 is larger than the total of lines 43 and 46, enter amount overpaid			48	0
49	Enter the amount of line 48 you want: Credited to 2002 estimated tax	Refunded		49	0

Part V Statements Regarding Certain Activities and Other Information (See instructions on page 15.)

		Yes	No
1	At any time during the 2001 calendar year, did the organization have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? If "Yes," the organization may have to file Form TD F 90-22.1. If "Yes," enter the name of the foreign country here See Stmt 7	X	
2	During the tax year, did the organization receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If "Yes," see page 15 of the instructions for other forms the organization may have to file.		X
3	Enter the amount of tax-exempt interest received or accrued during the tax year $		

Schedule A - Cost of Goods Sold (See instructions on page 16.)

Method of inventory valuation (specify)

1	Inventory at beginning of year	1	0	6	Inventory at end of year	6	0
2	Purchases	2	0	7	**Cost of goods sold.** Subtract line 6 from line 5. (Enter here and on line 2, Part I.)	7	7,185
3	Cost of labor	3	0				
4a	Additional section 263A costs (attach schedule)	4a		8	Do the rules of section 263A (with respect to property produced or acquired for resale) apply to the organization?	Yes	No: X
b	Other costs (See Stmt 1)	4b	7,185				
5	TOTAL - Add lines 1 through 4b	5	7,185				

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct and complete. Declaration of preparer (other than taxpayer) is based on all information of which preparer has any knowledge.

Signature of officer | Date 4/25/03 | Title Chief Financial Officer

May the IRS discuss this return with the preparer shown below (see instructions)? [ ] Yes [ ] No

Paid Preparer's Use Only

Preparer's signature	Date 4/2/03	Check if self-employed [ ]	Preparer's SSN or PTIN 229-17-1750
Firm's name (or yours if self-employed), address, and ZIP code: PriceWaterhouseCoopers LLP, 1301 K Street NW, 800W; Washington, DC 20005		EIN 13-4008324	Phone no. (202)414-1000

Form **8868**
(December 2000)
Department of the Treasury
Internal Revenue Service

Application for Extension of Time To File an Exempt Organization Return

File a separate application for each return.

OMB No. 1545-1709

If you are filing for an Automatic 3-Month Extension, complete only Part I and check this box . . . . . [X]
If you are filing for an Additional (not automatic) 3-Month Extension, complete only Part II (on page 2 of this form).
Note: Do not complete Part II unless you have already been granted an automatic 3-month extension on a previously filed Form 8868.

Part I Automatic 3-Month Extension of Time- Only submit original (no copies needed)

Note: Form 990-T corporations requesting an automatic 6-month extension-check this box and complete Part I only . . . . . [ ]

All other corporations (including Form 990-C filers) must use Form 7004 to request an extension of time to file income tax returns. Partnerships, REMICs and trusts must use Form 8736 to request an extension of time to file Form 1065, 1066, or 1041.

Type or print	Name of Exempt Organization	Employer identification number
	The Nature Conservancy	53-0242652
File by the due date for filing your return. See instructions.	Number, street, and room or suite no. If a P.O. box, see instructions. 4245 North Fairfax Drive, Suite 100	
	City, town or post office, state, and ZIP code. For a foreign address, see instructions. Arlington, VA 22203-1606	

Check type of return to be filed (file a separate application for each return):

[ ] Form 990	[X] Form 990-T (corporation)	[ ] Form 4720
[ ] Form 990-BL	[ ] Form 990-T (sec. 401(a) or 408(a) trust)	[ ] Form 5227
[ ] Form 990-EZ	[ ] Form 990-T (trust other than above)	[ ] Form 6069
[ ] Form 990-PF	[ ] Form 1041-A	[ ] Form 8870

If the organization does not have an office or place of business in the United States, check this box . . . . . [ ]
If this is for a Group Return, enter the organization's four digit Group Exemption Number (GEN) _____ . If this is for the whole group, check this box [ ] . If it is for part of the group, check this box [ ] and attach a list with the names and EINs of all members the extension will cover.

1 I request an automatic 3-month (6-month, for 990-T corporation) extension of time until 5/15/2003 to file the exempt organization return for the organization named above. The extension is for the organization's return for:
[ ] calendar year _____
[X] tax year beginning 7/1/2001 and ending 6/30/2002 .

2 If this tax year is for less than 12 months, check reason: [ ] Initial return [ ] Final return [ ] Change in accounting period

3a If this application is for Form 990-BL, 990-PF, 990-T, 4720, or 6069, enter the tentative tax, less any nonrefundable credits. See instructions 162,460

b If this application is for Form 990-PF or 990-T, enter any refundable credits and estimated tax payments made. Include any prior year overpayment allowed as a credit 71,460

c Balance Due. Subtract line 3b from line 3a. Include your payment with this form, or, if required, deposit with FTD coupon or, if required, by using EFTPS (Electronic Federal Tax Payment System). See instructions . . . money being wired 91,000

Signature and Verification

Under penalties of perjury, I declare that I have examined this form, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete, and that I am authorized to prepare this form.

Signature [signature] Title LAURA HOLMS CONTROLLER Date 11/8/2002

For Paperwork Reduction Act Notice, see Instruction (HTA) Form 8868 (12-2000)

Schedule C - Rent Income (From Real Property and Personal Property Leased With Real Property)

(See instructions on page 16.)

1 Description of property N/A

(1)
(2)
(3)
(4)

	2 Rent received or accrued		3 Deductions directly connected with the income in columns 2(a) and 2(b) (attach schedule)
	(a) From personal property (if the percentage of rent for personal property is more than 10% but not more than 50%)	(b) From real and personal property (if the percentage of rent for personal property exceeds 50% or if the rent is based on profit or income)	
(1)			
(2)			
(3)			
(4)			
Total	0	Total 0	Total deductions. Enter here and on line 6, column (B), Part I, page 1 0

Total Income (Add totals of columns 2(a) and 2(b). Enter here and on line 6, column (A), Part I, page 1.) 0

Schedule E - Unrelated Debt-Financed Income

(See instructions on page 17.)

	1 Description of debt-financed property	2 Gross income from or allocable to debt-financed property	3 Deductions directly connected with or allocable to debt-financed property (a) Straight line depreciation (See Stmt 3)	(b) Other deductions (Stmt 4)
(1)	Building @4245 N. Fairfax Dr-Arlington, VA	1,194,219	148,040	526,885
(2)	VAFO Building@ Charlottesville, VA	18,457	5,601	11,666
(3)				
(4)				

	4 Amount of average acquisition debt on or allocable to debt-financed property (See Stmt 5)	5 Average adjusted basis of or allocable to debt-financed property (See Stmt 6)	6 Column 4 divided by column 5	7 Gross income reportable (col. 2 x col. 6)	8 Allocable deductions (column 6 x total of columns 3(a) and 3(b))
(1)	6,085,860	6,272,722	97%	1,158,392	654,677
(2)	100,194	201,634	50%	9,229	8,634
(3)			%	0	0
(4)			%	0	0
Totals				Enter here and on line 7, col. (A), Part I, page 1. 1,167,621	Enter here and on line 7, col. (B), Part I, page 1. 663,311

Total dividends - received deductions included in column 8

Schedule F - Interest, Annuities, Royalties, and Rents From Controlled Organizations

(See instructions on page 18.)

Exempt Controlled Organizations

1 Name of Controlled Organization	2 Employer Identification Number	3 Net unrelated income (loss) (see instructions)	4 Total of specified payments made	5 Part of column (4) that is included in the controlling organization's gross income	6 Deductions directly connected with income in col (5)
(1)					
(2)					
(3)					
(4)					

Nonexempt Controlled Organizations

7 Taxable Income	8 Net unrelated income (loss) (see instructions)	9 Total of specified payments made	10 Part of column (9) that is included in the controlling organization's gross income	11 Deductions directly connected with income in column (10)
(1)				
(2)				
(3)				
(4)				
12 Totals			Add columns 5 and 10. Enter here and on line 8, Column (A), Part I, page 1. 0	Add columns 6 and 11. Enter here and on line 8, Column (B), Part I, page 1. 0

Schedule G - Investment Income of a Section 501(c)(7), (9), or (17) Organization

(See instructions on page 18.)

1 Description of income	2 Amount of income	3 Deductions directly connected (attach schedule)	4 Set-asides (attach schedule)	5 Total deductions and set-asides (col. 3 plus col. 4)
(1)				0
(2)				0
(3)				0
(4)				0
Totals	Enter here and on line 9, col. (A), Part I, p. 1. 0			Enter here and on line 9, column (B), Part I, page 1. 0

Schedule I - Exploited Exempt Activity Income, Other Than Advertising Income

(See instructions on page 18.)

1 Description of exploited activity	2 Gross unrelated business income from trade or business	3 Expenses directly connected with production of unrelated business income	4 Net income (loss) from unrelated trade or business (col. 2 minus col. 3). If a gain, compute cols. 5 through 7	5 Gross income from activity that is not unrelated business income	6 Expenses attributable to column 5	7 Excess exempt expenses (column 6 minus column 5, but not more than column 4)
(1)			0			0
(2)			0			0
(3)			0			0
(4)			0			0
Column totals	Enter here and on line 10, col. (A), Part I, p. 1. 0	Enter here and on line 10, col. (B), Part I, p. 1. 0				Enter here and on line 26, Part II, page 1. 0

Schedule J - Advertising Income

(See instructions on page 19.)

Part I Income From Periodicals Reported on a Consolidated Basis

1 Name of periodical	2 Gross advertising income	3 Direct advertising costs	4 Advertising gain or (loss) (column 2 minus column 3). If a gain, compute columns 5 through 7	5 Circulation income	6 Readership costs	7 Excess readership costs (col. 6 minus col. 5, but not more than col. 4).
(1) The Nature Conservancy Maga	60,000	62,392		0	0	
(2)						
(3)						
(4)						
Column totals (carry to Part II, line (5))	60,000	62,392	-2,392	0	0	0

Part II Income From Periodicals Reported on a Separate Basis

(For each periodical listed in Part II, fill in columns 2 through 7 on a line-by-line basis.)

(1)						
(2)						
(3)						
(4)						
(5) Totals from Part I	60,000	62,392				0
Column totals. Part II	Enter here and on line 11, col. (A), Part I, p. 1. 60,000	Enter here and on line 11, col. (B), Part I, p. 1. 62,392				Enter here and on line 27, Part II, page 1. 0

Schedule K - Compensation of Officers, Directors, and Trustees

(See instructions on page 19.)

1 Name	2 Title	3 Percent of time devoted to business	4 Compensation attributable to unrelated business
N/A			

Total - Enter here and on line 14, Part II, page 1 0

THE NATURE CONSERVANCY 53-0242652
990-T TAX RETURN
ADDITIONAL STATEMENTS
2001 (FY02)

Net Operating Loss (NOL)

Years	Loss Amounts	Amount Used	Amount Remains
1998	(166,303)	(166,303)	0
1999	(78,902)	(67,442)	(11,460)
	(245,205)	(233,745)	(11,460)

THE NATURE CONSERVANCY **53-0242652**
990-T TAX RETURN
ADDITIONAL STATEMENTS
FY02

STATEMENT 1
FORM 990-T,SCHEDULE A - COST OF GOODS SOLD Line 4b

South America Tour

Asset Description	Cost	Accumulated Depr./Amort.	Book Value
Air Travel	3,326		3,326
Other Travel	3,859		3,859
Total	7,185	0	7,185

THE NATURE CONSERVANCY 53-0242652
990-T TAX RETURN
ADDITIONAL STATEMENTS
FY02

STATEMENT 2
FORM 990-T, Line 5
Income (loss) from partnerships and S corporations
Soldier Creek Preserve, Inc.

Description	
Ordinary Income (loss) from trade or business activities	(106,221)
Ordinary Income (loss) from other rental activities	53,846
Total	**(52,375)**

THE NATURE CONSERVANCY
990-T TAX RETURN
ADDITIONAL STATEMENTS
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53-0242652

STATEMENT 3
FORM 990-T,SCHEDULE E - 3(A)

	Building @Arlington, VA				Building@Charlottesville, VA		
Asset Description	BOY NBV	Transactions	Current Yr Depr./Amort.	Book Value	BOY NBV	Current Yr Depr./Amort.	Book Value
Land For Operations	3,932,805			3,932,805	0	0	0
Land Improvements	158,537		22,345	136,192	0	0	0
Construction in Progress	1,493,721	(1,493,721)		0	0	0	0
Buildings for Operations	24,868,401	1,896,170	688,703	26,075,868	1,078,256	29,952	1,048,304
Total	30,453,464	402,449	711,048	30,144,865	1,078,256	29,952	1,048,304
Allocable Total based on rentable space			**148,040**			**5,601**	

THE NATURE CONSERVANCY **53-0242652**
990-T TAX RETURN
ADDITIONAL STATEMENTS
FY02

STATEMENT 4
FORM 990-T,SCHEDULE E - 3(B)

Expenses	Arlington VA		Charlottesville, VA	
	HO Bldg	HO Bldg	VAFO	VAFO
Management Co expenses:	1,306,294		0	
Direct allocable management expenses	0		0	4,385
Bond int expenses (both):	1,224,222		38,937	
Bond sweep fees (both):	153		0	
Total expenses	2,530,669		38,937	
Allocable Total based on rentable space		**526,885**		**11,666**

THE NATURE CONSERVANCY
990-T TAX RETURN
ADDITIONAL STATEMENTS
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53-0242652

STATEMENT 5
FORM 990-T,SCHEDULE E - 4

	HO Bldg-Arlington, VA Average Basis July-01 to June-02	VAFO Bldg-Charlottesville, VA Average Basis July-01 to June-02
Debt Financing	0	535,798
Fixed Rate Capital Lease	17,506,667	0
Variable Rate Capital Lease	11,724,167	0
Total	29,230,834	535,798
Allocable Total based on rentable space:	**6,085,860**	**100,194**

THE NATURE CONSERVANCY
990-T TAX RETURN
ADDITIONAL STATEMENTS
FY02

53-0242652

STATEMENT 6
FORM 990-T,SCHEDULE E - 5

	HO Bldg-Arlington, VA Average Basis July-01 to June-02	VAFO Bldg-Charlottesville, VA Average Basis July-01 to June-02
Land for Ops	3,932,805	0
Land Improvements	136,192	0
Construction in Progress	1,721,638	0
Building	24,337,713	1,078,256
Total	30,128,348	1,078,256
Allocable Total based on rentable space:	**6,272,722**	**201,634**

THE NATURE CONSERVANCY **53-0242652**
990-T TAX RETURN
ADDITIONAL STATEMENTS
FY02

STATEMENT 7
FORM 990-T, Part 5 Line 1

List of Countries with activity

New Zealand
Solomon Islands
Dominican Republic
Brazil
Ecuador
Guatemala
Mexico
Costa Rica
Honduras
China
Papua New Guinea
Japan
Indonesia
Jamaica
Panama
Venezuela
Peru
Belize

NOV 23 2004

Form **990-T**

Department of the Treasury
Internal Revenue Service

Exempt Organization Business Income Tax Return
(and proxy tax under section 6033(e))

For calendar year 2002 or other tax year beginning 7/1/2002, and ending 6/30/2003
See separate instructions.

OMB No. 1545-0687

2002

A [ ] Check box if address changed

B Exempt under section
[X] 501(c3)
[ ] 408(e) 220(e)
[ ] 408A 530(a)
[ ] 529(a)

C Book value of all asset end of year 3,739,058,217

Please Print or Type

Name of organization ([ ] check box if name changed and see instr.)
The Nature Conservancy

Number, street, and room or suite no. (If a P.O. box, see page 7 of instructions.)
4245 North Fairfax Drive, Suite 100

City or town: Arlington | State: VA | ZIP code: 22203-1606

D Employer identification number (Employees' trust, see instructions for Block D on page 7.)
53-0242652

E NEW unrelated business activity codes (See instructions for Block E on page 7.)
531120,511120

F Group exemption number (see instructions for Block F on page 7)

G Check organization type [X] 501(c) corporation [ ] 501(c) trust [ ] 401(a) trust [ ] Other trust

H Describe the organization's primary unrelated business activity. Partial rental of 2 office buildings & advertising

I During the tax year, was the corporation a subsidiary in an affiliated group or a parent-subsidiary controlled group? [ ] Yes [X] No
If "Yes," enter the name and identifying number of the parent corporation.

J The books are in care of Telephone number

Part I

			(A) Income	(B) Expenses	(C) Net
1 a	Gross receipts or sales				
b	Less returns and allowances c Balance	1c	0		
2	Cost of goods sold (Schedule A, line 7)	2	0		
3	Gross profit (subtract line 2 from line 1c)	3	0		0
4 a	Capital gain net income (attach Schedule D)	4a	1,285		1,285
b	Net gain (loss) (Form 4797, Part II, line 18) (attach Form 4797)	4b	0		0
c	Capital loss deduction for trusts	4c	0		0
5	Income (loss) from partnerships and S corporations (Stmt 2)	5	-60,937		-60,937
6	Rent income (Schedule C)	6	0	0	0
7	Unrelated debt-financed income (Schedule E)	7	1,112,870	840,323	272,547
8	Interest, annuities, royalties, and rents from controlled organizations (Schedule F)	8	0	0	0
9	Investment income of a section 501(c)(7), (9), or (17) organization (Schedule G)	9	0	0	0
10	Exploited exempt activity income (Schedule I)	10	0	0	0
11	Advertising income (Schedule J)	11	212,526	76,581	135,945
12	Other income (see page 9 of the instructions - attach schedule)	12			0
13	TOTAL (combine lines 3 through 12)	13	1,265,744	916,904	348,840

Part II (See page 9 of the instructions for limitations on deductions.)

14	Compensation of officers, directors, and trustees (Schedule K)			14	0
15	Salaries and wages			15	
16	Repairs and maintenance			16	
17	Bad debts			17	
18	Interest (attach schedule)			18	
19	Taxes and licenses			19	12,714
20	Charitable contributions (see page 11 of the instructions for limitation rules)			20	
21	Depreciation (attach Form 4562)	21	0		
22	Less depreciation claimed on Schedule A and elsewhere on return	22a		22b	0
23	Depletion			23	
24	Contributions to deferred compensation plans			24	
25	Employee benefit programs			25	
26	Excess exempt expenses (Schedule I)			26	0
27	Excess readership costs (Schedule J)			27	135,945
28	Other deductions (attach schedule)			28	0
29	TOTAL DEDUCTIONS (add lines 14 through 28)			29	148,659
30	Unrelated business taxable income before net operating loss deduction (subtract line 29 from line 13)			30	200,181
31	Net operating loss deduction			31	
32	Unrelated business taxable income before specific deduction (subtract line 31 from line 30)			32	200,181
33	Specific deduction (Generally $1,000, but see line 33 instructions for exceptions)			33	1,000
34	UNRELATED BUSINESS TAXABLE INCOME (subtract line 33 from line 32). If line 33 is greater than line 32, enter the smaller of zero or line 32			34	199,181

(HTA) **For Paperwork Reduction Act Notice, see instructions.** Form **990-T** (2002)

Schedule C - Rent Income (From Real Property and Personal Property Leased With Real Property)

(See instructions on page 16.)

1 Description of property N/A

(1)
(2)
(3)
(4)

2 Rent received or accrued		
(a) From personal property (if the percentage of rent for personal property is more than 10% but not more than 50%)	(b) From real and personal property (if the percentage of rent for personal property exceeds 50% or if the rent is based on profit or income)	3 Deductions directly connected with the income in columns 2(a) and 2(b) (attach sch.)
(1)		
(2)		
(3)		
(4)		
Total 0	Total 0	TOTAL DEDUCTIONS. Enter here and on line 6, column (B), Part I, page 1 . . 0
TOTAL INCOME (Add totals of columns 2(a) and 2(b). Enter here and on line 6, column (A), Part I, page 1.) 0		

Schedule E - Unrelated Debt-Financed Income (See instructions on page 17.)

1 Description of debt-financed property	2 Gross income from or allocable to debt-financed property	3 Deductions directly connected with or allocable to debt-financed property (a) Straight line depreciation (Stmt 3)	(b) Other deductions (Stmt 4)
(1) Building @4245 N. Fairfax Dr-Arlington,VA	1,236,522	158,679	775,013
(2)			
(3)			
(4)			

4 Amount of average acquisition debt on or allocable to debt-financed property (Stmt 5)	5 Average adjusted basis of or allocable to debt-financed property (Stmt 6)	6 Column 4 divided by column 5	7 Gross income reportable (col. 2 x col. 6)	8 Allocable deductions (column 6 x total of columns 3(a) and 3(b))
(1) 5,648,790	6,255,632	90%	1,112,870	840,323
(2)		%	0	0
(3)		%	0	0
(4)		%	0	0
			Enter here and on line 7, col. (A), Part I, page 1.	Enter here and on line 7, col. (B), Part I, page 1.
Totals			1,112,870	840,323
TOTAL DIVIDENDS - RECEIVED DEDUCTIONS included in column 8				

Schedule F - Interest, Annuities, Royalties, and Rents From Controlled Organizations (See instructions on page 18.)

Exempt Controlled Organizations

1 Name of Controlled Organization	2 Employer Identification Number	3 Net unrelated income (loss) (see instructions)	4 Total of specified payments made	5 Part of column (4) that is included in the controlling organization's gross income	6 Deductions directly connected with income in col (5)
(1)					
(2)					
(3)					
(4)					

Nonexempt Controlled Organizations

7 Taxable Income	8 Net unrelated income (loss) (see instructions)	9 Total of specified payments made	10 Part of column (9) that is included in the controlling organization's gross income	11 Deductions directly connected with income in column (10)
(1)				
(2)				
(3)				
(4)				
			Add columns 5 and 10. Enter here and on line 8, Column (A), Part I, page 1.	Add columns 6 and 11. Enter here and on line 8, Column (B), Part I, page 1.
12 Totals			0	0

Schedule G - Investment Income of a Section 501(c)(7), (9), or (17) Organization

(See instructions on page 18.)

1 Description of income	2 Amount of income	3 Deductions directly connected (attach schedule)	4 Set-asides (attach schedule)	5 Total deductions and set-asides (col. 3 plus col. 4)
(1)				0
(2)				0
(3)				0
(4)				0
Totals	Enter here and on line 9, column (A), Part I, page 1. 0			Enter here and on line 9, column (B), Part I, page 1. 0

Schedule I - Exploited Exempt Activity Income, Other Than Advertising Income

(See instructions on page 18.)

1 Description of exploited activity	2 Gross unrelated business income from trade or business	3 Expenses directly connected with production of unrelated business income	4 Net income (loss) from unrelated trade or business (column 2 minus column 3). If a gain, compute cols. 5 through 7.	5 Gross income from activity that is not unrelated business income	6 Expenses attributable to column 5	7 Excess exempt expenses (column 6 minus column 5, but not more than column 4).
(1)			0			0
(2)			0			0
			0			0
			0			0
Column totals	Enter here and on line 10, col. (A), Part I, pg. 1. 0	Enter here and on line 10, col. (B), Part I, pg. 1. 0				Enter here and on line 26, Part II, page 1. 0

Schedule J - Advertising Income (See instructions on page 19.)

Part I Income From Periodicals Reported on a Consolidated Basis

1 Name of periodical	2 Gross advertising income	3 Direct advertising costs	4 Advertising gain or (loss) (col. 2 minus col. 3). If a gain, compute cols. 5 through 7.	5 Circulation income	6 Readership costs	7 Excess readership costs (column 6 minus column 5, but not more than column 4).
(1) The Nature Conservancy Magaz	212,526	76,581		1,821,198	3,127,706	
(2)						
(3)						
(4)						
COLUMN TOTALS (carry to Part II, line (5))	212,526	76,581	135,945	1,821,198	3,127,706	135,945

Part II Income From Periodicals Reported on a Separate Basis (For each periodical listed in Part II, fill in columns 2 through 7 on a line-by-line basis.)

(1)						
(2)						
(3)						
(4)						
(5) Totals from Part I	212,526	76,581				135,945
COLUMN TOTALS, Part II	Enter here and on line 11, col. (A), Part I, pg. 1. 212,526	Enter here and on line 11, col. (B), Part I, pg. 1. 76,581				Enter here and on line 27, Part II, page 1. 135,945

Schedule K - Compensation of Officers, Directors, and Trustees (See instructions on page 19.)

1 Name	2 Title	3 Percent of time devoted to business	4 Compensation attributable to unrelated business
TOTAL - Enter here and on line 14, Part II, page 1			0

SCHEDULE D
(Form 1120)

Department of the Treasury
Internal Revenue Service

Capital Gains and Losses

Attach to Form 1120, 1120-A, 1120-F, 1120-FSC, 1120-H, 1120-IC-DISC, 1120-L, 1120-ND, 1120-PC, 1120-POL, 1120-REIT, 1120-RIC, 1120-SF, 990-C, or certain Forms 990-T.

OMB No 1545-0123

2002

Name: Nature Conservancy

Employer identification number: 53-0242652

Part I Short-Term Capital Gains and Losses - Assets Held One Year or Less

(a) Description of property (Example: 100 shares of Z Co.)	(b) Date acquired (mo., day, yr.)	(c) Date sold (mo., day, yr.)	(d) Sales price (see instructions)	(e) Cost or other basis (see instructions)	(f) GAIN OR (LOSS) (Subtract (e) from (d))
1 Pass through from R&P Anderson Enterprises					519

2 Short-term capital gain from installment sales from Form 6252, line 26 or 37	2	0
3 Short-term gain or (loss) from like-kind exchanges from Form 8824	3	0
4 Unused capital loss carryover (attach computation)	4	
5 Net short-term capital gain or (loss). Combine lines 1 through 4	5	519

Part II Long-Term Capital Gains and Losses - Assets Held More Than One Year

(a) Description of property	(b) Date acquired	(c) Date sold	(d) Sales price	(e) Cost or basis	(f) Gain or (loss)
6 Pass through from R&P Anderson Enterprises					766

7 Enter gain from Form 4797, column (g), line 7 or 9	7	0
8 Long-term capital gain from installment sales from Form 6252, line 26 or 37	8	0
9 Long-term gain or (loss) from like-kind exchanges from Form 8824	9	0
10 Capital gain distributions (see instructions)	10	
11 Net long-term capital gain or (loss). Combine lines 6 through 10	11	766

Part III Summary of Parts I and II

12 Enter excess of net short-term capital gain (line 5) over net long-term capital loss (line 11)	12	519
13 Net capital gain. Enter excess of net long-term capital gain (line 11) over net short-term capital loss (line 5)	13	766
14 Add lines 12 and 13. Enter here and on Form 1120, page 1, line 8, or the proper line on other returns	14	1,285

Note: *If losses exceed gains, see CAPITAL LOSSES in the instructions on page 2.*

THE NATURE CONSERVANCY
990-T TAX RETURN
ADDITIONAL STATEMENTS
FY03

53-0242652

STATEMENT 2
FORM 990-T, Line 5
Income (loss) from partnerships and S corporations

Description	Soldier Creek Preserve, Inc.	R&P Anderson Enterprises-Limited Partnership
Ordinary Income (loss) from trade or business activities	(85,886)	7
Ordinary Income (loss) from rental real estate activities	19,127	
Interest Income	5,815	
Total	(60,944)	7

THE NATURE CONSERVANCY
990-T TAX RETURN
ADDITIONAL STATEMENTS
FY03

53-0242652

STATEMENT 4
FORM 990-T,SCHEDULE E - 3(B)

Expenses	Arlington VA HO Bldg	HO Bldg
Management Co expenses:	1,454,308	
Direct allocable management expenses	0	
Bond int expenses (both):	2,236,118	
Bond sweep fees (both):	114	
Total expenses	3,690,540	
Allocable Total based on rentable space	@21%	775,013

April 21, 2005
Senate Finance Committee Letter

Question 16

Please explain the process used by TNC to determine whether it characterizes an activity as an unrelated trade or business activity for Federal income tax reporting purposes. Does this process involve input from local or State chapters as well as a review by company headquarters' employees.

The Conservancy adopted, in 1996 and revised in 2001, a Standard Operating Procedure (attached) that describes the procedures that TNC must follow before entering a transaction that might subject the organization to Unrelated Business Income Tax (UBIT).

This procedure requires that before entering into any transaction or activity that has the potential to expose The Nature Conservancy to UBIT, an Operating Unit must consult with the General Counsel who will make the final determination of whether UBIT exposure exists. Immediately upon entering into a transaction that exposes The Conservancy to UBIT, the Operating Unit must notify the Worldwide Office Finance Department. After consulting with the Finance Department regarding financial and accounting methodology, the Operating Unit must separately track the revenue and expenses of each UBIT activity in a manner that allows satisfactory reporting on the IRS Form 990T. Depending on the amount of gross annual revenue involved which has been determined to give rise to UBIT exposure, the anticipated activity must be approved either by the President or Chief Financial Officer -- if the amount is less than $100,000-- or if the amount is in excess of that amount, by the Finance Committee of the Board of Governors.

As a practical matter, this procedure has been implemented by the Conservancy's Legal Department working collaboratively with both Conservancy Operating Units and the Finance Department. For a number of years the General Counsel's office has had an experienced headquarters staff attorney whose assignments include responsibility to evaluate UBIT exposure. Issues are submitted for legal review either by other Conservancy attorneys or by non-attorney Conservancy program managers (usually Conservancy fundraising or finance staff). Topic areas commonly presented for UBIT analysis include trips and tours, sales of products or services to outside parties, leases and rental agreements, TNC facilities providing lodging, and debt financing of Conservancy-owned office facilities. For all but the most routine matters, pertinent facts, analyses, and legal conclusions are documented in writing. Assessments are conducted in consultation with the external auditors when appropriate. The volume of UBIT activity or transactions undertaken by TNC has not been significant.

From time to time, the Conservancy's Legal and Finance Departments publish short memos for the purpose of educating the Conservancy's local and state offices on the basics of UBIT and to assist operating units in identifying activities that may involve

UBIT exposure. A number of these memos are available to staff on the Conservancy Intranet. Additionally, when auditing Conservancy operations, the Internal Audit department checks to see whether state programs are participating in activities that could generate unrelated business income. All of these measures are designed to ensure that local and state chapters are aware of the types of activities in which there might be UBIT exposure and to make sure that the Operating Unit is aware of the procedures to be followed in the event of such an activity.

Please provide any legal or accounting analysis from the last five years, either internal or external, that was prepared for or assisted in deciding whether or not to characterize an activity as an unrelated trade or business activity for Federal income tax reporting purposes.

In addition to the outside legal and accounting opinions previously supplied to the Committee, attached please find copies of documents relating to characterization of UBIT activity.

MAY 12 2005

Unrelated Business Income Tax (UBIT)

STANDARD OPERATING PROCEDURE:

Before entering into any transaction that exposes The Nature Conservancy to UBIT, the relevant operations unit must consult with the General Counsel who will make the final determination of whether UBIT exposure exists. Immediately after entering into a transaction that exposes The Nature Conservancy to UBIT, the relevant operating unit must notify Worldwide Office Finance Function. After consulting with Worldwide Office Finance Function regarding methodology, the operating unit must separately track the revenue and expenses of each UBIT activity in a manner that allows satisfactory reporting on the IRS Form 990T. Any UBIT tax liability that results will be the responsibility of the Operating Unit which generated such liability.

Furthermore, if the General Counsel determines that UBIT exposure exists, then the relevant operating unit must seek written approval to conduct the activity from:

- The President or Chief Financial Officer if the gross annual revenue from the activity is expected to be no greater than $100,000;
- The Finance Committee of the Board of Governors if the gross annual revenue from the activity is expected to be greater than $100,000.

PURPOSE:

To keep the focus on The Nature Conservancy's programmatic activities, and to avoid Internal Revenue Service reviews (audits).

ORIGIN:

Established June 1996. Revised February 2000, February 2001.

REFERENCES, RESOURCES, and EXPLANATORY NOTES:

Refer to the Worldwide Office Legal Function and the Worldwide Office Finance Function for additional information.

RESPONSIBLE FUNCTION/PARTY:

Worldwide Office Legal Function.

MAY 12 2005

Question 16 Index

Emails

Item No.	Date	Time	Subject	Comments
1	3/10/05	3:22	UBIT Or Not	RE: Marquette, MI lease
2	3/2/05	8:50	UBIT and budget centers	RE: Sale of beef cattle, NC
3	2/10/05	4:13	Affinity Card Discussions	Attachment not incl.
4	2/10/05	9:16	Wheat – UBIT	Resolution attached
5	12/14/04	4:40	Los Luceros	
6	12/10/04	9:25	(none)	RE: Los Luceros
7	12/7/04	10:21	Question	RE: Sponsorships
8	12/2/04	1:09	(non)	RE: Los Luceros
9	11/29/04	9:50	Los Luceros Trade Land	
10	11/24/04	10:35	Renting Office Space & UBIT	
11	11/17/04	9:50	UBIT – BML	
12	11/4/04	4:42	UBIT guidance for intranet	
13	10/05/04	12:55	UBIT Question	RE: Wetlands restoration
14	8/31/04	11:01	Acquisition of Pinnacles Ranch	
15	8/27/04	10:13	Special Events Question	
16	8/25/04	4:32	Lupine Festival	
17	8/25/04	3:18	Audit: UBI & Rent Payment	
18	8/20/04	11:04	UBIT Question	RE: Timber sales
19	6/22/04	10:49	Ad in November issue	
20	6/22/04	9:08	Target Software sponsorship	
21	4/15/04	12:53	What's In A Name?	RE: TNC employee titles
22	4/13/04	3:03	UBIT Analysis – Timber Cut	
23	4/8/04	11:45	Lease Income & UBI	
24	3/16/04	11:54	Agreements w. Earth Foundation	
25	3/10/04	9:25	Sublease of HI Office	
26	3/9/04	4:23	Steptoe & Johnson Alert	RE: Joint venture issues
27	1/20/04	12:13	Trips for Trustees	
28	1/16/04	10:19	Proposed Sustainable Forestry	
29	12/3/03	1:23	UBI Question	RE: Timber in NY
30	11/7/03	9:54	RE: timber sales	
31	11/4/03	10:52	UBIT – magazine	
32	10/8/03	11:00	(none)	RE: Gail Pittman project
33	7/17/03	3:06	Patterson CRT	

34	6/11/03	3:06	Consulting – Conserv. Internat'l	
35	5/23/03	10:14	Sugary Lease	
36	5/16/03	2:42	UBIT on Plants	
37	4/22/03	2:25	Sale of products	RE: timbering
38	4/22/03	7:35	Leasing 6th Floor	
39	4/02/03	1:05	Whitmont	
40	3/24/03	1:55	UBIT?	RE: Merck agreement
41	3/13/03	9:51	PK/SCP	
42	2/20/03	3:31	Soldier Creek Preserve	
43	2/05/03	3:11	Building UBIT	
44	12/30/02	9:58	Haley Devise	
45	12/9/02	4:56	Action Fund Q's	
46	11/22/02	9:58	Sponsorship	
47	11/6/02	9:38	Air Palmyra	
48	11/5/02	2:03	Air Palmyra	
49	10/29/02	9:36	UBIT SOP	
50	10/21/02	2:12	UBIT on Plants	
51	10/21/02	11:01	FY 02 Magazine Ads	
52	10/16/02	12:28	Piedmont Purchase	
53	9/22/02	8:30	Huber due diligence	
54	9/21/02	9:37	UBIT	RE: Upper Peninsula transaction
55	9/17/02	2:18	Movie set	
56	9/17/02	2:04	Kamehameha Schools	
57	7/31/02	11:21	Chancellor UBIT	
58	7/22/02	12:04	Bear Mountain liquor	
59	7/16/02	11:29	USPT Gear	Attachment not included
60	6/3/02	11:00	Draft letter	RE: Lease to land trust
61	5/8/02	9:59	Rikemo Lodge	With attachment
62	2/27/02	11:48	Lease – liquor license	With attachment
63	2/15/02	1:07	Santa Cruz Island	
64	1/30/02	1:31	Posters	
65	1/22/02	2:30	Bear Mountain Blend	
66	1/22/02	12:26	Knott Unitrust	
67	1/16/02	2:07	Bear Mountain Blend	
68	1/9/02	11:44	Video production	
69	1/3/02	10:06	Merchandise RFP	
70	12/6/01	1:14	UBI Question	RE: LA wildlife artwork
71	12/3/01	9:42	Albuquerque Journal	
72	11/13/01	4:30	Coke machine	
73	11/7/01	1:26	Henry, OK, newspaper ad	

74	11/1/01	10:01	Pine Butte-like activities	
75	10/22/01	12:48	Bear Mountain Lodge	
76	9/18/01	3:20	UBIT Question	RE: KY economic development
77	8/15/01	11:21	Air Palmyra	Attachment not included
78	5/22/01	10:18	Carpenter Ranch	
79	1/31/01	9:36	Orchard leaseback	
80	1/23/01	4:29	Sale of Water Rights	
81	1/23/01	10:16	Sale of Water Rights	
82	1/19/01	5:07	UBIT Issue	RE: K.C. Reeves
83	1/12/01	3:15	UBIT Issue	RE: three attachments
84	12/27/00	3:17	Zapata & UBIT	
85	12/8/00	10:24	UBIT Issues	
86	11/8/00	3:58	Adopt-An-Acre store	
87	10/26/00	3:38	UBIT – Zapata Ranch	
88	10/26/00	2:56	Cookbook	
89	10/19/00	9:59	UBIT – Zapata	
90	10/16/00	8:27	UBIT	RE: Zapata Ranch
91	8/25/00	4:25	UBIT – hunting lease	
92	8/18/00	4:49	UBIT audit	
93	8/15/00	2:15	Brochures, etc.	RE: Pine Butte
94	8/11/00	12:42	Bear Mountain guest ranch	Forwarded from 4/28/00
95	7/18/00	9:44	PLR 200021056	
96	6/20/00	3:01	Conference Room	
97	4/28/00	11:28	Kootenai	
98	4/21/00	2:27	VT timber management	

Documents Other than E-Mails

Date	Subject
January 24, 2000 "Controller's Corner"	Unrelated Business Income Tax (UBIT) A Brief Overview for Conservancy Field Offices
July 20, 2000 IRS Letter Ruling	
September 29, 2000 Memo	UBIT Evaluation – Pine Butte Guest Ranch
November 3, 2000 Memo	UBIT Evaluation –Ramsey Canyon
November 14, 2000 Memo	UBIT Evaluation – Merchandise Program
October 26, 2000 Memo and Questionnaire	UBIT Evaluation – Zapata Ranch and Zapata Inn
January 26, 2001 Memo	UBIT Evaluation – Zapata Ranch and Zapata Inn

Paul Flint

From: Paul Flint [pflint@tnc.org]
Sent: Thursday, March 10, 2005 3:22 PM
To: Gail Lewellan
Cc: Ray CULTER; Sue Corbin
Subject: RE: UBIT or not

I agree with your conclusion that subleases to "like minded 501(c)(3) conservation entities" do not give rise to UBI. Therefore, to my knowledge there are no particular issues or reporting items germane to this transaction.

People are beginning to work on various criteria, procedures, etc., concerning TNC office space generally. As of now I don't have anything concrete to share with you because the work is just getting started. I am taking this opportunity to copy Ray Culter, who is in overall charge of the office space project, with a suggestion that we incorporate materials on UBIT related to revenues derived from office space.

Regards
PF

-----Original Message-----
From: Gail Lewellan [mailto:glewellan@TNC.ORG]
Sent: Thursday, March 10, 2005 10:47 AM
To: Paul Flint
Cc: Sue Corbin
Subject: UBIT or not

The Marquette, MI TNC Program has found new office space to meet needs of a growing staff.

However, the space has too much room. Our staff has identified a 501(c)(3) conservation organization that wants to sublet from us. Since they are conservation "partners" doing work entirely consistent w/TNC's mission, I don't see an Unrelated Business Income Tax issue here, but wanted to check with you.

Are there issues or reporting items unique to this sublease situation that you would highlight for our consideration?

Thanks, Paul. Gail

Gail Lewellan, Attorney
The Nature Conservancy
1101 West River Parkway
Minneapolis, MN 55415-1291
(612) 331-0725
Fax: (612) 331-0770
E-mail: glewellan@tnc.org <mailto:glewellan@tnc.org>

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Paul Flint

From: Paul Flint [pflint@tnc.org]
Sent: Monday, November 29, 2004 9:50 AM
To: lgillette@tnc.org
Cc: Ray CULTER; Hall, Hank
Subject: RE: Los Luceros Trade Land

Making a sizeable investment to acquire an interest in property that is subsequently held for some time, that is managed long-term for the production of income, and that has little if any relationship to TNC's tax-exempt purposes, could suggest that TNC is actively engaged in an unrelated business activity.

If external financing is used, the issue of debt-financed property also arises. (If only internal financing is used, debt financing is not germane.)

Per below, I do not think it is likely that IRS would take this position, and there are ways to rebut it even if they did, but we should have our eyes open to the possibility.

PF

-----Original Message-----**From:** Leslie Gillette [mailto:lgillette@tnc.org]Paul - Would the proceeds of sale of land acquired in a bargain sale be treated any differently from the proceeds of sale of a 100% gift trade land? If there's UBIT in the former, why wouldn't there be in the second? Are you thinking that the purchase aspect of the bargain sale changes the analysis? I'm trying to expand my understanding - don't know the answer. lg

OK, will you please do so? Thanks.Bill

I would start by asking PricewaterhouseCoopers for their thoughts on an informal basis. pf

OK, how would you recommend that we vet this issue?Bill

It is conceivable that IRS could seek to characterize the proceeds of sale as subject to UBIT.
This seems rather unlikely to me, but TNC does bargain purchases of trade lands so rarely that we do not have a process for evaluating this type of potential exposure.
We should probably begin thinking about how to address the issue. Sooner or later, someone will doubtless inquire.
PF

----Original Message-----**From:** Andrew Soles [mailto:asoles@tnc.org]**Sent:** Monday, November 22, 2004 11:12 AM**To:** rculter@tnc.org; Bill Waldman**Cc:** Kevin W. Schuyler; John Dwelley; Paul Flint**Subject:** RE: Los Luceros Trade Land
Bill,Attached is a brief financial anaysis of the Los Luceros Acquisition as you described to me Friday.If we are able to turn over the property within 3-5 years for $8m, the net present value ranges between $4.5m - $3.8m.The attached excel file should facilitate further analysis. As you are able to provide more specific figures for annual costs I am happy to update the spreadsheet.Regards,Andrew

-----Original Message-----**From:** Ray Culter [mailto:rculter@tnc.org]**Sent:** Tuesday, November 16, 2004 4:50 PM**To:** Bill Waldman**Cc:** Kevin W. Schuyler; Andrew Soles; John Dwelley; Paul Flint**Subject:** Los Luceros Trade Land
Bill, I just talked to Kevin briefly about the Los Luceros Trade Land. They will do a business analysis for us. He would like you to work directly with Andrew Soles.Ray

Paul Flint

From: Paul Flint [pflint@tnc.org]
Sent: Wednesday, November 17, 2004 9:50 AM
To: Bethany Seebach; Roxanna Hannan
Cc: Laura Lew; Laura Holms; Bill Waldman; Wendy Dinner; Maura Gonsior
Subject: RE: UBIT- BML

I would need to know more about the nature of the merchandising activities, but I think it is unlikely we would recommend treating them as subject to UBIT. (Is that the question?)

As a rule TNC treats all merchandising as mission-related, on the theory that any unrelated revenues are "insubstantial". The last time the matter came up for discussion, the outside auditors were aware of this.
To do otherwise just for NM would be a significant departure from prior practice.
PF

-----Original Message-----
From: Bethany Seebach [mailto:bseebach@TNC.ORG]
Sent: Wednesday, November 17, 2004 9:40 AM
To: Roxanna Hannan
Cc: Laura Lew; Laura Holms; Bill Waldman; Wendy Dinner; Paul Flint; Maura Gonsior
Subject: RE: UBIT- BML

Deadlines: I was hoping to complete the UBIT/990-T return next week or this week (to really begin the big 990 too) but with this news and to give you time I'd like this data and back-up the week of the 29th at the latest. Let me know if this is doable and about when in the week so I can map things out.

Laura Lew mentioned merchandising income in the BML center. We might need to match expenses to that income too unless Legal says otherwise.

-----Original Message-----
From: Laura Lew [mailto:llew@TNC.ORG]
Sent: Wednesday, November 17, 2004 9:10 AM
To: Roxanna Hannan
Cc: Maura Gonsior; Paul Flint; Wendy Dinner; Bill Waldman; Laura Holms; Bethany Seebach
Subject: RE: UBIT- BML

There are several immediate steps that need to be taken for FY2004 unrelated income reporting.

One is to contact Laura Holms and Bethany Seebach in Finance. I've cc'd them in this email so that they are aware of the situation.
Bethany prepares the IRS Form 990 and 990T. She will need financial information and supporting documentation from the reservation system to support your analysis and the general ledger information/analysis to support FY 2004 dollar amounts to be reported on the 990-T. Bethany may have begun preparing the IRS filings, so please find out her deadlines.

NM will also need to determine what the FY2004 associated expenses are for the unrelated income to report on the 990-T. For the analysis, NM should review the costs recorded in the BML general ledger center, remove costs associated with the workshops, naturalists and other expenses that benefit only the mission related income to determine the costs of only the lodging operations. The percentage of unrelated income should then be applied to the total lodging operations expenses to calculate the expenses for the unrelated income.

To comply with the UBIT SOP, once General Counsel determines that UBIT exposure exists, NM needs to obtain written approval to conduct the unrelated activities from the President or Chief Financial Officer (when unrelated gross revenue is expected to be no greater than $100,000. Approval from the Finance Committee of the BOG is needed if gross revenues exceed $100,000.)

If you have any other questions, please let me know.
Thank you,
Laura

-----Original Message-----
From: Roxanna Hannan [mailto:rhannan@tnc.org]
Sent: Tuesday, November 16, 2004 2:55 PM
To: llwe@tnc.org; pflint@tnc.org
Cc: Bill; Wendy Dinner; Maura Gonsior
Subject: UBIT- BML

Laura and Paul,

Based on conversations between Maura Gonsior, Paul Flint and myself, Maura has completed an analysis of the Bear Mountain Lodge guests in relation to Unrelated Business Income. The analysis is based on the Bear Mountain Lodge reservation system. Here is what we found;

Bear Mountain Lodge has three groups of guests. These include; workshops, donor events and day to day operations. The workshops are TNC mission related workshops. Examples include; Nature Photography, Mimbreno Art and Archeology and Hummingbird Banding. The donor events are private cultivation events held by the TNC philanthropy group. The guests do not pay, TNC New Mexico pays. Last, the day to day operations include guests who come to Bear Mountain Lodge because; 1) they are members, 2) they want to attend the daily naturalist activities or are somehow related to TNC 3) some other reason. No matter who the guest, we do offer daily (TNC mission related) naturalist activities. The FY04 breakdown of the guests are as follows:

- 52% of this group of guest were TNC members (includes workshop guests).
- An additional 30% where somehow TNC related (remainder of workshops in this group)
- The remaining accounts for 18% or $57,644.23

Based on these assumptions and since we really do not know specifics about the last 18% group, we conservatively conclude the $57,644.23 is likely to be Unrelated Business Income.

Could you and Paul please review and give us input on this analysis? Also, Laura, would let us know what the next steps should be?

Thank you in advance for your help.

Roxanna Hannan

Paul Flint

From: Paul Flint [pflint@tnc.org]
Sent: Tuesday, October 5, 2004 12:55 PM
To: Geoffrey RICH
Subject: FW: UBIT question

If it isn't too much hassle, could I get a copy as well? pf

-----Original Message-----
From: william.h.hall@us.pwc.com [mailto:william.h.hall@us.pwc.com]
Sent: Tuesday, October 5, 2004 12:28 PM
To: pflint@TNC.ORG
Cc: Geoffrey RICH; marcia.k.krause@us.pwc.com
Subject: Re: UBIT question

Paul -

It would be helpful to get a copy of the agreement or other background materials before I weigh in on this.

Regards,

Hank Hall
Senior Manager
Washington National Tax Services
PricewaterhouseCoopers, LLP
1301 K Street, NW
Suite 800W
Washington, DC 20005
(o) 202.414.1038
(f) 813.281.6503
(email) william.h.hall@us.pwc.com

"Paul Flint" <pflint@TNC.ORG>

10/05/2004 11:57 AM

Please respond to <pflint@TNC.ORG>

To William H. Hall/US/TLS/PwC@Americas-US
cc "Geoffrey RICH" <grich@TNC.ORG>
Subject UBIT question

Hank: We think we know the answer to this, but confirmation would be appreciated.

If I misstate the facts, Geoff can set us straight.

Briefly: a for-profit is paying TNC approximately $1 million to fund wetlands restoration activities. As I understand it, this consists of physical activity such as ditching and the like, to alter water flows, etc. About half of this will be

spent on TNC property, but the other half will be on others' properties in the same watershed area.

Clearly wetlands restoration is the kind of activity that is "substantially related to TNC's tax exempt purposes." There is, however, a doctrine that when functions are performed on a larger scale than necessary for the performance of those functions, the excess may give rise to UBI.

We would like to take the position that all of this activity is mission-related. Geoff and I are comfortable with that, but given the scope of the work, wanted you to have an opportunity to comment.

Thanks/Paul

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Paul Flint

From: Paul Flint [pflint@tnc.org]
Sent: Wednesday, August 25, 2004 3:18 PM
To: sdesantis@tnc.org
Cc: Phil TABAS; Nancy Amo; Jonathan KALEDIN
Subject: RE: Audit: UBI & Rent Payment

Shauna:

- The house rental should be excluded from UBIT as rent from real property.
- Fees for services rendered to tax-exempt conservation organizations should be excluded from UBIT because they are substantially related to TNC's tax exempt purposes.

I recall something about the Lupine Fesitival but none of the details . . . standing by with anticipation . . . PF

-----Original Message-----
From: Shauna DeSantis [mailto:sdesantis@tnc.org]
Sent: Wednesday, August 25, 2004 2:32 PM
To: Paul Flint
Cc: Jonathan Kaledin; Nancy Amo
Subject: FW: Audit: UBI & Rent Payment

Paul: we have several potential UBIT determinations that are outstanding and need to be put to rest. Could you take a look at this and either respond via email or give me a call to discuss? A second email will follow this one on a matter we had been in discussion with you about but never made a final determination on...the "Lupine Festival".
Thank you.

Shauna
-----Original Message-----
From: Nancy Amo [mailto:namo@tnc.org]
Sent: Tuesday, August 24, 2004 10:45 AM
To: Shauna DeSantis; JONATHAN KALEDIN
Subject: Audit: UBI & Rent Payment

Jon and Shauna,
I want to again bring to your attention the rental income being generated by Southern Lake Champlain program.
The checks come into NYC and the funds are deposited into an ENY land fund.
I believe that the amount is $600 per month (3 rentals as $200 each)

Attached is the memo that Janice previously sent to ask for a ruling on Unrelated Business Income.

With the upcoming audit focusing on the receipts coming to the NYC office and specifically asking for information on UBI in the state, I want to clarify the ruling on this.

I'm also attaching another UBI memo for which I've asked for a ruling.
This relates to the supporting services we provide to ANC and LGLC. Keep in mind that this sort of income comes to ENY from APB as well.

Thanks
Nancy

Paul Flint

From: Paul Flint [pflint@tnc.org]
Sent: Friday, August 20, 2004 11:04 AM
To: sbecker@tnc.org
Subject: RE: UBIT question

If capital gains treatment were available, the rate would be lower. So you could call 40% a conservative figure. pf

Let me talk with Louisiana regarding how deep they want to get into this issue. If the 40% estimate is sufficient for their purposes, this might be enough information.
Rick - do you want to get more in-depth regarding the potential taxes?
Suzanne

I am distinctly over my head here, but I think taxation as capital gains refers to so-called Section 1231 property, or property used in a trade or business. This could work (assuming that the timber rights were held for more than one year before the sales), although I am not sure that Sec. 1231would be available to a 501(c)(3) organization.
It should not be difficult to get a reading on this, however, either from outside counsel or from PricewaterhouseCoopers, hopefully at modest expense.
Suzanne: would this be worth doing?
pf

I can't provide an official answer, but I would agree that applying 40% to the pre-tax income from timber sales would probably be about right. the trick is how you calculate pre-tax income. i seem to remember that timber sales are actually treated as capital gains - as if you bought an asset (the trees) and then you are selling them at a higher price. I really just don't know how this tax accounting works, and not sure who would know. Maybe Leslie, Hans, Laurel or Phil?

The question is perhaps better addressed to Finance (Greg Fishbein and Bethany Seeback copied on this response), as they prepare the 990-T. But since you ask: the marginal corporate Federal rate is 35%, plus whatever state tax LA would charge, if any. The state tax may be a deduction on the federal return. Something in the 40% range overall, based on net income, would probably work as a ballpark estimate of the taxes.
I invite Finance to comment if they are so inclined.
Cheers, PF

-----Original Message-----
From: Suzanne Becker [mailto:sbecker@tnc.org]

Paul Flint

From: Paul Flint [pflint@tnc.org]
Sent: Tuesday, January 20, 2004 12:13 PM
To: Michael Dennis
Cc: Phil Tabas
Subject: RE: Nature Conservancy Trips for Trustees

I have now reviewed the materials pertaining to these trips and don't believe that there is UBIT exposure here. These look "mission-related" to me. PF

-----Original Message-----**From:** Paul Flint [mailto:pflint@tnc.org]**Sent:** Thursday, December 18, 2003 9:43 AM**To:** Michael Dennis**Cc:** Phil Tabas
Subject: RE: Nature Conservancy Trips for Trustees
This is the first I have heard about the details of this program.
I will check them out and get back to you. PF

-----Original Message-----**From:** Michael Dennis [mailto:mdennis@TNC.ORG]**Sent:** Thursday, December 18, 2003 8:38 AM**To:** Paul Flint**Cc:** Phil Tabas
Subject: FW: Nature Conservancy Trips for Trustees
Paul, Although this is no longer my bailiwick, are we at risk for UBIT on some of these trips because of their upfront emphasis on recreation (fishing etc) rather than outdoor education?....

-----Original Message-----
From: Kate Krauss [mailto:kkrauss@TNC.ORG]
Sent: Wednesday, December 17, 2003 1:06 PM
To: Kate Krauss
Subject: Nature Conservancy Trips for Trustees
Dear Senior Managers and Directors of Philanthropy,
The following email is being sent today to all trustees. We will send hard copies to trustees without email from this office. You'll recall that part of the thinking behind the creation of this slate of trips comes from moving the Annual Meeting to a biennial format; these trips give trustees the chance to network and interact outside of their own boards and also introduces them to our conservation work on the ground. I hope you'll encourage them to take advantage of these opportunities! Please let me or Luciana Honigman in Conservation Journeys know if you have any questions.
Regards,
Kate Krauss

I'm pleased to announce that Conservation Journeys has released the full schedule of trustee trips planned for 2004 - 2005. These trips have been designed particularly for Conservancy trustees and are meant to share our conservation work around the world as well as give you a chance to learn about and from each other. Below you'll find a summary of the trips and who to contact about registration, and attached is a brochure with more information about

Sent: Thursday, August 19, 2004 10:54 AM
To: Paul Flint
Cc: Richard Jacob
Subject: UBIT question

Paul,

The Louisiana field office is considering a large land purchase that would provide the opportunity for future timber sales by TNC. We have analyzed the UBIT implications and have determined that, because of the conservation-related purposes of the timber sales, the income generated probably would not be subject to UBIT. However, the Risk Assessment Committee has asked for an estimate of the actual taxes that may be due if the timber income were subject to UBIT. The committee is trying to determine how much the timber income would be reduced by the taxes TNC would have to pay. I cannot find instructions or a formula that would help me estimate the dollar value of the taxes that may be due on this potential timber income. Can you help?Thanks.

each trip. If you have trouble opening this attachment, please reply to this email or call me at 703-841-4521 and I will mail or fax a hard copy.

Trips will be filled on a first come, first served basis. You'll see that not all trips are open for registration at this time; we will send another emails when the 2005 block of trips becomes available. For more information please email to trusteetrips@tnc.org or contact Luciana Honigman at the Conservation Journeys Program at 703-841-4526. Happy travels!

2004 trips
Fishing and Kayaking on Palmyra Atoll, May 8-12
Cost: $6000 from Honolulu, Hawaii
Contact/Registration: Soonseehia Pearce, (802) 366-1556 or spearce@tnc.org

Fly-Fishing in Wyoming and Idaho, June 22-27
Cost: To be determined
Contact/Registration: Erin Sadlowski, (703) 841-4250 or trusteetrips@tnc.org

British Columbia, July 16-20
Cost: $3800 from Vancouver, Canada
Contact/Registration: Amy Carlson, (612) 331-0711 or acarlson@tnc.org

Pine Butte Family Trip, August 1-8
Cost: $1400 from Great Falls, Montana
Contact/Registration: Dawn Baker, (406) 466-2158 or dawn_baker@tnc.org

Pantanal, August 27 - September 3
Cost: $3500 from Sao Paulo, Brazil
Contact/Registration: Erin Sadlowski, (703) 841-4250 or trusteetrips@tnc.org

2005 trips
Panama, January 25-30
Cost: $2500 from Panama City, Panama
Not yet open for registration

Indonesia, April
Cost: $6000 (approximately)
Not yet open for registration

Fishing Andros Island, May 21-25
Cost: $1800 from Nassau, Bahamas
Not yet open for registration

Director of Conservation Programs
The Nature Conservancy, New Hampshire Chapter
22 Bridge Street, 4th Floor
Concord, NH 03301

ph: (603) 224-5853 x19
fax: (603) 228-2459
e-mail: mzankel@tnc.org

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-----Original Message-----
From: Phil Tabas [mailto:ptabas@tnc.org]
Sent: Thursday, January 15, 2004 12:25 PM
To: Ann Risso; Paul Flint
Cc: MARK ZANKEL; HANS P. Birle
Subject: RE: Proposed Sustainable Forestry: Bearpaw Tracts

Ann and Mark: This very interesting and I wish you good luck on the effort.
I do have some concerns however. I think the fact there's a lack revenue and so therefore little UBIT exposure is not the critical fact. In order to make sure that we are not subject to UBIT we need to show explicitly how our activities here are directly "related" to our overall charitable mission and specifically, our conservation purposes. Therefore, it seems to me, that we need to have a good plan or explicit statement of purpose guiding/controlling our management of the property making explicit and showing what are our conservation goals, how we intend to achieve those conservation goals and showing how the specific harvest activities or management regime we are proposing to undertake would differ were we to hold the property for simply revenue producing purposes. In fact, I think you should even prepare a financial spreadsheet showing the costs and revenue that we would expect under the conservation management approach as well as under the pure economic approach and possibly even track our expenses that way. If we were able to do that or something like it, not only would we 1) know what the true "cost" of the conservation plan would be, but 2) we could make explicit and show how TNC's harvest management would actually be furthering a conservation purpose. I suspect that exercise would even be important to show to other landowners who we are trying to influence as to how they harvest/manage their land.
Moreover, but unrelated to the UBIT issue, I think it is extremely important. if we are truly to:
"use our results to:a) inform and influence the practices of small to medium-sized non-industrial private and public forest land owners in this region, and b) inform and influence how we write and steward working forest conservation easements." then I would urge you to specify exactly what actions, tasks, or activities you will undertake, when they be taken and by whom, to demonstrate how the property and the harvest will be used to further our conservation goals and so that we know (or can measure or determine) what impact we will have or when the goals will have been achieved. This is a difficult issue but all too often we think we will accomplish these types of goals without having the detailed plan in place to make that a reality.
Finally, I hope you will have a communications or public relations plan in place as to what TNC is doing and why to explain/vet our plan to and with the local community.
I am sure you have thought about these issues so I am sorry if I am just not familiar with these aspects of the project.
Let me know how I can help. Best, Philip

-----Original Message-----
From: Ann Risso [mailto:arisso@tnc.org]
Sent: Thursday, January 15, 2004 8:43 AM
To: PHILIP TABAS; Paul Flint
Cc: MARK ZANKEL
Subject: FW: Proposed Sustainable Forestry: Bearpaw Tracts

FYI. Based on Mark's memo and the amount of revenue to be generated, it looks as though there would not be UBIT exposure here, but please let me know if you have any concerns.

Ann M. Risso
Division Attorney
The Nature Conservancy
11 Avenue de Lafayette, 5th Floor
Boston, MA 02111-1736
(617) 542-1908 x222 TEL
(617) 482-5866 FAX

-----Original Message-----
From: Mark Zankel [mailto:mzankel@tnc.org]
Sent: Wednesday, January 14, 2004 6:35 PM
To: Ann Risso
Cc: Peter Benson
Subject: RE: Proposed Sustainable Forestry: Bearpaw Tracts

Hi Ann.

Sorry to be tardy in response. Attached is a rough three-year estimate of costs and revenues. I think this is a situation where the purpose of the forestry is clearly conservation, not economic. Our goal is to develop, test, and evaluate best management practices for practicing forestry in a way that benefits or at least minimizes the damage to native biodiversity in the Mt. Washington Valley, and to use our results to:
a) inform and influence the practices of small to medium-sized non-industrial private and public forest land owners in this region.
b) inform and influence how we write and steward working forest conservation easements.

As far as status, Peter Benson is working with our forester to update the forest management plans in accordance with the recommendations of Fran Price and Kyle Stockwell, who conducted a pre-audit to see if we would qualify for TNC's Forest Stewardship Council Certified Resource Manager Program. We are trying to line up a qualified logging operator for our first harvest, and it looks to most likely occur next summer.

I am copying Peter, who is the point person for this initiative.

Thanks for any help you can offer in figuring out the UBIT issue.

Mark

Mark Zankel
Director of Conservation Programs
The Nature Conservancy, New Hampshire Chapter
22 Bridge Street, 4th Floor
Concord, NH 03301

ph: (603) 224-5853 x19
fax: (603) 228-2459
e-mail: mzankel@tnc.org

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-----Original Message-----
From: Ann Risso [mailto:arisso@tnc.org]
Sent: Thursday, January 08, 2004 1:45 PM
To: MARK ZANKEL
Subject: FW: Proposed Sustainable Forestry: Bearpaw Tracts

Mark,

You and I should coordinate on addressing the UBIT issue that John raises. As you are probably aware, there is an SOP that requires that we consult with the General Counsel on whether there is UBIT exposure. Assuming you haven't already taken this up with Phil Tabas, I can send him an email on this, but let me know if you've already talked to him. The test, per recent letter ruling, is whether the primary purpose of the forestry is conservation (possibly, but not certainly including demonstration purposes), rather than economic. Can you give me a rough estimate of how much revenue this activity is expected to generate, any update on status of the project since November, and how quickly this will be moving forward.

Ann M. Risso
Division Attorney
The Nature Conservancy
11 Avenue de Lafayette, 5th Floor
Boston, MA 02111-1736
(617) 542-1908 x222 TEL
(617) 482-5866 FAX

-----Original Message-----
From: Erin Smyth [mailto:esmyth@tnc.org]
Sent: Thursday, January 08, 2004 12:56 PM
To: Ann Risso
Subject: FW: Proposed Sustainable Forestry: Bearpaw Tracts

Here it is! E
-----Original Message-----
From: John Cook [mailto:john_cook@tnc.org]
Sent: Friday, November 21, 2003 8:20 AM
To: mzankel@tnc.org
Cc: Bill Ginn; hbirle@tnc.org; esmyth@tnc.org; dwolkoff@tnc.org; Daryl Burtnett
Subject: Proposed Sustainable Forestry: Bearpaw Tracts

Dear Mark,

I have reviewed the NH program's 5 Sept 03 proposal to initiate sustainable forestry for the Bearpaw tracts. I realize that you wish to initiate these practises this season. The proposal lays out a ten year sustainable forestry plan, adhering to standards of TNC's participation in the Certified Resource Manager program of the FSC. It further indicates that financial proceeds will be used first to offset costs of the management program and then other unspecified stewardship or other conservation costs of the Chapter.

Mark, as you know the Conservancy as an institution is carefully reviewing our land management practises. Many new policies and procedures are in place and being developed for future implementation. I strongly support the ability of our state programs to be the primary action arms of the Conservancy, with full responsibility and accountability. However I also believe that our work can be improved with thoughtful review and analysis by others inside and outside TNC with knowledge and lessons learned from similar endeavor.

Therefore, while I am approving this proposal, I am also requesting the following:

- Develop more specific, measurable ecological goals of the sustainable forestry practises currelntly lumped under the general heading of natural dynamics silviculture;
- Receive peer review comments from the Division's Forest Conservation Program through submission of your plan to Bill Ginn.
- Track all revenue from the project to be able to account for the use of all funds. Proceeds shall not be used to defray general operating costs of the chapter but be specific to the costs of the sustainable forestry project itself, or program costs specific to protection costs in NH of priority forested sites.
- Hans Birle signs off on adherence to current BOG standards.
- Prepare a status report following the first year of this program to be delivered to me by September 15, 2004. This report shall cover the points made above.

The other comments I make here are not requirements, but personal opinions. "Lessons learned" from lands that we own outright and manage closely are expensive lessons learned. Capital is tied up; staff time, which is money, is devoted to projects such as these. I encourage you to be rigorous in a cost/benefit assessment on a regular basis which will enable you and your board to evaluate the effectiveness of this program, especially on its impact on the conservation priorities of the chapter.

I also encourage you to seek out and review how effective it really is for the Conservancy to "model" economic behavior with which we wish to gain credibility with other private landowners. We operate several ranches, for example, in the West with exactly the same goals. Yet as a non-profit, with significant sources of revenue other than agriculture or forestry, we occupy a niche quite different from the small ag or wood lot owner. This is usually not unnoticed by our neighbors, and we need to be aware of this. Closer to home, the Atlas project in Vermont has very similary objectives to this project. I'm sure you are in touch with John Roe on these same sets of issues.

And finally, I havn't heard much about the UBIT issue, recently. Hans, by receipt of this I encourage you to make sure our state programs and attorneys are still aware and on top of this issue - as with so many others!

Mark, thank you for your patience with the delay of my review. We're all getting used to the new Conservancy.

Good Luck --

John

John Cook
Vice President, NEC Division
401 751 2521

J

John Cook
Vice President, NEC Division
401 751 2521

5/2/2005

Paul Flint

From: Paul Flint [pflint@tnc.org]
Sent: Friday, November 7, 2003 9:54 AM
To: cdelcastillo@tnc.org
Cc: Laura HOLMS; Phil TABAS; Leslie GILLETTE
Subject: Oops--fat fingers

[continuing] . . .mutually exclusive.

A. While they may be a business activity, these are not **unrelated** business activity because they are undertaken for conservation purposes. On this theory, I am not sure it makes much difference whether or not a timber consultant is used, and the active-passive distinction is not germane.
B. While they may be unrelated to TNC's tax exempt purpose, these are not unrelated **business** activity because TNC is not actively in the business of producing and selling forest products. Here the active-passive issue and the employment of brokers/consultants would be relevant. This is similar to the rationale under which TNC does not (generally) undertake to market Trade Lands but instead lists them with brokers.

While to say that we need to use consultants "to maintain our tax exempt status" is clearly an overstatement, I do agree that it is a good idea from a UBIT perspective.

I will copy Laura Holms as well, as she may have additional thoughts.

Cheers/pf

-----Original Message-----**From:** Paul Flint [mailto:pflint@tnc.org]**Sent:** Friday, November 7, 2003 9:40 AM**To:** cdelcastillo@tnc.org**Cc:** Phil TABAS
Subject: RE: Timber Sales

Cathy: I have not looked in-depth at UBIT implications of TNC timber management/sales. I think Phil would be a better sounding board for you because of his experience with conservation projects involving timber (notably in Maine and Virginia, but elsewhere as well, I believe). But since you ask--here are my thoughts (insightful or not).

Two arguments are available to exclude revenues from taxable income. They are not

-----Original Message-----**From:** Cathy DelCastillo [mailto:cdelcastillo@tnc.org]**Sent:** Thursday, November 6, 2003 6:05 PM**To:** Paul FLINT
Subject: FW: Timber Sales
Paul,I've had the question below asked of me, and am wondering if you've run across this. The "active" vs. "passive" I've seen with respect to some potential UBIT activities. In reading UBIT, the sale of standing timber is excluded from UBIT unless the sale "constitutes property held for sale to customers in the ordinary course of business." Is that where the active vs passive comes in?
Or is this more directed to keeping our activities consistent with our non-profit purpose? Staff has inidicated that in the large timber sales they have been required to market through a timber consultant in order to maintain our tax-exempt status. Although the scenario below contemplates that a consultant will be used, I'm wondering if the consultant is something that we need to require in all timber sales. I don't think I've done one where we haven't had a timber consultant, but I can't say that I've known that we're required to.
Any insight on this?Cathy

-----Original Message-----**From:** Butch Crain [mailto:bcrain@tnc.org]**Sent:** Wednesday, October 08, 2003 11:47 AM**To:** Cathy Del Castillo**Subject:** Timber Sales

Cathy,As you know, the Louisiana chapter is in the process of negotiating for land that will comprise a "conservation forest" to be managed for timber production along with the more traditional TNC conservation components.
In that regard, the subject of "passive" vs. "active" forest management came up as related to TNC's status as a not for profit 501c3 corporation. The sentiment is that to maintain that status, it may be necessary for the forest manager to serve only as a long term planner and monitor of harvesting activities The actual field work and bid sale would be contracted to a consultant.
Since I am in the middle of setting up a timber sale on Sandylands Sanctuary, I am curious if that standard is also applicable to Sandylands. The sale is not part of a long term commodity management plan and is incidental to our efforts to regenerate longleaf pine for ecological purposes.
Please let me know of any insights you have on this issue.Thanks.Butch Crain
Preserve Director

West Gulf Coastal Plain Ecoregion

Paul Flint

From: Paul Flint [pflint@tnc.org]
Sent: Wednesday, June 11, 2003 3:06 PM
To: annette_williams@tnc.org
Subject: RE: IS Consulting -- Conservation International -- UBIT?

I should be, yes. x5324. pf

Paul,1:30 works. I hope to telecommute tomorrow, so I'll call you at 1:30. Will you be in the office?

Later would be better. 1:00 or 1:30 looks OK.Thanks for the info on the draft. I was curious whether CI initiated it ot we did; evidently the latter.PF

Paul,
I have a meeting from 11 - 12:30 tomorrow. Are you available either earlier or later?
The draft is based on a pending agreement with Target Software where TNC becomes a "partner" in the design of a software tool.

How about tomorrow, late morning (11 or 11:30)?
I am not sure how well the draft agreement you sent will work in view of the info below.
Where did the draft originate? pf

-----Original Message-----**From:** Annette Williams [mailto:annette_williams@tnc.org]**Sent:** Wednesday, June 11, 2003 10:55 AM**To:** Paul H. Flint
Cc: Jean-Louis Ecochard**Subject:** FW: IS Consulting -- Conservation International -- UBIT?
Paul,Shall we discuss? I'm available today from 2 - 3 and then much of tomorrow.

-----Original Message-----**From:** Jean-Louis Ecochard [mailto:jecochard@tnc.org]**Sent:** Monday, June 9, 2003 11:32 AM**To:** showell@tnc.org
Cc: Paul H. Flint; Michael Dennis; Patrick B. Ramos; Annette Williams**Subject:** RE: IS Consulting -- Conservation International -- UBIT?
Steve,This is a topic that we have been thinking about.
we went from a consulting arrangement to a true partnership with CI and have been thinking about the nature of the payments.
For example, could it be a grant from CI to develop a GL that supports the accounting of their conservation efforts?
Could this be a step in a broader vision of "geoaccounting", recording our expenditures by place so that we can link them to conservation results.
I don't think that we should consider this as a simple "work for hire" type of engagement, especially as it has the potential to be more (a common accounting system).
This is more a partnership to advance the financial systems component of Conservation Informatics than consulting.
Food for thought. Thanks for the input from the broader team.Best, JL

-----Original Message-----**From:** Steve Howell [mailto:showell@tnc.org]

Sent: Monday, June 09, 2003 8:54 AM**To:** Jean-Louis Ecochard**Cc:** Paul H. Flint; Michael Dennis; Patrick B. Ramos**Subject:** FW: IS Consulting -- Conservation International -- UBIT?
JL:Do you have any light to shed on the nature of the TNC offer to help CI with financial systems - see below.SCH
-----Original Message-----**From:** Paul Flint [mailto:pflint@tnc.org]**Sent:** Wednesday, June 4, 2003 12:59 PM**To:** Stephen HOWELL
Cc: Michael DENNIS; Patrick RAMOS**Subject:** IS Consulting -- Conservation International -- UBIT?

I wanted to get back to you following our recent conversation.

You have indicated that TNC is considering doing some consulting work for CI for a fee. The work will involve assisting CI in upgrading its Oracle financial systems. You inquired whether revenues would be subject to UBIT. Do you have any additional details at this time? I think this could be a close call.

You have suggested that we could exclude from UBIT based on the "business-not-regularly-carried-on" exception. This would probably depend to some extent on the scope of the job. Note that TNC seems to be expanding its TIS capabilities and reaching out to other nonprofits in various TIS ways. (E.g., NGO's in Latin America and elsewhere can piggyback on the new telecommunications contract and the new help desk contract.)

The other approach would be to characterize the work as mission-related in furtherance of TNC's tax exempt purposes. That would be a pretty strong argument If the systems pertained to conservation or at least to nonprofits. It seems less persuasive when the systems are standard accounting systems of a type utilized by all kinds of business enterprises (which Itake to be the case). But given the close working relationship between CI and TNC, this might hold up.

These two theories are of course not mutually exclusive.

We should also consider how aggressive a position TNC wants to take. As a practical matter, there are perhaps not too many $$$ at issue here. We might be well advised not to push the envelope and save our bargaining strength with IRS for something bigger and more important from a Conservation by Design standpoint.

Let me know how you would like me to proceed. PF

Paul Flint

From: Jeff Benz [jbenz@tnc.org]
Sent: Tuesday, April 22, 2003 2:25 PM
To: ptabas@tnc.org; mdennis@tnc.org; pflint@tnc.org
Cc: Patrick Ramos
Subject: RE: sale of products

Thanks! I'll get with Rob and make sure we get this right.

aloha,

Jeffrey A. Benz
808-587-6226 (ph)
808-545-2019 (fax)
jbenz@tnc.org

-----Original Message-----
From: Phil Tabas [mailto:ptabas@tnc.org]
Sent: Tuesday, April 22, 2003 5:32 AM
To: jbenz@tnc.org; mdennis@tnc.org; pflint@tnc.org
Cc: Patrick Ramos
Subject: RE: sale of products

Jeff--here is my two cents:
It sounds like there are really two situations you are trying to analyze. The first is whether the sale of the downed wood or thinned trees which are obtained from cutting trees as part of research or an experimental plan give rise to income that might be subject to UBIT. The second situation is, if the research concludes that a regular program of thinning the koa forest is needed to maintain the habitat, whether the income from the sale of those koa logs would give rise to UBIT.

One of the exemptions from UBIT is where the income that is generated is produced as a result of activities that are directly "related" to the entities' exempt purposes. In the first situation, since the sale of the logs is only incidental to the primary objective which is to better understand the forest dynamics, I think a clear case can be made that this income is would be "related" and should therefore exempt form UBIT. Also, since this income would appear to not be generated on a "regular" basis and would only be generated during the limited period of the research, that should also help ensure that it is not considered as UBI.

As for the second situation, there is a similar analysis. If the primary purpose of the income generating activity is related to our exempt purposes, then the income will not be UBI. Indeed, in order to demonstrate that such income is "related," where a harvesting choice has to be made between arranging some activity that would simply generate more income versus one which would further our conservation goals, mechanisms must be in place to ensure the latter and not the former. Essentially this is what the IRS told us when we went for the Forest Bank ruling. So when Rob says that ".....such thinning, on an operational basis, is good for both koa forestry and for habitat...." we need to make sure that the primary, threshold or first objective served by the cutting is for a conservation purpose not an economic or income generating objective. Similarly, even though the timber harvesting may be "important to the human community interacting with these lands" no matter how worthwhile a goal, that is and should not be the primary test of related use. As long as the harvesting is in furtherance of a conservation plan, we should be fine with respect to the UBIT.

Hope that is helpful. Best regards, Philip

-----Original Message-----
From: Jeff Benz [mailto:jbenz@tnc.org]
Sent: Saturday, April 19, 2003 5:37 PM
To: mdennis@tnc.org; pflint@tnc.org
Cc: Patrick Ramos; Phil Tabas
Subject: RE: sale of products

Thanks for all of the input!

-----Original Message-----
From: Mike Dennis [mailto:mdennis@tnc.org]
Sent: Saturday, April 19, 2003 7:05 AM
To: pflint@tnc.org; jbenz@tnc.org
Cc: Patrick Ramos; Phil Tabas
Subject: RE: sale of products

It sounds like the logging operation can well be justified as part of good conservation management practices with the income being an incidental byproduct. I would argue that this is not UBIT.....Phil, your thoughts?

-----Original Message-----
From: Paul Flint [mailto:pflint@tnc.org]
Sent: Saturday, April 19, 2003 10:26 AM
To: jbenz@tnc.org
Cc: Patrick Ramos; Michael Dennis; Phil Tabas
Subject: RE: sale of products

No trouble at all . . .

We have no "official" guidance on timbering operations that I know of. As you know, TNC is very active in forest management activities--notably in Maine and Virginia, and I think also in the southeast U.S. I have little firsthand experience with these because they are considered part of our conservation work; therefore legal oversight has come from the division attorneys. Many of these activities involve the sale of timber and perhaps other forest products.

Our position, as I understand it--subject to confirmation by Mike and/or Phil-- is that we will continue to treat these activities as mission-related. The rationale is that they are conducted primarily for the purpose of managing the ecosystems and only secondarily for the generation of revenue. We have obtained a private letter ruling to this same effect, on which I believe Phil was the prime mover. The fact that these activities are directly related to TNC's community outreach activities is also pertinent, although in my view not as persuasive as the ecosystem management argument.

When I have discussed product/service UBIT issues with Mike in the past, he has given the following direction: We do not want to be particularly aggressive on the UBIT front when dealing with revenues that are not directly related to conservation projects. We are not interested in picking fights with IRS on these topics. Thus we will declare some revenues from certain travel tours, overnight accommodations of the bed-and-breakfast variety, and merchandise sales, depending on circumstances. We do, however, want to be aggressive when the revenues in question are directly connected to TNC's core conservation mission, and are prepared to defend this

position vigorously to IRS if necessary. (So far it has not been necessary.) Thus to date we have not declared revenues from timbering and other forest management activities as far as I know.

Footnote: As the original author of the "surplus property" procedures, I would suggest that they were not intended to apply to this scenario. Some clarification might be appropriate here, if, as and when time permits.

PF

-----Original Message-----**From:** Jeff Benz [mailto:jbenz@tnc.org]**Sent:** April 18, 2003 10:26 PM**To:** Paul Flint**Subject:** FW: sale of products
Paul: Sorry to trouble you, but I have a question about whether we have a UBIT issue (I am no expert, and understand that you are). One of our project people on the Big Island has been talking about taking some downed and/or thinned koa logs from land we own and selling the wood to local woodworkers. Below, I've sketched out what I see as the Policy and Procedure issues, but it struck me that this may involve UBIT.
I don't have much of a sense as to how much wood we'll be selling, or how much money is involved -- I don't think the project people know yet either.
Let me know your thoughts and what further questions you have. Also, feel free to point me to any good memos/guidance on UBIT you might have, and I can dig through that.
Many thanks in advance!best regards,

-----Original Message-----**From:** Jeff Benz [mailto:jbenz@tnc.org]**Sent:** Friday, April 18, 2003 4:09 PM**To:** rshallenberger@tnc.org**Subject:** RE: sale of products
Rob: Thanks for the email. I've talked a bit with Melinda, and I've done some further research in our policies and procedures. I think we have a two-step process as far as our policies and procedures go, and a couple of miscellaneous issues.
A. Removal of Property Policy. One of our P&P, "Removal of Plants and Animals", seems to apply to our situation. This policy allows removal of plants from TNC lands when:
(1) removal is "necessary to protect the ecological integrity of native ecosystems or sensitive native species";
(2) removal is "important to the human community interacting with these lands, the continuation of use by the community is consistent with the Conservancy's ability to fulfill its mission, and removal is conducted in a manner that does not adversely affect the long-term health of the species and ecosystems the Conservancy is trying to protect; or
(3) "the actions are required by law."
So, on this list, it seems that our best bet is to try to fit within #2. Is there a way for us to say that providing the downed or thinned timber to local woodworkers is "important to the human community interacting with these lands"? We might have something there, but I'll need your help. We'll also need to establish that removing the downed timber does not have an adverse effect on the "species and ecosystems" at the land in question. I'll need your help on that as well. Note also that per the policy, "responsibility, authority, and accountability for decisions on removal of plants and animals in the US reside with the state director..."
B. Surplus Property Disposition. Then, once we clear the "Removal" policy, I think we need to comply with the "Surplus Property Disposition" SOP, as discussed in my earlier email. To summarize, Suzanne would need to declare the downed timber to be "surplus", and designate you (or someone else) to handle the disposition. The sale to individuals should be for "fair market value", and we should try to establish that at least within a reasonable range (although I can imagine that FMV for something like this is going to be somewhat difficult to

determine). The disposition should take place in "a manner that promotes full and fair competition" and "provides adequate notice to all parties who may be interested in the property at issue."
C. Miscellaneous.

- I'm also checking on whether there is any UBIT issue here (unrelated business income tax).
- Also, we'll have to carefully consider each property where the koa is going to come from. If the logs are coming from Papa, for example, we will have to contend with the Conservation Easement that we'll be flipping out to USFS.

Let me know your thoughts, and how you would like to proceed. Thanks, and aloha,

-----Original Message-----**From:** Rob Shallenberger [mailto:rshallenberger@tnc.org]**Sent:** Monday, April 14, 2003 7:58 AM**To:** jbenz@tnc.org**Cc:** mching@tnc.org; khum@tnc.org; scase@tnc.org; 'Mark White'**Subject:** sale of products
Jeff: The "sale of products" issue surfaced again late last week when we hosted a visit by the Board of the Hawaii Forest Industry Association (HIFA) at Honomalino. There was some conspicuous drooling among woodworkers on the trip when we passed by some large, downed koa logs. Perhaps more relevant was a discussion we had when surveying the thinning research plots on the property. In these areas, our cooperating researcher (Patrick Baker) has felled hundreds of 6-8" diameter trees in order to measure the growth response of individual trees on these plots. Several of the woodworkers felt that this downed timber, though not ideal, does have considerable value for wood products. This is not a particularly big issue when considered only in reference to the research plots. But....if the research leads to the conclusion that such thinning, on an operational basis, is good for both koa forestry and for habitat, then its possible that we might generate a large amount of timber of this size in the future. This could be particularly significant when we acquire the neighboring Papa parcel, as it has very large stands of similar forest.
To investigate the potential value of this small timber, I permitted two of the woodworkers on the trip to each take one 4' log of approximately 8" diameter. They will experiment with these logs to determine the quality and potential utility of this wood.
So, with the above in mind, I'd like to continue our investigation into the legal and policy issues surrounding the removal and potential donation or sale of "surplus" timber on the Kona Hema property. Could you please update me on your review of this issue?Aloha, RobRobert J. Shallenberger, Ph.D.Hawai'i Island Conservation DirectorThe Nature Conservancy of Hawai'i

Paul Flint

From: Paul Flint [pflint@tnc.org]
Sent: Wednesday, April 2, 2003 1:05 PM
To: jdwelley@tnc.org
Cc: Jon Binhammer
Subject: RE: Whitmont (97T0130)

Points 3 and 4, while I agree with them, are matters of business judgment and I defer to you on these.

Points 1 and 2, however, are predominantly legal judgments. Your description of the issues is accurate. As you may be aware, while I haven't consulted Mike Dennis recently on these points, we have discussed them in the past and I have no reason to think that he has changed his mind. He has consistently taken the position that TNC should not be actively marketing properties other than those that are integral parts of conservation projects, e.g., Conservation Buyer projects.

PF

Paul Flint, Assistant Secretary/Staff Legal Counsel
(703) 841-5324 Fax (703) 841-0128

-----Original Message-----
From: John Dwelley [mailto:jdwelley@tnc.org]
Sent: Tuesday, April 01, 2003 11:01 AM
To: Paul Flint
Cc: Jon Binhammer
Subject: Whitmont (97T0130)

Paul,

The 30 +/- acre undeveloped Whitmont Trade Land was donated to TNC in September of 1996. The property was believed to be worth approximately $20,000. We never received an 8283 or the donor's appraisal. The property was originally to be sold subject to deed restrictions which would prohibit subdivision of the property, limit development to one house site, and prohibit clear cuts over 3 acres in size and more than 20% of the total area. The Vermont Chapter is the beneficiary of the sale.

The Vermont Chapter has worked to use this property as potential swap bait and, through word of mouth, sent information to individuals who have expressed an interest to know more about possibly purchasing the property. We are now prepared to move forward with a more traditional marketing effort.

However, before writing the neighbors and then moving to list the property, the Vermont Chapter suggested running newspaper ads. We do not do that or promote doing that from WO for a variety of reasons, including the following:

1) If we offer non-conservation property for sale, we may become subject to the provisions of state real estate license laws.
2) Under applicable tax law, if we are seen as being in the business of acquiring and selling property unrelated to our charitable purposes, we incur increased exposure to UBIT. While unlikely a single ad would cause a problem, it is a slippery slope we are very cautious of.
3) Curiosity seekers calling and taking time to talk about the property but not really seriously interested in buying.

4) Same curiosity seekers looking for a package which in turn may 'waste' resources.

Would you care to add anything to the issues mentioned above?

Thanks,
John

Paul Flint

From: Paul Flint [pflint@tnc.org]
Sent: Monday, June 03, 2002 11:00 AM
To: bhall@tnc.org
Cc: Craig T. NEYMAN
Subject: RE: Draft Letter of Agreement

Hi yourself. Assuming that the space will be used by the landtrust for its conservation purposes, no UBIT issue. Use of space by another 501(c)(3) conservation organization for its tax exempt purposes is treated as though used by TNC itself for its own tax exempt purposes.

You perhaps should prohibit assignment or subleasing without written consent. (A different use of the space could reopen the UBIT issue.)

Paul Flint, Assistant Secretary/Staff Legal Counsel
(703) 841-5324 Fax (703) 841-0128 Octel 5324
Trouble rides a fast horse.

-----Original Message-----
From: Becky Hall [mailto:bhall@tnc.org]
Sent: Monday, June 03, 2002 10:42 AM
To: PAUL H. Flint
Subject: FW: Draft Letter of Agreement

Hi Paul-
Would you let me know whether we have a UBIT issue here... and if so, what do we need to do about this?
we are subleasing some office space to another landtrust.

I have not yet reviewed the draft letter agreement , but will make sure that if we can go forward with this, that the letter agreement is legally sound.

Thanks!
Becky

-----Original Message-----
From: David Gann [mailto:dgann@tnc.org]
Sent: Tuesday, May 28, 2002 7:47 PM
To: Becky Hall
Cc: Reid Haughey
Subject: FW: Draft Letter of Agreement

Hi Becky, could you look this over please. Reid has fairly well spelled out the discussions he and I have had. Suggestions?
Reid, Becky Hall is our legal counsel. I don't think this needs to get very complex at all and I am in agreement with what you have laid out. I must have Becky take a look at it however, she's a pro. Thanks Dave

Paul Flint

From: Paul Flint [pflint@tnc.org]
Sent: Tuesday, January 22, 2002 12:26 PM
To: Harry Estroff; John DWELLEY
Subject: Draft

Draft e mail to Knott Unitrust (RI) file.

This will memorialize my conversation of this date with John Dwelley concerning our preparations for listing the above-referenced property. As described to me, it consists of a single-family residence on several acres. It appears that the property has the potential to be subdivided into one additional residential site. One impediment to subdivision may be the presence of wetlands on the property which would make it impossible or impractical to carve out a second building site.

Plan A is to list the property as is, at or near our best estimate of FMV ($230-235 k). It is anticipated that any offers received will be contingent on the results of such tests and evaluations (at buyer's expense) as may be necessary to delineate the wetlands and to define a second approved building site. It is likely that the offering price will be discounted accordingly.

Plan B is for TNC, as trustee, to undertake necessary tests and evaluations prior to listing the property. This would probably require the donor to make an additional contribution to cover the costs. Based on preliminary talks with the broker, it is felt that the costs would not exceed $5,000.

This is predominantly a business judgment with legal overtones. TNC has a fiduciary obligation to market the property for as much return as possible, as quickly as possible. However, TNC also has an obligation to minimize the risk of UBIT, because a determination that the trust has realized taxable income in the disposition process could be devastating to the donor's tax position. Therefore it is important for us to maintain a passive role and not participate actively in any subsequent development activities. While the risk of UBIT liability under Option 2 appears fairly remote, it is not insubstantial.

Clearly there is some tension between our objectives, which requires us to strike an appropriate balance between them.

My recommendation to John is to implement Plan A and test the market for perhaps 45-60 days. That should be sufficient to determine whether there is any interest from prospective purchasers on that basis. If no viable offers result, that will indicate that the trust should reconsider whether to undertake the wetlands assessment.

If you would like to discuss further, please let me know. Thanks for the opportunity to comment. PF

Paul Flint, Assistant Secretary/Staff Legal Counsel
(703) 841-5324 Fax (703) 841-0128 Octel 5324
Trouble rides a fast horse.

Paul Flint

From: Paul Flint [pflint@tnc.org]
Sent: Wednesday, November 7, 2001 1:26 PM
To: Janine Russ
Cc: John Dwelley
Subject: RE: HENRY (OK) TRADE LAND NEWSPAPER AD

Janine--TNC does not run ads for trade land properties except under unusual circumstances. Basically there are two reasons for this: (1) if we offer non-conservation property for sale, we may become subject to the provisions of state real estate license laws, and (2) under applicable tax law, if we are seen as being in the business of acquiring and selling property unrelated to our charitable purposes, we incur increased exposure to Unrelated Business Income Tax ("UBIT"). Therefore we prefer to use licensed brokers to market these properties and keep our role sufficiently passive to avoid these types of legal exposure.

I am not saying that we can never run an ad, and it is unlikely that a single ad would create a problem. But it is a slippery slope; one ad can lead to another, and then another, so we need to be very careful about it.

PF

Paul Flint, Assistant Secretary/Staff Legal Counsel
(703) 841-5324 Fax (703) 841-0128 Octel 5324
Trouble rides a fast horse.

-----Original Message-----
From: Janine Russ [mailto:jruss@TNC.ORG]
Sent: Wednesday, November 07, 2001 12:52 PM
To: Paul Flint
Cc: John Dwelley
Subject: HENRY (OK) TRADE LAND NEWSPAPER AD

Hello Paul -
I wanted to solicit your input on the following. In addition to the established marketing approaches for the sale of Trade Land properties, The Oklahoma State program would like to run an advertisement in several Oklahoma newspapers in the classified section offering the above named property for sale. Would you mind sharing The Nature Conservancy's position on such advertising? I look forward to your feedback. Thanks much. Have a great day.
jruss

Janine Russ
Associate Dispositions Manager
The Nature Conservancy
phone 703-841-4868, fax 703-841-7428, email:jruss@tnc.org

Paul Flint

From: Paul Flint [pflint@tnc.org]
Sent: Wednesday, November 7, 2001 11:06 AM
To: lgillette@tnc.org
Cc: Ray CULTER
Subject: RE: UBIT

Yes, we pay UBIT.

Paul Flint, Assistant Secretary/Staff Legal Counsel
(703) 841-5324 Fax (703) 841-0128 Octel 5324
Trouble rides a fast horse.

-----Original Message-----
From: Leslie Gillette [mailto:lgillette@tnc.org]
Sent: Wednesday, November 07, 2001 10:52 AM
To: Paul Flint
Subject: UBIT

Paul - Is TNC paying UBIT on rent received at HO? If no, is it because we meet the 85% limit or is it because of how the leasing arrangement is structured? I was under the (mistaken?) impression that we're using a building manager to avoid UBIT on rent. If that's wrong, then we don't need to consider a building manager. Leslie

Paul Flint

From: Paul Flint [pflint@tnc.org]
Sent: Thursday, November 1, 2001 10:01 AM
To: mreilly@savetheredwoods.org
Cc: Michael DENNIS
Subject: RE: Pine Butte Like Activities

Hello Meg. I am happy to help if I can. Based on my research into TNC's ecotourism destinations, I do not think it will be difficult to reach the conclusion that this program would be mission-related. I say this assuming that there is some kind of hook in your organization's recital of tax exempt purposes that can be used to hang this kind of educational activity upon.

Cheers

PF

Paul Flint, Assistant Secretary/Staff Legal Counsel
(703) 841-5324 Fax (703) 841-0128 Octel 5324
Trouble rides a fast horse.

-----Original Message-----
From: Mike Dennis [mailto:mdennis@tnc.org]
Meg, Give me a call. I am asking Paul Flint, our resident ubit expert, to give your questions some thought and maybe we can hook him in on the call....Mike D.

-----Original Message-----
From: Meg Reilly [mailto:mreilly@savetheredwoods.org]
Sent: Friday, October 26, 2001 2:47 PM
To: TNC-Mike Dennis
Subject: Pine Butte Like Activities
Yo- How's things? We hear that TNC has "gone global." Local folks wonder what that means. Time will tell.
Friday afternoon is a fine time to hit you with this one. The League owns 30 acres with old growth redwoods, Eel River waterfront and a more or less historic restaurant & inn with cabins. You guessed it -- The Hartsook Inn on Hwy 101 just south of the string of redwood state parks stretching north through Humboldt County. Reasons for acquisition --the business was bust & the owner was threatening to harvest the trees. In addition, there was some thought that the lodge could become a visitors center for the 400,000 folks who travel this area annually to visit state parks & redwood country.
In addition to drop in visitors (average stay 20-30 minutes)it could become a destination place with good year-round forest ecology & restoration programs, a re-veg nursery, etc. There's even the possibility of high-end interactive exhibits and movie in the visitor center, as well as a canopy walk in the tall trees.
Working with consultants, we've ginned up a $3-10mm project, depending on scale. Even the most basic scenario include cabins, restaurant, visitor center and trails with interpretive info. The lodging/food service would be run by a 3rd party operator. The visitor center and mission-related program stuff may be operated by the League directly.
Setting all other issues aside, UBIT spings to mind. So does the Pine Butte Guest Ranch & Mashomack Preserve. Here are my questions:
1. Can you recommend someone to guide us through the exempt org issues associated with funding and operating the project? The Silk Adler firm comes to mind, but maybe you know others. You favorite accountant on exempt org issues would also be a help.
2. I'd like to have our staff planner chat with Conservancy managers at Pine Butte & Mashomack to get a sense of what it takes to operate on the ground. Can't remember the names of either person --and know you know.

Why don't I give you a buzz next week?Thanks Mike.

Meg Reilly, General Counsel
Save-the-Redwoods League
114 Sansome St., Room 1200
San Francisco, CA 94104-3823
415-362-2352 ext. 15
415-362-7017 Fax
mreilly@savetheredwoods.org

o: Cathy DelCastillo@legal@TNCTXFO

Chron - UBIT

:c:
:cc:
rom: Paul Flint@Legal@TNCHQ
ubject: re: Sale of Water Rights - UBIT Analysis
: Tuesday, January 23, 2001 at 10:16:22 am EST
ach:
ertify: Y

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athy DelCastillo@legal@TNCTXFO Wrote:
| Paul,
| I am currently working with TXFO in negotiating the sale
of certain water rights we acquired in a transaction last
year. We're selling the water rights for app. $500,000.
In accordance with the Financial Management Handbook

///// I did not realize (or have forgotten) that UBIT was addressed in the FMH. Where in the manual is this
aterial? I would be interested in checking it out. /////

the
following is my brief analysis of UBIT in this transaction
for your review. I conclude that the revenue from the
sale of the water rights is NOT subject to UBIT.|
1. The transaction involves the disposition of property,
and therefore falls within the UBIT exclusion on gains and
losses from disposition of property. Water rights in
Texas are considered property rights, which can be
acquired or leased like other property.

/////////////// I agree. I think this is very clear. This exclusion is used, inter alia, to shelter the Trade Land program
om UBIT. In effect, we are reclassifying these interests as a trade land that is part of a conservation project, and the
saction is a "partial preserve sell off." ////

2. In the alternative, the income is not from a business
that "is regularly carried on." This one may be a little
harder depending on whether other states are selling water
rights. In Texas, this will be our first endeavor in the
sale of water, but we expect to enter into another
transaction in the next year or so. |
There may be some additional exclusions that I haven't
indicated here.

////// I don't think so, but it doesn't matter because the disposition of property rationale is (in my view)
ulletproof. ////////////

Please let me know if you concur or
disagree, or if you need any additional information.
Thanks, Paul. I hope the new year is going well for you.

//////////// So far, so good. Same to you. PF /////

aul Flint. Assistant Secretary/ Staff Legal Counsel (Marketing)
03) 841-5324. Octel 5324. Fax 841-0128. Internet[pflint@tnc.org]
ouble rides a fast horse.

Michael Dennis@Legal@TNCHQ
Craig T. Neyman@Account@TNCHQ
Katherine White@Legal@TNCHQ
Cc:
From: Paul Flint@Legal@TNCHQ
Subject: fwd: re: UBIT issue
Friday, January 19, 2001 at 5:07:42 pm EST
Attach:
Certify: Y
Forwarded By: Paul Flint@Legal@TNCHQ

Comments By: Paul Flint@Legal@TNCHQ
Originally To: Paul Flint@Legal@TNCHQ
Originally Cc: smtp@tnchq04@servers[<jeffrey.j.schragg@us.arthurandersen.com>], smtp@tnchq04@servers[<mark.j.ravera@us.arthurandersen.com>], Craig T. Neyman@Account@TNCHQ
Originally From: <jennifer.d.hardin@us.arthurandersen.com>
Original Date: 01/19/1901 3:20 PM
Comments:

Clearly I can make a whole new career out of these UBIT memos.

How do you think I should respond to these additional points?

PF

Paul Flint. Assistant Secretary/ Staff Legal Counsel (Marketing)
(703) 841-5324. Octel 5324. Fax 841-0128. Internet[pflint@tnc.org]
Trouble rides a fast horse.

-- ----------[Original Message]----------

Paul -

After our conversation this morning I had the chance to talk to Jeff Schragg regarding the memos you sent on Monday. In addition to the points I sent you previously on the Pine Butte memo, we wanted to bring to your attention a few additional thoughts regarding the Ramsey Canyon and Merchandising memos.

Ramsey Canyon

1. Has the applicable field office reviewed and concurred with your description of the facts in the memo? (In short, would they say the same thing if an IRS agent asked them?)

2. Based upon our prior discussions, I understand that TNC has no record of its original application for exemption and exempt purpose. It would seem to bolster the argument in this case to include the language in your bylaws and mission statement relating to the preservation of plants and animals and protecting lands and waters. As such, TNC has, through operating this lodge, both accessed additional acreage to preserve and also expanded its ability to educate persons on the Ramsey Canyon Preserve to further its exempt purpose.

3. Can this memo be expanded for supporting law in addition to the travel regulations? If not, you might want to be certain you've documented how much of the occupancy relates to an educational travel tour promoted by either TNC our RCI vs someone on a self-guided birding vacation that uses this facility as any other inn would be used. We bring up this distinction because of the Inn's history as a for-profit venture.
In addition, I wondered if you'd gone down the path of the museum cafeteria

some other argument relating to convenience of the visitors to the adjacent TNC preserve.

4. Do you have any of the documentation on the travel tours that would allow you to easily provide a completed package relating to this issue to an IRS agent? This note really relates to your paragraph which begins "RCP/RCI travel tours involve organized study,..."

5. In addition to the two memos supporting the exemption of Ramsey Canyon and Pine Butte, your files would be more complete if you did a memo supporting the conclusion to tax the third guest house activities as an unrelated business.

Merchandising

Our points relating to this memo all relate to the "Evaluation" section. We agree with your overall conclusion on the matter.

1. Your discussion of the profit motive could also include the risk that the IRS can argue this motive with hindsight on any activity that made a profit.

2. The second point relating to regularly carried on activities does not include a discussion of the NCAA ruling which you could add to bolster your case.
3. You could also argue that each person wearing something with TNC's logo expands the awareness of your mission to others. (I know this may be a bit much.)

Please let me know what you think. Have a great weekend!
KC

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it

mburget@tnc.org
Monday, October 16, 2000 8:27 AM
mfager@popmail.tnc.org; Craig T. Neyman@Account@TNCHQ
Paul Flint@Legal@TNCHQ; Stephen Howell@COO@TNCHQ; Michael Dennis@Legal@TNCHQ; Cheryl Place@AUDIT@TNCHQ
Subject: RE: UBIT

thanks craig for the heads up - fy2000 stuff should all be recorded, though i know that mollie will be in touch re any issues to anticipate. i assume that fy2001 will fall into similar category. the good news is that we now anticipate narowing the operation to focus solely on extremely focused tnc trips - and indeed we may incorporate zapata into our standard cofo field trips program moving forward. if we do so, i assume our case for related business income would be stronger.
mark

-----Original Message-----
From: cneyman@tnc.org [mailto:cneyman@tnc.org]
Sent: Thursday, October 12, 2000 3:46 PM
To: mfager@popmail.tnc.org
Cc: mburget@popmail.tnc.org; pflint@tnc.org; showell@tnc.org; mdennis@tnc.org; cplace@tnc.org
Subject: UBIT

Mollie:

Given the recent UBIT audit, the National BOG has become increasingly sensitized to TNC's possible exposure to unrelated business income tax. Recent HO legal analysis of Pine Butte and pending analysis of Ramsey Canyon and Zapata reflect that sensitivity. While senior mgmt has yet made no definitive determination of whether Zapata's FY2000 restaurant and inn operations constitute UBIT, I suspect (and Paul Flint concurs) that senior mgmt (Mike & Steve?) will likely make such a determination. In anticipation of that decision, therefore, I wanted to give you a heads up: it is likely that we in HO Finance may soon be asking you to point us to activity (hopefully) recorded in the general ledger which reflects the entirety of FY2000 restaurant and inn operations for Zapata, so that we may properly record such activity on the IRS Form 990T.

Again, I do not yet definitively know whether Zapata's activity is UBIT activity. I just wanted to let you know in advance so that you would not be surprised should a request for documentation be forthcoming.

Thanks
Craig

Craig T. Neyman
Director of Finance
The Nature Conservancy
Phone 703-841-5364
Fax 703-841-9059
Craig T. Neyman (cneyman@tnc.org)
Finance Manager
The Nature Conservancy

To: Lee Barnaugh@Steward@TNCMTFO
Cc: Susan Benedict@Admin@TNCMTFO
Patrick Ramos@LEGAL@TNCWRO
Bcc:
From: Paul Flint@Legal@TNCHQ
Subject: Brochures, etc.
Date: Tuesday, August 15, 2000 at 2:15:23 pm EDT
Attach:
Certify: Y

By now Susan Benedict will probably have called to give you a heads up on this.

As a follow up to a recent Internal Auditors survey and compliance review on UBIT, I need to obtain copies of promotional materials currently employed by Pine Butte Guest Ranch. I believe that you have brochures and probably a canned letter or two that are used to respond to inquiries. Any other materials, in particular those that describe the educational programs (guided hikes and horseback rides, naturalist presentations, workshops, slide shows about nature and conservation areas, reference lists of reading materials, whatever), would also be very useful.

One area I'm not clear on: according to the internal auditors, PBGR holds educational workshops in the spring, but is open to the general public during the summer. It's my understanding that PBGR does not advertise in periodicals -- other than Nature Conservancy magazine and newsletters -- but that it is listed in some guidebooks and directories of guest ranches. Is that accurate? Are the majority of guests TNC members? Is there an "open season" for the general public? If so, are educational programs, presentations, etc., part of the package that is available at those times?

If you could overnight the materials to my attention so that they arrive by the end of this week, it would be greatly appreciated. I know that you are in the middle of your peak season and I regret having to make this request on short notice, but this IRS related stuff is important and needs to be addressed. Thanks in advance for your cooperation.

Paul Flint. Assistant Secretary/ Staff Legal Counsel (Marketing)
(703) 841-5324. Octel 5324. Fax 841-0128. Internet[pflint@tnc.org]
ble rides a fast horse.

To: Craig T. Neyman@Account@TNCHQ
Cc: Karen Berky@CR_MRKT@TNCHQ
Michael Dennis@Legal@TNCHQ
Laura Lew@AUDIT@TNCHQ
Bcc:
From: Paul Flint@Legal@TNCHQ
Subject: IRS PLR 200021056
Date: Tuesday, July 18, 2000 at 9:44:15 am EDT
Attach:
Certify: Y

FYI, I have just reviewed this ruling dated 2/08/00. It includes a fairly comprehensive summary of the law and some of the revenue rulings and cases addressing UBIT on merchandising activities.

While distinctions can be drawn between TNC and the taxpayer in question in this ruling, there are also a number of similarities. On balance I'd characterize the ruling as unfavorable to TNC on the UBIT issue.

Paul Flint. Assistant Secretary/ Staff Legal Counsel (Marketing)
(703) 841-5324. Octel 5324. Fax 841-0128. Internet[pflint@tnc.org]
Trouble rides a fast horse.

APPENDIX M

DOCUMENTS RELATING TO MARTHA'S VINEYARD

October 27, 2004
Senate Finance Committee Letter

Question 26: Narrative Re: Martha's Vineyard

Questions regarding Martha's Vineyard: (a) Why did the Wallaces make an $18.5 million cash contribution to be used by TNC to pay purchase price back to the Wallaces, instead of selling the property to TNC for a bargain sale price of $18.5 million less than the property's value? (b) Why did TNC pay $14 million to HCAC directly, rather than to the Wallaces to be used by the Wallaces to pay HCAC?

Herring Creek (Martha's Vineyard) was described in detail in TNC's letter to the Committee dated April 15, 2004 (the "2004 Letter"). As described in that letter, the transaction was the product of extensive and often acrimonious multi-party negotiations that lasted for more than a year. All of the parties, including the Wallaces, were represented by independent counsel of their own choosing and TNC was not an active participant in the financial and tax planning undertaken by the Wallaces or any of the other parties to the transaction. These parties worked independently of TNC and consistent with its policies then in effect (as previously described to the Committee) TNC made no tax or financial representations to any of these parties, each of whom had their own professional advisors and counsel and made their own decisions.

a. As described in the 2004 Letter, under the relevant transactional documents, the Wallaces had the right to specify, based on a final appraisal, the purchase price to be paid for the land involved, but those documents also limited TNC's obligation (from its own resources) to $45.5 million. If the final purchase price designated by the Wallaces exceeded this amount (as it did), TNC was not obligated to close the transaction unless it received additional contributions in an amount equal to the excess. It was understood by the parties that the Wallaces would undertake to make any solicitations of such contributions. TNC was not privy to any such efforts or to the decision by the The Wallace Foundation to make the contribution necessary to facilitate closing of the transaction. As a result, TNC is not in a position to speculate why the particular contribution structure was selected.

b. The parties insisted that TNC negotiate directly with HCAC to secure a waiver of its pre-emptive rights. At the time of the transaction, the Wallaces and HCAC (and its predecessors) had been in litigation with respect to their respective rights and obligations under various agreements dating originally from the purchase of the land by the Wallaces in 1969. Had TNC not undertaken to deal directly with HCAC as a separate transaction, it is unlikely that the acquisition and preservation of the Herring Creek property could have been completed.

April 21, 2005
Senate Finance Committee Letter

Question 12

Please provide information regarding ownership of the following entities or parties to the transactions, including any changes in such ownership during contractual negotiations, as of the dates they were involved in the Martha's Vineyard transaction:

- **owners of Windsor Capital Corporation**
- **owners of Herring Creek Acquisition Company, LLC**
- **owners of Real Estate Equity Limited Partnership**
- **owners or beneficiaries of the Herring Creek Farm Trust**

Windsor Capital Corporation – The Conservancy has no knowledge as to the identity of the ownership of this corporation. According to Conservancy records and according to Karen G. Stratton, Vice President and Director of Taxes of General Investment & Development Co., (the firm which filed the tax returns for the Seller), Windsor Capital Corporation is the parent company of Windsor Investment Co. Inc., which, in turn, is the holder of the beneficial interest of Herring Creek Farm Trust, a nominee trust. Our contact with the Trust (aside from the attorneys representing the Trust) throughout the negotiations and at the time of conveyance was Stuart R. Johnson. Mr. Johnson was the Trustee of Herring Creek Farm Trust at the time of the conveyance as evidenced by his representations and supporting documentation to this effect provided to the satisfaction of the title insurance company that provided title insurance to the Conservancy for this transaction. The Conservancy is not aware of any changes in ownership or in beneficiaries of the Trust occurring during the contractual negotiations.

Herring Creek Acquisition Company, LLC – The Conservancy has no knowledge as to the identity of the members of this LLC. The Conservancy's contact with this LLC (aside from attorneys representing the LLC) was and remains Robert Hughes. Mr. Hughes represented that he had the authority to act on behalf of the LLC, signed documents on behalf of the LLC as manager and provided representations and documentation to this effect and to the effect that the LLC is a Commonwealth of Massachusetts limited liability company in good standing, all to the satisfaction of the title insurance company that provided title insurance to the Conservancy for this transaction. Erik H. Aldeborgh, II also was involved in the Conservancy's negotiations on behalf of this LLC. The Conservancy is not aware of any changes in ownership of the LLC occurring during the contractual negotiations.

Real Estate Equity Limited Partnership –The Conservancy has no knowledge as to the identity of the owners of Real Estate Equity Limited Partnership.

Herring Creek Farm Trust – see description above under Windsor Capital Corporation.

Privileged and Confidential

April 24, 2001

Stuart R. Johnson, Trustee, Herring Creek Farm Trust (the "Trust")
c/o General Investment & Development Co.
600 Atlantic Avenue - Suite 2000
Boston, MA 02210

Dear Mr. Johnson:

The purpose of this letter is to confirm your intentions with regard to certain gifts which you hope to arrange in favor of The Nature Conservancy ("TNC") to be made by certain persons and entities affiliated with you, as Trustee u/d/t dated October 21, 1970, and recorded in the Dukes County Registry of Deeds in Book 281, Page 158 and Book 286, page 158, as amended by Certificate of Amendment of Trust dated May 11, 1971, and recorded in the Dukes County Registry of Deeds in Book 290, Page 558 and Book 291, Page 580 and registered in the Dukes County Registry District Office of the Land Court as Miscellaneous Document No. 962.

1. Source of Funding for TNC.

As you know, we have executed and delivered to you the "Definitive Agreement Regarding Herring Creek Farm, Edgartown, Dukes County, Massachusetts", of even date herewith, between TNC as Purchaser and the Trust as Seller (the "Purchase Agreement"). You understand that TNC plans to raise cash from its own sources (i.e., sources other than the "Wallace Family Donors" and "Land Donors", both defined below) for payment of the Purchase Price under the Purchase Agreement. TNC expects this cash will be raised through some combination of gifts, loans and re-sales of various portions of Herring Creek Farm. However, if the Purchase Price under the Purchase Agreement exceeds $45,500,000, TNC will request the Trust and related parties to consider making the gifts described below.

2. Gifts.

(a) We understand that you hope to encourage the owners (the "Land Donors") of those parcels of land shown and identified on Exhibit A (the "Existing Plan") as the "Blue Heron Parcel", the "Moore Beach Parcel" and the "Sliver Parcel" to make gifts of those parcels to TNC or any other not-for- profit assignee or designee of TNC under Purchase Agreement, and that you acknowledge that in the event that you are unable to arrange such gifts,

the absence of those gifts shall not preclude TNC from waiving the condition in the Purchase Agreement relating to such gifts and closing in the absence of some or all of such gifts.

(b) We understand that that you also hope to encourage certain individuals in the Wallace family (the "Wallace Family Donors") to make, on or before June 15, 2001, gifts of cash or other assets having a value (when made and at all times thereafter) of at least $9,500,000 to TNC, in order to assist TNC in achieving the goal of preserving large areas of farmland on Martha's Vineyard or Nantucket as designated (the "Designated Property"), and that such gifts are to be evidenced initially by a charitable pledge agreement accompanied by a promissory note. The promissory note is to be interest free and is to be payable at the time of the closing on the acquisition of the Designated Property. In the event that the promissory note is not paid at the time of a closing on the Designated Property (so that the note has been converted to immediately available cash on or before such closing date), the promissory note shall be enforceable against the Wallace Family Donors in the courts of the Commonwealth of Massachusetts, unless a bargain sale gift is made by the Trust pursuant to (c) below. In the event that the Designated Property is some or all of Herring Creek Farm, then the amount of any promissory note delivered to TNC and not so paid at such closing of such Designated Property shall be credited against the Purchase Price under the Purchase Agreement. In the event that a closing on such Designated Property does not occur on or before December 31, 2001, the charitable pledge agreement and the promissory note are to be returned to the Wallace Family Donors.

(c) We further understand that you agree that, in the event (i) that the Purchase Price under the Purchase Agreement is greater than $55,000,000, and TNC is unable to raise the additional amount needed from the Wallace Family Donors or (ii) the Wallace Family Donors fail to make some or all of the $9,500,000 in gifts contemplated by (b) above, the Trust will make a bargain sale gift of any Shortfall (defined below). "Shortfall" shall mean the amount equal to (i) the Purchase Price under the Purchase Agreement minus (ii) the total of (A) $45,500,000 plus (B) the total of cash gifts actually funded by the Wallace Family Donors plus (C) any credit against the Purchase Price received by TNC for promissory notes delivered by Wallace Family Donors but not funded with cash by the closing under the Purchase Agreement.

3. <u>Effect of Bargain Sale Gift on TNC's Requirements regarding Approval of Appraisal Under Purchase Agreement</u>.

If the Trust does elect to make a bargain sale gift of some portion of the Herring Creek Farm, then for purposes of TNC's approval rights under Section 3.1(k) of the Purchase Agreement, TNC will review and approve the appraisals for Herring Creek Farm based on the figure that represents the actual net cash price to TNC rather then based upon the full fair market value stated in the Trust's appraisal. For example, if the Trust's appraisal indicated a fair market value figure of $70,000,000 and the Trust had elected to make a bargain sale gift in the amount of $15,000,0000, then TNC would evaluate the appraisal to ensure that TNC and its Board were satisfied that the fair market value of Herring Creek Farm was at least $55,000,000 (rather than the higher $70,000,000 figure) and would grant or withhold their approval of the appraisal on that basis. However, in the event the Trust elects to make a bargain sale gift of any portion of

Herring Creek Farm, the deed delivered to TNC would have to state a figure no higher than the actual cash (plus purchase money note and mortgage) being paid by TNC to the Trust as part of the purchase transaction and, although TNC will execute a Form 8283 to acknowledge receipt of a gift, TNC will not endorse, either directly or indirectly, the dollar value of the bargain sale gift component of the transaction.

4. Conditions to the Gifts.

We further understand that the possibility of these gifts is hindered by certain legal complications which must be addressed prior to the making of any such gifts, to wit, satisfaction of the conditions enumerated in Section 3.3 of the Purchase Agreement (other than the condition (stated in Section 8.3(a) of the Purchase Agreement and incorporated by reference into said Section 3.3) regarding payment of any portion of the Purchase Price in excess of $44,500,000, which amounts TNC will only be able to pay to the extent of the actual gifts received from the Wallace Family Donors).

5. Warranties.

TNC hereby warrants that if it is to receive a gift as herein contemplated, it presently is, and will be as of the date of any such gift, an organization qualified as tax exempt under Section 501(c)(3) of the Internal Revenue Code.

6. Remedies.

The Trust agrees that if (a) the gifts contemplated by subparagraph 2(a) above do not occur by reason of any refusal by a Land Donor to make such a gift even though all of the conditions in paragraph 4 have been satisfied, and such refusal or failure is the sole cause of the inability of TNC to close the transactions contemplated by the Purchase Agreement or (b) all of the gifts contemplated by subparagraph 2(b) above do not occur by a reason of a refusal of the Wallace Family Donors to make such a gift even though all of the conditions in paragraph 4 above have been satisfied and the Trust does not make a bargain sale gift of the Shortfall as provided in 2(c) above, then at TNC's election the Trust shall refund the Deposit under the Purchase Agreement and pay to TNC, a break-up fee in the amount of $3,000,000. If TNC elects to collect the break-up fee, payment of such break-up fee and refund of the Deposit shall be in lieu of all other remedies at law or in equity on the part of TNC, its heirs, successors, legal representatives and assigns. If TNC elects not to collect the break-up fee, TNC shall be entitled to seek specific performance of the obligations to consummate the transactions contemplated herein and in the Purchase Agreement.

7. Miscellaneous.

The Trust agrees that if a gift is made to TNC of the Blue Heron Parcel, the Trust will take such steps as are necessary to ensure that the septic system for the Blue Heron Parcel has been properly inspected and is in compliance with all relevant requirements of Title V (310 CMR 15.00 et seq.). Further, TNC understands that any gift of the Blue Heron Parcel may be

made subject to a lease in favor of Mary Eberle for the period from June 16, 2001 through September 15, 2001 for a total rental of $25,593 (plus a security deposit of $1,000).

8. Non-Binding Nature.

The parties agree that the terms of the Confidentiality Agreement entered into by and among the parties as of December 11, 2000, a copy of which is attached hereto as Exhibit B, are incorporated herein by this reference as though fully set forth. It is acknowledged that this letter of intent is not, is not intended to be and is not to become binding on the Land Donors, the Wallace Family Donors, or you, and that the only binding effect which this letter of intent is to have is that the acknowledgments made by you in paragraph 2, the warranties made by TNC in paragraph 5 and the remedies committed to by you in paragraph 6 are to be final and binding upon execution hereof.

THE NATURE CONSERVANCY

By: _____
Name: _____
Its: _____

Agreed and Accepted:

April 24, 2001

HERRING CREEK FARM TRUST

By: _____
Stuart R. Johnson
Trustee, but not individually

HERRING CREEK FARM TRUST
c/o General Investment & Development Co.
600 Atlantic Avenue
Boston, MA 02210
617-973-9680

June 21, 2001

The Nature Conservancy
Eastern Regional Office
11 Avenue de Lafayette
Boston, MA 02111
Attention: Hans P. Birle, Esq.

The Nature Conservancy
Massachusetts Chapter
205 Portland Street
Boston, MA 02114
Attention: Wayne A. Klockner

Re: "Gift Letter" dated April 24, 2001 – Formal Submission of Charitable Pledge Agreement and Non-Negotiable Promissory Note

Dear Messrs. Klockner and Birle:

copy ??

Reference is made to paragraph 2 (b) of the so-called "gift letter" dated April 24, 2001 from The Nature Conservancy to Herring Creek Farm Trust as well as the letter of Herring Creek Farm Trust dated June 15, 2001, countersigned by Mr. Giso for and on behalf of The Nature Conservancy, extending to June 22, 2001 the date for submission to The Nature Conservancy of the charitable pledge agreements and non-negotiable promissory notes (aggregating $9.5MM) called for under paragraph 2 (b) of the "gift letter".

I am pleased to submit herewith the original charitable pledge agreement and non-negotiable promissory note dated June 21, 2001 of Real Estate Equities Limited Partnership, a Delaware limited partnership. The undersigned reserves the right to satisfy the charitable pledge agreement and non-negotiable promissory note by causing other individuals, trusts or entities, including children within the Wallace families and trusts for the benefit of such children, to make the gifts necessary to satisfy the charitable pledge agreement and non-negotiable promissory note.

Please signify your receipt of the enclosed charitable pledge agreement and non-negotiable

June 21, 2001

promissory note, as well as your acknowledgment of the reserved right, by executing at least one of the two (2) enclosed counterparts of the charitable pledge agreement and returning it to the undersigned at your earliest convenience.

Very truly yours,

HERRING CREEK FARM TRUST

Stuart R. Johnson
Trustee, but not individually

enclosure

NON-NEGOTIABLE PROMISSORY NOTE

$9,500,000

Boston, Massachusetts
JUNE 21, 2001

FOR VALUE RECEIVED, REAL ESTATE EQUITIES LIMITED PARTNERSHIP, a Delaware limited partnership (the "Payor"), hereby promises to pay to the order of THE NATURE CONSERVANCY (the "Payee"), at its Eastern Regional Office, 11 Avenue de Lafayette, Boston, MA 02111, or at such other place as the Payee or any holder hereof may from time to time designate, the principal sum of NINE MILLION FIVE HUNDRED THOUSAND DOLLARS ($9,500,000), in lawful money of the United States, in immediately available funds, if, as and when the Payee acquires farmland on Martha's Vineyard or Nantucket as part of its program to preserve the same, so long as the Payee gives to the Payer at least seven (7) days advance written notice of the date on which this Non-Negotiable Promissory Note is to be satisfied, as aforesaid. Whenever any payment hereunder shall be due on a day which is not a business day, the due date thereof shall be extended to the next succeeding business day. No interest hereunder shall accrue under this instrument prior to the maturity date, but thereafter interest shall accrue calculated on the basis of actual days elapsed over a 360-day year at a rate 2% per annum in excess of the Prime Rate (as defined below) in effect from time to time, which interest rate shall change as the Prime Rate changes. In no event shall the rate of interest hereunder exceed the maximum interest rate permitted by applicable law.

"Prime Rate" shall mean the rate which announced from time to time as the prime rate of Fleet BankBoston, N.A. or its successor, as in effect from time to time. The Prime Rate is a reference rate and does not necessarily represent the lowest or best rate actually charged to any customer. The Payee may make commercial loans or other loans at rates of interest at, above or below the Prime Rate.

If the Payor or any obligor, maker, endorser, acceptor, surety or guarantor of, or any party to any indebtedness, obligations and liabilities of any kind of the Payor to the Payee (together with the Payor, the "Obligors"), shall default in the punctual payment of any sum payable with respect to, or in the observance or performance of any of the terms and conditions of, any indebtedness, obligations and liabilities of such Obligor owing to the Payee, whether now existing or hereafter arising, direct or indirect, absolute or contingent, arising by operation of law, through assignment or otherwise, or arising pursuant to any agreement with the Payee, (collectively, the "Obligations"), or if a default or event of default shall occur for any reason under any of the Obligations, or if the Payee shall, in its sole discretion, consider any of the Obligations insecure or any collateral unsafe, insecure or insufficient and the Payor shall not on demand furnish or cause to be furnished other collateral or make payment of the Obligations satisfactory to the Payee, or if any Obligor (being a natural person) shall die or any Obligor (being a corporation) shall be dissolved or shall fail to maintain its existence in good standing, or if the usual business of any Obligor shall be suspended or terminated, or if any Obligor shall terminate, contest or fail to perform its obligations to the Payee for any reason whatsoever, or if any lien, levy, execution, seizure, attachment or garnishment shall be issued, made or filed on or

against any property of any Obligor, of if any Obligor shall become insolvent (however defined or evidenced), make an assignment for the benefit of creditors or make or send a notice of intended bulk transfer, or if a meeting of creditors is convened or a committee of creditors is appointed for, or any petition or proceeding for any relief under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, receivership, liquidation or dissolution law or statute now or hereinafter in effect (whether at law or in equity) is filed or commenced by or against, any Obligor or any property of any Obligor, or if any trustee or receiver is appointed for any Obligor or any such property (each of the foregoing, an "Event of Default")-- then and in any such event and at any time thereafter, in addition to all rights and remedies of the Payee hereunder, applicable law and otherwise, all such rights and remedies being cumulative, not exclusive and enforceable alternatively, successively and concurrently, the Payee may, at its option, declare any or all of the Obligations, including, without limitation, all amounts owing under this Note, to be due and payable, whereupon the maturity of the then unpaid balance thereof shall be accelerated and the same, together with all interest accrued thereon, shall forthwith become due and payable, provided that if any petition or proceeding for any relief under any bankruptcy, reorganization, arrangement, insolvency, readjustment of debt, receivership, liquidation or dissolution law or statute now or hereinafter in effect (whether at law or in equity) is filed or commenced by or against any Obligor or any property of any Obligor, all Obligations, including without limitation all amounts owing under this Note, shall be, without notice, declaration or any action by the Payee, accelerated, and immediately due and payable.

The Payor hereby waives diligence, demand, presentment, protest and notice of any kind, and assents to extensions of the time of payment, release, surrender or substitution of security, or forbearance or other indulgence, without notice.

The Payor may, at its option, at any time and from time to time, prepay all or any part of the principal balance of this Note, without penalty or premium..

No act, omission or delay by the Payee or course of dealing between the Payee and the Payor shall constitute a waiver of the rights and remedies of the Payee hereunder. No single or partial waiver by the Payee of any Event of Default or right or remedy which it may have shall operate as a waiver of any other Event of Default, right or remedy or of the same Event of Default, right or remedy on a future occasion.

This Note shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts (without giving effect to the conflict of laws principles thereof). Any legal action or proceeding with respect to this Note may be brought in the courts of the Commonwealth of Massachusetts or of the United States of America for the District of Massachusetts, and, by execution and delivery of this Agreement, the Payor hereby accepts for itself and in respect of its property, generally and unconditionally, the jurisdiction of the aforesaid courts. The Payor hereby knowingly, voluntarily, intentionally and irrevocably waives, in connection with any such action or proceeding: (i) any objection, including, without limitation, any objection to the laying of venue or based on the grounds of forum non conveniens, which it may now or hereafter have to the bringing of any such action or proceeding in such respective jurisdictions, (ii) the right to interpose any setoff, non-compulsory counterclaim or

cross-claim and (iii) to the maximum extent not prohibited by law, any right it may have to a trial by jury in respect of any litigation directly or indirectly arising out of, under or in connection with this Note. The Payor irrevocably consents to the service of process of any of the aforementioned courts in any such action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to the Payor at its address set forth below. Nothing herein shall affect the right of the Payee to serve process in any other manner permitted by law or to commence legal proceedings or otherwise proceed against the Payor in any other jurisdiction.

Unless otherwise provided herein, all notices, requests and other communications to any party hereunder shall be in writing and shall be personally delivered or sent by certified mail, postage prepaid, return receipt requested, or by a reputable courier delivery service or by telecopy and shall be given,

If to the Payor:	REAL ESTATE EQUITIES LIMITED PARTNERSHIP 600 Atlantic Avenue, Suite 2000 Boston, Massachusetts 02210 Attn: Stuart R. Johnson Facsimile No.: 617-367-3417
With a copy to:	Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. One Financial Center Boston, MA 02111 Facsimile No.: (617) 542-2241 Attention: Christopher H. Milton, Esquire
If to the Payee:	THE NATURE CONSERVANCY Eastern Regional Office 11 Avenue de Lafayette Boston, MA 02111 Attn: Hans P. Birle, Esquire Facsimile No.: (617) 482-5866:
With a copy to:	Frank Giso, P.C. Choate, Hall & Stewart Exchange Place Boston, MA 02109 Facsimile No.:(617) 248-4000

or such other address or telecopy number as such party may hereafter specify by notice to the Payee and the Payor. Each such notice, request or other communication shall be effective (i) if given by telecopy, when such telecopy is transmitted to the telecopy number specified herein and the appropriate confirmation is received, (ii) if given by certified mail, 72 hours after such communication is deposited with the post office,

addressed as aforesaid, or (iii) if given by any other means (including, without limitation, by air courier), when delivered at the address specified in accordance herewith.

No provision hereof shall be modified, altered or limited except by a written instrument expressly referring to this Note and to such provision, and executed by the Payor and the Payee.

In the event that any court of competent jurisdiction shall determine that any provision, or any portion thereof, contained in this Note shall be unreasonable or unenforceable in any respect, then such provision shall be deemed limited to the extent that such court deems it reasonable and enforceable, and as so limited shall remain in full force and effect. In the event that such court shall deem any such provision, or portion thereof, wholly unenforceable, the remaining provisions of this Note shall nevertheless remain in full force and effect.

This Note and all obligations evidenced hereby shall be binding upon the heirs, executors, administrators, successors and assigns of the Payor and shall, together with the rights and remedies of the Payee hereunder, inure to the benefit of the Payee, provided that this note shall not in any respect be a negotiable instrument.

In the event the Payee or any holder hereof shall refer this Note to an attorney for collection, the Payor agrees to pay, in addition to unpaid principal and interest, all the costs and expenses incurred in attempting or effecting collection hereunder, including reasonable attorney's fees, whether or not suit is instituted.

This Note shall take effect as an instrument under seal in the Commonwealth of Massachusetts.

This Note is intended to secure the obligations of the Payor under that certain Charitable Pledge Agreement between the Payor and the Payee dated of even date herewith, and is subject to applicable terms thereof.

REAL ESTATE EQUITIES LIMITED PARTNERSHIP
a Delaware limited partnership

By: FIRST CAPITAL FINANCIAL CORPORATION,
its corporate general partner

By: _____
Stuart R. Johnson, Vice President

CHARITABLE PLEDGE AGREEMENT

AGREEMENT made in Boston, Massachusetts, this 21ST day of JUNE, 2001, between REAL ESTATE EQUITIES LIMITED PARTNERSHIP, a Delaware limited partnership, having an address for purposes hereof at 600 Atlantic Avenue, Suite 2000, Boston, Massachusetts 02210 ("Pledgor") and THE NATURE CONSERVANCY, a non-profit corporation organized and existing under the laws of the District of Columbia ("Pledgee"), having an address for purposes hereof at its Eastern Regional Office, 11 Avenue de Lafayette, Boston, MA 02111.

WHEREAS, it is the desire of Pledgor to assure the Pledgee of the availability of certain funds by donation and thereby to encourage the Pledgee to carry out and fulfill its charitable program to preserve large areas of farmland on Martha's Vineyard or Nantucket and to seek additional contributions from other donors; and

WHEREAS, in consideration of and in reliance upon such donations or funds, the Pledgee will secure gifts, donations and pledges from other individuals, foundations or corporations to the Pledgee and will incur expenses to carry out this charitable program in anticipation of the fulfillment of this Charitable Pledge Agreement; and

WHEREAS, Pledgee is willing to accept such donations of funds to continue to undertake this program in reliance upon the undertakings and assurances hereby given;

NOW, THEREFORE, in consideration of the premises and reliance herein recited, it is hereby agreed by and between the parties as follows:

1. The undersigned Pledgor does hereby pledge to pay the sum of $9,500,000 to the Pledgee specifically for the charitable program described above.

2. It is understood that the above donation is made in reliance on the fact that the Pledgee is now, and will be at the time(s) of payment exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code of 1954, as amended.

3. Pledgor will execute and keep in effect a valid non-negotiable promissory note to evidence the commitment of the Pledgor to complete the gifts contemplated herein consisting of funds equivalent to the sum due under said non-negotiable promissory note.

4. This Pledge may be enforced by said Pledgee by an action for specific performance or by any other appropriate remedy by any court having jurisdiction. It is further understood that this Pledge is a binding obligation on the undersigned Pledgor and the executors, administrators and representatives of Pledgor's estate.

5. This Pledge shall be governed in all respects by the laws of the Commonwealth of Massachusetts.

IN WITNESS WHEREOF, STUART R JOHNSON has set his/her hand and seal, and the Pledgee has caused this Agreement to be signed by _____, the day and year first above written.

SIGNATURES:

WITNESS:

Real Estate Equities Limited Partnership, a Delaware limited partnership

By: First Capital Financial Corporation, its corporate general partner

Stuart R. Johnson, Vice President

PLEDGEE:

WITNESS:

The Nature Conservancy

By: _____

Name: Dennis B. Wolkoff

Title: Vice President

TRA 1529788v1

HERRING CREEK FARM TRUST
c/o General Investment & Development Co.
600 Atlantic Avenue
Boston, MA 02210
617-973-9680

June 21, 2001

The Nature Conservancy
Eastern Regional Office
11 Avenue de Lafayette
Boston, MA 02111
Attention: Hans P. Birle, Esq.

The Nature Conservancy
Massachusetts Chapter
205 Portland Street
Boston, MA 02114
Attention: Wayne A. Klockner

Re: Acquisition of Herring Creek Farm, Edgartown, Dukes County, Massachusetts
Section 3.3 (h) of Definitive Agreement

Dear Wayne and Hans:

Reference is made to Section 3.3 (h) of that certain Definitive Agreement regarding Herring Creek Farm, Edgartown, Dukes County, Massachusetts between The Nature Conservancy and Herring Creek Farm Trust, dated April 24, 2001 (the "Agreement"). Herring Creek Farm Trust is satisfied with the Complete Appraisal in Self-Contained Format, prepared by Martin J. Coleman, Jr. and Kenneth J. Croft, III, Coleman & Sons Appraisal Group, Waltham, MA, effective June 5, 2001 for the purposes of the Agreement and the transactions contemplated thereby.

In Seller's view, there are facts which would support a fair market value of Herring Creek Farm in excess of the amount set forth in the Appraisal. For example, the fair market value of Herring Creek Farm would have exceeded the value set forth in the Appraisal if the appraiser had attributed value to some portion of the eastern end of the beach (even if such value were the result of significant discounts by reason of access issues and permitting issues). Herring Creek Farm Trust also believes that the value would exceed the amount set forth in the Appraisal for other reasons, including (a) the manner of application of present worth factors, (b) contingencies re: infrastructure costs and (c) the like.

June 21, 2001

Nevertheless, for the purposes of our Agreement, Seller hereby expresses its satisfaction with the Appraisal. The approval is given only in the context of the consummation of the transactions contemplated by the Definitive Agreement and is not to be deemed approval in other contexts.

Very truly yours,

HERRING CREEK FARM TRUST

Stuart R. Johnson
Trustee, but not individually

PROMISSORY NOTE

$1,000,000

Boston, Massachusetts
JULY 20TH, 2001

FOR VALUE RECEIVED, **The Nature Conservancy**, a non-profit organization, having an office at 11 Avenue de Lafayette, Boston, Massachusetts 02111 (hereinafter, the "Borrower"), promises to pay to the order of **Stuart R. Johnson, Trustee of Herring Creek Farm Trust** u/d/t dated October 21, 1970 and recorded at the Dukes County Registry of Deeds (the "Registry") in Book 286, Page 158 as amended by Certificate of Amendment of Trust dated May 11, 1971, and recorded in the Dukes County Registry of Deeds in Book 290, Page 558, and registered in the Dukes County Registry District Office of the Land Court (the "Land Court") as Miscellaneous Document No. 962 and as further affected by a Certificate of Amendment of Trust dated May 11, 1971 and recorded in the Dukes County Registry of Deeds in Book 291, Page 580 and registered in the Dukes County Registry District Office of the Land Court as Document No. _____ (herein, together with its successors and assigns as Holders of this Note, the "Holder") the sum of One Million ($1,000,000) Dollars, with interest on the unpaid principal balance (based upon a three hundred and sixty (360) day year and thirty (30) day months) at an interest rate of (a) five and twelve hundreths percent (5.12%) per annum prior to the occurrence of an Event of Default hereunder, and (b) eight percent (8%) after the occurrence of an Event of Default hereunder and during the continuation thereof.

1. <u>Payment of Principal and Interest</u>

Principal and interest of this Note shall be repaid as follows:

A. On the anniversary of this Note and on each subsequent anniversary thereafter until the Maturity Date, as defined below, the undersigned shall make annual payments of interest in arrears on the unpaid principal balance from time to time. The annual payments shall be in the amount $51,200. Payments shall be pro rated for any portion of a year to which an annual payment may apply.

B. Borrower acknowledges and agrees that the entire original principal sum evidenced by this Note and all accrued and unpaid interest and all other sums evidenced by the Note or secured by the Mortgage (as hereinafter defined) shall be due and payable on JULY 19, 2004 (the "Maturity Date").

2. <u>Late Charge, Prepayment, Application of Payments</u>

The Borrower shall pay a late charge equal to three percent (3.0%) of any monthly installment amount not paid within seven (7) days after written notice to Borrower of Borrower's failure to pay any monthly installment amount (all notices hereunder shall be governed by the notice provisions of the Mortgage (as defined herein)) and this charge will be in addition to Holder's other remedies and charges.

The undersigned may prepay this Note from time to time in whole or in part without premium or penalty.

Any payments received by Holder on account of this Note prior to demand or acceleration shall be applied first, to any costs, expenses, or charges then owed Holder by the Borrower, second, to accrued and unpaid interest, and third, to the unpaid principal balance hereof. Any payments so received after demand or acceleration shall be applied in such manner as Holder may determine in its sole discretion.

3. Security

This Note is secured by that certain Mortgage, Security Agreement and Assignment of even date herewith (the "Mortgage") granted by Borrower to Holder. Each capitalized term used herein, unless otherwise defined herein, shall have the same meaning as set forth in the Mortgage. The obligations, covenants and agreements of the Mortgage are made a part of this Note to the same extent and with the same effect as if they were fully set forth in the Note, and Borrower agrees to perform each and every obligation, covenant and agreement set forth in the Note, and in the Mortgage and any other document evidencing the loan ("Loan Documents"). This Note shall evidence, and the Mortgage shall secure, the indebtedness described in this Note, any future loans or advances that may be made to or on behalf of Borrower by Holder at any time or times hereafter under the Mortgage, and any other amounts required to be paid by Borrower under the Loan Documents, and any such loans, advances or amounts shall be added to the indebtedness evidenced by this Note, and shall bear interest at the interest rate set forth herein.

4. Acceleration Upon Default

Holder, at its option, may declare the entire unpaid principal balance of this Note and accrued unpaid interest thereon to be immediately due and payable without demand, notice or protest (which are hereby waived) upon the occurrence of any one or more of the following events (herein, "Events of Default"):

(a) The failure by the Borrower to pay any amount due under this Note when due and the continued existence of such monthly installment payment default for a period of seven (7) days after written notice to Borrower of such default; (b) the failure by the Borrower to pay upon demand (or when due, if not payable on demand) any of the Borrower's other monetary liabilities, obligations, and indebtedness to Holder which

failure continues for seven (7) days after written notice to Borrower of such failure; (c) The failure by the Borrower to promptly, punctually, and faithfully perform, discharge, or comply with any of the Borrower's non-monetary liabilities, obligations, indebtedness or covenants to Holder (the Note, liabilities, obligations, indebtedness, and covenants described in (a), (b), and (c) are referred to herein as the "Liabilities") within thirty (30) days of written notice to Borrower of such failure or, if such non-monetary failure is not reasonably capable of cure within such thirty days, then such longer period of time as is necessary, provided Borrower timely commenced cure and is diligently proceeding to cure; (d) Any act by, against, or relating to the Borrower, or its property or assets, which act constitutes the application for, consent to, or sufferance of the appointment of a receiver, trustee, or other person, pursuant to court action or otherwise, over all, or substantially all of the Borrower's property; the granting of any trust mortgage or execution of an assignment for the benefit of the creditors of the Borrower, or the occurrence of any other voluntary or involuntary liquidation or extension of debt agreement for the Borrower (provided, it shall not constitute an Event of Default hereunder upon the filing of any petition for involuntary liquidation if such petition is being diligently contested by the Borrower until the earlier of (a) the entry of an order for relief; or (b) the expiration of sixty (60) days without the dismissal thereof); the failure by the Borrower to generally pay the debts of the Borrower as they mature; adjudication of bankruptcy or insolvency relative to the Borrower; the entry of an order for relief or similar order with respect to the Borrower in any proceeding pursuant to the federal bankruptcy law; the filing of any complaint, application, or petition by or against the Borrower initiating any matter in which the Borrower is or may be granted any relief from the debts of the Borrower pursuant to the Bankruptcy Code or to any other insolvency statute or procedure (provided, it shall not be an Event of Default hereunder if such complaint, application or petition is filed against the Borrower, which complaint, application or petition is being diligently contested until the earlier of (x) the entry of an order for relief against the Borrower, or (y) the expiration of sixty (60) days without dismissal of such complaint, application or petition); the calling or sufferance of a meeting of creditors of the Borrower; the meeting by the Borrower with a formal or informal creditors' committee; the offering by, or entering into by, the Borrower of any composition, extension or any other arrangement seeking relief or extension for the debts of the Borrower, or the initiation of any other judicial or non-judicial proceeding or agreement by, against, or including the Borrower which seeks or intends to accomplish a reorganization or arrangement with creditors; (e) The entry of any judgment against the Borrower for the payment of an amount in excess of $10,000.00 in the aggregate which is not covered by insurance, which judgment is not satisfied or appealed from (with execution or similar process stayed) within forty-five (45) days of its entry; (f) The death, termination of existence, dissolution, winding up, or liquidation of the Borrower.

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5. <u>Limitation on Interest</u>

The Note and Mortgage and other documents made by Borrower relating directly or indirectly to the indebtedness evidenced by this Note are expressly limited so that in no

event shall the amount of interest received, charged or contracted for by Holder exceed the highest lawful amount of interest permissible under the laws of the Commonwealth of Massachusetts. If performance of any provision of this Note or related documents shall result in the highest lawful rate of interest permissible under Massachusetts law being exceeded, then ipso facto, the amount of interest received, charged or contracted for by Holder shall be reduced to the highest lawful amount of interest permissible under Massachusetts law, and if Holder shall ever receive, charge or contract for, as interest, an amount which would be deemed unlawful, such amount of interest deemed unlawful shall promptly be refunded to Borrower.

6. **Liability of Borrower**

Notwithstanding anything to the contrary contained in this Note or in any related documents, but without in any way releasing or impairing this Note or any of the related documents, the validity of these documents, or the lien of the Mortgage, (except as expressly set forth in this Section 6), the liability of Borrower or any partner, director, officer, shareholder or employee or entity comprising of any of the foregoing, shall not be personal and shall be limited to and satisfied out of the Mortgaged Premises.

No delay or omission by Holder in exercising or enforcing any of Holder's powers, rights, privileges, remedies, or discretions hereunder shall operate as a waiver thereof on that occasion nor on any other occasion. No waiver of any default hereunder shall operate as a waiver of any other default hereunder, nor as a continuing waiver.

The Borrower shall indemnify, defend, and hold Holder harmless against any claim brought or threatened against Holder by the Borrower or any claim brought or threatened by any other person (as well as from attorneys' reasonable fees and expenses in connection therewith) on account of Holder's relationship with the Borrower unless the Borrower demonstrates that such claim is due to Holder's negligence, willful misconduct or actual bad faith or such claim is not due to any fault of the Borrower. If any such action is brought or threatened against Holder by any person or entity other than the Borrower, Holder shall notify the Borrower thereof. Thereafter, the Borrower shall be entitled to assume the defense thereof with counsel reasonably satisfactory to Holder and upon the Borrower actually assuming (and while diligently pursuing) such defense with satisfactory counsel, the Borrower shall not be liable to Holder for any legal or other expenses subsequently incurred by Holder in connection with the defense thereof.

In any action between the parties to enforce the terms of this Note, the prevailing party shall pay the reasonable and actual legal fees of the non prevailing party. The Borrower or the Holder, as the case may be, will pay on demand, all attorneys' reasonable fees, out-of-pocket expenses incurred by the other party's attorneys and all reasonable costs incurred by the other party, including, without limitation, costs and expenses associated with travel on behalf of the other party, which costs and expenses are incurred in good faith and are directly or indirectly related to the preservation, protection,

collection or enforcement of any of the other party's rights against the Borrower or the Holder and against any collateral given to secure this Note or any other Liabilities.

The Borrower of this Note respectively waives presentment, demand, notice, and protest, and also waives any delay on the part of the Holder hereof. Each of the Borrower and the Holder assents to any extension or other indulgence (including, without limitation, the release or substitution of collateral) permitted the Borrower by Holder with respect to this Note and/or any collateral given to secure this Note or any extension or other indulgence, as described above, with respect to any other liability or any collateral given to secure any other liability of the Borrower to Holder.

This Note shall be binding upon the Borrower and upon its respective heirs, successors, assigns, and representatives, and shall inure to the benefit of Holder and its successors, endorsees, and assigns.

The Borrower makes the following waiver knowingly, voluntarily, and intentionally, and understands that Holder, in the establishment and maintenance of Holder's relationship with the Borrower contemplated by the within Note, is relying thereon. THE BORROWER, TO THE EXTENT ENTITLED THERETO, *WAIVES* ANY PRESENT OR FUTURE RIGHT OF THE BORROWER, OR OF ANY OTHER PERSON LIABLE TO HOLDER ON ACCOUNT OF OR IN RESPECT TO THE LIABILITIES, TO A TRIAL BY JURY IN ANY CASE OR CONTROVERSY IN WHICH HOLDER IS OR BECOMES A PARTY (WHETHER SUCH CASE OR CONTROVERSY IS INITIATED BY OR AGAINST HOLDER OR IN WHICH HOLDER IS JOINED AS PARTY LITIGANT), WHICH CASE OR CONTROVERSY ARISES OUT OF, OR IS IN RESPECT TO, ANY RELATIONSHIP AMONGST OR BETWEEN THE BORROWER, ANY SUCH PERSON, AND HOLDER.

This Note is delivered to Holder at its office in Massachusetts, shall be governed by the laws of The Commonwealth of Massachusetts, and shall take effect as a sealed instrument. The Borrower submits to the jurisdiction of the courts of The Commonwealth of Massachusetts for all purposes with respect to this Note, any collateral given to secure its liabilities, obligations and indebtedness to Holder, and its relationship with Holder.

WITNESS

Signed in my Presence

Agathe Ch

THE NATURE CONSERVANCY

By: [signature]
Name: Wayne A. Klockner
Title: V.P.

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The Wallace Foundation
c/o General Investment & Development Co.
600 Atlantic Avenue
Suite 2000
Boston, Massachusetts 02210
617-937-9680

July 18,2001

By Hand

The Nature Conservancy
Eastern Regional Office
11 Avenue de Lafayette
Boston, MA 02111
Attention: Hans P. Birle, Esq.

The Nature Conservancy
Massachusetts Chapter
205 Portland Street
Boston, MA 02114
Attention: Wayne A. Klockner

Dear Messrs. Birle and Klockner:

There is being remitted to you today by wire transfer Eighteen Million Five Hundred Thousand Dollars ($18,500,000). The remittance satisfies in full a certain Non-Negotiable Note dated June 21, 2001 of Real Estate Equities Limited Partnership in the original principal amount of $9,500,000 as well as a Charitable Pledge Agreement also dated June 21, 2001 of Real Estate Equities Limited Partnership in favor of The Nature Conservancy. The funds have been donated to The Nature Conservancy so that The Nature Conservancy can carry out and fulfill its charitable programs of preserving large areas of farmland on Martha's Vineyard and Nantucket. We trust that if The Nature Conservancy is unable to utilize the donated amount for such purposes this summer then the donation will be returned to the undersigned for further return to the donors.

Please signify your receipt of this covering letter and the donated funds by executing at least one of the two (2) counterparts of this letter and return the same to the undersigned.

Very truly yours,

THE WALLACE FOUNDATION

Stuart R. Johnson, Attorney-in-fact

Receipt Acknowledgment:

THE NATURE CONSERVANCY

By: _____
Name: _____
Title: _____

enclosure

The Wallace Foundation
c/o General Investment & Development Co.
600 Atlantic Avenue
Suite 2000
Boston, Massachusetts 02210
617-937-9680
823

July 18,2001

By Hand

The Nature Conservancy
Eastern Regional Office
11 Avenue de Lafayette
Boston, MA 02111
Attention: Hans P. Birle, Esq.

The Nature Conservancy
Massachusetts Chapter
205 Portland Street
Boston, MA 02114
Attention: Wayne A. Klockner

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THE WALLACE FOUNDATION

_____
Stuart R. Johnson, Attorney-in-fact

enclosure

The Wallace Foundation
c/o General Investment & Development Co.
600 Atlantic Avenue
Suite 2000
Boston, Massachusetts 02210
617-937-9680

July 18,2001

By Hand

The Nature Conservancy
Eastern Regional Office
11 Avenue de Lafayette
Boston, MA 02111
Attention: Hans P. Birle, Esq.

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THE WALLACE FOUNDATION

Stuart R. Johnson, Attorney-in-fact

enclosure

Receipt Acknowledgment:

THE NATURE CONSERVANCY

By: _____
Name: _____
Title: _____

Faxed
7-18-01
617-367-3417

The Wallace Foundation

c/o General Investment & Development Co.
600 Atlantic Avenue
Suite 2000
Boston, Massachusetts 02210
617-937-9680

July 18,2001

By Hand

The Nature Conservancy
Eastern Regional Office
11 Avenue de Lafayette
Boston, MA 02111
Attention: Hans P. Birle, Esq.

The Nature Conservancy
Massachusetts Chapter
205 Portland Street
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Very truly yours,

THE WALLACE FOUNDATION

Stuart R. Johnson, Attorney-in-fact

enclosure

Receipt Acknowledgment:

THE NATURE CONSERVANCY

By:
Name: HANS P. BIRLE
Title: ASSISTANT SECRETARY

CHOATE, HALL & STEWART

A PARTNERSHIP INCLUDING PROFESSIONAL CORPORATIONS

FRANK GISO III, PC
DIRECT DIAL: (617) 248-5117
EMAIL: FG1@CHOATE.COM

EXCHANGE PLACE
53 STATE STREET
BOSTON, MASSACHUSETTS 02109-2891
TELEPHONE (617) 248-5000
FACSIMILE (617) 248-4000

October 18, 2000

VIA FACSIMILE
(650) 633-1823

Roger Bamford
555 Manzanita Way
Woodside, CA 94062

RE: Herring Creek Farm, Martha's Vineyard

Dear Roger:

Enclosed for your review is the revised form of the Agreement between The Nature Conservancy and you regarding the arrangements for financing the Wallace land purchase, etc. The principal difference between the enclosed Agreement and the form of this Agreement which I circulated under my cover letter dated October 12, 2000, is a much more streamlined mechanism for providing collateral on the indemnity that TNC will need to receive from you as the back-up for the indemnity which it gives to HCAC under the HCAC Agreement.

I hope that everyone feels the enclosed Agreement accurately describes prior discussions and that we are able to sign this Agreement quickly. By a copy of this letter I am forwarding the Agreement to Ted Kaplan for his review as well. As soon as you have had an opportunity to touch base with Ted, either you or he should give me a call so that I can incorporate your comments into an execution copy.

Very truly yours,

Frank Giso III, PC

FG/mb
Enclosure

cc: Ted Kaplan, Esq. (w/enc., by fax)
Hans P. Birle, Esq. (w/enc., by fax)

3183215_1.doc

AGREEMENT REGARDING MARTHA'S VINEYARD LAND

This Agreement is made as of the 18th day of October, 2000, by and between The Nature Conservancy ("TNC"), a District of Columbia corporation having a business address at 201 Devonshire Street, Boston, Massachusetts 02110-1402 and Roger Bamford ("RB"), an individual residing at 555 Manzanita Way, Woodside, California 94062.

I. BACKGROUND FACTS

A. Neil Wallace and Monte Wallace (collectively, the "Wallaces"), either directly or through one or more entities in which they hold the beneficial ownership, hold title to land in Edgartown, Martha's Vineyard, Massachusetts containing 215 acres more or less (the "Wallace Land"), which land is also referred to as "Herring Creek Farm" in the HCAC Agreement (as defined below).

B. TNC and RB both desire for TNC to attempt to purchase the Wallace Land from the Wallaces on the terms and conditions described in more detail below.

C. Because the Wallace Land is subject to a right of first refusal and other restrictions and covenants in favor of Herring Creek Acquisition Company LLC ("HCAC"), it is necessary to obtain the consent of HCAC to any purchase of the Wallace Land, and therefore TNC has entered into an agreement with HCAC in the form attached hereto as Exhibit AGR (the "HCAC Agreement").

D. TNC and RB entered into a Preliminary Agreement Regarding Martha's Vineyard Land (the "Preliminary Agreement"), dated as of October 10, 2000, in order to permit TNC to be able to execute the HCAC Agreement.

E. TNC and RB now desire to execute this Agreement in order to supplement the Preliminary Agreement and also to set forth herein the respective rights and responsibilities of each party in connection with the HCAC Agreement and the attempted acquisition of the Wallace Land.

II. AGREEMENTS

NOW, THEREFORE, for good and valuable consideration, the sufficiency and receipt of which is hereby acknowledged, TNC and RB agree as follows:

A. RB agrees that he will loan TNC up to Forty Million Dollars ($40,000,000.00) to finance the acquisition of the Wallace Land from the Wallaces and that if it is not possible for TNC to negotiate an agreement with the Wallaces whereby TNC acquires the Wallace Land for the price of Forty Million Dollars ($40,000,000.00) or less, then TNC shall have no obligation to enter into an agreement with the Wallaces, whereupon the break-up fee will be due to HCAC under the HCAC Agreement and the terms of Section II.A. of the Preliminary Agreement shall apply.

B. If TNC is successful in signing an agreement with the Wallaces for the purchase of the Wallace Land, then at the closing of such purchase (the "Wallace Land Closing") RB will

make a loan to TNC (the "Acquisition Loan") in the amount of the purchase price owed to the Wallaces (but not more than $40 million) and TNC will execute and deliver to RB as evidence of, and security for, the Acquisition Loan, (1) a non-recourse promissory note bearing interest at 7% per annum, maturing on the sixth anniversary of the Wallace Land Closing (the "Maturity Date") and requiring no payments of interest until the Maturity Date and (2) a mortgage (the "Purchase Mortgage") securing such note and encumbering all of the Wallace Land acquired by TNC and not conveyed to HCAC pursuant to the terms of the HCAC Agreement. It is agreed that TNC shall have no liability for the Acquisition Loan and no other assets of TNC shall be subject to execution for payment of the Acquisition Loan other than foreclosure of the Purchase Mortgage.

C. The Purchase Mortgage will be subject to all of the conservation and architectural restrictions imposed upon Wallace Land pursuant to the HCAC Agreement and will also contain a provision which commits RB to subordinate the Purchase Mortgage to any further conservation easement or restriction which TNC may place on the Wallace Land during the term of the Acquisition Loan, provided that no such additional conservation easement or restriction shall limit the right to develop single family residences on the Wallace Land to a greater extent than the restrictions already contained in the HCAC Agreement.

D. Simultaneously with the Wallace Land Closing, TNC shall grant RB an option (the "Option") to purchase for fair market value all or any portion of the Wallace Land covered by the Purchase Mortgage. The Option will permit RB to buy such land in one or more increments provided all such closings occur on or before the Maturity Date. However, any land sold by TNC pursuant to the Option shall be subject to all conservation and architectural restrictions created pursuant to the HCAC Agreement and to any of the further conservation restrictions created by TNC as contemplated by Section II.C. above. Any proceeds paid to TNC by RB in connection with the exercise of the Option shall be used by TNC to pay down the Acquisition Loan.

E. Whether or not TNC is successful in negotiating an agreement with the Wallaces to purchase the Wallace Land or is successful in actually acquiring the Wallace Land, RB shall provide TNC with all monies which TNC is obligated to pay HCAC or its counsel under the HCAC Agreement or which are needed to cover any other costs, expenses and payments owed by TNC under or in connection with the HCAC Agreement, including, without limitation, all surveying and engineering expenses incurred by TNC in connection with any of the transactions or activities contemplated by the HCAC Agreement, all reasonable attorneys fees incurred by TNC in connection with the preparation and negotiation of the HCAC Agreement, negotiations with the Wallaces and any real estate closings with the Wallaces for the Wallace Land or with HCAC under the HCAC Agreement, and any other costs and expenses reasonably associated with any of the foregoing. Further, all such amounts shall be paid to TNC as soon as reasonably practicable after TNC presents an invoice for such item (with reasonably detailed supporting information) to RB. Finally, if TNC is successful in acquiring the Wallace Land, RB shall provide funds to TNC to establish an operating endowment (not to exceed $500,000.00) out of which TNC will pay the costs of implementing and maintaining its various conservation programs for the Wallace Land. TNC agrees that any and all amounts referenced above in this Section II.E. may be paid with one or more gifts of low basis stock from RB to TNC, provided such stock at the time of the gift has a present fair market value equal to or greater than the

funding obligation owed by RB pursuant to the foregoing provisions of this Section II.G. in each instance.

F. RB and TNC will share the obligation to deliver the indemnity (the "Exhibit C Indemnity") in favor of HCAC under the HCAC Agreement on a basis whereby TNC assumes responsibility to HCAC for the first $1,000,000 which HCAC may be owed in connection with the Exhibit C Indemnity (this $1,000,000 indemnity from TNC hereinafter called the "TNC Indemnity") and any obligations or liabilities owed to HCAC under the Exhibit C Indemnity in excess of $1,000,000 (but subject to the $25 million cap which is included as part of the Exhibit C Indemnity) shall be paid directly by RB. TNC and RB will cooperate with one another to cause HCAC to accept this dual indemnity arrangement in lieu of a single indemnity from a single indemnitor as presently contemplated by the HCAC Agreement.

G. RB agrees to indemnify, defend and hold harmless TNC from any loss, liability, damages, cost or expenses (including, without limitation, reasonable attorneys fees) incurred in any way by TNC as a result of either (1) the TNC Indemnity or (2) TNC's having executed the HCAC Agreement with HCAC. The obligations of RB set forth in the preceding sentence will be called the "RB Indemnity".

H. As security for the RB Indemnity and as a precondition to TNC delivering the TNC Indemnity, RB shall provide TNC with reasonably satisfactory collateral for RB's obligations under the RB Indemnity, which collateral may be any of the following forms as RB may elect:

(1) a letter of credit in the amount of $1 million (a) issued in favor of TNC and having a term of five (5) years, (b) issued by a financial institution reasonably acceptable to TNC and (c) otherwise reasonably acceptable to TNC in form and substance. If RB is unable to obtain a letter of credit having a five-year term, then TNC will accept a letter of credit having a one-year term, provided TNC will be entitled to draw against the letter of credit in its possession if a substitute letter of credit having a minimum term of at least one year is not provided to TNC within 30 days prior to the expiration date of the letter of credit then held by TNC; however, TNC will agree that if it does draw upon a letter of credit because a substitute letter of credit has not been delivered on a timely basis, then immediately upon delivery of a substitute letter of credit TNC will pay over to RB or RB's designee all cash held by TNC as a result of its having drawn on such prior letter of credit;

(2) a cash collateral account in the amount of $1 million which is pledged to TNC pursuant to a pledge agreement reasonably acceptable in form and substance to TNC and which pledge shall have a duration of five (5) years from the Wallace Land Closing; or

(3) a surety bond in the amount of $1 million in favor of TNC in form and substance reasonably acceptable to TNC and issued by a surety reasonably acceptable to TNC, also having a duration of five (5) years from the Wallace Land Closing.

Further, TNC agrees that it will give RB the opportunity to honor RB's obligations under the RB Indemnity with one or more gifts of low basis stock having a then fair market value equal to or greater than the monetary amount which is owed by RB to TNC under the RB Indemnity and will only make recourse to the collateral described in (1), (2) or (3) above if RB fails to make the gift of such low basis stock within thirty (30) days after written notice to RB indicating the amount owed pursuant to the RB Indemnity.

I. This Agreement shall be governed by, and construed in accordance with, the internal laws of the Commonwealth of Massachusetts.

Executed as an instrument under seal.

The Nature Conservancy

By:_____

Name:

Title:

_____

Roger Bamford

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CHOATE, HALL & STEWART

MEMORANDUM

To: Stuart R. Johnson (by fax)
David A. Peters (by fax)
Christopher H. Milton (by fax)
Thomas P. Bloch (by fax)

cc: Hans P. Birle (by fax)

From: Frank Giso III, PC

Date: January 8, 2001

Re: Letter of Intent for Herring Creek Farm

Attached is my 1/2/01 mark up of Tom Bloch's 12/20/00 draft of the Letter of Intent ("LOI") which in a number of places makes cross-reference to this memo for explanation of my comments.

Let me begin by saying that The Nature Conservancy ("TNC") understands the desire of the Sellers to maximize the gift component of the contemplated transaction involving Herring Creek Farm and the adjacent properties and is willing to cooperate with the Sellers to the greatest extent possible in this regard, subject obviously to the constraints imposed upon TNC by the IRS and also by some of TNC's own internal policies and procedures regarding the acquisition and disposition of real estate. At the same time, TNC (and I suspect the Regency Group as well) would like the final form of this agreement to have as few moving parts as possible so that the final agreement between the parties looks, feels and smell like real Purchase and Sale Agreement (because, in fact, should be real).

Toward that end, TNC makes the following conceptual comments regarding the LOI (in addition to the specifically marked changes on the attached LOI):

1. General Structure of Transaction

The so-called "definitive agreement" referenced in the LOI should be broken down into two, or possibly three, separate agreements. The first agreement (the "Sellers/TNC Agreement") would be an agreement between TNC and the Sellers covering all of the subject property (i.e., everything currently owned by Herring Creek Farm Trust ("HCFT") as well as all of the adjacent properties owned by various Wallace family members, all of which is sometimes hereinafter referred to, collectively, as the "Property") for a fixed stated purchase price (the "Initial Purchase Price"); this Initial Purchase Price would be subject to adjustment as discussed more fully in Section 2 below. The second definitive agreement (the "TNC/FARM Agreement") would run between TNC and the Farm Institute ("FARM") and would cover the portions of the Property that are to be conveyed from TNC to FARM for $28,000,000. A third definitive agreement (the

"FARM/Regency Agreement") would run between FARM and The Regency Group and would cover the transaction that is intended to take place between FARM and The Regency Group. While there will also be an agreement between TNC and the TNC's benefactor, there is no reason for that particular agreement to be part of the LOI or any of the definitive agreements referenced in the LOI.

The Sellers/TNC Agreement should allow TNC to designate FARM as a direct grantee from the Sellers for the that portion of the Property which is ultimately to pass through FARM as a form of safety net to avoid the potential problem of TNC's being unable to agree with the final appraised values for the Property (although, as discussed further in Section 2 below, the likelihood of this problem ever coming to pass can be made very remote).

With respect to the portions of the Property not currently owned by HCFT, the Sellers/TNC Agreement should provide that HCFT will on or before the expiration of the due diligence period acquire all such properties from the relevant Wallace family members in exchange for various purchase money notes and mortgages securing 100% of the "purchase price" for each of such family-owned parcels. At the closing under the Sellers/TNC Agreement, these purchase money notes and mortgages will either be fully paid off by the Sellers out of the sale proceeds received from TNC or TNC will agree to take on such parcels subject to those purchase money mortgages based on the assumption that the purchase money notes and mortgages will be forgiven by the holders thereof as part of the gift component of the transaction; however, if binding commitments to forgive the purchases money notes and mortgages are not delivered to TNC as part of the closing, then TNC will receive a credit against the cash portion of the purchase price (i.e., that portion of the purchase price stated in the 12/20 draft of the LOI to be $45,500,000).

2. Establishing a Final Purchase Price

Based upon current (albeit preliminary) appraisals for the Property mentioned by one or both of Stuart or David, the Property has a fair market value somewhere between $53,000,000 and 55,000,000. Therefore, the Initial Purchase Price set out in the Sellers/TNC Agreement should be stated as a specific price somewhere within that range. The Sellers/TNC Agreement should also provide that the Initial Purchase Price may be adjusted upward to reflect any increase in property values occurring between the signing of the Sellers/TNC Agreement and the closing thereunder (such adjusted purchase price is sometimes hereinafter referred to as the "Final Purchase Price"). The Final Purchase Price (as well as the Initial Purchase Price) would have to be based upon an appraisal of the Property meeting the standards set forth below in this Section 2. This approach allows for the making of restricted gifts by the Wallace family to TNC during the due diligence period (as discussed more fully in Section 3 below) and also allows TNC's board to approve a transaction at a purchase price that is presumably much closer to the Final Purchase Price range than is the $45,500,000 cash component of the purchase price stated in the LOI.

From TNC's standpoint, there are several problems that need to be addressed due to the possibility that the Final Purchase Price may increase above the Initial Purchase Price: (a) the updated appraisal that establishes the Final Purchase Price may not be one which TNC feels that it could successfully defend to the IRS if there were any charges of "private inurement" alleged in connection with the transaction; (b) any increase in the Final Purchase Price above the Initial Purchase Price would have to be approved by TNC's board in advance of the closing; and (c) any increase above the Initial Purchase Price could potentially create a shortfall between the new higher purchase price and the cash actually available to TNC to close the transaction (i.e., the $45,500,000 cash portion of the purchase price presently stated in the LOI plus the actual cash value of the restricted gifts made to TNC, as described in Section 3 below). Fortunately, there are relatively simply solutions to these problems as discussed in the next paragraph and in Section 3 below.

The appraised value of the Property as determined by the Sellers' appraiser and TNC's appraiser should not differ materially as long as both appraisers (i) prepare their appraisal in conformance with the "Uniform Standards of Professional Appraisal Practice", (ii) assume that the highest and best use of the Property is a 32 lot residential subdivision subject to the covenants, agreements and restrictions that are set out in the MVC approval for that 32 lot subdivision, and (iii) use the same absorption rate and discount rate to account for the fact that the lots will be sold over a period of time rather than all at once. TNC is currently conferring with its appraiser to determine his view of an appropriate absorption rate and a discount rate and I will pass these numbers on to you as soon as TNC receives them. If the Sellers/TNC Agreement incorporates these appraisal standards, then there is very little likelihood that the Final Purchase Price (as the Initial Purchase Price) would create any of the problems noted in item (i) of the prior paragraph above. In order to avoid the problem noted in item (ii) of the prior paragraph, the Seller would have to specify the new higher purchase price and provide TNC with a copy of its appraisal no later than thirty (30) days prior to the scheduled closing date so that TNC's board action could be taken in a timely manner to approve the purchase of the Property at the increased Final Purchase Price.

3. <u>Dealing with Gift Portion of the Transaction</u>

The difference between $45,500,000 and the Initial Purchase Price should be covered by restricted gifts made by Wallace family members to TNC during the due diligence period under the Sellers/TNC Agreement. These restricted gifts would require TNC to use the gift only to purchase land of a specified nature on Martha's Vineyard on or before a specified date and would require TNC to return the gift to the relevant donor if such conditions were not met. (Given the likely timing of the transaction, these gifts will be made and either returned or used all within the same calendar year and so there would be no issues arising from the possibility of the gift being reported in one tax year and then rescinded in a different tax year; alternatively, TNC could agree not to treat any of the gifts as a completed gift until the conditions of the gift were actually met.) With the making of these restricted gifts, the potential for there being a "shortfall" between the Initial Purchase Price and actual cash available to TNC in order to close

is all but eliminated, especially if the Final Purchase Price never increases above the Initial Purchase Price. However, if any portion of a restricted gift is anything other than cash, then there is some risk that the non-cash gift (for instance, stock) will not have a cash value as of the closing date adequate to cover the full portion of the Initial Purchase Price over and above $45,500,000. This situation would have to be addressed in the same manner as described in the next paragraph.

If the Final Purchase Price does exceed the Initial Purchase Price and the gifts from Wallace family members are not adequate to cover the difference between $45,500,000 and the Final Purchase Price, then the Sellers should nevertheless be required to sell the Property to TNC for amount equal to the total of $45,500,000 plus the current cash value of gifts made (calculated as of the day before the closing) and any remaining unpaid portion of the Final Purchase Price would then be a bargain sale gift from HCFT to TNC. TNC should have the right to obtain specific performance of a sale of the Property on these terms.

However, in recognition of the fact that circumstances could change over the period of time which it takes for TNC to obtain specific performance of the Sellers/TNC Agreement (such as new litigation affecting the Property, lapse of permits or approvals, etc.), TNC should have the alternative to take the "breakup fee" in lieu of pursuing specific performance if it reasonably determines that specific performance is no longer a completely adequate remedy because of changes (either actual or reasonably likely) in conditions extraneous to the Sellers and TNC. Since The Regency Group expects that it would receive at least $1,000,000 out of such breakup fee, the breakup fee needs to be increased to $2,500,000 to adequately cover the losses, costs and expenses that will be incurred by TNC over and above the $1,000,000 to be paid to The Regency Group. Since HCFT and the Wallace family have complete control over choosing to increase the Final Purchase Price over the Initial Purchase Price and to arrange the needed gifts to TNC, neither the specific performance remedy nor the breakup fee should present much of an issue for them.

4. Martha Vineyard's Land Bank Tax

A conveyance to either TNC or FARM will not trigger payment of the Martha Vineyard's Land Bank Tax. However, a subsequent grant from either TNC or FARM to any grantee other than another not-for-profit will trigger payment of Land Bank Tax in an amount based upon the consideration stated in the deed to such grantee. TNC is highly skeptical that the Land Bank will waive the Land Bank fee with respect to any part of this transaction where the conveyance is not already exempt by statute and so the LOI should omit the condition that parties are not obligated to consummate the transaction unless the Land Bank fee is waived by the Land Bank with respect to the entire transaction.

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[1/28/01]

DRAFT

Privileged and Confidential

January 29, 2001

Stuart R. Johnson, Trustee, Herring Creek Farm Trust
c/o General Investment & Development Co.
600 Atlantic Avenue - Suite 2000
Boston, MA 02210

Dear Mr. Johnson:

The purpose of this letter is to confirm your intentions with regard to certain gifts which you hope to arrange in favor of The Nature Conservancy, Inc. ("TNC") and The F.A.R.M. Institute, Inc. (the "Farm Institute") to be made by certain persons and entities affiliated with you, as Trustee u/d/t dated October 21, 1970, and recorded in the Dukes County Registry of Deeds in Book 286, page 158, as amended by Certificate of Amendment of Trust dated May 11, 1971, and recorded in the Dukes County Registry of Deeds in Book 290, Page 558 and registered in the Dukes County Registry District Office of the Land Court as Miscellaneous Document No. 962 (the Farm Institute and TNC may collectively be referred to herein as the "Not-for Profit Parties" or "NFP Parties").

1. Gifts

(a) We understand that you hope to encourage the owners (the "Land Donors") of those parcels of land shown and identified on Exhibit A (the "Existing Plan") as the "Blue Heron Parcel", the "Moore Beach Parcel" and the "Sliver Parcel" to make gifts of those parcels to TNC (or the Farm Institute, if TNC fails to proceed with the transaction under the Sale Letter of Intent), and that you acknowledge that in the event that you are unable to arrange such gifts, the absence of those gifts shall not preclude the Acquiring Parties under that certain letter of intent of even date herewith (the "Sale Letter of Intent") between you, TNC, the Farm Institute, MV Regency Group LLC ("Regency") and Choate, Hall & Stewart on behalf of an unnamed benefactor represented by them (the "N/C Benefactor") (together TNC, the Farm Institute, Regency and the N/C Benefactor are the "Acquiring Parties"), from waiving the condition in the Sale Letter of Intent relating to such gifts and closing in the absence of some or all of such gifts.

(b) We understand that that on or before May 1, 2001 you hope to encourage certain individuals in the Wallace family (the "Wallace Family Donors") to make gifts of cash or other assets having a value (when made and as of the Closing Date) of at least $9,500,000 to TNC, the Farm Institute, or both, in order to assist them in achieving their mutual goal of preserving large areas of farmland on Martha's Vineyard or Nantucket as designated (the "Designated Property"), and that such gifts are to be evidenced initially by a charitable pledge agreement accompanied by

a promissory note. The promissory note is to be interest free and is to be payable at the time of the closing on the acquisition of the Designated Property. In the event that the promissory note is not paid at the time of a closing on the Designated Property, the promissory note shall be enforceable against the Wallace Family Donors in the courts of the Commonwealth of Massachusetts. In the event that the Designated Property is some or all of Herring Creek Farm, than any amount not paid at such closing of such Designated Property may be credited against the Final Purchase Price. In the event that a closing on such Designated Property does not occur on or before December 31, 2001, the charitable pledge agreement and the promissory note are to be returned to the Wallace Family Donors.

(c) We further understand that you agree that, in the event that the Final Purchase Price under the Sale Letter of Intent is greater than $55,000,000, then to the extent TNC or the Farm Institute is unable to raise the additional amount needed, you are willing to make a bargain sale gift of any shortfall. Similarly, you agree that in the event the Farm Institute is not a party to the transaction at the the time of the closing under the Sale Letter of Intent, you are willing to make a bargain sale gift of the $1,000,000 shortfall which would result.

2. Conditions to the Gifts

We further understand that the possibility of these gifts is hindered by certain legal complications which must be addressed prior to any such gifts, to wit:

(a) An enforceable commitment from the parties described below (the "Abutters") must have been obtained in form satisfactory to the Wallace Family Donors and the Acquiring Parties providing for the delivery at the Closing under the Sale Letter of Intent of all waivers and consents necessary under the terms of the Cohan Aldeborgh 1969 Agreement (as defined below), the extinguishment of the so-called "pre-emptive purchase" provisions in the Cohan Aldeborgh 1969 Agreement, and the termination of all litigation regarding the Cohan Aldeborgh 1969 Agreement, all to the satisfaction of, and pursuant to instruments in form and substance acceptable to the Land Donors. "Cohan Aldeborgh 1969 Agreement" shall mean that certain Agreement made as of the 30th day of December 1969 by and between B. Harrison Cohan and Hildegarde W. Cohan, John E. Aldeborgh and Janet H. Aldeborgh, Marshall W. Cohan and Judith J. Cohan and Marshall N. Cohan, Trustee, recorded with the Dukes County Registry of Deeds in Book 281, Page 15.

(b) Edgartown's Board of Selectmen must have notified the Seller and the Acquiring Parties in writing in form and substance satisfactory to the Land Donors that the transactions contemplated hereby are not subject to the right of first refusal option to accept a bona fide offer to purchase, or to the option to purchase at full and fair market value to be determined by impartial appraisal, or both, as such options are set forth in Section 14 of M.G.L. Chapter 61A, or that any such right is not to be exercised, or a notice of intent must have been transmitted to the Edgartown Board of Selectmen, the Edgartown Planning Board, the Edgartown Board of Assessors and the Edgartown Conservation Commission with regard to the transactions contemplated and the 120-day period for the exercise of such options must have expired. The

Edgartown Assessor shall have issued a certification under M.G.L., c. 61A, Section 19A that no conveyance tax or roll back taxes are due in connection with the proposed transactions contemplated hereby.

(c) [Intentionally Deleted]

(d) The NFP Parties shall continue to be organizations qualified as tax exempt under Section 501(c)(3) of the Internal Revenue Code.

(e) The Land Donors are satisfied, in the good faith exercise of their reasonable business judgment, with the appraisals of the respective parcels being gifted.

3. Warranties

(a) TNC hereby warrants that if it is to receive a gift as herein contemplated, it presently is, and will be as of the date of any such gift, an organization qualified as tax exempt under Section 501(c)(3) of the Internal Revenue Code.

(b) The Farm Institute hereby warrants that if it is to receive a gift as herein contemplated, it presently is, and will be as of the date of any such gift, an organization qualified as tax exempt under Section 501(c)(3) of the Internal Revenue Code.

4. Remedies

Seller agrees that if the gifts contemplated by subparagraphs 1(a) and 1(b) above do not occur by reason of a "wilful" refusal of one of the Land Owners to execute and deliver a deed of gift or the "wilful" refusal of the members of the families of Monte J. Wallace and Neil M. Wallace to make gifts of cash or other assets to TNC in the amounts indicated, and if such failure is the sole cause of the inability of the Acquiring Parties to close the transactions contemplated by the Sale Letter of Intent, Seller shall pay: (1) jointly to TNC and the N/C Benefactor, a break-up fee in the amount of $2,000,000, and (b) to Regency, a break-up fee in the amount of $1,000,000. If TNC and/or Regency elects to collect the break-up fee, payment of such break-up fee to the applicable party shall be in lieu of all other remedies at law or in equity on the part of the applicable Acquiring Party, their heirs, successors, legal representatives and assigns. If neither TNC nor Regency elects to collect the break-up fee, they shall each be entitled to seek specific performance of the obligations to consummate the transactions contemplated herein and in the Sale Letter of Intent.

5 Non-Binding Nature.

The parties agree that the terms of the Confidentiality Agreement entered into by and among the parties as of December 11, 2000, a copy of which is attached hereto as Exhibit B, are

incorporated herein by this reference as though fully set forth. It is acknowledged that this letter of intent is not, is not intended to be and is not to become binding on the Land Donors, the Wallace Family Donors, or you, and that the only binding effect which this letter of intent is to have is that the acknowledgments made by you in paragraph 1, the warranties made by TNC and the Farm Institute in paragraph 3 and the remedy committed to by you in paragraph 4 are to be final and binding upon execution hereof.

SIGNATURES

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July 9, 2001

Mr. Hans P. Birle
Legal Counsel/Northeast Division
The Nature Conservancy
11 Avenue DeLafayette, 5th Floor
Boston, MA 02111-1736

RE: Lots 5 and 6
Exhibit C Consolidation Plan
Herring Creek Farm
Edgartown, Massachusetts

Dear Attorney Birle:

In accordance with your request for an estimate of the market value of the real estate identified as Lots 5 and 6 within the consolidated Herring Creek Farm subdivision in Edgartown, Massachusetts, I have examined the property and submit herewith my appraisal.

The objective of my appraisal was to provide you with an estimate of the market value of each of the subject lots. The appraisal will function as the basis of a price to be paid by Roger Bamford for these two lots. The subject property has been subdivided from a larger parcel of land owned by the Trustees of Herring Creek Farm. The subject property is scheduled to be acquired by Roger Bamford as a result of a series of transactions from Herring Creek Farm Trust to The Nature Conservancy (TNC).

The date of my value estimate is May 22, 2001, the date of my property inspection with Susan Arnold of The Nature Conservancy and the property's caretaker.

Lot 5 is a 9.62-acre lot that fronts on Edgartown Great Pond. The vacant parcel of land has frontage on Herring Creek Farm Lane. The lot will include beach rights along Edgartown's South Beach and the right to use the existing barn and fields located in the Central Field for horses.

Lot 6 is 15.85 acres and includes the existing "Neil Wallace residence" and an abandoned cottage known as the Movius Camp. In addition to the rights previously conveyed under Lot 5, this lot will include the additional right to build a caretaker's house of approximately 2,500 square feet to replace the Movius Camp. This lot, with frontage on Herring Creek Farm Lane, has commanding views of Edgartown Great Pond and distant views of the sand dunes and the Atlantic Ocean.

Both of these lots are located within the Herring Creek Farm property which contains approximately 240 acres of land. Previously, Herring Creek Farm Trust had a subdivision approved for 33 lots. In their acquisition of the property, The Nature Conservancy intends for a more limited development so that rather than 33 development lots, there will be 8 lots. The more important physical features of this farm will remain unchanged. The East Field, containing 62 acres and fronting on Slough Clove Road will remain as it is today. The Central Field, containing 40 acres of farming land will also remain as it is today.

In addition to the two subject lots, three new lots located between the subject and Slough Cove Road will be created and they are known as Lots 2, 3, and 4 on the consolidated plan of Herring Creek Farm. A new Lot 1 will contain all of the farm buildings and is scheduled to be sold to the F.A.R.M. Institute who will additionally lease the Central Field from the Nature Conservancy for organic farming purposes.

M.V. Regency Group, LLC is acquiring the new Lots 7, 8, 9 and 10 as depicted on the subdivision plan. Lot 8 contains similar style house to Lot 6 and is known as the "Monty Wallace Estate". Both houses were constructed in the early 1970's by brothers.

The subject property is part of a subdivision that includes a 19.52-acre beach parcel along the Atlantic Ocean and Crackatuxet Cove. Each subject lot includes access rights to this beach.

The Herring Creek Farm is located in Edgartown, Massachusetts, on the island of Martha's Vineyard. The Herring Creek Farm, located at the periphery of the Katama Plains, is one of the most predominant properties in Edgartown and on the island of Martha's Vineyard. From a real estate perspective, the Herring Creek Farm has bucolic vistas along Slough Cove Road, out over the approximately 105 acres of farmland, down to Edgartown Great Pond and the Atlantic Ocean.

As will be discussed in this report, Edgartown and the island of Martha's Vineyard and Nantucket are commanding some of the highest prices in New England for resort type properties. There have been recent acquisitions of properties in the multi-million dollar price range. Despite the slowdown in the economy, brokers indicate that there still remains a demand for exclusive property.

My estimate of market value is based on the highest and best use of the subject property for single-family residential development, consistent with the description previously provided and the allowed uses under the Town's Zoning By-laws. Typically, what is being developed on lots such as the subject are houses with a minimum of 6,000 square feet of living area which may include an ancillary caretaker's cottage. These lots will be exclusive lots that will benefit from the easements to be placed on the property by TNC. These easements will preserve the farm's aesthetic quality, provide exclusivity in privacy and pond and beach access.

Based on examination of vacant lot sales and improved sales, it is my opinion that the estimated market value of the subject property as of May 22, 2001, is as follows:

Lot 5	$4,750,000
Lot 6	$7,250,000
Total Indicated Market Value	$12,000,000

These values assume a package sale of the two lots.

My appraisal is subject to the attached limiting conditions and assumptions as stated in the summary appraisal report.

Very truly yours,

Robert P. LaPorte, Jr., CRE, MAI
Senior Vice President
MA General R.E. Appraiser #735

RPL/cek

#14353

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160 FEDERAL STREET, BOSTON, MA 02110-1701 • 617-330-8000 • FAX: 617-330-8039

SUMMARY APPRAISAL REPORT

RIGHT OF FIRST REFUSAL ENCUMBERING A PORTION OF
HERRING CREEK FARM
EDGARTOWN, MASSACHUSETTS

PREPARED FOR
MR. DANIEL J. GLEASON
HERRING CREEK ACQUISITION COMPANY LLC
C/O NUTTER, MCCLENNEN & FISH, LLC
ONE INTERNATIONAL PLACE
BOSTON, MA 02110-2699

PREPARED BY
ROBERT P. LAPORTE, JR., CRE, MAI
SENIOR VICE PRESIDENT
MA GENERAL R.E. APPRAISER #735

DATE OF VALUE ESTIMATE
JULY 15, 2001

APPRAISAL NUMBER

14364

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FEDERAL RESERVE BOARD BEIGE BOOK
DIVISION OF EMPLOYMENT & TRAINING NEWS RELEASE
QUALIFICATIONS OF APPRAISER

Worldwide Real Estate Services

Meredith & Grew Incorporated

160 FEDERAL STREET
BOSTON, MASSACHUSETTS 02110-1701

TELEPHONE 617-330-8000 FAX 617-330-8130 E-MAIL mail@m-g.com

August 24, 2001

Mr. Daniel J. Gleason
Herring Creek Acquisition Company LLC
c/o Nutter, McClennen & Fish, LLC
One International Place
Boston, MA 02110-2699

Re: Valuation of Right of First Refusal
Herring Creek Farm
Edgartown, Massachusetts

Dear Attorney Gleason:

In accordance with your request, I have estimated the market value of a right of first refusal that encumbers a portion of the Herring Creek subdivision in Edgartown, Massachusetts. The right of first refusal (right) runs to the benefit of the Marshall Cohans, the Benjamin Cohans and the Aldeborghs as stated in the Agreement attached to this report. If the real estate is sold during the remaining term (8 ½ years) of the contract, a cash payment is payable to the beneficiaries of the right of first refusal. The objective of my appraisal was to provide Herring Creek Acquisition Company LLC and The Nature Conservancy with an estimate of the market value of these rights so that their value can be compared to the market value of four lots that are about to be transferred to Herring Creek Acquisition Company LLC.

The date of my value estimate is July 15, 2001. The property was inspected with Susan Arnold of The Nature Conservancy and the property's caretaker, Ron Mann, on May 22, 2001. A second inspection was completed on August 16, 2001, with Ron Mann.

As of the valuation date of my appraisal, the subject property was under agreement for sale from Herring Creek Farm Trust to The Nature Conservancy (TNC) for a deeded price of approximately $64 million. After TNC acquires the property, there will be a series of sales from TNC to others. After the sales, TNC will own the fields and beach lot and will have restrictions over the remaining property through deeded covenants.

The Herring Creek Farm property has been the subject of much litigation during the past twenty years. The litigation resulted in an approval by the Edgartown Planning Board and the Martha's Vineyard Commission of a 33-lot subdivision. A copy of that subdivision is included in the addenda of this report. The 33-lot subdivision was superceded by the proposed subdivision as illustrated on Exhibit C of the Consolidated Plan. This will result in nine development lots, the farm buildings and residence (the nine lots and farm building will be sold), the Central Field, East Field, barn and beach lots which are intended to remain as they now exist.

The more important physical features of this farm will remain unchanged. The East Field, containing 62 acres and fronting on Slough Clove Road, will remain as it is today. The Central Field, containing 40 acres of farming land, will also remain as it is today.

My valuation of the right was based on a 33-lot subdivision of the property, plus Blue Heron which is a single-family house next to the subdivision. The right covers 25 of the 33 lots and they are listed in the report. This highest and best use is different from TNC's planned use of the property. TNC has plans to conserve the farm on a limited development basis.

My valuation was based on a number of special assumptions and limiting conditions that will be stated in the report. The underlying assumptions are:

1. That a sale of the real estate is about to occur.
2. That a sale would never take place without a negotiation as to the price for this right.
3. That the value is based on two options: the first is that the ownership has the option of holding onto the property until the right of first refusal expires; and the second involves a limited sale of the lots not included in the right of first refusal and retention of the remaining lots until the right expires.
4. The analysis is based on the approved 33-lot subdivision plus Blue Heron but excluding the lots not included in the right of first refusal.

The Herring Creek Farm is located in Edgartown, Massachusetts, on the island of Martha's Vineyard. The Herring Creek Farm, located at the periphery of the Katama Plains, is one of the most predominant properties in Edgartown and on the island of Martha's Vineyard. From a real estate perspective, the Herring Creek Farm has bucolic vistas along Slough Cove Road, out over the approximately 105 acres of open farmland, down to Edgartown Great Pond and the Atlantic Ocean.

As will be discussed in this report, Edgartown and the island of Martha's Vineyard and Nantucket are commanding some of the highest prices in New England for resort type properties. There have been recent acquisitions of properties in the multi-million dollar price range. Despite the slowdown in the economy, brokers indicate that there still remains a demand for exclusive property.

My estimate of market value is based on the highest and best use of the subject property as approved for a 33-lot plus Blue Heron residential subdivision. This is consistent with the description previously provided and the allowed uses under the Town's Zoning By-laws.

Based on examination of the property and the right of first refusal, it is my opinion that the estimated market value of this right as of July 15, 2001, was:

$14,000,000

Meredith & Grew
Incorporated

My appraisal is subject to the attached limiting conditions and assumptions as stated in the summary appraisal report.

Very truly yours,

Robert P. LaPorte, Jr., CRE, MAI
Senior Vice President
MA General R.E. Appraiser #735

RPL/bjc
#14364

SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS

LOCATION & IDENTIFICATION OF PROPERTY SUBJECT TO RIGHT OF FIRST REFUSAL	Herring Creek Farm (all lots but excluding 2, 3, 4, 6, 7, 8, 9, 10, 11 and ½ of 12)
OWNER	All lots – Herring Creek Family Trust Blue Heron – John H. Wallace, et al
LAND AREA	Total area of farm: 220 acres Total area estimated of Right of First Refusal: 175 acres
IMPROVEMENTS	Four residential homes and farm buildings

ASSESSED VALUE AND TAXES

Herring Creek Farm	Land	$14,787,100
	Buildings	$ 1,745,900
	Total	$16,533,000

Most of the land is subject to a Chapter 61A credit. It reduces the land assessment to $6,404,500. The total tax bill subject to Chapter 61A is $41,893.06.

Blue Heron	Land	$201,900
	Buildings	$168,000
	Total	$369,900

ZONING DISTRICT	RA-120 Residence-Agricultural District
ENCUMBRANCES AND EASEMENTS	The subject property is being sold subject to the benefit of access to South Beach and subject to various conservation restrictions and easements as noted in the deeds found in the addenda.
PROPERTY RIGHTS APPRAISED	Right of First Refusal
PROPERTY INTEREST APPRAISED	Fee simple valuation of the real estate subject to above rights and easements.
FIVE-YEAR SALES HISTORY	The subject parcels are currently owned by Herring Creek Farm Trust or John Wallace, et al, and have

	been for more than five years (see sales history for more detailed discussion).
HIGHEST AND BEST USE	For a single-family residential use on each lot.
DATE OF VALUE ESTIMATE	July 15, 2001
INDICATED VALUE:	
OWNERSHIP HOLDS ON TO ENTIRE PROPERTY FOR 8.5 YEARS AND SELLS:	**$16,330,000**
OWNERSHIP SELLS LOTS NOT SUBJECT TO FIRST REFUSAL AND HOLDS REMAINING LOTS FOR 8.5 YEARS AND SELLS:	**$12,410,000**
ESTIMATED MARKET VALUE OF FIRST REFUSAL:	**$14,000,000**

INTRODUCTION

OBJECTIVE OF APPRAISAL AND PURPOSE OF THE REPORT

The objective of the appraisal is to estimate the market value of the right of first refusal as of July 15, 2001. The value is based on the following special conditions:

1. That a sale of the real estate is about to occur.
2. That a sale would never take place without a negotiation as to the value of this right.
3. That the value is based on two options: the first option is that the ownership has the option of holding onto the property until the right of first refusal expires in eight years; and the second involves a limited sale of the lots not included in the right of first refusal and retention of the remaining lots until the right expires.
4. The analysis is based on the approved 33-lot subdivision plus Blue Heron but excluding the lots not included in the right of first refusal as listed under the property identification.

The appraisal is to be used by TNC and the beneficiaries of this right for tax purposes.

PROPERTY IDENTIFICATION

Herring Creek Farm is a 220 acre farm located on Slough Cove Road in Edgartown, Massachusetts. The property subject to the right of first refusal includes all of the real estate shown on the following plan except the following lots:

Lots: 2, 3, 4, 6, 7, 8, 9, 10, 11 and ½ of 12

Included in the right of first refusal is Blue Heron located at 7 Butler's Cove Road. A second plan following the 33-lot (plus Blue Heron) plan also identifies the subject parcels.

DATE OF APPRAISAL

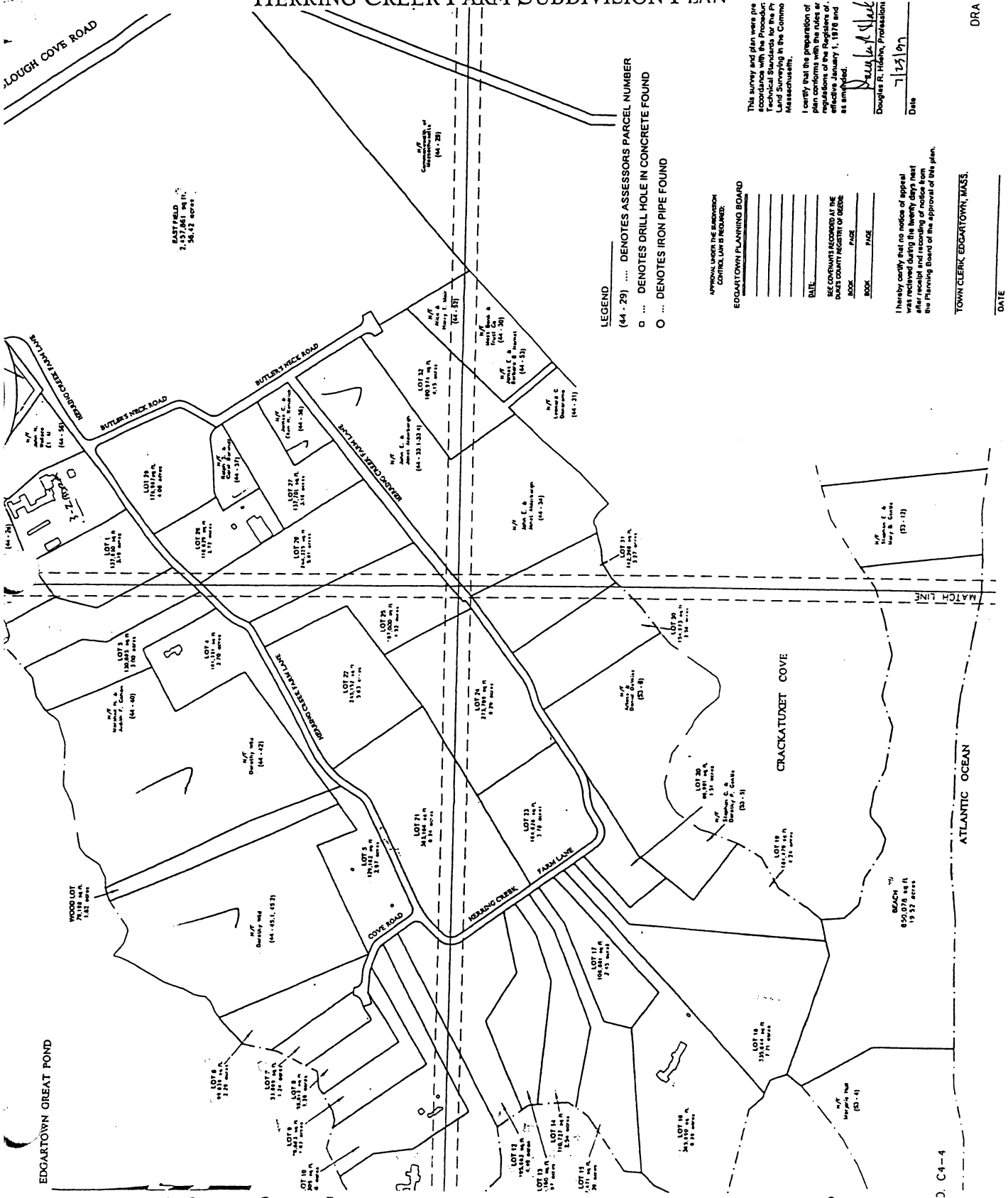
The date of this appraisal is July 15, 2001. The subject was inspected by Robert P. LaPorte, Jr., on May 22, 2001, and on August 16, 2001, with the caretaker, Ron Mann. Susan Arnold also accompanied me on my May 22, 2001 inspection.

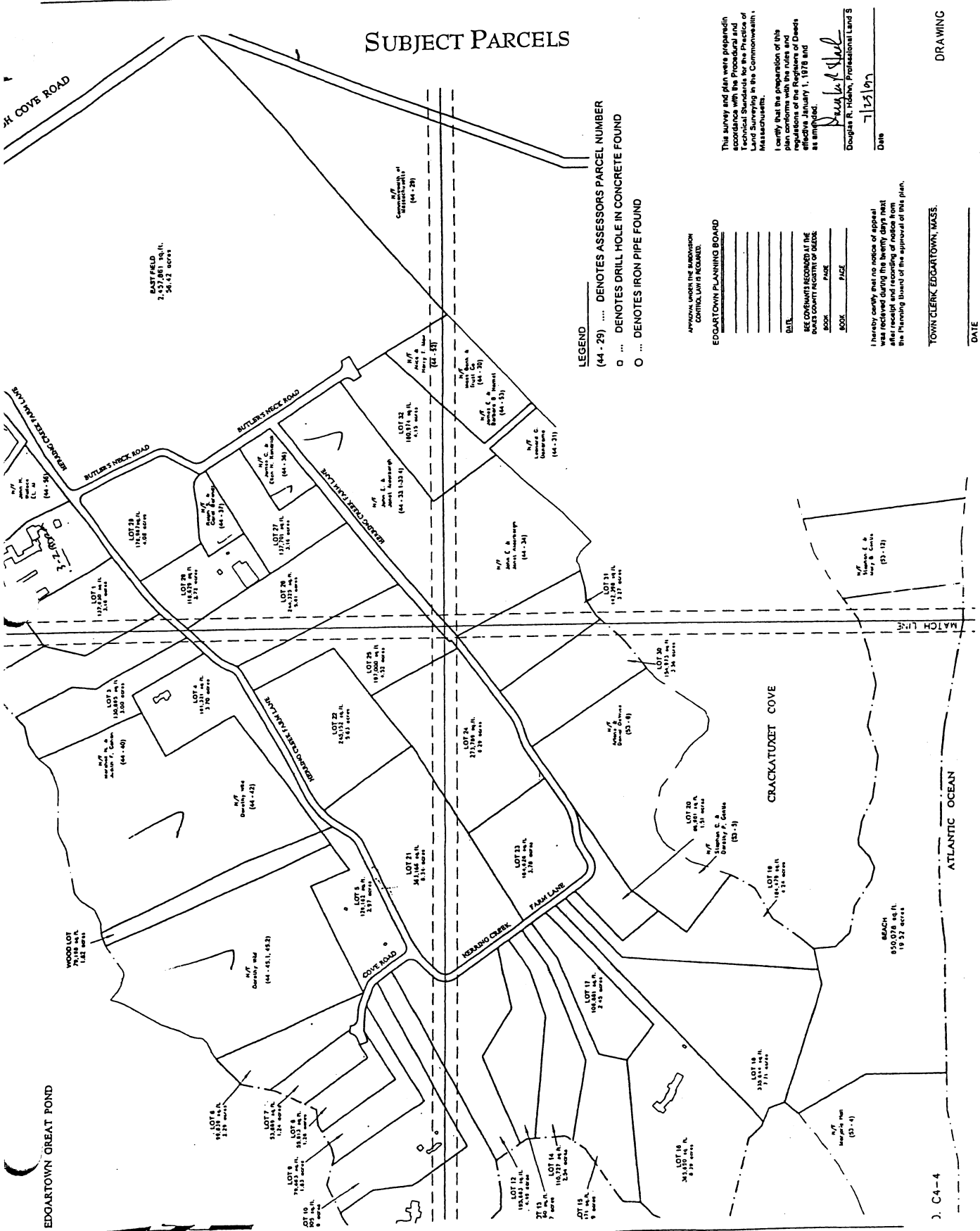
OWNERSHIP AND RECENT HISTORY

As of the date of this value estimate, Herring Creek Farm was about to be transferred from Herring Creek Farm Trust to The Nature Conservancy (TNC) for a deeded price of approximately $64,000,000. At about the time the property will be acquired by TNC, there will be a series of out-sales of property to Roger Bamford; M.V. Regency Group, LLC; the F.A.R.M. Institute; and David Peters. It is my understanding that the F.A.R.M. Institute will be acquiring Lot 1, shown on the consolidated plan, for approximately $1,000,000. The Regency Group and David Peters will acquire Lots 8, 9 and 10 for approximately $16,000,000; and Lot 7 will be sold for approximately $12,000,000. TNC will remain the owners of the East Field, the Central Field and the beach. Lots 2, 3, Sanderling (Lot 4) and Blue Heron will be transferred from TNC to Herring Creek Acquisition Company, LLC.

In the addenda of this report is the amended and restated conservation restriction and conservation easements that will encumber the Herring Creek Farm property. The Herring Creek Farm property has been the subject of much litigation during the past twenty years. The litigation resulted in an approval by the Edgartown Planning Board and the Martha Vineyard's Commission of a 33-lot subdivision. The 33-lot subdivision was superceded by the proposed subdivision as illustrated on Exhibit C of the Consolidated Plan. This will result in a total of ten development lots including three existing houses and the farm buildings, plus the Central Field, East Field, barn and beach lots which are intended to remain as they now exist.

HERRING CREEK FARM SUBDIVISION PLAN




SUBJECT PARCELS
LEGEND
(44 - 29) .... DENOTES ASSESSORS PARCEL NUMBER
□ ... DENOTES DRILL HOLE IN CONCRETE FOUND
O ... DENOTES IRON PIPE FOUND
APPROVAL UNDER THE SUBDIVISION CONTROL LAW IS REQUIRED.
EDGARTOWN PLANNING BOARD
DATE
SEE COVENANTS RECORDED AT THE DUKES COUNTY REGISTRY OF DEEDS
BOOK PAGE
BOOK PAGE
I hereby certify that no notice of appeal was recieved during the twenty days next after receipt and recording of notice from the Planning Board of the approval of this plan.
TOWN CLERK, EDGARTOWN, MASS.
DATE
This survey and plan were preparedin accordance with the Procedural and Technical Standards for the Practice of Land Surveying in the Commonwealth of Massachusetts.
I certify that the preparation of this plan conforms with the rules and regulations of the Registers of Deeds effective January 1, 1978 and as amended.
Douglas R. Hoehn, Professional Land S
Date
DRAWING
BUTLER'S NECK ROAD
KERRING CREEK FARM LANE
COVE ROAD
CRACKATUXET COVE
ATLANTIC OCEAN
EDGARTOWN GREAT POND
MATCH LINE
BEACH
WOOD LOT
EAST FIELD
C4-4

DEFINITION OF SIGNIFICANT TERMS

Market Value is defined as:

"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. buyer and seller are typically motivated;
2. both parties are well informed or well advised, and acting in what they consider their best interests;
3. a reasonable time is allowed for exposure in the open market;
4. payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."[1]

Fee Simple Estate is defined as:

"Absolute ownership unencumbered by any other interest or estate subject only to the four powers of government."[2]

Highest and Best Use is defined as:

"The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability."[3]

Right of First Refusal is defined as:

"An option that gives the holder, who is usually the lessee, the right to purchase a property before any offer to purchase can be made by a third party."[4]

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[1]The Appraisal Foundation, *Uniform Standards of Professional Appraisal Practice* (United States of America, 1990), Page B-7. Also see Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), 12 U.S.C. 3339, Final Rules effective August 24, 1990, by the Office of the Comptroller of the Currency (OCC) and on August 20, 1990, by the Federal Deposit Insurance Corporation (FDIC).
[2]American Institute of Real Estate Appraisers of the National Association of Realtors, *The Dictionary of Real Estate Appraisal* (Chicago, IL, Author 1989).
[3]Ibid.
[4]Ibid.

SCOPE OF INVESTIGATION

This appraisal is being completed in conjunction with an appraisal of the entire property for TNC. My investigation and analysis has included an inspection of the subject property and the entire Herring Creek Farm ownership and conversations with TNC and legal counsel regarding the political and legal issues surrounding the entire Herring Creek Farm ownership.

Herring Creek Farm Trust has additionally retained Coleman and Sons Appraisal Group to prepare an appraisal for Herring Creek Farm Trust of their ownership and I have reviewed their report and data.

Additionally, I have completed my own investigation of comparable sales and have spoken to brokers, buyers and sellers regarding the sale of high-end property on the island of Martha's Vineyard. I have also relied on previous work that I have completed over the last 25 years on the island including other valuation work within this neighborhood for TNC, work for the Commonwealth of Massachusetts in their acquisition of sections of South Beach, and a valuation of the 3,500 acre estate owned by the Pohogonot Trust located at the Edgartown-West Tisbury town line.

GENERAL ASSUMPTIONS

1. The legal description used in this report is assumed to be correct.

2. No survey of the property has been made by the Appraiser and no responsibility is assumed in connection with such matters. Sketches in this report are included only to assist the reader in visualizing the property.

3. No responsibility is assumed for matters of a legal nature affecting title to the property nor is an opinion of title rendered. The title is assumed to be good and merchantable.

4. Information furnished by others is assumed to be true, correct, and reliable. A reasonable effort has been made to verify such information; however, no responsibility for its accuracy is assumed by the Appraiser.

5. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless so specified within the report. The property is appraised as though under responsible ownership and competent management.

6. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures which would render it more or less valuable. No responsibility is assumed for such conditions or for engineering which may be required to discover them.

7. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless noncompliance is stated, defined, and considered in the appraisal report.

8. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless a nonconformity has been stated, defined, and considered in the appraisal report.

9. It is assumed that all required licenses, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.

10. It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted within the report.

11. Included in this report are sales and rentals from many sources. A concerted effort has been made to personally verify the market data contained herein with a reliable source. Occasionally, some new information is found on these sales or errors may be found and corrected. If any errors or omissions are discovered, they will be brought to the Client's attention. The Appraiser must reserve the right to change the conclusion, if required, due to a subsequent discovery.

12. The value is estimated under the assumption that there will be no international or domestic, political, economic, or military actions that will seriously affect real estate values throughout the country.

13. In this appraisal assignment, the existence of potentially hazardous material used in the construction or maintenance of the building, such as the presence of urea-formaldehyde foam insulation, asbestos, and/or the existence of toxic waste, which may or may not be present on the property, has not been considered. The Appraiser is not qualified to detect such substances. The Client is urged to obtain an expert in this field if desired.

GENERAL LIMITING CONDITIONS

1. In the event that my appearance due to this appraisal is required for court testimony, hearings, or conferences, further financial arrangements will have to be made.

2. Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the Appraiser, and in any event, only with properly written qualification and only in its entirety.

3. The distribution of the total valuation in this report between land and improvements applies only under the reported highest and best use of the property. The allocations of value for land and improvements must not be used in conjunction with any other appraisal and are invalid if so used.

4. No environmental impact studies were either requested or made in conjunction with this appraisal, and the Appraiser hereby reserves the right to alter, amend, revise or rescind any of the value opinions based upon any subsequent environmental impact studies, research or investigation.

5. Neither all nor any part of the contents of this report, or copy thereof, shall be conveyed to the public through advertising, public relations, news, sales or any other media without written consent and approval of the Appraiser. Nor shall the Appraiser, firm or professional organization of which the Appraiser is a member be identified without written consent of the Appraiser.

6. In preparing this appraisal, only the matters referred to herein have been examined and relied upon and except to the extent specifically noted therein, title, licenses, permits, zoning, survey, environmental, latent defects, subsoil conditions, the possible presence of hazardous substances and other such matters have not been examined or relied upon even though they might affect the opinions and conclusions set forth in this appraisal.

7. Acceptance of and/or use of this appraisal report constitutes acceptance of the foregoing general assumptions and general limiting conditions.

8. The Americans with Disabilities Act ("ADA") became effective January 26, 1992. I have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the property. Since I have no direct evidence relating to this issue, I did not consider possible noncompliance with the requirements of ADA in estimating the value of the property.

CERTIFICATION OF VALUE

I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- my engagement in this assignment was not contingent upon developing or reporting predetermined results.
- my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appra
- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- I have made a personal inspection of the property that is the subject of this report.
- no one provided significant professional assistance to the person signing this report.
- the appraisal was not based on a requested minimum valuation, specific valuation, or the approval of a loan.

This appraisal report has been made in conformity with and is subject to the requirements of the Code of Professional Ethics and Standards of Professional Conduct of the Appraisal Institute.

The Appraisal Institute conducts a voluntary program of continuing education for its designated members. MAIs and RMs who meet the minimum standards of this program are awarded periodic educational certification. As of the date of this report, Robert P. LaPorte, Jr., has not completed the requirements of the continuing education program of the Appraisal Institute.

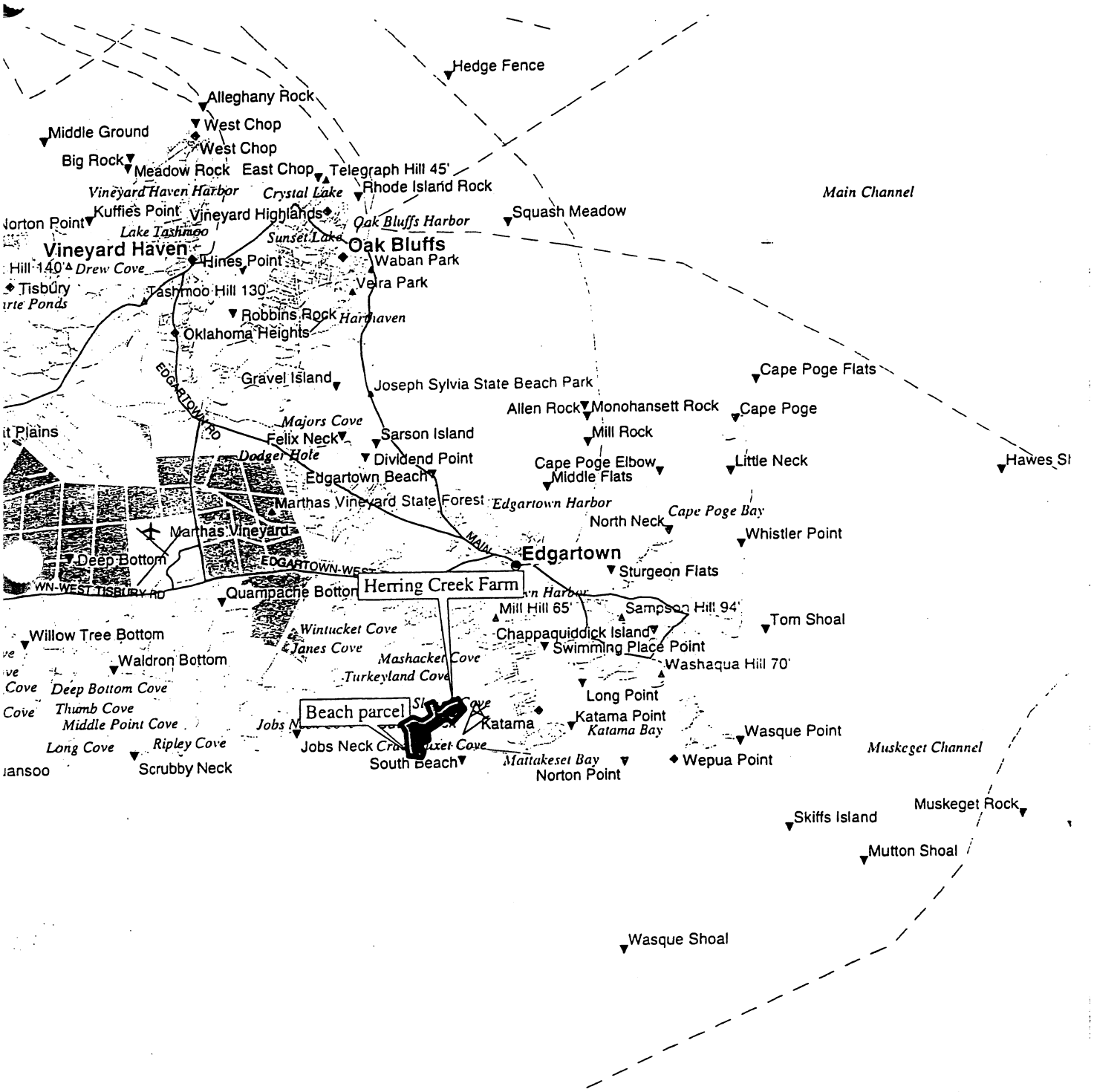
I am of the opinion that we have compiled with the client's instructions, standards and specifications in conducting the research, analysis and in formulating the value conclusion.

I certify that the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

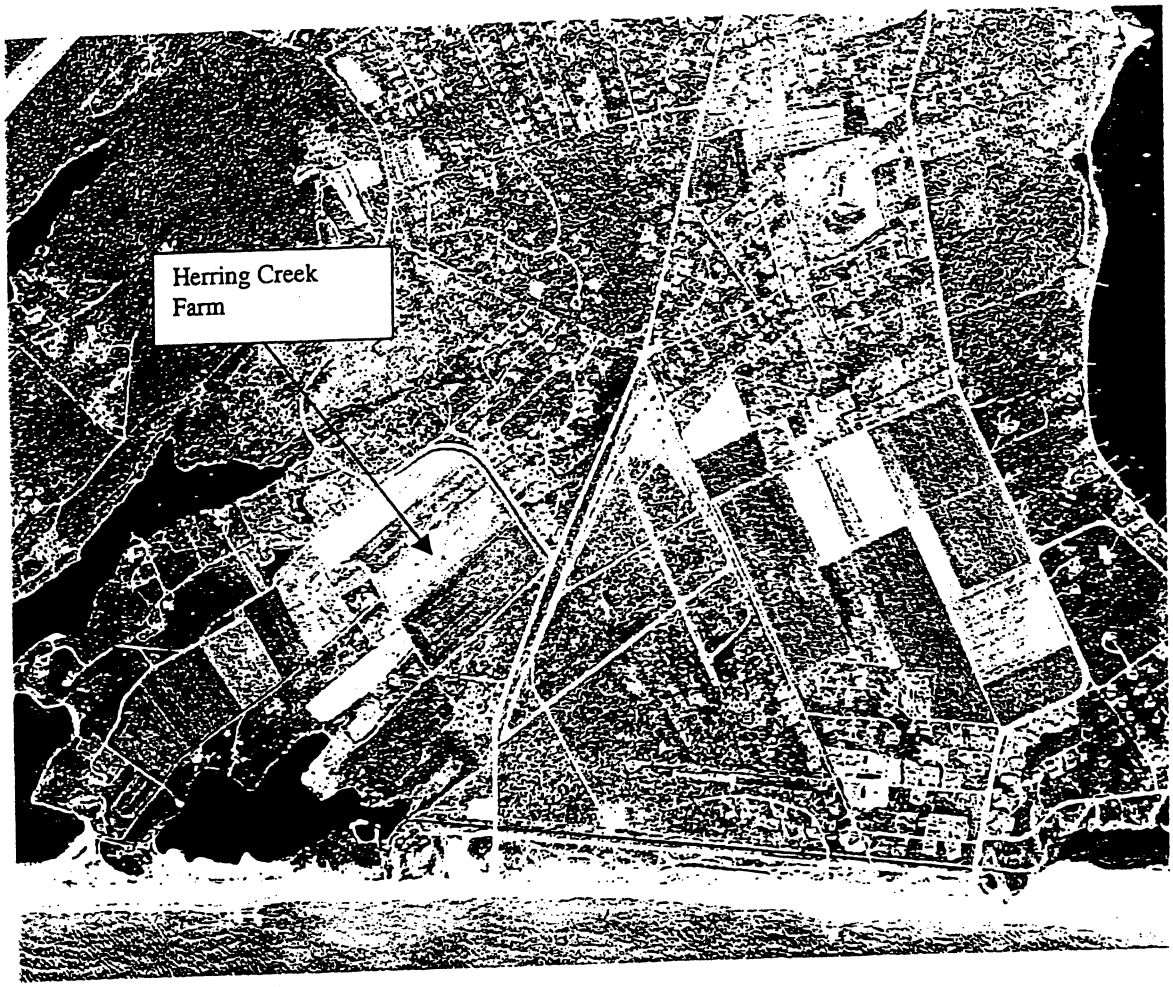
Robert P. LaPorte, Jr., CRE, MAI
Senior Vice President
MA General R.E. Appraiser #735

THE SUBJECT PROPERTY

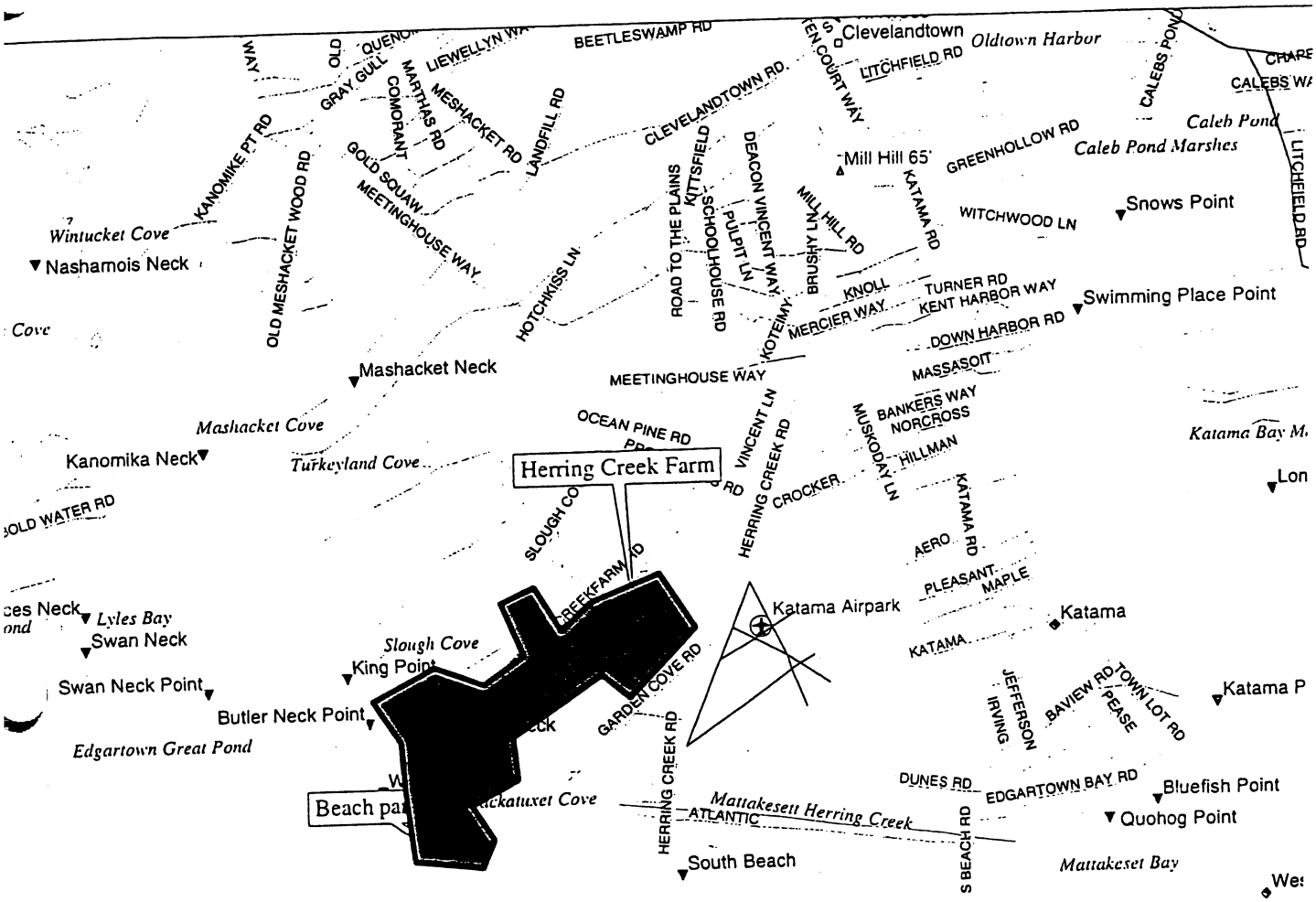
ISLAND LOCATION MAP



AERIAL MAP SHOWING HERRING CREEK FARM



STREET MAP SHOWING SUBJECT LOCUS



99 DeLorme. Street Atlas USA

LOCATION AND NEIGHBORHOOD DESCRIPTION

Included in the Addenda of this report are various economic publications prepared by the Federal Reserve Bank, the Dismal Scientist, the Commonwealth of Massachusetts, and the Massachusetts Association of Realtors (MAR) that describe the general state of today's economy. Edgartown's real estate market, as that of most of Massachusetts, is at an unprecedented high level of activity and pricing. According to recent reports of the MAR, there has been a modest slowdown in the number of transactions; however, demand for "trade-up" and second homes is especially strong. As of July 2001, it is felt that the market is close to its peak and that we are likely approaching a contraction phase.

The subject property is situated in a desirable residential area of Edgartown. In part, the desirability is created by the area's south coastal beaches, ponds and conservation land.

Over the last four years, Edgartown and West Tisbury have witnessed unprecedented price increases. Table 1 is a recap of the median prices and number of sale transactions for the last five years in Edgartown and West Tisbury as reported by the Banker & Tradesman.

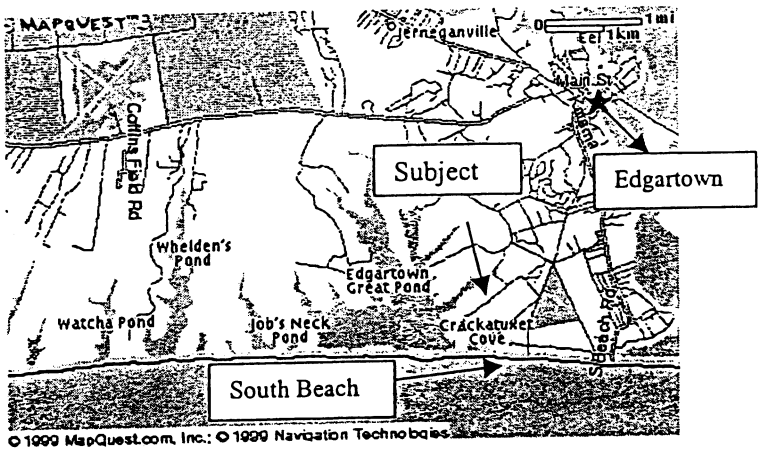
TABLE 1

	Edgartown	% change	West Tisbury	% change
Number of Sales				
2001 (to July)	70		13	
2000	79		22	
1999	103		30	
1998	127		46	
1997	135		26	
1996	55		27	
Median Sale Prices				
2001 (to July)	$378,500		$549,000	
2000	$336,000	41%	$410,000	13%
1999	$252,000	13%	$302,250	17%
1998	$191,000	19%	$230,000	35%
1997	$168,700	-1%	$236,250	-11%
1996	$153,000		$169,900	
Price increase 1996-2001		147.4%		223%

In addition, the Banker & Tradesman reports that since January 1, 1999 through 2000, there have been 42 transactions over $1 million in Edgartown and 8 transactions over $1,000,000 in West Tisbury. As will be shown and illustrated in the valuation section, it appears that pricing for high-end real estate has witnessed a significant increase over the last five years. The subject property benefit from their views over open fields, access to Edgartown Great Pond, access easements to a private barrier beach and exclusivity.

A valuation issue regarding my appraisal is that the real estate market may have reached its peak. It is within this general real estate context that this appraisal and my value estimates have been completed. While the immediate impact of the economy's downturn has not been felt in this real estate market, there is some expectation that there will be a "cooling off" of prices.

The property is located in the southwest section of Edgartown. The neighborhood is generally bounded by Edgartown Great Pond on the west; Slough Cove on the north; Slough Cove Road on the east and the Atlantic Ocean on the south.



The predominant uses in this area consist of the Martha's Vineyard State Forest, vacant land and scattered residential properties. Some of the predominant land features include the Edgartown Great Pond, Job's Neck Pond and Oyster (Watcha) Pond. Almost all of the properties fronting on these bodies of water are priced in excess of $1 million. Recently, there have been three transactions along Oyster Pond each at prices in excess of $6 million. Located north of the subject property on the north side of the Edgartown/West Tisbury Road is an under-construction golf course. Most of this land was recently sold by Fidelity Title Insurance Company to the developers. Attorney John Henn, who represents the seller, stated to me that Fidelity sold this property for $15 million.

As shown on the previous maps, Katama Airpark is located to the east of Herring Creek Farm. This grass stripped airport services recreational planes only. It is not viewed as having a negative impact on the subject. In fact, as a result of conservation easements, the area of Katama Plains stretching from Herring Creek Road to South Beach Road is mostly restricted from future development.

ZONING

District: RA-120 Residence-Agricultural District

Lot Area: 120,000 Square Feet

Allowed Uses: One single family dwelling plus one guest house on a 15,000 square foot lot that has a building at least five years old.

ASSESSED VALUE.

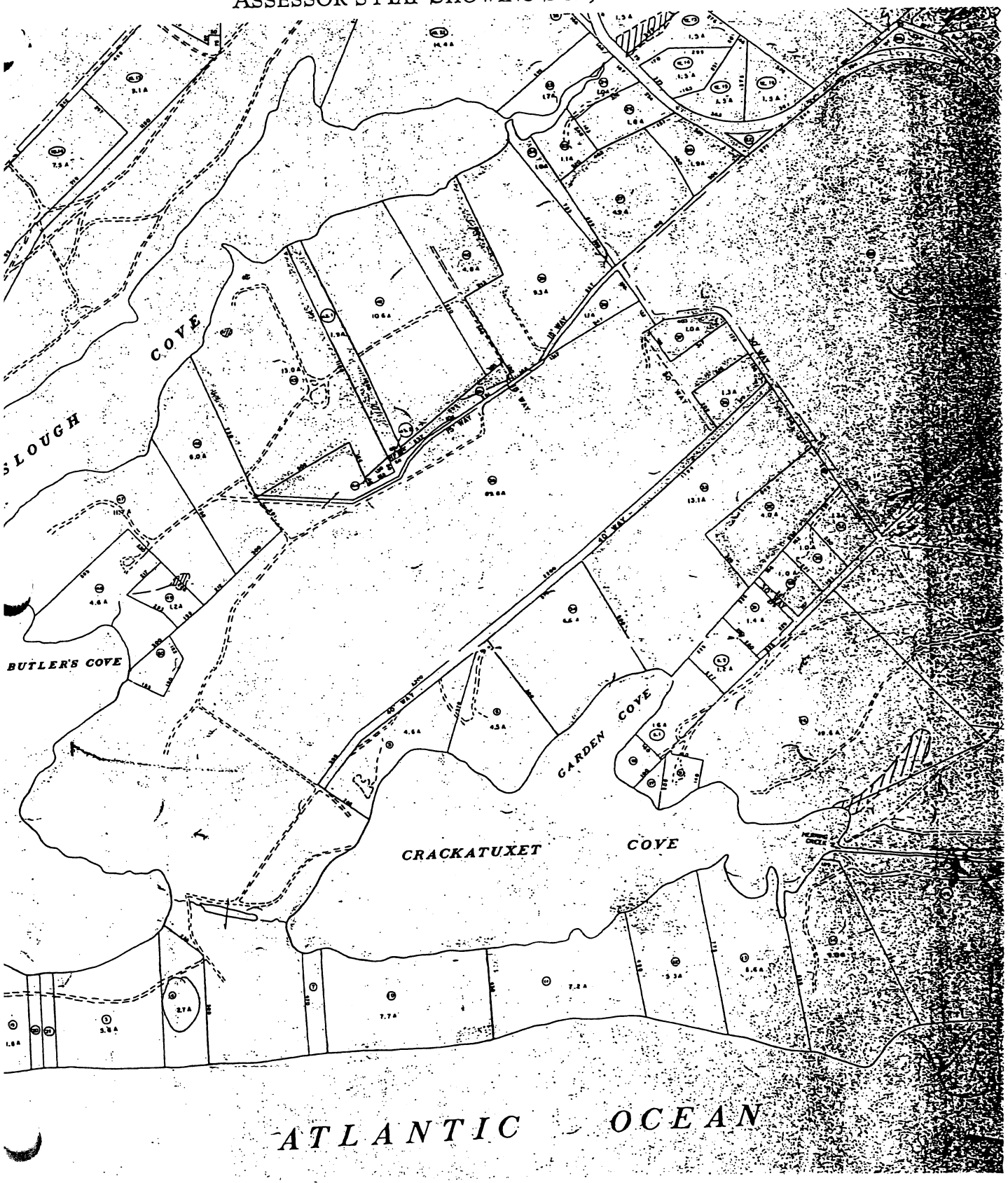
Herring Creek Farm
FY 2001 Assessed value

Assessed to Herring Creek Farm Trust and or Wallace

Map	Lot		Land area (acres)	Land valuation	Improvements	Total
44	27		4.9	$244,600	$192,400	$437,000
44	28		61.3	$965,500	$0	$965,500
44	32		4	$132,300	$0	$132,300
44	34		6.6	$499,000	$0	$499,000
44	35		89.8	$7,576,000	$655,900	$8,231,900
44	38		1.1	$36,400	$0	$36,400
44	39		9.3	$960,800	$234,400	$1,195,200
44	43.1		1.9	$71,800	$0	$71,800
44	43.2		0.04	$2,800	$0	$2,800
44	44		0.15	$2,800	$0	$2,800
44	46		6	$356,400	$0	$356,400
44	47		11.7	$2,298,000	$462,900	$2,760,900
44	48		4.6	$1,259,900	$32,300	$1,292,200
44	49		1.2	$39,700	$0	$39,700
44	50		0.81	$45,900	$0	$45,900
44	51		0.9	$14,200	$0	$14,200
44	54		1	$33,100	$0	$33,100
44	55		0.7	$14,300	$0	$14,300
44	56	[1]	1.9	$201,900	$168,000	$369,900
53	10		7.7	$14,400	$0	$14,400
53	11		7.2	$16,400	$0	$16,400
53	7		1	$900	$0	$900
			223.8	$14,787,100	$1,745,900	$16,533,000
Less Chapter 61 A exemption						-$8,382,600
Adjusted total						$8,150,400
tax rate						$5.14
real estate taxes						$41,893.06

[1] Blue Heron

ASSESSOR'S MAP SHOWING SUBJECT LOTS



PROPERTY DESCRIPTION

The property that is the subject of the right of first refusal comprises an estimated 186 acres of the 220-acre Herring Creek Farm. Exhibit I is a copy of the 33-lot subdivision plan that was approved for the Herring Creek Farm. The following exhibit is an ownership plan of the Herring Creek Farm Trust property. Based on information provided to me the following is a summary of the lots subject to the right of first refusal:

Identification		Land area (acres)	Improved
Lot 1		3.16	
Lot 2	excluded		
Lot 3	excluded		
Lot 4	excluded		
Lot 5		2.97	
Lot 6	excluded		
Lot 7	excluded		
Lot 8	excluded		
Lot 9	excluded		
Lot 10	excluded		x
Lot 11	excluded		x
Lot 12	1/2 excluded	2.245	
Lot 13		3.89	
Lot 14		2.54	
Lot 15		3.39	
Lot 16		8.39	x
Lot 17		2.45	
Lot 18		7.71	
Lot 19		4.24	
Lot 20		1.51	
Lot 21		8.34	
Lot 22		5.63	
Lot 23		3.78	
Lot 24		6.29	
Lot 25		4.52	
Lot 26		5.61	
Lot 27		3.16	
Lot 28		2.72	
Lot 29		4.06	
Lot 30		3.56	
Lot 31		3.27	
Lot 32		4.15	
Lot 33		3	x
Blue Heron		1.9	
Total		102.485 acres	

East Field, Moore Wood lot, sliver parcel and beach lot	77.76 acres
Total land area	180,245 acres excluding roads

The total acreage in the subdivision excluding the roadway system is 219.85 acres. The Herring Creek Farm is a waterfront farm located along the easterly shoreline of Edgartown Great Pond and on the shoreline of South Beach. Additionally, the site has water frontage on Crackatuxet Pond in Edgartown.

The following are the salient features of the property:

Land area total:	220 acres
Estimated land area of right of first refusal:	180,245 square feet
Site characteristics:	Major development parcel with significant water frontage. Site includes over 100 acres of agricultural fields. Existing ways in the subdivision subject to the rights of others. The property has been approved for subdivision after a lengthy and contested approval process. A copy of the approval is attached to the report.
Improvements:	The two most significant structures on the property are the Monty and Neil Wallace homes located along the shoreline of Edgartown Great Pond. These are Royal Barry Wills designed homes constructed in the early 1970's. An inspection of each house was completed in May and indicated that each was in very good condition. However, although well maintained, interior finishes such as the kitchens exhibited original conditions. Assessors' cards giving room counts and dimensions maybe found in the addenda.

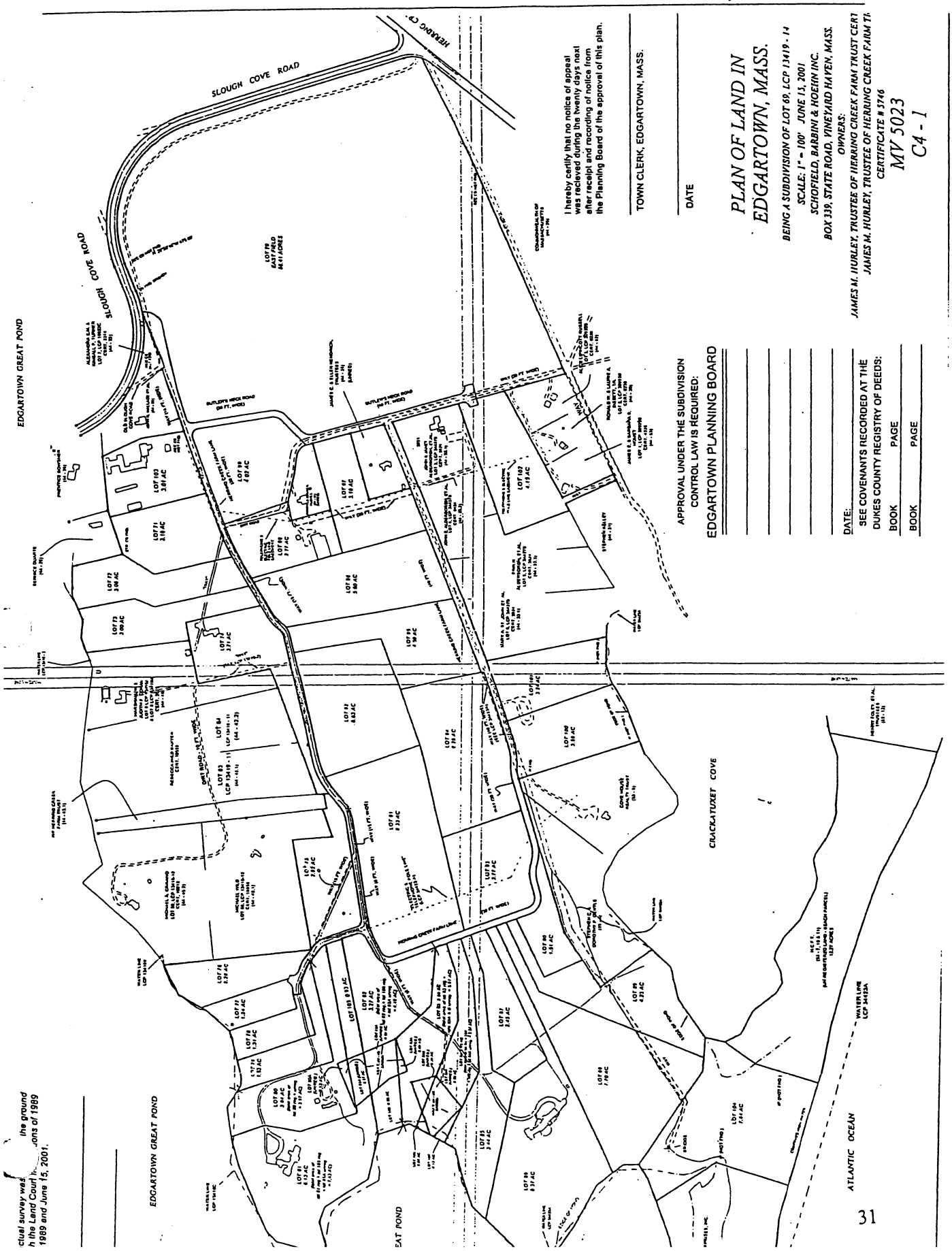
Additionally there are two additional homes: Blue Heron was the subject of an appraisal prepared for you; and the caretaker's cottage that is part of the farm complex of buildings. The farm buildings have an effective age of 50 years and are in average condition. The Sanderling house is not included as part of the right of first refusal. The Movius cottage is located on Lot 10, however, this is in poor condition and is a "tear down".

This appraisal estimates the market value of a right of first refusal that is to be found on the following exhibit.

The right of first refusal runs to the benefit of the Marshall Cohans, the Benjamin Cohans and the Aldeborghs as stated in the Agreement. If the real estate identified previously is sold during the remaining term (8 ½ years from July 2001) of the contract, a cash payment is payable to the beneficiaries of the right of first refusal. The objective of my appraisal was to provide Herring Creek Acquisition Company LLC and The Nature Conservancy with an estimate of the market value of these rights so that their value can be compared to the market value of four lots that are about to be transferred to Herring Creek Acquisition Company LLC.

PLAN OF HERRING CREEK FARM

THE SUBJECT PROPERTY



RIGHT OF FIRST REFUSAL

AGREEMENT made this 30th day of December, 1969, by and between B. HARRISON COHAN and HILDEGARDE N. COHAN, husband and wife, both of Boston, Suffolk County, Massachusetts (hereinafter called the "Benjamin Cohans"), JOHN E. ALDEBORGH and JANET H. ALDEBORGH, husband and wife, both of Hyde Park, New York (hereinafter called the "Aldeborghs") and MARSHALL N. COHAN and JUDITH J. COHAN, husband and wife, both of Uxbridge, Worcester County, Massachusetts (hereinafter called the "Marshall Cohans"), and MARSHALL N. COHAN Trustee under Declaration of Trust dated November 4, 1969 (hereinafter called the "Trustee").

Recital of Facts

A. Hildegarde N. Cohan is the owner of certain land (the Benjamin Cohan land) in Edgartown, County of Dukes County, Massachusetts, being a portion of Lot B- shown on Land Court Plan 13419B.

B. The Aldeborghs are the owners of certain land (the Aldeborgh land) in said Edgartown shown as Lot 1 on Land Court Plan 34427 (pending). See Dukes County Deeds, Book 255, Page 245.

C. The Marshall Cohans are the owners of certain land (the Marshall Cohan land) in said Edgartown shown as Lots 6 and 8 on Land Court Plan 13419H.

D. The Trustee is the owner of certain land (the Trustee's land) in said Edgartown which adjoins the lands referred to in paragraphs A, B and C above, which land (including the ownership of various rights of way) is shown on a plan by Dean R. Swift, Reg. Land Surveyor, dated December 11, 1969 (hereinafter called the "Swift plan") and is described in two deeds from the Benjamin Cohans to the Trustee dated December 30, 1969, said plan and one of said deeds being recorded with County of Dukes County Deeds herewith, the other deed covering registered land to be registered with Dukes County Registry District of the Land Court.

E. The Trustee is willing to grant to the Benjamin Cohans, the Aldeborghs and the Marshall Cohans and their issue and the spouses of such issue certain rights and easements for access to public ways and for access to and use of the Beach shown as "beach dunes" on the Swift plan, all as hereinafter more specifically provided.

F. The Trustee is willing to hold a portion of the Trustee's land (hereinafter called the "Restricted Area", as shown on the Swift plan) subject to certain restrictions for the personal benefit only, of the Benjamin Cohans, the Aldeborghs and the Marshall

AGREEMENT made this 30th day of December, 1969, by and between B. HARRISON COHAN and HILDEGARDE N. COHAN, husband and wife, both of Boston, Suffolk County, Massachusetts (hereinafter called the "Benjamin Cohans"), JOHN E. ALDEBORGH and JANET H. ALDEBORGH, husband and wife, both of Hyde Park, New York (hereinafter called the "Aldeborghs") and MARSHALL N. COHAN and JUDITH J. COHAN, husband and wife, both of Uxbridge, Worcester County, Massachusetts (hereinafter called the "Marshall Cohans"), and MARSHALL N. COHAN Trustee under Declaration of Trust dated November 4, 1969 (hereinafter called the "Trustee").

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E. The Trustee is willing to grant to the Benjamin Cohans, the Aldeborghs and the Marshall Cohans and their issue and the spouses of such issue certain rights and easements for access to public ways and for access to and use of the Beach shown as "beach dunes" on the Swift plan, all as hereinafter more specifically provided.

F. The Trustee is willing to hold a portion of the Trustee's land (hereinafter called the "Restricted Area", as shown on the Swift plan) subject to certain restrictions for the personal benefit only, of the Benjamin Cohans, the Aldeborghs and the Marshall

for all purposes of access for which public ways are now or may hereafter be used in the Town of Edgartown and to connect with and use the existing electric and telephone lines now servicing the Aldeborgh land or as such services from time to time may be replaced or enlarged; (b) to use the "Right of Way (30 ft. wide)" and the "Right of Way (15 ft. wide)" shown on the Swift plan as access on foot or by vehicle from the Aldeborgh land to and from the Benjamin Cohan land and the Marshall Cohan land; and (c) to use the "Right of Way (40 ft. wide)" and the extension thereof as access to the Restricted Area and the Beach and Atlantic Ocean, all as shown on the Swift plan, together with the right to use the Beach for swimming, fishing, picnicking and boating, and other usual recreational activities (but not for the erection or placing of any cabanas, tents, or other structures or shelters thereon). The rights of use and access to and from the Aldeborgh land to and from the Restricted Area, the Beach and the Ocean which are granted in clauses (b) and (c) hereof are rights which are personal to the Aldeborghs and their issue and the spouses of such issue, and shall endure only so long as the Aldeborghs or their issue or any spouse of such issue shall continue to own of record any part or all of the Aldeborgh land, and while there is a dwelling house on the land so retained. Said rights shall terminate and expire without instrument of release when all such record ownership shall cease.

3. The Trustee hereby grants to the Marshall Cohans the rights and easements (a) to use the "Right of Way (15 ft. wide)" shown on the Swift plan as access to Slough Cove Road and Herring Creek Road to and from the Marshall Cohan land for all purposes of access for which public ways are now or may hereafter be used in the Town of Edgartown and to connect with and use the existing electric and telephone lines now serving the Marshall Cohan land; (b) to use the "Right of Way (15 ft. wide)" and the "Right of Way (30 ft. wide)" shown on the Swift plan as access on foot or by vehicle from the Marshall Cohan land to and from the Aldeborgh land; and (c) to use the "Right of Way (15 ft. wide)", the "Right of Way (30 ft. wide)" and the "Right of Way (40 ft. wide)" and the extension thereof as access to the Restricted Area and the Beach and Atlantic Ocean, all as shown on the Swift plan, together with the right to use the Beach for swimming, fishing, picnicking and boating, and other usual recreational activities (but not for the erection or placing of any cabanas, tents, or other structures or shelters thereon). The rights of use and access to and from the Marshall Cohan land and to and from the Restricted Area, the Beach and the Ocean which are granted in clauses (b) and (c) hereof are rights which are personal to the Marshall Cohans and their issue and the spouses of such issue, and shall endure only so long as the Marshall Cohans or their issue or any spouse of such issue shall continue to own of record any part or all of the Marshall Cohan

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the following persons who shall then own of record any part or all of said land on which there then is located a dwelling house, to wit: the Benjamin Cohans, the Aldeborghs, the Marshall Cohans, or any issue of the Benjamin Cohans or any spouse of such issue. Any offer to sell as aforesaid shall be at the price and in accordance with the offering procedures stipulated in subparagraph (d) below.

(b) Any such offer made by the Benjamin Cohans, the Aldeborghs or the Marshall Cohans or any of them or any issue of them or spouse of such issue may be accepted by the offerees only in the following order of priority: (i) the Trustee or his successor or successors in trust; (ii) said Trustees of Jenkins Point Trust (including their successors); (iii) said Monte J. Wallace or his spouse if either is the then owner; (iv) said Neil W. Wallace or his spouse if either is the then owner; (v) any issue of said Monte J. Wallace or Neil W. Wallace or spouses of such issue who are owners of record and who are then under no legal disability.

(c) Any such offer made by the Trustee or any successors of the Trustee referred to in subparagraph (a) above may be accepted by the offerees only in the following order of priority: (i) the Benjamin Cohans or either of them if then such owners; (ii) the Aldeborghs or either of them if then such owners; (iii) the Marshall Cohans or either of them if then such owners; (iv) any of their issue or spouses of such issue who are owners of record and who are then under no legal disability.

(d) Price per acre of the land:

$ 7,000 per acre until January 1, 1980

8,000 per acre until January 1, 1990

9,000 per acre until January 1, 2000

10,000 per acre until January 1, 2010

(and at the same rate for any portion of an acre). The price for any buildings and structures on the land so offered shall be on the basis of the then reproduction cost thereof as determined by an individual estimator recommended by the senior real estate mortgage officer of The First National Bank of Boston or any corporate successor to the major part of its banking business.

(e) Any such offer shall be made in writing and addressed to the offeree or offerees at the addresses designated in the assessor's records for the offeree's land, shall be delivered in hand or sent by registered mail, return receipt requested, and shall state in precise terms the land being offered and contain a description of the buildings and structures thereon, together with

BOOK 281 PAGE 21

None of the parties shall be personally liable for any breach of the foregoing covenants unless and to the extent that such breach relates to land owned by such party at the time of the breach.

Witness the execution hereof under seal on the day and year first above mentioned.

B. Harrison Cohan

Marshall H. Cohan

Hildegarde H. Cohan

Judith J. Cohan

John E. Aldeborch

Marshall H. Cohan
Trustee as aforesaid

Janet H. Aldeborch

Commonwealth of Massachusetts
December 30, 1969

Suffolk ss

Then personally appeared the above named Hildegarde H. Cohan and B. Harrison Cohan and acknowledged the foregoing instrument to be their free act and deed, before me.

Richard D. Johnson
Notary Public

Received for record December 31 1969 11 o'clock and 46 m
Recorded and entered with Suffolk County Book 281 Page 15
Attest
Philip J. Norton Register

RICHARD D. JOHNSON, Notary Public
My Commission Expires October 25, 1974

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HIGHEST AND BEST USE

The highest and best use estimate for the property being appraised has considered the following four criteria.

What is legally permissible?
What is physically possible?
What is financially feasible?
What is the maximum productive use of the property?

The highest and best use of the real estate is estimated to be the subdivision that was approved by the Edgartown Planning Board and the Martha's Vineyard Commission. A copy of the approval is attached to the report.

VALUATION ANALYSIS

VALUATION TECHNIQUES

The purpose of this report is to arrive at an estimate of the Market Value of a property right identified as the Right of First Refusal. This is achieved by a systematic gathering, classification, and analysis of data which is required in the development of the three basic approaches to value: the cost approach, the sales comparison approach, and the income approach.

Cost Approach

This approach consists of estimating the replacement cost new of all improvements, deducting accrued depreciation from all sources, and adding the value of the underlying land, estimated by comparison to recent land sales. The indication of value via this approach is a process of summation of the various property components contributing to the total property value; it is applicable when each component is independently measurable, and when the sum of all components is believed to reflect market value. This approach is especially useful in estimating insurable value, or in estimating the market value of fairly new improvements and special purpose properties which because of their design and single-use nature, have a limited market and would not be valued more accurately by another approach. This approach is not applicable to unimproved land or obsolete improvements.

Sales Comparison Approach

The Sales Comparison Approach involves a comparison of the subject property to similar properties that have actually sold in arm's-length transactions or are offered for sale. Sale and asking prices are adjusted to reflect the significant differences, if any, that exist between the sale property and the subject property; the adjusted prices are correlated into a final value estimate of subject market value. This approach demonstrates what buyers have been willing to pay (and sellers willing to accept) for similar properties in an open and competitive market and is particularly useful in estimating the value of the land and properties that are typically owner occupied.

Income Approach

The Income Approach involves an analysis of the income earning capabilities of the subject property by estimating the fair rental value and deducting the operating expenses necessary to support the estimated rent. The projected net income or earnings stream remaining after expenses is converted into the equivalent capital sum or market value. This approach is particularly applicable in estimating the value of properties that are normally rented to provide a fair return on investment (acquisition cost) and that are typically purchased for investment purposes.

In the valuation of vacant unimproved land there are six valuation techniques. They are as follows.

Sales Comparison Approach

This technique compares the property to recently sold parcels of land. Adjustments are completed for various differences such as date of sale, location, land size, and highest and best use.

Land Residual Approach

The land is assumed to be improved to its highest and best use and the net income attributable by deducting all the building expenses. The net income is then capitalized into a value indication of the land only.

Development Approach

The total of undeveloped land is estimated by the market value of finished lots and then deducting the development and incentive costs which will be incurred in the sale of the retail lots. The net sales income is estimated during the forecasted marketing period and discounted to reflect the time value of money.

Ground Rent Capitalization

In certain instances, unimproved land may be leased or used for retail purposes. In such cases, a net income is estimated and the income is capitalized into an indication of value.

Allocation

In areas where sales of land occur so seldom, this approach is based upon allocating sale prices of improved property through the use of typical ratios found between land and property values.

Extraction

This is a form of allocation where the land value is extracted from the sale price of improved property. Here, the appraiser estimates the depreciated value of the improvements and this value is deducted from the sale price to produce the residual land value.

Subject Valuation

The valuation of the subject involves the valuation of a property right based on a valuation of real estate. The underlying assumptions are:

- That a sale of the real estate is about to occur.
- That a sale would never take place without a negotiation as to the price for this right
- That the value is based on two options: The first is that the ownership has the option of holding onto the property until the right of first refusal expires; and the second involves a limited sale of the lots not included in the right of first refusal and retention of the remaining lots until the right expires.
- The analysis is based on the 33-lot subdivision plan plus Blue Heron. Of these 33 lots the following lots are excluded: Lots: 2, 3, 4, 6, 7, 8, 9, 10, 11 and ½ of 12.

The approach to value used in analysis involved three steps. They are:

1. *A valuation of the cost for the right of first refusal.*
   Comment: This required me to estimate the market value of the lots subject to the right of first refusal and to deduct the allowance for the land cost ($10,000 per acre) and for the replacement cost of the buildings. I used a subdivision analysis technique to value the lots.

2. *A valuation of the property assuming that the ownership would retain ownership until the right of first refusal expires in 8 ½ years.*
   Comment: Because of the cost of the right of first refusal as measured under "1" above, there would be no motivation to sell the property today unless there were a negotiated deal on the value of this right. On the other hand, the ability to sell this valuable real estate today rather than holding onto this real estate (basically a non-income producing property) would benefit the ownership.

3. *A valuation of the property on a limited basis by selling initially the lots not subject to the right of first refusal and once the right expires selling the remaining lots.*
Comment: Somewhat similar to the above noted analysis this would cause a two phased development where the excluded lots are sold today and the remaining lots are held until the right of first refusal expires.

I have utilized a subdivision analysis to estimate the market value of the real estate. Because there is no motivation to sell this property until the right expires, it is my opinion that the property is impacted by two factors. They are:

1) Lack of marketability.
2) Holding period risk.

I have, therefore, discounted today's value of the real estate for lack of marketability and holding period risk. This discount would be at a defined rate over today's perceived land appreciation rate that may or may not occur.

The exhibits on the following pages were used as the basis of my analysis:

Exhibit I is a reduced copy of the subdivision plan.

Exhibit II is a subdivision analysis of the lots subject to the right of first refusal and my estimate as to the gross cost of the right based on the formulae that includes a credit of $10,000 per acre plus the replacement value of the improvements.

Exhibit III is a subdivision analysis of property assuming sale of all the lots today.

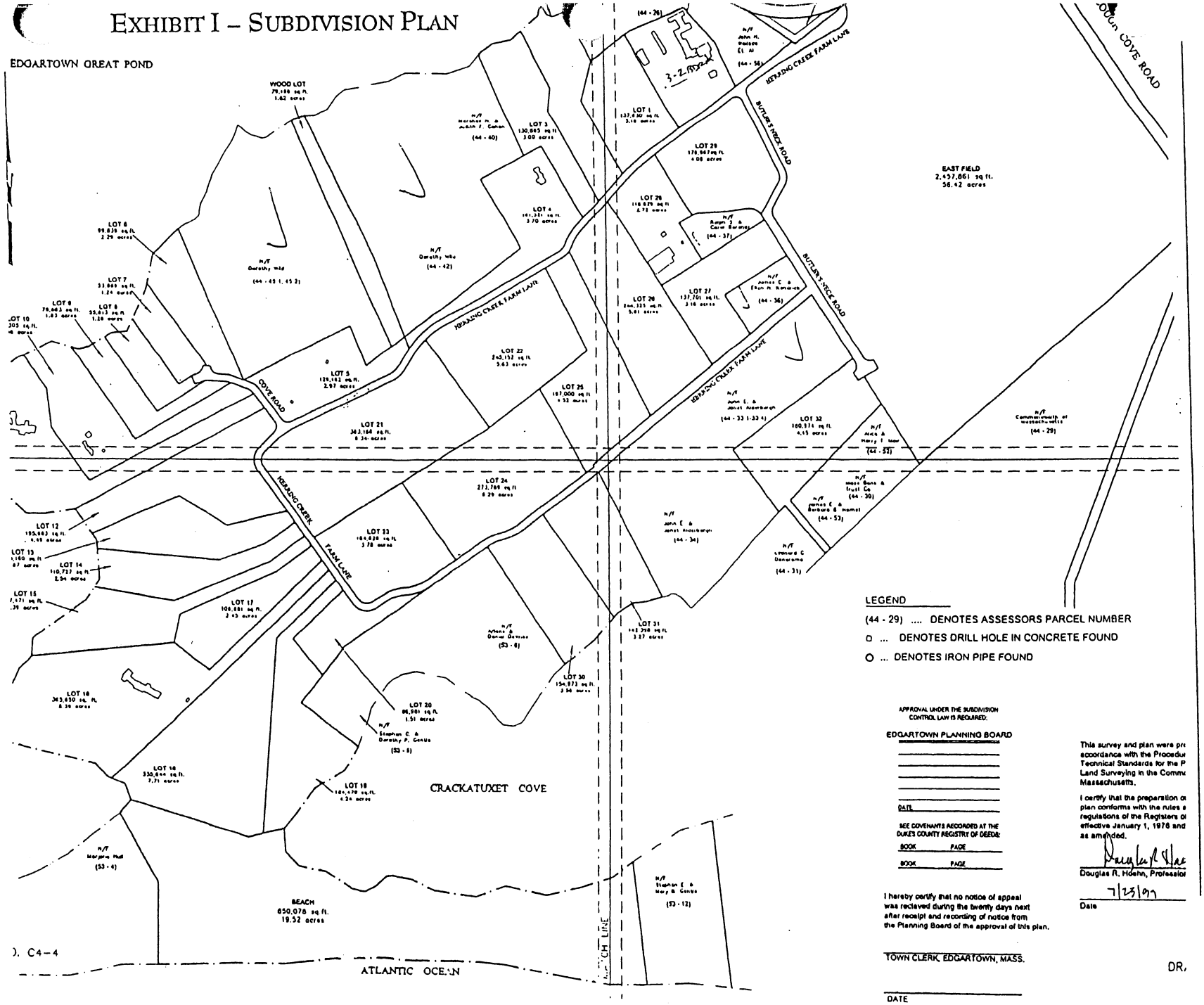
Exhibit IV is a subdivision analysis of the lots not subject to the right of first refusal.

My estimate of today's cost associated with the right of first refusal:

Value fee simple of lots subject to option:	$35,000,000
Calculation of price basis:	$ 7,802,450
Cost of the option (value fee simple less the cost basis):	**$27,197,550**

Comments: The calculation of the property's land value included estimates of the average price for lots in the subdivision based on my characterization into five general lot categories. Estimated development costs were partly based on cost estimates supplied to me (such as road costs and infrastructure) and on my own estimates, such as marketing and profit. I have given a general estimate as to the replacement cost of buildings.

EXHIBIT I – SUBDIVISION PLAN



VALUATION ANALYSIS

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EXHIBIT II

SUBDIVISION ANALYSIS OF LOT SUBJECT TO RIGHT OF FIRST REFUSAL AND ESTIMATE COST OF THE RIGHT IF SOLD AS OF THE DATE OF VALUE

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n 1 **Sale proceeds**

Identification		Land area (acres)	Improved	Comment	Quality Category
Lot 1		3.16			D
Lot 2	excluded				C
Lot 3	excluded				C
Lot 4	excluded				D
Lot 5		2.97			D
Lot 6	excluded				C
Lot 7	excluded				C
Lot 8	excluded				C
Lot 9	excluded				C
Lot 10	excluded		x		B
Lot 11	excluded		x		A
Lot 12	1/2 excluded	2.245			B
Lot 13		3.89			B
Lot 14		2.54			B
Lot 15		3.39			A
Lot 16		8.39	x		A
Lot 17		2.45			D
Lot 18		7.71			A
Lot 19		4.24			A
Lot 20		1.51			D
Lot 21		8.34			E
Lot 22		5.63			E
Lot 23		3.78			E
Lot 24		6.29			E
Lot 25		4.52			E
Lot 26		5.61			E
Lot 27		3.16			E
Lot 28		2.72			E
Lot 29		4.06			E
Lot 30		3.56			B
Lot 31		3.27			B
Lot 32		4.15			D
Lot 33		3	x		D
Blue Heron		1.9			D
Total		102.485 acres			

East Field, Moore Wood lot, sliver parcel and beach lot

77.76 Total land area except roads

180.245 acres

Lot quality categories	
A	*prime waterfront lot with frontage either on pond or ocean views*
B	*superior quality waterfront lot with views and or frontage on ponds*
C	*waterfront lot*
D	*secondary lots*
E	*field lots*

Breakdown		Market Value	# of lots	Aggregate
A	prime waterfront lot with frontage either on pond or ocean views	$7,000,000	1	$7,000,000
B	superior quality waterfront lot with views and or frontage on ponds	$3,500,000	1	$3,500,000
C	waterfront lot	$2,000,000	6	$12,000,000
D	secondary lots	$750,000	1	$750,000
E	field lots	$500,000	0	$0
Miscellaneous sale revenues				$0
East Field, Moore Wood lot, sliver parcel, Blue Heron, and beach lot			9	**$23,250,000**
Average value per lot				**$2,583,333**

Site d[illegible] ment costs			[illegible]
roa[illegible]	as provided		
septic system	included in road		
engineering	9 lots at	$2,500 per lot	$22,500
Legal	9 lots at	$2,500 per lot	$22,500
Marketing	5% of sales proceeds		$1,162,500
Holding costs			
Management	$125,000 per year for 7 years		$875,000
Real estate taxes	$5,000 per lot		see below
Miscellaneous	$2,500 per lot		$960,000
Mitigation costs			
Affordable housing of-site			$100,000
Affordable housing on-site			$100,000
Profit	10% of sales proceeds		$2,325,000
TOTAL COSTS			**$9,067,500**
NET PROCEED BEFORE TIME DISCOUNTING			**$14,182,500**

ion 3 Valuation of net real estate sale revenues

Method 1

Estimated marketing period	7.5 years	Net average cash flow per period →	$1,891,000
Average cash flow	$1,575,833 average price for a lot		
Discounted at	7.0%		
Present worth factor	6.002		**$11,349,014**

Method 2 *7.5 year discounted cash flow*

Number of lots sold 4 per year except for the Year 8 (2 lots remaining) assuming full development of all 34 lots

Year	Average annual revenue	Time increased @ 5%	Less expenses: road	Legal and housing	real estate taxes and misc.	Profit & marketing	management	Total	Net revenues	Discounted revenues @ 7%
per lot				$2,500	$7,500	15%				
1	$3,100,000	$3,100,000	$3,500,000	$210,000	$225,000	$465,000	$125,000	$4,525,000	-$1,425,000	-$1,331,776
2		$3,255,000	$0	$10,000	$195,000	$488,250	$125,000	$818,250	$2,436,750	$2,128,352
3		$3,417,750	$0	$10,000	$165,000	$512,663	$125,000	$812,663	$2,605,088	$2,126,527
4		$3,588,638	$0	$10,000	$135,000	$538,296	$125,000	$808,296	$2,780,342	$2,121,110
5		$3,768,069	$0	$10,000	$105,000	$565,210	$125,000	$805,210	$2,962,859	$2,112,477
6		$3,956,473	$0	$10,000	$75,000	$593,471	$125,000	$803,471	$3,153,002	$2,100,978
7		$4,154,296	$0	$10,000	$45,000	$623,144	$125,000	$803,144	$3,351,152	$2,086,929
7.5		$2,181,006	$0	$5,000	$15,000	$327,151	$0	$347,151	$1,833,855	$1,122,878
	totals	$27,421,232	$3,500,000	$275,000	$960,000	$4,113,185	$875,000	$9,723,185	$17,698,047	**$12,467,476**
Estimated market value										**$12,000,000**

The estimate of the value to the seller by being able to sell the entire ownership today:

Market value today disregarding the cost of 1st refusal:	$50,000,000
Marketability and holding period discount (5%) (Value of property discounted at 5% for 8 ½ years)	$33,026,379
Value benefit to ownership for the ability to sell today (Market value today less discounted value)	**$16,973,261**

Comment: In my opinion there is an impact to market value by having a right to sell this real estate today rather than waiting until the option expires. Not deducted were the holding costs associated with ownership such as taxes, insurance and maintenance nor was any rental income accounted for to offset expenses.

The discount accounts for marketability and holding period risk. This property, based on the full cost of the right of first refusal would not be sold during the remaining 8 ½ year term.

This lack of marketability and the associated risk, in my opinion, warrant a need to discount the future sale proceeds at 5%. The 5% marketability/risk rate is in addition to any value appreciation. Currently, real estate investor perceptions are that values have peaked and the market is about to transition into a contraction phase.

The estimate of value assuming that the lots excluded from the right of first refusal are sold today and the remaining lots are retained until the right of first refusal expires:

Today's value of lots not subject to right of 1st refusal:	$12,000,000
Market value today not accounting for the cost of the right of 1st refusal:	$50,000,000
Remaining value attributable to 1st refusal lots:	$38,000,000
Marketability and holding period discount 5% (value of property discounted at 5% for 8 ½ years)	$25,899,952
Value of property (all 34 lots) with delayed sale of the first refusal lots:	$37,100,048
Difference between value not subject to option and the delayed sale:	**$12,899,952**

This estimate is based on a phased development where the lots outside of the right of first refusal are sold immediately for $12,000,000 and the remaining lots carried until the right expires. The same discount rate as the first analysis is applied.

CONCLUSION AND ESTIMATE OF VALUE FOR THE RIGHT OF FIRST REFUSAL

This appraisal estimates the market value of a property right that is associated with the land. This right is not normally traded or valued in the real estate market. My approach to value is based on a systematic approach to value of this special property right. It is based on the assumptions and conditions stated elsewhere in this report.

My analysis indicates a value ranging from $12,900,000 to $17,000,000 for this right. This assumes that the property would be sold today rather than the ownership waiting until the option expires. In my opinion the value indications reflect a negotiated arms length price where both the owner of the real estate and the holders of the right are motivated.

In my opinion the estimated market value of the right of first refusal as of July 15, 2001 was $14,000,000. This is less than the average of the two indicated values. It represents a 21.9% discount when applied against the $64 million deeded price.

ADDENDA

APPROVAL OF DEFINITIVE SUBDIVISION PLAN
HERRING CREEK FARM

Telephone (508) 627-6170
Fax (508) 627-6123

Town of Edgartown
The Planning Board
P.O. Box 1065
Edgartown, Massachusetts 02539

Edgartown, Mass
Town Clerk's Office
Feb 15 2001
Rec'd For Record
AT 2 H 26 M P M

HERRING CREEK FARM TRUST
CERTIFICATE OF APPROVAL OF DEFINITIVE PLAN FOR SUBDIVISION

Wanda Williams
Town Clerk
Town of Edgartown
Edgartown, Massachusetts

It is hereby certified by the Planning Board of the Town of Edgartown, Massachusetts, that at a duly called and properly posted meeting of the Planning Board, held on January 30, 2001, it was voted to approve a definitive subdivision plan entitled: Herring Creek Farm, Edgartown, Massachusetts, by Sasaki Associates, Inc., 64 Pleasant Street, Watertown, MA 02172, Project No. 71800 and Schofield, Barbini & Hoehn, Inc., 97 State Road, Vineyard Haven, MA 02568, which plan is in several parts ("the Plan") being subtitled:

- o C1-1 Existing Conditions, 4/15/99
- o C2-1 Lotting And Development Envelope Plan 4/15/99
- o C3-1 Illustrative Master Plan 4/15/99
- o Flood Zone Overlay, Lotting and Development Envelope Plan, 2/17/00
- o Proposed Open Space Plan, January 2000
- o Existing Vegetation and Wetlands, January 2000
- o RUCK CFT System Layout Plan System #1, sheets dated March 1, 2000 and numbered C8-1, C8-2, C8-3, C8-4, C10-1, C10-2, C10-3, C10-4, C10-5, C10-6, and dated May 16, 200 numbered C10-7, and C10-8, consisting of twelve (12)sheets
- o RUCK CFT System Layout Plan, System #2, sheets dated March 1, 2000 and numbered C11-1, C11-2, C11-3, C11-4, C11-5, C12-1, C12-2, C12-3, C12-4, C12-5, C12-6, and dated May 16, 200 numbered C12-7, and C12-8, consisting of thirteen (13) sheets
- o Definitive Subdivision, sheets dated July 23, 1999 and numbered C1-1, C2-1, C3-1, C3-1 through C3-4, C4-1 through C4-5, C5-1 through C5-4, C6-1 through C6-4, C7-1 through C7-4, C8-1 through C8-5, C9-1 through C9-8, C10-1 through C10-5, and C11-1

and as proposed in the application dated December 12, 2000, concerning property located on Slough Cove Road to be divided into thirty-three lots and two open-space parcels, submitted by Herring Creek Farm Trust, owner ("Applicant").

The approval was so voted subject to the following conditions:

1. The conditions set forth in the Decision of the Martha's Vineyard Commission (MVC) dated November 20, 2000 concerning the application of Herring Creek Farm Trust and filed at the County of Dukes County Registry District of the Land Court on December 5, 2000 and noted as Document No. 47212 on Certificate of Title 5746 are made part of this approval of the Edgartown Planning Board.

2. In accordance with the Edgartown Board of Health recommendations in letter to the Edgartown Planning Board dated January 29 2001:
   a. The study of the Crackatuxet Pond nitrogen loading limit, to which the Applicant will contribute $15,000, shall be coordinated with work on the sluiceway and the availability of the Martha's Vineyard Commission Water Resource Planner to assure that appropriate conditions exist in the field at the time of study.
   b. Inspection of all existing on-site septic disposal systems on the property shall be done by a Professional Engineer or Registered Sanitarian with submittal of inspection reports to the Board of Health no later than August 31, 2001.
   c. At the time that the RUCK CFT (communal system) is brought on-line, the existing individual on-site septic systems will be abandoned per Title 5 abandonment protocol with the approval of the Edgartown Board of Health

d. Quarterly effluent monitoring will be provided for all individual RUCK systems for those systems that are used year-round and on a modified schedule which provides sampling 4 times during each use period for those systems that are used seasonally. The parameters tested shall include, but not necessarily be limited to: pH, NH3, NO3, TKN, TSS, and BOD. Said monitoring reports must be submitted to the Board of Health as results become available and as an annual report, in January of each year, for the entire operating year as a compilation of the year's test results.

e. Any increases to the nitrogen allocation for farm uses will require the approval of the Edgartown Conservation Commission and the Edgartown Board of Health relative to nitrogen transfers from conservation land acquisitions within the Edgartown Great Pond Watershed.

f. Any nitrogen fertilizers, pesticides, herbicides or fungicides applied as part of any farm activity are subject to prior approval from the Edgartown Board of Health.

3. Conservation Restriction and Conservation Easements:

a. The terms and conditions of the final Conservation Restrictions and Conservation Easements ("Conservation Restrictions") which include by reference the Open Space Management Plan shall be acceptable to the Edgartown Conservation Commission.

b. The final Conservation Restrictions shall further the following primary purposes and standards:

i. The uses of the East Field shall be agricultural, farming or other conservation uses as may be approved by the Edgartown Conservation Commission

ii. Management plans for components of the open space (beach and dune, thicket, oak woodlands, fields, etc.) shall be developed in conjunction with the Edgartown Conservation Commission and incorporated into the final Conservation Restrictions

iii. The growth to be fostered in the central field (hay, meadow grass, etc.) shall be better defined in the final Conservation Restrictions and agriculture and/or farming shall be encouraged consistent with measures contained in the MVC decision to protect the Edgartown Great Pond and the Crackatuxet Cove.

4. Landscape Design of Lots 6,7,8 and 9: In accordance with the Applicant's offer, the landsc[illegible] these lots facing Slough Cove will be augmented with a combination of trees and shrubs to further screen views to new homes from the Great Pond and Slough Cove. To this end:

a. The Applicant will provide a budget of $25,000 per lot ($100,000 for combined lots 6-9 inclusive) for this screening landscaping.

b. At such time that Lots 6-9 commence to be improved, the budget above will be used to pay for trees and shrubs as follows:

i. a minimum of twenty trees of 5" to 6" caliper

ii. trees to be 14' to 20' when planted, in a mixture of heights

iii. the Edgartown Conservation may add to this number and size on site

iv. all trees and shrubs so planted must be maintained in perpetuity by the owners of the lots

c. The budget above will also be used to pay for temporary irrigation for the plant establishment period.

d. Final design of the planting for the lots will be reviewed and approved by the Edgartown Conservation Commission, with field verification, prior to the planting.

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5.. Site Lighting: Unless specifically approved by the Edgartown Conservation Commission, exterior lighting shall be limited to (a) the minimum fixtures required by the MA Building Code for building entrances and doors, such fixtures to have a light-source intensity no greater than a 60-watt incandescent bulb and to use a "cut-off" fixture which will shield the light when viewed from above or the side, (b) exterior lighting of walkways, ground level patios and /or decks and paths, each to be no higher than 8" above ground level, (c) in-ground swimming pool lighting, and (d) exterior lighting prompted by security or safety related concerns.

6. Road Construction:

a. All roadways within the subdivision will be finished to a 10 feet traveled width with three foot shoulders and constructed in accordance with the Edgartown Subdivision Regulations Section VA-3 "Unpaved Road Base - Cross Section, K.A. Healy" dated February 21, 1984 with the exception that the roadway, or traveled width, be a total of ten feet wide.

b. Roadways will be unpaved

c. At least one turnout will provided where horizontal site distance is less than 200 feet or at the discretion of the Planning Board.

7. Utilities
   a. All lots to be served by Town water, to be installed underground in the roadway shoulders.
   b. Electricity, and telecommunications utilities to be installed underground in the roadway shoulders
   c. Sewer pipes will be constructed beneath the roadways, or traveled way of the roads, within the subdivision.

8. Road and Utility Maintenance: Prior to endorsement of the Plan, documents establishing the Homeowners' Trust, being the Declaration of Trust for the Homeowners' Trust and the Declaration of Covenants, Restrictions and Easements, will be prepared for recording simultaneously with the Plan. The Homeowners Trust will be responsible for the on-going maintenance of the roads and utilities.

9. Farmstead Lot and Buildings: The Homeowners' Trust documents shall provide in terms and conditions satisfactory to the Planning Board and the Applicant that the Trust will:
   a. retain the existing farm buildings for farm uses
   b. maintain the existing farm buildings in substantially their present condition
   c. retain the exterior appearance of the farm buildings in substantially their present appearance..
   d. build and maintain any affordable unit apartments which may be built on the farmstead lot under Section 12 of this approval in compliance with all applicable MA building codes.

10. Public Vistas:
   a. Above ground structures of the RUCK CTF (combined system) shall be limited to venting pipes, all of which will be located within the existing vegetation and hedge row and fence line along Slough Cove Road so as to screen the vent pipes from public view from Slough Cove Road.
   b. All other structures of the RUCK CFT shall be located underground.
   c. The building envelopes of Lots 21, 22, 28, and 29 are modified as illustrated in the plan entitled "Central Field View Study, Sasaki," dated Nov. 5, 2000, to allow a view corridor from Slough Cove Road into the central field.
   d. There shall be a selective pruning of the existing vegetation for 400 feet on either side of the existing white entrance gate, to allow for public vista from Slough Cove Road.

11. Sluiceway: In accordance with the Applicant's offer:
   a. Prior to endorsement of the Plan, the Applicant shall execute and record a perpetual easement in favor of the Town of Edgartown which:
      i. permits the Town to enter upon the Herring Creek Farm in order to inspect, restore and maintain the sluiceway (the "sluiceway" to encompass the existing wooden sluiceway, gate, and the channel to be re-excavated running from the Edgartown Great Pond to Crackatuxet Cove), and
      ii. assures that the Town incurs no unusual liability (for example, for pre-existing hazardous materials) during inspection, restoration or maintenance of the sluiceway
   b.. Prior to endorsement of the Plan, the Applicant shall execute and record a covenant to be binding upon all successors in title to Herring Creek Farm Trust setting forth Applicant's agreement to cooperate with the Town of Edgartown in its undertaking to restore the sluiceway on Herring Creek Farm, as defined in 11.a.i above. The covenant shall provide that the Applicant shall cooperate in:
      i. the permitting with respect to such restoration
      ii. the actual restoration itself
      iii. the long-term year in and year out maintenance by the Town of the sluiceway
      iv. ensuring that the Town incurs no unusual liability during restoration or maintenance of the sluiceway
   d. The Applicant's offer is accepted to contribute to the Town of Edgartown Dredge/Gift Account the cost of obtaining all permits necessary to enable restoration of the sluiceway, to a "cap" of $30,000.
   e. The Applicant's offer is accepted to contribute $100,000 to the Town of Edgartown Dredge/Gift Account, with the understanding that the Town will use it for the construction and renovation of the sluiceway and that should there be a sum remaining, remainder will be used in the renovation of the Herring Creek from Crackatuxet Cove to Katama Bay.

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12. The Applicant's offer is accepted to provide opportunities for affordable housing as follows:
a. before the first building permit is issued within the subdivision, or before the sale or transfer of any land within the subdivision, whichever is first, the Applicant (or its successor) will provide to the Dukes County Regional Housing Authority either:
   i. One on-site buildable lot of three acres, or
   ii. One off-site buildable lot of three acres, or
   iii. A combination of buildable lots off-site which total three acres

b. before the eleventh building permit is issued, the Applicant (or its successors) will construct two on-site apartments, subject to the following:
   i. each apartment shall have at least two bedrooms, constructed to State building codes and approved by the Edgartown Building Inspector
   ii. the apartments shall be owned and maintained in perpetuity by the Applicant (or its successors)
   iii. the apartments shall be rented through the guidelines of, and under the control of, the Dukes County Regional Housing Authority

d. documents to assure b. and c. above shall be recorded with the County of Dukes County Registry.

13. Katama Airfield: The Declaration of Covenants, Restrictions, and Easements will contain a notice that close proximity to Katama Airfield and the existence of low-flying aircraft may produce noise within any or all lots within the subdivision.

14. The Planning Board will review house plans and house siting plans including driveways before building permits are issued.

15. Any "Beach Club", parking areas, or related facilities, are prohibited.

16. Prior to endorsement of the Plan, the Applicant shall provide a performance guarantee, in the form of a covenant duly executed and approved; the form of this performance guarantee may be modified by the Applicant (or its successors) subject to agreement on the adequacy and amount of said guarantee by the Planning Board.

Michael T. Donaroma

N Rankow

Alan O. Wilson

K L Smithmith III

EDGARTOWN PLANNING BOARD

Edgartown, Mass
Town Clerk's Office
Feb 15 2001
Rec'd For Record
AT 2 H 26 M P.M.

A true copy, attest

Clerk, Edgartown Planning Board

Telephone (508) 627-6170
Fax (508) 627-6128

Town of Edgartown
The Planning Board
P.O. Box 1065
Edgartown, Massachusetts 02539

Edgartown, Mass
Town Clerk's Office
Feb 15 2001
Rec'd For Record
AT 2 H29M P M

HERRING CREEK FARM TRUST
SPECIAL PERMIT DECISION
CLUSTER SUBDIVISION

It is hereby certified by the Planning Board of the Town of Edgartown, Massachusetts, that at a duly called and properly posted meeting of the Planning Board, held on January 30, 2001, Planning Board members Michael Donaroma, Norman Rankow, Kenneth Southworth, and Alan Wilson voted to approve the application of Herring Creek Farm Trust for a special permit in accordance with Edgartown Zoning Bylaws Article XII to allow division of land as a cluster development as shown on the definitive subdivision plan entitled: Herring Creek Farm, Edgartown, Massachusetts, by Sasaki Associates, Inc., 64 Pleasant Street, Watertown, MA 02172, Project No. 71800 and Schofield, Barbini & Hoehn, Inc., 97 State Road, Vineyard Haven, MA 02568, which plan is in several parts ("the Plan") being subtitled:

- o C1-1 Existing Conditions, 4/15/99
- o C2-1 Lotting And Development Envelope Plan 4/15/99
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- o Flood Zone Overlay, Lotting and Development Envelope Plan, 2/17/00
- o Proposed Open Space Plan, January 2000
- o Existing Vegetation and Wetlands, January 2000
- o RUCK CFT System Layout Plan System #1, sheets dated March 1, 2000 and numbered C8-1, C8-2, C8-3, C8-4, C10-1, C10-2, C10-3, C10-4, C10-5, C10-6, and dated May 16, 200 numbered C10-7, and C10-8, consisting of twelve (12)sheets
- o RUCK CFT System Layout Plan, System #2, sheets dated March 1, 2000 and numbered C11-1, C11-2, C11-3, C11-4, C11-5, C12-1, C12-2, C12-3, C12-4, C12-5, C12-6, and dated May 16, 200 numbered C12-7, and C12-8, consisting of thirteen (13) sheets
- o Definitive Subdivision, sheets dated July 23, 1999 and numbered C1-1, C2-1, C3-1, C3-1 through C3-4, C4-1 through C4-5, C5-1 through C5-4, C6-1 through C6-4, C7-1 through C7-4, C8-1 through C8-5, C9-1 through C9-8, C10-1 through C10-5, and C11-1

and as proposed in the application dated December 12, 2000, concerning property located on Slough Cove Road to be divided into thirty-three lots and two open-space parcels, submitted by Herring Creek Farm Trust, owner ("Applicant").

The special permit was so voted subject to the following conditions:

1. The conditions set forth in the Decision of the Martha's Vineyard Commission (MVC) dated November 20, 2000 concerning the application of Herring Creek Farm Trust and filed at the County of Dukes County Registry District of the Land Court on December 5, 2000 and noted as Document No. 47212 on Certificate of Title 5746 are made part of this approval of the Edgartown Planning Board.

2. In accordance with the Edgartown Board of Health recommendations in letter to the Edgartown Planning Board dated January 29 2001:
   a. The study of the Crackatuxet Pond nitrogen loading limit, to which the Applicant will contribute $15,000, shall be coordinated with work on the sluiceway and the availability of the Martha's Vineyard Commission Water Resource Planner to assure that appropriate conditions exist in the field at the time of study.
   b. Inspection of all existing on-site septic disposal systems on the property shall be done by a Professional Engineer or Registered Sanitarian with submittal of inspection reports to the Board of Health no later than August 31, 2001.
   c. At the time that the RUCK CFT (communal system) is brought on-line, the existing individual on-site septic systems will be abandoned per Title 5 abandonment protocol with the approval

d. Quarterly effluent monitoring will be provided for all individual RUCK systems for those systems that are used year-round and on a modified schedule which provides sampling 4 times during each use period for those systems that are used seasonally. The parameters tested shall include, but not necessarily be limited to: pH, NH3, NO3, TKN, TSS, and BOD. Said monitoring reports must be submitted to the Board of Health as results become available and as an annual report, in January of each year, for the entire operating year as a compilation of the year's test results.
e. Any increases to the nitrogen allocation for farm uses will require the approval of the Edgartown Conservation Commission and the Edgartown Board of Health relative to nitrogen transfers from conservation land acquisitions within the Edgartown Great Pond Watershed.
f. Any nitrogen fertilizers, pesticides, herbicides or fungicides applied as part of any farm activity are subject to prior approval from the Edgartown Board of Health.

3. Conservation Restriction and Conservation Easements:
a. The terms and conditions of the final Conservation Restrictions and Conservation Easements ("Conservation Restrictions") which include by reference the Open Space Management Plan shall be acceptable to the Edgartown Conservation Commission.
b. The final Conservation Restrictions shall further the following primary purposes and standards:
   i. The uses of the East Field shall be agricultural, farming or other conservation uses as may be approved by the Edgartown Conservation Commission
   ii. Management plans for components of the open space (beach and dune, thicket, oak woodlands, fields, etc.) shall be developed in conjunction with the Edgartown Conservation Commission and Incorporated into the final Conservation Restrictions
   iii. The growth to be fostered in the central field (hay, meadow grass, etc.) shall be better defined in the final Conservation Restrictions and agriculture and/or farming shall be encouraged consistent with measures contained in the MVC decision to protect the Edgartown Great Pond and the Crackatuxet Cove.

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4. Landscape Design of Lots 6,7,8 and 9: In accordance with the Applicant's offer, the landscape of these lots facing Slough Cove will be augmented with a combination of trees and shrubs to further screen views to new homes from the Great Pond and Slough Cove. To this end:
a. The Applicant will provide a budget of $25,000 per lot ($100,000 for combined lots 6-9 inclusive) for this screening landscaping.
b. At such time that Lots 6-9 commence to be improved, the budget above will be used to pay for trees and shrubs as follows:
   i. a minimum of twenty trees of 5" to 6" caliper
   ii. trees to be 14' to 20' when planted, in a mixture of heights
   iii. the Edgartown Conservation may add to this number and size on site
   iv. all trees and shrubs so planted must be maintained in perpetuity by the owners of the lots
c. The budget above will also be used to pay for temporary irrigation for the plant establishment period.
d. Final design of the planting for the lots will be reviewed and approved by the Edgartown Conservation Commission, with field verification, prior to the planting.

5. Site Lighting: Unless specifically approved by the Edgartown Conservation Commission, exterior lighting shall be limited to (a) the minimum fixtures required by the MA Building Code for building entrances and doors, such fixtures to have a light source intensity no greater than a 60-watt incandescent bulb and to use a "cut-off" fixture which will shield the light when viewed from above or the side, (b) exterior lighting of walkways, ground level patios and /or decks and paths, each to be no higher than 8" above ground level, (c) in-ground swimming pool lighting, and (d) exterior lighting prompted by security or safety related concerns.

6. Road Construction:
a. All roadways within the subdivision will be finished to a 10 feet traveled width with three foot shoulders and constructed in accordance with the Edgartown Subdivision Regulations Section VA-3 "Unpaved Road Base - Cross Section, K.A. Healy" dated February 21, 1984 with the exception that the roadway, or traveled width, be a total of ten feet wide.
b. Roadways will be unpaved
c. At least one turnout will provided where horizontal site distance is less than 200 feet or at the discretion of the Planning Board.

7. Utilities
   a. All lots to be served by Town water, to be installed underground in the roadway shoulders.
   b. Electricity, and telecommunications utilities to be installed underground in the roadway shoulders
   c. Sewer pipes will be constructed beneath the roadways, or traveled way of the roads, within the subdivision.

8. Road and Utility Maintenance: Prior to endorsement of the Plan, documents establishing the Homeowners' Trust, being the Declaration of Trust for the Homeowners' Trust and the Declaration of Covenants, Restrictions and Easements, will be prepared for recording simultaneously with the Plan. The Homeowners Trust will be responsible for the on-going maintenance of the roads and utilities.

9. Farmstead Lot and Buildings: The Homeowners' Trust documents shall provide in terms and conditions satisfactory to the Planning Board and the Applicant that the Trust will:
   a. retain the existing farm buildings for farm uses
   b. maintain the existing farm buildings in substantially their present condition
   c. retain the exterior appearance of the farm buildings in substantially their present appearance..
   d. build and maintain any affordable unit apartments which may be built on the farmstead lot under Section 12 of this approval in compliance with all applicable MA building codes.

10. Public Vistas:
   a. Above ground structures of the RUCK CTF (combined system) shall be limited to venting pipes, all of which will be located within the existing vegetation and hedge row and fence line along Slough Cove Road so as to screen the vent pipes from public view from Slough Cove Road.
   b. All other structures of the RUCK CFT shall be located underground.
   c. The building envelopes of Lots 21, 22, 28, and 29 are modified as illustrated in the plan entitled "Central Field View Study, Sasaki," dated Nov. 6, 2000, to allow a view corridor from Slough Cove Road into the central field.
   d. There shall be a selective pruning of the existing vegetation for 400 feet on either side of the existing white entrance gate, to allow for public vista from Slough Cove Road.

11. Sluiceway: In accordance with the Applicant's offer:
   a. Prior to endorsement of the Plan, the Applicant shall execute and record a perpetual easement in favor of the Town of Edgartown which:
      i. permits the Town to enter upon the Herring Creek Farm in order to inspect, restore and maintain the sluiceway (the "sluiceway" to encompass the existing wooden sluiceway gate and the channel to be re-excavated running from the Edgartown Great Pond to Crackatuxet Cove), and
      ii. assures that the Town incurs no unusual liability (for example, for pre-existing hazardous materials) during inspection, restoration or maintenance of the sluiceway

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   b.. Prior to endorsement of the Plan, the Applicant shall execute and record a covenant to be binding upon all successors in title to Herring Creek Farm Trust setting forth Applicant's agreement to cooperate with the Town of Edgartown in its undertaking to restore the sluiceway on Herring Creek Farm, as defined in 11.a.i above. The covenant shall provide that the Applicant shall cooperate in:
      i. the permitting with respect to such restoration
      ii. the actual restoration itself
      iii. the long-term year in and year out maintenance by the Town of the sluiceway
      iv. ensuring that the Town incurs no unusual liability during restoration or maintenance of the sluiceway
   d. The Applicant's offer is accepted to contribute to the Town of Edgartown Dredge/Gift Account the cost of obtaining all permits necessary to enable restoration of the sluiceway, to a "cap" of $30,000.
   e. The Applicant's offer is accepted to contribute $100,000 to the Town of Edgartown Dredge/Gift Account, with the understanding that the Town will use it for the construction and renovation of the sluiceway and that should there be a sum remaining, remainder will be used in the renovation of the Herring Creek from Crackatuxet Cove to Katama Bay.

12. The Applicant's offer is accepted to provide opportunities for affordable housing as follows:
    a. Before the first building permit is issued within the subdivision, or before the sale or transfer of any land within the subdivision, whichever is first, the Applicant (or its successor) will provide to the Dukes County Regional Housing Authority either:
        i. One on-site buildable lot of three acres, or
        ii. One off-site buildable lot of three acres, or
        iii. A combination of buildable lots off-site which total three acres

    b. before the eleventh building permit is issued, the Applicant (or its successors) will construct two on-site apartments, subject to the following:
        i. each apartment shall have at least two bedrooms, constructed to State building codes and approved by the Edgartown Building Inspector
        ii. the apartments shall be owned and maintained in perpetuity by the Applicant (or its successors)
        iii. the apartments shall be rented through the guidelines of, and under the control of, the Dukes County Regional Housing Authority
    d. documents to assure b. and c. above shall be recorded with the County of Dukes County Registry.

13. Katama Airfield: The Declaration of Covenants, Restrictions, and Easements will contain a notice that close proximity to Katama Airfield and the existence of low-flying aircraft may produce noise within any or all lots within the subdivision.

14. The Planning Board will review house plans and house siting plans including driveways before building permits are issued.

15. Any "Beach Club", parking areas, or related facilities, are prohibited.

The proceedings of the Planning Board were conducted in accordance with the provisions of MGL Ch. 40A, the Zoning Act. A detailed record of these proceedings is on file with the Edgartown Town Clerk and the Edgartown Planning Board. Persons aggrieved by this decision may appeal it in accordance with MGL Ch. 40A Sec. 17 by filing notice of such appeal with the Town Clerk within 20 days of the filing of this decision with the Town Clerk!

Edgartown, Mass
Town Clerk's Office
Feb 15 2001
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AT 2 H 29 M P M

EDGARTOWN PLANNING BOARD

A true copy, attest:

Clerk, Edgartown Planning Board

Telephone (508) 627-6170
Fax (508) 627-6123

Town of Edgartown
The Planning Board
P.O. Box 1065
Edgartown, Massachusetts 02539

Edgartown, Mass
Town Clerk's Office
Feb 15 2001
Rec'd For Record
AT 2 H28 M P M

HERRING CREEK FARM TRUST
SPECIAL PERMIT DECISION
SUBDIVISION GREATER THAN TEN LOTS

It is hereby certified by the Planning Board of the Town of Edgartown, Massachusetts, that at a duly called and properly posted meeting of the Planning Board, held on January 30, 2001, Planning Board members Michael Donaroma, Norman Rankow, Kenneth Southworth, and Alan Wilson voted to approve the application of Herring Creek Farm Trust for a special permit in accordance with Edgartown Zoning Bylaws Article XI.1 to allow division of land creating more than ten lots as shown on the definitive subdivision plan entitled: Herring Creek Farm, Edgartown, Massachusetts, by Sasaki Associates, Inc., 64 Pleasant Street, Watertown, MA 02172, Project No. 71800 and Schofield, Barbini & Hoehn, Inc., 97 State Road, Vineyard Haven, MA 02568, which plan is in several parts ("the Plan") being subtitled:

- C1-1 Existing Conditions, 4/15/99
- C2-1 Lotting And Development Envelope Plan 4/15/99
- C3-1 Illustrative Master Plan 4/15/99
- Flood Zone Overlay, Lotting and Development Envelope Plan, 2/17/00
- Proposed Open Space Plan, January 2000
- Existing Vegetation and Wetlands, January 2000
- RUCK CFT System Layout Plan System #1, sheets dated March 1, 2000 and numbered C9-1, C8-2, C8-3, C8-4, C10-1, C10-2, C10-3, C10-4, C10-5, C10-6, and dated May 16, 200 numbered C10-7, and C10-8, consisting of twelve (12)sheets
- RUCK CFT System Layout Plan, System #2, sheets dated March 1, 2000 and numbered C11-1, C11-2, C11-3, C11-4, C11-5, C12-1, C12-2, C12-3, C12-4, C12-5, C12-6, and dated May 16, 200 numbered C12-7, and C12-8, consisting of thirteen (13) sheets
- Definitive Subdivision, sheets dated July 23, 1999 and numbered C1-1, C2-1, C3-1, C3-1 through C3-4, C4-1 through C4-5, C5-1 through C5-4, C6-1 through C6-4, C7-1 through C7-4, C8-1 through C8-5, C9-1 through C9-8, C10-1 through C10-5, and C11-1

and as proposed in the application dated December 12, 2000, concerning property located on Slough Cove Road to be divided into thirty-three lots and two open-space parcels, submitted by Herring Creek Farm Trust, owner ("Applicant").

The special permit was so voted subject to the following conditions:

1. The conditions set forth in the Decision of the Martha's Vineyard Commission (MVC) dated November 20, 2000 concerning the application of Herring Creek Farm Trust and filed at the County of Dukes County Registry District of the Land Court on December 5, 2000 and noted as Document No. 47212 on Certificate of Title 5746 are made part of this approval of the Edgartown Planning Board.

2. In accordance with the Edgartown Board of Health recommendations in letter to the Edgartown Planning Board dated January 29 2001:
   a. The study of the Crackatuxet Pond nitrogen loading limit, to which the Applicant will contribute $15,000,shall be coordinated with work on the sluiceway and the availability of the Martha's Vineyard Commission Water Resource Planner to assure that appropriate conditions exist in the field at the time of study.
   b. Inspection of all existing on-site septic disposal systems on the property shall be done by a Professional Engineer or Registered Sanitarian with submittal of inspection reports to the Board of Health no later than August 31, 2001.
   c. At the time that the RUCK CFT (communal system) is brought on-line, the existing individual on-site septic systems will be abandoned per Title 5 abandonment protocol with the approval of the Edgatown Board of Health

d. Quarterly effluent monitoring will be provided for all Individual RUCK systems for those systems that are used year-round and on a modified schedule which provides sampling 4 times during each use period for those systems that are used seasonally. The parameters tested shall include, but not necessarily be limited to: pH, NH3, NO3, TKN, TSS, and BOD. Said monitoring reports must be submitted to the Board of Health as results become available and as an annual report, in January of each year, for the entire operating year as a compilation of the year's test results.

e. Any increases to the nitrogen allocation for farm uses will require the approval of the Edgartown Conservation Commission and the Edgartown Board of Health relative to nitrogen transfers from conservation land acquisitions within the Edgartown Great Pond Watershed.

f. Any nitrogen fertilizers, pesticides, herbicides or fungicides applied as part of any farm activity are subject to prior approval from the Edgartown Board of Health.

3. Conservation Restriction and Conservation Easements:

a. The terms and conditions of the final Conservation Restrictions and Conservation Easements ("Conservation Restrictions") which include by reference the Open Space Management Plan shall be acceptable to the Edgartown Conservation Commission.

b. The final Conservation Restrictions shall further the following primary purposes and standards:

i. The uses of the East Field shall be agricultural, farming or other conservation uses as may be approved by the Edgartown Conservation Commission

ii. Management plans for components of the open space (beach and dune, thicket, oak woodlands, fields, etc.) shall be developed in conjunction with the Edgartown Conservation Commission and incorporated into the final Conservation Restrictions

iii. The growth to be fostered in the central field (hay, meadow grass, etc.) shall be better defined in the final Conservation Restrictions and agriculture and/or farming shall be encouraged consistent with measures contained in the MVC decision to protect the Edgartown Great Pond and the Crackatuxet Cove.

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4. Landscape Design of Lots 6,7,8 and 9: In accordance with the Applicant's offer, the landscape of these lots facing Slough Cove will be augmented with a combination of trees and shrubs to further screen views to new homes from the Great Pond and Slough Cove. To this end:

a. The Applicant will provide a budget of $25,000 per lot ($100,000 for combined lots 6-9 inclusive) for this screening landscaping.

b. At such time that Lots 6-9 commence to be improved, the budget above will be used to pay for trees and shrubs as follows:

i. a minimum of twenty trees of 5" to 6" caliper

ii. trees to be 14' to 20' when planted, in a mixture of heights

iii. the Edgartown Conservation may add to this number and size on site

iv. all trees and shrubs so planted must be maintained in perpetuity by the owners of the lots

c. The budget above will also be used to pay for temporary irrigation for the plant establishment period.

d. Final design of the planting for the lots will be reviewed and approved by the Edgartown Conservation Commission, with field verification, prior to the planting.

5.. Site Lighting: Unless specifically approved by the Edgartown Conservation Commission, exterior lighting shall be limited to (a) the minimum fixtures required by the MA Building Code for building entrances and doors, such fixtures to have a light source intensity no greater than a 60-watt incandescent bulb and to use a "cut-off" fixture which will shield the light when viewed from above or the side, (b) exterior lighting of walkways, ground level patios and /or decks and paths, each to be no higher than 8" above ground level, (c) in-ground swimming pool lighting, and (d) exterior lighting prompted by security or safety related concerns.

6. Road Construction:

a. All roadways within the subdivision will be finished to a 10 feet traveled width with three foot shoulders and constructed in accordance with the Edgartown Subdivision Regulations Section VA-3 "Unpaved Road Base - Cross Section, K.A. Healy" dated February 21, 1984 with the exception that the roadway, or traveled width, be a total of ten feet wide.

b. Roadways will be unpaved

c. Atleast one turnout will provided where horizontal site distance is less than 200 feet or at the discretion of the Planning Board.

7. Utilities
   a. All lots to be served by Town water, to be installed underground in the roadway shoulders.
   b. Electricity, and telecommunications utilities to be installed underground in the roadway shoulders
   c. Sewer pipes will be constructed beneath the roadways, or traveled way of the roads, within the subdivision.

8. Road and Utility Maintenance: Prior to endorsement of the Plan, documents establishing the Homeowners Trust', being the Declaration of Trust for the Homeowners' Trust and the Declaration of Covenants, Restrictions and Easements, will be prepared for recording simultaneously with the Plan. The Homeowners Trust will be responsible for the on-going maintenance of the roads and utilities.

9. Farmstead Lot and Buildings: The Homeowners' Trust documents shall provide in terms and conditions satisfactory to the Planning Board and the applicant that the Trust will:
   a. retain the existing farm buildings for farm uses
   b. maintain the existing farm buildings in substantially their present condition
   c. retain the exterior appearance of the farm buildings in substantially their present appearance..
   d. build and maintain any affordable unit apartments which may be built on the farmstead lot under Section 12 of this approval in compliance with all applicable MA building codes.

10. Public Vistas:
   a. Above ground structures of the RUCK CTF (combined system) shall be limited to venting pipes, all of which will be located within the existing vegetation and hedge row and fence line along Slough Cove Road so as to screen the vent pipes from public view from Slough Cove Road.
   b. All other structures of the RUCK CFT shall be located underground.
   c. The building envelopes of Lots 21, 22, 28, and 29 are modified as illustrated in the plan entitled "Central Field View Study, Sasaki," dated Nov. 5, 2000, to allow a view corridor from Slough Cove Road into the central field.
   d. There shall be a selective pruning of the existing vegetation for 400 feet on either side of the existing white entrance gate, to allow for public vista from Slough Cove Road.

11. Sluiceway: In accordance with the Applicant's offer:
   a. Prior to endorsement of the Plan, the Applicant shall execute and record a perpetual easement in favor of the Town of Edgartown which:
      i. permits the Town to enter upon the Herring Creek Farm in order to inspect, restore and maintain the sluiceway (the "sluiceway" to encompass the existing wooden sluiceway gate and the channel to be re-excavated running from the Edgartown Great Pond to Crackatuxet Cove), and
      ii. assures that the Town incurs no unusual liability (for example, for pre-existing hazardous materials) during inspection, restoration or maintenance of the sluiceway
   b.. Prior to endorsement of the Plan, the Applicant shall execute and record a covenant to be binding upon all successors in title to Herring Creek Farm Trust setting forth Applicant's agreement to cooperate with the Town of Edgartown in its undertaking to restore the sluiceway on Herring Creek Farm, as defined in 10.a.i above. The covenant shall provide that the Applicant shall cooperate in:
      i. the permitting with respect to such restoration
      ii. the actual restoration itself
      iii. the long-term year in and year out maintenance by the Town of the sluiceway
      iv. ensuring that the Town incurs no unusual liability during restoration or maintenance of the sluiceway
   d. The Applicant's offer is accepted to contribute to the Town of Edgartown Dredge/Gift Account the cost of obtaining all permits necessary to enable restoration of the sluiceway, to a "cap" of $30,000.
   e. The Applicant's offer is accepted to contribute $100,000 to the Town of Edgartown Dredge/Gift Account with the understanding that the Town will use it for the construction and renovation of the sluiceway and that should there be a sum remaining, remainder will be used in the renovation of the Herring Creek from Crackatuxet Cove to Katama Bay.

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12. The Applicant's offer is accepted to provide opportunities for affordable housing as follows:
   a. Before the first building permit is issued within the subdivision, or before the sale or transfer of any land within the subdivision, whichever is first, the Applicant (or its successor) will provide to the Dukes County Regional Housing Authority either:
      i. One on-site buildable lot of three acres, or
      ii. One off-site buildable lot of three acres, or
      iii. A combination of buildable lots off-site which total three acres

   b. Before the eleventh building permit is issued, the Applicant (or its successors) will construct two on-site apartments, subject to the following:
      i. each apartment shall have at least two bedrooms, constructed to State building codes and approved by the Edgartown Building Inspector
      ii. the apartments shall be owned and maintained in perpetuity by the Applicant (or its successors)
      iii. the apartments shall be rented through the guidelines of, and under the control of, the Dukes County Regional Housing Authority
   d. documents to assure b. and c. above shall be recorded with the County of Dukes County Registry.

13. Katama Airfield: The Declaration of Covenants, Restrictions, and Easements will contain a notice that close proximity to Katama Airfield and the existence of low-flying aircraft may produce noise within any or all lots within the subdivision.

14. The Planning Board will review house plans and house siting plans including driveways before building permits are issued.

15. Any "Beach Club", parking areas, or related facilities, are prohibited.

The proceedings of the Planning Board were conducted in accordance with the provisions of MGL Ch. 40A, the Zoning Act. A detailed record of these proceedings is on file with the Edgartown Town Clerk and the Edgartown Planning Board. Persons aggrieved by this decision may appeal it in accordance with MGL Ch. 40A Sec. 17 by filing notice of such appeal with the Town Clerk within 20 days of the filing of this decision with the Town Clerk.

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EDGARTOWN PLANNING BOARD

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Clerk, Edgartown Planning Board
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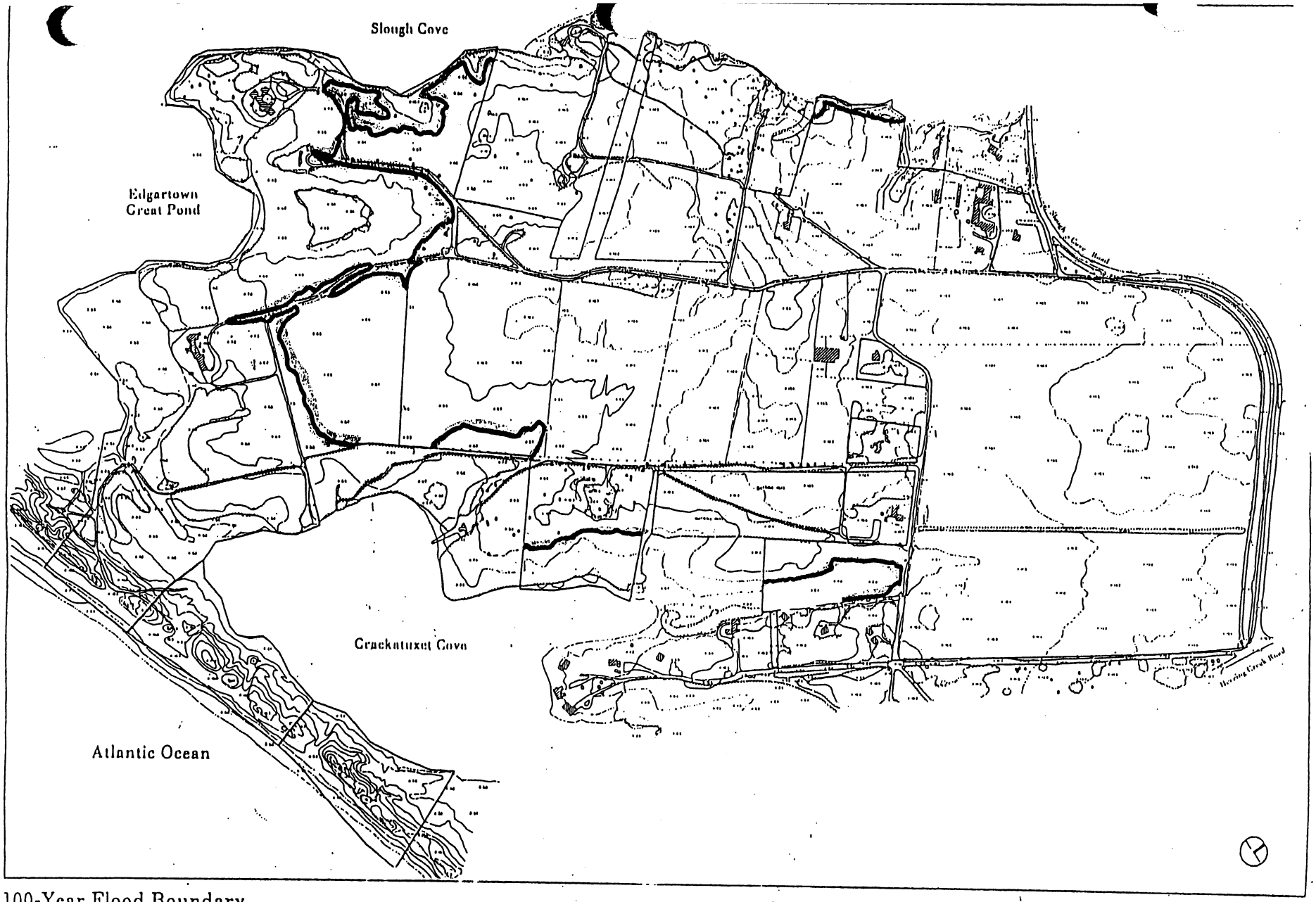
100-YEAR FLOOD BOUNDARY



100-Year Flood Boundary

100 Year Flood Boundary

Ref. FEMA Designation-Flood Insurance Rate Map-Panel 5 of 6 as revised to March 18, 1985

ECONOMIC & HOUSING PRICE STATISTICS FOR THE END OF 2000

Massachusetts Association of REALTORS®

The Voice for Real Estate in Massachusetts

NEWS RELEASE

250 Second Avenue, Waltham, MA 02154 Telephone (781) 890-3700 E-Mail: massrealtor@marealtors.com

SINGLE-FAMILY HOME SALES SLIP IN BAY STATE

DURING THIRD QUARTER AS DEMAND SOFTENS

(Waltham, MA.) – The pace of single-family home sales continued to moderate across Massachusetts during the summer of 2000, according to data issued today by the Massachusetts Association of Realtors® (MAR). Fluctuations in the financial markets, growing reluctance on the part of consumers to take on additional debt, and rising interest rates late in the spring all factored into softened demand for residential real estate. Sales of detached single-family homes declined 9.8 percent in the third quarter, from 13,918 units in the July-September period a year ago to 12,554 in the same period in 2000. Also, condominium sales fell 3.4 percent, from 3,832 units in the third quarter of 1999 to 3,702 in the comparable period this year.

The decrease in sales over the three-month summer season marks the fifth consecutive quarter in which detached single-family home sales have declined from the same period one year earlier. Meanwhile condominium sales have fallen for the last three quarters across Massachusetts. Historically, however, sales in the third quarter of 2000 remained quite high, with the 16,256 residential sales recorded this year ranking fourth all-time, exceeded only by the third quarters of 1997-99.

"Previously, over the past three years, we've satisfied a record level of buyer demand, so the current level of activity now marks a return to a more normal market," stated MAR President Fred Meyer. "In most regions, we continue to see a fairly steady flow of traffic, especially from high-end buyers and first-time buyers looking for relief from today's escalating rents. However, some buyers are also being more cautious as they enter the market, not wanting to overextend themselves."

Regionally, in the third quarter, sales of detached single-family homes declined in all seven regions of the Bay State, with the most modest decreases occurring in the greater Boston and Northeast regions, where sales dropped 6.6 percent and 7.6 percent respectively from the same period in 1999. Elsewhere, sales fell 10-12 percent in the Central, West, and South Shore regions, and 15-16 percent on Cape Cod and in southeastern Massachusetts.

"Across the state, housing is drawing much of its strength from the healthy local economy. This is most evident in eastern Massachusetts where income and job growth are acting as catalysts to pull new buyers into the market," Meyer remarked. "The steady influx of out-of-state residents relocating to the Boston area for work, along with the region's growing immigrant population, are two elements helping to stabilize our market," he added.

While detached single-family home sales were down from year ago levels in every region of Massachusetts during the third quarter, sales of condominiums improved in several areas, the MAR report found. Condo sales rose modestly over last year in the Central (+0.5%), West (+6.5%) and

Southeast (+9.3%) regions, with slight declines reported in all other areas.

"First-time buyers are eager to get into the market, but their ability to save for a down payment has been hampered by the high rents they have had to pay and the recent slide in stock and mutual fund values," Meyer observed. "As a result, many are now turning to the less expensive condo market to buy their first home."

Meanwhile, trade-up buyers also are showing some hesitation at entering the market, with many expressing concern over assuming a new mortgage at a higher rate than they now hold. "When interest rates jumped over 8 ½ percent for a 30-year fixed loan in May, that caused many current homeowners to rethink their decision to move-up. Consequently, the trade-up market was less active than normal over the first half of the summer," Meyer said.

One positive result of the more tempered sales pace is the partial replenishment of market listings that has occurred since last year. In fact, after sharp inventory declines of 22 percent and 17 percent in the first and second quarters of 2000, the number of single-family homes for sale is now down just 9.1 percent from the third quarter of 1999 (30,569 vs. 33,646).

"The shift to a less frenetic sales pace should be good for buyers in the long run because it will take some pressure off prices. But, as of now, housing supply has not yet sufficiently increased to meet demand in most markets," Meyer said.

The MAR report confirms this observation, with statewide average selling prices up sharply across the residential market. Specifically, the statewide average selling price for detached single-family homes has increased 17.3 percent in the last year, from an average price of $256,407 in the third quarter last year to $300,730 in the same three-month period in 2000. Double-digit price gains also were reported in all but two regions – the Southeast and West – where average prices rose 0.2 percent and 2.5 percent respectively. Similarly, the statewide average selling price for condominiums climbed 16.4 percent this past year, from an average of $161,396 in the third quarter of 1999 to $187,912 in the comparable quarter this year. Again, most regions saw prices appreciate steadily in the summer quarter, but average selling prices decreased 1.6 percent in southeastern Massachusetts and 4.5 percent in the state's four western-most counties compared to the same period last year.

Along with a tight supply, today's higher average selling prices also reflect a significant increase in the sale of expensive luxury and second home properties throughout the state. Strikingly, the MAR data show sales of upper-end homes priced at or above $500,000 rose 41.3 percent in the third quarter of 2000 over the same period a year ago, while the sale of low- to moderately-priced single-family homes and condos of $300,000 or less declined 15.7 percent in the same period.

"This dichotomy clearly points out the need for more affordable starter homes that will open doors into housing for entry-level buyers," Meyer asserted. "The construction of smaller single- and multi-family homes is vital to keeping this market strong."

Sales and price data from the MAR report reflects transactions occurring through Realtor®-affiliated multiple listing services in the commonwealth, and account for at least 50 percent of all real estate sales in Massachusetts.

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DETACHED SINGLE FAMILY HOME SALES

AND AVERAGE SELLING PRICES

REGIONAL COMPARISONS FOR 3RD QUARTER OF 2000 vs 3RD QUARTER OF 1999

SALES

Region	1999	2000	Percentage Change
Cape Cod	1,040	876	- 15.8 %
Central	2,389	2,131	- 10.8 %
Greater Boston	3,660	3,419	- 6.6 %
Northeast	2,846	2,630	- 7.6 %
Southeast	631	527	- 16.5 %
South Shore	1,269	1,116	- 12.1 %
West	2,083	1,855	- 10.9 %
STATEWIDE	13,918	12,554	- 9.8 %

AVERAGE SELLING PRICES

Region	1999	2000	Percentage Change
Cape Cod	$240,306	$319,260	+ 32.9 %
Central	$192,496	$220,738	+ 14.7 %
Greater Boston	$369,418	$449,483	+ 21.7 %
Northeast	$271,961	$307,179	+ 12.9 %
Southeast	$170,702	$171,011	+ 0.2 %
South Shore	$249,795	$277,036	+ 10.9 %

West	$147,918	$151,664	+ 2.5 %
STATEWIDE	$256,407	$300,730	+ 17.3 %

CONDOMINIUM SALES AND AVERAGE SELLING PRICES

REGIONAL COMPARISONS FOR 3RD QUARTER OF 2000 vs 3RD QUARTER OF 1999

SALES

Region	1999	2000	Percentage Change
Cape Cod	179	171	- 4.5 %
Central	439	441	+ 0.5 %
Greater Boston	1,725	1,621	- 6.0 %
Northeast	931	913	- 1.9 %
Southeast	43	47	+ 9.3 %
South Shore	254	231	- 9.1 %
West	261	278	+ 6.5 %
STATEWIDE	3,832	3,702	- 3.4 %

AVERAGE SELLING PRICES

Region	1999	2000	Percentage Change
Cape Cod	$114,164	$161,304	+ 41.3 %
Central	$106,692	$119,499	+ 12.0 %
Greater Boston	$208,743	$251,754	+ 20.6 %
Northeast	$134,956	$151,587	+ 12.3 %

Southeast	$ 97,463	$ 95,892	- 1.6 %
South Shore	$129,971	$154,198	+ 18.6 %
West	$108,311	$103,420	- 4.5 %
STATEWIDE	$161,396	$187,912	+ 16.4 %

FEDERAL RESERVE BOARD BEIGE BOOK

August 8, 2001

Summary

Prepared at the Federal Reserve Bank of San Francisco based on information collected before July 30, 2001. This document summarizes comments received from businesses and other contacts outside of the Federal Reserve System and is not a commentary on the views of Federal Reserve officials.

Reports from most Federal Reserve Districts point to slow growth or lateral movement in economic activity in June and July. Retail sales generally were sluggish and frequently below expectations, despite substantial discounting on a wide range of consumer goods.
Manufacturing activity in nearly all sectors and regions declined further in recent months as producers adjusted to weak domestic and foreign demand and worked through accumulated inventories. Sustained weakness in the manufacturing sector spilled over to other businesses, with many Districts indicating declines in demand for office space and trucking and shipping services. In contrast, residential real estate markets remained stable and even expanded in some areas, with the relative strength of the sector attributed in part to lower mortgage interest rates.
Agricultural producers continued to struggle against low prices, weak exports, higher energy costs, and the weather, although some regions reported improvement in growing conditions since the last survey period.
Financial institutions across the country reported reduced demand for a wide variety of loans, tighter credit standards, and stable-to-deteriorating quality of existing loans and leases; residential mortgages were the notable exception to these trends.
Continued slow economic growth loosened labor markets and eased wage pressures in most Districts in June and July, but rising benefit costs continued to add to compensation costs. Prices for energy, fuel, and many material inputs fell in most regions. Falling input costs and stiff domestic and foreign competition kept prices of most consumer goods in check.

Consumer Spending

Retail sales generally remained weak in June and July, although there were scattered reports of a pickup in sales. Boston, Chicago, Cleveland, New York, Richmond, and San Francisco reported sales below expectations and well beneath comparable store sales for the same period last year. Atlanta, Dallas, Minneapolis, and St. Louis noted a slight pickup in sales since the last survey period, though sales were flat to down compared to last year. Kansas City and Philadelphia reported flat sales during the last survey period. The weakness in retail sales was broad-based across product lines and types of outlets. Within the sector, sales were strongest at large discount retailers, though many other retailers were offering discounts to promote sales. Auto sales apparently fared better than other areas of consumer spending in some Districts. Districts attributed the better-than-expected sales in part to manufacturer incentives and lower financing charges.
Districts reporting on inventories at retail outlets indicated that most

businesses were able to keep stocks in balance. Still, there were scattered reports of retailers canceling orders or asking manufacturers to warehouse deliveries until existing inventories are cleared. Contacts noted that orders for back-to-school and Christmas merchandise were running lower than last year in anticipation of slower sales.

Services and Tourism

Districts reporting on the services sector indicated continued weak demand in June and July. In Dallas, Cleveland, and San Francisco, demand for business services, including advertising, computing and data processing services, and temporary employment agencies, was stagnant or declining in recent months, resulting in employment reductions in some areas. In Cleveland and Dallas, transportation and shipping activity declined further in June and July, as businesses continued to reduce orders in an effort to control inventories. Accounting, insurance, and legal firms also saw demand soften in some Districts, prompting more rigorous monitoring of payroll costs and other expenses. Dallas noted a pickup in demand for legal services related in part to energy market developments and increased bankruptcy filings.

Layoffs and slower economic growth reportedly damped tourism in many parts of the country. Many Districts noted that airline bookings, hotel occupancies, and hotel room rates fell in recent months. However, hotels principally struggled with a decline in business travel as companies worked to cut costs in light of slower earnings growth.

Manufacturing

Manufacturing activity declined further in recent weeks, as producers responded to ongoing weakness in demand and worked to balance inventories. Reports of reduced work hours, lost overtime, forced furloughs, planned shutdowns, and layoffs were pervasive. Nearly every District reported that new orders and shipments for durable and non-durable manufactured products remained sluggish during the recent survey period, with declines recorded for producers in some sectors. Weakness was especially evident among producers of apparel and textiles, computers, semiconductors, steel, and telecommunications gear. In addition to conditions in the domestic economy, Districts attributed the current malaise in manufacturing to softening international demand for U.S. goods -- particularly in Europe and Asia. On the up side, Districts reported that producers were making progress in running down their excess inventories.

Real Estate and Construction

Conditions in commercial real estate markets softened in several Districts in June and July, in keeping with slow economic growth. Nine Districts reported increased office vacancies in metropolitan areas in the second quarter, with signs of additional weakening in July. A number of Districts noted that the swing in market conditions was due in part to an increase in sublease space. The rise in vacancies reportedly made it a buyer's market in some metropolitan areas. However, most Districts noted little movement in posted lease rates, with landlords opting for one-time inducements such as a free month's rent or property upgrades to attract tenants. In San Francisco, where commercial lease rates have declined, contacts noted that prospective tenants appear to be waiting for rates to fall further. Rising vacancies damped new construction activity in a number of areas.

Districts indicated that residential real estate markets generally remained stable in recent months, though signs of weakness were apparent in some regions. Atlanta, Cleveland, Minneapolis, New York, Richmond, and St. Louis reported continued brisk demand for low and moderately priced

homes; one District reported that homes "priced right" continued to sell quickly, often attracting multiple bidders. In Boston, Chicago, and San Francisco, demand remained stable but weakness in the high-end market was noted. Dallas and Kansas City reported flat to slower growth in home sales, with some concerns about rising inventories. In general, Districts attributed the continued strength of residential real estate in part to lower mortgage interest rates.

Agriculture and Natural Resources

Reports on agricultural conditions were mixed across the Districts. Atlanta, Kansas City and St. Louis highlighted generally good conditions in their regions, with some crop yields coming in better than expected. Dry weather was having an adverse effect on farmers and ranchers in the Cleveland, Chicago, Dallas, and Richmond Districts. San Francisco reported favorable growing conditions, but ongoing struggles against low prices, weak export demand, and high energy costs.

Banking and Finance

Loan demand was flat to down in most Districts in recent weeks. However, the composition of the slowdown differed by region. In Kansas City and Philadelphia, commercial and industrial lending picked up, while consumer lending declined. Declines in lending in Atlanta, Chicago, and Richmond were largely in the commercial sector. In St. Louis, all types of loans declined, although the most pronounced reductions were in consumer borrowing. In Cleveland and New York, loan demand remained relatively flat, as both consumers and businesses curtailed borrowing. Several Districts reported increases in home mortgage lending.

Overall, Districts characterized financial markets as cautious, with both borrowers and lenders pulling back in response to economic uncertainty. There were some reports of deteriorating credit quality, particularly for credits to manufacturing and agricultural businesses. A number of Districts reported that lenders had tightened standards in recent weeks, particularly for business loans.

Labor Markets, Wages, and Prices

Most Districts reported that conditions in labor markets remained steady or loosened somewhat in recent weeks. Layoffs in many high-tech manufacturing and service firms boosted the number of highly skilled workers applying for jobs through temporary employment agencies. Employers in a number of Districts noted greater ease in finding and keeping qualified workers.

Looser labor markets in most Districts helped to contain wage pressures in recent months. However, benefit costs rose, particularly for health and other forms of insurance coverage. Rising insurance premiums and the slowing economy reportedly prompted some employers to reevaluate benefit packages. Kansas City reported that firms were working on ways to reduce employee benefits such as free parking and health club memberships.

Fuel and energy prices fell in June and July in most Districts, lessening the burden on businesses and easing pressure on consumer budgets. Lower gasoline prices allowed shippers and truckers to reduce or remove fuel surcharges imposed earlier this year. Lower energy costs also contributed to price declines for a number of manufactured goods. However, upward price pressure was reported for pharmaceuticals, various services, and single-family housing in some regions. In addition, retail electricity rates were up sharply in California in June, as previously authorized rate hikes took effect. In general, however, declining input costs and stiff domestic and foreign competition continued to restrain

consumer prices.

August 8, 2001

Federal Reserve Districts

First District - Boston

The First District economy continues to slow. A majority of contacts in the retail and manufacturing sectors report declines in business activity compared with a year ago. Insurance companies say demand has slowed but not declined. Residential real estate contacts say housing markets across New England are strong although softer than a year ago. Prices for most goods other than housing are reported to be flat to down compared with a year ago. Most respondents indicate that they are stepping up efforts to cut costs.

Retail

Most retail respondents report that sales were flat or down during the May through July period compared with a year earlier. These results were generally worse than expected, yet inventories are mostly said to be close to desired levels. Most contacted sectors (discount retail, tourism, home and office furniture, computer and office technology products, office and art supplies) say consumer demand is anemic. However, sellers of building materials and hardware report modest growth in sales. Employment levels and wage rates are mostly said to be holding steady. However, some retailers say that they plan to shrink employment through attrition or shift more toward part-time help. Most report that it is now much easier than last year to hire replacement help and seasonal workers. Retail contacts say that they are not raising selling prices and they are seeing only sporadic increases in vendor prices. Most indicate that their profit margins are holding; however, retailers selling technology products are discounting prices, which has reduced profit margins slightly compared with last year.

Retail respondents expect little growth in the economy in the next year, and most say that they are not expanding their operations in 2001. The mood is cautious; while they no longer expect a rebound in the second half, they hope for some improvement late this year.

Manufacturing and Related Services

Close to two-thirds of First District manufacturing contacts report that recent sales or orders are down from a year earlier; only about one-third report increases. Expectations about future revenues vary considerably, but virtually all contacts are taking new steps to reduce costs.

Reports from makers of computer hardware, communications gear, and semiconductor-related equipment have deteriorated noticeably, and some of these contacts are not expecting much recovery until late 2002. Manufacturers of other types of equipment are less gloomy but nevertheless cite examples of customers eliminating discretionary purchases or demanding concessionary terms. One contact that sells a

broad range of parts and supplies to manufacturers describes the environment as the worst in 30 years. On the other hand, several manufacturers are heartened that their business, while down from a year ago, does not appear to be deteriorating further. These include makers of paper products and residential construction components.

By contrast with the general trends, demand for pharmaceuticals, medical equipment, publications, aircraft parts, and defense equipment has continued to increase. However, several contacts point to vulnerabilities in aviation-related business, and one producer of medical equipment has noticed a recent weakening. Across a range of industries, manufacturers are concerned about deteriorating conditions in foreign markets, particularly Europe and Latin America.

Respondents say their selling prices and materials costs generally are flat or down. Some indicate that their corporate customers are pressuring them for more favorable terms. They in turn are applying similar pressures on their suppliers.

Almost all manufacturing respondents report initiatives to control or reduce labor costs. Actions vary from company to company but include layoffs, furloughs, controls on new hires, and restrictions on pay increases. Most contacts say that capital spending is slated to be reduced this year. Many report efforts to cut back on information technology expenditures.

Residential Real Estate

Residential real estate markets in New England are still strong, although signs of softening are emerging. The number of listings has begun to grow slowly, while the number of sales is starting to decline. Real estate contacts indicate that the lower half of the market still enjoys very robust activity because low interest rates stimulate demand among potential buyers, while the level of activity at the top of the market has slowed. Contacts in Rhode Island report that the market is as strong as ever, with most new listings selling very quickly and the average sales price up from last year. In Vermont, the average sales price is slightly higher than a year ago, but prices of new properties coming on the market are the same as those of existing properties, indicating that prices have stabilized. New Hampshire contacts say the average selling price rose 10 percent over the past year, but the number of sales dropped 12 percent during the same period. Some respondents attribute the slowdown to seasonal rather than cyclical changes.

Insurance

Insurance respondents report modest sales growth in the second quarter of 2001, similar to first-quarter growth. In some cases, demand was generally off, while in others, falling demand for financial products such as annuities and mutual funds offset increased insurance demand. One respondent sums up the reasons for the slowdown as "the general economy, uncertainty over estate and other taxes, and volatility in the financial markets." One major health insurer reports a large fall-off in revenues as they reevaluate their service offerings in light of profitability changes.

Most insurance contacts seem relatively downbeat about their company's outlook. One respondent said that they are "more uneasy" now than three months ago because they had expected to see evidence of an upturn in the economy by now. Another said that they are "no more pessimistic" now than earlier this year. Because of falling or lower-than-expected revenues, most respondents are in the process of cutting costs. Some companies have made large workforce cutbacks (3 to 12 percent), while others are instituting employment freezes with the possibility of cutbacks

in the near future. Most insurance contacts say capital and technology spending is relatively flat.

DIVISION OF EMPLOYMENT & TRAINING NEWS RELEASE

Commonwealth of Massachusetts
Division of Employment and Training

Edgartown

Employment and Wages in Edgartown

				EMPLOYMENT								
Year	Total Annual Payroll	Avg Annual Wage	Establish-ments	Total	Agriculture Forestry Fishing	Govern-ment	Const-ruction	Manu fac-turing	TCPU	Trade	FIRE	Services
1985	$17,964,500	$12,686	188	1,416	49	197	138	conf	30	514	94	362
1986	$19,967,600	$14,323	201	1,394	62	199	127	conf	36	539	97	296
1987	$20,931,000	$14,667	207	1,427	74	218	128	conf	35	559	110	258
1988	$24,861,600	$16,050	211	1,549	79	252	147	conf	62	613	121	228
1989	$24,738,893	$17,385	213	1,423	61	268	115	conf	73	530	110	217
1990	$25,921,783	$17,865	226	1,451	60	295	94	conf	76	571	106	202
1991	$27,609,089	$19,186	225	1,439	61	235	87	39	73	534	98	312
1992	$27,362,599	$19,215	226	1,424	54	235	94	40	46	512	109	334
1993	$29,558,932	$19,706	228	1,500	62	223	89	44	33	505	125	419
1994	$31,920,189	$20,139	251	1,585	59	243	93	49	25	517	132	467
1995	$34,970,391	$21,028	265	1,663	68	240	105	52	29	526	115	528
1996	$37,418,710	$21,998	283	1,701	72	247	124	45	26	561	115	511
1997	$41,403,831	$24,002	282	1,725	74	260	135	45	38	559	121	493
1998	$47,112,316	$25,618	299	1,839	81	271	150	47	53	579	135	523
1999	$49,767,930	$26,180	307	1,901	95	245	153	51	50	635	136	536

TCPU = Transportation, Communication and Public Utilities
FIRE = Finance, Insurance and Real Estate
conf = data suppressed due to confidentiality

Note: Changes in industry definitions occured in 1988, so data prior to that year are not strictly comparable to the more recent data.

Commonwealth of Massachusetts, Division of Employment and Training (ES-202 Series)

Unemployment in Edgartown

Year	Laborforce	Employment	Unemployment	Unemployment Rate	Statewide Rate
1983	1,564	1,482	82	5.2%	6.9%
1984	1,613	1,544	70	4.3%	4.8%
1985	1,649	1,597	52	3.2%	3.9%
1986	1,681	1,627	54	3.2%	3.8%
1987	1,731	1,687	44	2.5%	3.2%
1988	2,177	2,098	79	3.6%	3.3%
1989	2,158	2,047	111	5.1%	4.0%
1990	2,150	2,014	136	6.3%	6.0%
1991	2,240	2,012	228	10.2%	9.1%
1992	2,124	1,920	204	9.6%	8.6%
1993	2,234	2,054	180	8.1%	6.9%
1994	2,401	2,205	196	8.2%	6.0%
1995	2,485	2,304	181	7.3%	5.4%
1996	2,555	2,394	161	6.3%	4.3%
1997	2,635	2,476	159	6.0%	4.0%
1998	2,687	2,560	127	4.7%	3.3%
1999	2,703	2,583	120	4.4%	3.2%
2000	2,671	2,581	90	3.4%	2.6%

Note: Employment within this data series is measured by place of residence, rather than by place of employment as in the ES-202 Series.

Changes in labor market area definitions occured in 1990 and changes in methodology occured in 1987, so data prior to these years are not strictly comparable to the more recent data.

Commonwealth of Massachusetts, Division of Employment and Training (Local Area Unemp Statistics)

QUALIFICATIONS OF APPRAISER

QUALIFICATIONS

Robert P. LaPorte, Jr., CRE, MAI
Senior Vice President
Meredith & Grew • ONCOR International
160 Federal Street
Boston, Massachusetts 02110-1701
Telephone 617-330-8101 (direct dial)
Telecopier 617-330-8130
E-MAIL rplaporte@m-g.com

Business Experience

Meredith & Grew • ONCOR International
Department Manager of Counseling & Valuation Services Group, 1982- Present

Foster Appraisal & Consulting Co., Inc.
Vice President and General Manager, 1971-1982

United States Army
Viet Nam Veteran, 1969-1971

Foster Appraisal & Consulting Company, Inc., 1969

Education

St. Anselm College - B.A. Degree in Urban Studies.

Required courses and examinations for Membership in the Appraisal Institute

Seminars: Sponsor - Appraisal Institute:
Real Estate Value Cycles; Subdivision Analysis; Capitalization Workshop; Business Valuation; Market and Feasibility Analysis; Hotel/Motel Valuation; Condominium Appraisals; Financing terms and value; Techniques of Industrial Valuation; Standards of Professional Practice; R41B, Real Estate Syndications; Hands on Computer Analysis; Rates, Ratios and Reasonableness and use of PRO-JECT lease analysis software.

Also Highest and Best Use, Real Estate Risk Rate Analysis, Cash Equivalency, Sales Comparison Approach, Conservation/Preservation Easement, and Evaluating Residential Construction. Seminar Sponsor: The American Institute of Corporate Asset Management - "Corporate Takeovers and the Effect on Asset Management"; Fine and Ambrogne - "Managing Your Environmental Risks".

Professional Memberships

The Counselors of Real Estate (CRE)
The Appraisal Institute (MAI and SRA Designation)
• President New England Chapter, AIREA – 1983
• Vice Chairman - Ethics Administration Division - National Ethics and Counseling Committee, AIREA – 1990
The Counselors of Real Estate (CRE)
National Association of Realtors – Realtor
Massachusetts Association of Realtors
• Member, Public Policy Committee – 1989
Greater Boston Board of Realtors

Licenses

Licensed Massachusetts Real Estate Broker
General Certified Appraiser - Commonwealth of Massachusetts (#735)
General Certified Appraiser - State of Maine (#687)
General Certified Appraiser - State of New Hampshire (#337)

Appraisal Publications

A.I.R.E.A. Textbook "Appraising the Single Family Residence", Bloom & Harrison, 1978, - Single Family Residential Demonstration report was one of two reports used for model appraisal report and in portions of text.

Specialization

Thirty years of field variety appraisal and consulting assignments on projects located in Maine, New Hampshire, Vermont, Rhode Island, New York, Massachusetts, South Carolina, and California. Has also completed land use and marketability studies for industrial parks and central business districts, feasibility and market studies for residential and commercial uses, and review appraisals.

Approved Appraiser List for Contaminated Properties for the Commonwealth of Massachusetts Highway Department.

Testified as an expert witness before the Superior Courts of Massachusetts in Suffolk, Worcester, Middlesex, Essex, Norfolk, Dukes, and Plymouth Counties, the Federal Bankruptcy Court of Massachusetts, and the Commonwealth of Massachusetts Appellate Tax Board. In New Hampshire, he has testified before the Superior Court of Hillsborough County and the Board of Tax and Land Appeal.

Civic Organizations

Chelmsford Historic District Commission -1975-1998
• Chairman - 1976, 1980, and 1991

Leominster Rotary Club, President - 1981-1982
Westford Chapter 61A Land Committee
Westford Land Use Priorities Committee

Partial List of Clients Served
Commercial and Industrial

Compaq Computer Corporation
Fifty Associates
First Security Services
G.T.E. Laboratories
General Dynamics Corporation
Granite State Concrete
Harvard Management Co., Inc.
Joan Fabrics
Little Brown & Company
Massachusetts Audubon Society
Massachusetts Bar Association
Milford Water Department
The Nature Conservancy
The New England Aquarium
Polaroid
Simplex Time Recorder
The Stop and Shop Companies
Teradyne Inc.
TKC Associates
Trust for Public Land

Financial/Institutional

Anglo Irish Bank
Boston University
Brandeis University
Cambridge Trust Co.
Citicorp Real Estate Inc.
Citizens Bank
Commercial Union
Federal Deposit Insurance Corporation
Fleet Bank
John Hancock
Liberty Mutual
Lloyd's Bank International Limited
MASCO
Massachusetts Mutual Life Insurance Co.
Massachusetts General Hospital
United Bank of Kuwait
University of Massachusetts
Youville Lifecare

Law Firms

Bingham, Dana & Gould
Brown Rudnick
Choate, Hall & Stewart
Foley, Hoag & Elliott
Hale & Dorr
Hill & Barlow
Reimer & Braunstein
Ropes & Gray
Sherin & Lodgen

Government

Federal

Federal Aviation Administration
General Services Administration
United States Postal Service

State

MA Department of Attorney General
MA Department of Environmental Management
MA Department of Capital Asset and Management
MA Highway Department
Massachusetts Bay Transportation Authority
Metropolitan District Commission

Cities & Towns

Boston	Concord	Cambridge
Fitchburg	Gardner	Gloucester
Harvard	Leominster	Lincoln
Lowell	Lunenburg	Marlborough
Nahant	Natick	Newburyport
Norwood	Salem	Sudbury

Abington/Rockland Water Department
Boston Housing Authority

MEMORANDUM

CONFIDENTIAL
ATTORNEY WORK PRODUCT

TO: Philip Tabas
FROM: Hans P. Birle
DATE: June 3, 2003
RE: Herring Creek (Wallace), MA

1. 102 acres of the property are in permanent protection.

2. TNC obtained an independent, professional appraisal, dated as of July 17, 2001 and confirmed by meetings with Conservancy staff (Note: Seller's appraisal was $78 mil. for the same land).

5. We do not have appraisals for the East Fields and Central Fields.

   1. 15.85 acres to Fairview MV Property, LLC, a Delaware limited liability company for $7,250,000.00 (Roger Bamford and Denise Lahey); 9.62 acres to be sold for $4,750,000.00 (option to buy $250,000.00 paid for option); total $12 mil. – confirmed by appraisal dated July 9, 2001.

   2. Approximately 46 acres to the F.A.R.M. Institute, Inc. for $28 mil. F.A.R.M. then sold 39± acres to MV Regency Group, LLC. for $27 mil. retaining the Farm Lot.

      MV Regency Group, LLC retained Lots 8 & 9 (Letterman Property), transferred Lot 10 to Petergro Acquisition Company and Lot 7 to James B. Denman, Trustee of Butler's Cove Realty Trust (Daniel Stanton).

      Roger Bamford has pledged to make a sizable donation to cover the balance of the purchase price and the costs of the transaction.

Phil, call me if you have any questions.

S:\hb\ma\tabsa060303
Herring Creek (Wallace), MA

DEED OF CONSERVATION RESTRICTIONS
HERRING CREEK FARM
EDGARTOWN, MASSACHUSETTS

THIS GRANT DEED OF CONSERVATION RESTRICTIONS is made on the ___ day of July, 2001 by THE NATURE CONSERVANCY, a non-profit charitable corporation incorporated under the laws of the District of Columbia and qualified to do business and in good standing in the Commonwealth of Massachusetts, with a Massachusetts address at 11 Avenue de Lafayette, Boston, MA 02111, and a principal address at 4245 North Fairfax Drive, Arlington, Virginia 22203 ("Grantor" or "The Nature Conservancy") in favor of the CONSERVATION COMMISSION of the Town of Edgartown ("Grantee"), in the name of the Town of Edgartown (the "Town" or the "Town of Edgartown") and in favor of Grantee and The Nature Conservancy, jointly and severally, with respect to such portions of the Property as may be owned by other Owners (as defined below).

I. BACKGROUND FACTS

WHEREAS, Grantor is the sole owner in fee simple of approximately 215 acres of real property known as Herring Creek Farm on Slough Cove Road in the Town of Edgartown, Dukes County, Massachusetts, more particularly described in **Exhibit A** attached hereto and incorporated herein by reference (hereinafter, "Herring Creek Farm" or the "Property"); and

WHEREAS, Grantor wishes to convey Conservation Restrictions over the Property to Grantee so that the Property shall remain predominantly in or be restored to its natural, open, agricultural and scenic state in perpetuity, except for limited portions of the Property to be developed with selected improvements and related structures as permitted herein in such a manner so as to protect the Conservation Values (as defined below) of the Property; and

WHEREAS, reference is made to that certain plan (the "Plan") entitled "Plan of Land in Edgartown, Mass. Being a Subdivision of Lot 69, LCP 13419-14; Scale 1" = 100'; Date: June 15, 2001; Owners: James M. Hurley, Trustee of Herring Creek Farm Trust, Certificate #5859, James M. Hurley, Trustee of Herring Creek Farm Trust, Certificate # 5746; MV 5023, C4-1 through C4-6" prepared by Schofield, Barbini & Hoehn, Inc., Vineyard Haven, Mass. to be recorded in the Dukes County Registry of Deeds (the "Registry") as Edgartown Case File No. _____, duly filed with the Massachusetts Land Court and filed in the Dukes County Registry District Office of the Land Court (the "Land Court") as Land Court Plan No. 13419-15, the recording of which plan resulted in the subdivision of the Property into 33 lots, a parcel containing approximately 56 acres identified on the Plan as Lot 70 East Field (the "East Field") and two beach parcels containing approximately 20 acres identified on the Plan as Lots 104 and 104A (collectively, the "Beach"); and

WHEREAS, to further the conservation objectives of Grantor and Grantee with respect to the Property, Grantor has consolidated most of the 33 lots shown on the Plan (and as more particularly set forth in **Exhibit E** attached hereto and incorporated herein by reference), as follows:

(a) Lots 71 and 103 have been consolidated into one (1) lot containing an existing barn and stable complex and caretaker cottage (hereinafter the "Farm");

(b) Lots 91-98 have been consolidated into one (1) lot containing approximately 40 acres (hereinafter the "Central Field");

(c) Lot 99 (hereinafter "Lot K") is considered for purposes of this instrument as part of the Central Field (Lot K and the Central Field are collectively referred to herein as the "Central Field");

(d) Lot 102 (hereinafter "Lot J") has been consolidated with and is considered part of the East Field (Lot J and the East Field are collectively referred to herein as the "East Field");

(e) Lots 74, 80+80A, 81+105+81A+82+106+82A and 86-87 (hereinafter "Lots C, E-1, E-2, and G", respectively) comprise a total of four (4) lots, of which lots, Lots C and G each contain one (1) existing single-family residence and Lot E-1 and Lot E-2 (which lots shall at all times be held in common ownership) each contain one (1) existing single-family residence (each of Lots C, E-1, E-2, and G a "Developed Lot" and collectively the "Developed Lots");

(f) Lots 72, 73 (except that portion of Lot 73 referred to as "Lot B Excluded Area" below), 75-79, 83+83A+83B+84+107+108+84A+85, 88-90 and 100-101 (hereinafter "Lots A, B, D, F, H and I", respectively) have been consolidated into six (6) lots on each of which single-family detached residential development will be permitted (each a "Developable Lot" and collectively the "Developable Lots"; the Developed Lots and the Developable Lots each a "Residential Lot" and collectively the "Residential Lots"); and

WHEREAS, as a result of the above consolidation, the Property is comprised of the East Field, the Beach and the following twelve (12) lots (the "Herring Creek Farm Lot(s)" or "Lot(s)"): A, B, C, D, E-1, E-2, F, G, H, I, the Farm and the Central Field. The consolidated lots (D, E-2, F, G, H, I, the Farm and the Central Field) are each considered for purposes of this instrument as one (1) Lot; and

WHEREAS, in addition to the Property described above, Grantor is the owner of that certain lot in the northeasterly corner of the Property that is shown on the Plan as "John H. Wallace Et. Al." and is more particularly described in a deed from Katlin D. O'Connor, Trustee of Herring Creek Farm Trust, to John H. Wallace et al. dated November 3, 1986, and recorded in the Registry in Book 459, Page 484, which lot contains one (1) existing single-family residence and is more particularly described in **Exhibit B** attached hereto and incorporated herein ("Blue Heron"). For all purposes of this instrument, Blue Heron shall be considered as one of the Developed Lots; and

WHEREAS, subsequent to the recording of this instrument, Grantor and the Owners of the Residential Lots and the Farm shall use best efforts to file and record an ANR Consolidation Plan illustrating the consolidation of the lots as discussed above (the "Consolidation Plan"). The Consolidation Plan will cross-reference and be consistent with the numbers of the lots as shown on the Plan (e.g., Lots 75-79 would be consolidated as a single lot on the Consolidation Plan)(as more particularly described in **Exhibit E**), and Grantor and Grantee may record and file a supplemental version of this Conservation Restriction solely to replace the Lot numbers as shown on the Plan with references to the Lot numbers as shown on the Consolidation Plan; and

WHEREAS, reference is made to that certain plan entitled "Development Envelope Plan, Herring Creek Farm, Edgartown, Massachusetts Prepared for The Nature Conservancy, June 12, 2001 Schofield, Barbini & Hoehn, Inc., State Road, Vineyard Haven, Mass." and recorded in the Registry as Edgartown Case File No. _____ (the "Development Envelope Plan"), which plan shows that each of the Residential Lots, the Farm, the Central Field and Lot J contain an area, namely, a development envelope (each herein a "Development Envelope"), within which Grantor reserves for itself and for the Owners thereof the right to construct the following types of development: (i) single-family residential housing and related development within the Development Envelopes on the Residential Lots; (ii) residential housing, agricultural or farming and related development (accessory to natural community management, agricultural, horticultural or silvicultural uses and educational programs intended to promote a greater understanding of conservation, agriculture and farming issues) within the Development Envelope on the Farm; (iii) a horse barn within the Development Envelope on the Central Field; and (iv) a barn within the Development Envelope on Lot J; and

WHEREAS, the Private Open Space (as defined below) is comprised primarily of salt marsh, shrub thickets, wet meadow and oak woodland, and the Herring Creek Farm Open Space (as defined below) is comprised primarily of coastal beach and dune, salt marsh, wet meadow, agricultural cropland for such crops as corn, oats and alfalfa/timothy hay and pasturage for livestock (e.g., cattle, sheep, goats, draft horses and llamas) and native grasslands; and

WHEREAS, Grantor and Grantee desire to preserve the natural, scenic, agricultural and open space values of the Property; to protect the shoreline and water quality of Edgartown Great Pond and Crackatuxet Cove; to protect globally rare sandplain grasslands, savannas, oak woodlands, heathlands and other natural communities; to preserve agricultural and farming uses on portions of the Property; to promote the restoration of native habitats; to increase the populations of native animals, birds, insects and other species; to prevent habitat fragmentation and to promote restoration of native grassland (all of the foregoing, collectively, the "Conservation Values"); and

WHEREAS, Grantor and Grantee intend to enhance the Conservation Values of the Property by limiting the number of developable lots and the size and number of permitted structures thereon; managing and restoring the native grassland on portions of the Property; designating other portions of the Property for agricultural activities; managing the Beach to protect the fragile nature of this landform and its species of plant and animal; prohibiting the introduction of and providing for the removal of certain invasive plant species; prohibiting the use of synthetic fertilizer and the application of biocides, herbicides or pesticides without The Nature Conservancy's prior approval in consultation with the Grantee and the Association and encouraging the use of native plants in landscaping and restoration; and

WHEREAS Grantor desires to convey the following conservation restrictions in perpetuity (the "Conservation Restriction"), and Grantee has determined it to be desirable and beneficial to enforce this Conservation Restriction in order to protect the Property's Conservation Values while permitting uses of the Property that do not impair the Property's Conservation Values and are not inconsistent with the purpose of this Conservation Restriction.

NOW, THEREFORE, in consideration of the above and the mutual covenants, terms, conditions and restrictions contained herein, and pursuant to the laws of the Commonwealth of

Massachusetts, in particular Sections 31-33 of Chapter 184 of the General Laws, Grantor hereby voluntarily grants and conveys to Grantee and its successors and permitted assigns, with quitclaim covenants, the Conservation Restriction in perpetuity over the Property of the nature and character and to the extent set forth below, and Grantor reserves for itself the right to enforce the terms of this Conservation Restriction against the other Owners, as more particularly set forth in Article IV hereof.

II. PURPOSE

Grantor and Grantee recognize the Conservation Values of the Property and share the common goal of protecting these Conservation Values. Therefore the Property is not to be improved with structures and improvements, except as described herein, and will be retained in a predominantly undeveloped, natural, open, agricultural and/or forested condition; threatened or endangered plants and animals that may exist will be protected.

III. DEFINITIONS

The following words when used in this instrument, unless the context shall prohibit, shall have the following meanings:

A. ASSOCIATION: Herring Creek Farm Landowner's Association, Inc., a nonprofit corporation organized under Chapter 180 of the Commonwealth of Massachusetts and its successors and assigns.

B. BASELINE REPORT: The report prepared by The Nature Conservancy and kept on file at the offices of The Nature Conservancy, Grantee and the Association, which report sets forth the condition of the Property as of the Effective Date of this Conservation Restriction and is intended to serve as an objective information baseline for monitoring compliance with and implementation of the terms of this Conservation Restriction, as more particularly described in Article VII.T hereof.

C. BEACH: Collectively, those certain beach parcels containing approximately 20 acres identified as Lots 104 and 104A on the Plan, which Beach shall be managed by the Association and The Nature Conservancy in a manner that does not adversely impact the Conservation Values of the Beach and the rest of the Property.

D. BLUE HERON: That certain parcel of land in the northeasterly corner of Herring Creek Farm that is shown on the Plan as "John H. Wallace Et. Al." and is more particularly described in a deed from Katlin D. O'Connor, Trustee of Herring Creek Farm Trust, to John H. Wallace et al. dated November 3, 1986, and recorded in the Registry in Book 459, Page 484, which lot contains one (1) existing single-family residence. Blue Heron is considered herein for all purposes as one of the Developed Lots.

E. CENTRAL FIELD: Lots 91 through 98, inclusive, as shown on the Plan. For purposes of this instrument, Lot K will be considered part of the Central Field.

F. CONSERVATION VALUES: As defined in Article I.

G. CONSOLIDATION PLAN: That certain ANR Consolidation Plan that Grantor and the Owners of the Residential Lots and the Farm shall use best efforts to file and record subsequent to the Effective Date of this Conservation Restriction, which plan will cross-reference and be consistent with the numbers of the lots as shown on the Plan (e.g., Lots 75-79 would be consolidated as a single lot on the Consolidation Plan) as more particularly described in **Exhibit E** attached hereto, and Grantor and Grantee may record and file a supplemental version of this Conservation Restriction solely to replace the Lot numbers as shown on the Plan with references to the Lot numbers as shown on the Consolidation Plan.

H. DEVELOPABLE LOTS: Lots A, B, D, F, H and I.

I. DEVELOPED LOTS: Lots C, E-1, E-2, G and Blue Heron. Lots E-1 and E-2 shall at all times be held in common ownership.

J. DEVELOPMENT ENVELOPE PLAN and DEVELOPMENT ENVELOPES: That certain plan entitled "Development Envelope Plan, Herring Creek Farm, Edgartown, Massachusetts Prepared for The Nature Conservancy, June 12, 2001 Schofield, Barbini & Hoehn, Inc., State Road, Vineyard Haven, Mass." and recorded in the Registry as Edgartown Case File No. _____, which plan shows the Development Envelopes on each of the Residential Lots, the Farm, the Central Field and Lot J. Each Development Envelope is intended to establish the area within which: (i) single-family detached residential housing and related Improvements are permitted on the Residential Lots; (ii) residential housing, agricultural or farming structures and related Improvements (accessory to natural community management, agricultural, horticultural or silvicultural uses and educational programs intended to promote a greater understanding of conservation, agriculture and farming issues) are permitted on the Farm; (iii) a horse barn is permitted on the Central Field; and (iv) a barn is permitted on Lot J.

K. EAST FIELD: Lot J and a parcel containing approximately 56 acres identified as Lot 70 East Field on the Plan.

L. HERRING CREEK FARM LOT(S) or LOT(S): Lots A, B, C, E-1 and the eight (8) consolidated lots (D, E-2, F, G, H, I, the Farm and the Central Field), each of which is considered as one (1) Lot, as such lots are shown on the Plan as may be from time to time amended or revised, which Plan as amended or revised shall continue to show the location and number of Lots. The numbers for the lots and the consolidated lots will correspond to the numbered lots shown on any Consolidation Plan which may be filed.

M. HERRING CREEK FARM OPEN SPACE: All of the Property outside of (a) the Residential Lots, (b) the Farm, (c) the Development Envelope on the Central Field and (d) the Development Envelope on Lot J.

N. HERRING CREEK FARM OPEN SPACE MANAGEMENT PLAN or OPEN SPACE MANAGEMENT PLAN: The Open Space Management Plan annexed

hereto as **Exhibit C**, as the same may hereafter be amended and/or modified from time to time pursuant to the terms thereof.

O. HOUSING DEVELOPMENT: Shall have the meaning given in subparagraph 2 of paragraph B of Article VI of this instrument.

P. IMPROVEMENT: Any structure or improvement of any kind, including, without limitation, interim or temporary improvements, and any addition to or alteration of the exterior of a previously constructed structure or other improvement.

Q. INVASIVE PLANT SPECIES: Those species set forth on **Exhibit D** attached hereto, as the same may be amended from time to time by The Nature Conservancy in the good faith exercise of its professional judgment.

R. LOT B EXCLUDED AREA: That portion of Lot B defined in **Exhibit F** hereto and subject to the conditions and restrictions set forth in Article IV.F hereof.

S. OWNER(S): The fee simple, record owner(s), or such other holder of an interest as the Owner(s) may designate, whether one or more persons or entities, of any portion of the Property, and their successors and assigns, but notwithstanding any applicable theory of mortgage interests, shall not mean or refer to a mortgagee unless and until such mortgagee has acquired title pursuant to foreclosure or any proceeding in lieu of foreclosure or unless an Owner shall delegate to such mortgagee the Owner's(s') obligations and rights under this instrument. The term Owner(s) shall include tenants or occupants to whom the obligations and rights of an Owner have been delegated.

T. PLAN: The plan entitled "Plan of Land in Edgartown, Mass. Being a Subdivision of Lot 69, LCP 13419-14; Scale 1" = 100'; Date: June 15, 2001; Owners: James M. Hurley, Trustee of Herring Creek Farm Trust, Certificate #5859, James M. Hurley, Trustee of Herring Creek Farm Trust, Certificate # 5746; MV 5023, C4-1 through C4-6" prepared by Schofield, Barbini & Hoehn, Inc., Vineyard Haven, Mass. to be recorded in the Dukes County Registry of Deeds as Edgartown Case File No. _____, duly filed with the Massachusetts Land Court and filed in the Dukes County Registry District Office of the Land Court as Land Court Plan No. 13419-15.

U. PRIVATE OPEN SPACE: The area outside the Development Envelopes but within the boundaries of each Residential Lot and the Farm.

V. RESIDENTIAL LOT(S): Each Developed Lot and Developable Lot is a Residential Lot and collectively they are Residential Lots.

W. RESTRICTIONS: The conservation restrictions herein set forth imposed upon the Property, including, without limitation, the provisions set forth in the Herring Creek Farm Open Space Management Plan annexed hereto as **Exhibit C** and which conservation restrictions are intended to be the primary source of controls over the use of and other measures for the preservation of the Property.

X. SLUICEWAY: The sluiceway to be re-opened between Edgartown Great Pond and Crackatuxet Cove subject to that certain Perpetual Covenant and Perpetual Easement Re Sluiceway between Stuart R. Johnson, Trustee of Herring Creek Farm Trust and the Town of Edgartown, Massachusetts recorded in the Dukes County Registry of Deeds in Book ___ at Page ____ and registered in the Dukes County Registry District of the Land Court as Document No. _____

IV. RIGHTS OF GRANTEE; RESERVED RIGHTS

A. Enforcement. Grantor hereby grants the following rights to Grantee and reserves certain of the following rights for itself (and the respective Conservation Assignees of either pursuant to Article VII.M hereof):

(1) Grantor grants the right to Grantee to prevent Grantor, other Owners or any persons (whether or not claiming by, through, or under Grantor), and Grantor reserves the right for itself to prevent other Owners or any persons, from conducting any activity on or use of the Property that is inconsistent with the Purpose of this Conservation Restriction, and to require of Grantor, other Owners or any persons the restoration of such areas or features of the Property that may be damaged by their inconsistent activity or use;

(2) Grantor grants the right to Grantee only to enter upon the Property (but not within the buildings on the Property) at reasonable times and in a reasonable manner in order to monitor Grantor's or other Owners' compliance with and otherwise enforce the terms of this Conservation Restriction, provided that in the absence of evidence which gives Grantee a reasonable basis to believe there has been a violation of the provisions of this Conservation Restriction (which evidence shall be made available to Grantor and the applicable Owner(s)), such entry shall not occur more often than once annually. Entry shall be after prior reasonable written notice to Grantor and the applicable Owner(s). Grantee in the exercise of its entry rights under this subparagraph 2 of paragraph A of Article IV shall not unreasonably interfere with Grantor's or such other Owners' quiet enjoyment of the Property. In consideration of these and all other rights of entry included in this grant, Grantee hereby releases and agrees to hold harmless, indemnify, and defend Grantor and such other Owners from and against any and all liabilities, penalties, costs, losses, damages, expenses, causes of action, claims, demands, orders or judgments, including reasonable attorneys' fees, arising from or in any way connected with damage or injury resulting from any such entry onto the Property;

(3) Grantor grants the right to Grantee and reserves the right for itself to obtain injunctive and other equitable relief against any claimed violations, including without limitation relief requiring removal of offending structures and other restoration of the Property to the condition that existed prior to any such claimed violation (it being agreed that there would be no adequate remedy at law);

(4) Grantor grants the right to Grantee (and reserves the right for itself with respect to other Owners or any other persons) to enforce this Conservation Restriction in the case of breaches by Grantor, other Owners or any other persons (whether or not claiming by, through, or under Grantor) by appropriate legal and equitable proceedings, after providing Grantor and the applicable Owners with reasonable written notice and a reasonable opportunity to cure; and

(5) All powers of enforcement conferred upon Grantee hereunder or pursuant to the provisions of Massachusetts General Laws Chapter 184, Section 32, Massachusetts General Laws Chapter 40, Section 8C or other general or special law relating to the Conservation Restriction shall be exercised by a majority of the members of Grantee; to the maximum extent permitted by law, all powers of enforcement conferred upon the Town of Edgartown pursuant to the provisions of Massachusetts General Laws Chapter 184, Section 32, Massachusetts General Laws Chapter 40, Section 8C or other general or special law relating to the Conservation Restriction shall be exercised by a majority of the members of Grantee.

(6) In any instance where either Grantor or Grantee, despite having enforcement rights with respect to any provision of this Conservation Restriction, chooses to defer enforcement of such provision to Grantee or Grantor, respectively, and not to take any action itself with respect to such provision, neither Grantor nor Grantee shall have any liability whatsoever (either legal or equitable) to the Association, to any of the Owners or to any other party on account of either Grantor's or Grantee's election to forebear from enforcement and defer enforcement to Grantee or Grantor, respectively.

B. Cost of Enforcement. The person or persons who violate the restrictions imposed hereby shall also be liable for all costs incurred in enforcing the provisions of this instrument including, but not limited to, reasonable attorneys' fees and any costs of restoration, if Grantee and/or Grantor (or the Association, as provided in Article IV.C below) prevails in its effort to enforce. The recovery of any such fees and costs shall constitute the sole permissible monetary remedy hereunder, except when restoration or other equitable, non-monetary remedy is not practicable then monetary damages shall be an available remedy.

C. Forbearance Not a Waiver. Enforcement of the terms of this instrument shall be within the discretion of Grantee and Grantor. Any forbearance by Grantee or Grantor to exercise their rights under this Conservation Restriction in the event of any violation of any term of this instrument shall not be deemed or construed to be a waiver by such parties or of any subsequent violation of the same or any other term of this instrument or of any of the rights created by this instrument. No delay or omission by any party in the exercise of any right or remedy upon any violation shall impair such right or remedy or be construed as a waiver.

D. Acts Beyond Grantor's Control. Nothing contained in this instrument shall be construed to entitle Grantee to enforce its provisions to bring any action against Grantor, other Owners or any persons (whether or not claiming by, through, or under Grantor) for any injury to or change in the Property resulting from causes beyond Grantor's, such Owners' or any persons'

control including, without limitation, fire, flood, storm and earth movement, or for any prudent action taken by Grantor, such Owners or any persons under emergency conditions to prevent, abate, or mitigate significant injury to the Property or persons resulting from such causes.

V. PROHIBITED ACTS, USES AND IMPROVEMENTS

A. The following, acts, uses and Improvements are expressly forbidden on, over or under the Property, except as otherwise provided herein and in the Open Space Management Plan attached hereto as **Exhibit C**. There shall be:

(1) No constructing or placing any building, guest house, landing strip, mobile home, swimming pool, tennis court or similar fenced areas or impervious surfaces, asphalt or concrete pavement, outside antennae, aerials, satellite dishes (unless less than 24" in diameter), television cameras or other devices for the transmission or reception of electromagnetic or other signals unless approved in writing by Grantee, utility pole, conduit, line, tents, shacks and trailers for temporary or permanent use, external fuel tanks or fuel storage devices that are visible from either an abutting Lot or a road (except where such fuel tanks already exist or except with the written approval of the Association where such tanks or storage are adequately screened from view from either an abutting Lot or a road), clothes lines visible from a road or abutting Lot, statuary or ornamental structures (other than small garden statuary not visible from the roadways or abutting Lots) of any kind displayed on any Lot, sign, billboard or other advertising display or other temporary or permanent structure or facility upon, above or below the Property.

(2) No commercial, commercial recreational or industrial uses of the Property, including, without limitation, large-scale commercial agricultural and farming uses, large-scale feedlots, large-scale dairy farming, farm stands, ice cream stands or other uses open to the general public.

(3) No refuse, trash, vehicle bodies or parts, rubbish, debris, junk, or unsightly or offensive material shall be placed, stored or dumped for more than thirty (30) days on, in or under the Property and no substances or materials or soil shall be dumped or placed as landfill on the Property.

(4) No excavation, dredging, mining or removing of loam, peat, gravel, sand, rock, hydrocarbons, soil or other mineral resource or natural deposit from the Property in such manner as to affect the surface thereof.

(5) No introduction of non-native species of plant on the Property (except that non-native vegetable and flower gardens are permitted within the Development Envelopes and agricultural crops as permitted herein) and no cutting or destruction of trees, shrubs or other vegetation on the Property.

(6) No polluting, altering, depleting, diverting, channelizing, damming, draining, extracting or manipulating the hydrologic regime of any surface and/or ground water.

(7) No placing, filling, spraying, storing, or dumping on or applying to the Property of synthetic fertilizers or biocides (including but not limited to, fungicides, insecticides and herbicides, as defined under applicable federal or state law), or any toxic or hazardous substance or other substances or materials, except The Nature Conservancy in consultation with Grantee may use biocides, pesticides or herbicides in the Herring Creek Farm Open Space (or in the Development Envelopes and Private Open Space with the permission of the applicable Owner) to control or remove Invasive Plant Species, pests, or disease outbreaks, such use to be by the narrowest spectrum, least persistent material appropriate for the target species and subject to all applicable laws and regulations. Other Owners, with the written permission of The Nature Conservancy and Grantee, may use biocides, pesticides or herbicides in their respective Private Open Space and Development Envelopes, subject to the restrictions set forth in the preceding sentence.

(8) No keeping of animals other than ordinary household pets that are normally kept inside a house (such as domestic cats and dogs). Owners shall take reasonable measures to prevent such pets from disturbing beach, wetland or ground-nesting birds and other wildlife. Notwithstanding the foregoing, the Owner of the Farm may keep livestock (excluding pigs), poultry and fowl on the Farm, the Owner of the Central Field (and lessees or licensees of such Owner) may keep livestock (excluding pigs, poultry and fowl) on the Central Field and Residential Lot Owners may keep horses on the Central Field. In no event shall any animals be allowed on the East Field without the written permission of the Owner of the East Field (except on a perimeter trail to be established by the Owner of the East Field).

(9) No hunting or trapping shall be permitted upon the Property, except with respect to any existing rights of third parties to hunt on any portion of the Property (as identified in the Baseline Report) and except with respect to hunting or trapping on the Property by The Nature Conservancy for species management.

(10) No exterior lighting other than sodium vapor lights or other lights determined to be least attractive to moths or other invertebrates by written agreement among all of The Nature Conservancy, Grantee and the Association and which is necessary for: (a) satisfaction of the Building Code for the Commonwealth of Massachusetts, 780 C.M.R. 101.0 et seq., for building entrances and doors, such fixtures to have a light-source intensity no greater than a 60-watt incandescent bulb, to use a "cut-off" fixture which will shield the light when viewed from above or the side; (b) exterior lighting of walkways, ground level patios and/or decks and paths, each to be no higher than 8" above ground level; (c) in-ground swimming

pool lighting; and (d) exterior lighting necessary for security or safety. All such lighting shall be kept on only as long as is necessary to fulfill its purpose and shall be controlled by motion sensors and/or timers.

(11) No motorized vehicles on the Beach south of the Sluiceway, except for security, emergencies, The Nature Conservancy's or the Association's beach management activity, or municipal maintenance and dredging of the Sluiceway and the breach between Edgartown Great Pond and the Atlantic Ocean and only in a manner that does not adversely impact the Conservation Values of the Property. To the extent necessary to preserve or abate damage to the dunes, points of access across primary dunes will be posted by the Association in consultation with Grantee and The Nature Conservancy; however, every reasonable effort will first be made to communicate this information by other means, including orally, by posting near any parking area for the Beach designated by the Association on a sign not to exceed 1 ½ sq. ft., or by written communication at the address of record for each Owner.

(12) No further subdivision of the Lots, the East Field, the Central Field, the Farm or the Beach after the Effective Date of this Conservation Restriction that would create one or more additional buildable lots, notwithstanding that such further subdivision or creation of additional buildable lots is or may in the future be permitted by law. Notwithstanding any provision hereof to the contrary, nothing herein shall preclude a boundary line adjustment between two contiguous Lots or between a Lot and other land contiguous to such Lot but not included within the Property.

(13) No use of any portion of the Property to gain subdivision approval for adjacent property owned by Grantor on or following the Effective Date of this grant.

VI. PERMITTED USES, ACTIVITIES AND IMPROVEMENTS

The prohibitions of Article V notwithstanding, Grantor, for itself and for other Owners, reserves the following rights, uses and activities on and over the Property, subject to such conditions or limitations as may be imposed by law, ordinance, governmental regulation or any limitations set forth in the Open Space Management Plan:

A. Permitted Uses, Acts and Activities:

(1) Protection of biodiversity, including protection of rare species, natural communities, and wildlife habitat, and the conservation of soil, water, plants and wildlife.

(2) Restoration and management of native grasslands, natural community management, ecologically compatible agricultural, horticultural, silvicultural and farming activities and educational programs intended to promote a greater understanding of conservation, agriculture and farming

issues including, without limitation, crop, hay and flower production, cultivation and harvesting and grazing and pasturage for livestock in the Central Field, on the Farm and in the East Field with the express, prior, written permission of the Owner of the East Field and grazing of privately-owned horses on the Central Field.

(3) Selective cutting of trees, shrubs or other vegetation on the Property by (a) the Owners when such cutting is required to (i) clear such vegetation to allow for construction permitted hereunder within their respective Development Envelopes, (ii) clear such vegetation from locations where it poses a safety threat to the dwellings, other structures or other improvements on their respective Lots, (iii) preserve views and selectively clear views (with the written approval of Grantee), including, without limitation, the creation of fifteen degree (15°) view channels on their respective Lots (with the written approval of Grantee), and (iv) make trails for horseback or bicycle riding or pedestrian access to or through their respective Lots in a manner that is consistent with the terms and provisions of this instrument and (b) by The Nature Conservancy with respect to the Herring Creek Farm Open Space or by the Owners in consultation with The Nature Conservancy with respect to their respective Private Open Space and Development Envelopes when such cutting is required to (i) manage rare species habitat, (ii) manage native grassland and other natural communities, (iii) remove invasive plant species, and (iv) maintain the viewshed from Herring Creek Road across the East Field to the Farm.

(4) Outdoor recreational activities including, without limitation, hiking, bicycling, horseback riding, beach activities, fishing, clamming, boating, shellfishing or nature study which do not substantially alter natural vegetation or landforms and which do not require a permanent structure; provided all such activities are carried out in compliance with the terms of this instrument, the Open Space Management Plan and in a manner that does not adversely impact the Conservation Values of the Property and provided such activities do not interfere with those areas of the Property dedicated from time to time to agricultural use and, with respect to the East Field, only take place on a perimeter trail to be established by the Owner of the East Field (the use of such trail may be limited from time to time by the Owner in connection with the Owner's use of prescribed burning thereon).

(5) Excluding the East Field (except with respect to any barn on Lot J), the Central Field (except with respect to the horse barn, water lines necessary or desirable for irrigation and watering of livestock, fences related to agricultural use and septic systems, as permitted in this Conservation Restriction) and the Beach, construction activities including, without limitation, drilling, cutting, clearing, grubbing, mounding, excavation and backfilling in connection with the erection or installation of any structure, alteration, well, road, driveways, pathways, trails, parking areas, unpaved cartways, septic systems, sanitary sewerage disposal systems, stump

dumps, utility lines, sluiceways or other improvements specifically permitted herein. Such water wells and water lines, leach fields, septic tanks and vents shall also be permitted in the Central Field provided that Grantee shall have determined and confirmed in writing that such water wells and water lines, leach fields, tanks and vents do not adversely impact the agricultural use of the Central Field or the conservation use or the water quality and health of Edgartown Great Pond and Crackatuxet Cove.

(6) Repair, maintenance, restoration and improvement activities relating to the Property and any structure, alteration, improvement, use or activity specifically permitted herein including, without limitation, such maintenance activities as beach management with respect to the Beach, wildlife management, roadway, utility, water wells, sluiceway, and septic system, sanitary sewerage disposal systems maintenance (provided Grantee shall have determined and confirmed in writing that such maintenance shall not adversely impact the agricultural use of the Property or the conservation use or the water quality and health of Edgartown Great Pond or Crackatuxet Cove), as well as planting, pruning, organic fertilizing, plowing, cleaning and restoring, cultivating, harvesting, mowing, burning and clearing. More specifically, the management tool of prescribed burning may be used by The Nature Conservancy on the East Field and the Central Field provided The Nature Conservancy shall (a) not use prescribed burning from June 15 through September 15 more frequently than once every three (3) years, except with written permission from the Association in special circumstances, (b) take all necessary precautions and comply with all applicable laws in connection with such prescribed burning, and (c) provide the Grantee, the Association and other Owners with sixty (60) days' written notice of such prescribed burning in the manner provided in Article VII.N hereof. The Owners of the Residential Lots and the Farm may allow The Nature Conservancy to conduct prescribed burning on their respective Lots in accordance with the requirements set forth in subsections (a), (b) and (c) in the preceding sentence.

(7) Passage and repassage, on foot or by bicycle or motor vehicle, over rights of way, roads, driveways, pathways, trails, parking areas and unpaved cartways permitted under the provisions of paragraph C of this Article VI and activities and usage of water wells, septic systems, sanitary sewerage disposal systems, including, without limitation, combined or shared sanitary sewerage collection, treatment and disposal systems (except that in no event shall such septic systems or sanitary sewerage disposal systems be permitted in the East Field or on the Beach, and provided that if such septic systems are located in the Central Field, Grantee shall have determined and confirmed in writing that they shall not adversely impact the agricultural use of the Central Field or the conservation use or the water quality and health of Edgartown Great Pond or Crackatuxet Cove), and other underground utilities permitted under such provisions, including, without limitation, transmission of gas, water, telephone, electricity, telecommunications, subsurface disposal of sanitary sewerage (except no

such disposal shall be permitted in the East Field or on the Beach and if such disposal is permitted in the Central Field, Grantee shall have determined and confirmed in writing that such disposal shall not adversely impact the agricultural use of the Central Field or the conservation use or the water quality and health of Edgartown Great Pond or Crackatuxet Cove) and surface and subsurface drainage. Notwithstanding the foregoing, the Owners of the Residential Lots will be permitted to park the following vehicles in any parking area for the Beach designated by the Association: (a) golf carts, (b) other motorized vehicles of similar size and which generate an approximate noise level comparable to an electric golf cart or (c) a car, provided, such car may only be parked temporarily to drop off individuals and beach gear, unless such car is required for those individuals whose age or physical infirmity prevents them from walking or bicycling to the Beach. In addition, The Nature Conservancy and/or the Association may temporarily park in any parking area for the Beach designated by the Association during the off-peak hours of the day (but not overnight) in connection with its management of the Beach.

(8) Planting of native plant species, selective cutting or clearing of vegetation to allow for construction permitted hereunder within the Development Envelopes, habitat protection, removal of invasive plant species, unpaved trail and road maintenance, selective cutting of new unpaved trails, tick control, the preservation of vistas, the creation of vistas (with the written approval of Grantee), including, without limitation, the creation of fifteen degree (15°) view channels in the Private Open Space (with the written approval of Grantee), or otherwise to preserve the present condition of the Private Open Space and the Herring Creek Farm Open Space as identified in the Baseline Report (as defined below).

(9) Any use or activity not specifically prohibited in this instrument is permitted provided such use or activity is consistent with the purpose of this Conservation Restriction and does not adversely impact the Conservation Values of the Property.

B. Permitted Residential Uses, Existing Buildings and Improvements within the Development Envelopes:

(1) The Development Envelope Plan depicts the Development Envelopes on each Residential Lot, on the Farm, on the Central Field and on Lot J. Subject to written approval by Grantee, Owners may make minimal modifications and adjustments to the configuration of their respective Development Envelopes, so long as all federal, state and local approvals (if any) for any such modifications or adjustments are obtained. In no event shall such modifications or adjustments increase the overall size of such Development Envelopes and no such modifications or adjustments shall be valid and effective for the purposes of this instrument unless and until an amendment to the Development Envelope Plan, depicting each such reconfiguration or adjustment, is recorded in the Registry and such amendment is marginally noted on the recorded and registered copies of

this Conservation Restriction as well. No such modifications or adjustments shall adversely impact the Conservation Values of the Property.

(2) (a) Within the Development Envelopes on each Residential Lot, single-family detached residential housing including, without limitation, the construction and/or maintenance of one (1) single-family detached residence and all Improvements normally associated therewith (excluding tennis courts) such as driveways, exterior lighting, fencing, landscaping, decks, in-ground swimming pools, trampolines, basketball hoops, patios, porches, attached garages, tool sheds and other sheds, greenhouses and septic systems (collectively, "Housing Development"), is permitted.

(b) Such single-family detached residences shall be subject to the following limitations:

(i) On each of the Developed Lots and the Farm, the existing single-family detached residence (or the existing farmhouse building with respect to the Farm) may be expanded or reconstructed provided that no such expansion or reconstruction shall increase the square footage of interior living space (inclusive of living space above the garage floor area, but exclusive of the garage floor area itself and exclusive of enclosed porches) by more than the lesser of: (x) a twenty percent (20%) increase in the square footage contained in the currently existing residence as of the Effective Date of this Conservation Restriction or (y) 2500 square feet or (z) notwithstanding the limitations in subsection (x) and (y) above, the maximum size of the expanded or reconstructed residence on Lot E-1 shall be 3500 square feet. However, for each square foot of interior living space added to the currently existing residence as of the Effective Date of this Conservation Restriction on Lot E-1 that increases the total interior living space of such residence to more than 2500 square feet (up to a total limit on interior living space of 3500 square feet), the maximum size of the interior living space of any residence to be constructed on Lot D shall be reduced by 2 ½ square feet, e.g., if the existing residence on Lot E-1 was expanded to a total interior living space of 3500 square feet (thus enlarged by 1000 square feet over 2500 square feet), then the maximum size of the interior living space of the residence to be constructed on Lot D would be reduced from 7500 square feet to 5000 square feet (1000 x 2 ½ = 2500, 7500 - 2500 = 5000).

(ii) Except as provided in Article VI.B.2.i. with respect to Lot D, on each of the Developable Lots, construction, expansion and reconstruction of one (1) single-family detached residence containing 7500 square feet of interior living space (inclusive of living space above the garage floor area, but exclusive of the

garage floor area itself and exclusive of enclosed porches) is permitted.

(c) Unless specifically permitted otherwise under the provisions of this instrument, all Housing Development on the Residential Lots, all Housing Development, agricultural or farming development on the Farm, the horse barn and related structures on the Central Field and the barn on Lot J, shall be confined to the Development Envelopes, except those structures, alterations or other Improvements set forth in paragraph C of this Article VI (including, without limitation, fences, driveways, underground septic systems, sanitary sewerage disposal systems (including any clustered or shared sanitary sewerage collection, treatment and disposal system) water wells, water lines and underground utilities) to serve the proposed structures on a given Lot shall be permitted to be outside of the proposed Development Envelope on such Lot. Where it is indicated on the Plan that common driveways will be used to serve two or more Lots, such common driveways serving such Lots shall be constructed by the first Owner building on one of the Lots indicated, and such common driveway with the written consent of all Owners affected may be built on one or more Lots to serve those Lots or other adjacent Lots.

(3) Within the Development Envelopes on the Residential Lots and the Farm, any deck, patio or other hard surface portion (exclusive of the residence and driveways), is limited to 3,000 square feet. Turf grass in what were thickets and within 300 feet of the wetland edge will be limited to 5,000 square feet. Fertilized lawn and landscaping areas shall not exceed 2,500 square feet in area and, with respect to the Development Envelopes on the Residential Lots, any other non-native landscape plantings shall be limited to the Development Envelopes and shall not be fertilized. Fertilized lawn areas shall be fertilized with only slow-release sources of nitrogen.

(4) Within the Development Envelope on the Central Field, one (1) horse barn and related structures are permitted and within the Development Envelope on Lot J, one (1) barn and related structures are permitted.

(5) Within the Development Envelope on the Farm, Housing Development and residential, agricultural or farming structures and related facilities (accessory to natural community management, agricultural, horticultural or silvicultural uses and educational programs intended to promote a greater understanding of conservation, agriculture and farming issues) are permitted, except that large-scale commercial agricultural and farming uses, large-scale feedlots, large-scale dairy farming, farm stands, ice cream stands or other uses open to the general public are prohibited.

C. Permitted Structures, Alterations or Other Improvements:

(1) Existing Improvements shown on the Plan.

(2) Water wells, septic systems, sanitary sewerage disposal systems, including, without limitation, combined or shared sanitary sewerage collection, treatment and disposal systems, and other underground utilities including, without limitation, all trenches, leach fields, septic tanks, septic pumps and grinders, vents, lines, mains, conduits, cables, pipes and transformers, antennae, valves, wires and other materials and equipment necessary or desirable in connection with the furnishing of utility services to new and existing permitted residences and Improvements on the Residential Lots, to the barn, the stable complex and the caretaker's cottage and any permitted new agricultural or related structures (accessory to natural community management, agricultural, horticultural or silvicultural uses and educational programs intended to promote a greater understanding of conservation, agriculture and farming issues) on the Farm, to the horse barn located in the Central Field, as the same may be relocated, to the barn that may be located on Lot J and to the Central Field for irrigation of crops and watering of livestock. The piping for all vents associated with septic systems or other sanitary sewerage disposal systems shall be no greater than four feet (4') in height for those vents located in the Central Field and no greater than twelve feet (12') in height for all other vents, and all such vents whether in or outside of the Central Field shall be screened from view with vegetation otherwise permissible under this Conservation Restriction. Without limiting the foregoing, any existing overhead wires shall be buried underground (subject to approval and permission of any owner of such wires) and all new utilities shall be buried underground. Notwithstanding the foregoing, in no event shall such water wells, septic systems or sanitary sewerage disposal systems be permitted in the East Field or on the Beach, and such water wells, leach fields, septic tanks and vents shall only be permitted in the Central Field provided Grantee shall have determined and confirmed in writing that such water wells, leach fields, tanks and vents shall not adversely impact the agricultural use of the Central Field or the conservation use or the water quality and health of Edgartown Great Pond or Crackatuxet Cove.

(3) Rights of way, roads, driveways, pathways, trails, parking areas, and unpaved cartways consistent with the residential character of the Residential Lots and the agricultural character of the Farm and the Central and East Fields including, without limitation, those shown on the Plan, such as the ways shown as Herring Creek Farm Lane, Butler's Neck Road, Cove Road, "30' Way", "15' Way", "Way (8 ft. wide)" and the "Way" on the Plan, the "Way (15.00 Wide)" shown on Land Court Plan No. 13419X, the "Way (30.00 ft. wide)", the "Way 30 ft. wide", the "Way (40 ft. wide)", the "Way (8 ft. wide)", the "Way", the "Way (15 ft. wide)", all as shown on Land Court Plan No. 34423A, the "Way" shown on Land Court Plan No. 13419-2, as the same may be relocated in a manner consistent with the purpose of this Conservation Restriction, the way to the Beach, as the same may be relocated in a manner consistent with the purpose of this Conservation Restriction, and any other traveled ways that exist or may exist from time to time on Herring Creek Farm. Without limiting the foregoing, any existing paved roadways, driveways and parking areas may

be maintained as such or may be resurfaced in the manner of a new roadway as described below, but any new roadways and driveways shall be constructed in a manner substantially similar to existing roadways, except that no new roadways, driveways or parking areas will be paved with any impervious surface, but will be constructed as follows:

> Each new road shall be cut in, the topsoil and grass removed from the site, screened hardener put in place so as to build the subgrade up slightly above the existing road edges, and six inches (6") of brown dense mix added to cap off the hardener. The new roads shall be plus or minus eleven feet (11') wide and would be crowned, compacted with a ten-ton roller, and have turnouts. Gravel shall not be used in the construction or maintenance of the new roads.

(4) Temporary out-buildings and/or trailers customarily used during construction of a house shall be permitted only during such construction (which temporary structures shall also be permitted during construction within a twenty-five foot (25') construction zone around each Development Envelope).

(5) Fences related to agricultural and farm uses and activities and any fences or shrubbery or plantings necessary or desirable to create visual boundaries and privacy around the structures or other improvements on the Lots or around the Lots or around the East Field, provided that no solid fences shall be permitted (except stone walls are permitted on the Farm and a solid fence is permitted along the boundary line between the Farm and Blue Heron) and no fences, shrubbery or plantings shall materially obstruct the viewshed from Herring Creek Road across the East Field to the Farm. Gates shall also be permitted, subject to written approval by the Association in the case of all gates except those used for agricultural and farming purposes. Fences and gates on the Central Field, East Field and Farm used for agricultural purposes shall be permitted, provided that such fences and gates shall be wooden "split rail" or, with respect to fences on the interior of the Central Field (but not on the perimeter of the Central Field), neutral colored post-and-wire or other material approved by the Association by a two-thirds (2/3) vote of the Association. Snow fencing may be used on the Beach for dune preservation or nesting area exclosures in connection with the management of the Beach.

(6) (a) One permanent sign indicating the name and/or address of the Owner of the Lot on which such sign is located; (b) a permanent sign six (6) square feet in area indicating the name and/or address of the Owner of the Farm and (c) a permanent sign six (6) square feet in area indicating the name and/or address of the Owner of the Central Field and the East Field. No sign of the nature described in (a) above shall exceed one and one-half (1½) square feet in area.

(7) Limited and minor Improvements customarily accessory to a residential subdivision on Martha's Vineyard including, without limitation, directional signage (meeting the size requirements set forth in this instrument), front and rear entry improvements, fire protection equipment (including, without limitation, if necessary, enunciator panels), mailboxes and dumpsters within dumpster enclosures.

(8) Sluiceways and related structures, alterations or improvements as may, from time to time, be necessary or desirable to promote the flow of water between Edgartown Great Pond and Crackatuxet Cove, including the right for others to cross the Property in connection with the maintenance thereof.

D. Open Space Management:

The Owners shall manage their respective Private Open Space, Grantor and the Association shall manage the Beach and Grantor shall manage the Central Field and the East Field. All such management shall be in accordance with the Open Space Management Plan, as said plan may be amended from time to time pursuant to the terms thereof, which plan is annexed hereto as **Exhibit C** and incorporated herein by reference, and to that end:

(1) Grantor may determine from time to time in the good faith exercise of its professional judgment which portions of the Central Field and the East Field will be devoted to agricultural and/or farming use, the crops that will be produced thereon, the livestock that will be allowed to exist within Central Field and the East Field and where such livestock will be permitted to graze.

(2) Grantor may determine from time to time in the good faith exercise of its professional judgment, subject to any continuing outdoor recreational rights of the other Owners as permitted under subparagraph 4 of paragraph A of Article VI, which portions of the Central Field and the East Field shall be for restoration and management of native grasslands and other natural communities.

(3) Grantor may ensure in the good faith exercise of its professional judgment that the uses of the Central Field and the East Field shall be limited to agricultural, farming or other conservation uses, such as natural community management, rare species protection, ecologically compatible agricultural, horticultural, silvicultural and farming activities and educational programs intended to promote a greater understanding of conservation, agriculture and farming issues including, without limitation, crop, hay and flower production, cultivation and harvesting and grazing and pasturage for livestock (with the written permission of the Owner of the East Field with respect to grazing and pasturage for livestock in the East Field) and grazing of privately-owned horses in the Central Field.

(4) Grantor may determine from time to time in the good faith exercise of its professional judgment, subject to any continuing outdoor recreational rights of the other Owners as permitted under subparagraph 4 of paragraph A of Article VI, whether portions of the Central Field and the East Field will be allowed or encouraged to succeed from one natural condition to another (e.g., from cropland to sandplain grassland/meadow).

(5) Grantor and Grantee may enforce against all persons the retention of the Private Open Space and the Herring Creek Farm Open Space predominantly in its natural, scenic and open space condition or in agricultural, farming, forest or other conservation use in conformity with the provisions of Article V and Article VI of this instrument.

E. Conveyance:

Nothing contained in this instrument shall be construed to prohibit the right to convey into separate ownership each of the Residential Lots (Lots A, B, C, D, E-1 and E-2 (which Lots E-1 and E-2 shall at all times be held in common ownership), F, G, H, I and Blue Heron), the Farm, the Central Field, the East Field, the Beach and Lot K, provided, pursuant to the provisions of Article VII.K hereof, Grantor incorporates the terms of this Conservation Restriction by reference in any deed or other legal instrument by which it divests itself of any interest in all or a portion of the Property, including, without limitation, a leasehold interest.

F. Lot B Excluded Area:

Grantor reserves for itself and for the Owner of Lot B the following right with respect to the Lot B Excluded Area:

Provided the Lot B Excluded Area is combined with land lying southwesterly of said Lot B which is shown on the Plan as "Marshall N. & Judith F. Cohan" (the "M. Cohan Land") at any time within five (5) years after the Effective Date of this instrument, then the Lot B Excluded Area shall not after such combination be subject to any of the restrictions or other terms of this instrument; provided, however, that during such five (5) year period no structures or other improvements shall be constructed within the Lot B Excluded Area unless the same has in fact been combined with the M. Cohan Land. If the Lot B Excluded Area is not so combined with the M. Cohan Land on or before the expiration of such five (5) year period, then the Lot B Excluded Area shall thereafter be fully subject to all restrictions and other terms of this instrument.

G. Subdivision of Lot K:

Grantor reserves for itself and for the Owner of Lot K the right to subdivide and convey into separate ownership Lot K, provided all portions of Lot K shall remain subject at all times to the restrictions set forth herein generally and specifically with respect to the Central Field.

H. Leasing:

Nothing contained in this instrument shall be construed to prohibit the right to lease or grant other less-than-fee interests in all or any portion the Property for any use permitted by this Conservation Restriction.

I. Consolidation Plan:

Nothing contained in this instrument shall be construed to prohibit Grantor and Grantee from supplementing this Conservation Restriction upon the recordation and filing of the Consolidation Plan solely to replace references herein to the Lot numbers as shown on the Plan with references to the Lot numbers as shown on the Consolidation Plan.

VII. GENERAL PROVISIONS:

A. Pre-existing Rights of the Public and General Public Access.

Approval of this Restriction pursuant to M.G.L. Chapter 184, Section 32 by any municipal officials and by the Secretary of Environmental Affairs is not to be construed as representing the existence or non-existence of any pre-existing rights of the public, if any, in and to the Property, and any such pre-existing rights of the public, if any, are not affected by the granting of this Conservation Restriction. The restrictions hereby imposed do not grant to the general public, nor to any other person, any right of access to any portion of the Property, unless and to the extent expressly herein provided.

B. Undertaking.

Grantor and Grantee understand and agree that construction activity and related development activity, such as the building of roads and residences, may have a temporary, localized adverse impact on certain of the Conservation Values of the Property and those to or in which Grantor has transferred or created enforcement rights agree herein to exercise their monitoring and enforcement responsibilities under this Conservation Restriction in recognition of the likelihood of such temporary disturbance. It is understood and agreed by Grantor that, because such construction activity and development activity may have such temporary adverse impact, Grantor will use all reasonable and necessary efforts to see to it that to the maximum extent possible such activities are carried out in a way not inconsistent with the purpose of this Conservation Restriction that minimizes any temporary adverse impact on the Conservation Values of the Property.

C. Amendment.

If circumstances arise under which an amendment to, or modification of, this instrument would be appropriate with respect to all or any portion of the Property, any Owner(s) affected by such circumstances may seek an amendment to or modification of this Conservation Restriction and Grantor, Grantee (with the

approval of the Secretary of Environmental Affairs and the Edgartown Selectmen where required by law), and the Association (with a two-thirds (2/3) vote of the Association), provided the Association (or any successor organization) is still in existence, may jointly amend this instrument, provided that no amendment shall be allowed that will affect the qualification of this instrument under any applicable laws, including Massachusetts General Laws Chapter 184, Sections 31 through 33, and any amendment shall be consistent with the purpose of this instrument, shall not affect perpetual duration and shall not adversely impact the Conservation Values of the Property. Any such amendment shall be recorded in the Registry and filed with the Land Court and shall not be effective prior to such recordation and filing. Nothing in this paragraph shall require Grantor or Grantee to agree to any amendment or to consult or negotiate regarding any amendment. Notwithstanding the foregoing, Grantor and Grantee shall have no right or power to agree to any amendment or modification that would result in the termination of this Conservation Restriction or that would allow any residences, commercial, commercial recreational, large-scale commercial agricultural or farming or industrial structures or any commercial, commercial recreational, large-scale commercial agricultural or farming or industrial activities not provided for above.

D. Effective Date.

Grantor intends that the restrictions arising hereunder take effect on the day and year above written, and to the extent any enforceability by any person ever depends upon the approval of governmental officials, such approval when given shall relate back to the day and year above written, regardless of the date of actual approval and the date of filing or recording of any instrument evidencing such approval.

E. Recording.

Grantee shall record this instrument in timely fashion in the Registry and shall file the same in a timely fashion in the Land Court and may rerecord it at any time as may be required to preserve its rights in this instrument.

F. Controlling Law.

The interpretation and performance of this instrument shall be governed by the laws of the Commonwealth of Massachusetts.

G. Liberal Construction.

Any general rule of construction to the contrary notwithstanding, this instrument shall be liberally construed in favor of the purpose of this instrument and the protection of the Conservation Values of the Property. If any provision in this instrument is found to be ambiguous, an interpretation consistent with the purpose of this instrument that would render the provision valid shall be favored over any interpretation that would render it invalid.

H. Severability.

If any provision of this instrument or the application thereof to any person or circumstances is found to be invalid, the remainder of the provisions of this instrument shall be not affected thereby.

I. Entire Agreement.

This instrument sets forth the entire agreement of the parties with respect to the matters covered hereby and supersedes all prior discussions, negotiations, understandings or agreements relating to such matters, all of each are merged herein and therein. No alteration or variation of this instrument shall be valid or binding unless contained in an amendment that complies with paragraph C of this Article VII.

J. Binding Restrictions.

The covenants, restrictions, and easements of this instrument shall run with the Property and shall be binding upon and inure to the benefit of Grantor, Grantee, all current and future Owners of the Property and Blue Heron, and their respective lessees, and the Association and their respective successors and assigns, and shall continue as a servitude running in perpetuity with the Property, provided that no Owner shall be responsible except for violations occurring on such Owner's land during the period in which such Owner is a holder of an interest therein.

K. Subsequent Transfers.

Grantor agrees to incorporate by reference the terms of this Conservation Restriction in any deed or other legal instrument by which it divests itself of any interest in all or a portion of the Property, including, without limitation, a leasehold interest. Grantor further agrees to give ten (10) days' prior written notice to Grantee of any such transfer of Grantor's interest in all or any portion of the Central Field (excluding any lease thereof entered into on or around the Effective Date of this Conservation Restriction) or the East Field, including, without limitation, a leasehold interest. The failure of Grantor to perform any act required by this paragraph K of this Article VII shall not impair the validity of this Conservation Restriction or limit its enforceability in any way.

L. Merger.

Grantor and Grantee herein agree that should Grantee come to own all or a portion of the fee interest in the Property, (i) Grantee as successor in title to Grantor shall observe and be bound by the terms of this Conservation Restriction, (ii) the Conservation Restriction shall not be extinguished, in whole or in part, through the doctrine of merger in view of the public interest in its enforcement, and (iii) Grantee as promptly as practicable shall assign Grantee's interests (with respect to the fee interest received) in the Conservation Restriction to another holder in conformity with the requirements of paragraph M of this Article VII. Any instrument of assignment of the Conservation Restriction or the rights

conveyed herein shall refer to the provisions of this paragraph L, and shall contain language necessary to continue the Conservation Restriction in force.

M. Conservation Assignee.

Grantor grants to Grantee (and reserves for itself) the right to assign and transfer the rights, powers and privileges hereunder, in compliance with the provisions of Article 97 of the Amendments to the Massachusetts Constitution, to a charitable corporation or trust (i) whose purposes include conservation of land or water areas (ii) who, at the time of assignment qualifies under Section 170(h) of the Internal Revenue Code of 1986, as amended, and applicable regulations thereunder and under Massachusetts General Laws Chapter 184, Section 32 as an eligible holder of this Conservation Restriction and (iii) to which the Grantee (or Grantor) assign in writing their rights, privileges, and powers hereunder. Upon any such assignment and transfer and the recordation of a written instrument evidencing such assignment and transfer, such assignee shall succeed to all of such rights, powers and privileges to the same extent and with the same force as if such assignee had been originally named herein. This instrument is not a deed and does not purport to be a transfer of a fee interest.

N. Notices.

Any notice, demand, request, consent, approval or communication that any party desires or is required to give to another party shall be in writing and sent either (i) by United States Postal Service, certified mail, return receipt requested, (ii) by any nationally known overnight delivery service for next day delivery or (iii) delivered in person, addressed as follows or to such other address as any party from time to time shall designate by written notice to the others:

To Grantor:

The Nature Conservancy
Massachusetts Field Office
205 Portland Street, Suite 400
Boston, MA 02114-1708

with a copy to:

The Nature Conservancy
Eastern Regional Office
11 Avenue de Lafayette
Boston, MA 02111
Attn: Hans P. Birle, Esq.

with a copy to:

Herring Creek Farm Landowners
Association, Inc.
P.O. Box 2780

Edgartown, MA 02539

with a copy to:

The Owners of the Lots:

To such addresses as may be provided by each Owner to the Association or the address to which the real estate tax bill for such Owner's Lot is sent if the Owner has failed to provide any address to the Association.

To Grantee:

Edgartown Conservation Commission
Box 1065
Edgartown, MA 02538

O. Certificate of Estoppel.

Grantor and Grantee shall, upon demand at any time by any Owner of (i) a Residential Lot, (ii) the Farm, (iii) the Central and East Fields or (iv) the Beach, furnish to such Owner a certificate in writing signed by a duly authorized officer of Grantor and Grantee and in a form suitable to be filed of record stating whether such Owner is in compliance with the terms and provisions of this instrument. Such certificate shall be conclusive evidence of compliance with the terms and provisions herein, and the signature of such officer shall be conclusive evidence of his or her authority to sign and deliver such certificate.

P. Captions.

The captions herein are inserted only as a matter of convenience and for reference and in no way define, limit or describe the scope of this instrument nor the intent of any provisions hereof.

Q. Waiver.

No provision contained in this instrument shall be deemed to have been abrogated or waived by reason of any failure to enforce same, irrespective of the number of violations or breaches which may occur.

R. Hazardous Material.

The applicable Owner shall hold harmless, indemnify and defend Grantee and Grantor from and against all liabilities, penalties, costs, losses, damages, expenses, causes of action, claims, demands or judgments, including, without limitation, reasonable attorneys' fees, arising from or in any way connected with the presence or release of any hazardous material or substance of any kind on such Owner's respective portion of the Property. This paragraph R shall not apply in the case of any hazardous material or substance in any manner placed on

the Property by Grantee, Grantee's representatives or agents, Grantor or Grantor's representatives or agents.

S. Indemnification.

Grantor, its successors and assigns agree to release, hold harmless, defend and indemnify Grantee from any and all liabilities including, but not limited to, injury, losses, damages, judgments, costs, expenses and fees which Grantee may suffer or incur as a result of or arising out of the activities of Grantor or its successors and assigns on the Property. Grantee agrees to release, hold harmless, defend and indemnify Grantor from any and all liabilities including, but not limited to, injury, losses, damages, judgments, costs, expenses and fees which Grantor may suffer or incur as a result of or arising out of the activities of Grantee (other than activities by Grantee in connection with its monitoring and enforcement of the provisions of this Conservation Restriction pursuant to the provisions of Article IV of this Conservation Restriction).

T. Discretionary Consent.

The consent of Grantor and Grantee to permit certain structures, alterations or other Improvements or uses, acts and activities otherwise prohibited herein may be given under the following conditions and circumstances. If, owing to unforeseen or changed circumstances, certain of the structures, alterations or other Improvements or uses, acts and activities prohibited in Article V are deemed desirable by Grantor, Grantee and the Association (by a two-thirds (2/3) vote of the Association), Grantor, Grantee and the Association (acting unanimously) may give written permission for such structures, alterations or other Improvements or uses, acts and activities, subject to the limitations herein. Such requests for permission shall be in writing and describe the proposed structures, alterations or other Improvements or uses, acts and activities in sufficient detail to allow Grantor, Grantee and the Association to judge the consistency of the proposed structures, alterations or other Improvements or uses, acts and activities with the purpose of this Conservation Restriction. Grantor and Grantee may give their permission only if they determine in consultation with the Association that such structures, alterations or other Improvements or uses, acts and activities (i) do not violate the purpose of this Conservation Restriction and (ii) either enhance or do not impair any significant Conservation Values of the Property. Notwithstanding the foregoing, Grantor and Grantee shall have no right or power to agree to any structures, alterations or other Improvements or uses, acts and activities which would result in the termination of this Conservation Restriction or to allow any residences, commercial, commercial recreational, large-scale commercial agricultural or farming or industrial structures or any commercial, commercial recreational, large-scale commercial agricultural or farming or industrial activities not provided for above.

U. Baseline Report.

The specific Conservation Values of the Property are documented in a report prepared by The Nature Conservancy and kept on file at the offices of The Nature

Conservancy, Grantee and the Association, which report shall be deemed incorporated herein by this reference (the "Baseline Report"). The Baseline Report is intended to serve as an objective information baseline for monitoring compliance with and implementation of the terms of this Conservation Restriction. The Owners will review and comment, if necessary, on the Baseline Report and submit signed certificates of approval of its contents to The Nature Conservancy and the Association, which approval shall not be unreasonably withheld. In the event an Owner disagrees with any aspect of the Baseline Report as presented, such Owner will provide a reasonably detailed explanation of the reasons for such disagreement to Grantor. As changes to the present state of the Property are contemplated in this instrument, the Baseline Report may be updated by Grantor, and Grantee and the Owners will review and approve such changes in the same manner as set forth in this paragraph T with respect to the initial Baseline Report. Copies of any such changes or supplements to the Baseline Report shall be provided to Grantee.

V. Counterparts.

This DEED OF CONSERVATION RESTRICTIONS may be executed in several counterparts and by each signatory on a separate counterpart, each of which when so executed and delivered shall be an original, but all of which together shall constitute one document.

[Signatures and Acknowledgments on Following Pages]

IN WITNESS WHEREOF, Grantor has executed this instrument under seal as of the date first written above.

GRANTOR:

THE NATURE CONSERVANCY:

By: _____
Name: Dennis B. Wolkoff
Its: V.P.

COMMONWEALTH OF MASSACHUSETTS

Suffolk County, ss. 7/4, 2001

Then personally appeared the above-named Dennis B. Wolkoff, V.P. of The Nature Conservancy, and acknowledged the foregoing instrument to be his/her free act and deed and the free act and deed of The Nature Conservancy, before me.

_____
Notary Public Cynthia Quinn
My commission expires: 12/20/07

ACCEPTANCE OF GRANT

The Deed of Conservation Restrictions is accepted this ___ day of _____, 2001.

GRANTEE:

CONSERVATION COMMISSION

By: _____
Name: _____
Its: _____

COMMONWEALTH OF MASSACHUSETTS

Dukes County, ss. _____, 2001

Then personally appeared the above-named Edward W. Vincent Jr. Chairman of the Edgartown Conservation Commission, and acknowledged the foregoing instrument to be his/her free act and deed and the free act and deed of the Edgartown Conservation Commission, before me.

Notary Public
My commission expires: MY COMMISSION EXPIRES MARCH 21, 2008

APPROVAL BY SELECTMEN

We, the undersigned, being a majority of the Selectmen of the Town of Edgartown, Massachusetts, hereby certify that at a meeting duly held on _____, 2001, the Selectmen voted to approve the foregoing Deed of Conservation Restrictions pursuant to M.G.L. Ch. 184, § 32 and M.G.L. Ch. 40, § 8C.

Selectmen

Fred B. Morgan Jr.

COMMONWEALTH OF MASSACHUSETTS

_____ County, ss. _____, 2001

Then personally appeared the above-named _____ and acknowledged the foregoing instrument to be his/her free act and deed, before me.

Notary Public
My commission expires: AUGUST 31, 2001

COMMONWEALTH OF MASSACHUSETTS

_____ County, ss. _____, 2001

Then personally appeared the above-named _____ and acknowledged the foregoing instrument to be his/her free act and deed, before me.

Notary Public
My commission expires: AUGUST 31, 2001

COMMONWEALTH OF MASSACHUSETTS

_____ County, ss. _____, 2001

Then personally appeared the above-named _____ and acknowledged the foregoing instrument to be his/her free act and deed, before me.

Notary Public
My commission expires: AUGUST 31, 2001

APPROVAL BY THE SECRETARY OF THE EXECUTIVE OFFICE OF ENVIRONMENTAL AFFAIRS

The undersigned Secretary of the Executive Office of Environmental Affairs of the Commonwealth of Massachusetts hereby certifies that the grant of the foregoing Deed of Conservation Restrictions, Herring Creek Farm, Edgartown, Massachusetts to the Conservation Commission of the Town of Edgartown in the name of the Town of Edgartown, by The Nature Conservancy, with respect to land located in Edgartown, Massachusetts, known as Herring Creek Farm and described herein as the "Property," has been approved in the public interest pursuant to Massachusetts General Laws Chapter 184, Section 32.

Date:_____

Secretary of the Executive Office of
Environmental Affairs of the
Commonwealth of Massachusetts

_____

COMMONWEALTH OF MASSACHUSETTS

_____ County, ss. _____, 2001

Then personally appeared the above-named _____ and acknowledged the foregoing instrument to be his/her free act and deed, before me.

_____
Notary Public
My commission expires:

EXHIBIT A
TO
DEED OF CONSERVATION RESTRICTIONS

LEGAL DESCRIPTION OF HERRING CREEK FARM

The land with the improvements thereon in Edgartown, Dukes County, Commonwealth of Massachusetts, more particularly bounded and described as follows:

Being (i) Lots 70 through 108, Lot 80A, Lot 81A, Lot 82A, Lot 83A, Lot 83B and Lot 84A, all as shown on a plan entitled "Plan of Land in Edgartown, Mass. Being a Subdivision of Lot 69, CP 13419-14; Scale 1" = 100'; June 15, 2001; Schofield, Barbini & Hoehn, Inc., Box 339, State Road, Vineyard Haven, Mass.; Owners: James M. Hurley, Trustee of Herring Creek Farm Trust, Certificate #5859, James M. Hurley, Trustee of Herring Creek Farm Trust, Certificate # 5746; MV 5023, C4-1 through C4-6" to be recorded in the Dukes County Registry of Deeds herewith and to be registered with the Dukes County Registry District of the Land Court as Land Court Plan 13419-15 (the "Plan"); (ii) the lot identified on Land Court Plan No. 13419A as owned by "Albert K. Vincent" which is also shown as "Wood Lot" on a plan entitled "land in Edgartown, Mass. Surveyed for B. Harrison Cohan, et als.; December 11, 1969; Scale: 1" = 200'/ Dean R. Swift, Reg'd Land Surveyor, Vineyard Haven, Mass." recorded in the Dukes County Registry of Deeds as Edgartown Case File No. 37 (to the extent of a 2/8 tenancy in common interest), (iii) Lot 104A on the Plan and (iv) Herring Creek Farm Lane, Butler's Neck Road and Cove Road, all as shown on the Plan.

Together with the benefit of rights to use Old Slough Cove Road as shown on Land Court Plan No. 34423A f or all purposes for which streets and ways may be used in the Town of Edgartown.

There is appurtenant to a portion of the aforementioned land a right of way by necessity over the land of Albert K. Vincent as shown on Land Court Plan No. 13419A.

There is appurtenant to a portion of the aforementioned land a right of way to be used as ways are ordinarily used in Edgartown to pass and repass over Lots A and B as shown on Land Court Plan No. 13419A.

Together with any and all rights of way by necessity or otherwise from any portion of the Beach as shown on such Plan to Herring Creek Farm Road or Atlantic Drive across land now or formerly owned by Henry Foley, et al, Trustees, of the Crackatuxet Trust.

For Title References, see the following sources:

1. Certificate of Title No. 5859.

2. Certificate of Title No. 5746.

3. Deed dated October 21, 1970 and recorded in the Dukes County Registry of Deeds in Book 286, Page 160.

4. Deed dated December 29, 1986 and recorded in the Dukes County Registry of Deeds in Book 464, Page 721.

EXHIBIT B
TO
DEED OF CONSERVATION RESTRICTIONS

LEGAL DESCRIPTION OF BLUE HERON

A certain parcel of land, with the buildings thereon, situate in said Edgartown, and being shown as Lot 2 on a plan of land entitled "Plan of Land in Edgartown, Mass;. Surveyed for Joseph W. Yowell Et Ux; July 14, 1973; Scale 1" = 120'; Dean R. Swift, Reg'd Land Surveyor, Vineyard Haven, Mass." recorded Dukes County Registry of Deeds Book 265, Page 181 and being further bounded and described as follows:

Northerly by Lot 1 as shown on said Plan, 150.60 feet; Southwesterly by land now or formerly of Herring Creek Farm Trust, as shown on said Plan, 199.51 feet and 199.97 feet; Southeasterly by a Right of Way (15 feet wide) as shown on said Plan, 305.75 feet; Northeasterly by land identified as "1940 L.O." as shown on said Plan, 228.17 feet; Northeasterly by Slough Cove Road 1970 L.O. as shown on said Plan, 156.97 feet.

EXHIBIT C
TO
DEED OF CONSERVATION RESTRICTIONS

OPEN SPACE MANAGEMENT PLAN

The Open Space Management Plan addresses the manner in which the Private Open Space and the Herring Creek Farm Open Space will be preserved and protected within the project development at Herring Creek Farm. The Open Space Management Plan may be amended from time to time by agreement among Grantor, Grantee and the Association. Representatives of Grantor, Grantee and the Association shall meet at least annually to discuss the results of the Open Space Management Plan over the preceding year and the goals and objectives under the Open Space Management Plan for the coming year, including any plans for prescribed burning.

Existing Conditions

As a working farm, Herring Creek Farm offers expansive open space. In addition to the open agricultural land, the site contains a variety of open spaces such as beach, dunes, thickets and wet meadow.

Existing vegetation is illustrated in Figure 1

Post-Development Condition and Mitigation

Approximately 85 percent of the existing open space will remain post-development. The areas consisting of the East Field and the Central Field will be used for the following activities, the precise locations for which activities will be determined by The Nature Conservancy after further analysis: the restoration and management of native grasslands and other natural communities, natural community management, rare species protection, ecologically compatible agricultural, horticultural, silvicultural and farming activities and educational programs intended to promote a greater understanding of conservation, agriculture and farming issues including, without limitation, crop, hay and flower production, cultivation and harvesting and grazing and pasturage for livestock (with the express, prior, written permission of the Owner of the East Field with respect to grazing and pasturage for livestock in the East Field) and grazing of privately-owned horses in the Central Field. The Beach and dune system will remain undeveloped and will be managed by the Association in conjunction with The Nature Conservancy in a manner that does not adversely impact the Conservation Values of the Property. All of such open space is subject to a non-exclusive easement set forth in that certain Amended and Restated Declaration of Covenants, Restrictions and Easements, Herring Creek Farm, Edgartown, Massachusetts (the "Amended Declaration"), recorded and filed by Grantor simultaneously with the Conservation Restrictions, which easement permits outdoor recreational activities to the extent permitted by subparagraph 4 of paragraph A of Article VI. The unique visual quality of the farm as unbroken open space (existing and proposed) is maintained by the development plan.

Uncontrolled access to the Beach and dune system, Crackatuxet Cove and Edgartown Great Pond will be discouraged due to the sensitive, fragile nature of this landform and the presence of rare species. Existing access to the Beach system and ponds will not be changed, except that the

way to the Beach may be relocated in a manner consistent with the purpose of this Conservation Restriction.

Plan

The Plan, as revised, establishes the location of rights-of-way and roadways, and the Development Envelope Plan establishes the location of the Private Open Space and the Development Envelopes within which (i) one (1) detached single-family residence, related facilities, and landscaping are permitted on each Residential Lot, (ii) residential, agricultural and farming structures, related facilities (accessory to natural community management, agricultural, horticultural or silvicultural uses and educational programs intended to promote a greater understanding of conservation, agriculture and farming issues) and landscaping are permitted on the Farm, (iii) a horse barn is permitted on the Central Field and (iv) a barn is permitted on Lot J.

Development Envelopes are designated as to size and located on the Development Envelope Plan. The sewage disposal location and water well location may be in an area outside the Development Envelopes, and in some cases may occur on separate lots. In no event shall the sewage disposal occur on the East Field or on the Beach. Such sewage disposal and water wells are permitted on the Central Field, provided Grantee shall have determined and confirmed in writing that such sewage disposal and water wells shall not adversely impact the agricultural use of the Central Field or the conservation use or the water quality and health of Edgartown Great Pond or Crackatuxet Cove.

Roadways/Driveways

The Plan, as revised, establishes right-of-way and roadway locations, such as the the ways shown as Herring Creek Farm Lane, Butler's Neck Road, Cove Road, "30' Way", "15' Way", "Way (8 ft. wide)" and the "Way" on the Plan, the "Way (15.00 Wide)" shown on Land Court Plan No. 13419X, the "Way (30.00 ft. wide)", the "Way 30 ft. wide", the "Way (40 ft. wide)", the "Way (8 ft. wide)", the "Way", the "Way (15 ft. wide)", all as shown on Land Court Plan No. 34423A, the "Way" shown on Land Court Plan No. 13419-2, as the same may be relocated in a manner consistent with the purpose of this Conservation Restriction, and the way to the Beach, as the same may be relocated in a manner consistent with the purpose of this Conservation Restriction. New roadways shall be approximately 10 foot traveled width with three foot shoulders. Existing paved roadways, driveways and parking areas may be maintained as such or may be resurfaced in the manner of a new roadway as described below, but any new roadways and driveways shall be constructed in a manner substantially similar to existing roadways, except that no new roadways, driveways or parking areas will be paved with any impervious surface, but will be constructed as follows:

> Each new road shall be cut in, the topsoil and grass removed from the site, screened hardener put in place so as to build the subgrade up slightly above the existing road edges, and six inches (6") of brown dense mix added to cap off the hardener. The new roads shall be plus or minus eleven feet (11') wide and would be crowned, compacted with a ten-ton roller, and have turnouts. Gravel shall not be used in the construction or maintenance of the new roads.

At least one turnout will be provided where horizontal site distance is less than 200 feet or at the discretion of the Edgartown Planning Board.

Any Lots to be served by Town water to be installed underground in the roadway shoulders. Utilities, including, without limitation, electricity, telecommunications and gas, to be installed underground in roadway shoulders. Sewer pipes will be constructed beneath the roadways, or traveled way of the roads, within the Subdivision.

Location of driveways will be set from right-of-way to Development Envelope and will be located so as to reduce impact on the thicket. Driveways shall be 10 feet wide and constructed of natural sand or stone or finished with a permeable surface, except that existing paved driveways may remain as such.

Where residences are sited in clusters and/or can be served by a shared drive, a common drive and compatibly arranged garages are required, except that Blue Heron and the Farm shall not be required to share a driveway.

Parking will be permitted along the shoulder of the site roads only in designated locations.

Intent of the Management Plan

It is the intent of the plan for development of Herring Creek Farm, as provided for in this instrument, that the environment for wildlife and plant diversity on and around the farm property not be adversely impacted. It is also the intent that the visual character of Herring Creek Farm with its open sweeps of landscape be maintained, that the ability to maintain farm uses be achieved, and that trees and fences be used to frame the open space, to create visual boundaries and privacy around the structures or other improvements on the Lots or around the Lots and to integrate structures into the land.

The Open Space Management Plan for those areas not included in Development Envelopes and roadways accomplishes the intended outcomes through two basic management strategies. First, those areas consisting of wetland, woodland and beach will be preserved largely in their entirety as open space and habitat. Second, those areas currently in fields will be largely maintained in open space as grassland, agricultural, farming or other conservation uses.

The open space in the Central Field and the East Field will be devoted to the restoration and management of native grasslands and other natural communities, protection of rare species, conservation, agricultural and farm uses and activities intended to promote a greater understanding of such uses, including, without limitation, crop, hay and flower production, cultivation and harvesting and grazing and pasturage for livestock in the Central Field and the East Field (with the express, prior written permission from the Owner of the East Field) and grazing of privately-owned horses in the Central Field. Both such fields are subject to a non-exclusive easement set forth in the Amended Declaration, which easement permits outdoor recreational activities to the extent permitted by subparagraph 4 of paragraph A of Article VI; provided such outdoor recreational activities do not interfere with those areas of the Central Field dedicated from time to time to agricultural use and, with respect to the East Field, are limited to a perimeter trail to be established by the Owner of the East Field, the use of which perimeter trail may be restricted by the Owner during the Owner's use of prescribed burning thereon. Another type of field open space, transitional areas, are located primarily in the Private Open Space and will be either maintained in meadow grasses or allowed to succeed over time to a more thicket-like condition.

Management Strategy

The following are the essential characteristics of the management strategy for each of the land areas.

1. Wetlands - areas bordering and including the fresh water ponds, salt marsh along the edge of Edgartown Great Pond and Crackatuxet Cove, and wet thickets.

- Access to edges will be limited to the Owner of the Lot.

- Access to Great Pond and Crackatuxet Cove is limited by rules and regulations related to use and access to the Pond adopted by the Town of Edgartown, the Martha's Vineyard Commission and the Commonwealth of Massachusetts, and in effect as of July 20, 1998.

- Operation and maintenance of sluiceway will be coordinated with the Town, which maintenance may include, without limitation, the removal of Invasive Plant Species, such as Phragmites and Purple Loosestrive.

2. Beach and Dune - areas along the ocean front shall be managed by the Association in conjunction with The Nature Conservancy in a manner that does not adversely impact the Conservation Values of the Property.

- No motorized vehicles on the Beach south of the Sluiceway, except for security, emergencies, The Nature Conservancy's or the Association's beach management activity, or municipal maintenance and dredging of the Sluiceway and the breach between Edgartown Great Pond and the Atlantic Ocean and only in a manner that does not adversely impact the Conservation Values of the Property. To the extent necessary to preserve or abate damage to the dunes, points of access across primary dunes will be posted by the Association in consultation with The Nature Conservancy; however, every reasonable effort will first be made to communicate this information by other means, including orally, by posting near any parking area for the Beach designated by the Association on a sign not to exceed 1 ½ sq. ft., or by written communication at the address of record for each Owner.

- So-called "roll-up" wooden walkways (where appropriate to avoid or abate damage to dunes) and sluiceway bridges to Beach will be provided. Walkways will be seasonally removable and relocatable in response to nesting shorebird activity.

- Interpretive signage will be provided that focuses on protecting sensitive areas; however, every reasonable effort will first be made to communicate this information by other means, including orally, by posting near any parking area for the Beach designated by the Association on a sign not to exceed 1 ½ sq. ft., or by written communication at the address of record for each Owner..

- Beach manicuring, such as raking, will be prohibited.

- The nesting and feeding habitat of shorebirds will be managed, including the monitoring of breeding activity and protection of nests; provided, however, such protection shall in no event prevent access to the Beach by those entitled thereto.

3. Oak Woodland - north of entry road and Central Fields.

- Natural succession will be allowed, including non-removal of blowdowns. Selective cutting is allowed on the Property by (a) the Owners when such cutting is required to (i) clear such vegetation to allow for construction permitted hereunder within their respective Development Envelopes, (ii) clear such vegetation from locations where it poses a threat to the dwellings, other structures or other improvements on their respective Lots, (iii) preserve views and selectively clear views (with the written approval of Grantee), including, without limitation, the creation of fifteen degree (15°) view channels on their respective Lots (with the written approval of Grantee), and (iv) make trails for horseback or bicycle riding or pedestrian access to or through their respective Lots in a manner that is consistent with the terms and provisions of this instrument and (b) by The Nature Conservancy with respect to the Herring Creek Farm Open Space or by the Owners in consultation with The Nature Conservancy with respect to their respective Private Open Space and Development Envelopes when such cutting is required to (i) manage rare species habitat, (ii) manage native grassland and other natural communities, (iii) remove Invasive Plant Species, and (iv) maintain the viewshed from Herring Creek Road across the East Field to the Farm.

- Wildlife diversity will be promoted.

4. Shrub Thickets - between fields and wetlands.

- Selective cutting is allowed on the Property by (a) the Owners when such cutting is required to (i) clear such vegetation to allow for construction permitted hereunder within their respective Development Envelopes, (ii) clear such vegetation from locations where it poses a threat to the dwellings, other structures or other improvements on their respective Lots, (iii) preserve views and selectively clear views (with the written approval of Grantee), including, without limitation, the creation of fifteen degree (15°) view channels on their respective Lots (with the written approval of Grantee), and (iv) make trails for horseback or bicycle riding or pedestrian access to or through their respective Lots in a manner that is consistent with the terms and provisions of this instrument and (b) by The Nature Conservancy with respect to the Herring Creek Farm Open Space or by the Owners in consultation with The Nature Conservancy with respect to their respective Private Open Space and Development Envelopes when such cutting is required to (i) manage rare species habitat, (ii) manage native grassland and other natural communities, (iii) remove Invasive Plant Species, and (iv) maintain the viewshed from Herring Creek Road across the East Field to the Farm.

- Natural succession of thickets will be encouraged. Wildlife tunnels will be provided under drives where necessary to allow wetland access for fossorial species.

5. Hedgerows

- Allowed to provide screening and definition of the Private Open Space.

- Indigenous species of native Vineyard genetic stock will be selected.

- A plant materials list for hedgerow areas shall be submitted to and approved in writing by Grantee prior to installation.

6. Transitional Areas - smaller units of land in the Private Open Space will be either meadow grass or natural succession.

- Grasses, wildflowers, eastern red cedars and plants of native Vineyard genetic stock will be planted.

- Areas will be allowed to succeed naturally or will be mowed.

7. Restoration and Agriculture (Central Field, East Field and the Farm)

- Restoration and management of native grasslands and other natural communities.

- Groundwater will be protected by elimination and, with respect to the East Field, exclusion of crops requiring fertilization. Use of synthetic fertilizers is prohibited.

- Management will be coordinated by The Nature Conservancy.

- Agriculture, farming or other conservation uses, such as natural community management, ecologically compatible agricultural, horticultural, silvicultural and farming activities and educational programs intended to promote a greater understanding of conservation, agriculture and farming issues including, without limitation, crop, hay and flower production, cultivation and harvesting and grazing and pasturage for livestock on the Central Field, the Farm and the East Field (with the express, prior, written permission of the Owner of the East Field) and grazing of privately-owned horses on the Central Field.

EXHIBIT D
TO
DEED OF CONSERVATION RESTRICTIONS

INVASIVE PLANT SPECIES

WIDESPREAD AND INVASIVE

Ailanthus altissima (Mill.) Swingle	Tree-of-heaven
Alltaria petiolata (Bieb.) Cavara & Grande	Garlic Mustard
Berberis thumbergii DC.	Japanese Barberry
Celastrus orbiculatus Thunb.	Asiatic Bittersweet
Centaurea biebersteinii DC.	Spotted Knapweed
Euphorbia cyparissias L.	Cypress Spurge
Frangula alnus Mill.	European Buckthorn
Hesperis matronalis L.	Dame's Rocket
Lonicera xbella Zabel	Bella Honysuckle
Lonicera Morrowii A. Gray	Morrow's Honeysuckle
Lythrum salicarla L.	Purple Loosestrife
Nasturtium officinale R. Br.	Watercress
Phragmites australis (Cav.) Trin.	Common Reed
Polygomun cuspidatum Sieb. & Zucc.	Japanese Knotweed
Rhamunus cathartica L.	Buckthorn
Robinia pseudoacacia L.	Black Locust
Rosa multiflora Thumb.	Multiflora Rose
Tussalogo farfara L.	Coltsfoot
Vincetoricum nigrum (L.) Moench.	Black Swallow-wort

RESTRICTED AND INVASIVE

Aegopodium podagraria L.	Goutweed
Ampelopsis brevipedunculato (Maxim.) Trautv.	Porcelain Berry
Butomus umbellatus L.	Flowering-rush
Cabomba caroliniana A. Gray	Fanwort
Cardarnine impatiens L.	
Elaegnus umbellata Thumb.	Autumn Olive
Euonymus alatus (Thumb.) Sieb.	Winged Euonymus
Glyceria maxima (Hartman) Holmburg	Tall Mannagrass
Iris pseudacorus L.	Yellow Iris
Lepidium latifolium L.	Tall Pepperwort
Lonicera japonica Thumb.	Japanese Honeysuckle
Lystmnachia nummularia L.	Moneywort
Lystmachia vulgaris L.	Garden Loosestrife
Microstegium vimineum (Trin.) A. Camus	Japanese Stilt Grass
Myriophyllum heterophylhan Michx.	Variable Water-milfoil
Myriophyllum spicatum L.	European Water-milfoil
Potamogeton crispus L.	Crispy-leaved Pondweed

Rubus phoentcolasias Maxim.	Wineberry
Trapa natans L.	Water Chestnut
Vincetoxicum rossicum (Kleo.) Barb.	Swallow-wort
	Bamboo
	Horseradish
	Mint

POTENTIALLY INVASIVE

Acer ginnala L.	Amur Maple
Acer platanoides L.	Norway Maple
Acer pseudolplatanas L.	Sycamore Maple
Acorus calamus L.	Sweet Flag
Aira caryophyllea L.	Silver Hairgrass
Allium vineale L.	Wild Garlic
Alnus glutinasa (L.) Gaertner	European Black Alder
Amorpha fruticosa L.	False Indigo
Athraxon hispidus (Thumb.) Makino	
Berberis vulgaris L.	Barberry
Bronus tectorum L.	Dropping Brome-grass
Calltriche stagnalis Scop.	
Carex kobomugi Ohwi	
Catalpa bignonioides Walter	Southern Catalpa
Catalpa speciosa Warder	Northern Catalpa
Cirshan avrense (L.) Scop.	Canada Thistle
Cirsium palustre (L.) Scop.	Marsh Thistle
Cycloloma atriplicifolium (Spreng.) Coult.	Winged Pigweed
Cyrisus scoparius (L.) Link	Scotch Broom
Datura stramonium L.	Jimsom-weed
Deschampsia caespitosa (L.) Beauv. var. parviflora (Thuil.) Richter	Tufted Hairgrass
Egeria densa Planchon	Brazilian Water-weed
Elaegnus angustifolia L.	Russian Olive
Elsholtzia ciliata (Thumb.) Hylander	Elsholtzia
Epilobium hirsutum L.	Hairy Willow-herb
Euphorbia esula L.	Leafy Spurge
Froelichia gracilis (Hook.) Moq.	Cottonwood
Geranium nepalense Sweet	Nepalese Crane's-bill
Glechoma hederacca L.	Gill-over-the-ground
Humulus japonicus Sieb. & Zucc.	Japanese Hops
Hydrilla verticiliata (L.f.) Royle	Hydrilla
Hydrocharis morsus-ranae L.	European Frog's bit
Impatiens glandulifera Royle	
Kochia scoparia (L.) Schrader	Summer Cypress
Ligustrum obtrusifolium Sleb. & Zucc.	Border Privet
Ligustrum ovalifollum Hassk.	California Privet
Ligustrum vulgare L.	European Privet
Lonicera maackii (Rupr.) Maxim.	Amur Honeysuckle
Lonicera tatarica L.	Tatrarian Honeysuckle

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Lanicera xylosieum L.	European Fly-honeysuckle
Lychnis flos-cululi L.	Ragged Robin
Marsilea quadrifolia L.	Water Shamrock
Miscanthus sinensis Anderss.	Eulalia
Myosotis scorpioides L.	Forget-me-not
Myriophyllum acq. ...ium (Vell.) Verdc.	Parrotfeather
Najas minor Allions	Eutrophic Water-nymph
Nelumbo lutea (Willd.) Pers.	American Water Lotus
Nymphoides peltata (Gmel.) Kumtze	Yellow Floating Heart
Ornithogalum umbellatan L.	Star of Bethlehem
Paulownia tomentosa (Thumb.) Steudel	Empress-tree
Phalaris arundinacea L.	Reed Canary-grass
Poa compressa L.	Canada Blue-grass
Polygonum cespitasum Blume	
Polygonum perfoliatum L.	Mile-a-Minute Vine
Populus alba L.	White Poplar
Pueraria lobata (Willd.) Owhi	Kudzu-vine
Rammculus ficaria L.	Lesser Celandine
Rumex acetosella L.	Sheep Sorrel
Senecio jacobea L.	Stinking Willie, Tansy Ragwort
Silphium perfoliatum L.	Cup-plant
Solanum dulcamara L.	Climbing Nightshade
Valeriana officinalis L.	Garden-heliotrope
Veronica beccabunga L.	Brooklime

ADDITIONAL POTENTIALLY INVASIVE TAXA

Azolla caroliniana Willd.	Eastern Mosquito Fern
Eichhornia crassipes (Mart.) Solms-Laub.	Water Hyacinth
Pistia stratiates L.	Water Lettuce

Suggested for inclusion but in need of supporting documentation:

Eragrostis curvula (Sohrader) Nees	Weeping Love-grass
Lespedeza cuneata (Dumont) G. Don	
Phellodendron japonicum Maxim	Cork-tree
rosa rugosa Thumb.	Japanese Rose
Taxus cuspidata Sieb. & Zucc.	Japanese Yews

EXHIBIT E
TO
DEED OF CONSERVATION RESTRICTIONS

HERRING CREEK FARM LOT NUMBERS

Lot	Subdivision Plan*	Plan	Consolidation Plan
Farm	1 and 33	71 & 103	1
A	2	72	2
B	3	73	3
C	4	74	4
D	5-9	75-79	5
E-1	10	80+80A	6.B
E-2	11-12	81+105+81A+82+106+82A	6.A
F	13-15	83+83A+83B+84+107+108 +84A+85	7
G	16-17	86-87	8
H	18-20	88-90	9
I	30-31	100-101	10
J	32 (part of East Field)	102	
K	29 (part of Central Field)	99	
Central Field	21-28	91-98	
East Field	East Field	70	
Beach	Beach	104+104A	
Blue Heron	John H. Wallace Et. Al.	John H. Wallace Et. Al.	

*That certain definitive subdivision plan entitled "Herring Creek Farm, Edgartown, Massachusetts" by Sasaki Associates, Inc., 64 Pleasant Street, Watertown, MA 02172, Project No. 71800 and Schofield, Barbini & Hoehn, Inc., 97 State Road, Vineyard Haven, MA 02568, dated July 23, 1999 (the "Subdivision Plan"), which Subdivision Plan was approved by the Edgartown Planning Board and the Martha's Vineyard Commission and recorded with the Registry as Edgartown Case File No. _____. See Stipulation and Agreement by and between Stuart R. Johnson, Trustee of Herring Creek Farm Trust, Stuart R. Johnson, Trustee under Declaration of Trust dated April 26, 1976 and The Nature Conservancy to be recorded and registered herewith.

EXHIBIT F
TO
DEED OF CONSERVATION RESTRICTIONS

LEGAL DESCRIPTION OF THE LOT B EXCLUDED AREA

The Lot B Excluded Area shall mean the portion of Lot B which is bounded and described as follows: beginning at the corner where the northwesterly boundary of Lot C meets the southwesterly boundary of Lot B; thence running northeasterly along said northwesterly boundary of Lot C for a distance of 85 feet; thence turning at a right angle to the northwest and running northwesterly for a distance of 150 feet; thence turning at a right angle to the southwest and running southwesterly for a distance of 45 feet; thence turning at a right angle again to the northwest and running northwesterly for a distance of 200 feet; thence turning at a right angle again to the southwest and running southwesterly to the southwesterly boundary of Lot B (i.e., the common boundary with the M. Cohan Land); and thence turning to the southeast and running southeasterly along said common boundary a distance of 380 feet more or less to the point of beginning.

CHOATE, HALL & STEWART

MEMORANDUM

To: Hans P. Birle, Esq.

cc: Roger Bamford
Kenneth Glusman, Esq.

From: Frank Giso III, PC

Date: October 18, 2001

Re: Status of Negotiations with Herring Creek Acquisition Company Regarding "Tax Make-Whole Payment"

The basic deal between The Nature Conservancy ("TNC") and Herring Creek Acquisition Company ("HCAC") is that TNC will cover any tax liability incurred by HCAC as a result of TNC's having conveyed Lots 2 and 3, Blue Heron and Sanderling (collectively, the "Conveyed Lots") to HCAC for no consideration, but subject to the further agreement that TNC will receive a credit against the "tax make-whole payment" (the "TMW Payment") to reflect the charitable deductions that HCAC will be able to pass through to its members based upon HCAC having made a bargain sale gift to TNC (the "Bargain Sale Gift") of some portion of the "preemptive rights" under the so-called 1969 Agreement. Currently, there is a $3,299,000 (plus some amount of accrued interest) escrow account (of which Dan Gleason of Nutter, McClennan & Fish and I are the co-escrow agents) to cover the TMW Payment.

Calculation of TMW Payments Prior to Giving Any Effect To Bargain Sale Gift.

HCAC and TNC have agreed that (a) the federal tax component of the TMW Payment will be calculated by multiplying the fair market value ("FMV") of the Conveyed Lots by .2 and then dividing that product by .8 and (b) the state tax component of the TMW Payments will be calculated by multiplying the FMV of the Conveyed Lots by .05 and then dividing that product by .95. Bob LaPorte of Meredith & Grew provided a real estate appraisal which states that the FMV of the Conveyed Lots is $6,375,000. Using this FMV and the agreed upon formula, the TNW Payment before giving any effect to the Bargain Sale Gift would be as follows:

Federal Component: $6,375,000 x .2 ÷ .8 =	**1,593,750.00**
State Component: $6,375,000 x .05 ÷ .95 =	**335,526.00**
Total TMW Payment:	**$1,929,276.00**

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Calculation Of Bargain Sale Gift

The first step in establishing the Bargain Sale Gift is establishing an FMV for the "preemptive rights". Bob LaPorte has appraised the "preemptive rights" at $14,000,000 and a second appraiser, David Witwer (Appraisal/Economics, Inc. in Chicago, Illinois) has also concluded that the "preemptive rights" are worth at least $14,000,000 (although Witwer employed a dramatically different methodology for his valuation than did LaPorte who established that value on more or less a real estate appraisal analysis). HCAC has indicated that it is willing to agree that the "preemptive rights" have a value of $14,000,000. Thus, the Bargain Sale Gift will equal $14,000,000 minus the total consideration received by HCAC from TNC in connection with TNC's acquisition of the "preemptive rights". After a fair amount of debate and discussion between Ken Glusman and I on behalf of TNC and Karl Fryzel and Dan Gleason on behalf of HCAC, the current positions of the respective parties regarding the calculation of the Bargain Sale Gift are set forth on the attached Chart 1.

The Bargain Sale Gift amount in the TNC column on Chart 1 will obviously increase as the TMW Payment is decreased to reflect the credit for the Bargain Sale Gift (although my algebra skills are far too limited to include any detail in this memo as to exactly how the variable for the TMW Payment and the variable for the Bargain Sale Gift figure are finally brought into equipoise with one another). Based on the current statements made by Fryzel and Gleason, they and HCAC have determined that the Bargain Sale Gift amount is more or less $1,000,000 and so it would appear that Fryzel and Gleason would simply adjust one of the other items in the HCAC column on Chart 1 (most likely the "enhancement" value item) to offset any reduction in the TMW Payment line item so as to maintain a bottom line Bargain Sale Gift calculation of roughly $1,000,000.

Applying Credit For Bargain Sale Gift To The TMW Payment

There also seems to be some disagreement between TNC and HCAC as to how the credit for the Bargain Sale Gift is reflected in the TMW Payment. TNC takes the position that the total amount of the Bargain Sale Gift should be deducted from the FMV for the Conveyed Lots prior to calculating the federal tax component of the TMW Payment. The reference in the Agreement between TNC and HCAC that the tax savings for the gift would be "calculated on the basis of a presumed federal tax rate of 20%" was meant to show that the tax savings would be deemed to parallel the capital gain rate of 20% that would be applied to the overall transaction as a capital transaction (and would not be based on the actual tax savings to those members of HCAC who would be using their share of the charitable deduction against income that was taxed at a rate significantly higher than 20%). Since there is no charitable deduction available against state income taxes in Massachusetts (and it was the Massachusetts capital gain rate that was used to calculate the state component of the TMW Payment), there was no corresponding credit to the state component of the TMW Payment calculation. HCAC contends that the credit for the Bargain Sale Gift should simply be 20% of the Bargain Sale Gift amount and nothing more; that is, there should be no "gross-up" for the savings even though the credit is being applied against a "grossed-up" tax payment on the other side of the equation. The net result of HCAC's position

is that TNC only gets a $20,000 credit for each $100,000 of Bargain Sale Gift even though TNC made a federal component TMW Payment of $25,000 per $100,000 of FMV for the Conveyed Lots. The logic of this position totally escapes me, but this nevertheless seems to be what Fryzel and Gleason are saying.

Conclusion

Based on all of the foregoing, TNC would say that the TMW Payment should be approximate $1,400,000 as shown in the TNC calculations set forth on the attached Chart 2 and HCAC would say that the TMW Payment should be approximately $1,730,000 as shown in the HCAC calculations set forth on the attached Chart 2.

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CHART 1 – BARGAIN SALE GIFT CALCULATION

	TNC			HCAC	
	$14,000,000			$14,000,000	
minus	$6,375,000	(FMV of Conveyed Lots)	minus	$375,000	(FMV of Conveyed Lots)
minus	$1,700,000	(cash payment to HCAC)	minus	$1,700,000	(cash payment to HCAC)
minus	$350,000	(HCAC legal fees to NMF)	minus	$350,000	(HCAC legal fees to NMF)
minus	$625,000	(value of Beach Rights given to existing Cohan/Aldeborgh lots) (Note 1)	minus	$1,250,000	(value of Beach Rights given to existing Cohan/Aldeborgh lots) (Note 1)
minus	$1,400,000	(value of release of preemptive rights encumbering existing Cohan/Aldeborgh lots) (Note 2)	minus	$500,000	(value of release of preemptive rights encumbering existing Cohan/Aldeborgh lots) (Note 2)
minus	$1,929,276	(TMW Payment) (Note 3)	minus	$1,929,276	TMW Payment (Note 3)
minus	$0	(enhancement to value of existing Cohan/Aldeborgh lots) (Note 4)	minus	$895,524	(enhancement to value of existing Cohan/Aldeborgh lots) (Note 4)
	$1,620,724	Total Bargain Sale Gift		$1,000,000	Total Bargain Sale Gift

Note 1: HCAC thinks that the Beach Rights are worth $250,000 per lot because the Wallaces planned to sell beach rights at their proposed beach club for $250,000 a piece. Since the Beach Rights received by the Cohan/Adelborgh lots can only be sold in conjunction with a sale of the relevant lot, the rights should be valued at lesser amount and so I have discounted the value of beach rights by 50% (although we have no formal real estate appraisal to this effect).

Note 2: The Cohan/Aldeborgh land that was subject to the preemptive rights had acreage equal to roughly 10% of the acreage of the Wallace land that was subject to preemptive rights; therefore, the $1,400,000 figure simple represents 10% of LaPorte's conclusion that the preemptive rights encumbering the Wallace land were worth $14,000,000. For some reason, HCAC has indicated that this item should only be ascribed $500,000 in value but without any real explanation as to why.

Note 3: This figure does not reflect reduction for the credit that will be generated by giving effect to the Bargain Sale Gift. See Chart 2 for my rough cut at how this credit will ultimately reduce the TMW Payment to $1,400,000±.

Note 4: This item seems to be the major source of discrepancy between the TNC approach and the HCAC approach. If there is any enhancement value to be considered, it should simply be the enhancement that HCAC achieved by refusing David Peters's six lot development proposal (which TNC had tentatively approved) and insisting that the six new houses to be reduced to four new houses. It is not the enhancement value achieved by reducing a 33 lot subdivision to only four new houses. Moreover, there is a very strong argument to be made that the enhancement does not need to be considered in any respect; to the extent it is factored in, it creates a taxable event for HCAC and so it is difficult to understand why HCAC is pressing this point so aggressively. The $895,524 is simply my "plug" number to yield the $1M figure that Fryzel and Gleason stated to be HCAC's estimate of the Bargain Sale Gift amount.

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CHART 2

CALCULATION OF TMW PAYMENT

TNC Calculation		HCAC Calculation	
Federal Component of TMW Payment: (6,375,000 – 1,620,722) x .2 ÷.8 =	**1,188,569.50**	Federal Portion of TMW Payment: 6,375,000 -) x .2 ÷.8 =	**1,593,750.00**
State Component of TMW Payment: 6,375,000 - x . .05 ÷.95 =	**335,526.31**	State Portion of TMW Payment: 6,375,000 - x .05 ÷.95 =	**335,526.31**
		TOTAL TMW Payment Prior To Credit	**$1,929,276.31**
		minus	
TOTAL TMW Payment (Note 1)	**$1,524,095.81**	Credit for Bargain Sale Gift: $1,000,000 x. 2 =	**$200,000.00**
		NET TMW Payment:	**$1,729,276.31**

Note 1: Based on my very rough efforts to further refine the TMW Payment to reflect the increased Bargain Sale Gift which in turn generates a lower TMW Payment, it appears to me that the final TMW Payment should settle in at roughly $1,350,000 to $1,400,000; so the real amount in controversy between the TNC position and the HCAC position is approximately $330,000 to $350,000.

3325318v1

Privileged and Confidential

April ——, 24, 2001

Stuart R. Johnson, Trustee, Herring Creek Farm Trust (the "Trust")
c/o General Investment & Development Co.
600 Atlantic Avenue - Suite 2000
Boston, MA 02210

Dear Mr. Johnson:

The purpose of this letter is to confirm your intentions with regard to certain gifts which you hope to arrange in favor of The Nature Conservancy ("TNC") to be made by certain persons and entities affiliated with you, as Trustee u/d/t dated October 21, 1970, and recorded in the Dukes County Registry of Deeds in Book 281, Page 158 and Book 286, page 158, as amended by Certificate of Amendment of Trust dated May 11, 1971, and recorded in the Dukes County Registry of Deeds in Book 290, Page 558 and Book 291, Page 580 and registered in the Dukes County Registry District Office of the Land Court as Miscellaneous Document No. 962.

1. Source of Funding for TNC.

As you know, we have executed and delivered to you the "Definitive Agreement Regarding Herring Creek Farm, Edgartown, Dukes County, Massachusetts", of even date herewith, between TNC as Purchaser and the Trust as Seller (the "Purchase Agreement"). You understand that TNC plans to raise cash from its own sources (i.e., sources other than the "Wallace Family Donors" and "Land Donors", both defined below) for payment of the Purchase Price under the Purchase Agreement. TNC expects this cash will be raised through some combination of gifts, loans and re-sales of various portions of Herring Creek Farm. However, if the Purchase Price under the Purchase Agreement exceeds $45,500,000, TNC will request the Trust and related parties to consider making the gifts described below.

2. Gifts.

(a) We understand that you hope to encourage the owners (the "Land Donors") of those parcels of land shown and identified on Exhibit A (the "Existing Plan") as the "Blue Heron Parcel", the "Moore Beach Parcel" and the "Sliver Parcel" to make gifts of those parcels to TNC or any other not-for- profit assignee or designee of TNC under Purchase Agreement, and that you acknowledge that in the event that you are unable to arrange such gifts,

the absence of those gifts shall not preclude TNC from waiving the condition in the Purchase Agreement relating to such gifts and closing in the absence of some or all of such gifts.

(b) We understand that that you also hope to encourage certain individuals in the Wallace family (the "Wallace Family Donors") to make, on or before June 15, 2001, gifts of cash or other assets having a value (when made and at all times thereafter) of at least $9,500,000 to TNC, in order to assist TNC in achieving the goal of preserving large areas of farmland on Martha's Vineyard or Nantucket as designated (the "Designated Property"), and that such gifts are to be evidenced initially by a charitable pledge agreement accompanied by a promissory note. The promissory note is to be interest free and is to be payable at the time of the closing on the acquisition of the Designated Property. In the event that the promissory note is not paid at the time of a closing on the Designated Property (so that the note has been converted to immediately available cash on or before such closing date), the promissory note shall be enforceable against the Wallace Family Donors in the courts of the Commonwealth of Massachusetts, unless a bargain sale gift is made by the Trust pursuant to (c) below. In the event that the Designated Property is some or all of Herring Creek Farm, then the amount of any promissory note delivered to TNC and not so paid at such closing of such Designated Property shall be credited against the Purchase Price under the Purchase Agreement. In the event that a closing on such Designated Property does not occur on or before December 31, 2001, the charitable pledge agreement and the promissory note are to be returned to the Wallace Family Donors.

(c) We further understand that you agree that, in the event (i) that the Purchase Price under the Purchase Agreement is greater than $55,000,000, and TNC is unable to raise the additional amount needed from the Wallace Family Donors or (ii) the Wallace Family Donors fail to make some or all of the $9,500,000 in gifts contemplated by (b) above, the Trust will make a bargain sale gift of any Shortfall (defined below). "Shortfall" shall mean the amount equal to (i) the Purchase Price under the Purchase Agreement minus (ii) the total of (A) $45,500,000 plus (B) the total of cash gifts actually funded by the Wallace Family Donors plus (C) any credit against the Purchase Price received by TNC for promissory notes delivered by Wallace Family Donors but not funded with cash by the closing under the Purchase Agreement.

3. Effect of Bargain Sale Gift on TNC's Requirements regarding Approval of Appraisal Under Purchase Agreement.

If the Trust does elect to make a bargain sale gift of some portion of the Herring Creek Farm, then for purposes of TNC's approval rights under Section 3.1(k) of the Purchase Agreement, TNC will review and approve the appraisals for Herring Creek Farm based on the figure that represents the actual net cash price to TNC rather then based upon the full fair market value stated in the Trust's appraisal. For example, if the Trust's appraisal indicated a fair market value figure of $70,000,000 and the Trust had elected to make a bargain sale gift in the amount of $15,000,0000, then TNC would evaluate the appraisal to ensure that TNC and its Board were satisfied that the fair market value of Herring Creek Farm was at least $55,000,000 (rather than the higher $70,000,000 figure) and would grant or withhold their approval of the appraisal on that basis. However, in the event the Trust elects to make a bargain sale gift of any portion of

Herring Creek Farm, the deed delivered to TNC would have to state a figure no higher than the actual cash (plus purchase money note and mortgage) being paid by TNC to the Trust as part of the purchase transaction and, although TNC will execute a Form 8283 to acknowledge receipt of a gift, TNC will not endorse, either directly or indirectly, the dollar value of the bargain sale gift component of the transaction.

4. Conditions to the Gifts.

We further understand that the possibility of these gifts is hindered by certain legal complications which must be addressed prior to the making of any such gifts, to wit, satisfaction of the conditions enumerated in Section 3.3 of the Purchase Agreement (other than the condition (stated in Section 8.3(a) of the Purchase Agreement and incorporated by ~~refence~~**reference** into said Section 3.3) regarding payment of any portion of the Purchase Price in excess of ~~$44,500.00~~,**44,500,000,** which amounts TNC will only be able to pay to the extent of the actual gifts received from the Wallace Family Donors).

5. Warranties.

TNC hereby warrants that if it is to receive a gift as herein contemplated, it presently is, and will be as of the date of any such gift, an organization qualified as tax exempt under Section 501(c)(3) of the Internal Revenue Code.

6. Remedies.

The Trust agrees that if (a) the gifts contemplated by subparagraph 2(a) above do not occur by reason of any refusal by a Land Donor to make such a gift even though all of the conditions in paragraph 4 have been satisfied, and such refusal or failure is the sole cause of the inability of TNC to close the transactions contemplated by the Purchase Agreement or (b) all of the gifts contemplated by subparagraph 2(b) above do not occur by a reason of a refusal of the Wallace Family Donors to make such a gift even though all of the conditions in paragraph 4 above have been satisfied and the Trust does not make a bargain sale gift of the Shortfall as provided in 2(c) above, then at TNC's election the Trust shall refund the Deposit under the Purchase Agreement and pay to TNC, a break-up fee in the amount of $3,000,000. If TNC elects to collect the break-up fee, payment of such break-up fee and refund of the Deposit shall be in lieu of all other remedies at law or in equity on the part of TNC, its heirs, successors, legal representatives and assigns. If TNC elects not to collect the break-up fee, TNC shall be entitled to seek specific performance of the obligations to consummate the transactions contemplated herein and in the Purchase Agreement.

7. **Miscellaneous.**

The Trust agrees that if a gift is made to TNC of the Blue Heron Parcel, the Trust will take such steps as are necessary to ensure that the septic system for the Blue Heron Parcel has been properly inspected and is in compliance with all relevant requirements of Title V (310 CMR 15.00 et seq.). Further, TNC understands that any gift of the Blue

Heron Parcel may be made subject to a lease in favor of Mary Eberle for the period from June 16, 2001 through September 15, 2001 for a total rental of $25,593 (plus a security deposit of $1,000).

8. Non-Binding Nature.

The parties agree that the terms of the Confidentiality Agreement entered into by and among the parties as of December 11, 2000, a copy of which is attached hereto as Exhibit B, are incorporated herein by this reference as though fully set forth. It is acknowledged that this letter of intent is not, is not intended to be and is not to become binding on the Land Donors, the Wallace Family Donors, or you, and that the only binding effect which this letter of intent is to have is that the acknowledgments made by you in paragraph 2, the warranties made by TNC in paragraph 5 and the remedies committed to by you in paragraph 6 are to be final and binding upon execution hereof.

THE NATURE CONSERVANCY

By: _____
Name: _____
Its: _____

Agreed and Accepted:

April 24, 2001

HERRING CREEK FARM TRUST

By: _____
Stuart R. Johnson
Trustee, but not individually

MEREDITH & GREW • ONCOR INTERNATIONAL
160 FEDERAL STREET, BOSTON, MA 02110-1701 • 617-330-1000 • FAX: 617-330-8130

SUMMARY APPRAISAL REPORT

BLUE HERON, SANDERLING AND LOTS 2 AND 3
EXHIBIT C CONSOLIDATION PLAN
HERRING CREEK FARM
EDGARTOWN, MASSACHUSETTS

PREPARED FOR

HANS P. BIRLE, ESQUIRE
LEGAL COUNSEL, NORTHEAST DIVISION
THE NATURE CONSERVANCY
11 AVENUE DE LAFAYETTE, 5TH FLOOR
BOSTON, MA 02111-1736

PREPARED BY

ROBERT P. LAPORTE, JR., CRE, MAI
SENIOR VICE PRESIDENT
MA GENERAL R.E. APPRAISER #735

DATE OF VALUE ESTIMATE

JULY 15, 2001

APPRAISAL NUMBER

14363

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ADDENDA

FEDERAL RESERVE BEIGE BOOK AND EDGARTOWN EMPLOYMENT STATISTICS
EDGARTOWN ASSESSMENT DATA – BLUE HERON
EDGARTOWN ASSESSMENT DATA – SANDERLING, LOT 2 AND LOT 3
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SANDERLING – LEGAL DESCRIPTION (PROPOSED)
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QUALIFICATIONS OF APPRAISER

Worldwide Real Estate Services

Meredith & Grew Incorporated
ONCOR

160 FEDERAL STREET
BOSTON, MASSACHUSETTS 02110-1701

TELEPHONE 617-330-8000 FAX 617-330-8130 E-MAIL mail@m-g.com

August 24, 2001

Hans P. Birle, Esquire
Legal Counsel, Northeast Division
The Nature Conservancy
11 Avenue de Lafayette, 5th Floor
Boston, MA 02111-1736

Re: Lots 2, 3, Blue Heron and Sanderling
Herring Creek Farm
Edgartown, Massachusetts

Dear Attorney Birle:

In accordance with your request for an estimate of the market value of the real estate identified as Lot 2, Lot 3, Sanderling and Blue Heron within the consolidated Herring Creek Farm subdivision in Edgartown, Massachusetts, I have examined the property and submit herewith my summary appraisal report.

The objective of my appraisal was to provide you with an estimate of the market value of each of the subject parcels. The appraisal will function as the basis of a value resulting from the transfer of these properties from The Nature Conservancy to the Herring Creek Acquisition Company, LLC. The date of my value estimate is July 15, 2001. The property was inspected with Susan Arnold of The Nature Conservancy and the property's caretaker, Ron Mann, on May 22, 2001. A second inspection was completed on August 16, 2001. The inspection of the Sanderling and Blue Heron was limited to the exterior of the houses.

Lot 2, Lot 3 and Sanderling are part of Edgartown Assessor's Parcel 44/39. Lot 2 contains 3.14 acres, and Lot 3, 3.0 acres. These contiguous lots abut the F.A.R.M. Institute barn complex. They each have water frontage on Edgartown Great Pond's Slough Cove, are open field, and include private beach rights to South Beach. Sanderling is a single-family residence on a 3.75 acre lot located at 19 Butler's Cove Road. This property is a non-waterfront residence, but has the same beach rights as conveyed to Lots 2 and 3.

Blue Heron is a parcel located at 7 Butler's Cove Road with additional frontage on Slough Cove Road. The parcel is identified by the Edgartown Assessors as Map 44, Parcel 56. This property is located at the northeast corner of Herring Creek Farm. It is non-waterfront property with private beach rights to South Beach.

All of these lots are located within the Herring Creek Farm complex which contains approximately 240 acres of land. Previously, Herring Creek Farm Trust had a subdivision approved for 33 lots. In their acquisition of the property, The Nature Conservancy intends for a more limited development so that rather than 33 development lots, there will be 8 lots. The more important physical features of this farm will remain unchanged. The East Field, containing 62 acres and fronting on Slough Clove Road will remain as it is today. The Central Field, containing 40 acres of farming land will also remain as it is today.

As of the date of value estimate, The Nature Conservancy (TNC) was about to acquire the entire property from the Wallace Family. The entire ownership including the subject are encumbered by various easements and restrictions. These can be found in the addenda of this report. These easements were a result of the property's subdivision approval and TNC's desire to further restrict the property.

As shown on the enclosed consolidated plan, Lot 1 will contain all of the farm buildings and is scheduled to be sold to the F.A.R.M. Institute who will additionally lease the Central Field from the Nature Conservancy for organic farming purposes. This parcel is sandwiched between Blue Heron and Sanderling, Lot 2 and Lot 3.

M.V. Regency Group, LLC is acquiring two lots, Lots 9 and 10. Lot 6 will be sold to Roger Banford. An additional waterfront lot located between these lots will be sold to a third party, and Lot 10 located on Crackatuxet Cove will be sold to David Peters.

The subject property is part of a subdivision that includes a 19.52-acre beach parcel along the Atlantic Ocean and Crackatuxet Cove. All of the subject parcels will have a deeded right to the beach.

The Herring Creek Farm is located in Edgartown, Massachusetts, on the island of Martha's Vineyard. The Herring Creek Farm, located at the periphery of the Katama Plains, is one of the most predominant properties in Edgartown and on the island of Martha's Vineyard. From a real estate perspective, the Herring Creek Farm has bucolic vistas along Slough Cove Road, out over the approximately 105 acres of open farmland, down to Edgartown Great Pond and the Atlantic Ocean.

As will be discussed in this report, Edgartown and the island of Martha's Vineyard and Nantucket are commanding some of the highest prices in New England for resort type properties. There have been recent acquisitions of properties in the multi-million dollar price range. Despite the slowdown in the economy, brokers indicate that there still remains a demand for exclusive property.

My estimate of market value is based on the highest and best use of the subject property for single-family purposes, consistent with the description previously provided and the allowed uses under the Town's Zoning By-laws. Typically being developed on waterfront parcels such as Lots 2 and 3 are houses with a minimum of 6,000 square feet of living area which may include an ancillary caretaker's cottage. These lots will benefit from the additional easements to be placed on the property by TNC. These easements will preserve the farm's aesthetic quality, provide exclusivity and beach access.

The Blue Heron house is small (1,608 square feet) and is approaching the end of its economic life. The house is located on the outskirts of Herring Creek Farm and adjacent to the farm buildings. It is my opinion that the highest and best use of this property is for either demolition and new construction or substantial remodeling with additions.

The Sanderling house appears to be in better condition, but is also small (1,826 square feet). The interior condition was reported to be dated and its living area for a 3.75 acre lot is small. The highest and best use of this parcel is either for redevelopment of the lot for remodeling with additions.

Based on examination of vacant lot sales and improved sales, it is my opinion that the estimated market value of the subject property as of July 15, 2001, is as follows:

Lot 2	$2,250,000
Lot 3	$2,500,000
Sanderling	$1,000,000
Blue Heron	$ 625,000
Total Indicated Market Value	$6,375,000

My appraisal is subject to the attached limiting conditions and assumptions as stated in the summary appraisal report. It is also based on a six-month marketing time and assumes that all four parcels would be on the market at the same time.

Very truly yours,

Robert P. LaPorte, Jr., CRE, MAI
Senior Vice President
MA General R.E. Appraiser #735

RPL/bjc

#14363

SUMMARY OF IMPORTANT FACTS AND CONCLUSIONS

LOCATION	Lot 2 – Butler's Cove Road, Edgartown, MA Lot 3 – Butler's Cove Road, Edgartown, MA Blue Heron – 7 Butler's Cove Road, Edgartown Sanderling – 19 Butler's Cove Road, Edgartown
OWNER	Lot 2 – Herring Creek Family Trust Lot 3 – Herring Creek Family Trust Blue Heron – John H. Wallace, et al Sanderling – Herring Creek Family Trust
LAND AREA	Lot 2 – 3.14 Acres Lot 3 – 3.0 Acres Blue Heron – 2.9 Acres Sanderling – 3.75 Acres
IMPROVEMENTS	Lots 2 and 3 are vacant parcels of land; Blue Heron and Sanderling are single-family residences.

ASSESSED VALUE AND TAXES

Lot 2, 3 and Sanderling:	Land	$723,100 (9.3 Acres)
	Improvements	$131,600
	Total	$854,700
	Real Estate Rate	$5.14/$1,000
	Real Estate Taxes	$4,393.16
Blue Heron:	Land	$201,900
	Improvements	$168,000
	Total	$369,900
	Real Estate Rate	$5.14/$1,000
	Real Estate Taxes	$1,901.29

ZONING DISTRICT	RA-120 Residence-Agricultural District
ENCUMBRANCES AND EASEMENTS	The subject property is being sold subject to the benefit of access to South Beach and subject to various conservation restrictions and easements as noted in the deeds found in the addenda.
PROPERTY INTEREST APPRAISED	Fee simple subject to above.

FIVE-YEAR SALES HISTORY	The subject parcels are currently owned by Herring Creek Farm Trust and have been for more than five years (see sales history for more detailed discussion).
HIGHEST AND BEST USE	For a single-family residential use on each lot.
DATE OF VALUE ESTIMATE	July 15, 2001
INDICATED VALUE BY:	
COST APPROACH	Not Used
INCOME APPROACH	Not Used
SALES COMPARISON APPROACH	Lot 2 $2,250,000 Lot 3 $2,500,000 Sanderling $1,000,000 Blue Heron $ 625,000 Total $6,375,000
ESTIMATED MARKET VALUE	$6,375,000—Total
ESTIMATED MARKETING TIME	6 Months

INTRODUCTION

OBJECTIVE OF APPRAISAL AND PURPOSE OF THE REPORT

The objective of this summary appraisal is to estimate the market value of Lots 2, 3, Sanderling and Blue Heron as shown on the consolidated plan of the Herring Creek Farm subdivision in Edgartown, Massachusetts, as of July 15, 2001. The estimate of market value will be used as the basis for estimating the capital gains proceeds resulting from the transfer of these lots from The Nature Conservancy (TNC)and Herring Creek Acquisition Company, LLC.

PROPERTY IDENTIFICATION

The subject property is four parcels of land located in the Herring Creek Farm subdivision. Lots 2, 3 and Sanderling are shown as Lots 2, 3 and 4 on the Herring Creek Farm Exhibit C. Blue Heron is a parcel located between Lot 1 and Slough Cove Road. All properties are located in Edgartown, Massachusetts. A proposed legal description is located in the addenda of this report.

DATE OF APPRAISAL

The date of this appraisal is July 15, 2001. The subject was inspected by Robert P. LaPorte, Jr., on May 22, 2001, and on August 16, 2001, with the caretaker, Ron Mann. Susan Arnold also accompanied me on my May 22, 2001 inspection.

OWNERSHIP AND RECENT HISTORY

As of the date of this value estimate, Herring Creek Farm was about to be transferred from Herring Creek Farm Trust to The Nature Conservancy (TNC) for a deeded price of approximately $64,000,000. At about the time the property will be acquired by TNC, there will be a series of outsales of property to Roger Banford; M.V. Regency Group, LLC; the F.A.R.M. Institute; and David Peters. It is my understanding that the F.A.R.M. Institute will be acquiring Lot 1, shown on the consolidated plan, for approximately $1,000,000. The Regency Group and David Peters will acquire Lots 8, 9 and 10 for approximately $16,000,000; and Lot 7 will be sold for approximately $12,000,000. TNC will remain the owners of the East Field, the Central Field

and the beach. Lots 2, 3, Sanderling (Lot 4) and Blue Heron will be transferred from TNC to Herring Creek Acquisition Company, LLC.

In the addenda of this report are the proposed legal descriptions for each of the subject's four lots. Also included in the addenda is the amended and restated conservation restriction and conservation easements that will encumber the Herring Creek Farm property and the subject lots.

The Herring Creek Farm property has been the subject of much litigation during the past twenty years. The litigation resulted in an approval by the Edgartown Planning Board and the Martha Vineyard's Commission of 33-lot subdivision. A copy of that subdivision is included in the addenda of this report. The 33-lot subdivision was superceded by the proposed subdivision as illustrated on Exhibit C of the Consolidated Plan. This will result in a total of ten development lots including three existing houses and the farm buildings, plus the Central Field, East Field, barn and beach lots which are intended to remain as they now exist.

DEFINITION OF SIGNIFICANT TERMS

Market Value is defined as:

"The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. buyer and seller are typically motivated;
2. both parties are well informed or well advised, and acting in what they consider their best interests;
3. a reasonable time is allowed for exposure in the open market;
4. payment is made in terms of cash in United States dollars or in terms of financial arrangements comparable thereto; and
5. the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale."[1]

Fee Simple Estate is defined as:

"Absolute ownership unencumbered by any other interest or estate subject only to the four powers of government."[2]

Highest and Best Use is defined as:

"The reasonably probable and legal use of vacant land or an improved property, which is physically possible, appropriately supported, financially feasible, and that results in the highest value. The four criteria the highest and best use must meet are legal permissibility, physical possibility, financial feasibility, and maximum profitability."[3]

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[1]The Appraisal Foundation, *Uniform Standards of Professional Appraisal Practice* (United States of America, 1990), Page B-7. Also see Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), 12 U.S.C. 3339, Final Rules effective August 24, 1990, by the Office of the Comptroller of the Currency (OCC) and on August 20, 1990, by the Federal Deposit Insurance Corporation (FDIC).
[2]American Institute of Real Estate Appraisers of the National Association of Realtors, *The Dictionary of Real Estate Appraisal* (Chicago, IL, Author 1989).
[3]Ibid.

SCOPE OF INVESTIGATION

This appraisal is being completed in conjunction with an appraisal of the entire property for TNC. My investigation and analysis has included an inspection of the subject property, the entire Herring Creek Farm ownership, and conversations with TNC and legal counsel regarding the political and legal issues surrounding the entire Herring Creek Farm ownership and the four subject lots.

Herring Creek Farm Trust has additionally retained Coleman and Sons Appraisal Group to prepare an appraisal for Herring Creek Farm Trust of their ownership and I have reviewed their report and data.

Additionally, I have completed my own investigation of comparable sales and have spoken to brokers, buyers and sellers regarding the sale of high-end property on the island of Martha's Vineyard. I have also relied on previous work that I have completed over the last 25 years on the island including other valuation work within this neighborhood for TNC, work for the Commonwealth of Massachusetts in their acquisition of sections of South Beach, and a valuation of the 3,500 acre estate owned by the Pohogonot Trust located at the Edgartown-West Tisbury town line.

GENERAL ASSUMPTIONS

1. The legal description used in this report is assumed to be correct.

2. No survey of the property has been made by the Appraiser and no responsibility is assumed in connection with such matters. Sketches in this report are included only to assist the reader in visualizing the property.

3. No responsibility is assumed for matters of a legal nature affecting title to the property nor is an opinion of title rendered. The title is assumed to be good and merchantable.

4. Information furnished by others is assumed to be true, correct, and reliable. A reasonable effort has been made to verify such information; however, no responsibility for its accuracy is assumed by the Appraiser.

5. All mortgages, liens, encumbrances, leases, and servitudes have been disregarded unless so specified within the report. The property is appraised as though under responsible ownership and competent management.

6. It is assumed that there are no hidden or unapparent conditions of the property, subsoil, or structures which would render it more or less valuable. No responsibility is assumed for such conditions or for engineering which may be required to discover them.

7. It is assumed that there is full compliance with all applicable federal, state, and local environmental regulations and laws unless noncompliance is stated, defined, and considered in the appraisal report.

8. It is assumed that all applicable zoning and use regulations and restrictions have been complied with, unless a nonconformity has been stated, defined, and considered in the appraisal report.

9. It is assumed that all required licenses, consents, or other legislative or administrative authority from any local, state, or national government or private entity or organization have been or can be obtained or renewed for any use on which the value estimate contained in this report is based.

10. It is assumed that the utilization of the land and improvements is within the boundaries or property lines of the property described and that there is no encroachment or trespass unless noted within the report.

11. Included in this report are sales and rentals from many sources. A concerted effort has been made to personally verify the market data contained herein with a reliable source. Occasionally, some new information is found on these sales or errors may be found and corrected. If any errors or omissions are discovered, they will be brought to the Client's attention. The Appraiser must reserve the right to change the conclusion, if required, due to a subsequent discovery.

12. The value is estimated under the assumption that there will be no international or domestic, political, economic, or military actions that will seriously affect real estate values throughout the country.

13. In this appraisal assignment, the existence of potentially hazardous material used in the construction or maintenance of the building, such as the presence of urea-formaldehyde foam insulation, asbestos, and/or the existence of toxic waste, which may or may not be present on the property, has not been considered. The Appraiser is not qualified to detect such substances. The Client is urged to obtain an expert in this field if desired.

GENERAL LIMITING CONDITIONS

1. In the event that my appearance due to this appraisal is required for court testimony, hearings, or conferences, further financial arrangements will have to be made.

2. Possession of this report, or a copy thereof, does not carry with it the right of publication. It may not be used for any purpose by any person other than the party to whom it is addressed without the written consent of the Appraiser, and in any event, only with properly written qualification and only in its entirety.

3. The distribution of the total valuation in this report between land and improvements applies only under the reported highest and best use of the property. The allocations of value for land and improvements must not be used in conjunction with any other appraisal and are invalid if so used.

4. No environmental impact studies were either requested or made in conjunction with this appraisal, and the Appraiser hereby reserves the right to alter, amend, revise or rescind any of the value opinions based upon any subsequent environmental impact studies, research or investigation.

5. Neither all nor any part of the contents of this report, or copy thereof, shall be conveyed to the public through advertising, public relations, news, sales or any other media without written consent and approval of the Appraiser. Nor shall the Appraiser, firm or professional organization of which the Appraiser is a member be identified without written consent of the Appraiser.

6. In preparing this appraisal, only the matters referred to herein have been examined and relied upon and except to the extent specifically noted therein, title, licenses, permits, zoning, survey, environmental, latent defects, subsoil conditions, the possible presence of hazardous substances and other such matters have not been examined or relied upon even though they might affect the opinions and conclusions set forth in this appraisal.

7. Acceptance of and/or use of this appraisal report constitutes acceptance of the foregoing general assumptions and general limiting conditions.

8. The Americans with Disabilities Act ("ADA") became effective January 26, 1992. We have not made a specific compliance survey and analysis of this property to determine whether or not it is in conformity with the various detailed requirements of the ADA. It is possible that a compliance survey of the property, together with a detailed analysis of the requirements of the ADA, could reveal that the property is not in compliance with one or more of the requirements of the Act. If so, this fact could have a negative effect upon the value of the property. Since we have no direct evidence relating to this issue, we did not consider possible noncompliance with the requirements of ADA in estimating the value of the property.

CERTIFICATION OF VALUE

I certify that, to the best of my knowledge and belief:

- the statements of fact contained in this report are true and correct.
- the reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- my engagement in this assignment was not contingent upon developing or reporting predetermined results.
- my compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
- my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- I have made a personal inspection of the property that is the subject of this report.
- no one provided significant professional assistance to the person signing this report.
- the appraisal was not based on a requested minimum valuation, specific valuation, or the approval of a loan.

This appraisal report has been made in conformity with and is subject to the requirements of the Code of Professional Ethics and Standards of Professional Conduct of the Appraisal Institute.

The Appraisal Institute conducts a voluntary program of continuing education for its designated members. MAIs and RMs who meet the minimum standards of this program are awarded periodic educational certification. As of the date of this report, Robert P. LaPorte, Jr., has not completed the requirements of the continuing education program of the Appraisal Institute.

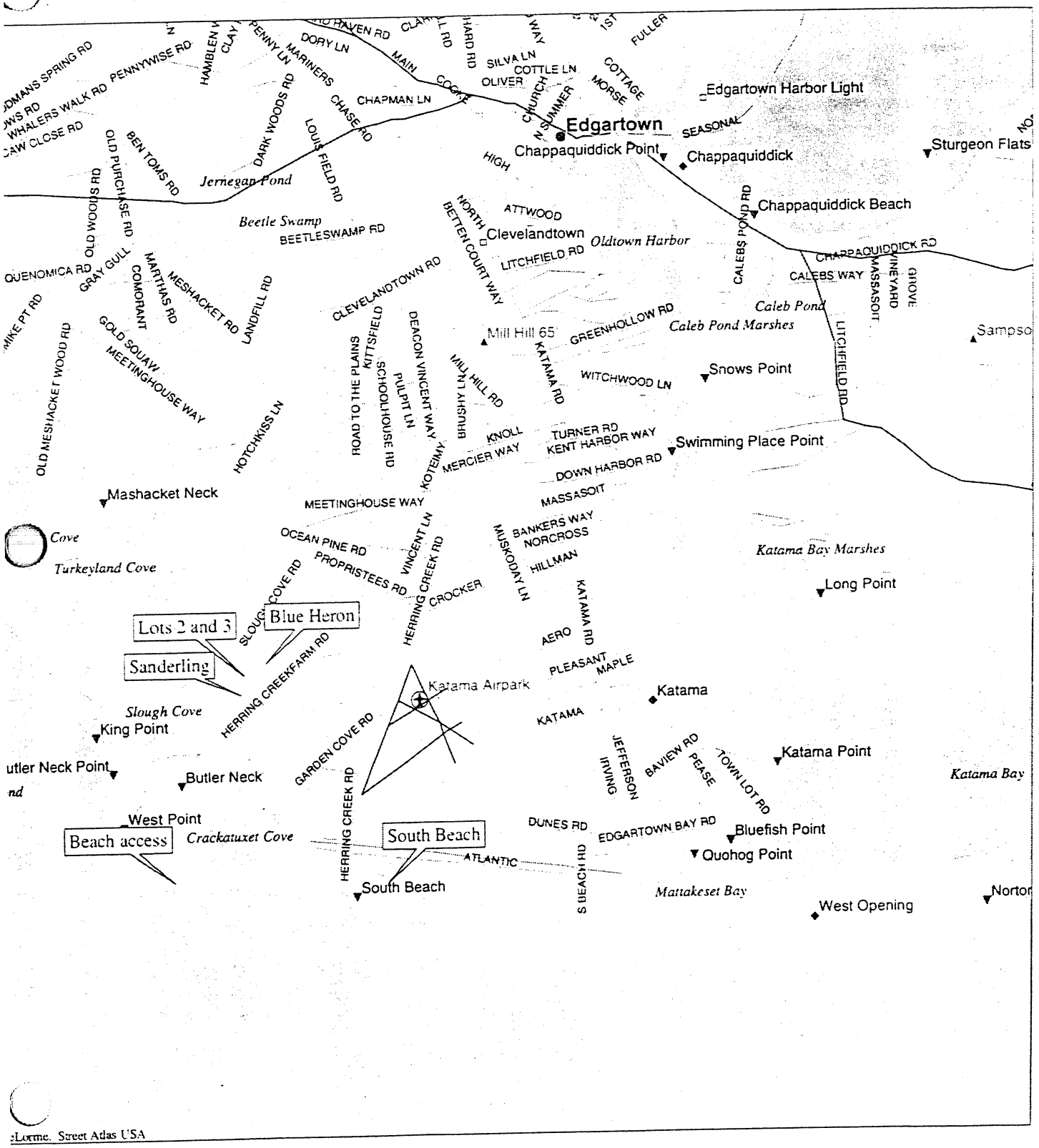
I am of the opinion that we have compiled with the client's instructions, standards and specifications in conducting the research, analysis and in formulating the value conclusion.

I certify that the use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

Robert P. LaPorte, Jr., CRE, MAI
Senior Vice President
MA General R.E. Appraiser #735

THE SUBJECT PROPERTY

Street Map Showing Subject



AERIAL PHOTOGRAPH SHOWING SUBJECT PROPERTIES

LOCATION AND NEIGHBORHOOD DESCRIPTION

Included in the Addenda of this report are various economic publications prepared by the Federal Reserve Bank, the Dismal Scientist, the Commonwealth of Massachusetts, and the Massachusetts Association of Realtors (MAR) that describe the general state of today's economy. Edgartown's real estate market, as that of most of Massachusetts, is at an unprecedented high level of activity and pricing. According to recent reports of the MAR, there has been a modest slowdown in the number of transactions; however, demand for "trade-up" and second homes is especially strong. As of July 2001, it is felt that the market is close to its peak and that we are likely approaching a contraction phase.

The subject property is situated in a desirable residential area of Edgartown. In part, the desirability is created by the area's south coastal beaches, ponds and conservation land.

Over the last four years, Edgartown and West Tisbury have witnessed unprecedented price increases. Table 1 is a recap of the median prices and number of sale transactions of single-family homes for the last five years in Edgartown and West Tisbury as reported by the Banker & Tradesman.

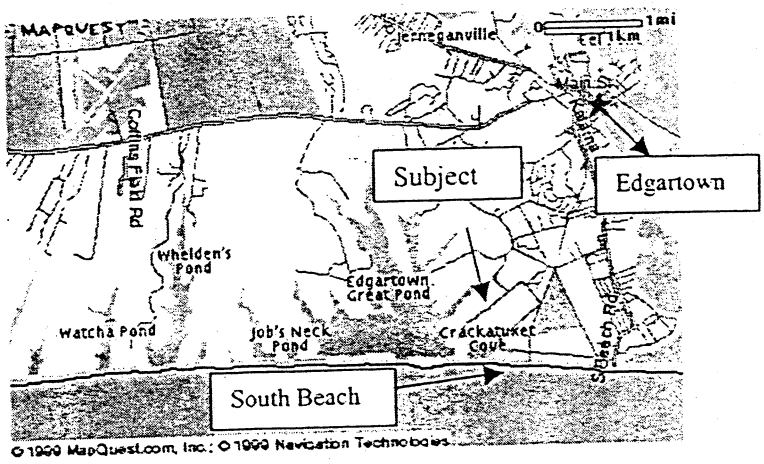
TABLE 1

	Edgartown	% change	West Tisbury	% change
Number of Sales				
2001 (to July)	70		13	
2000	79		22	
1999	103		30	
1998	127		46	
1997	135		26	
1996	55		27	
Median Sale Prices				
2001 (to July)	$378,500		$549,000	
2000	$336,000	41%	$410,000	13%
1999	$252,000	13%	$302,250	17%
1998	$191,000	19%	$230,000	35%
1997	$168,700	-1%	$236,250	-11%
1996	$153,000		$169,900	
Price increase 1996-2001		147.4%		223%

In addition, the Banker & Tradesman reports that since January 1, 1999 through 2000, there have been 42 transactions over $1 million in Edgartown and 8 transactions over $1,000,000 in West Tisbury. As will be shown and illustrated in the valuation section, it appears that pricing for high-end real estate has witnessed a significant increase over the last five years. The subject property benefit from their views over open fields, access to Edgartown Great Pond, access easements to a private barrier beach and exclusivity.

A valuation issue regarding my appraisal is that the real estate market may have reached its peak. It is within this general real estate context that this appraisal and my value estimates have been completed. While the immediate impact of the economy's downturn has not been felt in this real estate market, there is some expectation that there will be a pricing "cooling off".

The property is located in the southwest section of Edgartown. The neighborhood is generally bounded by Edgartown Great Pond on the west; Slough Cove on the north; Slough Cove Road on the east and the Atlantic Ocean on the south.



The predominant uses in this area consist of the Martha's Vineyard State Forest, vacant land and scattered residential properties. Some of the predominant land features include the Edgartown Great Pond, Job's Neck Pond and Oyster (Watcha) Pond. Almost all of the properties fronting on these bodies of water are priced in excess of $1 million. Recently, there have been three transactions along Oyster Pond each at prices in excess of $6 million. Located north of the subject property on the north side of the Edgartown/West Tisbury Road is an under-construction golf course. Most of this land was recently sold by Fidelity Title Insurance Company to the developers. Attorney John Henn, who represents the seller, stated to me that Fidelity sold this property for $15 million.

As shown on the previous maps, Katama Airpark is located to the east of Herring Creek Farm. This grass stripped airport services recreational planes only. It is not viewed as having a negative impact on the subject. In fact, as a result of conservation easements, the area of Katama Plains stretching from Herring Creek Road to South Beach Road is mostly restricted from future development.

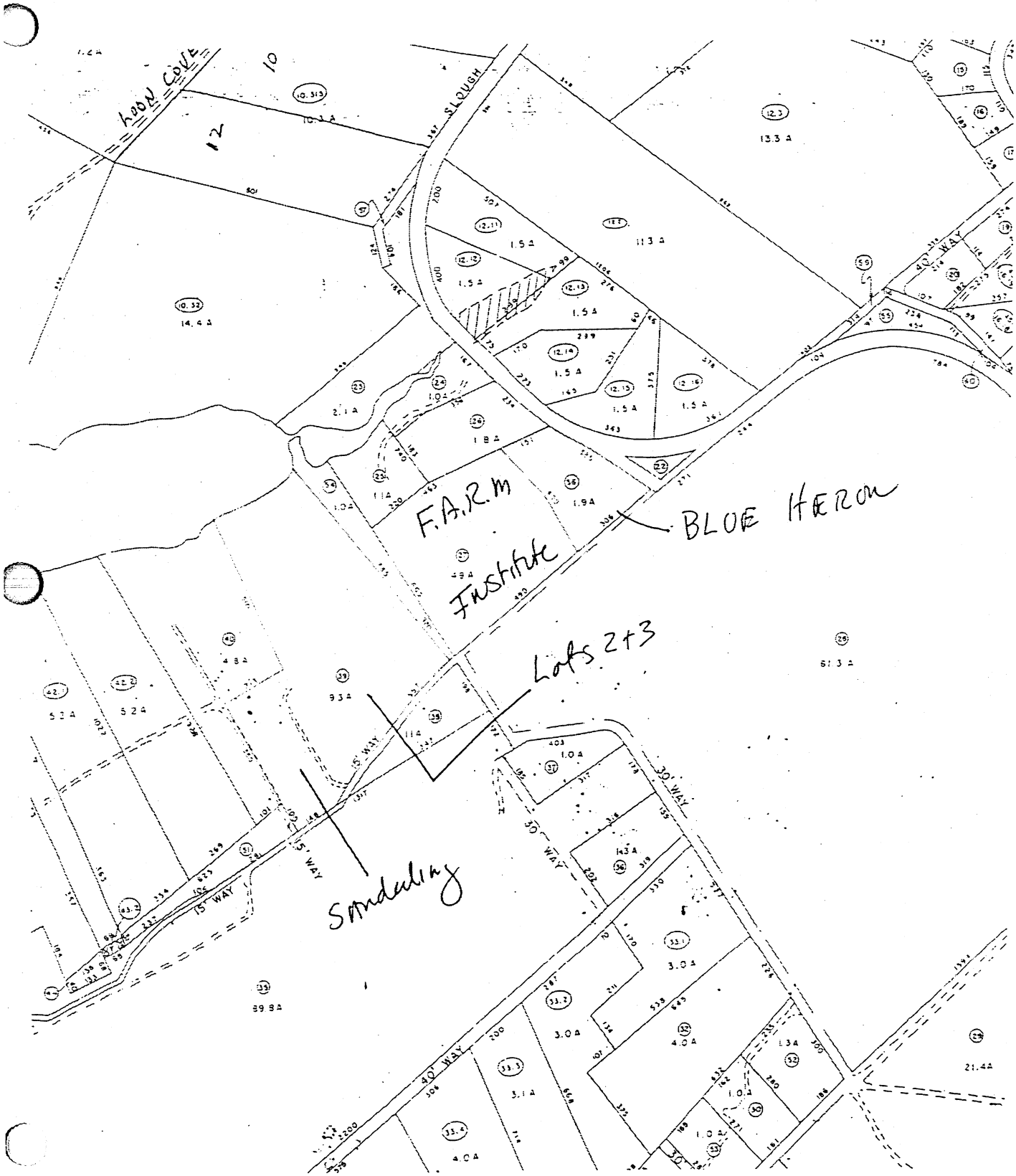
ZONING

District:	RA-120 Residence-Agricultural District
Lot Area:	120,000 Square Feet
Allowed Uses:	One single family dwelling plus one guest house on a 15,000 square foot lot that has a building at least five years old.

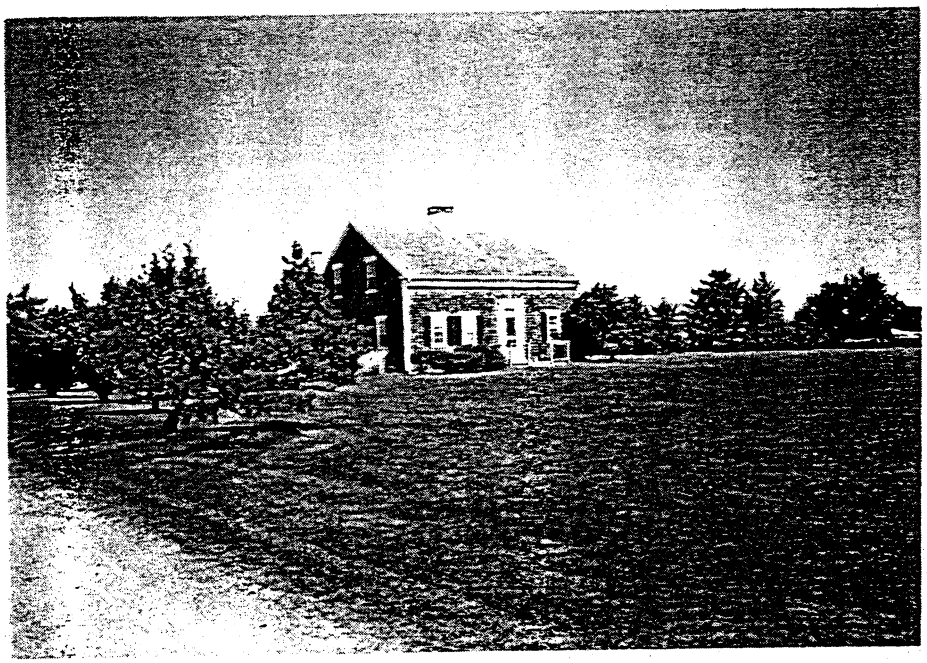
ASSESSED VALUE AND REAL ESTATE TAXES – 2001

Lot 2, 3 and Sanderling: (Map 44, Parcel 39)	Land	$723,100 (9.3 Acres)
	Improvements	$131.600
	Total	$854,700
	Real Estate Rate	$5.14/$1,000
	Real Estate Taxes	$4,393.16
Blue Heron: (Map 44, Parcel 56)	Land	$201,900
	Improvements	$168.000
	Total	$369,900
	Real Estate Rate	$5.14/$1,000
	Real Estate Taxes	$1,901.29

ASSESSOR'S MAP SHOWING SUBJECT LOTS

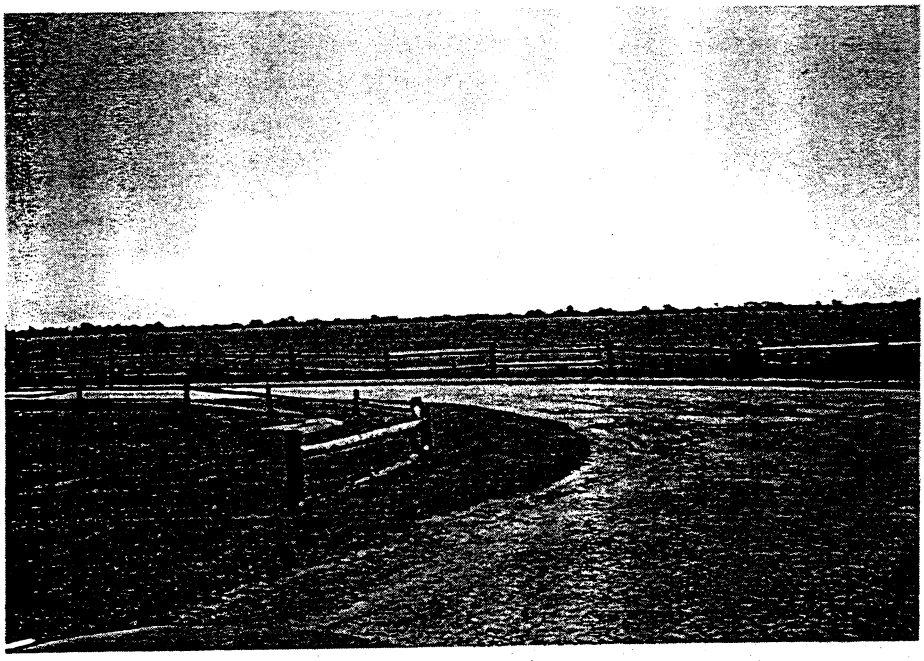


PHOTOGRAPHS OF SUBJECT PROPERTY – BLUE HERON



1. Front view.

2. Side view.

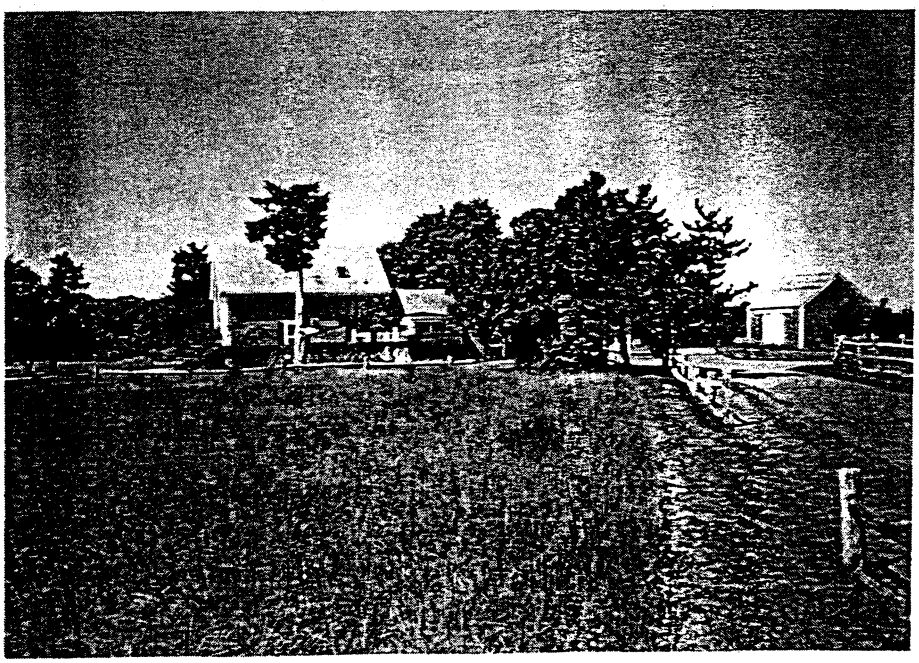


3. View looking out towards fields.

4. Photo showing proximity of Blue Heron (right) to farm complex (left).

PHOTOGRAPHS OF SANDERLING

5. Front view.

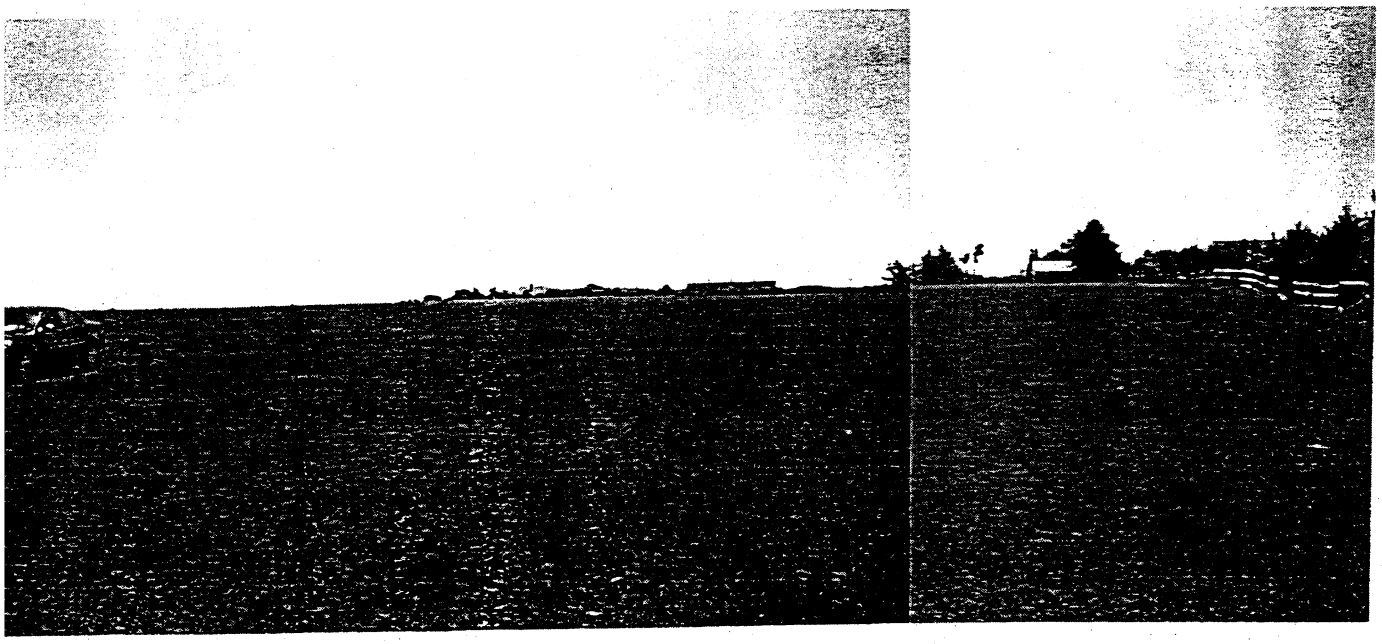


6. Side view – Note: Garage on right is not part of appraised property.

7. Side view.

8. View out towards field.

PHOTOGRAPHS OF LOTS 2 AND 3



9. Looking at subject lots from Slough Cove of Edgartown Great Pond.

10. View of Slough Cove area of Edgartown Great Pond from Lot 3.

11. Edgartown Great Pond (Slough Cove) looking northeasterly from Lot 3.

12. View looking across farm complex at subject lots situated beyond the fence.

PROPERTY DESCRIPTION

LOTS 2 AND 3

A proposed copy of the quitclaim deed providing a legal description of these two lots is included in the addenda of this report. The subject lots in the deed are identified as Lots 72 and 73. In this appraisal report I am referring to these two lots as Lot 2 and Lot 3 as shown on the Consolidated Plan. Lot 2 is a vacant parcel of land containing 3.14 acres; and Lot 3 is a vacant parcel of land containing 3.0 acres. These parcels each have water frontage on Slough Cove of Edgartown Great Pond. The Edgartown Assessors Office indicate that these two lots and the Sanderling House as being located on Map 44, Parcel 39, and having a street address of 19 Butler's Cove Road. Butler's Cove Road is a private way in the Town of Edgartown, though for subdivision purposes each of these parcels have been approved as legal, single-family, residential, building lots.

Each parcel has level topography and is an open field that runs from Butler's Cove Road down to Slough Cove of Edgartown Great Pond. The distance from Butler's Cove Road down to Edgartown Great Pond is approximately 800 feet, so that these lots are each narrow, elongated parcels. Each lot has approximately 150 feet of frontage on Edgartown Great Pond.

The subject parcels are located adjacent to property to be conveyed to the F.A.R.M. Institute, a single-family residence owned by Marshall Cohan, and on the southerly side by a 40-acre parcel known as the Central Field. The positive site attributes that these have are their frontage on Edgartown Great Pond, albeit on the easterly end of Slough Cove, and their privacy located in the limited development of the Herring Creek Farm. As part of the transfer, each lot will be given access to a private beach that is situated between Crackatuxet Cove and the Atlantic Ocean. Somewhat impacting Lot 2 is its location next to the F.A.R.M. Institute parcel. It is expected that there will be some public activity within this complex of farm buildings. These parcels, given their location within the Herring Creek Farm subdivision, are considered not to be as desirable as Lots 5, 6, 7,8, 9 and 10, as these lots are located with more privacy, exclusivity and have superior views.

Utilities available to the site include underground electricity and telephone. Both water and sewer are by individual systems that have yet to be installed on the parcels.

SANDERLING

The Sanderling property is located adjacent to Lot 3 and is part of the assessors lot that includes both Lots 2 and 3. The Sanderling house was not available for an interior inspection. However an exterior inspection was made and a description of the interior's condition was provided by Ron Mann, the property's caretaker. The Sanderling house is approximately 200 years old. On the first floor there is a kitchen, dining room, living room, two bedrooms and bath. The second floor has two bedrooms and a bath. There is an attached one-car garage. The exterior has wood shingle siding and roof covering. Mr. Mann characterized the interior condition of the house to be in fair to average condition. The siding and roof covering had been replaced in the last eight years. Interior finishes to the bath and kitchen were last remodeled in the 1970's. Heat is supplied by an oil, forced hot water heating system of unknown age and vintage. There is a full basement and concrete floor under the house. The assessors' card may be found in the addenda. It indicates a living area of 1,826 square feet.

The house is situated on a 3.79-acre parcel of land. Currently there is a common driveway that crosses through both Lots 3 and 4, and it is my understanding that this common driveway which serves the Marshall Cohan property will be relocated. This lot will include deeded access rights to South Beach. A Title V septic system test shows that the site's system has failed.

BLUE HERON

The Blue Heron parcel is shown on assessors Map 44, Parcel 56. The parcel contains 1.9 acres with frontage both on Butler's Cove Road of approximately 306 feet and Slough Cove Road of approximately 150 feet. The parcel is level and is adjacent and in close proximity to the F.A.R.M. Institute building complex on Lot 1. The first floor of Blue Heron has a kitchen with pantry, dining room, breakfast nook, bedroom, T.V. room and bath. The second floor has three bedrooms and a full bath. This house has two fireplaces, neither of which work. Like Sanderling, the property is approximately 200 years old. It has not witnessed any significant remodeling during the last thirty years. The full basement is divided by walls, each having a

separate bulkhead. The floor is dirt with boulders. The heating system was replaced about ten years ago, and is a warm air, oil-fired system. At the time Sanderling's exterior wood shingles and roof covering was replaced, this house also had its roof covering and siding replaced. A Title V septic system test shows that the site's system has failed and that there is not sufficient distance between the system and the property's water source.

HIGHEST AND BEST USE

The highest and best use estimate for the property being appraised has considered the following four criteria.

What is legally permissible?
What is physically possible?
What is financially feasible?
What is the maximum productive use of the property?

The highest and best use of Lots 2 and 3 are estimated to be for development, each with a single-family residence.

The estimated highest and best use for Blue Heron and Sanderling are for redevelopment. Both houses are circa 200 year old cottages with a small building area. These houses are in generally fair to average condition and are approaching the end of their economic life. The market indicates that houses in a similar location and with similar conditions are either being demolished with new construction or gutted with a substantial addition and upgrading of the building.

VALUATION ANALYSIS

VALUATION TECHNIQUES

The purpose of this report is to arrive at an estimate of the Market Value of the subject property. This is achieved by a systematic gathering, classification, and analysis of data which is required in the development of the three basic approaches to value: the cost approach, the sales comparison approach, and the income approach.

Cost Approach

This approach consists of estimating the replacement cost new of all improvements, deducting accrued depreciation from all sources, and adding the value of the underlying land, estimated by comparison to recent land sales. The indication of value via this approach is a process of summation of the various property components contributing to the total property value; it is applicable when each component is independently measurable, and when the sum of all components is believed to reflect market value. This approach is especially useful in estimating insurable value, or in estimating the market value of fairly new improvements and special purpose properties which because of their design and single-use nature, have a limited market and would not be valued more accurately by another approach. This approach is not applicable to unimproved land or obsolete improvements.

Sales Comparison Approach

The Sales Comparison Approach involves a comparison of the subject property to similar properties that have actually sold in arm's-lengt h transactions or are offered for sale. Sale and asking prices are adjusted to reflect the significant differences, if any, that exist between the sale property and the subject property; the adjusted prices are correlated into a final value estimate of subject market value. This approach demonstrates what buyers have been willing to pay (and sellers willing to accept) for similar properties in an open and competitive market and is particularly useful in estimating the value of the land and properties that are typically owner occupied.

Income Approach

The Income Approach involves an analysis of the income earning capabilities of the subject property by estimating the fair rental value and deducting the operating expenses necessary to support the estimated rent. The projected net income or earnings stream remaining after expenses is converted into the equivalent capital sum or market value. This approach is particularly applicable in estimating the value of properties that are normally rented to provide a fair return on investment (acquisition cost) and that are typically purchased for investment purposes.

In the valuation of vacant unimproved land there are six valuation techniques. They are as follows.

Sales Comparison Approach

This technique compares the property to recently sold parcels of land. Adjustments are completed for various differences such as date of sale, location, land size, and highest and best use.

Land Residual Approach

The land is assumed to be improved to its highest and best use and the net income attributable by deducting all the building expenses. The net income is then capitalized into a value indication of the land only.

Development Approach

The total of undeveloped land is estimated by the market value of finished lots and then deducting the development and incentive costs which will be incurred in the sale of the retail lots. The net sales income is estimated during the forecasted marketing period and discounted to reflect the time value of money.

Ground Rent Capitalization

In certain instances, unimproved land may be leased or used for retail purposes. In such cases, a net income is estimated and the income is capitalized into an indication of value.

Allocation

In areas where sales of land occur so seldom, this approach is based upon allocating sale prices of improved property through the use of typical ratios found between land and property values.

Extraction

This is a form of allocation where the land value is extracted from the sale price of improved property. Here, the appraiser estimates the depreciated value of the improvements and this value is deducted from the sale price to produce the residual land value.

Subject Valuation

This appraisal is based on the sales comparison approach to value. The remaining valuation procedures where not considered appropriate in the valuation of the subject property.

SALES COMPARISON APPROACH

Blue Heron

This property, containing approximately 1.9 acres, is located on Slough Cove Road adjacent to the F.A.R.M. Institute buildings. While part of the Herring Creek Farm property, it is more similar to lots that would front on Slough Cove Road. This property, however, has deeded access rights to a private beach.

In my analysis of sales data in Edgartown, the following transactions were deemed to be comparable.

SALE NO. 1

Location:	38 Slough Cove Road (Map 49/10.3151)
Grantor:	Daniele
Grantee:	Mozer
Sales Price:	$659,000
Land Area:	5 acres
Date of Sale:	January 26, 2000
Comments:	This is a waterview lot of Slough Cove of Edgartown Great Pond. It is located 800 feet north of the subject property. This property has no private beach access, but has identical access to the South Beach. This property is viewed as a larger lot with more privacy than the subject property.

SALE NO. 2

Location:	63 Slough Cove Road (Map 44/12.15)
Grantor:	Hadley
Grantee:	Daniele
Sales Price:	$600,000
Land Area:	1.5 acres
Date of Sale:	February 12, 2001
Comments:	This parcel is located opposite the subject property. It is a sale of buildable lot which has no private beach rights. However it has identical public beach access as compared to the subject property.

SALE NO. 3

Location:	65 Slough Cove Road (Map 44/12.16)
Grantor:	Hadley
Grantee:	Burn
Sales Price:	$639,000
Land Area:	1.5 acres
Date of Sale:	January 2, 2001
Comments:	Small building lot adjacent to 63 Slough Cove Road and opposite to the subject property.

All three sales are within 800 feet of the subject property. While the subject property has private beach access, all three lots and the subject property have the same close proximity to South Beach where there are lifeguards, restrooms and changing areas. My observation is that houses located in this general neighborhood utilize the facilities at South Beach. However, there is the added amenity to access a private beach in the Herring Creek Farm complex. I am also of the opinion that the subject has a privacy issue relative to its proximity to the F.A.R.M. Institute buildings. Redevelopment of the lot could lessen this impact by reorienting a house on the lot.

In my opinion the estimated market value of the Blue Heron property is $625,000 as of July 15, 2001.

Lot Valuation 2 and 3

The subject Lot 2, containing 3.14 acres, and Lot 3, containing 3 acres, are waterfront lots on Slough Cove, part of Edgartown Great Pond. Like Blue Heron, these lots also have private deeded access to a private beach. I have viewed the subject two lots based on the quality of their waterfront location, the topographic characteristics (an elongated parcel and an open field), and the location of these two lots within the Herring Creek Farm subdivision. The following lots were deemed to be comparable to the subject property.

SALE NO. 4

Location:	Lot 10, Herring Creek Farm Subdivision
Grantor:	The Nature Conservancy
Grantee:	Petegro Associates
Sales Price:	$4,000,000
Land Area:	6.5 acres
Date of Sale:	July 2001
Comments:	This lot was created from two of the 33 lots comprised of the original Herring Creek Farm subdivision. This lot has views of the Atlantic Ocean and frontage on Crackatuxet Cove. This lot has greater privacy and exclusivity as compared to Lots 2 and 3. It is also a superior location within Herring Creek Farm's subdivision. This lot has similar private access rights, and in particular this lot is closer to the private beach than the subject property.

SALE NO. 5

Location:	29 Boldwater Road (Map 44/3.2)
Grantor:	Horowitz
Grantee:	Rukeyser
Sales Price:	$1,800,000
Land Area:	9.8 acres
Date of Sale:	March 2000
Comments:	This is a waterfront lot located in the Boldwater subdivision along the west shoreline of Edgartown Great Pond. The property has commanding frontage on Edgartown Pond and via a boat on Edgartown Great Pond has access to a private beach.

SALE NO. 6

Location:	19 Atlantic Drive (Map 52/3.1,3.8)
Grantor:	Firestone
Grantee:	Baum
Sales Price:	$1,500,000
Land Area:	2.23 acres
Date of Sale:	December 2000
Comments:	This is a vacant, residential lot that has commanding views of South Beach and the Atlantic Ocean. Although the lot has no private beach access, it does have immediate access to the public portion of South Beach. It is a level, open lot.

SALE NO. 7

Location:	48 Witchwood Lane (Map 36/303.1)
Grantor:	Fireman
Grantee:	J. P. B. K. Holding
Sales Price:	$3,500,000
Land Area:	3 acres
Date of Sale:	October 1999
Comments:	This is a waterfront lot which has access and ownership to a private dock on Katama Bay. The property is located in a small, high-priced subdivision off of Katama Road. The lot is wooded and affords privacy. It has superior water frontage as compared to the subject.

SALE NO. 8

Location:	Turkey Land Cove (Map 44/7)
Grantor:	Gund
Grantee:	Grosbeck
Sales Price:	$3,150,000
Land Area:	29.3 acres
Date of Sale:	January 1998
Comments:	This is a level, waterfront lot located between Slough Cove and Turkey Land Cove on Edgartown Great Pond. This lot has commanding views of Edgartown Great Pond. It is a lot which may have additional development capacity. The lot also affords greater privacy than the subject lots, as well as being much larger.

SALE NO. 9

Location:	93 Edgartown Bay Road
Grantor:	Aron
Grantee:	Guittar
Sales Price:	$1,575,000
Land Area:	.79 acres
Date of Sale:	December 9, 1999
Comments:	This is a waterfront lot fronting on Katima Bay and overlooking the Atlantic Ocean. There is a modest house on this site. The site has no private beach access, but does have access to the public portion of South Beach.

SALE NO. 10

Location:	6 Boldwater Road, Edgartown (Map 38/3.34)
Grantor:	Boldwater, Inc.
Grantee:	David Moore, Trustee
Sales Price:	$425,000
Land Area:	9 acres
Date of Sale:	May 12, 2000
Comments:	This lot and the lot located at 2 Boldwater Road (Map 38/3.36) each sold in 2000 for prices of $425,000 and $430,000. Both are comparably sized, 9 and 9.18 acres. These are interior, non-water view lots located in an upscaled subdivision known as Boldwater. There is access available to a common beach located west of the subject beach over a common landing on Edgartown Great Pond.

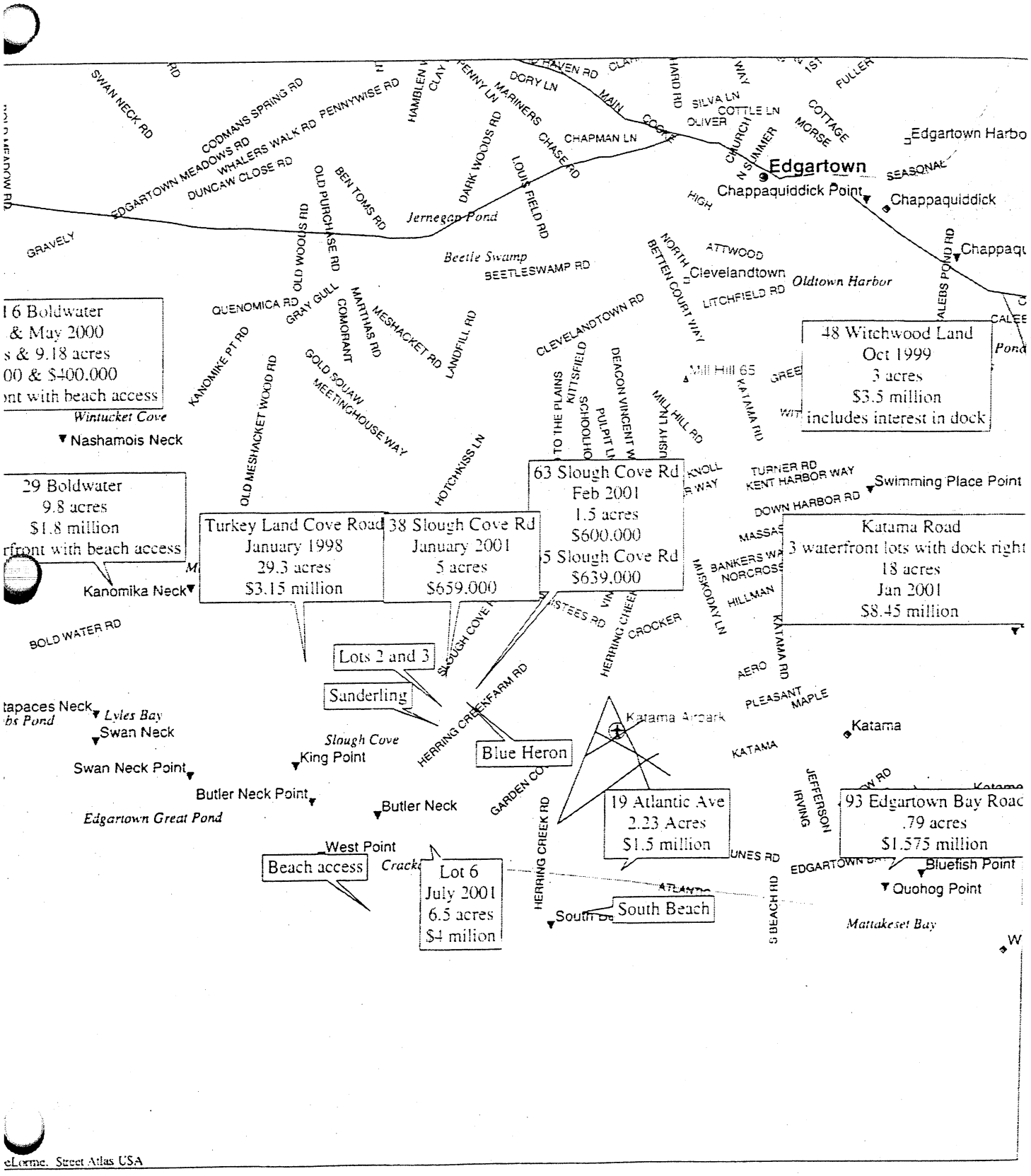
Based on my analysis of these sales, it is my opinion that the estimated market value of Lot 2 is $2,250,000 and the market value of Lot 3 is $2,500,000.

Sanderling

In my opinion, there is no contributory value to the existing improvements. It was noted that the current septic system has failed. The house size is considered to be under-sized for the lot given the property's location. This property is also neither a waterfront nor a waterview lot. However, the property's setting in the Herring Creek Farm subdivision is a noteworthy location. The property also has access to a private beach, as well as the public area of South Beach.

Based on the comparable sales sited in this appraisal, as well as other information on residential sales that I have reviewed, it is my opinion that the estimated market value of the subject property as of July 15, 2001, is $1,000,000.

Street Map Showing Subject & Sales



Determination of the fair market value of a right of first refusal on certain real estate in Edgartown, MA

At August 25, 2001

APPRAISAL/ECONOMICS, INC.

125 S. WACKER DR. • SUITE 2700 ANNEX
CHICAGO, ILLINOIS 60606 • 312-332-6778

September 12, 2001

Kenneth A. Glusman, Esq.
Choate, Hall and Stewart
Exchange Place
Boston, MA 02109

Dear Mr. Glusman:

We are pleased to offer our proposal for professional consulting services for the valuation of the fair market value of a contractual right of first refusal (hereinafter "the Right") which limits the marketability of certain farm land commonly known as Herring Creek Farm on Martha's Vineyard, MA. The Right was entered into on December 30, 1969 by four land owners; B. Harrison and Hildegarde Cohan, John and Janet Aldeborgh, Marshall and Judith Cohan, and Marshall Cohan in his capacity as a trustee (hereinafter "Trustee") of a trust holding a part of the real estate. The Right requires that until January 1, 2010, B. Harrison and Hildegarde Cohan, John and Janet Aldeborgh, and Marshall and Judith Cohan will not sell, transfer or convey any part of their respective lands other than to and among themselves without first offering to sell to a group which owns the Trustee's land. The Right further requires that any offer to sell shall be at a price per acre of $10,000 until such time as the Right expires in January 1, 2010.

The fair market value of the Right will be used for purposes of establishing the amount of charitable contribution resulting from a donation of the Right to your client, The Nature Conservancy. We will provide an independent valuation of the Right as of August 25, 2001.

The valuations will be made using the guidelines from the Uniform Standards of Professional Appraisal Practice, which are similar to those described in Revenue Ruling 59-60. Most courts view Revenue Ruling 59-60 as the primary guidance for business valuation methodology.

Fair market value is defined as the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus.

Appraisal/Economics, Inc. provides a wide range of valuation services and has extensive experience conducting valuations, including those for assets such as rights and warrants. We offer you the following advantages:

- **We have valued this type of asset.**
  We have provided consulting services for the valuation of rights and warrants. Our prior experience from working with other clients allows us to understand the methods and issues affecting the asset's valuation.

- **We listen to our clients.**
  We recognize the importance of communication with our clients on each assignment, and we will work closely with you and your attorneys to assure that the objectives of the engagement are clearly defined and understood.

- **Our work is fully documented.**
  We provide quality reviews and work paper documentation of our analyses. We are experienced in representing clients in litigation matters where complete documentation is required.

- **Our expertise is multidisciplinary.**
  We bring to the appraisal process experience in the fields of engineering, accounting, finance and tax law. We understand the relationships between the various disciplines that need to be considered in the valuation process.

- **Our service is prompt and efficient.**
  We assure you that this assignment will be delivered in a timely and professional manner.

Appraisal/Economics, Inc. provides valuation expertise that draws on experience from various disciplines. These skills have proven to be especially useful in complex valuation assignments that have required expert witness testimony in court or before other authoritative bodies.

SCOPE OF THE WORK

The value of the Right results from its impairment on the marketability of the land of Herring Creek Farm. To determine the value of the Right, we expect to our work will include estimating the effect of this impairment in two ways. The first is by using a letter stock analysis and the second is by measuring the difference between price- to-value discounts of thinly traded limited real estate partnership interests and the price-to-value discounts on actively traded real estate investment trusts. In the first approach, we expect to undertake the following:

1. Compare, as appropriate, the Herring Creek Farm land with the results of the letter stock study developed by Management Planning Company. We will impute a marketability discount for the land using a benchmark analysis with factors compiled in this stock study. This will result in an estimated marketability discount as if the land were a restricted equity.

2. Adjust this estimated marketability discount for differences in the volatility of small capitalization equities (typical of the Management Planning study) and vacant real estate on Martha's Vineyard. We expect to compute the standard deviation of year-end annual returns on the NASDAQ composite for each of the last 13 years. We also expect to compute the standard deviation of year-end annual average returns per acre on vacant Martha's Vineyard real estate over the same period. The standard deviation of the land divided by the standard deviation of equities will be the adjustment factor. This analysis assumes ready availability of historical information on Martha's Vineyard real estate through the Warren Group Database.

3. Calculate the value of the Right by multiplying the volatility adjusted discount times the value of the land on a fee simple basis.

To determine the value of the Right using the second approach, we expect to our work will include:

1. Summarizing the price-to-net asset (or value) discount results of the *2001 Partnership Spectrum* publication. This publication lists price-to-value discounts of public partnership interests which are traded on an exchange with very little liquidity.

2. Obtain from Mercer Capital in Memphis, TN a price-to-value discount study of publicly traded real estate investment trusts. Real estate investment trusts are highly marketable equities traded on exchanges such as the NYSE. Our results here are dependent on being able to secure this information from Mercer Capital.

3. Calculate the value of the right by taking the difference between the two price-to-value discounts and multiplying that by the farm land value on a fee simple basis.

FORM AND CONTENT OF OUR REPORTS

We will submit to you a written report documenting the results of this study. Our report regarding the Right will include a detailed narrative describing the purpose and scope of our analysis, methodology employed, assumptions and conclusion of the Right's value. Appropriate explanatory exhibits, schedules, and supporting data will be attached, as needed, detailing our valuation conclusions. A draft report, if desired, will be issued for review and comment prior to preparing our final report.

The report will contain the attached list of agreed upon standard conditions. These standard conditions state the assumptions used in preparing the report and limitations on its use.

STAFFING, TIMETABLE AND FEES

David R. Witwer will have responsibility for this engagement. He is the president of Appraisal/Economics, Inc. and has experience in the valuation of options and rights. He will manage the technical work required for the engagement. Mr. Witwer is a former licensed professional engineer, a certified public accountant and a senior member (ASA designation) of the American Society of Appraisers. His resume is attached for your information.

As is our normal practice, we will charge our standard hourly rate of $175.00 per hour plus out-of-pocket expenses including travel, photocopying, telephone, facsimile and express mailings. Based on our understanding of the project, our total fees for the valuation of the Right will not exceed $20,000, plus out-of-pocket expenses. Should less time be required than estimated, our fees would be reduced accordingly. All billing statements will be submitted to you in detail form. Our fees include only the time required for the preparation of the valuation study.

You may need additional services if this matter is audited by the Internal Revenue Service. We are prepared to provide these services. Any additional time involved will be billed at the standard hourly rate.

We are prepared to begin this project immediately upon your authorization and expect to complete our conclusion of value within one week after your approval, assuming the timely availability of required data from Mercer Capital and the Warren Group Database.

It is our normal practice to bill our services monthly, as work is performed, and payment is due on receipt of bill. We reserve the right to stop all work if any bill goes unpaid for 30 days from date of bill. It is agreed that no additional services will be provided until all outstanding bills on this engagement are paid-in full.

CONFIDENTIALITY

We agree that we are subject to and will abide by any reasonable confidentiality agreements you may desire. Except as required otherwise by law, we also agree to treat as confidential any documents or other information made available to us in connection with this engagement. It is further agreed that the sole purpose of the valuation studies and reports is as described in the first paragraph of this letter and that you will make every reasonable effort to limit the reports' distribution and use to this stated purpose.

INDEMNIFICATION

In connection with this engagement, you agree to indemnify Appraisal/Economics, Inc., its employee, and its shareholder, and hold them harmless from and against any costs, including legal fees, that arise directly or indirectly from any report or valuation conclusion except to the extent that a competent court determines that any of the aforesaid parties was grossly negligent or fraudulent in the conduct of this engagement and that such conduct was the proximate cause of any injury for which any of the parties is sought to be held liable.

CONCLUSION

We look forward to working with you on this matter. If these arrangements meet with your understanding and approval, please sign the duplicate copy of this letter in the space provided and return it to us.

Very truly yours,

David R. Witwer
President

September 12, 2001

Proposal Accepted By:

_____

Signature Date

STANDARD CONDITIONS TO BE INCLUDED IN THE REPORTS

The primary assumptions and limiting conditions pertaining to the value estimate conclusion(s) stated in this report are summarized below. Other assumptions are cited elsewhere in this report.

1. To the best of our knowledge and belief, the statements of facts contained in the appraisal report, upon which the analysis and conclusion(s) expressed are based, are true and correct. Information, estimates and opinions furnished to us and contained in the report or utilized in the formation of the value conclusion(s) were obtained from sources considered reliable and believed to be true and correct. However, no representation, liability or warranty for the accuracy of such items is assumed by or imposed on us, and is subject to corrections, errors, omissions and withdrawal without notice.

2. This valuation is based on asset listings which have been provided by our client or his legal counsel. This financial information has not been subjected to any auditing or verification procedures by us and we express no assurance of any kind on it.

3. The valuation may not be used in conjunction with any other appraisal or study. The value conclusion(s) stated in this appraisal is based on the program of utilization described in the report, and may not be separated into parts. The appraisal was prepared solely for the purpose, function and party so identified in the report. The appraisal report may not be reproduced, in whole or in part, and the findings of the report may not be utilized by a third party for any purpose, without the express written consent of Appraisal/Economics, Inc.

4. No change of any item in any of the appraisal report shall be made by anyone other than Appraisal/Economics, Inc. and we shall have no responsibility for any such unauthorized change.

5. Unless otherwise stated in the appraisal, the valuation of the business has not considered or incorporated the potential economic gain or loss resulting from contingent assets, liabilities or events existing as of the valuation date.

6. We are not required to give testimony or be in attendance at any court or administrative proceeding with reference to the business appraised unless additional compensation is agreed to and prior arrangements have been made.

7. The working papers for this engagement are being retained in our files and are available for your reference. We would be available to support our valuation conclusion(s) should this be required. Those services would be performed for an additional fee.

8. Neither all nor any part of the contents of the report shall be disseminated or referred to the public through advertising, public relations, news or sales media, or any other public means of communication or referenced in any publication, including any private or public offerings including but not limited to those filed with the Securities and Exchange Commission or other governmental agency,

without the prior written consent and approval of the review by Appraisal/Economics, Inc.

9. Good and marketable title to the interest being appraised is assumed. We are not qualified to render an "opinion of title" and no responsibility is assumed or accepted for matters of a legal nature affecting the interest being appraised. No formal investigation of legal title to or liabilities against the interest valued was made, and we render no opinion as to ownership of the interest or condition of its title. Furthermore, for purposes of this engagement and letter report, we did not examine the assets of the business.

10. Management is assumed to be competent, and the ownership to be in responsible hands, unless noted otherwise in this report. The quality of management can have a direct effect on the viability and value of the interest.

11. Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject interest because of future federal, state or local legislation, including any environmental or ecological matters or the so called "year 2000" computer problem or interpretations thereof. Furthermore, we assume that there are no hidden or unexpected conditions that would affect the assets of the business and we accept no responsibility for discussing such conditions.

12. We take no responsibility for any events, conditions or circumstances affecting the subject interest or its value, that take place subsequent to the effective date of value cited in the appraisal.

13. Any decision to purchase, sell or transfer any interest in the business shall be the sole responsibility of its owners, as well as the structure to be utilized and the price to be accepted.

14. In connection with third party reliance on our conclusions, you agree to hold Appraisal/Economics, Inc. and its shareholder, and employees harmless from any and all claims, liabilities, and judgments, penalties, or assessments arising from the performance of Appraisal/Economics, Inc. under this engagement, provided that you shall have no obligation to indemnification with respect to a claim arising from any act of negligence of willful or wanton misconduct by any owner or employee of Appraisal/Economics, Inc.

DAVID R. WITWER, A.S.A., C.P.A.

POSITION	President, Appraisal/Economics, Inc., Chicago
EDUCATION	M.B.A., University of Chicago, Chicago
	M.S., Engineering, California Institute of Technology, Pasadena
	B.A., Humanities, Dickinson College, Carlisle, Pennsylvania
PROFESSIONAL HISTORY	Manager, Coopers & Lybrand Valuation Services and Litigation & Claims Services, Chicago
	Senior Manager, Price Waterhouse Valuation Services, New York and Chicago
	Senior Consultant, Arthur D. Little Valuation, Inc., Chicago
	Consultant, Greeley & Hansen Engineers, Chicago
PROFESSIONAL EXPERIENCE	Directed appraisals and damage claim assessments for litigation and other business purposes. These studies involved businesses, real estate, equipment and intangible assets such as proprietary technology, patents, customer lists, contracts, non-compete agreements, and trademarks.
EMPLOYMENT EXPERIENCE	Directed engagements for numerous clients. Some of these are: Avis Europe plc Baker and McKenzie Baxter Travenol Black & Decker Corporation CBS Records Coca-Cola Bottling Company Cyprus Minerals Corporation ComputerLand Stores General Motors Corporation Kimberly-Clark Laidlaw Industries, Inc. Lee, Toomey & Kent

EMPLOYMENT EXPERIENCE (CONTINUED)	Medtronic, Inc. Pratt & Whitney Shell Oil Company The Upjohn Company Waste Management, Inc. Western Union Corporation
TESTIMONY EXPERIENCE	Harris vs. Harris, Circuit Court of Cook County, Illinois, August, 1985
	O'Connor vs. O'Connor, Circuit Court of Lake County, Illinois, September, 1985
	Evans vs. Evans, Lake County, December 1994
PRESENTATIONS/ PUBLICATIONS	Chicago Bar Association Matrimonial Law Committee and Illinois CPA Society
	Price Waterhouse and Coopers & Lybrand National Training Sessions
	Article on the effect of the 1986 Tax Reform Act on company's value in Medical Business Journal
TEACHING	Lecturer in finance, Loyola University, 1992
	Graduate Lecturer in finance and accounting, National-Louis University, 1994
PROFESSIONAL AFFILIATIONS/ LICENSES	Senior Member, American Society of Appraisers (ASA designation)
	Registered Professional Engineer of Illinois
	Certified Public Accountant
COURSES	Appraisal Institute Courses Completed: Real Estate Appraisal Principles Basic Valuation Procedures Standards of Professional Practice A & B Residential Valuation Capitalization Theory & Techn., Part A & B

FROM :

PHONE NO. :

SEP. 21 2001 12:00PM P1

Appraisal/Economics, Inc.
175 E. Delaware Place #8405
Chicago, IL 60611

FAX

Date 9-21-01

Number of pages including cover sheet 7

To: Kenneth Glosman
Choate, Hall & Stewart

Phone

Fax Phone 617-248-4000

CC:

From: David R. Witwer

Phone 312-332-6778 (W) 847-256-4904 (H)

Fax Phone 847-256-4904(H) 312-944-3039 (W)

REMARKS:

☐ Urgent ☐ For your review ☐ Reply ASAP ☐ Please comment

To: Kenneth A. Glusman, Esq.
From: David R. Witwer
Date: September 20, 2001
Subject: Preliminary Summary of the Valuation of Right of First Refusal on 175 Acres of undeveloped Real Estate in Martha's Vineyard, MA commonly known as Herring Creek Farm

Overview

On December 30, 1969, four owners of adjoining land in Edgartown, MA entered into an agreement which provided certain rights and easements for access to public ways and for access to and use of certain beach property. In consideration for these rights, the owners (the B. Cohans, the Aldeborghs, the M. Cohans and a Trustee of a land trust) granted mutual rights (hereinafter "the Right of First Refusal") to purchase their respective lands.

The parties agreed that until January 1, 2010, the B. Cohans, the Aldeborghs, and the M. Cohans will not sell, transfer or convey any part of their respective lands other than to and among themselves without first offering to sell the same to such one or all of a group consisting of the Trustee, the trustee of another trust, Monte J. Wallace and Neil W. Wallace. Further, any offer to sell was set at the price and in accordance with the following:

Price per acre of land:
$7,000 per acre until January 1, 1980
8,000 per acre until January 1, 1990
9,000 per acre until January 1, 2000
10,000 per acre until January 1, 2010

Since the time of this agreement, the value of the 175 acres of real estate subject to the Right of First Refusal has appreciated dramatically so that the contractual prices under the Right of First Refusal represent a small fraction of current market values.

At the valuation date of August 25, 2001, the Right of First Refusal represents impairment to the marketability on the sale of the 175 acres. That land, on a fee simple basis which assumes unrestricted marketability, has an appraised value of $78,000,000 or an average price per acre of over $400,000.

Under the Right of First Refusal, the land can be sold, but only at a current price of $10,000 per acre which is about 2.5% of its average market value on a fee simple basis. Accordingly, the owners of the property would be faced with the prospect of waiting about 8-1/3 years for the Right of First Refusal to lapse or alternatively negotiating to purchase the Right of First Refusal to free the property of this marketability impairment.

The owner of the Right of First Refusal would own it with the expectation that he could negotiate its sale to the other parties at a substantial gain prior to its expiration on January 1, 2010. Accordingly, the Right of First Refusal represents a speculative asset that would depreciate with time not unlike an out-of-the-money option, for instance on an equity index. Unlike the option, however, the owner of the Right of First Refusal would not have the right to purchase the property at some higher out-of-the-money price 8.35 years from the valuation date.

Valuation Approaches

Two general approaches were used to value the Right of First Refusal. They included:

◊ Valuing it as an out-of-the-money call option expiring on January 1, 2010 with adjustments for facts and circumstances.

◊ Valuing it as the amount of impairment to the marketability of the fee simple value of the 175 acres of Herring Creek Farm (namely, the diminution of value of the asset due to its lack of marketability). This diminution in value due to lack of marketability was estimated in two ways:

1. First, through studies of discounts observed in transactions of common stock which were identical in all respects to freely traded shares except that they were restricted from sale for periods typically of two years (so called letter stock).

2. Next, through a comparison of the price-to-net asset value ratios of New York Stock Exchange traded real estate investment trusts with price-to-net asset value ratios of partnership interests changing hands in the informal limited partnership secondary markets. The real estate investments trusts which are traded on the New York Stock Exchange are readily marketable while the limited partnerships traded on the informal secondary markets have significantly limited marketability. The difference between the price-to-net asset value ratios between these two groups of assets is an estimated of diminution of value due to lack of ready marketability.

Valuation Results

Option Approach:

For purposes of valuing the Right of First Refusal using methods for out-of-the-money call options, we used the following assumptions and the option calculator (Black-Scholes Model) available on the Chicago Board of Options Exchange web site. The assumptions and the results were as follows:

◊ European expiration style index options.
◊ Index price = 78 (fee simple value of real estate in $millions).
◊ Strike price = 324.3 (the value of the real estate in $millions on January 1, 2010 if it were to continue to appreciate on a compounded rate equal to at the average annual historical rate from 1993 to 2001 or 18.6%).
◊ Volatility = 47.7 (the closing value of the VNX index on the NASDAQ 100 as of August 24, 2001. A study of the historical price changes of land in Edgartown and West Tisbury since 1993 found that vacant land in those towns had similar price volatility to that of the NASDAQ Composite index. The NASDAQ 100 is highly correlated to the NASDAQ Composite index.)
◊ Interest rate = 5.15 (yield on a US Treasury Strip maturing in February 2010, namely the closest maturity to January 1, 2010).
◊ Annual dividend = 0
◊ Days until expiration = 3,049

The value of this option was calculated to be about 21 or $21,000,000. However, a call option has the right to purchase the underlying asset, in this case the land. The Right of First Refusal has no such purchase feature. To adjust for this, we reduced the result of the option calculation by one third to 14 in recognition that the landowner must be motivated to purchase the Right of First Refusal for its holder to gain a return.

Indicated value of Right of First Refusal = $14,000,000 or 17.95% of the land value on a fee simple basis

Restricted Stock Study Approach:
For purposes of valuing the Right of First Refusal using restricted stock discounts, we looked at studies conducted over the years which have measured the extent to which blocks of restricted stock have been discounted in private placements. Ten restricted stock studies have been conducted since 1971. These studies generally analyzed the price at which restricted, or letter stock, was sold (principally to institutional investors) in relation to the contemporaneous freely traded (unrestricted) counterparts.

Two of the studies attempted to explain the variability of the discounts. They included the SEC Institutional Investor Study and the Management Planning Study. The SEC Institutional Study found the following factors have an influence on the size of the restricted stock discount:

1) Size of stock issuer in sales
2) Earnings of the stock issuer
3) Market in which freely traded stock trades

None of these factors are applicable for making a comparison with the Herring Creek Farm property as it is not traded, and has no sales or earnings.

The study broke the discounts into ten percentage point ranges and grouped the transactions by these ranges. Roughly two-thirds of the transactions occurred in the three lowest discount ranges namely 0% to 10%, 10% to 20%, and 20% to 30%. The median and average discounts from this study were 24% and 26%.

The other study, the Management Planning Study, involved an analysis of 49 restricted stock transactions between 1980 and 1995. One of those transactions occurred at a price equal to the price of the freely traded shares. The remaining discounts ranged from 3 percent to 58 percent, with a mean of 27.7 percent and a median of 28.8 percent. The authors of this study attempted to explain the considerable variation around these averages. In doing so, the relationship between the discounts and 21 factors the authors considered relevant were studied. The study attributed these factors "to those suggested by the SEC Study, Revenue Ruling 77-287 or common sense." The results of the statistical analysis conducted by MP were segmented as follows:

1.) There was a clear confirmation of expectations observable in the data.
2.) There was some observable tendency of confirmation in the data.
3.) There was no apparent tendency to affirm expectations.
4.) The analysis results were inconclusive

Factors which clearly confirmed the expectations of the authors were:

1. Revenues
2. Recent Earnings
3. Market Price Per Share
4. Price Stability
5. Earnings Stability

Factors showing some observable confirming tendency in the Study included the followings:

1. Market Capitalization
2. Block Size (Shares)
3. Number of Quarters to Dribble Out
4. Number of Weeks Trading Volume to Sell
5. Block Size/Trading Volume (%)
6. 10-Year Revenue Growth
7. 10 Year Earnings Growth

Again, none of these factors are directly comparable for benchmarking a discount on the Herring Creek Farm property resulting from the Right of First Refusal.

We have calculated the volatility of the adjusted median price per acre of land in Edgartown and West Tisbury since 1993 and compared that volatility with the annual change in the NASDAQ Composite Index over the period. They have similar volatility as measured by the standard deviation of price changes since 1993.

Accordingly, the mean discounts from these studies or about 25% is the most meaningful indication from this analysis of the discount to the fee simple land value arising from the lack of ready marketability. On its face, this would indicate the value of the Right of First Refusal is 25% of $78,000,000 or $19,500,000. But as in the case with the option, the landowner must be motivated to purchase the Right of First Refusal in order for its holder to gain a return. To adjust for additional risk, we reduced the result of this calculation again by one third to reflect the special risk related to ownership of this asset.

Indicated value of Right of First Refusal = $13,000,000 or 16.67% of the land value on a fee simple basis

REIT and Limited Partnership Approach:
We developed our final estimate of the amount of impairment to the marketability of the fee simple value of the 175 acres of Herring Creek Farm by comparing the price-to-net asset value ratios of New York Stock Exchange traded real estate investment trusts with price-to-net asset value ratios of partnership interests changing hands in the informal limited partnership secondary markets.

Real estate investments trusts, which are traded on the New York Stock Exchange, are readily marketable while the limited partnerships traded on informal secondary markets have significantly limited marketability. The difference between the price-to-net asset value ratios between these two groups of assets is an estimated of diminution of value due to lack of ready marketability.

To determine this difference, we started with a study obtained from Mercer Capital Corporation which provided the per share net asset value of the underlying real estate held by fifty REITs traded on the New York Stock Exchange. These net asset values were obtained from the July 19, 2001 issue of *Realty Stock Review*. The study also provide the per share closing price of each of these REITs. Nineteen of these REITs traded at premiums to net asset value and thirty-one traded at discounts.

The median and average discount to net asset value (i.e., closing price per share divided by net asset value per share) of all 50 REITS was slightly less than 1%. The median and average dividend yield on these REITs was about 7.5%

We referred to data published by Partnership Profiles, Inc. (PPI) to obtain discounts to net asset value of limited equity partnerships traded on informal secondary markets. PPI gathers information on the prices being paid in the secondary market for limited

partnership interests (units) in relatively large limited partnerships. This data is published in PPI's May/June issue of *The Partnership Spectrum*. The transactions studied occurred during the 60 days preceding the May/June issue of 2001.

All of the partnerships included in that price-to-value discount study are publicly-registered with the Securities and Exchange Commission, though none of the partnerships are publicly-traded on any recognized securities exchange. Instead, units of the partnerships are bought and sold in the so-called limited partnership secondary market. This market is comprised of ten to twelve independent securities brokerage firms that act primarily as intermediaries in matching up buyers and sellers of units in non-listed partnerships of all types.

Most of these limited partnership interests were sold to the public in the 1980's when tax benefits associated with such investments were more favorable than they are currently. A very limited market has developed in these partnership interests and it is the trading prices in this market which forms the basis of the studies. The key statistic for purposes of an analysis of the kind we are undertaking herein is the relationship between the prices at which these transactions were completed and net asset value. All of the equity partnerships in the *Partnership Spectrum* traded at a discount to net asset value. Forty-two partnership transactions were listed. The median and average discount to net asset value (i.e., transaction price per unit divided by net asset value per unit) of all 42 limited partnerships was 31.5% and 30%, respectively. The median and average distribution yield of those partnerships having a set distribution rate was about 6.8% and 5.3%, respectively.

We undertook regressions of the data on the REITs and the limited partnerships to determine if the discounts were correlated with the distribution and dividend yields of the REITs or limited partnerships. The results showed little correlation in the data. We also looked at whether the amount of leverage in the REITs and limited partnerships affected the discount. Again, no significant correlation was found in the data.

Finally, in arriving at the difference in discounts between the REITs and limited partnerships, we considered and compared the types of real estate properties held by the REITs and the limited partnerships. Most of the property types were similar including apartment buildings, shopping and regional malls, manufactured homes and office buildings. The REITs had a few property types not included in the limited partnerships such as factory outlets, industrial and hotels, but they represented only seven of the fifty REITs. The limited partnerships included undeveloped land and parking facilities which were property types not included in the REITs. Again, the number of different property types was small.

Accordingly, the difference between the average discounts from the REITs and limited partnerships or about 29% is the most meaningful indication from this analysis of the discount to the fee simple land value arising from the lack of ready marketability. On its face, this would indicate the value of the Right of First Refusal is 29% of $78,000,000 or $22,620,000. But as in the case with the other methods above, the landowner must be motivated to purchase the Right of First Refusal in order for its holder to gain a return. To adjust for additional risk, we reduced the result of this calculation again by one third to reflect the special risk related to ownership of this asset.

Indicated value of Right of First Refusal = $15,080,000 or 19.33% of the land value on a fee simple basis

Conclusion
$14,000,000

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I. OVERVIEW

This report summarizes our analysis and determination of the fair market value of a right of first refusal (hereinafter "the Right") on certain real estate in Edgartown, MA commonly known as Herring Creek Farm as of August 25, 2001 ("the valuation date") . The Right was created on December 30, 1969, when four owners of adjoining land in Edgartown, MA entered into an agreement (hereinafter "the Agreement") which provided certain rights and easements for access to public ways and for access to and use of certain beach property. In consideration for these rights, the owners (the B. Cohans, the Aldeborghs, the M. Cohans and a Trustee of a land trust) granted mutual rights to purchase their respective lands.

The parties agreed that until January 1, 2010, the B. Cohans, the Aldeborghs, and the M. Cohans will not sell, transfer or convey any part of their respective lands other than to and among themselves without first offering to sell the same to such one or all of a group consisting of the Trustee, the trustee of another trust, Monte J. Wallace and Neil W. Wallace.

Similarly, the Trustee and the Wallaces agreed to not sell, transfer or convey any part of the Trustee's land other than to and among said Monte J. Wallace, said Neil W. Wallace, the spouse or issue of either of them or any spouse of such issue without first offering to sell the same to such one or all of a group consisting of the B. Cohans, the Aldeborghs, the M. Cohans, or any issue of the B. Cohans or any spouse of such issue.

Further, any offer to sell was set at the price and in accordance with the following:

Price per acre of land:

$7,000 per acre until January 1, 1980
8,000 per acre until January 1, 1990
9,000 per acre until January 1, 2000
10,000 per acre until January 1, 2010

The fair market value of the Right is being determined for purposes of the establishing the amount of charitable contribution in a transaction with The Nature Conservancy (THC). This study should not be referred to or relied upon other than for this stated purpose.

We define fair market value as the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably and assuming the price is not affected by undue stimulus.

In the course of our valuation we used information that was provided by the attorneys for THC or was obtained from public sources we believe to be reliable, and our conclusions are dependent on such information being complete and accurate in all material respects. However, we have not examined such information and, accordingly, do not express an opinion or any other form of assurance thereon.

In general, the procedures used to value the Right included the following:

- ◊ Discussions with attorneys for THC about the number of acres covered by the right and the estimated fair market value of those acres on a fee simple basis;
- ◊ A review of the Agreement (see Attachment 1);
- ◊ Valuation of the Right as an out-of-the-money call option expiring on January 1, 2010 using the Black-Scholes model with adjustments for facts and circumstances.
- ◊ Valuation of the Right as the amount of impairment to the marketability of the fee simple value of the 180 acres of Herring Creek Farm (namely, the diminution of value of the asset due to its lack of marketability). This diminution in value was estimated through studies of discounts observed in transactions of common stock which were identical in all respects to freely traded shares except that they were restricted from sale for periods typically of two years (so called letter stock) and through a comparison of the price-to-net asset value ratios of New York Stock Exchange traded real estate investment trusts with price-to-net asset value ratios of limited partnership interests changing hands in the informal secondary markets which are relatively illiquid;
- ◊ A review of discount information on partnership transactions as contained in *The Partnership Spectrum*;
- ◊ A review of discount information contained in a spreadsheet of publicly traded real estate investment trusts prepared by Mercer Capital;
- ◊ A review of the historical appreciation and volatility in the median adjusted price per acre of vacant land based on sales in Edgartown and West Tisbury (a town next to Edgartown);
- ◊ Such other analyses, procedures and inquiries as we considered necessary.

Our analyses were based on the following sources of information:

- ◊ Representations by attorneys for THC regarding the number of acres covered by the Right and the approximate fair market value of those acres on a fee simple basis (namely, a basis where the land would be freely sold without consideration of the impairment of the Right);
- ◊ A spreadsheet of vacant land sales which have occurred in Edgartown and West Tisbury since 1987 supplied by Warren Information Services, a division of the Warren Group;
- ◊ An article titled "Size Adjustment Tables" by Gene Dilmore from the May-June 1976 issue of *The Real Estate Appraiser* presenting formulae to apply to land sales for disparity in size between real state parcels;
- ◊ Partnership Profiles, Inc. publication titled *The Partnership Spectrum* for May/June 2001;
- ◊ An analysis of publicly traded real estate investment trusts prepared by Mercer Capital;

- ◊ A copy of the Agreement;
- ◊ Information on the U.S. economy from publications such as *Fortune, Business Week,* the Federal Reserve Bank of Cleveland's *Economic Trends*, *Standard & Poor's The Outlook*, and *The Federal Reserve Bulletin*;
- ◊ Historical closing prices of the NASDAQ 100 index for the last six years from the web site www.nasdaqnews.com;
- ◊ The yield on U.S. Treasury Strips maturing in February 2010 (closest maturity to the Right's expiration date) as published by the Wall Street Journal; and
- ◊ The daily closing volatility index for the NASDAQ 100 between January 1, 2001 and August 24, 2001 as provided by the Chicago Board of Options Exchange web site www.cboe.com and the option calculator on that web site which uses the Black-Scholes option pricing model.

Our procedures did not include the investigation of, and we assume no responsibility for, the title to or any liens against the Right. Furthermore, we assumed that there are no hidden or unexpected conditions that could affect the value of this asset and accept no responsibility for discovering such conditions.

In accordance with the foregoing, and as further described in this report, we have determined the fair market value of the Right of First Refusal arising from the Agreement covering about 180 acres of the Herring Creek Farm as of August 25, 2001 to be $14,400,000.

The officer of Appraisal/Economics, Inc. who worked on this engagement has no known or contemplated financial interest in the Right or the underlying real estate. Our compensation for this engagement was neither based nor contingent on the values we determined.

This report is solely for the purpose stated above and may not be used for any other purpose, in whole or in part, without our prior written consent.

II. U.S. ECONOMIC OUTLOOK

In the appraisal of an asset, the general conditions prevailing in the economy must be considered to assess the attractiveness of investments. Although individual factors may or may not have a direct impact on a particular industry, the overall economic outlook influences how investors perceive investment opportunities in all assets. In our analysis of the Right, we have considered the economic climate that prevailed at or around August 25, 2001, as well as the outlook for the future. In particular, we have focused on the outlook for the residential real estate, since this aspect of the economy is most directly related to the prospects of Right.

A. Overview

The August 2001 issue of *Economic Trends* says that the advance estimate for the national income and product accounts, released July 27, reported that gross domestic

product (GDP) grew at a meager annualized rate of 0.7% during the second quarter of 2001. This growth was slightly weaker than expected; the Blue Chip forecast for the quarter was 0.9% growth. The major factor in the second-quarter slowdown was business fixed investment, which fell 13.6% (annualized) from the first quarter 2001 and 1.7% from the second quarter 2000.

The quarter's decline in business investment was partly offset by personal consumption and government spending, which rose 2.1% and 5.5%, respectively. Personal consumption was up 3.2% from the second quarter 2000, while government spending increased 3.0%. Residential investment remains strong and has even accelerated recently.

Blue Chip forecasters are more optimistic about the last two quarters of 2001; they expect GDP growth of about 2% in the third quarter and 3% in the fourth. The anticipated increase may reflect this year's many reductions in the federal funds rate, whose effects usually are felt some time after the rate reductions.

Almost all sectors of the economy slowed in the second quarter, but manufacturing took an especially severe beating. Manufacturing's slump is reflected in industrial production, which has declined steadily over the last nine months. In June, industrial production fell 0.7% from its May level—a hefty 8.7% annualized decline. Growth in industrial production was considerably lower than in 2000.

B. Industry Outlook

According to the August 8, 2001 Federal Reserve Board Beige Book, residential real estate markets in New England are still strong, although signs of softening are emerging. The number of listings has begun to grow slowly, while the number of sales is starting to decline. Real estate contacts of the Federal Reserve Board indicate that the lower half of the market still enjoys very robust activity because low interest rates stimulate demand among potential buyers, while the level of activity at the top of the market has slowed. The Board's contacts in Rhode Island report that the market is as strong as ever, with most new listings selling very quickly and the average sale price up from last year. In Vermont, the average sales price is slightly higher than a year ago, but prices of new properties coming on the market are the same as those of existing properties, indicating that prices have stabilized.

According to a news release from the Massachusetts Association of Realtors, the pace of single-family home sales continued to moderate across Massachusetts during the summer of 2000. Fluctuations in financial markets, growing reluctance on the part of consumers to take on additional debt, and rising interest rates in the spring of 2000 all factored into softening demand for residential real estate. Sales of detached single-family homes declined 9.8 percent in the third quarter of 2000, from 13,918 units in the July-September period of 1999 to 12,554 in the same period in 2000. Condominium sales also dropped in the period.

C. Outlook for U.S. Economy

The August 15, 2001 forecasts by Standard & Poor's *The Outlook*, indicates that the second quarter will be the low point of the cycle. They expect GDP growth for the second quarter of 2001 to be revised downward to 0.4% from 0.7%, but forecast modest

improvement to 1.8% in the third and 3.4% in the final quarter of the year. These forecasts are higher than the central tendency of the forecasts of the Federal Open Market Committee members and other Reserve Bank presidents. They project growth in real GDP of 1.25% to 2% over the four quarters of 2001. The poll of economists taken by the *Economist* magazine forecasts similar growth for 2001. These economists project 2001 GDP growth at 1.6%.

III. DESCRIPTION OF THE RIGHT

The Right was created on December 30, 1969 when four owners of adjoining land in Edgartown, MA entered into the Agreement (see Attachment 1) which provided certain rights and easements for access to public ways and for access to and use of certain beach property. In consideration for these rights, the owners (the B. Cohans, the Aldeborghs, the M. Cohans and a Trustee of a land trust) granted mutual rights to purchase their respective lands.

The parties agreed that until January 1, 2010, the B. Cohans, the Aldeborghs, and the M. Cohans will not sell, transfer or convey any part of their respective lands other than to and among themselves without first offering to sell the same to such one or all of a group consisting of the Trustee, the trustee of another trust, Monte J. Wallace and Neil W. Wallace.

Similarly, the Trustee and the Wallaces agreed to not sell, transfer or convey any part of the Trustee's land other than to and among said Monte J. Wallace, said Neil W. Wallace, the spouse or issue of either of them or any spouse of such issue without first offering to sell the same to such one or all of a group consisting of the B. Cohans, the Aldeborghs, the M. Cohans, or any issue of the B. Cohans or any spouse of such issue.

Further, any offer to sell was set at the price and in accordance with the following:
Price per acre of land:

$7,000 per acre until January 1, 1980
8,000 per acre until January 1, 1990
9,000 per acre until January 1, 2000
10,000 per acre until January 1, 2010

Since the creation of the Right in 1969, the value of the 180 acres of real estate subject to the Right has appreciated dramatically so that the contractual prices under the Right represent a small fraction of current market values on a fee simple basis.

The Right represents an impairment to the marketability on the sale of the land. Based upon representations of attorneys for THC, that land has an appraised value of about $64,000,000 on a fee simple basis. Fee simple assumes unrestricted marketability which is not the case under the Right. However, without the Right impairing marketability, the land would have an estimated average price per acre of over $350,000.

Under the Right, the land can't be sold to other parties at this market price. It must be offered under the Right at a current price of $10,000 per acre which is about 2.8% of its average market value. Accordingly, the owners of the property would be faced with the prospect of waiting about 8-1/3 years for the Right to lapse or alternatively negotiating to purchase the Right to free the property of this marketability impairment.

The owner of the Right would own it with the expectation that he could negotiate its sale to the other parties at a substantial gain prior to its expiration on January 1, 2010. Accordingly, the Right represents a speculative asset that would depreciate with time not unlike an out-of-the-money option, for instance on an equity index. Unlike the option, however, the owner of the Right of First Refusal would not have the right to purchase the property at some higher out-of-the-money price 8.35 years from the valuation date.

IV. VALUATION OF THE RIGHT

Two general approaches were used to value the Right. They included:

◊ Valuing it as an out-of-the-money call option expiring on January 1, 2010 with adjustments for facts and circumstances.

◊ Valuing it as the amount of impairment to the marketability of the fee simple value of the 180 acres of Herring Creek Farm (namely, the diminution of value of the asset due to its lack of marketability). This diminution in value due to lack of marketability was estimated in two ways:

1. First, through studies of discounts observed in transactions of common stock which were identical in all respects to freely traded shares except that they were restricted from sale for periods typically of two years (so called letter stock).

2. Next, through a comparison of the price-to-net asset value ratios of New York Stock Exchange traded real estate investment trusts with price-to-net asset value ratios of limited partnership interests changing hands in the informal secondary markets. The real estate investments trusts which are traded on the New York Stock Exchange are readily marketable while the limited partnerships traded on the informal secondary markets have significantly limited marketability. The difference between the price-to-net asset value ratios between these two groups of assets is an estimated of diminution of value due to lack of ready marketability.

A. Option Approach

For purposes of valuing the Right using methods for out-of-the-money call options, we used the following assumptions and the option calculator (Black-Scholes Model) available on the Chicago Board of Options Exchange web site (http://www.cboe.com/TradTool/OptionCalculator.asp). The Black-Scholes model assumes the following:

1. The option may be exercised only at maturity-it is a European option.
2. There is only one source of uncertainty (e.g., the interest rate is assumed to be constant).
3. The option is contingent on a single underlying risky asset.
4. The underlying asset pays no dividends.
5. The current market price and the stochastic process followed by the underlying asset are known.
6. The variance of return on the underlying asset is constant through time.
7. The exercise price is known and constant.

The assumptions used were as follows:

- European expiration style index options.
- Index price = 64 (fee simple value of real estate in $millions).
- Strike price = 266.1 (the value of the real estate in $millions on January 1, 2010 if it were to continue to appreciate on a compounded rate equal to at the average annual historical rate from 1993 to 2001 or 18.6%).
- Volatility = 50.2 (about 80% the average closing value of the VNX index on the NASDAQ 100 for the period January 2, 2001 to August 24, 2001, namely 62.8. A study of the historical price changes of land in Edgartown and West Tisbury since 1993 found that vacant land in those towns had an annual price volatility of about 80% of the NASDAQ 100 over the period. See Table 1 below.)
- Interest rate = 5.15 (yield on a US Treasury Strip maturing in February 2010, namely the closest maturity to January 1, 2010).
- Annual dividend = 0
- Days until expiration = 3,049

For purposes of estimating the average rate of appreciation on vacant land in Edgartown or West Tisbury as well as its price volatility, we obtained a listing of all transactions since 1987 in vacant land in Edgartown and West Tisbury from Warren Information Services, a division of the Warren Group (see Exhibit 1). We reviewed the list and eliminated transactions where no price or acreage information was included. The list included vacant land which was currently developable, potentially developable and not developable. In discussions with the suppliers of the information, we were informed that the information from the most recent years was the most complete and reliable.

The first six columns of Exhibit 1 shows the address, town, use code, acres, sale date and sale price of these vacant land transactions. The next five columns represent the application of size adjustment formulae presented in an article titled "Size Adjustment Tables" by Gene Dilmore from the May-June 1976 issue of *The Real Estate Appraiser.* The formulae were applied to each transaction in order to adjust the prices per acre for the effects of size differences of the parcels. These formulae include the square root formula, the Hoffman formula, the 1/3-2/3 curve formula, the Jerrett curve formula and the learning curve formula. The last column in Exhibit 1 is the average of the five formula's size adjusted price per acre of the transactions.

The transactions were sorted by sale date and the median size adjusted price per acre determined for each year. Data prior to 1993 was not considered in the calculation of price appreciation and volatility calculation because the supplier indicated that earlier data may not be complete and reliable. Table 1 summaries the adjusted median price per acre of vacant land in these towns in each year between 1993 and 2000 and for the partial year ended August 25, 2001. That table also shows the percentage year-to-year price change in these median amounts together with their standard deviation and average (including the partial year 2001 in the average).

In addition, Table 1 shows the closing year-end value of the NASDAQ 100 index and the percentage year-to-year change in that index together with the standard deviation of those percentage changes. As the table shows, the price changes in the land are about 80% (40%/50%) of those of the NASDAQ 100 index.

TABLE 1
Adjusted Median Price per Acre of Vacant Land
and Year-End Closing Value of the NASDAQ 100 Index
with Year-to-Year Percentage Change and Standard Deviation

Year	Adjusted Median Price/Acre of Land	% Change	Year-end NASDAQ 100	% Change
1993	$ 67,708	-	398.28	-
1994	56,953	-15.9%	404.30	1.5%
1995	62,173	9.2%	576.20	42.5%
1996	87,264	40.4%	821.40	42.6%
1997	127,006	45.5%	990.80	20.6%
1998	87,849	-30.8%	1,836.00	85.3%
1999	109,978	25.2%	3,708.00	102.0%
2000	208,068	89.2%	2,341.70	-36.8%
8/25/01	178,438	-14.2%	1,579.61	-32.5%
Volatility as measured by Standard Deviation of % price change		40%		50%
Average annual % change		18.6%		

Source: Warren Information Services and Nasdaqnews web site.

The value of this option was calculated to be about 19.3 or $19,300,000. However, a call option has the right to purchase the underlying asset, in this case the land. The Right has no such purchase feature. To adjust for this and the Right's limited marketability, we reduced the result of the option calculation by 25% to $14.5 million in recognition that the landowner is the most likely purchaser and must be motivated to sell the land for the Right holder to gain a return.

Indicated value of Right of First Refusal = $14,500,000 or 22.6% of the land value on a fee simple basis

B. Valuation of the Right Using Restricted Stock Study Approach

A second approach in valuing the Right looks at how much less the land is worth due to its lack of ready marketability. To estimate this impairment in value, we looked at studies conducted over the years which have measured the extent to which blocks of restricted stock have been discounted from their freely traded stock in private placements. Ten restricted stock studies have been conducted since 1971. These studies generally analyzed the price at which restricted, or letter stock, was sold (principally to institutional investors) in relation to the contemporaneous freely traded (unrestricted) counterparts.

Two of the studies attempted to explain the variability of the discounts based on differences in financial factors in the stocks' issuers. They included the SEC Institutional Investor Study and the Management Planning Study. The SEC Institutional Study found the following factors have an influence on the size of the restricted stock discount:

1) Size of stock issuer in sales
2) Earnings of the stock issuer
3) Market in which freely traded stock trades

None of these factors are applicable for making a comparison with the Herring Creek Farm property as it is not publicly traded on an exchange, and has no sales or earnings.

However, the SEC Institutional Investor Study broke the discounts into ten percentage point ranges and grouped the transactions by these ranges. Roughly two-thirds of the transactions occurred in the three lowest discount ranges namely "0% to 10%", "10% to 20%", and "20% to 30%". The median and average discounts from this study were 24% and 26%.

The other study, the Management Planning Study (MP), involved an analysis of 49 restricted stock transactions between 1980 and 1995. One of those transactions occurred at a price equal to the price of the freely traded shares. The remaining discounts ranged from 3 percent to 58 percent, with a mean of 27.7 percent and a median of 28.8 percent. The authors of this study attempted to explain the considerable variation around these averages. In doing so, the relationship between the discounts and 21 factors the authors considered relevant were studied. The study attributed these factors "to those suggested by the SEC Study, Revenue Ruling 77-287 or common sense." The results of the factor analysis conducted by MP were segmented as follows:

1.) There was a clear confirmation of expectations observable in the data.
2.) There was some observable tendency of confirmation in the data.
3.) There was no apparent tendency to affirm expectations.
4.) The analysis results were inconclusive

Factors which clearly confirmed the expectations of the authors were:

1. Revenues
2. Recent Earnings
3. Market Price Per Share
4. Price Stability
5. Earnings Stability

Factors showing some observable confirming tendency in the Study included the followings:

1. Market Capitalization
2. Block Size (Shares)
3. Number of Quarters to Dribble Out
4. Number of Weeks Trading Volume to Sell
5. Block Size/Trading Volume (%)
6.10-Year Revenue Growth
7.10 Year Earnings Growth

Again, none of these factors are directly comparable for benchmarking a discount on the Herring Creek Farm property resulting from the Right.

Accordingly, the mean discounts from this most recent study or about 29% is the most meaningful indication from this analysis of the discount to the fee simple land value arising from the lack of ready marketability. On its face, this would indicate the value of the Right is 29% of $64,000,000 or $18,600,000. But as in the case with the option, the

landowner must be motivated to purchase the Right in order for its holder to gain a return. To adjust for additional risk, we reduced the result of this calculation again by 25% to reflect the special risk related to ownership of this asset.

Indicated value of Right of First Refusal = $14,000,000 or 21.9% of the land value on a fee simple basis

C. Valuation of the Right Using a Comparison of Real Estate Investment Trusts and Limited Partnerships

We developed our final estimate of the value resulting from the impairment to the marketability of the fee simple value of the 180 acres of Herring Creek Farm by comparing the price-to-net asset value ratios of New York Stock Exchange traded real estate investment trusts (REIT) with price-to-net asset value ratios of partnership interests changing hands in the informal limited partnership secondary markets. The price-to-net asset value ratios measured the recent per share transaction prices against the per share fair market value of the underlying net assets of the REIT or limited partnership.

Real estate investments trusts, which are traded on the New York Stock Exchange, are readily marketable while the limited partnerships traded on informal secondary markets have significantly limited marketability. The difference between the price-to-net asset value ratios between these two groups of assets is an estimated of diminution of value due to lack of ready marketability.

To determine this difference, we started with a study obtained from Mercer Capital Corporation which provided the per share average net asset value estimates of the underlying real estate held by fifty REITs traded on the New York Stock Exchange shown in Exhibit 2. These net asset values were obtained from the July 19, 2001 issue of *Realty Stock Review*. The study also provided the per share closing price of each of these REITs. Nineteen of these REITs traded at premiums to the average net asset value estimates and thirty-one traded at discounts.

The median and average discount to net asset value (i.e., closing price per share divided by net asset value per share) of all 50 REITS was slightly less than 1%. The median and average dividend yield on these REITs was about 7.5%

For the limited partnerships, we referred to data published by Partnership Profiles, Inc. (PPI) to obtain discounts to net asset value of limited equity partnerships traded on informal secondary markets as shown in Exhibit 3. PPI gathers information on the prices being paid in the secondary market for limited partnership interests (units) in relatively large limited partnerships. This data is published in PPI's May/June issue of *The Partnership Spectrum*. The transactions studied occurred during the 60 days preceding the May/June issue of 2001.

All of the partnerships included in that price-to-value discount study are publicly-registered with the Securities and Exchange Commission, though none of the partnerships are publicly-traded on any recognized securities exchange. Instead, units of the partnerships are bought and sold in the so-called limited partnership secondary market. This market is comprised of ten to twelve independent securities brokerage firms that act primarily as intermediaries in matching up buyers and sellers of units in non-listed partnerships of all types.

Most of these limited partnership interests were sold to the public in the 1980's when tax benefits associated with such investments were more favorable than they are currently. A very limited market has developed in these partnership interests and it is the trading prices in this market which forms the basis of the studies. The key statistic for purposes of an analysis of the kind we are undertaking herein is the relationship between the prices at which these transactions were completed and net asset value. All of the equity partnerships in the *Partnership Spectrum* traded at a discount to net asset value. Forty-two partnership transactions were listed. The median and average discount to net asset value (i.e., transaction price per unit divided by net asset value per unit) of all 42 limited partnerships was 31.5% and 30%, respectively. The median and average distribution yield of those partnerships having a set distribution rate was about 6.8% and 5.3%, respectively.

We undertook regressions of the data on the REITs and the limited partnerships to determine if the discounts were correlated with the distribution and dividend yields of the REITs or limited partnerships. The results showed little correlation in the data. We also looked at whether the amount of leverage in the REITs and limited partnerships affected the discount. Again, no significant correlation was found in the data.

Finally, in arriving at the difference in discounts between the REITs and limited partnerships, we considered and compared the types of real estate properties held by the REITs and the limited partnerships. Most of the property types were similar including apartment buildings, shopping and regional malls, manufactured homes and office buildings. The REITs had a few property types not included in the limited partnerships such as factory outlets, industrial and hotels, but they represented only seven of the fifty REITs. The limited partnerships included undeveloped land and parking facilities which were property types not included in the REITs. Again, the number of different property types was small.

Accordingly, the difference between the median discounts from the REITs and limited partnerships or about 30% is the most meaningful indication from this analysis of the discount to the fee simple land value arising from the lack of ready marketability. On its face, this would indicate the value of the Right is 30% of $64,000,000 or $19,200,000. But as in the case with the other methods above, the landowner must be motivated to purchase the Right in order for its holder to gain a return. To adjust for additional risk, we reduced the result of this calculation again by 25% to reflect the special risk related to ownership of this asset.

Indicated value of Right of First Refusal = $14,400,000 or 22.5% of the land value on a fee simple basis

V. CONCLUSION TO VALUE

Upon review of the various valuation methods described above, three resulted in indications of fair market value. They are as follows:

	Fair Market Value
Option Approach	$14,500,000
Restricted Stock Study Approach	14,000,000
Comparison of REITs and Limited Partnerships	14,400,000

In accordance with the foregoing, we have determined the fair market value of the Right of First Refusal on certain real estate in Edgartown, MA commonly known as Herring Creek Farm as of August 25, 2001 to be $14,400,000.

ATTACHMENT 1

THE AGREEMENT

Agreement made this 30th day of December, 1969, by and between B. Harrison Cohan and Hildegarde H. Cohan, husband and wife, both of Boston, Suffolk County, Massachusetts (hereinafter called the "Benjamin Cohans"), John N. Aldeborgh and Janet H. Aldeborgh, husband and wife, both of Hyde Park, New York (hereinafter called the "Aldeborghs") and Marshall N. Cohan and Judith J. Cohan, husband and wife, both of Uxbridge, Worcester County, Massachusetts (hereinafter called the "Marshall Cohans"), and Marshall N. Cohan Trustee under Declaration of Trust dated November 4, 1969 (hereinafter called the "Trustee").

Recital of Facts

A. Hildegarde N. Cohan is the owner of certain land (the Benjamin Cohan land) in Edgartown, County of Dukes County, Massachusetts, being a portion of Lot B shown on Land Court Plan 13419D.

B. The Aldeborghs are the owners of certain land (the Aldeborgh land) in said Edgartown shown as Lot 1 on Land Court Plan 34427 (pending). See Dukes County Deeds, Book 255, Page 245.

C. The Marshall Cohans are the owners of certain land (the Marshall Cohan land) in said Edgartown shown as Lots 6 and 8 on Land Court Plan 13419M.

D. The Trustee is the owner of certain land (the Trustee's land) in said Edgartown which adjoins the lands referred to in paragraph A, B, and C above, which land (including the ownership of various rights of way) is shown on a plan by Dean R. Swift, Reg. Land Surveyor, dated December 11, 1969 (hereinafter called the "Swift Plan") and is described in two deeds from the Benjamin Cohans to the Trustee dated December 30, 1969, said plan and one of said deeds being recorded with County of Dukes County Deeds herewith, the other deed covering registered land to be registered with Dukes County Registry District of the Land Count.

E. The Trustee is willing to grant to the Benjamin Cohans, the Aldeborghs, and the Marshall Cohans and their issue and the spouses of such issue certain rights and easements for access to public ways and for access to and use of the Beach shown as "beach dunes" on the Swift Plan, all as hereinafter more specifically provided.

F. The Trustee is willing to hold a portion of the Trustees's land (herein called the "Restricted Area", as shown on the Swift Plan) subject to certain restrictions for the personal benefit only, of the Benjamin Cohans, the Aldeborghs and the Marshall Cohans and their issue and the spouses of such issue, all as hereinafter described and limited.

G. The Benjamin Cohans, the Aldeborghs and the Marshall Cohans on the one part, and the Trustee on the other part, are willing to grant certain mutal rights to purchase their respective lands.

Covenants of the Parties

NOW THEREFORE in consideration of the mutual covenants, grants and easements herein contained, the parties hereto agree as follows:

1. The Trustee hereby grants to the Benjamin Cohans the rights and easements (a) to use the "Right of Way (15 ft. wide)" shown on the Swift Plan as access from the Benjamin Cohan land to Slough Cove Road, a public way, for all purposes of access for which public ways are now or may hereafter be used in the Town of Edgartown and to connect with and use the existing electric and telephone lines now servicing the Benjamin Cohan land or as such services from time to time may be replaced or enlarged: (b) to use the "Right of Way (15 ft. wide)" and the "Right of Way (30 ft. wide)" shown on the Swift Plan as access on foot or by vehicle from the Benjamin Cohan land to and from the Aldeborgh land: and (c) to use said "Right of Way (15 ft. wide)" , the "Right of Way (30 ft. wide)" and the "Right of Way (40 ft. wide)" and the extension thereof as access to the Restricted Area, and the Beach and the Atlantic Ocean, all as shown on the Swift Plan, together with the right to use the Beach for swimming, fishing, picnicking and boating, and other usual recreational activities (but not for the erection or placing of any cabannas, tents, or other structures or shelters thereon). The rights of use and access to and from the Benjamin Cohan land and to and from the Restricted Area, the Beach and the Ocean which are granted in clauses (b) and (c) hereof are rights which are personal to the Benjamin Cohans and their issue and the spouses of such issue, and shall endure only so long as the Benjamin Cohans or their issue or any spouse of such issue shall continue to own of record any part or all of the Benjamin Cohan land, and while there is a dwelling house on the land so retained. Said rights shall terminate and expire without instrument of release when all such record ownership shall cease.

2. The Trustee hereby grants to the Aldeborghs the rights and easements (a) to use the "Right of Way (30 ft. wide)" and said "Traveled Way" shown on the Swift Plan as access to Slough Cove Road and Herring Creek Road to and from the Aldeborgh land for all purposes of access for which public ways are now or may hereafter be used in the Town of Edgartown and to connect with and use the existing electric and telephone lines now servicing the Aldeborgh land or as such services from time to time may be replaced or enlarged: (b) to use the "Right of Way (30 ft. wide)" and the "Right of Way (15 ft. wide)" shown on the Swift Plan as access on foot or by vehicle from the Aldeborgh land to and from the Benjamin Cohan land and the Marshall Cohan land: and (c) to use the "Right of Way (40 ft. wide)" and the extension thereof as access to the Restricted Area, and the Beach and the Atlantic Ocean, all as shown on the Swift Plan, together with the right to use the Beach for swimming, fishing, picnicking and boating, and other usual recreational activities (but not for the erection or placing of any cabannas, tents, or other structures or shelters thereon). The rights of use and access to and from the Aldeborgh land to and from the Restricted Area, the Beach and the Ocean which are granted in clauses (b) and (c) hereof are rights which are personal to the Aldeborghs and their issue and the spouses of issue, and shall endure only so long as the Aldeborghs or their issue or any spouse of such issue shall continue to own of record any part or all of the Aldeborghs land, and while there is a dwelling house on the land so retained. Said rights shall terminate and expire without instrument of release when all such record ownership shall cease.

3. The Trustee hereby grants to the Marshall Cohans the rights and easements (a) to use the "Right of Way (15 ft. wide)" shown on the Swift Plan as access to Slough Cove Road and Herring Creek Road to and from the Marshall Cohan land for all purposes of access for which public ways are now or may hereafter be used in the Town of Edgartown and to connect with and use the existing electric and telephone lines now

servicing the Marshall Cohan land: (b) to use the "Right of Way (15 ft. wide)" and the "Right of Way (30 ft. wide)" shown on the Swift Plan as access on foot or by vehicle from the Marshall Cohan land to and from the Aldeborghs land: and (c) to use the "Right of Way (15 ft. wide)", "Right of Way (30 ft. wide)" and the "Right of Way (40 ft. wide)" and the extension thereof as access to the Restricted Area, and the Beach and the Atlantic Ocean, all as shown on the Swift Plan, together with the right to use the Beach for swimming, fishing, picnicking and boating, and other usual recreational activities (but not for the erection or placing of any cabannas, tents, or other structures or shelters thereon). The rights of use and access to and from the Marshall Cohan land to and from the Restricted Area, the Beach and the Ocean which are granted in clauses (b) and (c) hereof are rights which are personal to the Marshall Cohans and their issue and the spouses of such issue, and shall endure only so long as the Marshall Cohans or their issue or any spouse of such issue shall continue to own of record any part or all of the Marshall Cohans land, and while there is a dwelling house on the land so retained. Said rights shall terminate and expire without instrument of release when all such record ownership shall cease.

4. The Benjamin Cohans, the Aldeborghs and the Marshall Cohans hereby release to the Trustee any and all rights and easements which they may have in, over or with respect to the Trustee's land other than such rights and easements as are granted or reserved by this Agreement, and the parties hereby agree each to bear a pro rata part, determined on the basis of acreage, of the cost of maintaining and repairing any ways and roads which are used in common by any of the parties.

5. The parties hereby agree that until January 1, 2010 (a) no buildings or other structures shall be erected or maintained in the "Restricted Area" and (b) no use shall be made of the Benjamin Cohans' land, the Marshall Cohans' land, the Aldeborghs' land or the Trustee's land other than for detached single family residences (together with such uses and improvements as are normally accessory thereto in a seaside community), which residences shall not be designed, intended for use, or used primarily for the production of rental income to the owner thereof. Nothing contained in the foregoing restrictions, however, shall be deemed or construed to limit or prohibit the use of the Trustee's land for purposes of farming and animal husbandry and activities normally connected therewith (expressly excluding, however, piggeries, henneries and similar establishments). Notwithstanding the foregoing termination date of the aforesaid restrictions, the same shall no longer be enforceable at such earlier time as no part of the Benjamin Cohan land, the Aldeborgh land, and the Marshall Cohan land is owned of record by either of the Benjamin Cohans or by any issue of theirs or spouses of such issue, or when there shall not for thirty months or more have been at least one dwelling house or dwelling unit on any land retained by them.

(a) The parties hereto hereby agree that until January 1, 2010, the Benjamin Cohans, the Aldeborghs, and the Marshall Cohans will not sell, transfer or convey any part of their respective lands other than to and among themselves or any of their issue or spouses of such issue without first offering to sell the same to such one or all of a group consisting of the following which shall then own of record any part or all of the Trustee's land; to wit: the Trustee (including the successor or successors of the Trustee), the Trustees of Jenkins Point Trust, a Massachusetts business trust under Declaration dated December 26, 1969 (including the successor or successor Trustees to the present Trustees, viz. Monte J. Wallace, said Neil W. Wallace, the spouse or issue of either of them or any spouse of such issue; and the Trustee and the Wallaces will not sell, transfer or convey any part of the Trustee's land other than to and among said Monte J. Wallace, said Neil W. Wallace, the spouse or issue of either of them or any spouse of such issue

without first offering to sell the same to such one or all of a group consisting of the following persons who shall then own of record any part of said land on which there then is located a dwelling house, to wit: the Benjamin Cohans, the Aldeborghs, the Marshall Cohans, or any issue of the Benjamin Cohans or any spouse of such issue. Any offer to sell as aforesaid shall be at the price and in accordance with the offering procedures stipulated in subparagraph (d) below.

(b) Any such offer made by the Benjamin Cohans, the Aldeborghs or the Marshall Cohans or any of them or any issue of them or spouse of such issue may be accepted by the offerees only in the following order of priority: (i) the Trustee or his successor or successors in trust; (ii) said Trustees of the Jenkins Point Trust (including their successors); (iii) said Monte J. Wallace or his spouse if either is the then owner; (iv) said Neil W. Wallace or his spouse if either is the then owner; (v) any issue of said Monte J. Wallace or Neil W. Wallace or spouse of such issue who are owners of record and who are then under no legal disability.

(c) Any such offer made by the Trustee or any successors of the Trustee referred to in subparagraph (a) above may be accepted by the offerees only in the following order of priority: (i) the Benjamin Cohans or either of them if then such owners; (ii) the Aldeborghs or either of them if then such owners; (iii) the Marshall Cohans or either of them if then such owners; (iv) any of their issue or spouses of such issue who are owners of record and who are then under no legal disability.

(d) Price per acre of land:

$7,000 per acre until January 1, 1980
8,000 per acre until January 1, 1990
9,000 per acre until January 1, 2000
10,000 per acre until January 1, 2010

(and at the same rate for any portion of an acre). The price for any buildings and structures on the land so offered shall be on the basis of the then reproduction cost thereof as determined by an individual estimator recommended by the senior real estate mortgage officer of the First National Bank of Boston or any corporate successor to the major part of its banking business.

(e) Any such offer shall be made in writing and addressed to the offeree or offerees at the addresses designated in the assessor's records for the offeree's land, shall be delivered in hand or sent by registered mail, return receipt requested, and shall state in precise terms the land being offered and contain a description of the buildings and structures thereon, together with the reproduction cost thereof. If no offeree or offerees as hereinabove provided shall accept such offer by written acceptance addressed to the offeror at the address stipulated in the offeror's offer received by him within sixty (60) days from the date of the mailing or delivery of such offer (or, having accepted such offer shall fail to complete such purchase as hereinafter provided), the offeror shall thereafter be free to sell the premises so offered to any party and on such terms as offeror shall determine, provided that the deed or other instrument conveying the same has been recorded within forty-five (45) days after the expiration of the offering period.

(f) If any such offer shall be accepted in accordance with the terms hereof, the deed shall be delivered and the consideration paid at Dukes County Registry of Deeds at 11am on the fifteenth day after the receipt by the offeror of the offeree's election to purchase (or if a Saturday, Sunday or holiday, on the next business day thereafter).

(g) The obligations limiting sale of the respective premises of the parties hereto shall continue to be binding upon any of the persons to whom any of the parties have the right to convey part or all of their respective premises without first offering to sell the same as above stipulated, but shall not be binding on any other person acquiring title to any part or all of the parties' respective lands if the offering procedures outlined above have been carried out as required.

(h) If any offering owner shall make and record with said Registry of Deeds an affidavit stating that he has given notice to the requisite offerees in connection with the sale or conveyance of any part of such offeror's land and that he has not received written notice of election to purchase by any designated offeree or that such offer has been accepted by the offeree, who has failed to complete the transaction in accordance with the provisions hereof, then such affidavit shall be conclusive evidence of compliance with the requirements of this paragraph in favor of any other grantee and all persons claiming by, through, and under such grantee. The provisions of this Section 5 (a)-(f) shall not be construed to apply to any bona fide mortgages or to sales or other proceedings for the foreclosure thereof.

The provisions of this agreement shall run with the land except where they are stated to be personal in nature and shall be binding upon and enure to the benefit of the parties hereto and their respective heirs, legal representatives, successors in trust and asigns.

None of the parties shall be personally liable for any breach of the foregoing covenants unless and to the extent that such breach relates to land owned by such party at the time of the breach.

Witness the execution hereof under seal on the day and year first above mentioned.

V. CERTIFICATION OF APPRAISER

I certify that, to the best of my knowledge and belief:

- ◊ the statements of fact contained in this report are true and correct.
- ◊ the reported analysis, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, unbiased professional analyses, opinions and conclusions.
- ◊ I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest or bias with respect to the parties involved.
- ◊ my compensation is not contingent on an action or event resulting from the analyses, opinions, or conclusions in , or the use of, this report.
- ◊ my analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- ◊ no one provided significant professional assistance to the person signing the cover letter to this report.

VI. CREDENTIALS OF THE APPRAISER

DAVID R. WITWER, A.S.A., C.P.A.

POSITION	President, Appraisal/Economics, Inc., Chicago
EDUCATION	M.B.A., University of Chicago, Chicago
	M.S., Engineering, California Institute of Technology, Pasadena
	B.A., Humanities, Dickinson College, Carlisle, Pennsylvania
PROFESSIONAL HISTORY	Manager, Coopers & Lybrand Valuation Services and Litigation & Claims Services, Chicago
	Senior Manager, Price Waterhouse Valuation Services, New York and Chicago
	Senior Consultant, Arthur D. Little Valuation, Inc., Chicago
	Consultant, Greeley & Hansen Engineers, Chicago
PROFESSIONAL EXPERIENCE	Directed appraisals and damage claim assessments for litigation and other business purposes. These studies involved businesses, real estate, equipment and intangible assets such as proprietary technology, patents, customer lists, contracts, non-compete agreements, and trademarks.
EMPLOYMENT EXPERIENCE	Directed engagements for numerous clients. Some of these are: Avis Europe plc Baker and McKenzie Baxter Travenol Black & Decker Corporation CBS Records Coca-Cola Bottling Company Cyprus Minerals Corporation ComputerLand Stores General Motors Corporation Kimberly-Clark Laidlaw Industries, Inc. Lee, Toomey & Kent

DAVID R. WITWER, A.S.A., C.P.A.

EMPLOYMENT EXPERIENCE (CONTINUED)	Medtronic, Inc. Pratt & Whitney Shell Oil Company The Upjohn Company Waste Management, Inc. Western Union Corporation
TESTIMONY EXPERIENCE	Harris vs. Harris, Circuit Court of Cook County, Illinois, August, 1985 O'Connor vs. O'Connor, Circuit Court of Lake County, Illinois, September, 1985
PRESENTATIONS/ PUBLICATIONS	Chicago Bar Association Matrimonial Law Committee and Illinois CPA Society Price Waterhouse and Coopers & Lybrand National Training Sessions Article on the effect of the 1986 Tax Reform Act on company's value in Medical Business Journal Coauthored article awaiting publication on valuation of intangible assets.
TEACHING	Lecturer in finance, Loyola University, 1993 Lecturer in business ethics, National-Louis University, 1993
PROFESSIONAL AFFILIATIONS/ LICENCES	Senior Member, American Society of Appraisers (ASA designation) Registered Professional Engineer of Illinois Certified Public Accountant
COURSES	Appraisal Institute Courses Completed: Real Estate Appraisal Principles Basic Valuation Procedures Standards of Professional Practice A & B Residential Valuation Capitalization Theory & Techn., Part A & B

VII. STANDARD CONDITIONS

The primary assumptions and limiting conditions pertaining to the value estimate conclusion(s) stated in this report are summarized below. Other assumptions are cited elsewhere in this report.

1. To the best of our knowledge and belief, the statements of facts contained in the appraisal report, upon which the analysis and conclusion(s) expressed are based, are true and correct. Information, estimates and opinions furnished to us and contained in the report or utilized in the formation of the value conclusion(s) were obtained from sources considered reliable and believed to be true and correct. However, no representation, liability or warranty for the accuracy of such items is assumed by or imposed on us, and is subject to corrections, errors, omissions and withdrawal without notice.

2. This valuation is based on asset listings which have been provided by our client or his legal counsel. This financial information has not been subjected to any auditing or verification procedures and we express no assurance of any kind on it.

3. The valuation may not be used in conjunction with any other appraisal or study, The value conclusion(s) stated in this appraisal is based on the program of utilization described in the report, and may not be separated into parts. The appraisal was prepared solely for the purpose, function and party so identified in the report. The appraisal report may not be reproduced, in whole or in part, and the findings of the report may not be utilized by a third party for any purpose, without the express written consent of Appraisal/Economics, Inc.

4. No change of any item in any of the appraisal report shall be made by anyone other than Appraisal/Economics, Inc. and we shall have no responsibility for any such unauthorized change.

5. Unless otherwise stated in the appraisal, the valuation of the business has not considered or incorporated the potential economic gain or loss resulting from contingent assets, liabilities or events existing as of the valuation date.

6. We are not required to give testimony or be in attendance at any court or administrative proceeding with reference to the business appraised unless additional compensation is agreed to and prior arrangements have been made.

7. The working papers for this engagement are being retained in our files and are available for your reference. We would be available to support our valuation conclusion(s) should this be required. Those services would be performed for an additional fee.

8. Neither all nor any part of the contents of the report shall be disseminated or referred to the public through advertising, public relations, news or sales media, or any other public means of communication or referenced in any publication, including any private or public offerings including but not limited to those filed with the Securities and Exchange Commission or other governmental agency, without the prior written consent and approval of the review by Appraisal/Economics, Inc.

9. Good and marketable title to the interest being appraised is assumed. We are not qualified to render an "opinion of title" and no responsibility is assumed or accepted for matters of a legal nature affecting the interest being appraised. No formal investigation of legal title to or liabilities against the interest valued was made, and we render no opinion as to ownership of the interest or condition of its title. Furthermore, for purposes of this engagement and letter report, we did not examine the assets of the business.

10. Management is assumed to be competent, and the ownership to be in responsible hands, unless noted otherwise in this report. The quality of management can have a direct effect on the viability and value of the interest.

11. Unless otherwise stated, no effort has been made to determine the possible effect, if any, on the subject interest because of future federal, state or local legislation, including any environmental or ecological matters or interpretations thereof, Furthermore, we assume that there are no hidden or unexpected conditions that would affect the assets of the business and we accept no responsibility for discussing such conditions.

12. We take no responsibility for any events, conditions or circumstances affecting the subject interest or its value, that take place subsequent to the effective date of value cited in the appraisal.

13. Any decision to purchase, sell or transfer any interest in the business shall be the sole responsibility of its owners, as well as the structure to be utilized and the price to be accepted.

14. In connection with third party reliance on our conclusions, you agree to hold Appraisal/Economics, Inc. and its shareholder, and employees harmless from any and all claims, liabilities, and judgments, penalties, or assessments arising from the performance of Appraisal/Economics, Inc. under this engagement, provided that you shall have no obligation to indemnification with respect to a claim arising from any act of negligence of willful or wanton misconduct by any employee of Appraisal/Economics, Inc.

EXHIBIT

Nature Conser y

Determination of Adjusted Median Price per Acre of Land in Edgartown and West Tisbury, MA

Address	Town	Use Code	Acres	Sale Date	Sale Price	Sq. Root Formula	Hoffman Formula	1/3-2/3 Curve	Jerrett Curve	Learning Curve	Adjusted Average
						ADJUSTED PRICE PER ACRE					
18th St S	Edgartown	132	0.17	1/13/87	2,000	4,851	4,172	3,846	3,419	3,539	3,965
Collins Ave	Edgartown	132	0.11	1/13/87	1,000	3,015	2,499	2,258	1,802	2,036	2,322
20th St S	Edgartown	132	0.17	1/13/87	11,000	26,679	22,949	21,152	18,803	19,462	21,809
Handy Ave	Edgartown	132	0.23	1/13/87	1,000	2,085	1,840	1,720	1,626	1,605	1,775
10th St S	Edgartown	132	0.08	1/13/87	2,700	9,546	7,702	6,857	5,000	6,089	7,039
Chapel Ave	Edgartown	132	0.11	1/13/87	3,100	9,347	7,748	7,000	5,586	6,310	7,198
16th St S	Edgartown	132	0.08	1/13/87	2,500	8,839	7,131	6,349	4,630	5,638	6,517
20th St N	Edgartown	132	0.14	1/13/87	12,000	32,071	27,136	24,789	21,053	22,601	25,530
Tower Ln	Edgartown	132	0.07	1/13/87	5,700	21,544	17,185	15,207	10,654	13,420	15,602
19th St N	Edgartown	132	0.07	1/13/87	5,700	21,544	17,185	15,207	10,654	13,420	15,602
20th St N	Edgartown	132	0.14	1/13/87	12,000	32,071	27,136	24,789	21,053	22,601	25,530
11th St S	Edgartown	132	0.08	1/13/87	1,000	3,536	2,852	2,540	1,852	2,255	2,607
7 Edgartown Vineyard Hvn Rd	Edgartown	132	0.07	1/13/87	3,100	11,717	9,346	8,270	5,794	7,299	8,485
19th St S	Edgartown	132	0.08	1/13/87	6,650	23,511	18,969	16,888	12,315	14,998	17,336
14th St N	Edgartown	132	0.07	1/13/87	4,850	18,331	14,623	12,939	9,065	11,419	13,275
1 Edgartown Vineyard Hvn Rd	Edgartown	132	0.08	1/13/87	5,650	19,976	16,116	14,349	10,463	12,742	14,729
11th St S	Edgartown	132	0.12	1/13/87	4,900	14,145	11,812	10,715	8,750	9,698	11,024
20th St N	Edgartown	132	0.07	1/13/87	8,350	31,560	25,175	22,276	15,607	19,659	22,856
21st St N	Edgartown	132	0.07	1/13/87	4,600	17,386	13,869	12,272	8,598	10,830	12,591
Anthiers Way	Edgartown	132	0.14	1/13/87	4,850	12,962	10,967	10,019	8,509	9,135	10,318
Weeks Ln	Edgartown	132	0.14	1/13/87	1,200	3,207	2,714	2,479	2,105	2,260	2,553
11th St S	Edgartown	132	0.08	1/13/87	6,650	23,511	18,969	16,888	12,315	14,998	17,336
Anthiers Way	Edgartown	132	0.07	1/13/87	5,700	21,544	17,185	15,207	10,654	13,420	15,602
Anthiers Way	Edgartown	132	0.14	1/13/87	5,700	15,234	12,889	11,775	10,000	10,735	12,127
ffers Ln	Edgartown	132	0.22	1/13/87	5,650	12,046	10,591	9,879	9,262	9,200	10,196
3 Waldron Bottom Rd	West Tisbury	130	2.70	2/1/87	72,000	43,818	47,678	49,907	38,919	52,292	46,523
49 Litchfield Rd	Edgartown	130	1.70	2/4/87	75,000	57,522	60,176	61,663	55,556	63,220	59,628
5 22nd St S	Edgartown	130	0.58	2/11/87	24,500	32,170	30,715	29,954	31,013	29,197	30,610
66 State Rd	West Tisbury	130	3.03	4/1/87	15,000	8,617	9,469	9,964	7,444	10,497	9,198
5 Dark Woods Rd	Edgartown	130	0.72	4/1/87	112,000	131,993	128,359	126,434	130,233	124,496	128,303
4 Sarita Walker Rd	West Tisbury	130	3.40	4/1/87	150,000	81,349	90,267	95,494	68,182	101,147	87,288
3 Mockingbird Dr	Edgartown	130	0.53	4/15/87	75,000	103,020	97,608	94,799	98,039	92,012	97,096
75 Great Plains Rd	West Tisbury	130	1.46	5/1/87	70,000	57,932	59,826	60,877	56,911	61,969	59,503
Star Ave	Edgartown	132	0.11	5/27/87	40,000	120,605	99,973	90,320	72,072	81,420	92,878
3 E Cape Poge Ave	Edgartown	131	0.46	5/27/87	40,000	58,977	55,210	53,272	54,795	51,363	54,723
09 Great Plains Rd	West Tisbury	130	1.46	6/1/87	80,000	66,208	68,373	69,573	65,041	70,822	68,003
5 N Vine Ln	West Tisbury	130	3.83	6/1/87	125,000	63,872	71,595	76,157	51,760	81,119	68,900
Vatcha Path	Edgartown	130	3.34	6/2/87	155,000	84,812	93,967	99,327	71,429	105,120	90,931

EXHIBIT

Nature Conservancy

Determination of Adjusted Median Price per Acre of Land in Edgartown and West Tisbury, MA

Address	Town	Use Code	Acres	Sale Date	Sale Price	Sq. Root Formula	Hoffman Formula	1/3-2/3 Curve	Jerrett Curve	Learning Curve	Adjusted Average
						ADJUSTED PRICE PER ACRE					
ıtcha Path	Edgartown	130	3.34	6/2/87	155,000	84,812	93,967	99,327	71,429	105,120	90,931
ıtcha Path	Edgartown	130	3.34	6/2/87	155,000	84,812	93,967	99,327	71,429	105,120	90,931
Oak Ln	West Tisbury	130	1.10	6/15/87	30,000	28,604	28,837	28,963	28,571	29,093	28,814
W Farm Rd	West Tisbury	130	0.87	7/1/87	23,900	25,623	25,322	25,160	25,561	24,996	25,333
W Farm Rd	West Tisbury	130	0.77	7/1/87	29,900	34,074	33,326	32,927	33,785	32,525	33,328
Coffins Field Rd	Edgartown	130	1.10	7/22/87	23,900	22,788	22,973	23,074	22,762	23,178	22,955
Coffins Field Rd	Edgartown	130	1.16	7/22/87	23,900	22,191	22,472	22,626	22,130	22,785	22,441
6 Vineyard Meadow Farms Rd	West Tisbury	130	1.80	7/23/87	70,000	52,175	54,848	56,351	50,000	57,930	54,261
Coffins Field Rd	Edgartown	130	1.30	8/3/87	26,900	23,593	24,125	24,418	23,391	24,721	24,050
Windsor Dr	Edgartown	130	0.53	8/3/87	74,500	102,334	96,958	94,167	97,386	91,399	96,448
Coffins Field Rd	Edgartown	130	1.11	8/3/87	89,000	84,475	85,228	85,638	84,360	86,059	85,152
4th St N	Edgartown	132	0.07	8/24/87	2,000	7,559	6,030	5,336	3,738	4,709	5,474
6 Plantingfield Way	Edgartown	132	9.80	9/4/87	300,000	95,831	116,349	129,229	55,556	143,862	108,165
Watcha Path	Edgartown	130	3.00	10/9/87	92,500	53,405	58,632	61,671	46,250	64,939	56,980
h St N	Edgartown	132	0.69	10/22/87	165,000	198,637	192,469	189,212	195,266	185,941	192,305
91 W Tisbury Rd	Edgartown	130	0.72	10/27/87	7,000	8,250	8,022	7,902	8,140	7,781	8,019
Norton St	Edgartown	131	0.50	11/23/87	425,000	601,041	566,652	548,869	566,667	531,276	562,901
North St	Edgartown	131	0.50	11/23/87	425,000	601,041	566,652	548,869	566,667	531,276	562,901
Coffins Field Rd	Edgartown	130	1.13	12/21/87	31,900	30,009	30,322	30,493	29,953	30,669	30,289
									Median 1987		24,050
8 Tar Kiln Path	Edgartown	130	0.69	1/7/88	4,400	5,297	5,133	5,046	5,207	4,958	5,128
2 Tar Kiln Path	Edgartown	130	0.69	1/7/88	4,400	5,297	5,133	5,046	5,207	4,958	5,128
Kelly Ln	West Tisbury	130	3.01	2/1/88	215,000	123,924	136,092	143,168	107,232	150,779	132,239
0 4th St N	Edgartown	132	0.07	2/1/88	2,000	7,559	6,030	5,336	3,738	4,709	5,474
2 Simpsons Ln	Edgartown	131	0.12	2/29/88	65,000	187,639	156,694	142,133	116,071	128,652	146,238
9 Trotters Ln	West Tisbury	130	1.09	3/1/88	110,000	105,361	106,136	106,557	105,263	106,990	106,061
5 Coffins Field Rd	Edgartown	130	1.00	3/9/88	23,900	23,900	23,900	23,900	23,900	23,900	23,900
15 Otis Bassett Rd	West Tisbury	130	0.92	5/1/88	150,000	156,386	155,281	154,687	156,250	154,082	155,337
3 Onkokemmy Rd	West Tisbury	130	3.45	6/1/88	325,000	174,974	194,396	205,792	146,067	218,125	187,871
42 Litchfield Rd	Edgartown	130	3.10	8/1/88	150,000	85,194	93,794	98,805	73,171	104,201	91,033
1 Schoolhouse Rd	Edgartown	130	0.62	8/1/88	100,000	127,000	121,943	119,291	123,457	116,641	121,666
2 Edgartown Rd	West Tisbury	130	40.93	9/1/88	375,000	58,615	80,359	95,321	17,887	113,489	73,134
Summer St	Edgartown	132	0.03	10/14/88	660,000	3,810,512	2,828,386	2,407,056	1,281,553	2,041,319	2,473,765
8 Marthas Rd	Edgartown	130	0.50	11/18/88	10,000	14,142	13,333	12,915	13,333	12,501	13,245
9 Lamberts Cove Rd	West Tisbury	131	0.35	12/1/88	5,000	8,452	7,730	7,366	7,407	7,011	7,593
									Median 1988		91,033
5 11th St S	Edgartown	132	0.17	1/1/89	1,000	2,425	2,086	1,923	1,709	1,769	1,983

EXHIBIT

Nature Conser[illegible]cy

Determination of Adjusted Median Price per Acre of Land in Edgartown and West Tisbury, MA

Address	Town	Use Code	Acres	Sale Date	Sale Price	ADJUSTED PRICE PER ACRE Sq. Root Formula	Hoffman Formula	1/3-2/3 Curve	Jerrett Curve	Learning Curve	Adjusted Average
Stoney Hill Ln	West Tisbury	130	1.10	2/9/89	92,000	87,719	88,432	88,821	87,619	89,219	88,362
Schoolhouse Rd	Edgartown	130	0.50	2/27/89	102,500	144,957	136,663	132,374	136,667	128,131	135,758
atcha Path	Edgartown	130	104.30	3/3/89	3,200,000	313,334	465,117	575,974	60,779	716,576	426,356
Harbor View Ave	Edgartown	130	0.69	5/15/89	117,000	140,851	136,478	134,168	138,462	131,849	136,362
2nd St N	Edgartown	132	0.48	5/30/89	2,000	2,887	2,712	2,622	2,703	2,533	2,691
appaquiddick Rd	Edgartown	130	3.00	7/14/89	265,000	152,998	167,973	176,680	132,500	186,043	163,239
9 Pond View Farm Rd	West Tisbury	130	3.75	9/1/89	350,000	180,739	202,230	214,907	147,368	228,681	194,785
Trotters Ln	West Tisbury	130	1.10	9/7/89	80,000	76,277	76,897	77,235	76,190	77,582	76,836
Edgewood Dr	Edgartown	130	0.70	9/8/89	65,000	77,690	75,370	74,143	76,471	72,911	75,317
Red Farm Rd	West Tisbury	130	3.05	11/8/89	775,000	443,764	487,885	513,565	382,716	541,199	473,826
Red Farm Rd	West Tisbury	130	3.02	11/8/89	775,000	445,962	489,890	515,441	385,572	542,925	475,958
Red Farm Rd	West Tisbury	130	3.01	11/8/89	165,000	95,104	104,443	109,873	82,294	115,714	101,486
Bettencourt Way	Edgartown	130	0.91	11/22/89	22,000	23,062	22,878	22,779	23,037	22,678	22,887
									Median 1989		118,622
8th St N	Edgartown	132	0.07	1/7/90	16,501	62,368	49,750	44,022	30,843	38,850	45,167
Bettencourt Way	Edgartown	132	0.09	1/8/90	3,000	10,000	8,149	7,295	5,505	6,514	7,492
40 Upper Main St	Edgartown	131	0.23	2/2/90	300,000	625,543	552,083	515,993	487,805	481,554	532,596
lain Field Way	Edgartown	130	0.50	2/20/90	30,000	42,426	39,999	38,744	40,000	37,502	39,734
Swan Ln	Edgartown	130	0.51	3/28/90	225,000	315,063	297,537	288,462	298,013	279,476	295,710
Boldt Farms Way	Edgartown	130	0.69	3/29/90	89,000	107,143	103,817	102,060	105,325	100,295	103,728
3 Dodgers Hole Rd	Edgartown	130	0.50	4/17/90	64,000	90,510	85,331	82,653	85,333	80,004	84,766
30 Otis Bassett Rd	West Tisbury	130	2.60	5/2/90	100,000	62,017	67,265	70,287	55,556	73,515	65,728
Hotel Ave	Edgartown	132	0.16	5/16/90	18,000	45,000	38,509	35,396	31,034	32,475	36,483
Vatcha Path	Edgartown	130	2.70	5/24/90	37,500	22,822	24,832	25,993	20,270	27,235	24,231
7 21st St S	Edgartown	131	0.12	9/11/90	9,000	25,981	21,696	19,680	16,071	17,813	20,248
0 Bold Meadow Rd	Edgartown	130	0.93	9/13/90	40,000	41,478	41,223	41,086	41,451	40,946	41,237
									Median 1990		43,202
5 13th St N	Edgartown	132	0.14	2/1/91	4,000	10,690	9,045	8,263	7,018	7,534	8,510
th St N	Edgartown	132	0.14	3/13/91	4,000	10,690	9,045	8,263	7,018	7,534	8,510
7 17th St N	Edgartown	132	0.14	9/19/91	3,500	9,354	7,915	7,230	6,140	6,592	7,446
4 Marthas Rd	Edgartown	130	0.51	11/1/91	48,900	68,474	64,665	62,692	64,768	60,740	64,268
0 Coffins Field Rd	Edgartown	132	0.11	11/29/91	205,000	618,098	512,361	462,892	369,369	417,278	476,000
00 The Blvd	Edgartown	132	0.07	12/17/91	1,500	5,669	4,522	4,002	2,804	3,532	4,106
1 13th St S	Edgartown	132	0.08	12/17/91	1,739	6,148	4,960	4,416	3,220	3,922	4,533
2 17th St S	Edgartown	132	0.04	12/17/91	1,739	8,695	6,614	5,703	3,344	4,903	5,852
6 W Cape Poge Ave	Edgartown	132	0.23	12/17/91	1,350	2,815	2,484	2,322	2,195	2,167	2,397
1 14th St S	Edgartown	132	0.08	12/17/91	1,739	6,148	4,960	4,416	3,220	3,922	4,533

EXHIBIT

Nature Conservancy

Determination of Adjusted Median Price per Acre of Land in Edgartown and West Tisbury, MA

Address	Town	Use Code	Acres	Sale Date	Sale Price	Sq. Root Formula	Hoffman Formula	1/3-2/3 Curve	Jerrett Curve	Learning Curve	Adjusted Average
						ADJUSTED PRICE PER ACRE					
11th St S	Edgartown	132	0.08	12/17/91	8,802	31,120	25,107	22,353	16,300	19,851	22,946
19th St N	Edgartown	132	0.07	12/17/91	8,802	33,268	26,538	23,482	16,452	20,723	24,093
12th St S	Edgartown	132	0.12	12/17/91	2,600	7,506	6,268	5,685	4,643	5,146	5,850
19th St N	Edgartown	132	0.14	12/17/91	8,802	23,524	19,904	18,183	15,442	16,578	18,726
10th St S	Edgartown	132	0.04	12/17/91	8,802	44,010	33,475	28,868	16,927	24,815	29,619
19th St N	Edgartown	130	0.28	12/17/91	6,500	12,284	11,024	10,397	10,156	9,793	10,731
3rd St N	Edgartown	130	0.41	12/17/91	4,750	7,418	6,877	6,600	6,738	6,330	6,793
3rd St N	Edgartown	132	0.07	12/17/91	4,750	17,953	14,321	12,672	8,879	11,183	13,002
10th St N	Edgartown	132	0.07	12/17/91	8,082	30,547	24,367	21,561	15,107	19,028	22,122
21st St N	Edgartown	132	0.14	12/17/91	8,802	23,524	19,904	18,183	15,442	16,578	18,726
3 Edgartown Vineyard Hvn Rd	Edgartown	132	0.07	12/17/91	3,000	11,339	9,045	8,004	5,607	7,063	8,212
17th St N	Edgartown	132	0.14	12/17/91	8,802	23,524	19,904	18,183	15,442	16,578	18,726
13th St N	Edgartown	132	0.07	12/17/91	8,802	33,268	26,538	23,482	16,452	20,723	24,093
7th St N	Edgartown	132	0.07	12/17/91	6,500	24,568	19,597	17,341	12,150	15,304	17,792
tchfield Rd	Edgartown	132	0.10	12/17/91	1,639	5,183	4,262	3,833	2,980	3,440	3,940
									Median 1991		10,731
5 Swan Neck Rd	Edgartown	130	7.00	2/18/92	1,425,000	538,599	635,476	694,982	356,250	761,541	597,370
Swan Neck Rd	Edgartown	130	8.31	2/18/92	1,425,000	494,327	591,807	652,352	306,122	720,615	553,045
Swan Neck Rd	Edgartown	130	10.50	2/18/92	1,425,000	439,765	537,058	598,406	247,826	668,331	498,277
wan Neck Rd	Edgartown	132	15.40	2/18/92	1,425,000	363,124	458,135	519,541	173,780	590,790	421,074
6 Smugglers Way	Edgartown	131	1.70	2/26/92	77,306	59,291	62,026	63,559	57,264	65,164	61,461
rd St N	Edgartown	132	0.14	2/28/92	248,000	662,808	560,801	512,307	435,088	467,088	527,618
9 3rd St N	Edgartown	130	0.53	2/28/92	248,000	340,654	322,758	313,468	324,183	304,253	321,063
9 Wood Ave	Edgartown	130	0.92	3/24/92	70,000	72,980	72,465	72,187	72,917	71,905	72,491
0 Princes Meadows Rd	West Tisbury	130	3.83	4/14/92	976,400	498,917	559,243	594,877	404,306	633,633	538,195
Princes Meadows Rd	West Tisbury	132	4.43	4/14/92	976,400	463,902	526,466	563,774	359,632	604,625	503,679
6 Princes Meadows Rd	West Tisbury	130	3.04	4/14/92	976,400	560,004	615,510	647,810	483,366	682,563	597,851
0 Princes Meadows Rd	West Tisbury	130	3.06	4/14/92	976,400	558,171	613,837	646,244	480,985	681,123	596,072
1 Princes Meadows Rd	West Tisbury	130	3.36	4/14/92	976,400	532,670	590,469	624,322	447,890	660,916	571,253
1 Princes Meadows Rd	West Tisbury	130	3.13	4/14/92	976,400	551,894	608,103	640,873	472,833	676,180	589,977
5 Princes Meadows Rd	West Tisbury	130	3.08	4/14/92	976,400	556,356	612,180	644,692	478,627	679,696	594,310
1 Princes Meadows Rd	West Tisbury	130	3.04	4/14/92	976,400	560,004	615,510	647,810	483,366	682,563	597,851
25 State Rd	West Tisbury	132	4.10	4/14/92	976,400	482,210	543,654	580,110	382,902	619,885	521,752
76 Princes Meadows Rd	West Tisbury	130	3.04	4/14/92	976,400	560,004	615,510	647,810	483,366	682,563	597,851
77 Princes Meadows Rd	West Tisbury	130	6.60	4/14/92	976,400	380,063	446,187	486,649	256,947	531,783	420,326
3 Donaldbln Close	Edgartown	130	0.65	4/30/92	37,000	45,893	44,243	43,375	44,848	42,505	44,173
11 Pleasant Ave	Edgartown	130	2.15	5/1/92	300,000	204,598	218,353	226,179	190,476	234,464	214,814
Pleasant Ave	Edgartown	132	0.11	5/1/92	900,000	2,713,602	2,249,389	2,032,210	1,621,622	1,831,952	2,089,755

EXHIBIT

Nature Conser y

Determination of Adjusted Median Price per Acre of Land in Edgartown and West Tisbury, MA

Address	Town	Use Code	Acres	Sale Date	Sale Price	Sq. Root Formula	Hoffman Formula	1/3-2/3 Curve	Jerrett Curve	Learning Curve	Adjusted Average
						ADJUSTED PRICE PER ACRE					
tlantic Dr	Edgartown	130	1.90	6/26/92	1,150,000	834,298	881,079	907,481	793,103	935,275	870,247
	Edgartown	132	0.33	6/26/92	1,150,000	2,001,893	1,821,858	1,731,276	1,729,323	1,643,374	1,785,545
	Edgartown	132	0.33	6/26/92	1,150,000	2,001,893	1,821,858	1,731,276	1,729,323	1,643,374	1,785,545
Halcyon Way	West Tisbury	130	3.01	7/23/92	180,000	103,750	113,938	119,862	89,776	126,233	110,712
Edgartown Vineyard Hvn Rd	Edgartown	132	0.16	7/24/92	3,000	7,500	6,418	5,899	5,172	5,412	6,080
wan Neck Rd	Edgartown	130	7.40	8/10/92	164,295	60,396	71,597	78,501	39,118	86,245	67,171
rinces Meadows Rd	West Tisbury	130	3.19	8/19/92	100,000	55,989	61,791	65,178	47,733	68,830	59,904
Washque Ave	Edgartown	132	0.23	8/25/92	5,000	10,426	9,201	8,600	8,130	8,026	8,877
Old County Rd	West Tisbury	131	0.18	11/23/92	31,000	73,068	63,157	58,367	52,542	53,847	60,196
Jernegan Pond Rd	Edgartown	131	0.51	12/3/92	25,000	35,007	33,060	32,051	33,113	31,053	32,857
Jernegan Pond Rd	Edgartown	131	0.50	12/3/92	25,000	35,355	33,332	32,286	33,333	31,252	33,112
Pond Rd	West Tisbury	130	1.39	12/15/92	82,500	69,976	71,962	73,060	69,038	74,200	71,647
									Median 1992		500,978
Anthiers Way	Edgartown	132	0.14	1/8/93	5,000	13,363	11,306	10,329	8,772	9,417	10,637
Hotel Ave	Edgartown	132	0.11	2/2/93	3,000	9,045	7,498	6,774	5,405	6,107	6,966
Orchard Rd	West Tisbury	130	4.50	2/19/93	125,000	58,926	66,962	71,759	45,455	77,015	64,023
Collins Ave	Edgartown	132	0.11	2/19/93	150,000	452,267	374,898	338,702	270,270	305,325	348,292
Pond Rd	West Tisbury	130	1.39	2/24/93	82,500	69,976	71,962	73,060	69,038	74,200	71,647
Music St	West Tisbury	130	1.50	3/23/93	95,400	77,894	80,625	82,143	76,320	83,723	80,141
Manaca Hill Rd	Edgartown	130	0.57	4/1/93	200,000	264,906	252,547	246,100	254,777	239,684	251,603
3rd St N	Edgartown	131	0.55	4/1/93	10,000	13,484	12,816	12,468	12,903	12,123	12,759
Oyster Pond Rd	Edgartown	131	4.00	4/8/93	80,000	40,000	45,002	47,966	32,000	51,195	43,233
Jeremiah Rd	Edgartown	132	0.60	4/15/93	400,000	516,398	494,456	482,972	500,000	471,515	493,068
Tiasquam Rd	West Tisbury	130	6.37	4/22/93	167,000	66,168	77,446	84,331	45,319	91,999	73,053
20th St S	Edgartown	132	0.08	4/26/93	4,200	14,849	11,980	10,666	7,778	9,472	10,949
Chapel Ave	Edgartown	132	0.11	5/10/93	3,000	9,045	7,498	6,774	5,405	6,107	6,966
81 Lamberts Cove Rd	West Tisbury	131	2.00	5/17/93	45,300	32,032	33,976	35,077	30,200	36,238	33,505
0 Road To The Plns	Edgartown	130	0.50	5/26/93	58,000	82,024	77,331	74,905	77,333	72,504	76,819
N Bog Rd	Edgartown	130	1.15	6/12/93	52,500	48,957	49,542	49,861	48,837	50,190	49,477
ay Head Ave	West Tisbury	132	0.44	6/30/93	95,000	143,218	133,564	128,614	131,944	123,746	132,217
4 Pulpit Ln	Edgartown	130	0.50	8/3/93	15,000	21,213	19,999	19,372	20,000	18,751	19,867
0 Pond Ln	West Tisbury	130	1.39	9/13/93	111,375	94,467	97,149	98,631	93,201	100,170	96,724
ocha Rd	Edgartown	132	0.09	9/28/93	4,000	13,333	10,865	9,726	7,339	8,685	9,990
5 Jeremiah Way	Edgartown	130	3.10	11/16/93	427,500	242,804	267,314	281,594	208,537	296,973	259,444
35 Plum Bush Point Rd	West Tisbury	130	3.10	11/17/93	810,000	460,049	506,489	533,547	395,122	562,687	491,579
N/A	Edgartown	132	0.33	11/19/93	470,000	818,165	744,585	707,565	706,767	671,640	729,744
N/A	West Tisbury	130	3.00	12/3/93	110,000	63,509	69,725	73,339	55,000	77,225	67,760
6 Hidden Village Rd	West Tisbury	130	2.00	12/9/93	82,500	58,336	61,877	63,881	55,000	65,997	61,018

EXHIBIT

Nature Conser y

Determination of Adjusted Median Price per Acre of Land in Edgartown and West Tisbury, MA

Address	Town	Use Code	Acres	Sale Date	Sale Price	ADJUSTED PRICE PER ACRE: Sq. Root Formula	Hoffman Formula	1/3-2/3 Curve	Jerrett Curve	Learning Curve	Adjusted Average
'iahs Cove Rd	West Tisbury	130	3.01	12/10/93	110,000	63,403	69,629	73,249	54,863	77,143	67,657
									Median 1993		67,708
Lamberts Cove Rd	West Tisbury	130	2.00	1/28/94	90,000	63,640	67,502	69,689	60,000	71,996	66,565
en Hollow Rd	Edgartown	132	0.10	2/9/94	5,000	15,811	13,001	11,694	9,091	10,495	12,018
ıd To The Gut	Edgartown	132	2.53	4/20/94	20,600	12,951	14,014	14,626	11,671	15,278	13,708
Middle Point Rd	West Tisbury	130	6.00	4/24/94	310,000	126,557	147,377	160,038	88,571	174,099	139,329
Robins Nest Rd	Edgartown	130	0.55	5/13/94	30,000	40,452	38,448	37,405	38,710	36,368	38,277
Red Farm Rd	West Tisbury	130	3.01	5/31/94	120,000	69,167	75,958	79,908	59,850	84,156	73,808
Orran Norton Way	Edgartown	130	1.50	6/8/94	80,000	65,320	67,610	68,883	64,000	70,208	67,204
riners Way	Edgartown	132	0.40	7/1/94	270,000	426,907	394,920	378,620	385,714	362,661	389,764
per Main St	Edgartown	130	0.16	7/27/94	30,000	75,000	64,182	58,993	51,724	54,125	60,805
) Edgartown Rd	West Tisbury	131	80.30	8/17/94	10,000	1,116	1,620	1,982	246	2,436	1,480
ily Farm Rd	West Tisbury	130	1.46	8/17/94	67,000	55,450	57,262	58,268	54,472	59,313	56,953
Bluebird Way	West Tisbury	131	20.50	8/17/94	10,000	2,209	2,855	3,281	930	3,781	2,611
gartown Rd	West Tisbury	132	0.07	8/17/94	10,000	37,796	30,150	26,678	18,692	23,544	27,372
Harbor View Ave	Edgartown	132	0.23	8/25/94	25,000	52,129	46,007	42,999	40,650	40,129	44,383
Harbor View Ave	Edgartown	132	0.23	8/25/94	25,000	52,129	46,007	42,999	40,650	40,129	44,383
Harbor View Ave	Edgartown	132	0.11	8/25/94	25,000	75,378	62,483	56,450	45,045	50,888	58,049
22nd St N	Edgartown	130	0.41	9/12/94	5,000	7,809	7,239	6,948	7,092	6,663	7,150
Dark Hollow Ln	Edgartown	130	0.77	9/16/94	80,000	91,168	89,165	88,100	90,395	87,024	89,171
Pleasant Ave	Edgartown	131	2.07	9/30/94	1,500,000	1,042,572	1,109,082	1,146,828	977,199	1,186,721	1,092,480
W Farm Rd	West Tisbury	130	0.88	10/14/94	53,000	56,498	55,888	55,560	56,383	55,227	55,911
Sparrow Ln	Edgartown	130	0.50	10/14/94	34,000	48,083	45,332	43,910	45,333	42,502	45,032
Flamingo Dr	Edgartown	130	0.50	10/14/94	36,000	50,912	47,999	46,492	48,000	45,002	47,681
49 Upper Main St	Edgartown	130	0.31	10/28/94	141,200	253,603	229,572	217,532	215,573	205,881	224,432
arragansett Ave	Edgartown	132	0.11	12/2/94	105,000	316,587	262,429	237,091	189,189	213,728	243,805
arragansett Ave	Edgartown	132	0.11	12/2/94	105,000	316,587	262,429	237,091	189,189	213,728	243,805
arragansett Ave	Edgartown	132	0.11	12/2/94	105,000	316,587	262,429	237,091	189,189	213,728	243,805
arragansett Ave	Edgartown	132	0.11	12/2/94	105,000	316,587	262,429	237,091	189,189	213,728	243,805
arragansett Ave	Edgartown	132	0.11	12/2/94	105,000	316,587	262,429	237,091	189,189	213,728	243,805
50 John Cottle Rd	West Tisbury	132	7.93	12/6/94	125,000	44,389	52,931	58,221	27,996	64,172	49,542
57 John Cottle Rd	West Tisbury	132	2.02	12/6/94	125,000	87,950	93,366	96,435	82,781	99,675	92,042
2 12th St S	Edgartown	132	0.08	12/9/94	4,000	14,142	11,410	10,158	7,407	9,021	10,428
2 W Cape Poge Ave	Edgartown	132	0.11	12/29/94	2,500	7,538	6,248	5,645	4,505	5,089	5,805
4 W Cape Poge Ave	Edgartown	132	0.11	12/29/94	2,500	7,538	6,248	5,645	4,505	5,089	5,805
									Median 1994		56,953
N Narragansett Ave	Edgartown	132	0.23	1/5/95	3,400	7,089	6,257	5,848	5,528	5,458	6,036

EXHIBIT

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						ADJUSTED PRICE PER ACRE					
Bold Meadow Rd	Edgartown	130	0.90	1/20/95	70,000	73,786	73,129	72,775	73,684	72,416	73,158
9 Litchfield Rd	Edgartown	130	3.00	1/27/95	87,500	50,518	55,463	58,338	43,750	61,429	53,900
22nd St N	Edgartown	132	0.14	2/9/95	6,600	17,639	14,925	13,634	11,579	12,431	14,041
0 Pond Rd	West Tisbury	130	1.63	2/13/95	90,000	70,493	73,483	75,153	68,441	76,899	72,894
5 Merry Farm Rd	West Tisbury	130	7.35	3/1/95	252,000	92,952	110,126	120,709	60,359	132,573	103,344
Green Pastures Rd	Edgartown	132	2.23	3/1/95	170,000	113,840	121,872	126,452	105,263	131,309	119,747
9 Pond Rd	West Tisbury	130	1.51	3/8/95	140,000	113,930	117,992	120,250	111,554	122,602	117,266
Holly Ln	West Tisbury	131	0.46	3/15/95	4,000	5,898	5,521	5,327	5,479	5,136	5,472
1st St N	Edgartown	132	0.21	3/17/95	81,500	177,848	155,753	144,964	134,711	134,711	149,597
3rd St N	Edgartown	130	0.34	3/27/95	70,000	120,049	109,530	104,227	104,478	99,074	107,472
The Blvd	Edgartown	130	0.21	4/10/95	5,000	10,911	9,555	8,893	8,264	8,264	9,178
Bea Ln	West Tisbury	130	3.00	4/12/95	165,000	95,263	104,587	110,008	82,500	115,838	101,639
13th St S	Edgartown	132	0.08	4/24/95	1,500	5,303	4,279	3,809	2,778	3,383	3,910
3 5th St N	Edgartown	132	0.14	5/5/95	165,000	440,981	373,113	340,850	289,474	310,764	351,036
14th St N	Edgartown	132	0.07	5/5/95	2,025	7,654	6,105	5,402	3,785	4,768	5,543
Chapel Ave	Edgartown	132	0.34	5/10/95	2,625	4,502	4,107	3,909	3,918	3,715	4,030
Bay View Ave	Edgartown	132	0.11	5/17/95	298,000	898,504	744,798	672,887	536,937	606,580	691,941
Bay View Ave	Edgartown	132	0.69	5/17/95	298,000	358,750	347,611	341,728	352,663	335,820	347,314
Bay View Ave	Edgartown	132	0.69	5/17/95	298,000	358,750	347,611	341,728	352,663	335,820	347,314
3 Pocha Rd	Edgartown	130	7.10	5/17/95	298,000	111,837	132,113	144,578	73,580	158,530	124,128
ay View Ave	Edgartown	132	0.16	5/17/95	298,000	745,000	637,539	585,998	513,793	537,638	603,993
22nd St N	Edgartown	132	0.07	5/19/95	2,100	7,937	6,331	5,602	3,925	4,944	5,748
3 2nd St N	Edgartown	132	0.07	5/25/95	7,970	30,124	24,029	21,263	14,897	18,764	21,815
2 4th St N	Edgartown	132	0.07	5/25/95	22,122	83,613	66,697	59,018	41,350	52,084	60,552
2 4th St N	Edgartown	132	0.14	5/25/95	7,970	21,301	18,023	16,464	13,982	15,011	16,956
5 3rd St N	Edgartown	132	0.07	5/25/95	7,970	30,124	24,029	21,263	14,897	18,764	21,815
8 4th St N	Edgartown	132	0.07	5/25/95	7,970	30,124	24,029	21,263	14,897	18,764	21,815
6 19th St S	Edgartown	132	0.04	6/12/95	1,000	5,000	3,803	3,280	1,923	2,819	3,365
99 Edgartown Vineyard Hvn Rd	Edgartown	130	0.51	6/16/95	30,500	42,709	40,333	39,103	40,397	37,885	40,085
th St N	Edgartown	130	0.30	6/16/95	33,000	60,249	54,389	51,458	50,769	48,627	53,099
th St N	Edgartown	132	0.14	6/16/95	33,000	88,196	74,623	68,170	57,895	62,153	70,207
05 5th St N	Edgartown	132	0.07	6/19/95	1,579	5,968	4,761	4,213	2,951	3,718	4,322
1 W Cape Poge Ave	Edgartown	132	0.23	6/21/95	3,200	6,672	5,889	5,504	5,203	5,137	5,681
8 16th St S	Edgartown	132	0.08	6/22/95	2,301	8,135	6,563	5,844	4,261	5,189	5,999
5 Anthiers Way	Edgartown	132	0.07	7/11/95	2,750	10,394	8,291	7,337	5,140	6,475	7,527
15 Old County Rd	West Tisbury	130	8.30	7/13/95	130,000	45,124	54,016	59,539	27,957	65,766	50,480
0 Boghouse Way	West Tisbury	130	0.46	7/13/95	249,000	367,130	343,680	331,621	341,096	319,736	340,653
08 Pond Rd	West Tisbury	130	1.47	7/14/95	90,000	74,231	76,702	78,073	72,874	79,500	76,276

EXHIBIT

Nature Conser y

Determination of Adjusted Median Price per Acre of Land in Edgartown and West Tisbury, MA

Address	Town	Use Code	Acres	Sale Date	Sale Price	Sq. Root Formula	ADJUSTED PRICE PER ACRE Hoffman Formula	1/3-2/3 Curve	Jerrett Curve	Learning Curve	Adjusted Average
12th St S	Edgartown	132	0.04	7/21/95	5,500	27,500	20,917	18,039	10,577	15,506	18,508
Night Heron Rd	Edgartown	130	0.54	7/27/95	34,000	46,268	43,907	42,680	44,156	41,462	43,695
elly Ln	West Tisbury	130	3.00	8/2/95	237,000	136,832	150,225	158,012	118,500	166,385	145,991
erry Ave	Edgartown	132	0.23	8/7/95	4,101	8,551	7,547	7,054	6,668	6,583	7,281
Vood Duck Cir	Edgartown	130	0.51	8/7/95	35,000	49,010	46,284	44,872	46,358	43,474	45,999
Windsor Dr	Edgartown	130	0.55	8/11/95	50,000	67,420	64,080	62,341	64,516	60,614	63,794
Muskeget Ave	Edgartown	132	0.11	8/22/95	96,000	289,451	239,935	216,769	172,973	195,408	222,907
I St N	Edgartown	132	0.07	8/31/95	1,925	7,276	5,804	5,136	3,598	4,532	5,269
20th St N	Edgartown	132	0.07	9/12/95	1,300	4,914	3,919	3,468	2,430	3,061	3,558
20th St N	Edgartown	132	0.07	9/12/95	1,510	5,707	4,553	4,028	2,822	3,555	4,133
Ocean View Ave	Edgartown	132	0.84	9/15/95	135,000	147,297	145,130	143,971	146,739	142,796	145,187
Ocean View Ave	Edgartown	130	1.50	9/15/95	135,000	110,227	114,092	116,240	108,000	118,477	113,407
0 The Blvd	Edgartown	132	0.14	9/22/95	365,000	975,504	825,372	754,000	640,351	687,448	776,535
Edgartown Rd	West Tisbury	131	45.10	9/28/95	190,500	28,367	39,211	46,720	8,265	55,879	35,688
8 Chappaquiddick Rd	Edgartown	130	3.00	10/5/95	129,000	74,478	81,768	86,007	64,500	90,564	79,463
14th St S	Edgartown	132	0.08	10/13/95	1,600	5,657	4,564	4,063	2,963	3,608	4,171
Naushon Rd	West Tisbury	132	0.22	10/25/95	179,000	381,629	335,543	312,967	293,443	291,469	323,010
Chapel Ave	Edgartown	132	0.11	11/17/95	3,000	9,045	7,498	6,774	5,405	6,107	6,966
Watcha Path	West Tisbury	130	0.63	11/28/95	96,000	120,949	116,291	113,845	117,791	111,400	116,055
Watcha Path	Edgartown	130	1.87	11/28/95	96,000	70,202	74,038	76,201	66,899	78,476	73,163
5 Katama Rd	Edgartown	130	0.31	11/29/95	90,000	161,645	146,328	138,653	137,405	131,227	143,052
9 Katama Rd	Edgartown	132	0.30	11/29/95	76,665	139,970	126,355	119,547	117,946	112,970	123,358
3 Bea Ln	West Tisbury	130	3.01	12/4/95	182,000	104,903	115,204	121,194	90,773	127,636	111,942
uthill Ln	Edgartown	130	0.91	12/4/95	27,500	28,828	28,598	28,474	28,796	28,348	28,609
uthill Ln	Edgartown	132	0.45	12/4/95	800,000	1,192,570	1,114,312	1,074,124	1,103,448	1,034,560	1,103,803
30 Pond Rd	West Tisbury	130	1.39	12/15/95	100,000	84,819	87,227	88,558	83,682	89,939	86,845
Boldwater Rd	Edgartown	130	8.30	12/29/95	465,000	161,404	193,213	212,967	100,000	235,239	180,565
									Median 1995		62,173
Bold Meadow Cir	Edgartown	130	0.79	2/1/96	59,000	66,380	65,063	64,362	65,922	63,653	65,076
0 10th St S	Edgartown	132	0.04	3/7/96	189,200	946,000	719,559	620,527	363,846	533,406	636,668
0 Simon Athearn Rd	West Tisbury	130	15.42	3/21/96	325,000	82,764	104,431	118,435	39,586	134,685	95,980
2 Longview Rd	West Tisbury	130	1.00	3/21/96	82,500	82,500	82,500	82,500	82,500	82,500	82,500
21 Litchfield Rd	Edgartown	130	3.30	3/29/96	155,000	85,325	94,438	99,770	72,093	105,529	91,431
06 Red Farm Rd	West Tisbury	130	6.33	5/3/96	835,000	331,883	388,243	422,638	227,831	460,929	366,305
6 Fire Tower Rd	West Tisbury	130	3.14	5/3/96	835,000	471,218	519,351	547,418	403,382	577,664	503,806
8 Fire Tower Rd	West Tisbury	130	1.64	5/3/96	835,000	652,025	680,027	695,679	632,576	712,044	674,470
2 Fire Tower Rd	West Tisbury	130	3.15	5/3/96	835,000	470,469	518,666	546,777	402,410	577,073	503,079
5 Haystack Ln	Edgartown	132	0.46	5/8/96	12,800	18,873	17,667	17,047	17,534	16,436	17,511

EXHIBIT

Nature Conser[illegible]y

Determination of Adjusted Median Price per Acre of Land in Edgartown and West Tisbury, MA

Address	Town	Use Code	Acres	Sale Date	Sale Price	ADJUSTED PRICE PER ACRE Sq. Root Formula	Hoffman Formula	1/3-2/3 Curve	Jerrett Curve	Learning Curve	Adjusted Average
hfield Rd	Edgartown	132	1.24	5/13/96	420,000	377,171	384,131	387,951	375,000	391,893	383,229
Winnecoette Ave	West Tisbury	130	3.00	6/17/96	325,000	187,639	206,005	216,683	162,500	228,166	200,199
Winnecoette Ave	West Tisbury	130	3.00	6/17/96	325,000	187,639	206,005	216,683	162,500	228,166	200,199
rring Creek Rd	Edgartown	130	0.65	6/17/96	160,000	198,456	191,320	187,566	193,939	183,807	191,018
rring Creek Rd	Edgartown	130	0.65	6/17/96	160,000	198,456	191,320	187,566	193,939	183,807	191,018
oke St	Edgartown	130	0.23	7/1/96	160,000	333,623	294,444	275,196	260,163	256,829	284,051
rbor View Ave	Edgartown	132	0.11	7/2/96	4,000	12,060	9,997	9,032	7,207	8,142	9,288
10th St S	Edgartown	132	0.08	7/3/96	2,500	8,839	7,131	6,349	4,630	5,638	6,517
1 Plum Bush Point Rd	West Tisbury	130	3.10	7/23/96	750,000	425,971	468,971	494,025	365,854	521,006	455,165
1 Stoney Hill Rd	West Tisbury	130	6.05	7/24/96	444,000	180,512	210,356	228,515	125,957	248,690	198,806
Elias Ln	West Tisbury	131	0.25	7/24/96	90,000	180,000	159,992	150,108	144,000	140,639	154,948
1 Stoney Hill Rd	West Tisbury	130	6.34	7/24/96	444,000	176,335	206,308	224,601	120,981	244,968	194,639
Dubud Ln	Edgartown	130	1.16	7/24/96	48,000	44,567	45,133	45,442	44,444	45,760	45,069
Narragansett Ave	Edgartown	132	0.11	8/2/96	3,000	9,045	7,498	6,774	5,405	6,107	6,966
Thaxter Ln	Edgartown	132	1.00	8/5/96	15,000	15,000	15,000	15,000	15,000	15,000	15,000
5 Pond Rd	West Tisbury	130	1.49	8/15/96	76,000	62,262	64,408	65,601	61,044	66,842	64,031
Governor Ave	Edgartown	131	0.46	8/22/96	43,000	63,400	59,350	57,268	58,904	55,215	58,828
2 Skiffs Ln	West Tisbury	130	2.50	9/13/96	38,750	24,508	26,493	27,633	22,143	28,849	25,925
Dike Bridge Rd	Edgartown	130	42.80	9/18/96	2,100,000	320,994	441,743	525,069	95,890	626,462	402,032
Dike Bridge Rd	Edgartown	130	41.50	9/18/96	2,100,000	325,983	447,434	531,080	98,824	632,715	407,207
2 Oyster Watcha Rd	Edgartown	130	15.00	10/4/96	1,900,000	490,578	617,555	699,481	237,500	794,424	567,908
Bay View Ave	Edgartown	132	0.11	10/7/96	10,000	30,151	24,993	22,580	18,018	20,355	23,219
2 Bay View Ave	Edgartown	132	0.11	10/7/96	10,000	30,151	24,993	22,580	18,018	20,355	23,219
50 Waldron Bottom Rd	West Tisbury	130	5.30	10/11/96	120,000	52,125	60,063	64,852	38,095	70,140	57,055
2 Coffins Field Rd	Edgartown	130	0.35	10/22/96	215,000	363,416	332,392	316,721	318,519	301,473	326,504
lantingfield Way	Edgartown	132	1.30	10/22/96	43,000	37,713	38,564	39,032	37,391	39,517	38,444
cean View Ave	Edgartown	132	0.05	10/25/96	5,000	22,361	17,334	15,103	9,524	13,119	15,488
3 Hotchkiss Ln	Edgartown	130	0.74	11/15/96	63,000	73,236	71,385	70,403	72,414	69,414	71,371
5 Stoney Hill Rd	West Tisbury	130	6.03	11/15/96	185,000	75,338	87,769	95,331	52,632	103,731	82,960
1st St N	Edgartown	130	0.53	11/19/96	50,000	68,680	65,072	63,199	65,359	61,341	64,731
0th St S	Edgartown	132	0.06	11/27/96	23,000	93,897	73,926	64,952	43,396	56,907	66,615
0 20th St S	Edgartown	130	0.54	11/27/96	10,000	13,608	12,914	12,553	12,987	12,195	12,851
1 Edgartown Bay Rd	Edgartown	132	1.00	12/6/96	600,000	600,000	600,000	600,000	600,000	600,000	600,000
80 Skiffs Ln	West Tisbury	130	2.10	12/17/96	67,000	46,234	49,244	50,954	43,226	52,762	48,484
0 Plum Bush Point Rd	West Tisbury	130	4.67	12/17/96	165,000	76,353	87,040	93,434	58,201	100,453	83,096
2 Golf Club Rd	Edgartown	130	1.70	12/19/96	170,000	130,384	136,399	139,770	125,926	143,299	135,156
Golf Club Rd	Edgartown	132	0.10	12/19/96	170,000	537,587	442,027	397,602	309,091	356,820	408,625
5 Llewellyn Way	Edgartown	130	0.53	12/24/96	55,000	75,548	71,579	69,519	71,895	67,475	71,204

EXHIBIT

Nature Conservancy

Determination of Adjusted Median Price per Acre of Land in Edgartown and West Tisbury, MA

Address	Town	Use Code	Acres	Sale Date	Sale Price	Sq. Root Formula	Hoffman Formula	1/3-2/3 Curve	Jerrett Curve	Learning Curve	Adjusted Average
						ADJUSTED PRICE PER ACRE					
									Median 1996		87,264
Sampson Ave	Edgartown	132	0.23	1/16/97	4,750	9,904	8,741	8,170	7,724	7,625	8,433
ake Ave	Edgartown	132	0.31	1/17/97	3,575	6,421	5,812	5,508	5,458	5,213	5,682
Waqua Ave	Edgartown	132	0.46	1/17/97	2,500	3,686	3,451	3,330	3,425	3,210	3,420
Sea Ave	Edgartown	132	0.21	1/17/97	3,200	6,983	6,115	5,692	5,289	5,289	5,874
St N	Edgartown	132	0.07	1/17/97	3,275	12,378	9,874	8,737	6,121	7,711	8,964
St N	Edgartown	132	0.07	1/17/97	3,275	12,378	9,874	8,737	6,121	7,711	8,964
St N	Edgartown	132	0.14	1/17/97	3,275	8,753	7,406	6,765	5,746	6,168	6,968
6th St N	Edgartown	132	0.07	1/17/97	34,900	131,910	105,223	93,107	65,234	82,168	95,528
6th St N	Edgartown	132	0.07	1/17/97	34,900	131,910	105,223	93,107	65,234	82,168	95,528
Forest Ave	Edgartown	132	0.23	1/17/97	2,425	5,056	4,463	4,171	3,943	3,893	4,305
Bay View Ave	Edgartown	132	0.09	1/17/97	1,525	5,083	4,142	3,708	2,798	3,311	3,809
Bay View Ave	Edgartown	132	0.11	1/17/97	1,525	4,598	3,811	3,443	2,748	3,104	3,541
Forest Ave	Edgartown	132	0.23	1/17/97	3,575	7,454	6,579	6,149	5,813	5,739	6,347
13th St S	Edgartown	132	0.04	1/17/97	3,275	16,375	12,455	10,741	6,298	9,233	11,021
Maple Ave	Edgartown	132	0.23	1/17/97	19,000	39,618	34,965	32,680	30,894	30,498	33,731
Tower Ln	Edgartown	132	0.14	1/17/97	3,275	8,753	7,406	6,765	5,746	6,168	6,968
13th St N	Edgartown	132	0.07	1/17/97	3,275	12,378	9,874	8,737	6,121	7,711	8,964
Bold Meadow Rd	Edgartown	130	0.83	1/30/97	71,250	78,207	76,978	76,321	77,869	75,656	77,006
Majors Cove Ln	Edgartown	130	0.76	1/30/97	73,000	83,737	81,806	80,780	82,955	79,745	81,804
3 Katama Rd	Edgartown	130	0.69	2/7/97	140,000	168,540	163,307	160,543	165,680	157,768	163,168
Pond View Farm Rd	West Tisbury	130	3.20	2/19/97	245,000	136,959	151,192	159,502	116,667	168,464	146,557
tchfield Rd	Edgartown	132	1.15	3/19/97	110,000	102,576	103,801	104,471	102,326	105,159	103,667
Bold Meadow Rd	Edgartown	130	0.90	3/28/97	84,500	89,071	88,277	87,850	88,947	87,416	88,312
98 The Blvd	Edgartown	131	0.14	4/4/97	18,000	48,107	40,703	37,184	31,579	33,902	38,295
Dark Hollow Ln	Edgartown	130	0.78	4/4/97	79,200	89,676	87,802	86,805	88,989	85,797	87,814
14th St N	Edgartown	130	0.54	4/7/97	32,000	43,546	41,324	40,170	41,558	39,023	41,124
Water St	Edgartown	132	0.02	4/28/97	740,000	5,232,590	3,752,358	3,134,380	1,450,980	2,607,955	3,235,653
Lauras Way	Edgartown	130	1.00	5/6/97	50,000	50,000	50,000	50,000	50,000	50,000	50,000
7 Motick Trl	Edgartown	130	1.58	5/9/97	100,000	79,556	82,710	84,469	77,519	86,304	82,112
Chambers Way	Edgartown	131	0.59	5/15/97	20,000	26,038	24,896	24,299	25,157	23,704	24,819
8 Red Farm Rd	West Tisbury	130	3.01	5/30/97	267,500	154,184	169,324	178,128	133,416	187,597	164,530
2 Washque Ave	Edgartown	131	0.57	6/6/97	35,000	46,359	44,196	43,068	44,586	41,945	44,030
0 Washque Ave	Edgartown	132	0.23	6/6/97	35,000	72,980	64,410	60,199	56,911	56,181	62,136
1 Campbell Rd	West Tisbury	130	2.98	6/9/97	130,500	75,597	82,949	87,222	65,578	91,815	80,632
7 Stoney Hill Ln	West Tisbury	130	1.00	6/9/97	37,000	37,000	37,000	37,000	37,000	37,000	37,000
0 Brook Hollow Rd	West Tisbury	130	53.15	6/12/97	950,000	130,308	182,658	219,287	35,088	264,309	166,330
5 W Cape Poge Ave	Edgartown	132	0.16	6/23/97	8,750	21,875	18,720	17,206	15,086	15,786	17,735

EXHIBIT

Nature Conser y

Determination of Adjusted Median Price per Acre of Land in Edgartown and West Tisbury, MA

Address	Town	Use Code	Acres	Sale Date	Sale Price	ADJUSTED PRICE PER ACRE Sq. Root Formula	Hoffman Formula	1/3-2/3 Curve	Jerrett Curve	Learning Curve	Adjusted Average
Rock Pond Rd	West Tisbury	130	0.12	7/9/97	169,000	487,861	407,405	369,546	301,786	334,496	380,219
bes Neck Cove Rd	Edgartown	130	40.33	7/11/97	600,000	94,479	129,365	153,347	29,035	182,448	117,735
Mitchells Hollow Rd	Edgartown	130	6.54	7/29/97	332,000	129,822	152,291	166,031	88,064	181,352	143,512
Duck Pond Rd	West Tisbury	130	1.50	8/5/97	80,000	65,320	67,610	68,883	64,000	70,208	67,204
Pond Rd	West Tisbury	130	1.39	8/12/97	146,080	123,903	127,421	129,365	122,243	131,383	126,863
Windsor Dr	Edgartown	130	0.52	8/13/97	50,000	69,338	65,589	63,645	65,789	61,719	65,216
Plantingfield Way	Edgartown	130	2.00	8/19/97	775,000	548,008	581,265	600,097	516,667	619,969	573,201
Longview Rd	West Tisbury	130	1.40	8/27/97	99,000	83,670	86,098	87,441	82,500	88,835	85,709
Jennie Ln	Edgartown	130	3.00	8/28/97	72,000	41,569	45,638	48,004	36,000	50,547	44,352
Flamingo Dr	Edgartown	130	0.54	8/29/97	49,000	66,681	63,278	61,510	63,636	59,754	62,972
6 Pond Rd	West Tisbury	130	1.39	9/8/97	118,750	100,722	103,582	105,163	99,372	106,803	103,128
Brook Hollow Rd	West Tisbury	130	1.40	9/9/97	107,000	90,432	93,055	94,507	89,167	96,013	92,635
10th St S	Edgartown	132	0.21	9/22/97	7,000	15,275	13,378	12,451	11,570	11,570	12,849
0 W Tisbury Rd	Edgartown	132	18.30	9/25/97	54,900	12,834	16,431	18,781	5,689	21,531	15,053
Hotchkiss Ln	Edgartown	130	0.76	9/29/97	78,000	89,472	87,409	86,313	88,636	85,206	87,407
E Cape Poge Ave	Edgartown	132	0.11	9/30/97	165,000	497,494	412,388	372,572	297,297	335,858	383,122
nnywise Path	Edgartown	131	1.50	10/1/97	20,000	16,330	16,903	17,221	16,000	17,552	16,801
Acorn Cir	Edgartown	130	0.55	10/2/97	480,000	647,232	615,164	598,477	619,355	581,895	612,424
Woodhaven Dr	Edgartown	130	1.01	10/2/97	480,000	477,618	478,022	478,241	477,612	478,465	477,991
Tar Kiln Path	Edgartown	130	0.51	10/2/97	480,000	672,134	634,745	615,386	635,762	596,216	630,849
Tar Kiln Path	Edgartown	130	0.51	10/2/97	480,000	672,134	634,745	615,386	635,762	596,216	630,849
Woodhaven Dr	Edgartown	130	0.51	10/2/97	480,000	672,134	634,745	615,386	635,762	596,216	630,849
3 Tar Kiln Path	Edgartown	130	0.70	10/2/97	480,000	573,710	556,577	547,520	564,706	538,418	556,186
3 Woodhaven Dr	Edgartown	130	0.51	10/2/97	480,000	672,134	634,745	615,386	635,762	596,216	630,849
Acorn Cir	Edgartown	130	0.51	10/2/97	480,000	672,134	634,745	615,386	635,762	596,216	630,849
Woodhaven Dr	Edgartown	130	0.69	10/2/97	480,000	577,852	559,911	550,435	568,047	540,918	559,433
Woodhaven Dr	Edgartown	130	0.51	10/2/97	480,000	672,134	634,745	615,386	635,762	596,216	630,849
1 Woodhaven Dr	Edgartown	130	0.51	10/2/97	480,000	672,134	634,745	615,386	635,762	596,216	630,849
2 Woodhaven Dr	Edgartown	130	0.51	10/2/97	480,000	672,134	634,745	615,386	635,762	596,216	630,849
3 Woodhaven Dr	Edgartown	130	0.51	10/2/97	480,000	672,134	634,745	615,386	635,762	596,216	630,849
6 Woodhaven Dr	Edgartown	130	0.51	10/2/97	480,000	672,134	634,745	615,386	635,762	596,216	630,849
7 Woodhaven Rd	Edgartown	130	0.50	10/2/97	480,000	678,823	639,983	619,900	640,000	600,030	635,747
8 Woodhaven Rd	Edgartown	130	0.51	10/2/97	480,000	672,134	634,745	615,386	635,762	596,216	630,849
Acorn Cir	Edgartown	130	0.54	10/2/97	480,000	653,197	619,866	602,543	623,377	585,343	616,865
Treetop Rd	Edgartown	130	0.50	10/2/97	480,000	678,823	639,983	619,900	640,000	600,030	635,747
0 Woodhaven Rd	Edgartown	130	0.51	10/2/97	480,000	672,134	634,745	615,386	635,762	596,216	630,849
4 Woodhaven Dr	Edgartown	130	1.03	10/2/97	480,000	472,958	474,148	474,793	472,906	475,453	474,052
6 Woodhaven Dr	Edgartown	130	0.51	10/2/97	480,000	672,134	634,745	615,386	635,762	596,216	630,849

EXHIBIT

Nature Conservancy

Determination of Adjusted Median Price per Acre of Land in Edgartown and West Tisbury, MA

Address	Town	Use Code	Acres	Sale Date	Sale Price	Sq. Root Formula	Hoffman Formula	1/3-2/3 Curve	Jerrett Curve	Learning Curve	Adjusted Average
						ADJUSTED PRICE PER ACRE					
Voodhaven Dr	Edgartown	130	0.52	10/2/97	480,000	665,640	629,651	610,993	631,579	592,500	626,073
eetop Rd	Edgartown	130	0.64	10/2/97	480,000	600,000	577,666	565,928	585,366	554,181	576,628
oodhaven Dr	Edgartown	130	0.51	10/2/97	480,000	672,134	634,745	615,386	635,762	596,216	630,849
Voodhaven Dr	Edgartown	130	0.50	10/2/97	480,000	678,823	639,983	619,900	640,000	600,030	635,747
Voodhaven Dr	Edgartown	130	0.73	10/2/97	480,000	561,798	546,968	539,107	554,913	531,192	546,796
Voodhaven Dr	Edgartown	130	2.40	10/2/97	480,000	309,839	333,775	347,491	282,353	362,087	327,109
corn Cir	Edgartown	130	0.51	10/2/97	480,000	672,134	634,745	615,386	635,762	596,216	630,849
corn Cir	Edgartown	130	0.52	10/2/97	480,000	665,640	629,651	610,993	631,579	592,500	626,073
reetop Rd	Edgartown	130	0.50	10/2/97	480,000	678,823	639,983	619,900	640,000	600,030	635,747
Voodhaven Dr	Edgartown	130	0.51	10/2/97	480,000	672,134	634,745	615,386	635,762	596,216	630,849
corn Cir	Edgartown	130	0.55	10/2/97	480,000	647,232	615,164	598,477	619,355	581,895	612,424
reetop Rd	Edgartown	130	1.01	10/2/97	480,000	477,618	478,022	478,241	477,612	478,465	477,991
ak Knoll Rd	West Tisbury	131	1.94	10/8/97	64,500	46,308	48,992	50,508	43,878	52,106	48,358
Pond Rd	West Tisbury	130	1.39	10/17/97	137,700	116,796	120,111	121,944	115,230	123,846	119,585
01 State Rd	West Tisbury	130	3.06	10/24/97	145,000	82,891	91,158	95,970	71,429	101,150	88,520
0 Reservoir Rd	West Tisbury	130	9.89	10/24/97	1,701,125	540,926	657,249	730,313	312,420	813,360	610,854
4 Whalers Walk	Edgartown	130	0.60	11/3/97	55,000	71,005	67,988	66,409	68,750	64,833	67,797
20th St S	Edgartown	130	0.58	11/6/97	35,000	45,957	43,878	42,792	44,304	41,710	43,728
Metells Way	Edgartown	130	0.62	11/24/97	84,000	106,680	102,432	100,204	103,704	97,978	102,200
Tisbury Ln W	West Tisbury	130	5.40	11/26/97	450,000	193,649	223,496	241,523	140,625	261,446	212,148
Sea Ave	Edgartown	132	0.10	11/28/97	3,111	9,838	8,089	7,276	5,656	6,530	7,478
Mariners Way	Edgartown	131	0.50	12/1/97	170,000	240,416	226,661	219,548	226,667	212,511	225,160
9 Pond Rd	West Tisbury	130	1.53	12/5/97	200,000	161,690	167,642	170,954	158,103	174,405	166,559
Howwoswee Park	Edgartown	132	0.11	12/9/97	150,000	452,267	374,898	338,702	270,270	305,325	348,292
Bay View Ave	Edgartown	132	0.23	12/9/97	150,000	312,772	276,041	257,996	243,902	240,777	266,298
Howwoswee Park	Edgartown	132	0.23	12/9/97	150,000	312,772	276,041	257,996	243,902	240,777	266,298
Howwoswee Park	Edgartown	132	0.11	12/9/97	150,000	452,267	374,898	338,702	270,270	305,325	348,292
Howwoswee Park	Edgartown	130	1.90	12/9/97	150,000	108,821	114,923	118,367	103,448	121,992	113,511
ike Bridge Rd	Edgartown	130	4.00	12/19/97	1,500,000	750,000	843,794	899,355	600,000	959,904	810,611
5 Davis Look Rd	West Tisbury	130	4.57	12/30/97	250,000	116,945	133,068	142,702	89,767	153,266	127,150
2 Cow Bay Rd	Edgartown	130	2.10	12/31/97	230,000	158,715	169,047	174,916	148,387	181,123	166,438
									Median 1997		127,006
2 Dark Woods Rd	Edgartown	130	0.51	1/5/98	107,000	149,830	141,495	137,180	141,722	132,906	140,627
3 Marthas Rd	Edgartown	130	0.52	1/7/98	55,000	76,271	72,148	70,010	72,368	67,891	71,737
2 13th St N	Edgartown	132	0.07	1/7/98	14,060	53,142	42,391	37,510	26,280	33,103	38,485
3 12th St N	Edgartown	132	0.14	1/7/98	14,060	37,577	31,794	29,045	24,667	26,481	29,913
2 Plum Bush Point Rd	West Tisbury	130	5.00	1/13/98	219,000	97,940	112,298	120,927	73,000	130,429	106,919
2 Meshacket Rd	Edgartown	130	0.50	1/14/98	55,000	77,782	73,331	71,030	73,333	68,753	72,846

EXHIBIT

Nature Conservancy

Determination of Adjusted Median Price per Acre of Land in Edgartown and West Tisbury, MA

Address	Town	Use Code	Acres	Sale Date	Sale Price	ADJUSTED PRICE PER ACRE Sq. Root Formula	Hoffman Formula	1/3-2/3 Curve	Jerrett Curve	Learning Curve	Adjusted Average
Turkeyland Cove Rd	Edgartown	130	29.30	1/15/98	3,150,000	581,938	775,462	905,809	207,921	1,061,645	706,555
Obed Daggett Rd	West Tisbury	130	6.90	1/20/98	380,000	144,664	170,475	186,315	96,203	204,021	160,335
ıthiers Way	Edgartown	130	0.69	2/6/98	40,000	48,154	46,659	45,870	47,337	45,077	46,619
Leahs Ln	Edgartown	130	7.00	2/18/98	158,500	59,907	70,683	77,302	39,625	84,705	66,444
Leahs Ln	Edgartown	130	7.00	2/18/98	158,500	59,907	70,683	77,302	39,625	84,705	66,444
Mill Hill Rd	Edgartown	130	1.80	2/25/98	125,000	93,169	97,943	100,627	89,286	103,446	96,894
! Coffins Field Rd	Edgartown	132	0.14	3/13/98	61,000	163,029	137,939	126,011	107,018	114,889	129,777
ı Fishermans Knot Rd	Edgartown	130	0.94	3/13/98	51,000	52,602	52,327	52,178	52,577	52,026	52,342
3 Great Plains Rd	West Tisbury	130	1.46	3/16/98	85,500	70,760	73,073	74,357	69,512	75,691	72,679
) 19th St S	Edgartown	132	0.08	3/20/98	33,000	116,673	94,131	83,806	61,111	74,425	86,029
Litchfield Rd	Edgartown	130	4.90	3/20/98	150,000	67,763	77,564	83,447	50,847	89,918	73,908
d Indian Trl	Edgartown	132	6.97	3/20/98	10,000	3,788	4,467	4,885	2,509	5,352	4,200
5 14th St N	Edgartown	132	0.14	3/24/98	137,000	366,148	309,797	283,008	240,351	258,028	291,467
79 Pond Rd	West Tisbury	130	1.39	4/1/98	182,500	154,794	159,189	161,618	152,720	164,139	158,492
00 Edgartown Rd	West Tisbury	130	13.10	4/8/98	277,000	76,532	95,238	107,203	39,291	120,981	87,849
19 Katama Rd	Edgartown	132	0.51	4/17/98	32,000	44,809	42,316	41,026	42,384	39,748	42,057
1 Red Pony Rd	West Tisbury	130	3.02	4/17/98	112,000	64,449	70,797	74,490	55,721	78,461	68,784
5 Edgewood Dr	Edgartown	130	0.52	4/27/98	33,000	45,763	43,289	42,006	43,421	40,734	43,042
5 Alex Way	West Tisbury	130	1.44	4/30/98	107,500	89,583	92,403	93,966	88,115	95,591	91,932
20 Peases Point Way N	Edgartown	130	0.70	5/6/98	2,900,000	3,466,163	3,362,655	3,307,934	3,411,765	3,252,943	3,360,292
5 Myober Ln	Edgartown	130	0.55	5/8/98	145,000	195,518	185,831	180,790	187,097	175,781	185,003
05 Charles Neck Way	West Tisbury	130	1.90	5/14/98	80,000	58,038	61,292	63,129	55,172	65,063	60,539
1 Blackwater Hollow Rd	West Tisbury	132	0.86	5/21/98	262,000	282,522	278,923	276,995	281,720	275,038	279,040
6 Meetinghouse Way	Edgartown	130	3.10	5/22/98	100,000	56,796	62,529	65,870	48,780	69,467	60,689
2 Pond Rd	West Tisbury	130	2.78	5/22/98	145,000	86,965	94,861	99,430	76,720	104,324	92,460
5 Heather Trl	West Tisbury	130	3.10	5/29/98	118,000	67,019	73,785	77,727	57,561	81,972	71,613
9 Shubael Weeks Rd	West Tisbury	131	0.69	5/29/98	200,000	240,772	233,296	229,348	236,686	225,383	233,097
08 Pond Rd	West Tisbury	130	1.40	6/2/98	142,000	120,012	123,494	125,420	118,333	127,419	122,936
Cyprien Way	Edgartown	131	0.16	6/16/98	190,000	475,000	406,484	373,623	327,586	342,789	385,096
3 Heather Trl	West Tisbury	130	3.00	6/17/98	120,000	69,282	76,063	80,006	60,000	84,246	73,919
Lelands Path	Edgartown	130	5.80	7/8/98	340,000	141,177	163,929	177,735	100,000	193,043	155,177
9 Pennywise Path	Edgartown	130	0.52	7/13/98	51,000	70,724	66,900	64,918	67,105	62,953	66,520
Pamela Way	Edgartown	130	1.00	7/20/98	80,000	80,000	80,000	80,000	80,000	80,000	80,000
Forest Cir	Edgartown	132	0.53	7/24/98	20,000	27,472	26,029	25,280	26,144	24,537	25,892
6 4th St	West Tisbury	131	0.60	7/24/98	67,000	86,497	82,821	80,898	83,750	78,979	82,589
2 Lake Ave	Edgartown	132	0.11	7/28/98	1,000	3,015	2,499	2,258	1,802	2,036	2,322
1 Kanomika Rd	Edgartown	130	6.20	7/30/98	1,245,000	500,004	583,884	635,005	345,833	691,862	551,318
6 13th St N	Edgartown	132	0.07	8/3/98	3,000	11,339	9,045	8,004	5,607	7,063	8,212

EXHIBIT

Nature Conservancy

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Address	Town	Use Code	Acres	Sale Date	Sale Price	ADJUSTED PRICE PER ACRE Sq. Root Formula	Hoffman Formula	1/3-2/3 Curve	Jerrett Curve	Learning Curve	Adjusted Average
Stoney Hill Ln	West Tisbury	130	1.09	8/5/98	74,900	71,741	72,269	72,556	71,675	72,850	72,218
S Pond Rd	West Tisbury	130	1.47	8/21/98	160,000	131,966	136,359	138,797	129,555	141,333	135,602
N Vine Ln	West Tisbury	130	3.00	9/1/98	132,000	76,210	83,670	88,007	66,000	92,670	81,311
Cormorant Cir	Edgartown	130	0.51	9/4/98	69,000	96,619	91,245	88,462	91,391	85,706	90,685
Coffins Field Rd	West Tisbury	130	0.74	9/8/98	70,875	82,391	80,309	79,204	81,466	78,091	80,292
Coffins Field Rd	Edgartown	132	0.14	9/8/98	70,875	189,421	160,269	146,410	124,342	133,487	150,786
Pennywise Path	Edgartown	130	0.55	9/17/98	335,000	451,714	429,333	417,687	432,258	406,114	427,421
5 Lamberts Cove Rd	West Tisbury	132	0.39	9/23/98	675,000	1,080,865	997,728	955,435	971,223	914,073	983,865
Bay View Ave	Edgartown	132	0.11	9/28/98	260,000	783,929	649,823	587,083	468,468	529,231	603,707
Washque Ave	Edgartown	132	0.08	9/28/98	260,000	919,239	741,636	660,288	481,481	586,379	677,805
Bay View Ave	Edgartown	132	0.11	9/28/98	260,000	783,929	649,823	587,083	468,468	529,231	603,707
Bold Meadow Rd	Edgartown	130	0.92	10/9/98	100,000	104,257	103,521	103,125	104,167	102,721	103,558
Swan Ln	Edgartown	132	0.50	10/15/98	86,500	122,329	115,330	111,711	115,333	108,130	114,567
Dodgers Hole Rd	Edgartown	130	0.50	10/15/98	86,500	122,329	115,330	111,711	115,333	108,130	114,567
4th St N	Edgartown	132	0.07	10/22/98	3,600	13,607	10,854	9,604	6,729	8,476	9,854
5th St N	Edgartown	132	0.28	10/22/98	3,600	6,803	6,106	5,758	5,625	5,424	5,943
Pin Oak Cir	West Tisbury	131	0.48	10/26/98	12,000	17,321	16,273	15,733	16,216	15,199	16,148
Meshacket Rd	Edgartown	130	1.09	10/30/98	75,000	71,837	72,365	72,653	71,770	72,947	72,314
Stoney Hill Ln	West Tisbury	130	16.80	10/30/98	210,000	51,235	65,120	74,145	23,596	84,658	59,751
Cuttyhunk Ave	West Tisbury	132	0.05	11/3/98	645,000	2,884,528	2,236,079	1,948,228	1,228,571	1,692,355	1,997,952
Bay View Ave	Edgartown	132	0.11	11/4/98	2,000	6,030	4,999	4,516	3,604	4,071	4,644
Harbor View Ave	Edgartown	132	0.11	11/5/98	1,000	3,015	2,499	2,258	1,802	2,036	2,322
Litchfield Rd	Edgartown	130	3.00	11/6/98	650,000	375,278	412,010	433,367	325,000	456,331	400,397
05 Skiffs Ln	West Tisbury	130	2.40	11/12/98	110,000	71,005	76,490	79,633	64,706	82,978	74,962
7 Jason Dr	Edgartown	130	3.00	11/12/98	140,000	80,829	88,741	93,341	70,000	98,287	86,239
Quampache Ln	Edgartown	130	11.25	11/13/98	575,000	171,432	210,591	235,392	93,878	263,753	195,009
8 Bradley Martin Rd	West Tisbury	130	3.45	11/17/98	240,000	129,212	143,554	151,969	107,865	161,077	138,735
0 Wintucket Cove Path	Edgartown	130	8.80	11/18/98	70,000	23,597	28,388	31,375	14,286	34,752	26,480
8 19th St N	Edgartown	132	0.07	11/18/98	1,250	4,725	3,769	3,335	2,336	2,943	3,422
0 4th St N	Edgartown	132	0.21	11/19/98	2,000	4,364	3,822	3,557	3,306	3,306	3,671
10 Pine Hill Rd	West Tisbury	130	3.70	11/20/98	200,000	103,975	116,205	123,414	85,106	131,241	111,988
16 Pine Hill Rd	West Tisbury	130	5.20	11/20/98	200,000	87,706	100,899	108,849	64,516	117,619	95,918
5 Brickworks Rd	West Tisbury	130	3.01	12/16/98	314,000	180,987	198,758	209,093	156,608	220,207	193,131
9 Silva St	Edgartown	130	0.16	12/23/98	165,000	412,500	353,000	324,462	284,483	297,685	334,426
5 Blackthorn Rd	West Tisbury	130	2.06	12/24/98	865,000	602,674	640,857	662,520	565,359	685,411	631,364
1 Blackthorn Rd	West Tisbury	130	1.97	12/24/98	865,000	616,287	652,849	673,532	582,492	695,341	644,100
3 Blackthorn Rd	West Tisbury	130	2.46	12/24/98	865,000	551,504	595,358	620,528	500,000	647,344	582,947
									Median 1998		87,849

EXHIBIT

Nature Conservancy

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Address	Town	Use Code	Acres	Sale Date	Sale Price	Sq. Root Formula	Hoffman Formula	1/3-2/3 Curve	Jerrett Curve	Learning Curve	Adjusted Average
						ADJUSTED PRICE PER ACRE					
4th St	West Tisbury	131	0.60	1/19/99	46,000	59,386	56,862	55,542	57,500	54,224	56,703
Flamingo Dr	Edgartown	130	0.50	1/20/99	61,750	87,328	82,331	79,747	82,333	77,191	81,786
acobs Neck Rd	Edgartown	130	12.42	1/21/99	325,000	92,219	114,241	128,278	48,435	144,403	105,515
acobs Neck Rd	Edgartown	130	10.27	1/21/99	325,000	101,414	123,618	137,599	57,675	153,517	114,765
) Katama Rd	Edgartown	131	0.50	1/25/99	135,000	190,919	179,995	174,347	180,000	168,758	178,804
5 Middle Point Rd	West Tisbury	132	0.20	1/25/99	75,000	167,705	146,263	135,825	125,000	125,930	140,145
lew Haven Ave	Edgartown	132	0.69	1/25/99	2,800	3,371	3,266	3,211	3,314	3,155	3,263
Calebs Common Ln	Edgartown	130	1.00	2/23/99	102,500	102,500	102,500	102,500	102,500	102,500	102,500
Oak Grove Rd	West Tisbury	131	0.49	3/1/99	900,000	1,285,714	1,210,072	1,171,009	1,208,054	1,132,399	1,201,449
Dr Fisher Rd	West Tisbury	132	0.60	3/1/99	136,550	176,285	168,795	164,875	170,688	160,963	168,321
Smith Hollow Dr	Edgartown	130	0.90	3/2/99	70,000	73,786	73,129	72,775	73,684	72,416	73,158
8 Vineyard Meadow Farms Rd	West Tisbury	130	1.40	3/5/99	75,000	63,387	65,226	66,243	62,500	67,299	64,931
d County Rd	West Tisbury	132	2.00	3/17/99	325,000	229,810	243,756	251,654	216,667	259,987	240,375
d County Rd	West Tisbury	132	0.06	3/17/99	325,000	1,326,807	1,044,601	917,795	613,208	804,116	941,305
' Pocha Rd	Edgartown	130	3.64	3/24/99	300,000	157,243	175,495	186,241	129,310	197,900	169,238
4 Vineyard Meadow Farms Rd	West Tisbury	130	1.40	3/25/99	86,000	72,683	74,792	75,959	71,667	77,169	74,454
S Vine Ln	West Tisbury	130	1.76	3/26/99	130,000	97,991	102,815	105,523	94,203	108,365	101,779
9 Old Courthouse Rd	West Tisbury	130	2.10	4/8/99	94,000	64,866	69,089	71,487	60,645	74,024	68,022
1 Litchfield Rd	Edgartown	130	3.42	4/8/99	125,000	67,592	75,039	79,406	56,561	84,131	72,546
tchfield Rd	Edgartown	130	3.05	4/8/99	125,000	71,575	78,691	82,833	61,728	87,290	76,423
) Narragansett Ave	Edgartown	132	0.11	4/12/99	16,000	48,242	39,989	36,128	28,829	32,568	37,151
Vineyard Ave	Edgartown	131	0.48	4/12/99	16,000	23,094	21,697	20,977	21,622	20,266	21,531
18 Meetinghouse Way	Edgartown	130	20.00	4/20/99	880,000	196,774	253,837	291,342	83,810	335,391	232,231
26 Meetinghouse Way	Edgartown	132	0.44	4/23/99	2,850	4,297	4,007	3,858	3,958	3,712	3,967
6 Great Plains Rd	West Tisbury	131	0.86	4/30/99	57,000	61,465	60,682	60,262	61,290	59,837	60,707
0 22nd St S	Edgartown	130	0.54	5/4/99	12,000	16,330	15,497	15,064	15,584	14,634	15,422
00 Old County Rd	West Tisbury	130	2.30	5/5/99	115,000	75,829	81,392	84,571	69,697	87,947	79,887
8 Chappaquiddick Ave	Edgartown	132	0.39	5/5/99	56,500	90,472	83,513	79,973	81,295	76,511	82,353
8 Dike Bridge Rd	Edgartown	130	3.10	5/17/99	185,000	105,073	115,680	121,859	90,244	128,515	112,274
8 17th St N	Edgartown	130	0.21	5/18/99	2,800	6,110	5,351	4,980	4,628	4,628	5,140
0 Dike Bridge Rd	Edgartown	130	3.90	5/19/99	226,600	114,743	128,815	137,138	92,490	146,197	123,877
3 12th St N	Edgartown	130	0.28	5/21/99	64,500	121,894	109,393	103,171	100,781	97,180	106,484
5 Galway Rd	West Tisbury	130	1.55	5/25/99	89,900	72,209	74,950	76,476	70,510	78,068	74,443
1 Line Dr	West Tisbury	130	4.64	5/26/99	340,000	157,841	179,835	192,990	120,567	207,425	171,731
0 Plum Bush Point Rd	West Tisbury	130	4.80	5/28/99	500,000	228,218	260,768	280,280	172,414	301,724	248,681
4 Coffins Field Rd	Edgartown	132	0.26	6/3/99	99,000	194,155	173,150	162,746	157,143	152,761	167,991
Jacobs Neck Rd	Edgartown	130	4.39	6/3/99	100,000	47,727	54,122	57,934	37,106	62,105	51,799
2 Capawock Rd	West Tisbury	130	3.21	6/4/99	555,000	309,771	342,053	360,905	263,658	381,240	331,525

EXHIBIT

Nature Conser[illegible]y

Determination of Adjusted Median Price per Acre of Land in Edgartown and West Tisbury, MA

Address	Town	Use Code	Acres	Sale Date	Sale Price	Sq. Root Formula	Hoffman Formula	1/3-2/3 Curve	Jerrett Curve	Learning Curve	Adjusted Average
						ADJUSTED PRICE PER ACRE					
Mill Hill Road Ext	Edgartown	130	0.66	6/4/99	185,000	227,719	219,817	215,655	222,892	211,485	219,513
Heather Trl	West Tisbury	130	3.00	6/4/99	115,000	66,395	72,894	76,673	57,500	80,736	70,840
Peases Point Rd	Edgartown	130	0.75	6/7/99	178,000	205,537	200,572	197,935	203,429	195,277	200,550
Vickers St	Edgartown	130	0.50	6/7/99	89,000	125,865	118,664	114,940	118,667	111,256	117,878
Majors Cove Ln	Edgartown	130	0.79	6/14/99	95,000	106,883	104,763	103,633	106,145	102,491	104,783
4 Chappaquiddick Rd	Edgartown	131	5.48	6/15/99	185,000	79,028	91,323	98,756	57,099	106,976	86,636
ıappaquiddick Rd	Edgartown	131	5.09	6/15/99	185,000	82,000	94,164	101,483	60,755	109,549	89,590
Pauls Ln	Edgartown	132	0.59	6/16/99	765,000	995,945	952,265	929,431	962,264	906,665	949,314
)7 Great Plains Rd	West Tisbury	130	1.46	6/21/99	85,000	70,347	72,646	73,922	69,106	75,248	72,254
)2 The Blvd	Edgartown	132	0.13	6/25/99	165,000	457,628	384,767	350,299	292,035	318,269	360,600
Flamingo Dr	Edgartown	130	1.00	6/29/99	108,000	108,000	108,000	108,000	108,000	108,000	108,000
Majors Cove Ln	Edgartown	130	0.82	6/30/99	120,000	132,518	130,301	129,117	131,868	127,918	130,345
) Charles Neck Way	West Tisbury	130	1.60	6/30/99	110,000	86,963	90,507	92,485	84,615	94,551	89,824
Sparrow Ln	Edgartown	130	0.50	7/1/99	85,000	120,208	113,330	109,774	113,333	106,255	112,580
70 Pond Rd	West Tisbury	130	2.80	7/13/99	192,500	115,041	125,563	131,653	101,316	138,180	122,350
9 Leona Ln	West Tisbury	130	1.39	7/15/99	175,000	148,433	152,647	154,976	146,444	157,394	151,979
4 Litchfield Rd	Edgartown	130	3.04	7/15/99	125,000	71,692	78,798	82,933	61,881	87,383	76,538
5 Litchfield Rd	Edgartown	130	3.01	7/15/99	125,000	72,049	79,123	83,237	62,344	87,662	76,883
Calebs Common Ln	Edgartown	130	1.00	7/16/99	113,000	113,000	113,000	113,000	113,000	113,000	113,000
20 Katama Rd	Edgartown	130	0.92	7/23/99	195,000	203,302	201,866	201,093	203,125	200,306	201,938
52 Waldron Bottom Rd	West Tisbury	130	5.60	8/6/99	190,000	80,290	92,951	100,617	57,576	109,103	88,107
1 Marthas Rd	Edgartown	130	0.51	8/16/99	96,000	134,427	126,949	123,077	127,152	119,243	126,170
05 Great Plains Rd	West Tisbury	130	1.46	8/17/99	110,000	91,037	94,013	95,664	89,431	97,380	93,505
Dunes Rd	Edgartown	130	1.50	8/19/99	365,000	298,021	308,471	314,279	292,000	320,325	306,619
0 Hidden Village Rd	West Tisbury	130	2.80	8/20/99	124,000	74,104	80,882	84,805	65,263	89,010	78,813
1 Litchfield Rd	Edgartown	130	3.01	8/20/99	174,900	100,811	110,709	116,466	87,232	122,657	107,575
4 Coffins Field Rd	West Tisbury	130	0.62	8/24/99	99,000	125,730	120,724	118,098	122,222	115,474	120,450
6 Beach Ave	Edgartown	132	0.23	8/26/99	90,000	187,663	165,625	154,798	146,341	144,466	159,779
7 Harbor View Ave	Edgartown	132	0.23	8/26/99	90,000	187,663	165,625	154,798	146,341	144,466	159,779
2 Bay View Ave	Edgartown	132	0.11	8/30/99	135,000	407,040	337,408	304,832	243,243	274,793	313,463
5 Plum Bush Point Rd	West Tisbury	130	4.12	8/30/99	278,000	136,961	154,477	164,872	108,594	176,217	148,224
75 Pond Rd	West Tisbury	130	1.38	8/31/99	280,000	238,352	244,967	248,624	235,294	252,416	243,931
8 Oyster Watcha Rd	Edgartown	130	10.50	9/1/99	85,000	26,232	32,035	35,694	14,783	39,865	29,722
00 Pond Rd	West Tisbury	130	4.69	9/7/99	225,100	103,942	118,533	127,266	79,121	136,854	113,143
3 E Cape Poge Ave	Edgartown	132	0.11	9/7/99	195,000	587,947	487,368	440,312	351,351	396,923	452,780
10 Loon Cove Way	Edgartown	130	5.00	9/14/99	728,750	325,907	373,685	402,401	242,917	434,020	355,786
12 Jason Dr	Edgartown	130	3.00	9/21/99	190,000	109,697	120,434	126,676	95,000	133,389	117,039
33 Litchfield Rd	Edgartown	130	3.01	9/23/99	210,000	121,042	132,927	139,839	104,738	147,272	129,164

EXHIBIT

Nature Conservancy

Determination of Adjusted Median Price per Acre of Land in Edgartown and West Tisbury, MA

Address	Town	Use Code	Acres	Sale Date	Sale Price	Sq. Root Formula	Hoffman Formula	1/3-2/3 Curve	Jerrett Curve	Learning Curve	Adjusted Average
						ADJUSTED PRICE PER ACRE					
ł Pond Rd	West Tisbury	130	1.39	9/28/99	200,625	170,168	174,998	177,669	167,887	180,441	174,233
S Pond Rd	West Tisbury	130	1.47	9/30/99	150,000	123,718	127,836	130,122	121,457	132,500	127,127
Farms End Rd	West Tisbury	130	1.50	10/1/99	115,000	93,897	97,190	99,019	92,000	100,924	96,606
Bea Ln	West Tisbury	130	3.50	10/1/99	382,500	204,455	227,428	240,919	170,000	255,530	219,666
9 Charles Neck Way	West Tisbury	130	1.90	10/8/99	99,500	72,185	76,233	78,517	68,621	80,922	75,295
Herring Creek Rd	Edgartown	130	0.50	10/12/99	150,000	212,132	199,995	193,719	200,000	187,509	198,671
)ld Pocha Rd	Edgartown	131	2.70	10/25/99	70,000	42,601	46,353	48,520	37,838	50,839	45,230
Skiffs Ln	West Tisbury	130	2.76	10/26/99	175,000	105,338	114,831	120,321	93,085	126,202	111,955
7 Great Plains Rd	West Tisbury	130	1.46	10/27/99	125,000	103,451	106,833	108,709	101,626	110,659	106,255
Teaberry Ln	Edgartown	130	0.52	11/1/99	99,000	137,288	129,866	126,017	130,263	122,203	129,127
Bay View Ave	Edgartown	132	0.11	11/9/99	3,500	10,553	8,748	7,903	6,306	7,124	8,127
1 Pond Rd	West Tisbury	130	1.39	11/17/99	325,000	275,661	283,486	287,813	271,967	292,303	282,246
S Pond Rd	West Tisbury	130	1.58	11/19/99	260,000	206,845	215,046	219,618	201,550	224,391	213,490
Old Courthouse Rd	West Tisbury	130	3.19	11/19/99	246,000	137,734	152,006	160,338	117,422	169,322	147,365
Red Coat Hill Rd	West Tisbury	130	4.85	11/22/99	324,000	147,121	168,253	180,928	110,769	194,866	160,387
Jeremiah Rd	Edgartown	130	2.10	11/23/99	395,000	272,576	290,319	300,399	254,839	311,059	285,838
Heather Trl	West Tisbury	130	4.10	11/23/99	135,000	66,672	75,167	80,208	52,941	85,707	72,139
Howwoswee Park	Edgartown	132	0.11	11/26/99	8,000	24,121	19,995	18,064	14,414	16,284	18,576
Howwoswee Park	Edgartown	132	0.11	11/26/99	8,000	24,121	19,995	18,064	14,414	16,284	18,576
Howwoswee Park	Edgartown	132	0.11	11/26/99	8,000	24,121	19,995	18,064	14,414	16,284	18,576
1 W Farm Rd	West Tisbury	130	0.70	11/29/99	140,000	167,332	162,335	159,693	164,706	157,039	162,221
0 Morse St	Edgartown	132	0.06	12/1/99	772,000	3,151,677	2,481,330	2,180,115	1,456,604	1,910,085	2,235,962
8 Old Courthouse Rd	West Tisbury	131	0.25	12/3/99	36,000	72,000	63,997	60,043	57,600	56,256	61,979
39 State Rd	West Tisbury	130	1.60	12/3/99	125,000	98,821	102,849	105,097	96,154	107,444	102,073
47 State Rd	West Tisbury	130	1.70	12/3/99	125,000	95,871	100,294	102,772	92,593	105,367	99,379
5 Schoolhouse Rd	Edgartown	130	0.50	12/16/99	115,000	162,635	153,329	148,518	153,333	143,757	152,314
Holly Ln	West Tisbury	131	0.46	12/22/99	10,000	14,744	13,802	13,318	13,699	12,841	13,681
6 Flamingo Dr	Edgartown	130	0.51	12/22/99	107,000	149,830	141,495	137,180	141,722	132,906	140,627
6 Norton Orchard Rd	Edgartown	130	0.32	12/22/99	75,000	132,583	120,344	114,199	113,636	108,244	117,801
2 Pin Oak Cir	West Tisbury	131	0.46	12/22/99	10,000	14,744	13,802	13,318	13,699	12,841	13,681
16 Beach Rd	Edgartown	130	4.40	12/29/99	14,000	6,674	7,570	8,104	5,185	8,688	7,244
ilton Way	Edgartown	132	0.06	12/30/99	35,000	142,887	112,496	98,839	66,038	86,597	101,371
2 Dr Fisher Rd	West Tisbury	130	4.00	12/31/99	155,000	77,500	87,192	92,933	62,000	99,190	83,763
3 16th St S	Edgartown	130	0.54	12/31/99	80,000	108,866	103,311	100,424	103,896	97,557	102,811
									Median 1999		109,978
1 Llewellyn Way	Edgartown	131	1.03	1/5/00	96,000	94,592	94,830	94,959	94,581	95,091	94,810
4 S Pond Rd	West Tisbury	130	1.48	1/7/00	267,500	219,884	227,334	231,471	215,726	235,776	226,038
0 Red Pony Rd	West Tisbury	130	3.01	1/14/00	120,000	69,167	75,958	79,908	59,850	84,156	73,808

EXHIBIT D

Nature Conservancy

Determination of Adjusted Median Price per Acre of Land in Edgartown and West Tisbury, MA

Address	Town	Use Code	Acres	Sale Date	Sale Price	Sq. Root Formula	ADJUSTED PRICE PER ACRE Hoffman Formula	1/3-2/3 Curve	Jerrett Curve	Learning Curve	Adjusted Average
Hopps Farm Rd	West Tisbury	130	1.50	1/18/00	185,000	151,052	156,349	159,292	148,000	162,357	155,410
gartown Rd	West Tisbury	132	0.07	1/25/00	200,000	755,929	602,996	533,567	373,832	470,878	547,440
Llewellyn Way	Edgartown	131	1.03	1/26/00	96,000	94,592	94,830	94,959	94,581	95,091	94,810
Sparrow Ln	Edgartown	130	0.51	2/11/00	110,000	154,031	145,463	141,026	145,695	136,633	144,570
Clevelandtown Rd	Edgartown	130	0.51	2/25/00	135,000	189,038	178,522	173,077	178,808	167,686	177,426
hogonot Rd	Edgartown	132	14.44	3/14/00	133,095	35,025	43,948	49,691	17,240	56,335	40,448
Boldwater Rd	Edgartown	130	9.80	3/15/00	1,800,000	574,989	698,094	775,372	333,333	863,173	648,992
Skiffs Ln	West Tisbury	130	2.10	3/15/00	150,000	103,510	110,248	114,075	96,774	118,124	108,546
13th St N	Edgartown	132	0.14	3/15/00	60,000	160,357	135,678	123,945	105,263	113,005	127,650
0 Pond Rd	West Tisbury	130	2.27	3/20/00	295,000	195,798	209,928	217,996	180,428	226,559	206,142
Old Coach Rd	West Tisbury	130	2.40	4/3/00	163,000	105,216	113,344	118,002	95,882	122,959	111,081
S Pond Rd	West Tisbury	130	1.76	4/10/00	785,000	591,716	620,843	637,200	568,841	654,357	614,591
Road To The Plns	Edgartown	130	0.53	4/10/00	127,000	174,448	165,283	160,526	166,013	155,807	164,416
Rock Pond Rd	West Tisbury	130	0.13	4/12/00	266,850	740,109	622,273	566,529	472,301	514,728	583,188
Rock Pond Rd	West Tisbury	130	0.12	4/12/00	260,530	752,085	628,055	569,692	465,232	515,658	586,144
Rock Pond Rd	West Tisbury	130	0.12	4/13/00	327,330	944,920	789,088	715,761	584,518	647,872	736,432
Rock Pond Rd	West Tisbury	130	0.13	4/13/00	205,800	570,787	479,909	436,918	364,248	396,968	449,766
Rock Pond Rd	West Tisbury	130	0.14	4/13/00	139,250	372,161	314,885	287,656	244,298	262,266	296,253
Motick Trl	Edgartown	131	1.70	4/18/00	190,000	145,723	152,446	156,213	140,741	160,158	151,056
58 Charles Neck Way	West Tisbury	130	1.40	4/19/00	140,000	118,322	121,754	123,654	116,667	125,625	121,204
7 Checamo Path	West Tisbury	130	5.60	4/24/00	325,000	137,338	158,996	172,108	98,485	186,624	150,710
5 Checamo Path	West Tisbury	130	5.60	4/25/00	250,000	105,644	122,304	132,391	75,758	143,557	115,931
2 Old Stage Rd	West Tisbury	130	1.66	5/1/00	75,000	58,211	60,774	62,207	56,391	63,707	60,258
2 Old Stage Rd	West Tisbury	130	1.64	5/1/00	150,000	117,130	122,161	124,972	113,636	127,912	121,162
Boldwater Rd	Edgartown	130	8.97	5/12/00	425,000	141,903	170,994	189,151	85,256	209,696	159,400
Rock Pond Rd	West Tisbury	130	0.13	5/16/00	154,200	427,674	359,582	327,370	272,920	297,437	336,997
13th St S	Edgartown	130	0.44	5/18/00	130,000	195,982	182,772	175,999	180,556	169,337	180,929
11 Charles Neck Way	West Tisbury	130	1.60	5/22/00	399,000	315,437	328,294	335,469	306,923	342,962	325,817
4 Dr Fisher Rd	West Tisbury	130	16.40	5/24/00	395,000	97,538	123,719	140,708	45,402	160,479	113,569
1 Rock Pond Rd	West Tisbury	130	0.12	5/26/00	272,050	785,341	655,826	594,882	485,804	538,459	612,062
Rock Pond Rd	West Tisbury	130	0.11	5/26/00	207,130	624,520	517,684	467,702	373,207	421,614	480,945
1 Vineyard Meadow Farms Rd	West Tisbury	130	1.40	6/6/00	145,000	122,547	126,103	128,070	120,833	130,111	125,533
Mill Hill Road Ext	Edgartown	130	0.90	6/9/00	123,962	130,667	129,502	128,876	130,486	128,240	129,554
Rock Pond Rd	West Tisbury	130	0.12	6/15/00	135,200	390,289	325,924	295,637	241,429	267,596	304,175
Rock Pond Rd	West Tisbury	130	0.13	6/15/00	138,280	383,520	322,458	293,572	244,743	266,729	302,204
Rock Pond Rd	West Tisbury	130	0.14	6/16/00	357,300	954,924	807,960	738,094	626,842	672,945	760,153
Rock Pond Rd	West Tisbury	130	0.12	6/16/00	313,250	904,275	755,146	684,973	559,375	620,004	704,755
20 W Tisbury Rd	Edgartown	131	0.28	6/23/00	795,000	1,502,409	1,348,331	1,271,645	1,242,188	1,197,794	1,312,473

EXHIBIT

Nature Conser[illegible]y

Determination of Adjusted Median Price per Acre of Land in Edgartown and West Tisbury, MA

Address	Town	Use Code	Acres	Sale Date	Sale Price	Sq. Root Formula	Hoffman Formula	1/3-2/3 Curve	Jerrett Curve	Learning Curve	Adjusted Average
						ADJUSTED PRICE PER ACRE					
Clevelandtown Rd	Edgartown	130	0.58	6/26/00	200,000	262,613	250,731	244,526	253,165	238,345	249,876
Kitts Field Cir	Edgartown	130	0.57	6/30/00	225,000	298,020	284,115	276,863	286,624	269,644	283,053
Rock Pond Rd	West Tisbury	130	0.13	7/5/00	277,800	770,479	647,807	589,776	491,681	535,849	607,118
Rock Pond Rd	West Tisbury	130	0.12	7/5/00	339,315	979,518	817,980	741,968	605,920	671,594	763,396
Oak Knoll Rd	West Tisbury	130	0.96	7/7/00	150,000	153,093	152,563	152,277	153,061	151,985	152,596
5 Great Plains Rd	West Tisbury	130	2.92	7/11/00	195,000	114,115	124,997	131,313	99,490	138,096	121,602
Atwood Cir	Edgartown	130	0.11	7/21/00	125,000	376,889	312,415	282,251	225,225	254,438	290,244
Litchfield Rd	Edgartown	130	3.01	7/21/00	225,000	129,688	142,422	149,827	112,219	157,792	138,390
ster Pond Rd	Edgartown	130	3.05	7/28/00	475,000	271,984	299,026	314,765	234,568	331,703	290,409
Wintergreen Ln	West Tisbury	130	1.90	8/11/00	277,500	201,320	212,608	218,979	191,379	225,686	209,994
Kitts Field Cir	Edgartown	130	0.75	8/29/00	275,000	317,543	309,872	305,798	314,286	301,691	309,838
19th St N	Edgartown	132	0.14	9/22/00	25,000	66,815	56,532	51,644	43,860	47,085	53,187
Fairwind Dr	West Tisbury	130	1.49	9/28/00	1,400,000	1,146,925	1,186,467	1,208,432	1,124,498	1,231,295	1,179,523
Bold Meadow Cir	Edgartown	130	0.80	10/10/00	225,000	251,558	246,831	244,311	250,000	241,762	246,892
Smith Hollow Dr	Edgartown	130	0.88	10/13/00	135,000	143,910	142,355	141,521	143,617	140,673	142,415
Chappaquiddick Rd	Edgartown	130	3.20	10/20/00	3,000,000	1,677,051	1,851,331	1,953,084	1,428,571	2,062,828	1,794,573
Pond Rd	West Tisbury	130	2.81	10/23/00	15,000	8,948	9,770	10,245	7,874	10,755	9,518
12th St S	Edgartown	130	0.33	10/27/00	117,500	204,541	186,146	176,891	176,692	167,910	182,436
26 Pond Rd	West Tisbury	130	1.39	11/9/00	300,000	254,457	261,680	265,674	251,046	269,818	260,535
52 Vineyard Meadow Farms Rd	West Tisbury	130	1.40	11/10/00	190,000	160,579	165,238	167,816	158,333	170,491	164,491
0 16th St S	Edgartown	132	0.08	11/14/00	120,000	424,264	342,294	304,748	222,222	270,636	312,833
7 13th St N	Edgartown	130	0.28	11/21/00	135,000	255,126	228,962	215,940	210,938	203,399	222,873
1 Coffins Field Rd	Edgartown	130	1.04	11/22/00	162,000	158,854	159,385	159,672	158,824	159,967	159,340
1 Deacon Vincent Way	Edgartown	130	0.50	12/1/00	192,000	271,529	255,993	247,960	256,000	240,012	254,299
45 Oak Ln	West Tisbury	130	3.00	12/8/00	245,000	141,451	155,296	163,346	122,500	172,002	150,919
9 Dodgers Hole Rd	Edgartown	130	0.50	12/8/00	125,000	176,777	166,662	161,432	166,667	156,258	165,559
2 Willow Tree Holw	West Tisbury	130	1.56	12/19/00	435,000	348,279	361,695	369,170	339,844	376,967	359,191
									Median 2000		208,068
30 Old County [illegible]	West [illegible]	[illegible]	1.5[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible],34	52[illegible]	107,[illegible]	102,[illegible]

EXHIBIT

Nature Conservancy

Determination of Adjusted Median Price per Acre of Land in Edgartown and West Tisbury, MA

Address	Town	Use Code	Acres	Sale Date	Sale Price	Sq. Root Formula	Hoffman Formula	1/3-2/3 Curve	Jerrett Curve	Learning Curve	Adjusted Average
						ADJUSTED PRICE PER ACRE					
: Chase Rd	Edgartown	130	0.13	3/9/01	98,500	273,190	229,694	209,118	174,336	189,997	215,267
' 14th St S	Edgartown	130	0.54	3/15/01	120,000	163,299	154,967	150,636	155,844	146,336	154,216
; Swan Ln	Edgartown	130	0.50	4/13/01	143,000	202,233	190,662	184,678	190,667	178,759	189,400
Treetop Rd	Edgartown	130	0.50	4/19/01	175,000	247,487	233,327	226,005	233,333	218,761	231,783
Mockingbird Dr	Edgartown	130	0.50	4/30/01	144,000	203,647	191,995	185,970	192,000	180,009	190,724
; Coffins Field Rd	West Tisbury	130	0.70	5/1/01	155,000	185,260	179,728	176,803	182,353	173,864	179,602
Bernard Way	Edgartown	130	0.17	5/1/01	90,000	218,282	187,761	173,064	153,846	159,235	178,438
) Schoolhouse Rd	Edgartown	130	0.50	5/1/01	145,000	205,061	193,328	187,261	193,333	181,259	192,049
99 Old County Rd	West Tisbury	131	0.92	5/25/01	60,000	62,554	62,113	61,875	62,500	61,633	62,135
Farm Way	Edgartown	130	0.71	5/31/01	65,000	77,141	74,927	73,756	76,023	72,579	74,885
1 19th St N	Edgartown	130	0.41	6/7/01	180,000	281,113	260,596	250,124	255,319	239,859	257,402
20 Chappaquiddick Rd	Edgartown	130	49.19	6/15/01	50,000	7,129	9,928	11,876	1,992	14,262	9,037
Anthiers Way	Edgartown	132	0.07	6/15/01	5,000	18,898	15,075	13,339	9,346	11,772	13,686
0 Ocean Ave	Edgartown	130	0.69	6/21/01	125,000	150,482	145,810	143,342	147,929	140,864	145,686
Dodgers Hole Rd	Edgartown	132	0.50	6/22/01	3,061	4,329	4,081	3,953	4,081	3,826	4,054
3 Alex Way	West Tisbury	130	1.42	6/25/01	340,000	285,322	293,954	298,734	280,992	303,698	292,540
/ Tisbury Rd	Edgartown	130	2.00	6/25/01	55,000	38,891	41,251	42,588	36,667	43,998	40,679
9 Howwoswee Park	Edgartown	132	0.11	7/3/01	6,500	19,598	16,246	14,677	11,712	13,231	15,093
4 Mill Hill Rd	Edgartown	130	0.71	7/24/01	120,000	142,414	138,328	136,165	140,351	133,991	138,250
I/A	Edgartown	132	0.04	7/24/01	7,250,000	36,250,000	27,572,942	23,778,139	13,942,308	20,439,708	24,396,619
2 Anthiers Way	Edgartown	132	0.14	7/30/01	8,000	21,381	18,090	16,526	14,035	15,067	17,020
7 Windsor Dr	Edgartown	130	0.51	8/2/01	142,000	198,840	187,779	182,052	188,079	176,381	186,626
Janes Cove Rd	Edgartown	130	5.74	8/8/01	65,000	27,130	31,475	34,109	19,288	37,029	29,806
75 Indian Hill Rd	West Tisbury	130	1.40	8/15/01	100,000	84,515	86,967	88,324	83,333	89,732	86,574
' Rock Pond Rd	West Tisbury	130	0.13	8/29/01	420,000	1,164,870	979,406	891,670	743,363	810,139	917,890
2 Pulpit Ln	Edgartown	130	0.50	8/30/01	200,000	282,843	266,660	258,291	266,667	250,012	264,895
4 Dodgers Hole Rd	Edgartown	130	0.50	9/6/01	147,000	207,889	195,995	189,844	196,000	183,759	194,698
									Median 2001		178,438

Source: Real Estate transactions from the Warren Group database

EXH[illegible]

The Nature C[illegible]ervancy

Determination of Price-to-Net Asset Value Ratios of Publicly Traded Real Estate Investment Trusts

Company	Ticker	Price 08/24/01	Dividend	Average NAV Estimates	NAV Discount	Dividend Yield	Property Cost	Borrowings	Leverage Percent
AMLI Residential Properties	AML	$24.34	$1.88	$27.53	11.59%	7.72%	771,200	429,489	55.7%
Associated Estates Realty Corp.	AEC	$9.98	$1.00	$11.33	11.92%	10.02%	931,796	557,404	59.8%
Avalon Bay Communities	AVB	$51.05	$2.56	$46.10	-10.74%	5.01%	4,715,278	1,888,841	40.1%
BRE Properties	BRE	$32.05	$1.86	$31.34	-2.27%	5.80%	1,765,461	849,711	48.1%
Camden Property Trust	CPT	$38.95	$2.44	$36.09	-7.92%	6.26%	2,698,317	1,195,465	44.3%
Charles E. Smith Residential	SRW	$53.74	$2.34	$46.60	-15.32%	4.35%	1,983,973	1,340,584	67.6%
Equity Residential	EQR	$59.37	$3.15	$56.60	-4.89%	5.31%	12,604,510	5,457,588	43.3%
Essex Property Trust	ESS	$53.95	$2.62	$53.13	-1.54%	4.86%	1,306,538	661,182	50.6%
Gables Residential Trust	GBP	$31.00	$2.27	$31.16	0.51%	7.32%	1,445,510	818,328	56.6%
Mid-America Apartment Communi	MAA	$26.05	$2.34	$26.23	0.69%	8.98%	1,448,931	790,708	54.6%
Post Properties	PPS	$38.49	$3.12	$41.93	8.20%	8.11%	2,754,365	1,172,355	42.6%
Summit Properties Inc.	SMT	$26.82	$1.85	$26.52	-1.13%	6.90%	1,454,834	757,369	52.1%
Town and Country Trust	TCT	$20.65	$1.72	$19.76	-4.50%	8.33%	764,722	459,586	60.1%
United Dominion Realty Trust	UDR	$14.36	$1.08	$13.49	-6.45%	7.52%	3,804,729	2,048,536	53.8%
Developers Diversified	DDR	$18.95	$1.48	$18.67	-1.50%	7.81%	2,467,545	1,402,144	56.8%
Federal Realty	FRT	$23.62	$1.88	$27.25	13.32%	7.96%	1,981,002	730,323	36.9%
IRT Property	IRT	$10.65	$0.94	$10.86	1.93%	8.83%	655,587	320,038	48.8%
JDN Realty Corp	JDN	$11.70	$1.20	$16.47	28.96%	10.26%	1,134,202	577,606	50.9%
Kimco Realty	KIM	$49.27	$2.88	$40.06	-22.99%	5.85%	2,927,112	1,330,727	45.5%
Regency Realty Corp	REG	$26.16	$2.00	$26.05	-0.42%	7.65%	3,001,754	1,262,997	42.1%
Saul Centers Inc	BFS	$19.85	$1.56	$20.05	1.00%	7.86%	446,247	348,404	78.1%
Weingartern Realty	WRI	$48.45	$3.16	$42.49	-14.03%	6.52%	2,343,989	1,080,328	46.1%
CBL & Associates Properties, Inc.	CBL	$31.32	$2.13	$33.22	5.72%	6.80%	3,519,149	2,318,113	65.9%
Crown American	CWN	$8.63	$0.84	$8.62	-0.12%	9.73%	1,216,932	719,564	59.1%
General Growth Properties	GGP	$38.95	$2.12	$39.76	2.04%	5.44%	4,839,883	3,442,345	71.1%
Glimcher Realty	GRT	$18.06	$1.92	$19.86	9.06%	10.63%	1,895,412	1,217,263	64.2%
JP Realty Inc	JPR	$23.63	$1.98	$24.05	1.75%	8.38%	911,831	458,144	50.2%
Macerich Co	MAC	$25.12	$2.12	$27.14	7.44%	8.44%	1,932,654	1,582,076	81.9%
The Mills Corp	MLS	$24.01	$2.13	$24.10	0.37%	8.87%	1,274,625	989,683	77.6%
Rouse	RSE	$28.90	$1.42	$32.00	9.69%	4.91%	717,989	777,000	108.2%
Simon Property Group	SPG	$29.71	$2.10	$30.10	1.30%	7.07%	14,201,305	8,747,218	61.6%
Taubman Centers	TCO	$13.90	$1.00	$16.14	13.88%	7.19%	2,191,722	1,316,161	60.1%
Chelsea GCA Realty	CPG	$51.88	$3.12	$46.38	-11.86%	6.01%	1,014,312	473,663	46.7%
Tanger Factory Outlet	SKT	$22.30	$2.44	$24.21	7.89%	10.94%	593,681	360,236	60.7%

EXH

The Nature Conservancy

Determination of Price-to-Net Asset Value Ratios of Publicly Traded Real Estate Investment Trusts

Company	Ticker	Price 08/24/01	Dividend	Average NAV Estimates	NAV Discount	Dividend Yield	Property Cost	Borrowings	Leverage Percent
Chateau Communities	CPJ	$30.25	$2.18	$32.74	7.61%	7.21%	1,263,045	556,161	44.0%
Manufactured Homes Communiti	MHC	$29.92	$1.78	$30.00	0.27%	5.95%	1,244,688	709,648	57.0%
Equity Inns	ENN	$9.49	$1.00	$9.20	-3.15%	10.54%	760,827	376,545	49.5%
Felcor Lodging Trust	FCH	$21.71	$2.20	$24.12	9.99%	10.13%	3,917,796	2,134,093	54.5%
RFS Hotel Investors	RFS	$14.53	$1.54	$17.01	14.58%	10.60%	623,158	308,528	49.5%
Eastgroup Properties	EGP	$23.45	$1.80	$25.49	8.00%	7.68%	717,274	282,277	39.4%
First Industrial Realty Trust	FR	$32.94	$2.63	$35.14	6.26%	7.98%	2,681,622	1,138,230	42.4%
Arden Realty Group	ARI	$27.42	$1.96	$29.19	6.06%	7.15%	2,892,074	1,216,566	42.1%
Carramerica Realty Corp	CRE	$32.85	$1.85	$35.25	6.81%	5.63%	2,889,703	1,109,778	38.4%
Public Storage	PSA	$34.45	$0.88	$29.72	-15.92%	2.55%	4,932,726	1,477,446	30.0%
Shurgard Storage Centers Inc	SHU	$31.60	$2.08	$30.00	-5.33%	6.58%	1,186,026	443,051	37.4%
Sovran Self Storage	SSS	$27.25	$2.32	$26.20	-4.01%	8.51%	575,651	246,207	42.8%
Storage USA	SUS	$39.30	$2.84	$35.09	-12.00%	7.23%	1,878,360	874,688	46.6%
Colonial Properties Trust	CLP	$31.10	$2.52	$32.21	3.45%	8.10%	1,918,626	1,186,295	61.8%
Cousins Properties	CUZ	$25.60	$1.36	$27.33	6.33%	5.31%	1,085,224	518,882	47.8%
Washington REIT	WRE	$25.14	$1.33	$21.57	-16.55%	5.29%	748,951	350,851	46.8%
				Average	0.88%				

Source: Mercer Capital schedule for REITs including price per share, average net asset value estimates and dividend yields. Property costs and borrowings were obtained from 10Q filings for each company.

EXHIBIT 3

The Nature Conservancy

Partnership Spectrum Data for Distributing and Non-Distributing Equity Partnerships

Partnership	Value Per Unit ($)	Average Trading Price	Discount	Distribution Amount $	Distribution Yield %	Type	Leverage
Davidson Income Real Estate	371.00	295.00	20%	0.00	0.0%	MF	High
Maxus Real Prop. Inv. Four	530.00	281.00	47%	0.00	0.0%	MF	High
Nooney Real Prop. Inv. Two	667.00	396.00	41%	0.00	0.0%	C, R	High
Sierra Pacific Development FD I	238.00	100.00	58%	0.00	0.0%	C	High
Sierra Pacific Development FD II	127.00	112.00	12%	0.00	0.0%	C	High
Sierra Pacific Pension Inv. 84	274.00	164.00	40%	0.00	0.0%	C	High
InLand Capital Fund	1304.00	800.00	39%	0.00	0.0%	Land	Low
InLand Land Apprec. Fund I	1127.00	712.00	37%	0.00	0.0%	Land	Low
InLand Land Apprec. Fund II	1294.00	802.00	38%	0.00	0.0%	Land	Low
Nooney Income Fund Ltd.	685.00	359.00	48%	0.00	0.0%	C	Low
Nooney Income Fund II	787.00	484.00	39%	0.00	0.0%	C	Low
Resources Pension Shares 5	3.64	2.23	39%	0.00	0.0%	R	Low
Wells Real Estate Fund VI-B	14.70	7.10	52%	0.00	0.0%	C, R	Low
Rancon Realty Fund IV	434.00	292.00	33%	10.00	3.4%	C,R,RST,	High
Uniprop Manuf. Hsg. Income I	607.00	320.00	47%	11.00	3.4%	MH	High
Rancon Realty Fund V	428.00	285.00	33%	10.00	3.5%	C,R,RST,	High
Realty Parking Props II	13.53	9.25	32%	0.60	6.5%	PK	Low
First Capital Income Props XI	298.00	228.00	23%	16.00	7.0%	C	High
Realty Parking Props I	13.78	13.23	4%	0.96	7.3%	PK	Low
ChrisKen Partners Cash Inc.	400.00	353.00	12%	26.00	7.4%	MF, MW	Low
IRE Pension Investors II	108.00	67.50	38%	5.00	7.4%	C	Low
ChrisKen Growth & Income II	270.00	249.98	7%	19.00	7.6%	MF	High
Uniprop Manuf. Hsg. Income II	15.12	9.65	36%	0.76	7.9%	MH	High
Rancon Income Fund I	368.00	236.00	36%	20.00	8.5%	C	Low
Wells Real Real Estate III-A	1.00	0.73	27%	0.07	8.9%	C, R	Low
Wells Real Real Estate IV-A	11.13	7.46	33%	0.70	9.4%	C, R	Low
Wells Real Real Estate V-A	10.20	7.00	31%	0.70	10.0%	C, R	Low
Wells Real Real Estate VIII-A	11.15	8.31	25%	0.88	10.6%	C, R	Low
Brown-Benchmark Properties	21.00	14.00	33%	1.50	10.7%	MF	High
Wells Real Real Estate IX-A	10.68	7.76	27%	0.90	11.6%	C	Low
Wells Real Real Estate VII-A	10.24	7.61	26%	0.9	11.8%	C, R	Low
Wells Real Real Estate VI-A	10.10	7.41	27%	0.88	11.9%	C, R	Low
Wells Real Real Estate X-A	9.97	7.90	21%	0.96	12.2%	C	Low
Wells Real Real Estate XI-A	9.62	7.90	18%	0.96	12.2%	C	Low
Century Properties Fund XIX	290.00	240.00	17%	NSR	NSR	MF	High
Consol. Cap. Instit. Props 3	106.00	80.58	24%	NSR	NSR	MF	High
Consol. Cap. Growth Fund	385.00	330.00	14%	NSR	NSR	MF	High
Davidson Growth Plus	388.00	330.00	15%	NSR	NSR	MF	High
Johnstown/Consolidated Inc. P 1	28.00	18.00	36%	NSR	NSR	MF	High
National Property Investors 6	192.00	140.00	27%	NSR	NSR	MF	High
National Property Investors 7	243.00	183.00	25%	NSR	NSR	MF	High
Copley Pension Props VI	166.00	125.00	25%	NSR	NSR	C	Low
		Average	30.0%		5.3%		
		Median	31.5%		6.8%		

Source: Partnership Spectrum May/June 2001

NSR= No Set Rate

C= office buildings, industrial/warehouse facilities, research and development facilities, and business parks.

L or Land= undeveloped land

MF= apartments or retirement centers

MH= manufactured housing communities

PK= parking facilitites

R= shopping centers, outlet malls and other retail-use space

RST= restaurants

APPENDIX N

DOCUMENTS RELATING TO DAVIS MOUNTAIN

JAMES J. JEFFRIES, MAI

Real Estate Appraiser & Consultant

October 12, 1998

Mr. James King
Director, Land Protection
The Nature Conservancy of Texas
P. O. Box 1440
San Antonio, Texas 78295-1440

RE: Glass-Glen Burnie 27,518.78 Acres
Davis Mountains, Jeff Davis Co., TX.

Dear James:

You have requested that I give some preliminary valuation thought to the above referenced property. As I understand the situation, the Glass-Glen Burnie Foundation Property which is commonly known as the Caldwell Ranch mostly sits on the east and northeast side of S.H. 118 but a portion of the Ranch is also on the west side of this highway and extending to S.H. 166. Therefore, there is substantial frontage along the portions of S.H. 118 and S.H. 116 which forms the northwest corner of the "Scenic Loop"; plus there is much other S.H. 118 frontage north of S.H. 166; the road to Kent and Interstate 10. The land is mostly mountainous with the primary drainage through the middle being Cherry Creek and Canyon. The overall elevation range is generally 5,000 to 6,600 feet above sea level and the terrain varies from narrow and steep canyon gorges with flat to steep valley floors, to bluffs, high plateau areas, and minor mountain peaks. There are various open grazing areas but the mountain uplands and slopes are more typically mixed oak-pinyon-juniper woodlands. The Caldwell Ranch has historically been utilized for cattle production plus the strong contingency of normal seasonal hunting. The structural improvements on the property are older in age and typical for the size and type of ranch; that is, several houses, barns, corrals, fences, roads, windmills, pipelines, etc.

According to information available, the Caldwell Ranch has been subject to a long term grazing lease and the said lease has negatively impacted the property use potentials and, hence, market value. <u>At your direction, it is assumed that the grazing lease will be expediently terminated and, thus, not constitute a negative influence on the highest and best use and most probable sale price.</u>

Because of its extensive amount of road frontage, good access to Interstate 10, the wooded but typically accessible mountain terrain, and the market influences which prevail in this general area, it is logical that the Caldwell Ranch has some potential to be subdivided into smaller acreage increments. There is also an equal potential of a recreationally motivated buyer; namely, the wealthy individual who would acquire the tract for the prestige of owning a high quality, scenic "West Texas Ranch". Of course, in the latter scenario, the actual full time land utilization would likely continue as a cattle operation, supplemented with the very important aspect of hunting.

1104 South Mays Street, Suite 218 • Round Rock, Texas 78664 • (512) 310-8981 • Fax 310-0571

October 12, 1998

The Nature Conservancy of Texas (TNC) has a conservation easement over properties which adjoin the Caldwell Ranch at two locations. The Locke's Gap Property off the northwest end of the McIvor Ranch has a common boundary with the south-most line of the Caldwell Ranch for an extensive distance plus the east-most easterly property line adjoins the Burkitt Foundation tract for about ½ mile. The Caldwell Ranch is an important property segment in your preservation effort in the Davis Mountains megasite.

As you explained, a private conservation minded individual has a contract to buy the Caldwell Ranch for the estimated sale price of $6,054,131.60 or $220 per acre. This private individual has proposed an assignment of the contract to TNC. There are other costs associated with the possible TNC acquisition and these mostly relate to the contingency of "buying out" the existing grazing lease. You have expressed an opinion that the total acquisition price will be around $250 per acre.

Over the last 18 months, I have prepared a number of appraisal assignments for properties located in the Davis Mountains and all of these would be within a few miles of the Glass-Glen Burnie Foundation Tract. One of the appraisal assignments was on the Locke's Gap segment of the McIvor Ranch which adjoins the Caldwell Ranch. Further, during this same time frame, I co-authored a report on the Burkitt Foundation real estate which adjoins the east end of the Caldwell Ranch. I am familiar with most or all of the recent comparable sales which would be available to use as value indicators for the subject property.

For your current business needs, I offer my preliminary and grossly limited conclusion that the assignment price ($220 - $250 per acre) would fall within a normal range of prices for the subject's region; given its subdivision potentials, desirable recreational amenities, size and location.

As we agreed, this writing is not an appraisal of the Glass-Glen Burnie Foundation 27,518.78 acre tract and should not, under any set of circumstances, be construed as such. Rather, it is a confidential value consultation document between you and I, with both of us fully recognizing the limitations of the work effort. It is specifically disclosed that I have not made a field inspection of the Caldwell Ranch nor have I completed any type of specific comparative analysis to directly relate any comparable sales to the Glass-Glen Burnie Foundation Tract. I have only considered the general parameters of land prices in the area and have noted that the subject's assignment price, plus other acquisition costs, fall within these benchmarks.

October 12, 1998

James, I trust this information is helpful. At your direction, I look forward to completing the necessary field and office work to author a full appraisal on the property.

Thank you for allowing me to be of service.

Respectfully submitted,

James J. Jeffries, MAI
State Certified TX-1320825-G

CHARITABLE PLEDGE

This Charitable Pledge is made this 12th day of August, 1999, by CAROLINE A. FORGASON (nee Alexander), sole owner of DAVIS MOUNTAINS LAND AND CATTLE COMPANY, (hereinafter called "Pledgor") to THE NATURE CONSERVANCY (hereinafter called "TNC") a non-profit charitable corporation.

RECITALS

DAVIS MOUNTAINS LAND AND CATTLE COMPANY and Pledgor have entered into a contract with The Nature Conservancy of Texas, Inc., a wholly owned subsidiary of TNC to purchase 27,133.31 acres of land in Jeff Davis County, of which this pledge is an exhibit. Such purchase is to be effected at a price equal to the full fair market value of the Property, as established by independent appraisal in an amount which is to be determined as set forth in such contract, at Section 3.2,. This pledge is equal to the value of a conservation easement retained by TNC.

TNC is an organization described in Sections 170(c)(2), 170(h)(3), and 509(a)(1) of the Internal Revenue Code of 1986, a principal purpose of which is to preserve and conserve natural and open-space lands for "conservation purposes," within the meaning of Section 170(h)(4)(a) of said Code; and

In pursuit of said conservation purposes TNC has caused the Property to be subject to a perpetual conservation easement (the "Conservation Easement"), attached hereto as an exhibit to said Contract of Purchase and by this reference made a part hereof, which limits the uses of the activities upon the Property and substantially reduces the value of the Property on account of the elimination or restriction of valuable potential uses and activities; and

PLEDGOR desires to make a substantial charitable contribution to TNC to support its conservation efforts, in an amount sufficient to offset the monetary detriment attributable to TNC's creation and imposition of the Conservation Easement over and upon the Property;

NOW THEREFORE, PLEDGOR does hereby promise to contribute to TNC the real property, securities and cash of the value of not less than $2,839,717, subject to adjustment at closing as provided in 3.2 of said Purchase Contract, payable as follows:

1. The transfer of marketable securities and cash of the value of not less than $450,000 at closing;

2. The conveyance of title and possession of a portion of a tract of 5,854 acres of land in Jeff Davis County previously conveyed by TNC to Pledgor on December 22, 1997, the exact dimensions of said tract to be determined by a survey agreed upon by the parties. Said property is to be valued at $200 per acre (its present market value). Said conveyance is to be completed on or before December 1, 1999;

3. Grantor shall have the option to (a) pay all or part of the balance of this pledge in cash or securities on or before December 1, 1999, or (b) defer the payment, in cash or securities of one half or more of the balance of said pledge after crediting the above amounts, until on or before July 1, 2000, and the pay the remainder in cash or securities on or before July 1, 2001; and

4. These amounts and payment dates may be varied by written agreement of the parties.

The uses to which said contribution may be put shall be entirely within the discretion of TNC. Pledgor understands, and explicitly acknowledges, that TNC intends to rely upon the Pledgor's promise made hereby and that such reliance will make such promise enforceable.

PLEDGOR:

Caroline A. Forgason

Caroline A. Forgason (nee Alexander)

ACKNOWLEDGED:

THE NATURE CONSERVANCY OF TEXAS, INC.

By: Robert J. Poole

Name: Robert J. Poole

Title: Vice President and
Texas State Director

APPENDIX O

DOCUMENTS RELATING TO SHELTER ISLAND

JUL 3 1 2003

THE NATURE CONSERVANCY

CHARITABLE PLEDGE

AGREEMENT made this 28th day of October, 1999 between James D. and Nancy H. Dougherty, with an address at 144 East 19th Street, New York, New York 10003 (hereinafter the "Pledgor"), and the South Fork-Shelter Island Chapter of The Nature Conservancy, Inc., with a chapter address at 3 Railroad Avenue, P.O. Box 5125, East Hampton, New York 11937 and having its principal office at 4245 North Fairfax Drive, Arlington, Virginia 22203.

WHEREAS, it is the desire of the Pledgor to assure The Nature Conservancy the availability of certain funds by donation and thereby to encourage The Nature Conservancy to carry out and fulfill its charitable programs and to seek additional contributions from other donors; and

WHEREAS, in consideration of and in reliance upon such donations of funds, The Nature Conservancy will secure gifts, donations and pledges from other individuals, foundations and corporations to The Nature Conservancy and will incur expenses to carry out its charitable programs in anticipation of the fulfillment of this Pledge; and

WHEREAS, The Nature Conservancy is willing to accept such donations of funds and to continue to undertake such programs in reliance upon the undertakings and assurances hereby given;

NOW, THEREFORE, in consideration of the premises and reliance herein recited, it is hereby agreed by and between the parties as follows:

1. Pledgor does hereby pledge to donate and gift the sum of $1.652 million to the South Fork-Shelter Island Chapter of the Conservancy, payable in cash (or via a stock donation whose cash value as of each pledge fulfillment date equals the pledged amounts set forth below):

AMOUNT	DATE
$650,000.00	October 29, 1999
$372,000.00	November 30, 1999
$300,000.00	January 28, 2000
$330,000.00	January 29, 2001

2. It is understood that the above donation is made in reliance on the fact that The Nature Conservancy (which includes its South Fork-Shelter Island Chapter Office) is now, and will be at the time of payment, exempt from federal income taxation under Section 501(c)(3) of the Internal Revenue Code of 1954, as amended, and that said payments will be tax deductible at the time of payment under Section 170(A) of the Internal Revenue Code of 1954, as amended.

3. This Pledge may be enforced by said The Nature Conservancy by an action for specific performance or by any other appropriate remedy by any court having jurisdiction. It is further understood that this Pledge is a binding obligation on Pledgor, their estate, successors, administrators, and assigns.

4. This Pledge shall be governed in all respects by the laws of the State of New York.

IN WITNESS WHEREOF, James D. and Nancy H. Dougherty have by their signatures hereby irrevocably pledged, and The Nature Conservancy has hereby accepted this pledge, the day and year first above written.

Witness

James D. Dougherty

Witness

Nancy H. Dougherty

The Nature Conservancy—South Fork-Shelter Island Chapter

Witness

By: Nancy Nagle Kelley
Its: Executive Director

JUL 3 1 2003

PURCHASE AND SALE AGREEMENT

This Agreement (the "Agreement") is made this 28th day of October, 1999.

1. PARTIES AND MAILING ADDRESSES. The Nature Conservancy, Inc., a District of Columbia non-profit corporation with its principal office at 4245 North Fairfax Drive, Arlington, Virginia 22203 and maintaining a South Fork-Shelter Island Chapter Office at 3 Railroad Avenue, P.O. Box 5125, East Hampton, New York 11937 (the "Seller"), agrees to SELL, and James D. and Nancy H. Dougherty, with an address at 144 East 19th Street, New York, New York 10003 (the "Buyer"), agrees to BUY, upon the terms and conditions hereinafter set forth, the following described premises.

2. DESCRIPTION. Approximately 9.38 acres of unimproved land located in the Town of Shelter Island, Suffolk County, New York, and as set forth in the deed attached hereto as Schedule "A", and by reference incorporated herein.

3. TITLE DEED. Said premises are to be conveyed by Bargain and Sale Deed with Covenants against Grantor's Acts, and said deed shall convey a good and clear record and marketable title thereto, free from encumbrances, except:

   a. Provisions of existing building, environmental and zoning laws;
   b. Such taxes for the then current year as are not due and payable on the date of the delivery of such deed;
   c. Any liens for municipal betterments assessed after the date of this agreement;
   d. The terms, conditions, and restrictions of the Reservation of Conservation Easement and Declaration of Restrictive Covenants attached as Exhibit "B" to the deed attached hereto as Schedule "A."

   The foregoing clauses (a)-(d) are hereinafter referred to as the "Permitted Exceptions."

4. PURCHASE PRICE. The purchase price for the premises shall be Five Hundred Thousand Dollars ($500,000.00). The purchase price shall be tendered by Buyer at closing by wire transfer or by certified or bank treasurer's check.

5. TIME FOR PERFORMANCE; DELIVERY OF THE DEEDS. The conveyance of the premises from Seller to Buyer shall occur on October 28, 1999.

6. TITLE, SURVEYING, APPRAISAL, AND RECORDING COSTS. All title, surveying, and appraisal costs associated with the closing to occur hereunder shall be borne by the Buyer, as shall the recording and filing costs associated with the closing. Buyer shall be responsible for any Peconic Bay Region Community Preservation Fund tax due at closing, and Seller shall be responsible for any New York State real estate transfer tax due at closing. If desired, title insurance will be acquired on behalf of and at the expense of Buyer.

7. TITLE DEFECTS. Should the Buyer's title search disclose the existence of matters affecting title to the premises other than the Permitted Exceptions (any such matters shall hereinafter be referred to as "Defects"), Seller shall have sixty (60) days from the date of this Agreement to correct any such Defects. If at the expiration of sixty (60) days, the Seller shall have failed to remove any such Defects, then at Buyer's option the obligations of the parties shall cease and this Agreement shall be void and without recourse to the parties. Seller shall use reasonable efforts to remove any Defects, and shall remove any Defect created by Seller between the signing of this Agreement and the closing contemplated hereunder.

8. BUYER'S ELECTION. The Buyer shall have the election, at either the original or any extended time for performance, to accept such title as the Seller can deliver to the premises in their then condition, in which case the Seller shall convey such title.

9. ACCEPTANCE OF DEED. The acceptance of the deed by the Buyer shall be deemed to be a full performance and discharge of every agreement and obligation herein contained or expressed, except such as are, by the terms hereof, to be performed after or to survive the delivery of said deed.

10. RIGHTS TO BE CONVEYED. The conveyance shall also include the right, title, and interest of the Seller in and to any lands lying in the bed of any right-of-way, highway, road, street, or avenue, or in the bed of any waterway, marsh, pond, lake, bay, drainage or irrigation ditch, river, creek, or stream, running through the premises to be conveyed or lying in front or adjacent thereto, together with any and all right of ingress or egress over and across any private drive, land, waterway, or road, leading to and from any highway, road, street, or avenue, to the premises herein described. Buyer acknowledges that no right, title or interest of Seller in the creek bed to Miss Annie's Creek shall be conveyed to Buyer with the premises, nor any right, title or interest in Seller's shoreline property, tidal marshes, or any other property of Seller that is adjacent to or in the vicinity of the premises.

11. RISK OF LOSS; CONDITION OF PREMISES. All risk of loss or damage to the premises will pass from the Seller to the Buyer at closing. The Seller will deliver possession to the premises to the Buyer at closing. Buyer acknowledges and represents that Buyer is fully aware of the physical condition and state of repair of the premises, and that Buyer is entering into this Agreement based solely upon its inspection of and investigation of the premises, and shall accept the premises at closing "as is" in its present condition and natural state as of the date of this Agreement. Buyer acknowledges that Seller has made no representations as to the ability to develop the premises, and it shall be Buyer's sole responsibility to ascertain whether the premises can be developed and to obtain any and all approvals and permits to do so.

12. INSPECTION. Prior to the closing, the Buyer may enter upon the premises at reasonable times for all reasonable purposes related to this transaction.

13. AFFIDAVITS. Seller agrees at or prior to the closing contemplated hereunder to execute and furnish the Buyer with any incidental and necessary affidavits and real estate transfer forms (including, without limitation, a certification of nonforeign status in form acceptable to Buyer) as may be required by the title insurance company issuing a title insurance commitment for the premises.

14. MULTIPLE COPIES; CAPTIONS. This instrument, executed in multiple counterparts, is to be construed as a New York contract, is to take effect as a sealed instrument, is binding upon and endures to the benefit of the parties hereto and their respective heirs, devisees, executors, administrators, successors and assigns, and, except as otherwise provided in this Agreement, may be canceled, modified or amended only by a written instrument executed by both the Seller and Buyer. The captions and marginal notes are used only as a matter of convenience and are not to be considered a part of this Agreement or to be used in determining the intent of the parties to it.

15. NOTICES. Notices required or permitted hereunder shall be given in writing either by hand delivery, by certified mail, return receipt requested, postage prepaid, or by recognized overnight delivery service as follows

To SELLER:	The Nature Conservancy South Fork-Shelter Island Chapter 3 Railroad Avenue—P.O. Box Box 5125 East Hampton, New York 11937 Attn: Judy Cooper
copy to:	The Nature Conservancy 415 River Street Troy, New York 12180 Attn: Jonathan Kaledin, Esq.
To BUYER:	James D. and Nancy H. Dougherty 144 East 19th Street New York, New York 10003
Copy to:	Stephen J. Schreiber, Esq. Patterson, Belknap, Webb & Tyler 1133 Avenue of the Americas New York, New York 10036

16. REAL ESTATE COMMISSIONS. Seller and Buyer hereby represent and warrant to each other that they have not dealt with any real estate agent or broker in connection with this transaction. Such representation and warranty shall survive the closing contemplated hereunder.

EXECUTED as a sealed instrument as of the date first above written.

SELLER:

The Nature Conservancy, Inc.

By: Jonathan C. Kaledin
Its: Counsel / Ass't Secretary
Hereunto Duly Authorized

BUYER:

James D. Dougherty

Nancy H. Dougherty

Schedule "A"

DEED

MADE the 28th day of October, 1999 between The Nature Conservancy, Inc., a nonprofit corporation organized under the laws of the District of Columbia, with a principal office at 4245 North Fairfax Drive, Arlington, Virginia 22203 and maintaining a South Fork/Shelter Island Chapter Office at 3 Railroad Place, P.O. Box 5125, East Hampton, New York 11937 (hereinafter referred to as "Party of the First Part"), and James D. Dougherty and Nancy H. Dougherty, husband and wife. with an address at 144 East 19th Street, New York, New York 10003 (hereinafter referred to as "Party of the Second Part"),

WITNESSETH

THAT Party of the First Part, in consideration of Ten Dollars ($10.00) and other valuable consideration paid by Party of the Second Part, the receipt and sufficiency of which are hereby acknowledged, does grant, release, convey and demise unto Party of the Second Part, its successors and assigns, all that certain piece or parcel of land (the "Premises") situate, lying and being on Thompson Road in the Town of Shelter Island, Suffolk County, New York, being more particularly bounded and described as follows: See Exhibit "A" attached hereto and incorporated by reference herein.

RESERVING AND RETAINING unto Party of the First Part a conservation easement whose terms, conditions, and restrictions are set forth in Exhibit "B" attached hereto and incorporated by reference herein. Said conservation easement shall be construed as established pursuant to the provisions of Title 3, Sections 49-0301 through 49-0311 of the New York Environmental Conservation Law (the "ECL"), together with any amendments thereto and substitutions therefor and regulations promulgated thereunder; shall be perpetual in duration (subject to ECL Section 49-0307); and the Grantor thereunder shall be deemed to be the Party of the Second Part. The terms, conditions, and restrictions set forth in Exhibit "B" hereto shall also constitute restrictive covenants encumbering the Premises that run with the land, are binding upon and enforceable against the Party of the First Part and Party of the Second Part and their successors and assigns, and shall inure to the benefit of and be enforceable by each.

TOGETHER with all right, title and interest, if any, of Party of the First Part in and to any streets and roads abutting the above described Premises to the center lines thereof;

TOGETHER with the appurtenances and all the estate and rights of Party of the First Part in and to the Premises.

TO HAVE AND TO HOLD the Premises herein granted unto the Party of the Second Part and its successors or assigns forever.

AND Party of the First Part hereby covenants that it has not done or suffered anything whereby the Premises have been encumbered in any way whatsoever, except as set forth in Exhibit "B".

ALSO that, in compliance with Section 13 of the Lien Law, Party of the First Part covenants that it will receive the consideration for this conveyance and will hold the right to receive such consideration as a trust fund to be applied first for the purpose of paying the cost of the improvement and will apply the same first to the payment of the cost of the improvement before using any part of the total of the same for any other purposes.

IN WITNESS WHEREOF, Party of the First Part has duly executed this deed the day and year first above written.

WITNESS: The Nature Conservancy, Inc.

_____ _____

By:
Its:
Hereunto Duly Authorized

State of New York)
County of New York) ss.

On the 28th day of October in the year 1999 before me, the undersigned, a Notary Public in and for said state, personally appeared Jonathan C. Kaledin, personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

_____
Notary Public

Exhibit "A"—Legal Description

All that certain plot, piece or parcel of land, with the buildings and improvements thereon erected, situate, lying and being in the Town of Shelter Island, County of Suffolk, State of New York, more particularly bounded and described as follows:

BEGINNING at a point on the Northeasterly side of Thompson Road where the same intersects the Northerly line of Smith Cove (Clark's Cove), said point also being the Southwesterly corner of the within described premises;

RUNNING THENCE North 26 degrees 27 minutes *50* seconds West along the Northeasterly side of Thompson Road 407.96 feet;

THENCE North 2 degrees 11 minutes 00 seconds East part of the distance along the Easterly side of Thompson Road and along the Easterly line of Map Lots 54, 55 and 56 as shown on the subdivision map known as South Ferry Homesites, Section One (Map No.2811), a distance of 543.72 feet to the land now or formerly of The Nature Conservancy;

THENCE South 88 degrees 44 minutes 50 seconds East along the said land 233.98 feet to the Westerly line of Nicoll's Creek;

THENCE Southerly, Easterly and Southeasterly along the Westerly, Southwesterly and Southerly line of Nicoll's Creek the following ten (10) tie line courses and distances:

1. South 12 degrees 34 minutes 07 seconds East, 166.10 feet;
2. South 54 degrees 49 minutes 35 seconds East, 64.43 feet;
3. South 76 degrees 46 minutes 22 seconds East, 128.13 feet;
4. South 72 degrees 06 minutes 53 seconds East, 60.75 feet;
5. South 23 degrees 07 minutes 22 seconds East, 88.54 feet;
6. South 43 degrees 47 minutes 58 seconds East, 34.38 feet;
7. South 23 degrees 13 minutes 47 seconds East, 59.18 feet;
8. South 40 degrees 14 minutes 54 seconds East, 37.95 feet;
9. South 53 degrees 21 minutes 10 seconds East, 35.79 feet;
10. North 78 degrees 56 minutes 14 seconds East, 33.22 feet to the land now or formerly of The Nature Conservancy;

THENCE South 2 degrees 17 minutes 30 seconds West along the said land 190.48 feet to the Northwesterly line of Smith Cove (Clark's Cove);

THENCE Southwesterly along the Northwesterly line of Smith Cove (Clark's Cove) the following Five (5) tie line courses and distances:

1. South 58 degrees 07 minutes 46 seconds West, 153.77 feet;
2. South 61 degrees 13 minutes 42 seconds West, 137.73 feet;
3. South 62 degrees 03 minutes 57 seconds West, 150.96 feet;
4. South 68 degrees 39 minutes 48 seconds West, 110.88 feet;
5. South 80 degrees 22 minutes 45 seconds West, *16.59* feet to the Northeasterly side of Thompson Road at the point and place of BEGINNING.

The Premises herein described are the same and are intended to be the same as those conveyed by deed to the Party of the First Part on September 2, 1999, which deed was recorded September 8, 1999 at the Suffolk County Clerk's Office in Liber 11987, cp 706. Said Premises being known as 21 Thompson (Hill) Road, Shelter Island, New York.

Record and Return to:

Stephen J. Schreiber, Esq.
Patterson, Belknap, Webb & Tyler
1133 Avenue of the Americas
New York, New York 10036

Exhibit "B"—Reservatio/n of Conservation Easement and
Declaration of Restrictive Covenants

Exhibit "B"

RESERVATION OF CONSERVATION EASEMENT
AND
DECLARATION OF RESTRICTIVE COVENANTS

This RESERVATION OF CONSERVATION EASEMENT AND DECLARATION OF RESTRICTIVE COVENANTS (this document is hereinafter referred to as the "Conservation Easement") is made by The Nature Conservancy, Inc. (hereinafter called the "Conservancy"), a non-profit corporation incorporated under the laws of the District of Columbia, having its headquarters at 4245 North Fairfax Drive, Arlington, Virginia 22203 and maintaining a South Fork-Shelter Island Chapter Office at 3 Railroad Avenue, P.O. Box 5125, East Hampton, New York 11937. The Conservancy is qualified under Article 49, Title 3 of the New York State Environmental Conservation Law (the "ECL") to hold conservation easements by purchase, gift, conveyance, grant, demise, or otherwise, and has as its purpose the preservation of natural areas for scientific, charitable, educational, and aesthetic purposes.

WITNESSETH:

WHEREAS, the Conservancy is the owner in fee simple title of certain real property located in the Town of Shelter Island, Suffolk County, New York, and more particularly described in Exhibit "A" attached hereto and by reference incorporated herein (hereinafter called the "Protected Property"), which Protected Property has significant ecological, scientific, educational, and aesthetic value in its present state as a natural area. The Protected Property is also shown on that map entitled "Survey Map of Property of James and Nancy Dougherty—Thompson Hill, Shelter Island" prepared by Young and Young, Land Surveyors, and last dated October 22, 1999 (hereinafter "the Map"). The Map is attached hereto as Exhibit "B" and is also by reference incorporated herein. The Protected Property is being conveyed to James D. and Nancy H. Dougherty (hereinafter referred to collectively as the "Grantee") under the deed to which this Conservation Easement is attached and incorporated by reference therein; and

WHEREAS, the Protected Property in its present natural condition has significant natural resources value, has not been subject to development or exploitation, provides important protection to the Conservancy's Mashomack Nature Preserve as a buffering property, and is in general characterized as a scenic and environmentally sensitive property providing, among other things, habitat for wildlife and plants;

WHEREAS, the Legislature of the State of New York has declared the public policy of the State to be conservation, preservation, and protection of its environmental assets and natural and man-made resources, and in furtherance thereof has enacted Article 49, Title 3, of the ECL to provide for and encourage the limitation and restriction of development and use of real property through conservation easements; and

WHEREAS, Grantee and the Conservancy desire to provide for the preservation and conservation of the Protected Property in perpetuity, and desire to limit the uses of and activities on the Protected Property to those that are compatible with the preservation and conservation goals set forth herein; and

WHEREAS, the specific conservation values of the Protected Property are documented in an Easement Baseline Documentation Report dated October 28, 1999, prepared by the Conservancy and signed by the Grantee, establishing the baseline condition of the Protected Property at the time of this grant and including reports, maps, photographs and other documentation; and

NOW, THEREFORE, in connection with the conveyance of the Protected Property by the Conservancy to Grantee, made in consideration of the covenants contained herein and for other valuable consideration, the Conservancy does hereby reserve and retain unto itself a conservation easement over the Protected Property that shall run with the land, exist in perpetuity, and shall consist of the terms, conditions, and restrictions set forth below. The terms, conditions, and restrictions set forth below shall also be deemed restrictive covenants that run with the land, encumber the Protected Property, benefit the Conservancy's adjoining Mashomack Nature Preserve property, and constitute restrictive covenants that are enforceable by the parties hereto.

1. Purpose. It is the purpose of this Conservation Easement:

a) to assure that the Protected Property will be retained forever predominantly in its natural and scenic condition;

b) to protect the scenic and natural character of both the Protected Property and the adjacent Mashomack Preserve;

c) to protect the public's view of and the natural integrity of the shoreline and bluffs associated with the Protected Property;

d) to ensure that the use of the Protected Property will be consistent with the residential character of the adjacent and nearby lands;

e) to prevent any use of the Protected Property that will significantly impair or interfere with the conservation values or resources of the Protected Property described above and documented in the Easement Baseline Documentation Report; and

f) to maintain and preserve the water quality of Miss Annie's Creek by limiting activities in the creek and on its banks from the Protected Property and by limiting activities within that portion of the watershed to Miss Annie's Creek existing within the Protected Property.

Grantee acknowledges and accepts that the reservation and declaration provided for herein will encumber the Protected Property and confine the use of the Protected Property to such activities as are not prohibited by this Conservation Easement.

2. Uses. The Protected Property shall be used only for single family residential purposes and for accessory uses incidental and ancillary thereto, including a professional office or customary home occupation engaged in by the residents of the Protected Property. Without limiting the generality of the foregoing, the following activities and uses are expressly prohibited except as provided herein:

2.1 Structures. No buildings, facilities, or structures (collectively "structures"), including but not limited to commercial, industrial, and residential buildings and appurtenances thereto, mobile homes, recreational vehicles and camper trailers, camping accommodations, boathouses, towers, fences, gates and railings, or other structures, shall be constructed or maintained on the Protected Property except as follows:

a) Grantee may construct on the Protected Property one (1) single family residential structure, including accessory structures incidental and ancillary thereto such as utility structures, fences, gates and railings, garages, a swimming pool, tennis court, home office space, a guest cottage, a writer's cabin, etc., provided that such structures may only be located within the "permitted area" indicated on the Map, and within the "permitted area" may not be closer than one hundred feet (100') to the "Top of Bluff" as shown on the Map, measured from the southernmost outermost actual extension of the bluff. Notwithstanding anything to the contrary set forth above, fences, gates and railings may be erected anywhere within the "permitted area," and seasonal, removable structures that do no harm to the Protected Property, such as benches, tables, chairs, gazebos, bird baths, screened tents, etc., may be placed anywhere on the Protected Property. The legal description of the "permitted area" is attached as Exhibit "C" hereto and is by reference incorporated herein. Prior to constructing or placing any permanent structure on the Protected Property within that portion of the "permitted area" that is below the fifty foot (50') contour and in the direction of Miss Annie's Creek (shown as the "Cabin Area" on the Map; its legal description is attached as Exhibit "D" hereto), Grantee shall prepare and submit to the Conservancy's Mashomack field staff (in the event no Mashomack field staff exists, then as the Conservancy so directs) for approval the plans for such structures. The Conservancy's approval of plans that are submitted pursuant to this paragraph 2.1 a) shall not be unreasonably withheld, conditioned, or delayed, and in the event the Conservancy has not responded within sixty (60) days to such a submittal, approval shall be deemed granted.

b) Septic facilities in support of the above permitted residential structures may be constructed and installed on the Protected Property provided that such facilities must be located within the "permitted area" indicated on the Map, and shall be designed, constructed, installed, and maintained so as to have no appreciable effect on the watershed of Miss Annie's Creek or the creek itself. Any such facilities must adhere to all applicable federal, state, and local requirements. Should the Conservancy so desire, it may at any time (at its own expense), upon reasonable notice to Grantee and at a mutually agreed-to time, test the septic facilities on the Protected Property by dye test (or by another wastewater industry-accepted test).

2.2 Roads and Foot Trails.

a) Grantee may improve and maintain the "Earth Road" as shown on the Map on the Protected Property. Grantee may also relocate at its discretion the Earth Road within the "permitted area," except that the Earth Road may not be relocated into the "Cabin Area" as shown on the Map. All utilities necessary for the construction, maintenance, and operation of any structure permitted hereunder shall also be located within the Earth Road corridor as shown on the Map, except for utilities servicing structures whose utility service cannot be readily provided by the utilities located within this road corridor. All utilities located outside the Earth Road corridor shall be constructed, maintained, and operated in such a manner so as to avoid undue impacts upon the Protected Property.

b) Grantee may construct and maintain foot trails on the Protected Property, provided that foot trails shall not be greater than six feet (6') in width and (i) shall not be located closer than fifty feet (50') to Miss Annie's Creek, (ii) shall not be located closer than ten feet (10') to the landward limit of tidal wetlands as shown on the Map, and (iii) shall not be located closer than ten feet (10') to the edge of the shoreline bluff of the Protected Property. All trails shall be constructed so as to minimize impacts on native vegetation and so as to not redirect or impede natural surface water runoff, and will be covered with porous material if Grantee chooses to cover these foot trails. Notwithstanding anything to the contrary set forth above, any foot trail constructed within fifteen feet (15') of the edge of the shoreline bluff shall be limited to three feet (3') in width, and a foot trail leading down to the Protected Property's shoreline on Smith Cove shall be permitted provided that this foot trail shall be limited to three feet (3') in width and shall be located as close to the easternmost boundary of the Protected Property as is feasible.

2.3 Consultation with Conservancy. When exercising the rights granted under paragraphs 2.1 and 2.2 of this Conservation Easement, Grantee agrees to share with the Conservancy all plans prepared in connection with exercising such rights, and after doing so will consult with the Conservancy as to such plans.

2.4 Mining, Changes in Topography, Etc. There shall be no ditching, draining, diking, filling, excavating, dredging, mining or drilling, removal of topsoil, sand, gravel, rock, minerals or other materials, nor any building of roads or change in the natural topography of the land in any manner except:

a) as reasonably necessary to construct the structures, roads and trails contemplated hereunder, and as subject to the terms and conditions of this Conservation Easement;

b) to the extent required by applicable law, with the prior written consent and approval of any local, state, or federal agency or entity having regulatory authority over such activities.

2.5 Vegetation. There shall be no removal, destruction, or cutting of trees, brush or other vegetation, clearing, cutting or trimming of vegetation to create views, use of fertilizers, spraying with herbicides, or planting of those invasive trees or plants listed in the "Invasive Plant List" prepared and dated October 28, 1999, which Invasive Plant List has been signed by the Conservancy and Grantee on such date and a copy of which is in the possession of the

Conservancy and Grantee (and which may from time to time be amended as the parties mutually agree), or disturbance or change in the natural habitat of the Protected Property in any manner except:

a) as may be reasonably necessary to construct or maintain the structures, septic facilities, roads, and foot trails as provided herein;

b) as may be reasonably necessary to remove dead, dying or diseased trees, or trees which present an imminent safety hazard;

c) firewood for the personal consumption of the Grantee may be cut provided that such cutting and harvesting is limited to (i) anywhere within the "permitted area," except not within that portion of the "Cabin Area" that is below the fifty foot (50') contour line, or (ii) outside the "permitted area" provided it is not below the fifty foot (50') contour line on the Protected Property in the direction of Miss Annie's Creek and not closer than thirty feet (30') to the shoreline bluff;

d) cat briar (*Smilax species)* may be removed anywhere on the Protected Property, provided that in doing so the use of machinery, equipment, or techniques that will unduly impact soil and sand conditions on the Protected Property is prohibited;

e) within the area set forth as the "Viewshed Area" on the Map (a legal description of the Viewshed Area is attached hereto as Exhibit "E"), Grantee (i) may trim, prune, and cut trees, (ii) may remove brambles, brush, and low-lying vegetation, and (iii) may establish a limited gardens and lawns area pursuant to this paragraph 2.5 e) (hereinafter collectively referred to as "vegetation removal activities"). All vegetation removal activities must meet the following conditions: (1) the use of machinery, equipment, or techniques that will unduly impact the soil and sand conditions within the Viewshed Area is forbidden, (2) no stump removal shall be allowed at any time (except within any lawn area (but not garden area) established within the Viewshed Area), nor shall any other practice be allowed that will unduly impact the soil and sand conditions within the Viewshed Area, and (3) vegetation removal activities in the Viewshed Area shall occur only pursuant to the "Viewshed Area Plan" prepared and dated October 28, 1999, which Viewshed Area Plan has been signed by the Conservancy and Grantee on such date and a copy of which is in the possession of the Conservancy and Grantee (and which plan may from time to time be amended as the parties mutually agree). The Viewshed Area Plan sets forth procedures for undertaking vegetation removal activities within the Viewshed Area, establishing limited gardens and lawns in the Viewshed Area, and for ongoing slope and ravine stabilization through terracing, plantings, and other means. All vegetation removal activities, establishment of limited gardens and lawns, and bluff, slope, and ravine stabilization activities undertaken within the Viewshed Area shall occur only pursuant to this plan. It is the intent of this paragraph 2.5 e) to curtail and control erosion within the Viewshed Area on the Protected Property as much as possible while providing Grantee with the enjoyment of views across the Viewshed Area from the principal residence constructed on the Protected Property;

f) outside of the "permitted area" and the Viewshed Area, and below the fifty foot (50') contour line in the direction of Miss Annie's Creek, only selective, minimal brush and tree

trimming, pruning, and cutting may occur. No such activity may destabilize or unduly impact the existing soil and sand conditions on the Protected Property. All brush and tree trimming, pruning, and cutting shall be by hand, or by use of machinery, equipment, or techniques that will not unduly impact the soil and sand conditions of the Protected Property. Prior to undertaking any such activities, Grantee shall give the Conservancy notice at the Mashomack Preserve only ("local notice")of such proposed activities and, within ten (10) days of receiving such notice, the Conservancy shall visit the Protected Property to review and approve of such activities. Failure of the Conservancy to disapprove of such activities within fifteen (15) days of receipt of notice shall be deemed approval of such activities. The Conservancy's approval of such activities shall be at the Conservancy's sole discretion (after full and reasonable consideration of the reasons underlying Grantee's request), and approvals granted by the Conservancy for such activities may be conditioned to include required plantings and other soil erosion control techniques determined to be reasonably necessary by the Conservancy;

g) to establish gardens and lawns associated with the residential buildings on the Protected Property, provided that (i) gardens and lawns shall be allowed within the "permitted area" shown on the Map (except that no gardens or lawns shall be allowed in the "Cabin Area"), and (ii) within the Viewshed Area, gardens and lawns may be established pursuant only to the Viewshed Area Plan.

2.6 Waste Disposal. There shall be no dumping of ashes, trash, garbage, or other unsightly or offensive material, and no changing of the natural topography through the placing of soil or other substance or material such as land fill or dredging spoils, nor shall activities be conducted on the Protected Property which are reasonably likely to cause erosion, siltation, or affect the natural drainage on the Protected Property or adjacent Mashomack Preserve, except as otherwise provided herein. The composting of household materials and application of composting products may occur within the "permitted area."

2.7 Water Courses. There shall be no manipulation or alteration of water courses, coastal shoreline, beaches, coastal bluffs, or other water or land bodies, including the placement of gabions or other rip-rap along the shores, or the placement of any other "hard structures" now or developed in the future for coastal erosion control purposes, nor shall there be activities conducted on the Protected Property which would be detrimental to water purity, or which could alter natural water level or flow. One (1) non-seasonal dock (unless otherwise required by regulatory authorities) shall be allowed in the Smith Cove portion of Shelter Island Sound (no dock may ever be erected in Miss Annie's Creek), provided that Grantee shall give notice to and consult with the Conservancy concerning the construction and placement of the dock. Grantee shall use best efforts to disturb minimally both shoreline and submerged vegetation when placing, constructing, and using the dock, and shall be responsible for applying for and receiving all required federal, state, and local permits and approvals. Placement and construction of the dock shall be pursuant to the following conditions: (1) the dock shall be located along the stretch of the Protected Property's shoreline shown on the Map as "Dock Location;" (2) the dock shall be no more than four feet (4') in width; (3) the dock shall be as short as is feasible; (4) the spans of the dock shall be as long as is feasible; and (5) the dock shall be constructed, to the maximum extent feasible, of non-toxic leaching materials. The conditions set forth above may be waived by the Conservancy in writing should the Conservancy determine that the

conservation interests to be protected under this Conservation Easement do not require that these conditions be met, or lead the parties jointly to conclude that other conditions should be imposed upon the construction and maintenance of a dock at the Protected Property.

2.8 Development Rights. The Protected Property and any portion thereof shall not be included as part of the gross area of other property not subject to this Conservation Easement for the purposes of determining density, lot coverage, or open space requirements under otherwise applicable laws, regulations or ordinances controlling land use and building density. No development rights which have been encumbered or extinguished by this Conservation Easement shall be transferred to any other lands pursuant to a transferable development rights scheme or cluster development arrangement or otherwise; provided, however, that with prior written permission of the Conservancy, this paragraph shall not preclude such transfer of development rights resulting from the destruction or demolition of any residential building on the Protected Property allowed to be maintained or constructed as herein provided.

2.9 Subdivision. There shall be no subdivision of the Protected Property, in fact or in law, whether by sale, lease or license or any other form of separate ownership occupation. The Protected Property shall not be devised or conveyed except as a unit. Mortgages or other non-possessory interests in land do not constitute subdivisions for the purposes herein, provided such interests encompass the whole Protected Property.

3. Rights of the Conservancy. In order to accomplish the purposes of this Conservation Easement, the rights retained and reserved by the Conservancy hereunder are as follows:

3.1. The right to enter the Protected Property at all reasonable times, with prior notice to Grantee, for the purposes of: (a) inspecting the Protected Property to determine if the Grantee is complying with the covenants and purposes of this Conservation Easement; (b) enforcing the terms of this Conservation Easement; (c) making scientific and educational observations and studies and taking samples in such a manner as will not disturb the quiet enjoyment of the Protected Property by the Grantee; and (d) monitoring and management as described below. The rights granted to the Conservancy under this paragraph shall not extend to the interiors of any structures erected on the Protected Property, and the Conservancy shall, but for emergency situations, afford Grantee as much privacy as possible within the "permitted area" in the exercise of such rights.

3.2 The right, but not the obligation, to monitor the condition of any rare plant and animal populations, plant communities, and natural habitats on the Protected Property, and to manage them, if necessary, to ensure their continued presence and viability on the Protected Property. Such activities shall be in accordance with the customary management practices of the Conservancy, and, as a precondition to such activities, any such management activities shall be set forth in a written management plan to be reviewed and approved by the Grantee, which approval shall not be unreasonably withheld, conditioned, or delayed.

3.3 The right, in accordance with applicable law, to prevent any activity on or use of the Protected Property that is prohibited by this Conservation Easement, and to require the

restoration of such areas or features of the Protected Property that may be damaged by any prohibited activity or use.

3.4 The Conservancy's consent for activities or uses otherwise prohibited under paragraph 2 above may be given under the following conditions and circumstances. If, owing to unforeseen or changed circumstances, the Conservancy and Grantee deem any of the prohibited activities or uses listed in paragraph 2 desirable, the Conservancy may, in its sole discretion, give permission for such activities or uses, subject to the limitations herein. Such requests for permission shall be in writing and shall describe the proposed activity in sufficient detail to allow the Conservancy to judge the consistency of the proposed activity or use with the purpose of this Conservation Easement. The Conservancy may give its permission only if it determines, using reasonable discretion, that such activities or uses (1) do not violate the purpose of this Conservation Easement and (2) either enhance or do not impair any significant conservation interests associated with the Protected Property. Notwithstanding the foregoing, the Conservancy and Grantee have no right or power to agree to any activities or uses that would result in the termination of this Conservation Easement or to allow any residential, commercial or industrial structures or any residential, commercial or industrial activities or uses not provided for above.

4. Grantee's Rights and Responsibilities.

4.1. The right to undertake or continue any activity or use of the Protected Property not prohibited by this Conservation Easement.

4.2. The right to sell, give, mortgage, lease, or otherwise convey the Protected Property, provided such conveyance is subject to the terms of this Conservation Easement and written notice is provided to the Conservancy in accordance with paragraph 6.16 below.

4.3.Grantee shall hold all rights and responsibilities, and bear all costs and liabilities of any kind related to the ownership, operation, upkeep and maintenance of the Protected Property, including the maintenance of adequate comprehensive general liability insurance coverage. Grantee shall keep the Conservancy's interest in the Protected Property free of any liens arising out of any work performed for, materials furnished to or obligations incurred by Grantee. Grantee agrees to release, hold harmless, defend and indemnify the Conservancy from any and all liabilities including, but not limited to, injury, losses, damages, judgments, costs, expenses and fees which the Conservancy may suffer or incur as a result of or arising out of the activities of Grantee on the Protected Property. The Conservancy agrees to release, hold harmless, defend and indemnify Grantee from any and all liabilities including, but not limited to, injury, losses, damages, judgments, costs, expenses and fees which Grantee may suffer or incur as a result of or arising out of the activities of the Conservancy on the Protected Property.

4.4 The Grantee agrees to pay any real estate taxes or other assessments levied on the Protected Property. If the Grantee becomes delinquent in payment of said taxes or assessments, such that a lien created against the land is to be executed upon, the Conservancy, at its option, shall, after written notice to the Grantee, have the right to pay such taxes or assessments, including any interest and penalties due thereon, or to take such other actions as may be necessary to protect the Conservancy's interest in the Protected Property and to assure the

continued enforceability of this Conservation Easement, and may recoup the costs of doing so from Grantee.

5. No Public Access. Nothing contained in this Conservation Easement shall give or grant to the public a right to enter upon or to use the Protected Property or any portion thereof.

6. Miscellaneous.

6.1. In the event that the Conservancy becomes aware of a violation of the terms of this Conservation Easement, the Conservancy shall give notice to the Grantee, at Grantee's last known post office address, of such violation via certified mail, return receipt requested, and request corrective action sufficient to abate such violation and restore the Protected Property to its previous condition at the time of the signing of this Conservation Easement. Grantee agrees that the Easement Baseline Documentation Report shall be deemed to provide objective information concerning the Protected Property's condition at such time. Failure by the Grantee to cause discontinuance, abatement or such other corrective action as may be requested by the Conservancy within thirty (30) days after receipt of such notice (provided that the Conservancy's notice correctly identifies a violation) shall entitle the Conservancy to bring an action at law or equity in a court of competent jurisdiction to enforce the terms of this Conservation Easement; to require the restoration of the property to its previous condition; to enjoin such non-compliance by temporary or permanent injunction in a court of competent jurisdiction; and/or to recover any damages arising from such noncompliance. Such damages, when recovered, may be applied by the Conservancy, in its sole discretion, to corrective action on the Protected Property. If such court determines that the Grantee has failed to comply with this Conservation Easement, Grantee shall reimburse the Conservancy for any reasonable costs of enforcement, including costs of restoration; furthermore, if Grantee is determined to have acted in bad faith in failing to comply with this Conservation Easement, Grantee shall reimburse the Conservancy its court costs and reasonable attorneys' fees, in addition to any other payments ordered by such court.

6.2. If the Conservancy, in its reasonable discretion, determines that circumstances require immediate action to prevent or mitigate possibly irreparable damage to the conservation values of the Protected Property, the Conservancy may pursue its remedies hereunder without complying with the prior notice or cure period requirements of paragraph 6.1 above.

6.3. The Conservancy does not waive or forfeit the right to take action as may be necessary to insure compliance with this Conservation Easement by any prior failure to act and Grantee hereby waives any defense of laches with respect to any delay by the Conservancy, its successors or assigns, in acting to enforce any restriction or exercise any rights under this Conservation Easement.

6.4. Nothing herein shall be construed to entitle the Conservancy to institute any enforcement proceedings against the Grantee for any changes to the Protected Property due to causes beyond the Grantee's control, such as changes caused by erosion, hurricane, fire, flood, storm, earthquake, the unauthorized wrongful acts of third persons, or changes in law requiring Grantee to act. In the event of violations of this Conservation Easement caused by unauthorized wrongful acts of third persons, at the Conservancy's option, Grantee agrees to assign its right of

action to the Conservancy, to join in any suit, and/or to appoint the Conservancy its attorney-in-fact for the purposes of pursuing enforcement action. In the event that the Conservancy exercises the right to act as Grantee's attorney-in-fact, the Conservancy shall release, hold harmless, defend and indemnify Grantee from any and all liabilities, including but not limited to injury, losses, damages, judgments, costs, expenses and fees which Grantee may suffer or incur as a result of or arising out of the Conservancy's exercise of such right.

6.5. The covenants agreed to and the terms, conditions, and restrictions imposed by this Conservation Easement shall not only be binding upon the Grantee and the Conservancy but also their lessees, agents, personal representatives, successors and assigns, and all other successors to Grantee and the Conservancy in interest, and shall continue as a servitude running in perpetuity with the Protected Property.

6.6. Grantee agrees that the terms, conditions, restrictions and purposes of this Conservation Easement or reference thereto will be inserted by Grantee in any subsequent deed or other legal instrument by which the Grantee divests either the fee simple title or possessory interest in the Protected Property; and Grantee further agrees to notify the Conservancy of any pending transfer at least thirty (30) days in advance.

6.7. Grantee and the Conservancy agree that the terms of this Conservation Easement shall survive any merger of the fee and easement interest in the Protected Property.

6.8. The parties hereto recognize and agree that the benefits of this Conservation Easement are in gross and assignable, and the Conservancy hereby covenants and agrees that in the event it transfers or assigns this Conservation Easement, the organization receiving the interest will be qualified to hold interests in Conservation Easements under Article 49, Title 3 of the ECL, and the Conservancy further covenants and agrees that the terms of the transfer or assignment will be such that the transferee or assignee will be required to continue to carry out in perpetuity the conservation purposes which this Conservation Easement was originally intended to advance.

6.9. The Grantee hereby agrees that at the time of the reservation and retention of this Conservation Easement by the Conservancy, this Conservation Easement gives rise to a real property right, immediately vested in the Conservancy, with a fair market value of said Conservation Easement as of the date of the reservation and retention that is at least equal to the proportionate value that this Conservation Easement bears to the fair market value of the property as a whole. That proportionate value of the Conservancy's property rights shall remain constant. When a change in conditions takes place which makes impossible or impractical any continued protection of the Protected Property for conservation purposes, and the restrictions contained herein are extinguished by judicial proceeding, the Conservancy, upon a subsequent sale, exchange or involuntary conversion of the Protected Property, shall be entitled to a portion of the proceeds at least equal to that proportionate value of the Conservation Easement. The Conservancy shall use its share of the proceeds in a manner consistent with the conservation purposes set forth herein.

6.10. Whenever all or part of the Protected Property is taken in exercise of eminent domain by public, corporate, or other authority so as to abrogate the restrictions imposed by this

Conservation Easement, the Grantee and the Conservancy shall join in appropriate actions at the time of such taking to recover the full value of the taking and all incidental or direct damages resulting from the taking, which proceeds shall be divided in accordance with the proportionate value of the Grantee's and Conservancy's interests, and the Conservancy's proceeds shall be used as specified above. All expenses incurred by the Grantee and the Conservancy in such action shall be paid out of the recovered proceeds.

6.11. If any provision of this Conservation Easement or the application thereof to any person or circumstance is found to be invalid, the remainder of the provisions of this Conservation Easement and the application of such provisions to persons or circumstances other than those as to which it is found to be invalid shall not be affected thereby.

6.12. The term "Grantee" shall include the Grantee and the Grantee's heirs, executors, administrators, successors and assigns and shall also mean the masculine, feminine, corporate, singular or plural form of the word as needed in the context of its use. The term "Conservancy" shall include The Nature Conservancy and its successors and assigns.

6.13. The Grantee agrees, upon the Conservancy's request, to execute any notices or instruments to be filed or recorded for the purpose of assuring the perpetual enforceability of this Conservation Easement. Should Grantee not comply with such a request from the Conservancy within thirty (30) days of receipt by Grantee, it is also hereby agreed that after such thirty (30) day period Grantee appoints the Conservancy its attorney-in-fact to execute, acknowledge and deliver any such necessary notice or instrument on Grantee's behalf. The Conservancy shall immediately provide Grantee with copies of all filed or recorded notices or instruments filed or recorded on behalf of Grantee by the Conservancy.

6.14. The captions herein have been inserted solely for convenience of reference and are not a part of this Conservation Easement and shall have no effect upon construction or interpretation.

6.15. The Conservancy agrees that, to the extent feasible, the administration of the responsibilities and rights held under this Conservation Easement by the Conservancy, including but not limited to all approval rights and monitoring of this Conservation Easement for the purpose of determining compliance with its terms, conditions, and restrictions, shall be undertaken by the Mashomack Preserve field staff of the Conservancy.

6.16 Any notices required in this Conservation Easement shall be sent by registered or certified mail to the following address or such address as may be hereafter specified by notice in writing:

Grantee: James and Nancy Dougherty, 144 East 19th Street, New York, New York 10003;

Conservancy: The Nature Conservancy, 4245 North Fairfax Drive, Arlington, Virginia 22203 and 3 Railroad Avenue, P.O. Box 5125, East Hampton, New York 11937.

Local notice: Mashomack Preserve, P.O. Box 850, 47 South Ferry Road, Shelter Island, New York, 11964

IN WITNESS WHEREOF, the Grantee and the Conservancy have signed this Reservation of Conservation Easement and Declaration of Restrictive Covenants this 28th day of October, 1999.

GRANTEE:

_____
James D. Dougherty

_____
Nancy H. Dougherty

THE NATURE CONSERVANCY, INC.

_____
By: Jonathan C. Kaledin
Its: New York State Counsel/Assistant Secretary
Hereunto Duly Authorized

State of New York)
County of) ss.

On the 28th day of October in the year 1999 before me, the undersigned, personally appeared James D. and Nancy H. Dougherty, personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

_____

State of New York)
County of) ss.

On the 28th day of October in the year 1999 before me, the undersigned, personally appeared Jonathan C. Kaledin, personally known to me or proved to me on the basis of satisfactory evidence to be the individual(s) whose name(s) is (are) subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their capacity(ies), and that by his/her/their signature(s) on the instrument, the individual(s), or the person upon behalf of which the individual(s) acted, executed the instrument.

_____

Exhibit "A"—Property Description

All that certain plot, piece or parcel of land, with the buildings and improvements thereon erected, situate, lying and being in the Town of Shelter Island, County of Suffolk, State of New York, more particularly bounded and described as follows:

BEGINNING at a point on the Northeasterly side of Thompson Road where the same intersects the Northerly line of Smith Cove (Clark's Cove), said point also being the Southwesterly corner of the within described premises;

RUNNING THENCE North 26 degrees 27 minutes *50* seconds West along the Northeasterly side of Thompson Road 407.96 feet;

THENCE North 2 degrees 11 minutes 00 seconds East part of the distance along the Easterly side of Thompson Road and along the Easterly line of Map Lots 54, 55 and 56 as shown on the subdivision map known as South Ferry Homesites, Section One (Map No.2811), a distance of 543.72 feet to the land now or formerly of The Nature Conservancy;

THENCE South 88 degrees 44 minutes 50 seconds East along the said land 233.98 feet to the Westerly line of Nicoll's Creek;

THENCE Southerly, Easterly and Southeasterly along the Westerly, Southwesterly and Southerly line of Nicoll's Creek the following ten (10) tie line courses and distances:

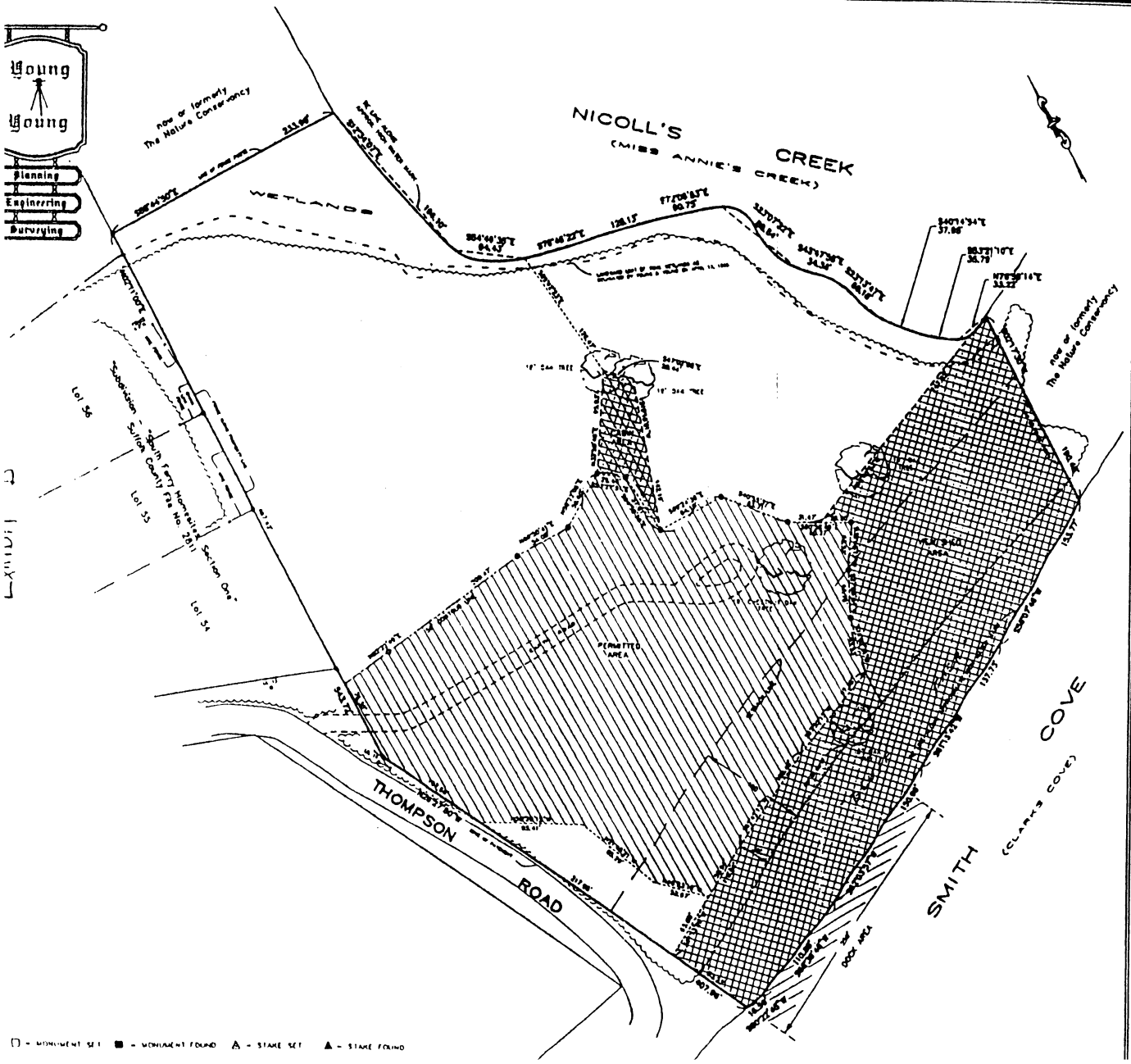
1. South 12 degrees 34 minutes 07 seconds East, 166.10 feet;
2. South 54 degrees 49 minutes 35 seconds East, 64.43 feet;
3. South 76 degrees 46 minutes 22 seconds East, 128.13 feet;
4. South 72 degrees 06 minutes 53 seconds East, 60.75 feet;
5. South 23 degrees 07 minutes 22 seconds East, 88.54 feet;
6. South 43 degrees 47 minutes 58 seconds East, 34.38 feet;
7. South 23 degrees 13 minutes 47 seconds East, 59.18 feet;
8. South 40 degrees 14 minutes 54 seconds East, 37.95 feet;
9. South 53 degrees 21 minutes 10 seconds East, 35.79 feet;
10. North 78 degrees 56 minutes 14 seconds East, 33.22 feet to the land now or formerly of The Nature Conservancy;

THENCE South 2 degrees 17 minutes 30 seconds West along the said land 190.48 feet to the Northwesterly line of Smith Cove (Clark's Cove);

THENCE Southwesterly along the Northwesterly line of Smith Cove (Clark's Cove) the following Five (5) tie line courses and distances:

1. South 58 degrees 07 minutes 46 seconds West, 153.77 feet;
2. South 61 degrees 13 minutes 42 seconds West, 137.73 feet;
3. South 62 degrees 03 minutes 57 seconds West, 150.96 feet;
4. South 68 degrees 39 minutes 48 seconds West, 110.88 feet;
5. South 80 degrees 22 minutes 45 seconds West, *16.59* feet to the Northeasterly side of Thompson Road at the point and place of BEGINNING.

CONTAINING within said bounds 9.3790 acres.



Young & Young, Land Surveyors
400 Ostrander Avenue, Riverhead, New York 1190
516-727-2303

Alden W. Young, P.E. & L.S. (1908-1994)
Howard W. Young, Land Surveyor
Thomas C. Wolpert, Professional Engineer
John Schnurr, Land Surveyor

NOTE

AREA = 408,550 SQ. FT. or 9.3790 ACRES

PERMITTED AREA = 2.7445 ACRES (INCLUDING CABIN
CABIN AREA = 0.0973 ACRES
VIEW SHED AREA = 1.8478 ACRES

CERTIFICATION

- WE HEREBY CERTIFY TO JAMES DOUGHERTY, NANCY DOUGHERTY, THE NATURE CONSERVANCY, CHARLES HENRY COSTER GERARD, TRUSTEE OF THE TRUST ESTABLISHED UNDER THE WILL OF SUMNER GERARD, ESTATE OF JAMES W. GERARD AND LAWYERS TITLE INSURANCE CORPORATION THAT THIS SURVEY WAS PREPARED IN ACCORDANCE WITH THE CODE OF PRACTICE FOR LAND SURVEYS ADOPTED BY THE NEW YORK STATE ASSOCIATION OF PROFESSIONAL LAND SURVEYORS

JOHN SCHNURR, N.Y.S. L.S. NO. 49517
HOWARD W. YOUNG, N.Y.S. L.S. NO. 45893

SURVEY FOR
THE NATURE CONSERVAN
THE MASHOMACK PRESERVE
At Shelter Island, Town of Shelter Island
Suffolk County, New York

County Tax Map District 700 Section 24 Block 01 Lot

TITLE SURVEY

MAP PREPARED OCT. 22, 19
AUG. 27, 19
JULY 30, 19

SCALE 1" = 100'
JOB NO. 99-0402

1 of

1246

Exhibit "C"—Legal Description of "Permitted Area"

ALL that certain plot, piece, or parcel of land with the buildings and improvements thereon erected, situate, lying, and being at Shelter Island, Town of Shelter Island, Suffolk County, and State of New York, bounded and described as follows:

BEGINNING at a point on the northeasterly side of Thompson Road, said point being North 26 deg. 27 min. 50 sec. West, 300.28 feet from the intersection of the high water mark of Smith Cove, also known as Clarks Cove, with the northeasterly side of Thompson Road, as shown on a survey prepared by Young & Young, Job No.99-0402, last dated October 22, 1999;

THENCE along the northeasterly side of Thompson Road North 26 deg. 27 min. 50 sec. West, 107.68 feet;

THENCE North 02 deg. 11 min. 00 sec. East, 76.30 feet;

THENCE the following eighteen (18) courses and distances along the 50 foot contour line based on the National Geodetic Vertical Datum and the 30 foot offset line from the existing top of bluff:

1. North 82 deg. 22 min. 49 sec. East, 200.47 feet,
2. North 89 deg. 50 min. 41 sec. East, 54.00 feet,
3. North 58 deg. 22 min. 05 sec. East, 56.60 feet,
4. North 32 deg. 58 min. 46 sec. East, 95.93 feet,
5. South 47 deg. 02 min. 05 sec. East, 28.44 feet,
6. South 19 deg. 16 min. 01 sec. West, 142.19 feet,
7. South 89 deg. 24 min. 39 sec. East, 64.19 feet,
8. South 40 deg. 55 min. 37 sec. East, 65.71 feet,
9. South 60 deg. 58 min. 49 sec. East, 60.27 feet,
10. South 32 deg. 46 min. 13 sec. West, 43.52 feet,
11. South 27 deg. 06 min. 54 sec. West, 44.76 feet,
12. South 14 deg. 02 min. 31 sec. West, 53.53 feet,
13. South 67 deg. 52 min. 13 sec. West, 97.38 feet,
14. South 62 deg. 42 min. 13 sec. West, 105.48 feet,
15. South 61 deg. 13 min. 29 sec. West, 55.94 feet,
16. North 46 deg. 23 min. 18 sec. West, 52.67 feet,
17. North 21 deg. 45 min. 21 sec. West, 85.29 feet,
18. North 59 deg. 29 min. 15 sec. West, 95.41 feet to the northeasterly side of Thompson Road and the point or place of BEGINNING.

CONTAINING within said bounds 2.7445 acres.

Exhibit "D"— —Legal Description of "Cabin Area"

ALL that certain plot, piece, or parcel of land with the buildings and improvements thereon erected, situate, lying, and being at Shelter Island, Town of Shelter Island, Suffolk County, and State of New York, bounded and described as follows:

BEGINNING at an 18 inch oak tree, said tree being the following three (3) courses and distances from the intersection of the southeasterly corner land now or formerly The Nature Conservancy with the high water mark Nicoll's Creek, also known as Miss Annie's Creek;

1. South 12 deg.34 min. 00 sec. East, 166.10 feet,
2. S outh 54 deg.49 min. 35 sec. East, 64.43 feet,
3. South 05 deg.42 min. 23 sec. East, 126.47 feet;

THENCE easterly, southerly, westerly, and northerly the following five (5) courses and distances:

1. South 47 deg. 02 min. 05 sec. East, 28.44 feet,
2. South 19 deg. 16 min. 01 sec. West, 142.19 feet,
3. North 04 deg. 50 min. 38 sec. West, 57.61 feet,
4. North 53 deg. 27 min. 51 sec. West, 26.44 feet,
5. North 32 deg. 58 min. 46 sec. East, 95.93 feet to the 18 inch oak tree and the point or place of BEGINNING.

CONTAINING within said bounds 0.0973 acres.

Exhibit "E"--Legal Description of "Viewshed Area"

ALL that certain plot, piece, or parcel of land with the buildings and improvements thereon erected, situate, lying, and being at Shelter Island, Town of Shelter Island, Suffolk County, and State of New York, bounded and described as follows:

BEGINNING at the intersection of the high water mark of Smith Cove, also known as Clarks Cove, with the southwesterly corner of land now or formerly of The Nature Conservancy, as shown on a survey prepared by Young & Young, Job No.99-0402, last dated October 22, 1999;

THENCE westerly along the high water mark of Smith Cove, also known as Clarks Cove, the following five (5) courses and distances:

1. South 58 deg. 07 min. 46 sec. West, 153.77 feet,
2. South 61 deg. 13 min. 42 sec. West, 137.73 feet,
3. South 62 deg. 03 min. 57 sec. West, 150.96 feet,
4. South 68 deg. 39 min. 48 sec. West, 110.88 feet,
5. South 80 deg. 22 min. 45 sec. West, 16.59 feet to the intersection of the high water mark of Smith Cove, also known as Clarks Cove, with the easterly side of Thompson Road;

THENCE northerly along the easterly side of Thompson Road, North 26 deg. 27 min. 50 sec. West, 83.23 feet;

THENCE the following eight (8) courses and distances:

1. North 61 deg. 13 min. 29 sec. East, 118.94 feet,
2. North 62 deg. 42 min. 13 sec. East, 105.48 feet
3. North 67 deg. 52 min. 13 sec. East, 97.38 feet,
4. North 14 deg. 02 min. 31 sec. East, 53.53 feet,
5. North 27 deg. 06 min. 54 sec. East, 44.76 feet,
6. North 32 deg. 46 min. 13 sec East, 43.52 feet,
7. North 60 deg. 58 min. 49 sec West, 28.80 feet,
8. North 68 deg. 00 min. 53 sec. East, 247.03 feet to land now or formerly The Nature Conservancy and the high water mark of Nicoll's Creek, also known as Miss Annie's Creek;

THENCE southerly along land of The Nature Conservancy South 02 deg. 17 min. 30 sec. West, 190.48 feet to the point or place of BEGINNING.

CONTAINING within said bounds 1.8478 acres.

JAMES D. DOUGHERTY
P.O. Box 1038
SHELTER ISLAND, NY 11964-1038

50-1063/214 941

310

DATE October 28 '99

PAY TO THE ORDER OF Philip O'Hara Nassau Assoc. $ 8,145 00/100

eight thousand one hundred forty five & 00/100 DOLLARS

THE BANK OF NEW YORK

48 NO. FERRY RD., SHELTER ISLAND, N.Y. 11964

MEMO

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Branchpay® 1-(800) 444-6899 Another service of Geico Information Network, Inc. Eden Prairie, MN

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BRANCHPAY

BRANCHPAY

0065721

The Nature Conservancy

BRANCHPAY AUTHORIZATION NO. 10194

DATE 10/28/99

NOT VALID AFTER 60 DAYS FROM DATE

PAY TO THE ORDER OF Philip O'Hara Nassau Associates, Inc. $ 2,000.00/100

(PAYEE)

Two Thousand 00/100 DOLLARS

NOT GOOD FOR MORE THAN $2,000.00

NOT REDEEMABLE FOR CASH BY DRAWER'S AUTHORIZED REPRESENTATIVE

SIGNATURE OF DRAWER'S AUTHORIZED REPRESENTATIVE

By signing this instrument, each of the aforesigned confirms that this instrument has been drawn in accordance with the authority issued by Geico Information Network, Inc. If any statement herein be untrue, we, the aforesigned, agree to pay the drawer upon demand the amount of this instrument and all expenses and damages arising from such misstatement.

CR/PO NUMBER

NYS Transfer Tax -- Thompson Hill TNC → Daugherty

PAYABLE THROUGH
NORWEST BANK RED WING, N.A.
RED WING, MN

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SOUTH FORK-SHELTER ISLAND CHAPTER

JUL 3 1 2003

EASEMENT
BASELINE DOCUMENTATION REPORT

The Nature Conservancy®

THOMPSON HILL
Town of Shelter Island, New York

October 28, 1999
The Nature Conservancy
P.O. Box 5125, East Hampton, New York 11937

EASEMENT
BASELINE DOCUMENTATION REPORT
CHECKLIST

All items below must be provided with the Easement Baseline Documentation Report Package. Two duplicate originals should be prepared for storage at HO and the Field Office.

✓ PROPERTY CONDITION CERTIFICATION

✓ SUMMARY SHEET

✓ SUMMARY OF SELECT EASEMENT TERMS

✓ DESCRIPTION AND BACKGROUND INFORMATION

- Acquisition
- Location
- Tract Description
- Physical Environment
- Ecological Features
- Man-made Structures/Improvements
- Land Uses Affecting the Easement

MAPS ** INDICATE NORTH ON ALL MAPS **

✓ State Map: Showing Easement Property Location

✓ Road Map: Showing Easement Property Location and Access

✓ USGS Topographical Map: Showing Tract Boundaries

APPENDICES

✓ A. Copy of the Easement attached to Deed
✓ B. Survey Map of the Easement Property
✓ C. Aerial Photograph of the Easement Property
✓ D. Photo Stations Map
✓ E. Photographic Data Sheet
✓ F. Photographs of the Protected Property
✓ G. Invasive Plant List
✓ H. Viewshed Area Plan

EASEMENT
BASELINE DOCUMENTATION REPORT
PROPERTY CONDITION CERTIFICATION

Reference is made to that Deed dated October 28, 1999 between The Nature Conservancy as Party of the First Part (hereinafter the "Conservancy"), and James D. and Nancy H. Dougherty as Party of the Second Part (hereinafter the "Doughertys"), under which a Reservation of Conservation Easement and Declaration of Restrictive Covenants (the "Easement") was placed upon and encumbers the property (the "Protected Property") conveyed thereunder.

The Doughertys and the Conservancy hereby certify that, to the best of their knowledge, the following attached report is an accurate description of the current land uses and physical features on the Protected Property as of October 28, 1999. The report, which is attached hereto and made a part hereof, contains 54 pages (including appendices) and includes this certification; a summary sheet; a description of and background information on the Easement, including information on the acquisition, location, tract description, physical environment, ecological features, man-made structures and other improvements, and land uses affecting the Protected Property; a State map showing the location of the Protected Property; a road map showing legal access to the Protected Property; a portion of a USGS topographic map showing the boundaries of the Protected Property. The appendices include: Appendix A - Copy of the Easement attached to Deed; Appendix B-Survey Map of the Easement Property; Appendix C - Aerial Photograph of the Protected Property (dated 4/21/96); Appendix D - Photo Stations Map; Appendix E - Photographic Data Sheet; Appendix F - Photographs of the Protected Property; Appendix G - Invasive Plant List; Appendix H - Viewshed Area Plan.

The parties hereto further certify that to the best of their knowledge, and based solely on the appendices hereto and site visits to the Protected Property, there are no structures or improvements on the Protected Property other than as described in the following report, and no activities are being conducted on the Protected Property which are inconsistent with the terms and covenants contained in the Easement.

Signed this 28th day of October 1999.

James D. Dougherty

Nancy H. Dougherty

The Nature Conservancy, Inc.

By: Jonathan C. Kuledin
Its: Counsel / Ass't Secretary
Hereunto duly authorized

EASEMENT
BASELINE DOCUMENTATION REPORT
SUMMARY SHEET

A. Easement Name: Thompson Hill
Date: October 28, 1999

Prepared By: Michael S. Scheibel

State: New York

Town or District/County: Shelter Island/ Suffolk County

Date Easement Reserved and Retained via Delivery of Deed: October 28,1999

Present Owner:

James D. & Nancy H. Dougherty
144 East 19th Street
New York, NY 10003

Phone: (212) 529-5805

Business Address:
350 5th Avenue
Suite 7205
New York, NY 10118

B. Brief Description of Area Under Easement:

Acreage: 9.38 acres

USGS Quad: Greenport, NY

Longitude/Latitude: 41 degrees, 3 minutes N
72 degrees, 19 minutes W

Target Elements: None

Man-made Structures/Improvements: Dirt Road; Approximately 400 feet of unimproved dirt driveway providing access from the western boundary of the property from Thompson Road to the approximate center of the property.

C. Required Frequency of Monitoring for this Easement: Annually

EASEMENT
BASELINE DOCUMENTATION REPORT
SUMMARY

Note: The following is a summary of the Doughertys' and the Conservancy's rights in the Protected Property, as set forth in the Reservation of Conservation Easement and Declaration of Restrictive Covenants, to facilitate monitoring. It is not intended to be a legal document and should not be construed to be interpretive. Everyone using this Summary must refer to the Reservation of Conservation Easement and Declaration of Restrictive Covenants—recorded as an attachment to the deed conveying the Protected Property to the Doughertys (Grantee) and attached to this document as Appendix "A"--for the actual description of the rights and obligations of the Conservancy and the Doughertys.

A. Purpose of the Conservation Easement:

a) to assure that Protected Property will be retained forever predominantly in its natural and scenic condition;

b) to protect the scenic and natural character of the Protected Property and that of Mashomack Preserve;

c) to protect the public's view of and the natural integrity of the shoreline and bluffs;

d) to ensure that use will be consistent with the nearby residential character;

e) to prevent use that will significantly impair or interfere with the conservation values or resources;

f) to maintain and preserve the water quality of Miss Annie's Creek.

B. Permitted Uses & Restrictions: (section numbers refer to the Conservation Easement)

2.1 Structures:

a) Limited to one (1) single family residential structure, and accessory structures incidental and ancillary to, such as utility structures, fences, gates and railings, garages, a swimming pool, tennis court, home office space, a guest cottage, a writer's cabin, etc. all to be located within the "Permitted Area" only, and not closer than 100 feet to the shoreline bluff, except that fences, gates and railings may be erected anywhere within the "Permitted Area," and seasonal, removable structures that do no harm to the Protected Property may be placed anywhere on the Protected Property.

Prior to constructing or placing permanent structures in the "Cabin Area," Grantee must submit a plan for Conservancy's approval; TNC has sixty (60) days to respond or approval shall be deemed granted.

c) Firewood for personal
"Cabin Area" (unless ab
not below the fifty foot (
the shoreline bluff.

d) Cat briar may be rem
unduly impact soil condi

e) Within the "Viewshe
"Viewshed Area Plan" (
machinery, equipment,
2) no stumps are remov

f) Outside the "permitte
the direction of Miss A
cutting may occur. Pri
notice, and within ten (
approve. Failure of the

g) Gardens and lawns
the "Viewshed Area"
Plan."

2.6 Waste Disposal:

No dumping of ashes,
natural topography by
Area."

2.7 Water Courses:

The placement of "ha

One (1) non-seasonal
Cove, provided that
the following conditi
in width, (3) length i
feasible constructed

2.1 Structures (cont'd.):

b) Septic facilities must be located in the "Permitted Area"; facilities may be dye te some other acceptable method) by the Conservancy at its discretion and cost.

2.2 Roads and Foot Trails:

a) Access road may be improved and maintained within the "Earth Road" corridor Survey Map (Appendix B), and the corridor may be relocated anywhere, anytime, "Permitted Area" (excluding the "Cabin Area"). All utilities are to be placed with corridor, except for utilities servicing structures whose services cannot be readily utilities located within the road corridor.

b) Foot trails shall not be greater than six feet (6') in width and shall not be locatec (50') feet to Miss Annie's Creek, or 2) closer than ten feet (10') to the landward li or 3) closer than ten feet (10') to the edge of the shoreline bluff. Trails within fifte bluff cannot exceed three feet (3') in width. A trail (limited to three feet (3') in wi Cove may be established, and shall be located as close to the easternmost boundar Property as is feasible.

2.3 Consultation with Conservancy:

Grantee agrees to share all plans and consult with the Conservancy when exercisi under the provisions of sections 2.1 & 2.2.

2.4 Mining, Changes in Topography, Etc.:

a) Ditching, draining, diking, filling, excavating, dredging, mining or drilling, rem gravel, rock, minerals or other materials only as reasonably necessary when exerc established under the provisions of sections 2.1 & 2.2.

b) As required by law, may conduct activities above with the prior written consen agency or entity having regulatory authority over such activities.

2.5 Vegetation:

Vegetation removal is only permitted as set forth in the Conservation Easement. fertilizers may be applied on the Protected Property, and the planting of invasive "Invasive Plant List" dated October 28, 1999 (Appendix G), is prohibited.

a) Vegetation removal permitted as reasonably necessary to construct or maintair facilities, roads and foot trails.

b) Dead and dying trees and those presenting an imminent safety hazard may be

2.8 Development Rights:

Protected Property shall not be included with other properties for the purpose of determining density, lot coverage or open space requirements. No development rights shall be transferred pursuant to a transfer of development rights scheme.

2.9 Subdivision:

No subdivision is permitted.

3. Rights of the Conservancy:

3.1 The right to enter the Protected Property, at all reasonable times, with prior notice, for the purpose of (a) compliance inspection, (b) enforcement, (c) scientific and educational observation, and (d) monitoring and management.

3.2 The right to monitor and manage rare plant and animal populations, plant communities, and natural habitats as per a written management plan reviewed and approved by the Grantee.

3.3 The right to prevent any activity that is inconsistent with the purposes of the easement and to require restoration.

3.4 The right to give consent for activities or uses otherwise prohibited under section 2.0.

4. Grantee's Rights:

4.1 The right to engage in all activities not expressly prohibited by the easement.

4.2 The right to sell, give, mortgage, lease, or otherwise convey the Protected Property.

4.3 All rights and responsibilities related to ownership of the Protected Property regarding operation, upkeep, maintenance, tax payments, and insurance.

EASEMENT
BASELINE DOCUMENTATION REPORT
DESCRIPTION AND BACKGROUND INFORMATION

Acquisition: Conservation Easement reserved and retained by the Conservancy upon conveyance of Thompson Hill property to James D. and Nancy H. Dougherty on October 28, 1999.

Location: Thompson Hill is located in the Town of Shelter Island/Suffolk County, NY; Tax map number Section 024, Block 1, Lot 18; from SR 114 take Thompson Road (South Ferry Hills) about 0.4 mile to a dirt access road on left.

Tract Description: Thompson Hill is a 9.38-acre waterfront parcel immediately adjacent to the western boundary of The Nature Conservancy's Mashomack Preserve on Shelter Island. Landowners with abutting properties are as follows:

Section 024, Block 1, Lot 14: 8 Irene Lane	Milton, Thomas 305 E. 72nd St. Apt. 1AN New York, NY 10021 0.25 acres
Section 024, Block 1, Lot 15: 10 Irene Lane	Brown, Norman J. & Elizabeth 16 Parkwood Drive East Valley Stream, NY 11580 0.71 acres
Section 024, Block 1, Lot 16: 12 Irene Lane	Manuella, Marie 12 Irene Lane Shelter Island, NY 11964 0.50 acres
Section 024, Block 1, Lot 17: 14 Irene Lane	Rapaport, Martin 18 East 48th St. Fl. 6 New York, NY 10017-1014 0.59 acres
Section 020. Block 1, Lot 1:	The Nature Conservancy 4245 North Fairfax Drive, Suite 100 Arlington, VA 22203 319.5 acres
	Town of Shelter Island (ROW) Thompson Road
	State of New York Underwater lands (Smith Cove)

Tract boundaries are as shown on map entitled "Survey Map of Easement Property" (see Appendix B).

Physical Environment: The most significant land feature on this property is the morainal hill which attains an elevation of 69.5 feet above sea level and a southerly facing eroding sandy bluff which reaches 50 feet above sea level and overlooks Smith Cove and Shelter Island Sound. The parcel is irregular in shape and the topography is extremely variable, sloping dramatically down to a tidal wetland along the north and east boundaries on Nicolls (Miss Annie's) Creek.

Ecological Features: The property is mostly wooded uplands, but contains a small parcel of tidal wetlands along the north and east boundaries. The woodland community is best described as a "successional maritime hardwood forest" dominated by oaks (*Quercus spp.*), and includes hickories (*Carya spp.*), black cherry (*Prunus serotina*), and shadbush (*Amelanchier canadensis*). Vines are common in the understory and subcanopy and include greenbrier (*Smilax spp.*), and Virginia creeper (*Parthenocissus quinquefolia*), shrubs include black huckleberry (*Gaylussacia baccata*), and lowbush blueberry (*Vaccinium angustifolium*).

The tidal wetlands are coastal salt marsh communities including a small section of "high salt marsh" and "salt shrub" dominated by salt-meadow grass (*Spartina patens*) and groundsel-tree (*Baccharis halimifolia*).

Easement provisions protect the upland forest by restricting the amount and extent of vegetative clearing and provides for the establishment of a buffer area below the 50 foot contour which protects the watershed and biological integrity of Miss Annie's (Nicholls) Creek. The easement further insures that natural sediment transport along the Smith Cove shoreline is not impeded. Finally the easement reduces development potential and protects the view shed of the Mashomack Preserve.

Man-made Structures/Improvements: Dirt Road; approximately 400 feet of unimproved dirt driveway (about 12 feet in width) that provides access from Thompson Road on the west boundary to the approximate center of the property.

Land Uses Affecting the Easement: None.

MARCHITELLI BARI ..ES
& COMPANY, INC.
Real Estate Advisory Services

1757-8 Veterans Highway
Islandia, NY 11722-1535
516-234-5050
FAX 516-234-5192

1st

March 8, 1999

The Nature Conservancy
250 Lawrence Hill Road
Cold Spring Harbor, New York 11724

Attn: Mr. Paul Rabinovitch
Director

Re: Property of Gerard
Thompson Road
Shelter Island, New York
Our Account No. M-4408-99

Dear Mr. Rabinovitch:

At your request, we have appraised the captioned property and prepared the accompanying self-contained report. The date of this report is March 8, 1999. The date of valuation is January 20, 1999. The real property interest appraised is the fee simple estate.

The purpose of this appraisal is to estimate the market value of the subject property's fee interest. It is intended for the use of The Nature Conservancy in negotiating its purchase. Use for any other purpose or by other individuals is not intended. Reliance on this report is limited to the use for which it is intended and to the individuals for whom it was prepared.

Market value is defined as the price in cash and/or other identified terms for which the specified real property interest is likely to sell as of the effective date of appraisal in the real estate marketplace under all conditions requisite to a fair sale.

Conclusions of value expressed in this report are in terms of cash or other financial arrangements comparable thereto.

The subject property is a 9.38-acre parcel of residentially zoned land on Thompson Road in Shelter Island. The site consists of a peninsula extending toward Mashomack Preserve into the waters of Clark's Cove at Nicoll's Creek. The topography reaches elevations of up to 70 feet above sea level with a dramatic bluff along the cove and a gentle slope falling off to tidal wetlands along Nicoll's Creek. Based on our highest and best use analysis, it appears that the site is capable of being subdivided into three waterfront building plots and a small wetland preserve.

MARCHITELLI BARNES
& COMPANY, INC.

March 8, 1999
Mr. Paul Rabinovitch

Based on the analysis contained within the attached report, we have concluded that the market value of the fee simple estate of the subject property as of January 20, 1999, is

$2,000,000
(TWO MILLION DOLLARS)

Very truly yours,

MARCHITELLI BARNES & COMPANY, INC.

Timothy Barnes
NYS Certified General Real Estate Appraiser
Certificate No. 46-6137

ts

JUL 3 1 2003

To: Jim Dougherty, Steve Schreiber, Esq., Rich Upton, Esq., Mike Laspia, Judy Cooper, Nancy Kelley
Fr: Jonathan Kaledin
Re: Documents/Structure of TNC—Dougherty Transaction
Date: August 6, 1999

Jim, Steve, Rich and I met yesterday to discuss further the documents for our transaction and to discuss the structure of the transaction. The following is an extremely brief synopsis of our meeting, and a list of matters that need to be taken care of prior to closing.

We first discussed the tax/charitable deduction aspects of the transaction. In order to create as clean a paper trail as possible for Jim and Nancy, so as to minimize whatever IRS risks might exist from having a sale/donation occur, we have agreed to sign the contract and the pledge (the pledge will not have contingency language in it) and convey the TH property to Jim and Nancy simultaneously on the same day that the Conservancy acquires the TH property—after TNC's acquisition.

The pledge fulfillment date still needs to be worked out. Rich—upon reflection my position is that risk is minimal even if pledge fulfilled/sale occur simultaneously, and that waiting few weeks minimizes further (of course I am not counseling Jim/Nancy on this matter).

I explained that if we convey the TH property to Jim/Nancy in early September and they wait a few weeks to fulfill the pledge, so long as the pledge is fulfilled by September 30th the SFSI chapter won't incur any interest costs that might need to be repaid via the pledge. If Jim/Nancy want to wait until end of calendar year to fulfill pledge (minimizing risk even further), interest will be due by SFSI to HO, and who will cover this interest needs to be worked out.

Attached are revised P&S Agreement, Pledge, Cons. Easement, and form of TNC substantiation letter.

TTD: (1) Jim & Nancy/Judy/Mike need to visit site asap WITH John Shnoor of Young and Young to finish work on permitted area, viewshed area, cut restriction lines, and dock area. All of these need to be shown on survey, and we need legal description for perimeter, permitted area AND viewshed area (per discussion with Jim yesterday).

(2) Invasive plants list to be attached to Cons. Eas.—Jim/Mike/Judy.
(3) Septic Dye Test (how frequently does it need to be done?)—Jim/Mike/Judy to determine.
(4) Easement Baseline Documentation Report—TNC should prepare draft asap and get to Jim/Steve Schreiber for review. Judy/Mike Scheibel.

JUL 3 1 2003

(5) Jim needs to know how to transfer securities to TNC when time to make gift arrives. By copy of this memo to Martin Carovano (TNC's NY planned giving officer) I ask that Martin call Jim (212) 971-0200 to discuss how to accomplish this.

I can be reached Wednesday in Boston at: (617) 542-1908.

ok J. Sawhill 8/30/99

John S –
I am ok with this. We have solid appraisals and the Dougherty stayed out of decision making process

MEMORANDUM

To: Michael Dennis, Esq.

cc: Andy Beers
Nancy Kelley
Michael Laspia

From: Jonathan Kaledin, Esq.

Date: August 30, 1999

Re: Potential Conflict of Interest—Outsale of Thompson Hill Property

---

I wanted to alert you to a matter involving a potential conflict of interest I believe needs to be disclosed to you and John Sawhill under the Conservancy's conflict of interest policy as adopted by the Board of Governors.

The South-Fork Shelter Island Chapter is now under contract to purchase the 9.4 acre property next to the Mashomack Preserve known as the "Thompson Hill" property (the "Property"). The purchase price is $2.1 million.

The Chapter has been looking for a conservation buyer for the Property—a buyer that will purchase the Property encumbered by a conservation easement, and who will make the Chapter whole by pledging a charitable contribution above and beyond the outsale's purchase price so that, when added to it, the sum equals $2.1 million.

Jim and Nancy Dougherty of New York City and Shelter Island have expressed interest in acquiring the Property from the Chapter as conservation buyers, and have agreed to make the Chapter whole on the Chapter's acquisition costs of the Property through the outsale acquisition/pledge structure.

Both the Doughertys are long time supporters of the Conservancy. Nancy currently sits on the Mashomack Preserve's Board of Trustees, thus giving rise to a potential conflict of interest in this matter.

In light of the fact that the Doughertys have agreed to make the Chapter whole in this transaction, and in light of the fact that the Conservancy would agree to the outsale acquisition/pledge structure of the transaction with any potential conservation buyer of the Property, I see no problem with this potential conflict of interest (other than it gives rise to the perception that we gave an "insider" the first crack at acquiring the Property from us; true, but by doing so we minimized our transactional financial risk by lining up a conservation buyer prior to acquiring the Property).

I look forward to hearing from you and John as to your collective opinion on this matter.

given

ASSOCIATES

[516] 360-3474 • FAX 360-3622

BOX 5305 • ROUTE 111 • HAUPPAUGE, NY 11788

October 22, 1999

The Nature Conservancy and
James And Nancy Dougherty
P.O. Box 5125
East Hampton, NY 11937

Re: S.C.T.M. #700-24-1-18
Property Located E/S Thompson Road, Shelter Island N.Y.

Dear Sirs:

In accordance with your request, we have made an appraisal of the above referenced real property, for the purpose of estimating the market value of a proposed conservation easement which will encumber the subject property.

The property consists of a parcel of land containing 9.379± acres zoned AA Residential. The property is mostly wooded and has a rolling topography with frontage on Smith Cove and Nicolls Creek.

The property was last inspected on August 10, 1999. The valuation or effective date of this appraisal is October 28, 1999 and the date of this report is October 22, 1999.

The function of this appraisal is to establish the value of a conservation easement, placed on the subject property. This is a qualified appraisal for Federal Income Tax purposes.

The Conservation Easement will be made with the intention that it qualify as a Conservation Easement in perpetuity under Internal Revenue Code Section 170(h), in order to entitle the grantor to the charitable deduction described in the Code.

The attached Summary Appraisal Report has been prepared in conformance with the Uniform Standards of Professional Appraisal Practice (USPAP) and in conformity with the requirements of the Code of Professional Ethics and the Standards of Professional Practice of the Appraisal Institute.

The Nature Conservancy and
James And Nancy Dougherty

October 22, 1999

It is my opinion and conclusion that the value of the conservation easement, as of October 28, 1999, is

ONE MILLION FIVE HUNDRED NINETY FOUR THOUSAND ($1,594,000.00) DOLLARS

The estimated exposure time (i.e., the length of time the subject property would have been offered on the market prior to a hypothetical sale at the market value concluded in this analysis, as of the effective date of this valuation) would be 6 to 12 months prior to the granting of the conservation easement and 6 to 12 months after granting the conservation easement.

The property was appraised as a whole, owned in fee simple and unencumbered, (except for the conservation easement included in the Addenda to this report), subject to the Assumptions and Limiting Conditions outlined herein.

It has been a pleasure to be of service to you in this capacity.

Should you require any additional information on this matter, please feel free to contact me at your convenience.

Respectfully submitted,

PAG/cd

PATRICK A. GIVEN, SRPA
N.Y.S. CERTIFIED GENERAL REAL ESTATE
APPRAISER #46-704

MICHAEL P. GIVEN

ok J. Sawhill 8/30/99

John S –

I am ok with this. We have solid appraisals and the Dougherty stayed out of decision making process

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MEMORANDUM

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cc: Andy Beers
Nancy Kelley
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I look forward to hearing from you and John as to your collective opinion on this matter.

FAX TRANSMISSION

The Nature Conservancy
New York State Office
415 River Street, 4th Floor
Troy NY 12180
fax (518) 273-5022

Date: 9/23/99

Pages (inc. cover): 2

To: Steve Schreiber, Esq.

Dept: Patterson Belknap

Phone #:

Fax #: (212) 336-2222

From: Jon Kaledin, Esq.

Ext. #:

Comments:

See Attached.

CONFIDENTIALITY NOTICE

The documents accompanying this facsimile transmission contain information which is confidential or legally privileged. The information is intended only for the use of the individual or entity named on this transmission sheet. If you are not the intended recipient, you are hereby notified that any disclosure, copying, distribution or the taking of any action in reliance on the contents of this transmitted facsmilie is strictly prohibited, and that the documents should be returned to The Nature Conservancy immediately. If you have received this fax in error, please notify us by telephone immediately.

If there are any problems during this transmission, please call (518) 273-9408

Patterson, Belknap, Webb & Tyler LLP

1133 Avenue of the Americas
New York, NY 10036-6710
212-336-2000

Mashomack
(Gerard - 501)

Memorandum

September 22, 1999

BY TELECOPY

TO: Jonathan C. Kaledin

FROM: Stephen J. Schreiber

RE: Proposed Conveyance to Jim and Nancy Dougherty

After Jim, you and I spoke this afternoon, I pointed out to Rich Upton that, although the Charitable Pledge provides for the Doughertys' gift to be made payable to the South Fork-Shelter Island Chapter of the Conservancy, the instrument recites that gift is being made in reliance upon the fact that The Nature Conservancy, Inc. is exempt under Section 501(c)(3).

Rich wants to know if TNC is able to make a representation in the Charitable Pledge that the South Fork-Shelter Island Chapter is exempt under Section 501(c)(3).

Please let me know.

Thanks.

S.J.S.

cc: James D. Dougherty, Esq. (By Telecopy)
Richard R. Upton, Esq.

433235.1

Certainly. I'll add it.
— 9 —

JK – MWK KH V File Copy

The Nature Conservancy
NEW YORK REGIONAL OFFICE

415 River Street, 4th Floor
Troy, New York 12180
TEL 518 273-9408
MAIN FAX 518 273-5022
LEGAL FAX 518 273-5178

570 Seventh Avenue, Suite 601
New York, New York 10018
TEL 212 997-1880
FAX 212 997-8451

International Headquarters
Arlington, Virginia
TEL 703 841-5300

Nashomack (gerard)

February 14, 2000

Helen Rosenblum, Esq.
Shelter Island Town Counsel
Shelter Island Town Hall
44 North Ferry Road
Shelter Island, New York 11964

Re: Thompson Hill Transaction

Dear Helen:

Robert Lanahan's February 8, 2000 memorandum to the Shelter Island Town Board, discussing The Nature Conservancy's acquisition and disposition of the Thompson Hill property, has been brought to my attention. Let me respond briefly to some of the issues raised in the memorandum.

After years of on again, off again negotiations with the owners of the 9.38 acre Thompson Hill property (the property was owned by the Estate of James Gerard (1/3 fee title interest), Coster Gerard (1/3 fee title interest), and the Sumner Gerard, Jr. Trust (1/3 fee title interest)), The Nature Conservancy acquired the property on September 2, 1999 for $2.1 million dollars.

While the memorandum queries whether the Conservancy's acquisition of the Thompson Hill property was through an open market, arms-length transaction, the Conservancy in fact paid slightly more for the property than our January 1999 Marchitelli Barnes & Company appraisal indicated it was worth.

Furthermore, during our negotiations with members of the Gerard family, there was never any discussion of a donative aspect to the transaction, and none of the Gerards submitted an IRS Form 8283 to the Conservancy for the purpose of claiming a charitable deduction in connection with the sale (had they done so, it would have indicated that, at least from the Sellers' perspective, the property was sold for less than what it was worth). Although certain Gerard family members expressed a desire to receive more than $2.1 million for the Thompson Hill property, they ultimately accepted our $2.1 million offer. Our acquisition of the property was unquestionably an open market acquisition, and cannot be characterized as anything but arms-length in nature.

The Conservancy's long-term goal for Thompson Hill was to get the property into the hands of a conservation buyer. Consequently, while working with the Gerard family to acquire the property, the Conservancy worked simultaneously on conveying the property out to James and Nancy Dougherty, who agreed to acquire Thompson Hill from the Conservancy with development restrictions and safeguards in place as to the environmentally sensitive aspects of the property. These restrictions and safeguards are set forth in the conservation easement encumbering the property.

Once the terms and conditions of the conservation easement were worked out with the Doughertys, we then had the property appraised again so as to determine its value as encumbered by the easement. The new appraisal indicated a value for the encumbered property of approximately $500,000 (the current town assessment of the property as unencumbered is $604,500), and we subsequently sold the property to the Doughertys for $500,000.

In regard to this aspect of the transaction, please note that as a nonprofit, tax-exempt organization, the Conservancy cannot sell assets to third parties for less than fair market value. Doing so potentially jeopardizes the Conservancy's tax-exempt status under applicable federal tax law. Thus the need for the second appraisal of the Thompson Hill property: the Conservancy had to establish a value for the encumbered property before selling it to a conservation buyer. Our sale of the property to the Doughertys must be considered in light of federal tax law and how it governs the Conservancy's actions in such situations. In such light, any notion of impropriety about the sale of the Thompson Hill property for $500,000 is immediately dispelled.

We also discussed with all potential conservation buyers (there were several interested parties) the need for the Conservancy to be made whole financially in regard to the overall Thompson Hill transaction. As a result, when the property was sold to the Doughertys, they signed a multi-year charitable pledge under which they agreed to make donations to the Conservancy that not only cover the difference between what the Conservancy purchased and sold the Thompson Hill property for, but that also reimburse the Conservancy for all direct costs incurred in acquiring and then selling the property.

Of course, the transaction between the Conservancy and the Doughertys was structured with both conservation and tax consequences in mind. Yet as explained above, the structure of the transaction, as conceived and as consumated, was built around independent appraisals of the property before and after the conservation easement. It is also important to remember that the transaction accomplished important conservation objectives for the community. Had significant development rights not been stripped from the Thompson Hill property when it was conveyed to the Doughertys, purchasing these development rights at a later date would have cost much more than any Community Fund

Preservation taxes perceived of as "lost" due to the structure of the Thompson Hill transaction.

I hope that this letter clarifies the issues raised in Robert Lanahan's memo about the Conservancy's acquisition and disposition of the Thompson Hill property. Please do not hesitate to contact me with any questions you or others might have about this matter.

We have not talked in quite some time; I hope all is well with you.

Warmest regards,

Jonathan C. Kaledin
State Counsel

cc: James and Nancy Dougherty
Shelter Island Town Board
Tepper/Laspia/Kelley/Cooper/Lowrie

PLEASE TYPE OR PRESS FIRMLY WHEN WRITING ON FORM
INSTRUCTIONS: http:// www.orps.state.ny.us or PHONE (518) 473-7222

FOR COUNTY USE ONLY

C1. SWIS Code

C2. Date Deed Recorded (Month / Day / Year)

C3. Book C4. Page

JUL 3 1 2003

REAL PROPERTY TRANSFER REPORT

STATE OF NEW YORK
STATE BOARD OF REAL PROPERTY SERVICES

JUL 3 1 2003

RP - 5217

RP-5217 Rev 3/97

PROPERTY INFORMATION

Property Location: 21 (STREET NUMBER) Thompson Hill Road (STREET NAME)
Shelter Island (CITY OR TOWN) (VILLAGE) 11964 (ZIP CODE)

Buyer Name: Dougherty (LAST NAME / COMPANY) James D. (FIRST NAME)
Dougherty (LAST NAME / COMPANY) Nancy H. (FIRST NAME)

Tax Billing Address: Indicate where future Tax Bills are to be sent if other than buyer address (at bottom of form)
LAST NAME / COMPANY FIRST NAME
STREET NUMBER AND STREET NAME CITY OR TOWN STATE ZIP CODE

Indicate the number of Assessment Roll parcels transferred on the deed: 1 # of Parcels OR [ ] Part of a Parcel

(Only if Part of a Parcel) Check as they apply:
4A. Planning Board with Subdivision Authority Exists [ ]
4B. Subdivision Approval was Required for Transfer [ ]
4C. Parcel Approved for Subdivision with Map Provided [ ]

Deed Property Size: FRONT FEET X DEPTH OR 9.50 ACRES

Seller Name: The Nature Conservancy, Inc. (LAST NAME / COMPANY) FIRST NAME
LAST NAME / COMPANY FIRST NAME

. Check the box below which most accurately describes the use of the property at the time of sale:

A [ ] One Family Residential
B [ ] 2 or 3 Family Residential
C [X] Residential Vacant Land
D [ ] Non-Residential Vacant Land
E [ ] Agricultural
F [ ] Commercial
G [ ] Apartment
H [ ] Entertainment / Amusement
I [ ] Community Service
J [ ] Industrial
K [ ] Public Service
L [ ] Forest

Check the boxes below as they apply:
8. Ownership Type is Condominium [ ]
9. New Construction on Vacant Land [ ]
10A. Property Located within an Agricultural District [ ]
10B. Buyer received a disclosure notice indicating that the property is in an Agricultural District [ ]

SALE INFORMATION

11. Sale Contract Date: 10 / 28 / 99 (Month Day Year)

12. Date of Sale / Transfer: 10 / 28 / 99 (Month Day Year)

13. Full Sale Price: 500,000.00

(Full Sale Price is the total amount paid for the property including personal property. This payment may be in the form of cash, other property or goods, or the assumption of mortgages or other obligations.) *Please round to the nearest whole dollar amount.*

14. Indicate the value of personal property included in the sale: 0.00

15. Check one or more of these conditions as applicable to transfer:
A [ ] Sale Between Relatives or Former Relatives
B [ ] Sale Between Related Companies or Partners in Business
C [ ] One of the Buyers is also a Seller
D [ ] Buyer or Seller is Government Agency or Lending Institution
E [ ] Deed Type not Warranty or Bargain and Sale (Specify Below)
F [ ] Sale of Fractional or Less than Fee Interest (Specify Below)
G [ ] Significant Change in Property Between Taxable Status and Sale Dates
H [ ] Sale of Business is Included in Sale Price
I [ ] Other Unusual Factors Affecting Sale Price (Specify Below)
J [ ] None

ASSESSMENT INFORMATION - Data should reflect the latest Final Assessment Roll and Tax Bill

16. Year of Assessment Roll from which information taken: 99

17. Total Assessed Value (of all parcels in transfer): 604,500

18. Property Class: 920 -

19. School District Name: Shelter Island No. 1

20. Tax Map Identifier(s) / Roll Identifier(s) (If more than four, attach sheet with additional identifier(s))

District 0700 Section 024.00
Block 01.00 Lot 018.000

CERTIFICATION

I certify that all of the items of information entered on this form are true and correct (to the best of my knowledge and belief) and I understand that the making of any willful false statement of material fact herein will subject me to the provisions of the penal law relative to the making and filing of false instruments.

BUYER

BUYER SIGNATURE DATE 10/28/99

P.O. Box 1038
STREET NUMBER STREET NAME (AFTER SALE)

Shelter Island NY 11964
CITY OR TOWN STATE ZIP CODE

SELLER

THE NATURE CONSERVANCY, INC.
By: Counsel/Asst. 10/28/99
SELLER SIGNATURE DATE

BUYER'S ATTORNEY

Schreiber Stephen
LAST NAME FIRST NAME

(212) 336-2556
AREA CODE TELEPHONE NUMBER

NEW YORK STATE COPY

Schedule B — (continued)

Part III – Explanation of Exemption Claimed in Part I, line 1 *(check any boxes that apply)*

The conveyance of real property is exempt from the real estate transfer tax for the following reason:

a. Conveyance is to the United Nations, the United States of America, the state of New York or any of their instrumentalities, agencies or political subdivisions (or any public corporation, including a public corporation created pursuant to agreement or compact with another state or Canada) ..... a ☐

b. Conveyance is to secure a debt or other obligation ..... b ☐

c Conveyance is without additional consideration to confirm, correct, modify or supplement a prior conveyance ..... c ☐

d. Conveyance of real property is without consideration and not in connection with a sale, including conveyances conveying realty as bona fide gifts ..... d ☐

e. Conveyance is given in connection with a tax sale ..... e ☐

f. Conveyance is a mere change of identity or form of ownership or organization where there is no change in beneficial ownership. (This exemption cannot be claimed for a conveyance to a cooperative housing corporation of real property comprising the cooperative dwelling or dwellings.) Attach Form TP-584.1, Schedule F ..... f ☐

g. Conveyance consists of deed of partition ..... g ☐

h. Conveyance is given pursuant to the federal bankruptcy act ..... h ☐

i. Conveyance consists of the execution of a contract to sell real property without the use or occupancy of such property or the granting of an option to purchase real property without the use or occupancy of such property ..... i ☐

j. Conveyance of an option or contract to purchase real property with the use or occupancy of such property where the consideration is less than $200,000 and such property was used solely by the grantor as the grantor's personal residence and consists of a 1-, 2-, or 3-family house, an individual residential condominium unit, or the sale of stock in a cooperative housing corporation in connection with the grant or transfer of a proprietary leasehold covering an individual residential cooperative apartment ..... j ☐

k. Conveyance is not a conveyance within the meaning of section 1401(e) of Article 31 of the Tax Law *(attach documents supporting such claim)* ..... k ☐

l. Other *(attach explanation)* ..... l ☐

Schedule C — Credit Line Mortgage Certificate (Article 11 of the Tax Law)

Complete the following only if the interest being transferred is a fee simple interest.

I (we) certify that: *(check the appropriate box)*

1 ☒ The real property being sold or transferred is not subject to an outstanding credit line mortgage.

2 ☐ The real property being sold or transferred is subject to an outstanding credit line mortgage. However, an exemption from the tax is claimed for the following reason:

☐ The transfer of real property is a transfer of a fee simple interest to a person or persons who held a fee simple interest in the real property (whether as a joint tenant, a tenant in common or otherwise) immediately before the transfer.

☐ The transfer of real property is (A) to a person or persons related by blood, marriage or adoption to the original obligor or to one or more of the original obligors or (B) to a person or entity where 50% or more of the beneficial interest in such real property after the transfer is held by the transferor or such related person or persons (as in the case of a transfer to a truste for the benefit of a minor or the transfer to a trust for the benefit of the transferor).

☐ The transfer of real property is a transfer to a trustee in bankruptcy, a receiver, assignee or other officer of a court.

☐ The maximum principal amount secured by the credit line mortgage is $3,000,000 or more and the real property being sold or transferred is not principally improved nor will it be improved by a one- to six-family owner-occupied residence or dwelling

Please note: for purposes of determining whether the maximum principal amount secured is $3,000,000 or more as described above, the amounts secured by two or more credit line mortgages may be aggregated under certain circumstances. See TSB-M-96(6)-R for more information regarding these aggregation requirements.

☐ Other (attach detailed explanation).

3 ☐ The real property being transferred is presently subject to an outstanding credit line mortgage. However, no tax is due for the following reason:

☐ A certificate of discharge of the credit line mortgage is being offered at the time of recording the deed.

☐ A check has been drawn payable for transmission to the credit line mortgagee or his agent for the balance due, and a satisfaction of such mortgage will be recorded as soon as it is available.

4 ☐ The real property being transferred is subject to an outstanding credit line mortgage recorded in _____ (insert liber and page or reel or other identification of the mortgage). The maximum principal amount of debt or obligation secure by the mortgage is _____. No exemption from tax is claimed and the tax of _____ is being paid herewith. *(Make check payable to county clerk where deed will be recorded or, if the recording is to take place in New York City, make check payable to the NYC Department of Finance.)*

Signature (both the grantor(s) and grantee(s) must sign).

The undersigned certify that the above return, including any certification, schedule or attachment, is to the best of his/her knowledge, true and complete.

THE NATURE CONSERVANCY, INC.

By: [signature] Grantor — Counsel/Asst Secty Title — [signature] Grantee — Title

JAMES D. DOUGHERTY

[signature]

NANCY H. DOUGHERTY

Reminder: Did you complete all of the required information in Schedules A and B? Were you required to complete Schedule C? If you checked e f or g in Schedule A, did you complete TP-584.1? Have you attached your check(s) made payable to the county clerk where recording will take place or, if the recording is in New York City, to the *NYC Department of Finance*? If no recording is required, send your check(s), made payable t the *Department of Taxation and Finance*, directly to the NYS Tax Department, TTTB-Transfer Tax, PO Box 5045, Albany NY 12205-5045.

Schedule C (continued)

Part 11- Explanation of Exemption Claimed in Part I, line 1 (check any boxes that apply)

The conveyance of real property is exempt from the real estate transfer tax for the following reason:

a. Conveyance is to the United Nations, the United States of America, the state of New York or any of their instrumentalities, agencies or political subdivisions (or any public corporation, including a public corporation created pursuant to agreement or compact with another state or Canada) ....

b. Conveyance is to secure a debt or other obligation ....

c. Conveyance is without additional consideration to confirm, correct, modify or supplement a prior conveyance

d. Conveyance of real property is without consideration and not in connection with a sale, including conveyances conveying realty as bona fide gifts

e. Conveyance is given in connection with a tax sale ....

f. Conveyance is a mere change of identity or form of ownership or organization where there is no change in beneficial ownership. (This exemption cannot be claimed for a conveyance to a cooperative housing corporation of real property comprising the cooperative dwelling or dwellings.) ....

g. Conveyance consists of deed of partition ....

h. Conveyance is given pursuant to the federal bankruptcy act ....

i. Conveyance consists of the execution of a contract to sell real property without the use or occupancy of such property or the granting of an option to purchase real property without the use or occupancy of such property ....

j. Conveyance or real property which is subject to restrictions which prohibit the use of the entire property for any purposes except agriculture, recreation or conservation, pursuant to Section 1449-ee (2) (j) or (k) of Article 31-D of the Tax Law. (See required Town approval, below). ....

k. Conveyance of real property for open space, parks, or historic preservation purposes to any not-for-profit tax exempt corporation operated for conservation, environmental, or historic preservation purposes. ....

l. Other list explanations in space below (Grandfather/Contract) ....

m. The conveyance is approved for an exemption from the Community Preservation Transfer Tax, under Section 1449-ee of Article 31-D of the Tax law. (See j in Schedule C)

Town Attorney or other designated official

Penalties and Interest

Penalties

Any grantor or grantee failing to file a return or to pay any tax within the time required shall be subject to a penalty of 10% of the amount of tax due plus an interest penalty of 2% of such amount for each month of delay or fraction thereof after the expiration of the first month after such return was required to be filed or the tax became due. However, the interest penalty shall not exceed 25% in the aggregate.

Interest

Daily compounded interest will be charged on the amount of the tax due not paid within the time required.

*****By signing the following, the buyer and seller further represent and attest to the fact that for property lying within Southold Town, a validly executed contract was in effect prior to March 1, 1999 and that for all other towns subject at the CPF tax, a validly executed contract was in effect prior to April 1, 1999.

Seller

Buyer

Signature (both the grantor(s) and grantee(s) must sign).

The undersigned certify that the above return, including any certification, schedule or attachment, is to the best of his/her knowlec true and complete.

THE NATURE CONSERVANCY, INC.

By: [signature], Counsel/Asst Secretary

Grantor

Grantee

JAMES D. DOUGHERTY

Grantor

Grantee

NANCY H. DOUGHERTY

Peconic Bay Region
Community Preservation Fund

East Hampton	03
Riverhead	06
Shelter Island	07
Southampton	09
Southold	10

Please print or type.

Schedule A Information Relating to Conveyance

Grantor	Name (individual; last, first, middle initial)	Social Security Number
☐ Individual	The Nature Conservancy, Inc.	
☒ Corporation	Mailing address: 4245 North Fairfax Drive	Social Security Number
☐ Partnership		
☐ Other	City: Arlington, State: Virginia ZIP code: 22203	Federal employer ident. number: 53 | 0242652
Grantee	Name (individual; last, first, middle initial)	Social Security Number
☒ Individual	Dougherty; James D. and Nancy H.	064 | 30 | 249
☐ Corporation	Mailing address: P.O. Box 1038	Social Security Number
☐ Partnership		034 | 32 | 358
☐ Other	City: Shelter Island, State: New York ZIP code: 11964	Federal employer ident. number

Location and description of property conveyed

Tax map designation				Address	Village	Town
Dist	Section	Block	Lot			
0700	024.00	01.00	018.000	21 Thompson Hill Road		Shelter Island

Type of property conveyed (check *applicable* box)

☐ Improved
☒ Vacant land

Date of conveyance: 10 | 28 | 99 (month day year)

Date of contract: 10 | 28 | 99 (month day year)

Dual Towns:

Condition of conveyance *(check all that apply)*

a. X Conveyance of fee interest
b. - Acquisition of a controlling interest (state percentage acquired _____ %)
c. - Transfer of a controlling interest (state percentage transferred _____ %)
d. - Conveyance to cooperative housing corporation
e. - Conveyance pursuant to or in lieu of foreclosure or enforcement of security interest
f.- Conveyance which consists of a mere change of identity or form of ownership or organization
g.- Conveyance for which credit (or tax previously paid will be claimed
h.- Conveyance of cooperative apartment(s)
i. - Syndication
j - Conveyance of air rights or development rights
k. - Contract assignment
l. - Option assignment or surrender
m. - Leasehold assignment or surrender
n.- Leasehold grant
o.- Conveyance of an easement
p.- Conveyance for which exemption is claimed (complete Schedule B. Part 11)
q.- Conveyance of property partly within and partly without the state
r.- Other *(describe)* _____

Schedule B - Community Preservation Fund

Part 1 - Computation of Tax Due

1. Enter amount of consideration for the conveyance (from line 1 TP584 Schedule B)	1	500,000 00
2. Allowance(see below)	2	100,000 00
3. Taxable consideration (subtract line 2 from line 1)	3	400,000 00
4. 2% Community Preservation Fund (of line 3) make certified check payable to SUFFOLK COUNTY CLERK	4	8,000 00
5. Property not subject to CPF Tax (See ScheduleC)		☐

For recording officer's use	Amount received	Date received	Transaction number

Allowance:

East Hampton	$250,000.00 Improved	$100,000.00 Vacant Land (Unimproved)
Shelter Island	$250,000.00 Improved	$100,000.00 Vacant Land (Unimproved)
Southampton	$250,000.00 Improved	$100,000.00 Vacant Land (Unimproved)
Riverhead	$150,000.00 Improved	$ 75,000.00 Vacant Land (Unimproved)
Southold	$150,000.00 Improved	$ 75,000.00 Vacant Land (Unimproved)

12-0213 2/99

Recording Office Time Stamp

New York State Department of Taxation and Finance

Combined Real Estate Transfer Tax Return and Credit Line Mortgage Certificate

See instructions (TP-584-I) before completing this form. Please print or type.

Schedule A — Information Relating to Conveyance

Grantor	Name *(if individual; last, first, middle initial)* The Nature Conservancy, Inc.		Social Security Number
☐ Individual	Mailing address 4245 North Fairfax Drive		Social Security Number
☒ Corporation	City Arlington,	State Virginia	ZIP code 22203	Federal employer ident. number 53 | 0242652
☐ Partnership			
☐ Other			
Grantee	Name *(if individual; last, first, middle initial)* Dougherty: James D. and Nancy H.		Social Security Number 064 | 30 | 2429
☒ Individual	Mailing address P.O. Box 1038		Social Security Number 034 | 32 | 3587
☐ Corporation	City Shelter Island,	State New York	ZIP code 11964	Federal employer ident. number
☐ Partnership			
☐ Other			

Location and description of property conveyed

Tax map designation			Address	City/Village	Town	County
Section	Block	Lot				
024.00	01.00	018.000	21 Thompson Hill Road		Shelter Island	Suffolk

Type of property conveyed *(check applicable box)*

1 ☐ 1 - 3 family house
2 ☐ Residential cooperative
3 ☐ Residential condominium
4 ☒ Vacant land
5 ☐ Commercial/Industrial
6 ☐ Apartment building
7 ☐ Office building
8 ☐ Other _____

Date of conveyance 10 | 28 | 99 (month day year)

Percentage of real property conveyed which is residential real property 100 % *(see instructions)*

Condition of conveyance *(check all that apply)*

a. X Conveyance of fee interest
b. – Acquisition of a controlling interest (state percentage acquired _____ %)
c. – Transfer of a controlling interest (state percentage transferred _____ %)
d. – Conveyance to cooperative housing corporation
e. – Conveyance pursuant to or in lieu of foreclosure or enforcement of security interest *(attach Form TP-584.1, Schedule E)*
f. – Conveyance which consists of a mere change of identity or form of ownership or organization *(attach Form TP-584.1, Schedule F)*
g. – Conveyance for which credit for tax previously paid will be claimed *(attach Form TP-584.1, Schedule G)*
h. – Conveyance of cooperative apartment(s)
i. – Syndication
j. – Conveyance of air rights or development rights
k. – Contract assignment
l. – Option assignment or surrender
m. – Leasehold assignment or surrender
n. – Leasehold grant
o. – Conveyance of an easement
p. – Conveyance for which exemption from transfer tax is claimed (complete Schedule B, Part III)
q. – Conveyance of property partly within and partly without the state
r. – Other *(describe)* _____

Schedule B — Real Estate Transfer Tax Return (Article 31 of the Tax Law)

Part I – Computation of Tax Due

1 Enter amount of consideration for the conveyance *(if you are claiming a total exemption from tax, check the exemption claimed box, enter consideration and proceed to Part III)* ☐ Exemption claimed	1	500,000 00
2 Continuing lien deduction *(see instructions if property is taken subject to mortgage or lien)*	2	(--- -)
3 Taxable consideration *(subtract line 2 from line 1)*	3	500,000 00
4 Tax: $2 for each $500, or fractional part thereof, of consideration on line 3	4	2,000 00
5 Amount of credit claimed *(see instructions and attach Form TP-584.1, Schedule G)*	5	(--- -)
6 Total tax due* *(subtract line 5 from line 4)*	6	2,000 00

Part II – Computation of Additional Tax Due on the Conveyance of Residential Real Property for $1 Million or More

1 Enter amount of consideration for conveyance (from Part I, line 1)	1	--- -
2 Taxable consideration *(multiply line 1 by the percentage of the premises which is residential real property; see instructions)*	2	
3 Total additional transfer tax due* *(1% of line 2)*	3	

*Please make check(s) payable to the county clerk where the recording is to take place or if the recording is to take place in New York City, make check(s) payable to the *NYC Department of Finance*. If no recording is required, send this return and your check(s) made payable to the *Department of Taxation and Finance*, directly to the NYS Tax Department, TTTB-Transfer Tax, PO Box 5045, Albany NY 12205-5045.

For recording officer's use	Amount received	Date received	Transaction number
	Part I $ Part II $		

To: Bethany Seebach@Account@TNCHQ
Cc:
Bcc:
From: Melanie E. Woullard@Legal@TNCNYRO
Subject: fwd: $200,000 check sent to HO
Date: Friday, October 29, 1999 11:55 AM
Attach:
Certify: N
Forwarded By: Melanie E. Woullard@Legal@TNCNYRO

JUL 3 1 2003

Comments By: Melanie E. Woullard@Legal@TNCNYRO
Originally To: Dick Berryhill@Account@TNCHQ, Hector Berrios@Account@TNCHQ, Migdalia Rodriguez@Account@TNCHQ
Originally Cc: Jonathan Kaledin@Legal@TNCNYRO, Ariel Hameon@Develop@TNCNYNYC
Originally From: Melanie E. Woullard@Legal@TNCNYRO
Original Date: 10/29/1999 9:20 AM
Comments:

Hi Bethany,
I have a good one for you! Please see the correspondence below regarding a transfer out that occurred yesterday. I need a little help with it. This is the deal:

We transferred out a property yesterday (Mashomack-Gerard) to James& Nancy Dougherty. TNC paid $2.1M for it a month or so ago. We transferred the title but retained a conservation easement. The purchase price for the transfer out is $500,000. The Doughertys are though, going to make us whole for the entire $2.1M through a pledge agreement, but for a number of reasons the purchase price must be reflected as $500,000 with TNC retaining a conservation easement valued at $1.6M. The first installment of the charitable pledge agreement calls for TNC to receive $650,000 today. So in total TNC is to receive $500,000 purchase price + $650,000 in the form of a charitable pledge from the same people today (a total of $1.15M). That should happen. Jon (our attorney) received a check for $200,000 and there were/should be two transfers from the Dougherty's brokerage house account (where TNC also has an account) for $450,000 and $500,000.

WHEW! My question is how I should complete the land sales form. It's been helpful for me to think of the $500,000 purchase price as money completing the sale and the other $1.6M coming in, although from the same people, as a separate gift towards the purchase. But again, how would you like me to fill out the form?

Never a dull moment.

Melanie E. Woullard-Swann,
Legal Assistant/Real Property Tax Mgr
The Nature Conservancy, 415 River St., Troy, NY 12180
Tel: 518-273-9408 x232 Fax: 518-273-5178

----------[Original Message]----------

Hi everyone. I'm trying to cover all my bases here! Our state counsel Jon Kaledin attended a closing yesterday where we sold some property. Jon received a check for $200,000. In an effort to get the money

was unaware of the new procedures with team approach and FMS. JUL 3 1 2003

This $200,00 is a part of a total of about $900,000 we expect to receive on this sale to the Dohertys between cash and stocks (Anne Hubbard of HO Planned Giving is in on it too). If any of you should come upon this check it should be credited to the following center #: 2328099174.0001 Mashomack/Shelter Island (Thompson Hill-Gerard). If you have ANY questions please don't hesitate to call. Thanks.

Melanie E. Woullard-Swann,
Legal Assistant/Real Property Tax Mgr
The Nature Conservancy, 415 River St., Troy, NY 12180
Tel: 518-273-9408 x232 Fax: 518-273-5178

February 8, 2000

TO: Shelter Island Town Board Members

FROM: Robert J Lanahan, Chairman, Board of Assessors

Subject: 2% Community Fund Preservation Fund Tax

The payment structure involved in a recent property transfer has an effect of considerably reducing the 2% Community Preservation Fund tax due the Town of Shelter Island. The cash payment for the property was reported as $ 500,000.00. A more realistic value for the property is probably about $1,500,000.00.

The Nature Conservancy purchased the 9.5 acre waterfront parcel, known as Thompson's Hill, from the Estate of James Gerard for $2,100,000.00 on July 2, 1999. This purchase price is somewhat lower than could have been obtained in an open market sale. We do not consider this sale to be an arms-length-sale.

The land was then re-sold to James and Nancy Dougherty, with a conservation easement as a part of the deed. The Dougherty's made a donation to The Nature Conservancy, in addition to the reported purchase price of $500,000.00, for a total fund transfer of $2,100,000.00 for the property.

The easement essentially provides James and Nancy Dougherty 4.6 acres for their use. The remaining 3.9 acres are to remain as non-buildable buffer areas along the perimeter of the property on Smith Cove and along the South facing shoreline and bluffs associated with the property.

cc: Gerard Siller
Sharon Kast
Paul Mobius
Glen Waddington
James Messer

APPENDIX P

DOCUMENTS RELATING TO LAKE HURON

Diane Ray@LEGAL@TNCMRO

From: Bill McCort@PROTECT@TNCMIFO
Sent: Friday, September 29, 2000 5:28 PM
To: Diane Ray@LEGAL@TNCMRO
Cc: Helen Taylor@ADMIN@TNCMIFO
Subject: Larry Harmon Deal

Diane, Helen has a tentative deal with Larry Harmon as I left on a phone message for you. I relayed to Helen the $100,000 number that you said we could pay for Shillingburg. Larry is willing to take $100,000 above what he is paying, $1,375,000. Helen now wants to know if we can do $100,000 more for Shillingburg, can we also do $100,000 more for Connolly? Larry Harmon is willing to give us both properties for $200,000. So that works out to $2,367,500 + $200,000 = $2,567,500. Ed Steigerwaldt's appraisal is at $2,500,000. So that puts us 2.7% over appraised value. Will this work?

Larry wants to know what our involvement is in his tax deduction. He would use his appraisal to claim a bargain sale. Will we have any problem filling out our part of the 8283 form?

This deal puts the task on Helen to get Connolly and Shillingburg to agree to the assignment of the purchase agreement to TNC.

Last question is Helen wants to know if we can buy Larry out next week if she can get Connolly and Shillingburg to agree to the assignment?

Larry wants to know asap on Monday. He is meeting with his attorneys at 10:00 am.

Thanks,

Bill

MEMORANDUM

TO: File

FROM: Diane B. Ray

DATE: September 29, 2000

RE: Northern Lake Huron (Chi-Mac and Shillingburg Tracts)

I spoke with Bill McCort this morning about the status of the above-referenced transactions.

Bill indicated that our review appraiser, Lloyd Kirby, has said that the methodology used by Harmon's appraiser is suspect and that she is not qualified to do appraisals of that dollar value (she is licensed, but not certified, meaning she can't do appraisals on properties valued over $1 million). To provide us with a supportable value, he will need to do his own appraisal and he doesn't really have time for that right now – his best guess is that the property is worth something in the $1.9 to 2 million range. Ed Steigerwalt had earlier said his best guess at value was $2.5 million, and he agreed that the appraisal conducted by Harmon's appraiser was not acceptable under appraisal standards. Bill is going to check with Steigerwalt and Kirby to see which one of them could get us a "real" appraisal the quickest, but it looks very unlikely that we will have an appraisal which supports the purchase price under the assignments by our contingency removal date of Oct. 4. I told Bill that we can not go above FMV as determined by an appraisal for properties with values of this magnitude, and that in all likelihood we will have to tell Harmon that the contingencies have not been satisfied, and we will not waive them, and that the assignments are therefore terminated.

Another problem is the lack of assignability of the original contracts. Harmon did not secure prior written permission of either Chi-Mac or Shillingburg, and our assignment is therefore invalid. We cannot remove our contingencies unless he secures their written permission. Harmon's answer to this is that we should have property deeded to TNC and him, and then he'll quit claim to us. I'm not at all sure about that, but it is a moot point anyway unless we can resolve the valuation issue. I think that in order to get around this problem, we would have to have a double closing – they sell to him, then he sells to us. That would be the cleanest way of dealing with the lack of assignability, but Harmon does not want to incur the transaction costs (including the transfer tax) of doing it that way.

On another front, Chi-Mac (the Connelly family) has gotten wind of the assignment and wants to back out of their purchase agreement with Harmon. They want to sell to us (although we suspect that they will want a bump in value, which may be possible to a small degree but not to the degree they expect). Harmon has said he will sue for specific performance if they rescind. In fact, Harmon has indicated to Bill that he'll "sue everyone" (including TNC) if this falls through. I told Bill that Harmon will not have a cause of action against us on the assignment – but that we

RECEIVED JUL 3 1 2003

need to be careful not to do anything that interferes in the contractual relationship between Chi-Mac and Harmon. However, we need to be prepared to step into the breach to secure the property if there are holes in that contract between Chi-Mac and Harmon. The Connellys have told their realtor to begin working with TNC on an agreement. I told Bill I thought we could do that, but that we'd need to make any agreement contingent on their successful rescission of the contract with Harmon. One option might be to get a right of first refusal from them on specific terms, triggered by the failure of the sale to Harmon. If Harmon's deal with Chi-Mac fails, he has problems as he really needs the two properties together to have a successful development.

In any event, completion of the deal as presently structured with Harmon appears to me to be impossible. The valuation support is not there, which is the primary problem. Secondly, the issue of the lack of assignability of the original contracts is probably an insurmountable problem for Harmon.

Diane Ray@LEGAL@TNCMRO

From: Bill McCort@PROTECT@TNCMIFO
Sent: Monday, October 02, 2000 9:40 AM
To: Diane Ray@LEGAL@TNCMRO
Cc: Helen Taylor@ADMIN@TNCMIFO
Subject: re: RE: Larry Harmon Deal

Diane, I just talked with Larry Harmon re. the following:

1. He asked if we could buy him out this week, he would greatly appreciate it. I told him the next step for us is to get Connolly and Shillingburg to agree to the assignment. Helen is working on this.
2. Larry said regardless on how we handle our money on our side of the transaction, he plans to treat the $200,000 as if it were all for Shillingburg. He will then quit claim Connolly to us without any additional payment. He wants to do this in order to avoid problems with Connolly. I suspect this will cause problems for us, but I am leaving it to you to tell me what to say on this.
3. I told him what you emailed me re. our involvement in the donation, including that we may add a disclaimer if we think his valuation is questionable. He said he understands and does not intend to take his full appraised value as the donation.
4. In order to be able to claim ownership and then his donation of the properties, he wants to add our name to his name on the deeds. He will provide us a quit claim deed. We close with both names, and then record the quit claim deed. Does this work?

Bill

Diane Ray@LEGAL@TNCMRO Wrote:

> I think we can do the deal as you have described it. We can probably buy Harmon out next week, as long as we've got a secure deal (i.e. Shillingburg and Connelly have agreed to the assignment, in writing).
>
> As for our involvement with the donation, it is limited to signing the 8283 - all that says is that we received the property, not that we are agreeing to the donor's valuation. If we feel the valuation is too far out of line, we have been known to sign the 8283 with a disclaimer indicating we think the donor's valuation is questionable. One thing Harmon will need to get clear with his own advisors is that he can count this as a gift of property - since he has never held title to the property, and won't before we acquire, I'm not sure if he can claim that he donated "real estate" to us. I'm not sure if donating a contractual interest in real estate qualifies. I'm not sure it doesn't, either, I just don't know one way or the other and he needs to check with his own advisors if this is a route he plans to take.
>
> Diane

JUL 3 1 2003

Diane Ray@LEGAL@TNCMRO

From: Diane Ray@LEGAL@TNCMRO
Sent: Tuesday, October 03, 2000 8:59 AM
To: 'Bill McCort@PROTECT@TNCMIFO'
Subject: Connelly Letter

Bill,

I agree with Helen. Additionally, buyers who are getting fair market value for their property cannot expect to have any voice in its future management - if they want to restrict the property before it comes to us, they will have to accept a decreased purchase price. I doubt that's what they want.

I'm attaching a revised version of the letter. I really think it is a bad idea to tell them that someone is willing to "pay" us $1 million for the property, even as restricted. That could give them grandiose notions of its value and convince them they've sold too low - making the situation worse. What our conservation buyer is really doing is buying the property for its (reduced) fair market value, then making a donation of the rest. If we need to mention this to the Connellys at all, it needs to be framed in that way. Other than that more substantive change, I just made a few other changes that were more for clarity or style issues (you know us lawyers and our red pens . . .)

Let me know if you have any questions.

Diane

wilson.doc

The Nature Conservancy®

Midwestern Resource Office
1313 Fifth Street Southeast, Suite 314
Minneapolis, Minnesota 55414-1588
TEL 612 331-0700
FAX 612 331-0770

International Headquarters
Arlington, Virginia
TEL 703 841-5300

JUL 3 1 2003

October 3, 2000

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STATE DIRECTOR
Helen Taylor

Mr. Mark Wilson
ADDRESS??????

Dear Mark:

As we discussed, this letter is intended for Michael Connolly, his sister, and brother (I apologize for not knowing their names). I am very excited and pleased that Chi-Mac Associates Limited Partnership is wanting to protect its property near Cedarville, Michigan through The Nature Conservancy. I believe that the Conservancy is in an excellent position to meet their wishes. Let me outline my proposal for their and your consideration.

Upon acquiring Chi-Mac Associates Limited Partnership's property, The Nature Conservancy would place a conservation easement on the property. The conservation easement is a legally binding document that restricts the use of the property. It is recorded with the deed and must be followed by all those that come into the chain of title from then on. The conservation easement will restrict the property to no further development beyond the existing buildings. The existing house could be replaced with another single-family home, but it would have to be in the same location as the existing house. Otherwise, the property would be protected as is and would be required to stay in its current natural state.

The Nature Conservancy has a conservation buyer identified who will buy the property, with the conservation easement in place, from the Conservancy. Although the conservation easement will greatly lower the value of the property (up to 70 percent lower is not uncommon), our conservation buyer is willing to purchase the property from the Conservancy with the conservation easement in place, and also make a donation of additional funds to ensure the Conservancy's work at this site has financial resources behind it. His wonderful generosity makes it possible for the Conservancy to acquire such an expensive property, and the conservation easement assures that the property will remain in its current natural state.

The Nature Conservancy will hold the conservation easement and monitor it to make sure it is upheld. As the holder of the largest private collection of nature preserves in the world, The Nature Conservancy is prepared to enforce the terms of this conservation easement. In the very unlikely event that The Nature Conservancy should go out of business, our by-laws require that the conservation easement be

recycled paper

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JUL 3 1 2003

transferred to another nonprofit conservation organization for its continued protection of the property.

In short, Chi-Mac Associates Limited Partnership can rest assured that its property will be protected in its current natural state! This is The Nature Conservancy's mission as well as its commitment.

One difficulty that I should mention here is how to get the property into The Nature Conservancy's ownership. My understanding is that Chi-Mac Associates Limited Partnership is wanting to rescind its purchase agreement with Larry Harmon. I also understand that Larry Harmon intends to take the matter to court. Fortunately, this confrontation is not needed. Larry Harmon is willing to assign his purchase agreement to The Nature Conservancy. However, he needs Chi-Mac Associates Limited Partnership to agree to this assignment. Since you would like The Nature Conservancy to protect the property, I sincerely hope that you will agree to this assignment. I believe all or our goals can be met in this manner without any further confrontation or expense.

Please let me know if I can explain The Nature Conservancy's intentions any further. I sincerely appreciate your interest in protecting your property and hope you are encouraged by this proposal. Thank you for your consideration!

Sincerely,

Helen Taylor
State Director

recycled paper

MEMORANDUM

Please share this information with appropriate staff.

To: Helen Taylor, State Director, MIFO

cc: Bill McCort, Director of Protection, MIFO

From: Sue Corbin, Legal Assistant, MRO

Date: October 19, 2000

Re: Northern Lake Huron (Harmon Tract)(fka Shillingburg)
Mackinac County, Michigan

This memo is to inform you that we closed on the acquisition of the Harmon tract (fka Shillingburg) tract at Northern Lake Huron on October 13, 2000.

STEWARDSHIP ENDOWMENT: Enclosed please find a copy of the Journal Entry Request Form transferring $20,000 from the No. Lake Huron-Shillingburg center, #2220629085-0001, into the Michigan Stewardship Endowment center, #4220628000, to cover the stewardship endowment for this tract.

STEWARDSHIP START-UP FUNDS: You did not request any stewardship start-up costs.

REAL ESTATE TAXES: All real estate taxes due in the year of closing were prorated to the date of closing and the Conservancy received a credit of $338.98 at closing to cover the seller's share of those taxes. All future taxes are the responsibility of the Conservancy.

We asked the title company to notify the appropriate taxing officials of the change in ownership. You may want to follow up on this, or track this in some way, to ensure that you receive the next tax statements.

BUILDINGS: There are improvements located on the property – a cabin and a shack. If these structures are of value, please notify our insurance agent (Franey, Parr & Muha, Inc., Dulles Gateway Center I, 13921 Park Center Road, Suite 160, Herndon, VA 20171. 800-298-7373 or 703-397-0977) of this and ask that the buildings be added to the Conservancy's insurance policy.

MISCELLANEOUS: The original Tract Detail Record submitted by the your office indicates that the Conservancy must grant a right of way easement to Interfaith Varsity Fellowship to use existing trails across this property. Please work with Diane Ray on this.

AUTHORIZED TRANSACTIONS: You obtained approval to:

- Acquire the property.
- Issue leases, licenses or permits for hunting or other recreational uses.
- Sell a portion of the property, to be determined, with a conservation easement, or other appropriate use restrictions, to a conservation buyer.
- Loan: approximately $1,721,429. 2 years. LPF or other sources acceptable to Chief Operations Officer.
- Fundraise: $1,721,429.

AGRICULTURAL LAND: If there is any agricultural land located on this tract, please let Sue Corbin or Dianne Masters know so that we can contact the local FSA Office (fka ASCS) and inform them of the change in ownership.

As soon as we have received the documents covering this transaction, we will forward copies to you for your file of <u>only the documents we received at and after closing.</u> Please let me know if you need copies of any other documents.

Please call if you have any questions regarding this memo.

smc:
Enclosure

Diane Ray@LEGAL@TNCMRO

From: Bill McCort@PROTECT@TNCMIFO
Sent: Monday, October 02, 2000 9:40 AM
To: Diane Ray@LEGAL@TNCMRO
Cc: Helen Taylor@ADMIN@TNCMIFO
Subject: re: RE: Larry Harmon Deal

Diane, I just talked with Larry Harmon re. the following:

1. He asked if we could buy him out this week, he would greatly appreciate it. I told him the next step for us is to get Connolly and Shillingburg to agree to the assignment. Helen is working on this.
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>
> Diane

To: Bill McCort@PROTECT@TNCMIFO
Cc:
Bcc:
From: Diane Ray@LEGAL@TNCMRO
Subject: RE: CHI-MAC QUESTION
Date: Monday, November 20, 2000 at 4:49:52 pm EST
Attach:
Certify: N

JUL 3 1 2003

I don't think there's anything specific I can direct him to - it's just common sense, really. It's certainly well more than my opinion (and it is strict TNC policy besides), but I doubt there are any cases out there on it, if that's what he's gettin at. People take deductions for gifts of easements all the time - because they have value, and they reduce the value of the remaining title to that property. We also purchase conservation easements in some circumstances, paying for the difference between the fair market value unrestricted and the fair market value with the easement in place. Development rights are often purchased separately, again because they have value. A conservation easement is an interest in property with a value, and a commitment on our part to put one on property we buy amounts to a devaluatior of that property by the value of the conservation easement. Typically, the value of an easement is 1/3 to 1/2 the value of the fee simple title, unrestricted. Essentially, if we are agreeing not to develop the property, the property has to be valued as if it cannot be developed (divided into smaller lots, etc.). I'll look for an article or something tomorrow, but I don't know if I'll find anything that will satisfy this guy. Perhaps if we send him to the regs regarding "qualified charitable contributions" regarding conservation easements, he'll see that it is implicit that they have value otherwise they wouldn't be able to count as contributions!

Diane

To: Diane Ray@LEGAL@TNCMRO
Cc:
Bcc:
From: Bill McCort@PROTECT@TNCMIFO
Subject: CHI-MAC QUESTION
Date: Monday, November 20, 2000 at 3:52:55 pm EST
Attach:
Certify: Y

JUL 3 1 2003

Diane, our email is giving me problems, so I am certifying this to see if you get it.

I had a call from Mark Wilson, attorney for the Connollys and the Chi-Mac Associates Limited Partnership this morning. He wants to call you directly, but I am trying to get the answer without him doing so, and I am not going to give him you number (although he may already have it somehow?). He is questioning what is your "legal authority" or is it your "opinion" that if Chi-Mac requires us to do a conservation easement as part of the purchase agreement, the value of the property is decreased. I can't find anything here that makes it clear legally.

He noted that he asked you before and received information from you regarding a nonprofit not benefitting the individual. He said that did not answer/address his question.

Let me know if this is one of those things I should know or should be able to find on my own. I understand that Chi-Ma is not selling us all of the property rights if they require that we restrict it with an easement. Hence, it is worth less. But I don't know what legal document I can refer him to...if there is any.

Thanks,

Bill

JUL 3 1 2003

TELEPHONE MEMORANDUM

TO FILE:

DATE: 12-1-00

INDIV. SPOKEN TO : Mark Wilson

AGENCY:

ADDRESS:

PHONE: 810-775-5578

NOTES TAKEN BY:

SUBJECT:

PURPOSE/REASON FOR CALL:

COMMENTS:

- Diane Ray: ~~not just her opinion~~ more than her opinion that cons. easement has value; hence if require it as part of deal, value is lowered.

  look at regs. regarding "qualified charitable contributions." — cons. easements implicit that they have value otherwise the wouldn't count as contributions.

FOLLOW-UP:

- IRS would not let us pay full value to cons. easement on it

TICKLE:

- We won't pay more than what we are paying Larry Harmon

Wilson thinks there are an additional 200' not 1600' but → 1800'

JUL 3 1 2003

TELEPHONE MEMORANDUM

TO FILE:

DATE: 1-23-01

INDIV. SPOKEN TO : Gail Lecrollar

AGENCY:

ADDRESS:

PHONE:

NOTES TAKEN BY:

SUBJECT: Larry Harmon

PURPOSE/REASON FOR CALL:

1. Authority to ~~ac~~ acquire was approved.

COMMENTS:

FOLLOW-UP:

TICKLE:

The Nature Conservancy®

Midwestern Resource Office
1313 Fifth Street Southeast, Suite 314
Minneapolis, Minnesota 55414-1588
TEL 612 331-0700
FAX 612 331-0770

International Headquarters
Arlington, Virginia
TEL 703 841-5300

March 7, 2001

Larry D. and Sandra Harmon
P.O. Box 108
Drummond Island, MI 49726

Re: Northern Lake Huron (Shillingburg Tract)
Mackinac County, Michigan

Dear Mr. and Mrs. Harmon:

The Nature Conservancy is pleased to have completed its recent bargain sale purchase from you of approximately 131.50 acres of land in Mackinac County, Michigan, which closed on October 13, 2000.

Under federal tax law, an income tax deduction will be allowed for any gift of $250 or more only if the donor has written substantiation of the gift from the charity receiving the gift. This letter is intended to meet this requirement, and you should keep it with your tax records.

At closing on October 13, 2000, The Nature Conservancy provided no consideration for the described above other than as outlined in the purchase agreement for the property. This consideration included the purchase price of $1,475,000.00. Only the value of the land in excess of the consideration received is deductible to the extent permitted by law. Please consult your tax adviser for specific information in this regard.

If you wish to take a charitable deduction for a gift of land with a value in excess of $500, you must prepare IRS form 8283 on which you will record the value of your gift and the amount of consideration received. The Nature Conservancy does not play a role in determining the value of your gift. If the value of your gift exceeds $5,000, the IRS requires you to substantiate its value through a qualified appraisal. Again, consult with your tax adviser if you have questions.

For your convenience, I am enclosing a copy of IRS form 8283 and instructions. If you elect to complete it, please send the completed form to me at the address below and I will sign the form on behalf of the Conservancy and return it to you.

Sincerely,

Diane B. Ray

Diane B. Ray
Division Attorney

DBR:smc
enclosures

Form **8283**
(Rev. October 1998)
Department of the Treasury
Internal Revenue Service

N. cash Charitable Contributions

▶ **Attach to your tax return if you claimed a total deduction of over $500 for all contributed property.**
▶ **See separate instructions.**

OMB No. 1545-0908
Attachment Sequence No. **55**

Name(s) shown on your income tax return

Identifying number

Note: *Figure the amount of your contribution deduction before completing this form. See your tax return instructions.*

Section A—List in this section **only** items (or groups of similar items) for which you claimed a deduction of $5,000 or less. Also, list certain publicly traded securities even if the deduction is over $5,000 (see instructions).

Part I **Information on Donated Property**—If you need more space, attach a statement.

1	(a) Name and address of the donee organization	(b) Description of donated property
A		
B		
C		
D		
E		

Note: *If the amount you claimed as a deduction for an item is $500 or less, you do not have to complete columns (d), (e), and (f).*

	(c) Date of the contribution	(d) Date acquired by donor (mo., yr.)	(e) How acquired by donor	(f) Donor's cost or adjusted basis	(g) Fair market value	(h) Method used to determine the fair market value
A						
B						
C						
D						
E						

Part II **Other Information**—Complete line 2 if you gave less than an entire interest in property listed in Part I. Complete line 3 if conditions were attached to a contribution listed in Part I.

2 If, during the year, you contributed less than the entire interest in the property, complete lines a–e.

a Enter the letter from Part I that identifies the property ▶ _____. If Part II applies to more than one property, attach a separate statement.

b Total amount claimed as a deduction for the property listed in Part I: **(1)** For this tax year ▶ _____.
(2) For any prior tax years ▶ _____.

c Name and address of each organization to which any such contribution was made in a prior year (complete only if different from the donee organization above):

Name of charitable organization (donee)

Address (number, street, and room or suite no.)

City or town, state, and ZIP code

d For tangible property, enter the place where the property is located or kept ▶ _____

e Name of any person, other than the donee organization, having actual possession of the property ▶ _____

3 If conditions were attached to any contribution listed in Part I, answer questions a – c and attach the required statement (see instructions).

	Yes	No
a Is there a restriction, either temporary or permanent, on the donee's right to use or dispose of the donated property?		
b Did you give to anyone (other than the donee organization or another organization participating with the donee organization in cooperative fundraising) the right to the income from the donated property or to the possession of the property, including the right to vote donated securities, to acquire the property by purchase or otherwise, or to designate the person having such income, possession, or right to acquire?		
c Is there a restriction limiting the donated property for a particular use?		

For Paperwork Reduction Act Notice, see page 4 of separate instructions. Cat. No. 62299J Form **8283** (Rev. 10-98)

Name(s) shown on your income tax return | Identifying number

Section B—Appraisal Summary—List in this section only items (or groups of similar items) for which you claimed a deduction of more than $5,000 per item or group. **Exception.** Report contributions of certain publicly traded securities only in Section A.

If you donated art, you may have to attach the complete appraisal. See the **Note** in Part I below.

Part I **Information on Donated Property**—To be completed by the taxpayer and/or appraiser.

4 Check type of property:

☐ Art* (contribution of $20,000 or more) ☐ Real Estate ☐ Gems/Jewelry ☐ Stamp Collections

☐ Art* (contribution of less than $20,000) ☐ Coin Collections ☐ Books ☐ Other

*Art includes paintings, sculptures, watercolors, prints, drawings, ceramics, antique furniture, decorative arts, textiles, carpets, silver, rare manuscripts, historical memorabilia, and other similar objects.

Note: *If your total art contribution deduction was $20,000 or more, you must attach a complete copy of the signed appraisal. See instructions.*

5	(a) Description of donated property (if you need more space, attach a separate statement)	(b) If tangible property was donated, give a brief summary of the overall physical condition at the time of the gift	(c) Appraised fair market value
A			
B			
C			
D			

See instructions

	(d) Date acquired by donor (mo., yr.)	(e) How acquired by donor	(f) Donor's cost or adjusted basis	(g) For bargain sales, enter amount received	(h) Amount claimed as a deduction	(i) Average trading price of securities
A						
B						
C						
D						

Part II **Taxpayer (Donor) Statement**—List each item included in Part I above that the appraisal identifies as having a value of $500 or less. See instructions.

I declare that the following item(s) included in Part I above has to the best of my knowledge and belief an appraised value of not more than $500 (per item). Enter identifying letter from Part I and describe the specific item. See instructions. ▶

Signature of taxpayer (donor) ▶ Date ▶

Part III **Declaration of Appraiser**

I declare that I am not the donor, the donee, a party to the transaction in which the donor acquired the property, employed by, or related to any of the foregoing persons, or married to any person who is related to any of the foregoing persons. And, if regularly used by the donor, donee, or party to the transaction, I performed the majority of my appraisals during my tax year for other persons.

Also, I declare that I hold myself out to the public as an appraiser or perform appraisals on a regular basis; and that because of my qualifications as described in the appraisal, I am qualified to make appraisals of the type of property being valued. I certify that the appraisal fees were not based on a percentage of the appraised property value. Furthermore, I understand that a false or fraudulent overstatement of the property value as described in the qualified appraisal or this appraisal summary may subject me to the penalty under section 6701(a) (aiding and abetting the understatement of tax liability). I affirm that I have not been barred from presenting evidence or testimony by the Director of Practice.

Sign Here Signature ▶ Title ▶ Date of appraisal ▶

Business address (including room or suite no.) | Identifying number

City or town, state, and ZIP code

Part IV **Donee Acknowledgment**—To be completed by the charitable organization.

This charitable organization acknowledges that it is a qualified organization under section 170(c) and that it received the donated property as described in Section B, Part I, above on ▶ _____ (Date)

Furthermore, this organization affirms that in the event it sells, exchanges, or otherwise disposes of the property described in Section B, Part I (or any portion thereof) within 2 years after the date of receipt, it will file **Form 8282,** Donee Information Return, with the IRS and give the donor a copy of that form. This acknowledgment does not represent agreement with the claimed fair market value.

Does the organization intend to use the property for an unrelated use? . . . . . ▶ ☐ Yes ☐ No

Name of charitable organization (donee)	Employer identification number	
Address (number, street, and room or suite no.)	City or town, state, and ZIP code	
Authorized signature	Title	Date

Diane Ray

From: Diane Ray [dray@tnc.org]
Sent: Friday, March 23, 2001 2:42 PM
To: Bill McCort
Subject: RE: Chi-Mac

JUL 3 1 2003

Bill,

I've already asked Rose Anne to send the Assignment and the Consent to both the title co. and the realtor, so you don't need to do that. I will call the title co. this afternoon to see what we can do regarding closing -- if they can't have the updated title work done until Tuesday, I don't think we'll be closing Wednesday. Essentially, we have two weeks within which to close, but I'd like to see it happen by next Friday.

I've talked with Mark Wilson about the second letter agreement. We had talked before he drafted it and had reached an understanding of what it was to say. If you note, Wilson rather cryptically notes in several places that "this was Michael Connelly's understanding." As I had told him when we spoke (before the letter was drafted), we can provide them with a copy of our appraisal but they'll need their own (and need to pay for it) if they plan to take a charitable deduction. Also, I told him I didn't think there was any donative intent and that they would be asking for trouble if they do try to take this as a deduction.

On the easement issue, Mark understands that we can't (as a legal matter) put a conservation easement in our own favor on property we own -- sequentially, we have to sell and then get an easement back. He understands this, but had to placate Michael Connelly.

I talked with Mark this morning and will be redrafting the letter to change these two items. I'll send you a copy when that happens (hopefully yet this afternoon).

Diane

-----Original Message-----
From: Bill McCort [mailto:bmccort@TNC.ORG]
Sent: Friday, March 23, 2001 2:23 PM
To: Diane Ray
Subject: FW: Chi-Mac

Diane, I just talked to Helen. I will forward a copy of the consent to seller to assignment of sales contract between Chi-Mac and TNC if that is okay with you. Helen said we are to close on next Wednesday? Should I mention that to the title company to give them the heads up?

Also, the second agreement that Chi-Mac wants us to sign talks about our letting them use our appraisal for their bargain sale documentation with IRS. I thought we couldn't do that?

Bill

-----Original Message-----
From: Bill McCort [mailto:bmccort@tnc.org]
Sent: Friday, March 23, 2001 3:05 PM
To: Helen Taylor; Diane Ray
Subject: Chi-Mac

Larry Harmon just called and seemed appreciative that we got things straightened out. He said Sally Brumleve, the real estate broker for Chi-Mac, is coordinating notices and that the title company wanted something indicating that Chi-Mac has agreed to the assignment. Hence, I assume they want a copy of the agreement with Chi-Mac. At Larry's suggestion, I called Sally Brumleve, and she confirmed the same. She said we should send the agreement to David Morey, Eastern Upper Peninsula Title Co., FAX (906) 632-6153, phone: (906) 632-0603. She also would like a copy of whatever we send. Sally's fax is (906) 484-9974.

The title company can be ready with the title work by next Tuesday. They would like to know approximately when we are thinking of closing.

Bill

JUL 3 1 2003

JUL 3 1 2003

Bill McCort

From: Pat Bray [pbray@tnc.org]
Sent: Monday, April 02, 2001 5:39 PM
To: JEFFREY D KNOOP
Cc: WILLIAM D. MCCORT
Subject: Connelly/Shillingberg notes

Hey Jeff,

Hope the drive went well - and that Duke lost.

Bill thought it would be a good idea if I gave you some background on these properties and what we need from you when the papers do get signed.

Here's the Readers Digest version:

A friend and former trustee, Jerry Jung, is willing to buy whatever property he can of the two peices for a total commitment of $1.7 million. We have other commitments and donations for the property that total another $600,000 (us & Little Traverse at 200,000 each; an individual donor at $100,000, and GM and Georgia Pacific at $50,000 each). Cedar Campus through its national organization, the InterVarsity Christian Fellowship, is going to ask its board to put in $200,000 this summer.

Our line of thought is to have the two pieces appraised as one and to request a fair market value price with a conservation easement in place. Our goal is to get out of the project without having to do anymore fund raising while covering our costs. If the value is equal to or lower than $1.7 we would want to sell it all to Jerry. If it's lower we hope Jerry will donate the difference.

Additional items of note and questions:

1) Cedar Campus is interested in buying 10 - 20 acres of the Shillingberg property to build some staff housing. This amout would come out of their $200,000. Tina is aware of the location. They have a board meeting this summer and we have to have an understanding on the feasibility of this purchase to them no later than May 1. Little T. is working on an easement on the Camp property to protect its shoreline and other designated natural areas. Also, Cedar Campus uses a trail across the Connelly/Shillingberg land for their campers. Continued use of a trail will need to be included in the easement and Jerry is aware of that.

2) I'm concerned that if we do look at selling all the property to Jerry that we may have a problem because donations from others were included in covering the original purchases. I don't know if this is a legal concern or not since the easement would protect the land and we never talked about a preserve that would be open to the public. That seems to be a question for our legal folk that you'll need to clarify. I know it is donor relations concern of mine and if it appears to be okay I would check in with the donors to keep them in the loop. Little T is okay with leaving their money in and so are we.

Contacts:

At Little T. we're working with Tom Lagerstrum on the fund raising and Mary Kay on the easement for the camp. Their number is 231-347-0991.

At Cedar Campus/InterVarsity I'm talking with Don Erickson in WI. His number is 608-274-4823 Ext. 459.

Why don't we talk on Monday if you can to go over your questions. And I hope this helps a little.

Pat

04/09/2001

JUL 3 1 2003

Midwestern Resource Office
1313 Fifth Street Southeast, Suite 314
Minneapolis, Minnesota 55414-1588
TEL 612 331-0700
FAX 612 331-0770

International Headquarters
Arlington, Virginia
TEL 703 841-5300

April 6, 2001

VIA FACSIMILE (906) 484-9974

Sally Brumleve
ERA Brumleve Properties, Inc.
143 South Meridian Street
Cedarvill, MI 49719

Re: Northern Lake Huron Site (Chi-Mac Associates Limited Partnership Tract)
Mackinac County, Michigan

Dear Sally,

This letter is to confirm the verbal agreement that we have reached regarding the transaction associated with the above-referenced party. As you know, in settlement of the litigation surrounding the Chi-Mac Associates Limited Partnership's breach of the Sales Contract for the above party, Chi-Mac Associates has consented to the assignment by Larry Harmon of the Sales Contract to The Nature Conservancy. Mr. Harmon has assigned the contract to the Conservancy, contingent on a closing occurring by April 6, 2001, today. Chi-Mac Associates has held up the closing due to a dispute with you over payment of your commission. Chi-Mac Associates is unwilling to pay your full commission, but has agreed to allow a payment to you of $50,000 out of the closing proceeds. You have indicated to them that you will not accept a payment less than your full commission of $59,550.

In order to fully resolve all matters, and to secure the real estate for conservation, the Conservancy is willing to make payment to you of $9,550 if the transaction closes today and if you will accept the proffered payment of $50,000 from Chi-Mac at closing. Obviously, the Conservancy cannot get a payment to you today in this amount. If, however, the transaction closes today, we will forward a check to you for $9,550 as soon as possible after closing as described above (but within five business days).

As with all other matters surrounding the settlement, this agreement will become null and void if the closing on the above-referenced real estate has not taken place by the close of business on April 6, 2001.

recycled paper

JUL 3 1 2003

Ms. Sally Brumleve
April 6, 2001
Page 2 of 2

If this letter accurately describes your understanding of the agreement between you and The Nature Conservancy, please sign where indicated below and return a copy of this letter to me for the Conservancy's records.

Thank you for your help in bringing this matter to a conclusion.

Sincerely,

Diane B. Ray

Diane B. Ray
Division Attorney

Cc: Bill McCort, MIFO

I agree that the foregoing accurately states the agreement between The Nature Conservancy and me regarding the payment of my commission in the sale of property owned by Chi-Mac Associates Limited Partnership.

Sally Brumleve 4/6/2001
Sally Brumleve

JUL 3 1 2003

Bill McCort

From: Diane Ray [dray@tnc.org]
Sent: Wednesday, April 04, 2001 11:14
To: bmccort@tnc.org
Subject: Chi-Mac

Bill,

I heard from Mark Wilson this morning -- maybe this thing will close after all. He's got a call in to Sally Brumleve's lawyer to try to work out something there. I don't know what will come of that. Sally has said to me unqualifiedly that she will not take a cut in her commission, and I don't know whether Chi-Mac will close if she won't. But I can't get into the middle of that. We just have to keep our fingers crossed.

We disagree about whether they can limit our number of divisions. After reviewing the law again, I am certain they can't. I think that even if they put the limit to three divisions in the deed, it would be totally unenforceable since they are conveying a parent tract to us. I finally told Mark Wilson that if that turns out to be the only problem, I'll close with the deed saying we get only three divisions since it is my opinion that it is totally unenforceable. As a practical matter, it isn't really important since we don't plan to subdivide. It is a value thing, however, which is why it is important to me that it isn't enforceable -- if it were, we might have value problems. Then again, Harmon wasn't worried about it since he could do this as a condo development, so why should we?

They are still stuck on the appraisal issue. I am holding firm that we won't pay for the update. I hope this isn't a deal killer, but I just don't see why we should pay for an updated appraisal when we don't even think there's donative intent. Mark Wilson may be calling you for information on what it will cost. I also gave him Ed Steigerwalt's name and number so he can talk with him directly. If you or Helen feel differently about the appraisal costs, let me know. If we did pay, they have to deduct what we pay from their donation -- but then we are out of pocket $1,500 (or whatever the update costs). They are pushing this because it is far cheaper for them to deduct that from their charitable donation than to spend it out of pocket.

update:

Let me know your thoughts.

split: $

Diane

Bill McCort

JUL 3 1 2003

From: Bill McCort [bmccort@tnc.org]

Sent: Monday, April 09, 2001 2:57 PM

To: Jeff Knoop

Cc: Christine Hall-Forward; Jessie Hadley; Patrick Bray; Helen Taylor

Jeff, Tina, and Jessie, it's my pleasure to let you know that we closed on the Chi-Mac property last Friday. It took the entire day working the phones with Diane and Helen, but we got it done. We ended up paying $107,000 to Larry Harmon for the assignment of the purchase agreement, $992,500 to the seller for the property, plus $450 maximum to the seller for an appraisal update for their tax purposes (Diane Ray said we can do this), and $9,550 to the Chi-Mac realtor because they refused to pay the full $59,550 due her (again okayed by Diane). This totals $1,109,500 which is 5.2% above the $1,054,500 appraised value. Shillingburg cost $1,475,000 plus another $100,000 (though I need to confirm this to make sure I am right) for Larry Harmon's assignment of the purchase agreement to us. Grand total for Chi-Mac and Shillingburg (not including closing costs, stew. endowment, and future legal defense fund costs, appraisals, etc.) is $2,684,500 (but again, I will send documents detailing all costs to confirm these).

Jeff, I will send you relevant documents for your files. Chi-Mac and Shillingburg are now in your hands to work out 1) the conservation buyer details, 2) donor funding issues if we sell a part or all of Chi-Mac and Shillingburg to a conservation buyer (see Pat's email of April 2, 2001, attached), 3) Cedar Campus conservation easement and possibly providing them with 20 acres of Shillingburg, 4) Michigan Limestone conservation easement, 5) and our partnership with Little Traverse Conservancy for funding and conservation easement ownership.

After you get the materials I am sending, please call with questions.

Thanks,

Bill

04/09/2001

Sue Corbin

From: Sue Corbin [scorbin@tnc.org]
Sent: Wednesday, April 25, 2001 8:37 AM
To: Bill McCort
Subject: No. Huron Lake (Shillingburg)

Hi Bill - Rose Anne forwarded your e-mail to her about the Shillingburg transaction. The file seems to be hiding, but I did confirm with Diane that we considered the purchase price to be $1,475,000 - the $1,375,000, plus the $100,000 to Harmon. Even though the $100,000 was paid to Harmon for the assignment of his purchase agreement, it is still considered part of the purchase price because this is what we had to pay in order to acquire the property. The closing date is the date that the money and documents change hands - so it's often true that the deed is signed and recorded on different days from when the transaction actually closed. I hope this answers your questions. If not, please contact me - Sue

Sue Corbin, Legal Assistant
Midwestern Resource Office
Minneapolis, MN
612-331-0717
scorbin@tnc.org

JUL 3 1 2003

Bill McCort

From: Bill McCort [bmccort@tnc.org]

Sent: Thursday, May 17, 2001 12:30

To: Crufone@aol.com

Subject: RE: Tools at Cottage

Michael, Thanks for the reply. Yes, I do realize that we are to notify you about the identity of the conservation buyer 10 days before closing. There is no secrecy about who it is, we are just careful to not bother our donors. The conservation buyer's name is Jerry Jung. He is very supportive of The Nature Conservancy and what we do. Jerry is a businessman and is very busy. If you would like to write him, please send the letter or email to me or Helen Taylor, and we will make sure he gets it. Regarding your generous offer of the tools, we will have a staff member look at them this weekend, and then we will let you know early next week if Jerry wants them.

Thanks,

Bill

-----Original Message-----
From: Crufone@aol.com [mailto:Crufone@aol.com]
Sent: Wednesday, May 16, 2001 9:27 AM
To: bmccort@tnc.org
Subject: Re: Tools at Cottage

Bill,
You do realize that TNC is bound by the sales agreement to notify the Partnership of the identity of the Conservation Buyer ten (10) days prior to the closing of the sale of the property to the Conservation Buyer. If you have a buyer, why all the secrecy around who it is? Our offer is baised on getting to know the buyer and if we warm up to them and are on the same page then we would probably offer to leave some of the tools in the workshop as a kindness. This is no different than any other sale. The seller normally has an interest in who the buyer is and what they are like.

Let me hear from you shortly as I would like to get the cottage and garage cleaned out prior to the end of May, per our sales agreement.

Sincerely,

Michael Connolly

05/17/2001

Subject: RE: Easement on lakeshore property near Cedarville
Date: Fri, 21 Sep 2001 16:17:34 -0400
From: Jerry Jung <Jerry.Jung@michigancat.com>
To: 'jeff knoop' <jknoop@tnc.org>

Hi Jeff,

Taking your items one at a time.

1) I bet the Army Corps would never have approved the ditching that the previous owner did. It looked as if he wanted to put in a new drive across a wet areas without importing any materials, but he abandoned the project halfway thorugh.

2) No problem limiting ATVs and Snowmobiles to established trails.

4) Regarding square footage, my thoughts would be not to exceed 8,000 sq ft for a house and the dock (crib) not to extend more than 75 feet into the lake.

I'm looking forward to reviewing your next draft.

-----Original Message-----
From: jeff knoop [mailto:jknoop@tnc.org]
Sent: Tuesday, September 18, 2001 2:18 PM
To: Jerry Jung
Cc: htaylor@tnc.org
Subject: Re: Easement on lakeshore property near Cedarville

Jerry,

Yes, I do realize that there is still a legal problem concerning the developer and the original owners. In the interim, we have contracted out an Environmental Consulting firm located in Mackinaw City. They will be collecting and analyzing soil samples in and around the barn and testing those samples among other things. We will send you a copy of the report once it is completed.

As for the easement here are my comments:

1. Regarding pond and ditch restoration, I don't believe this will be a problem. We may even want to address this issue in a separate Management Plan so as to get input and expertise from our science team. We do have to be careful, however, with the Army Corp to make sure that any filling activity is in compliance with their regulatory guidelines.

2. ATV/snowmobile use would not be a problem. I'm assuming such use would be restricted to current roads and paths?

3. Yes, we can specify garden use and flower beds. That's a fairly standard request.

4. Dock repair/replacement is not a problem. We can specify in easement. In reference to square footage is your thinking here about the size of the dock or the size of any new or replacement structure? We would need to put some limitation on the size of a replacement of, or additions to, any authorized structures. That amount could be rather large but will need an outer limitation.

5. Will need to defer to TNC legal counsel about section 6.8. I worked on one other easement and

We can put a special citation in under the restoration section to allow you to do this...

5) I'd like to put up posts to prevent motorized access to some of the side-trails.
6) At some point in time, I would like to rebuild the existing house on the property. The new house should be on the same site as the exiting structure. I'd prefer that we delete any restrictive language here regarding square footage since I had pictured a two story "Cap Cod" type structure.

This should not be a problem

7) What about the dock? Could I rebuild it if water levels continue to decline?

Yes we may want size limits put into the easement...

8) I thought that the easement would run to the Little Traverse Conservancy. It doesn't matter to me if it's the TNC.

TNC will do the easement, we may in the future assign it to Little T.

9) I have reserved $1,700,000 to purchase the property with easement. I'd prefer to purchase the property for as little as possible and make a charitable contribution of the balance. We will see what the appraisal says.

Thanks Jerry, thank you so much for your conservation concern.

Christine "Tina" Hall

UP Director of Conservation
UP Conservation Center - TNC
125 W. Washington St. Suite G
Marquette, MI 49855
906-225-0399
906-225-6731 - Fax

Little Traverse Conservancy
Northern Michigan's Land Trust
3264 Powell Road
Harbor Springs, MI 49740-9469

Phone: 231 347-0991
Fax: 231 347-1276
Email: ltc@landtrust.org
Web: www.landtrust.org

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Ron Treloar
Brad White
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Ken & Ginger Winter

JUL 3 1 2003

I called 8/23/01, All OK now.

August 3, 2001

PERSONAL AND CONFIDENTIAL

TO: Helen Taylor, Michigan Nature Conservancy

FROM: Tom Bailey

SUBJECT: Connolly-Schillingburg Project

Based upon our most recent phone conversations about the Connolly-Schillingburg project, I feel the need to put a few things in writing in an effort to express my frustrations and straighten things out between us. I want to be very direct and tell you that several things are really bothering me about the direction of the project and some of the things you have said. I am doing this in a personal and confidential memo because I think that we can work through it.

I acknowledge up front that this is a large and complicated project involving some volatile and unpredictable sellers, three primary participant organizations and several staff members from TNC and LTC. The pace of the project has been very fast at times. I know it has not been easy for you.

I also want to affirm that we are a hundred percent in favor of the conservation goals of this project. The protection of this property is a great thing and the conservation aspects of this project are not an issue.

Our problems have to do with communication, money and public access. Regarding communication, most all of it has been verbal, primarily confined to phone conversations and involving a number of different people. This got us into trouble. So much has been changed in the project through bits and pieces of phone conversations that I did not fully understand where a number of things were headed–particularly that public access had been dropped. Because things were not confirmed in writing, not everyone involved in the project had a handle on where things stood or where they were going.

The money and public access issues are directly related when it comes to our role. You asked the other day whether we were "good for" the money for this deal. I need to respond at this point that we'd like to be, but the project as modified is not very "good for" us to be able to raise money. We said from the start that public access was the key to our involvement–the "handle" for us to raise funds. That key has been bargained away and yet you're talking about holding us to a commitment when you yourself bargained away the reason for that commitment. Being pushed to hand over the money when our primary stake in the project has been pulled out from under us in bits and pieces is not my idea of partnership, Helen.

We agreed this was true

Our board approved the project with public access as a key element. Tom Lagerstrom and MaryKay O'Donnell voiced concerns about the public access component of the project at every opportunity–and specifically because it affected our ability to raise funds. We made it clear at our joint meeting at the Perry Hotel in spring that George Covington's contacts and ours in the Islands are essentially

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JUL 3 1 2003

the same, and without the public access component to appeal to a broader segment of the population, we don't have any leverage to raise more money than George. As things currently stand, it is clear that TNC and the Les Cheneaux Foundation have no real problem in proceeding with the project as a totally private conservation effort. But for LTC, the situation is not the same.

Regarding the nature.org money, it bothers me to hear you repeatedly speak of the money from the nature.org deal as though it is somehow not good enough for this project. Yes, it is coming from The Nature Conservancy, but the fact is that this money would not be on the table if it weren't for the Little Traverse Conservancy. You yourself mentioned the possibility of using nature.org money for Conolly-Shillingberg, or the Cheboygan River area, when we first discussed it. I do not understand the little barbs I have heard from you in our conversations about this money.

clarified it.

Finally, I want to clarify the business about working with Cedar Campus. You said the other day that Cedar Campus is up to us. I'm not sure what you mean by that. Is this project a partnership when you want money for the parts of the project which you have modified, but then we're on our own to pursue the Cedar Campus easement and reclaim some sort of public access?

As I said in Cedarville and on the phone since then, I would like to work together to resolve these issues. But right now, I don't feel like we're working together. I feel as though you're pressing us for money to fund a project which you have modified so much that it doesn't resemble what we agreed to in the first place. It has become your project and our goals have been abandoned.

Of course there is still the hope that we will get access from Michigan Limestone and some sort of easement from Cedar Campus–and perhaps things will work out through both avenues. This would be wonderful, but as you indicated we probably won't know whether this will be possible until fall, and even then it could take quite a while to implement. Can we still create some public access on the Connolly or Schillingburg parcels?

The bottom line at this point is that LTC has been left high and dry with public access excluded from the project. When you negotiated away the key element that got us involved in the first place, it greatly affected our leverage to raise funds. It is my sincere hope that you will recognize that and work with us to resolve it somehow, not just press us for money.

not me

JUL 3 1 2003

Diane Ray

From: jeff knoop [jknoop@tnc.org]
Sent: Thursday, October 25, 2001 5:46 PM
To: dray@tnc.org
Subject: Re: ChiMac Sales

Diane,

Jerry has agreed to pay a lump sum of $1.7M. The appraised value of the property subject to the Conservation Easement will be lower than that amount according to the appraiser. How much, I don't know. I'm not sure how to structure this? Is it best for him to pay the FMV for the property and make a cash contribution? He does in fact need a write-off for any amount in excess of the FMV. Jerry did asked me this question:

"Would there be any advantage having TNC buy the easement with a donation that I made to the Conservancy? For instance, what if I write two checks to the Conservancy--one for $1,500,000 to purchase the property and one for $1,200,000 as a donation. TNC would then purchase the easement for $1,000,000. This provides the same net proceeds of $1,700,000 to TNC. It would also better document the transaction for tax purposes."

I don't think it will work but may be so. Ever hear of such a transaction? Sounds like a couple steps too many to me. Lets discuss this on Monday for I'll be out of the office tomorrow.

Jeff

Diane Ray wrote:

> Which form I send you depends on the answer to this question: Is Jerry Jung
> going to pay full FMV for the property, not taking into consideration the
> reduction in value due to the restrictions imposed by the conservation
> easement? Or is he paying the value of the property as reduced by the
> conservation easement's limitations?
>
> Thanks,
>
> Diane
>
> -----Original Message-----
> From: jeff knoop [mailto:jknoop@tnc.org]
> Sent: Thursday, October 25, 2001 3:45 PM
> To: dray@tnc.org
> Subject: Re: ChiMac Sales
>
> Hi Diane,
>
> Just chatted with both the surveyor and appraiser about timing. The two
> surveys are
> nearly complete and they plan to get them to me next week. Appraiser is
> ready to go
> but of course needs the legal descriptions to complete the appraisal. Once
> legals are
> in I'll get the easement language and survey to the appraiser and he will
> shoot for
> the end of November for the final product.
>

> Thanks for reviewing and making the changes- Yes, the two Options were to be
> removed.
>
> Why don't you just go ahead and e-mail me a copy of the Conservation Buyer
> Template
> and I'll take a stab at it.
>
> Thanks,
>
> Jeff
>
> Diane Ray wrote:
>
> > Jeff,
> >
> > Your approach regarding appraisals sounds exactly on target.
> >
> > The survey work you're having done also sounds very good.
> >
> > Attached is a very slightly revised version of the easement. I took out
> the
> > word "optional" before those monitoring/management provisions (that's just
> > to guide staff drafting the document), and I fixed up the signature pages
> a
> > bit (added witness signature blocks and "drafted by" language required in
> > Michigan.
> >
> > Are you wanting me to draft a purchase agreement with Jerry Jung? If so,
> > let me know the terms of the deal and I'll get to work on that, or I can
> > provide you with a template to use in this sort of conservation buyer
> > scenario. Let me know.
> >
> > Diane
> >
> > -----Original Message-----
> > From: jeff knoop [mailto:jknoop@tnc.org]
> > Sent: Wednesday, October 24, 2001 9:56 AM
> > To: dray@tnc.org
> > Subject: ChiMac Sales
> >
> > Diane,
> >
> > In reference to the ChiMac sales to Cedar Campus and Jung, I'm going to
> > get a separate appraisal done for each parcel. There will be a couple
> > deed restrictions attached to the Cedar Campus sale and of course the
> > easement with the Jung sale.
> >
> > Secondly, a legal description and survey plat has been completed for the
> > Cedar Campus sale. I'm going ahead and having the easement parcel also
> > described along with a survey plat. The surveyor is drawing in the
> > access road and building location/dimensions on the plat so we can
> > insert this directly into the easement.
> >
> > As these documents become available I'll send them up.
> >
> > Also, if all possible we would like to complete the Jung sale by the end
> > of this year (Cedar Campus sale is less critical this year). The Jung
> > sale will put $1.7M in out coffers and Helen is screaming about the
> > interest this parcel is accruing!
> >
> > Thanks,
> >
> > Jeff
> >

RE: Chi-Mac Sale to Jung

JUL 3 1 2003

Diane Ray

From: Jeff Knoop [jknoop@TNC.ORG]
Sent: Friday, December 21, 2001 4:43 PM
To: Diane Ray
Subject: RE: Chi-Mac Sale to Jung

That's what I say- Whew!! Yes, sounds like we may get a good dump of snow- lets hope!

Jeff

-----Original Message-----
From: Diane Ray
Sent: Fri 12/21/2001 5:09 PM
To: Jeff Knoop
Cc:
Subject: RE: Chi-Mac Sale to Jung

Jeff,

Whew! That is good news! I return on Jan. 2 and we can make this a priority then -- I know from Helen's perspective, the sooner the better.

Happy holidays to you, too! We're still waiting for our white Christmas, but it does look more hopeful now .
. .

Diane

-----Original Message-----
From: Jeff Knoop [mailto:jknoop@TNC.ORG]
Sent: Friday, December 21, 2001 4:04 PM
To: Diane Ray
Subject: FW: Chi-Mac Sale to Jung

Diane,

Received this note from Jerry and we are a-okay with a 2002 closing.

Thanks and happy holidays!!!

Jeff

-----Original Message-----
From: Jerry Jung
Sent: Fri 12/21/2001 4:19 PM
To: Jeff Knoop
Cc:
Subject: RE: Chi-Mac Sale to Jung

Jeff,

Congraulations on the Keweenaw deal!

RE: Chi-Mac Sale to Jung

I'm leaving for Costa Rica on 12/27, returning 1/3. There is no need to push the deal into 2001, from my perspective.

Enjoy the holidays!

Jerry

-----Original Message-----
From: Jeff Knoop [mailto:jknoop@TNC.ORG]
Sent: Friday, December 21, 2001 11:37 AM
To: Jerry Jung
Subject: FW: Chi-Mac Sale to Jung

Hi Jerry,

Below find a note from our Regional Attorney, Diane Ray, regarding the Harmon lawsuit. I truly don't believe Harmon has a leg to stand on since he signed an agreement stating that he would transfer his agreement to buy to TNC for a $100,000. There will be language in the Purchase Agreement that our deal can be undone and your funds returned if sometime unusual happens.

I'm having some difficulty in the appraisal process which is a critical matter in ouir deal. I had hired a very good appraiser, who we use frequently, back in early November. He called me the first week of December and said he was too busy and could not meet the year end dead line. So I've hired another appraiser who may be able to get it done by years end but cannot gaurantee the dead line. Is it going to be a major problem if we don't close by years end? If it boils down to a major tax implication for you there is a possibility that we can complete it by the 30th. If we could hold off until early January that would make it better for TNC and we would be assured of having the appraisal in hand. Please let me know ASAP. My best guess is that the value of the property subject to the easement is going to come in at ~ $1.2M but that is only a guess.

As I may have already told you the best, and cleanest, way to structure this deal is for you to acquire the property at full market value subject to the easement. The difference up to the $1.7M can be made as a cash contribution for income tax purposes.

You may or may not have heard but we will be closing on 6,275 acres at Tip of the Keweenaw next week. Spectacular property! The land will be transferred to DNR and TNC will recoup the acquisition costs via a Trust Fund grant. This deal kept me busy for a very long time.

Please let me know your thoughts on the closing and happy holidays!!

Thanks,

RE: Chi-Mac Sale to Jung

Jeff Knoop

-----Original Message-----
From: Diane Ray
Sent: Mon 12/17/2001 12:24 PM
To: Jeff Knoop
Cc:
Subject: Chi-Mac Sale to Jung

Jeff,

I have looked over the "new and improved" draft Purchase Agreement that you sent in November. I need to add the language to that regarding his acknowledging the litigation and agreeing that the deal can be "undone" if the court so requires. It also looks like we still need his address and some exhibit clarification in the Conservation Easement, but otherwise I think we're close.

You had indicated in a recent voice mail message to me that there had been some problems getting the appraisal(s) done and those are not complete yet. That's a fairly significant missing piece we're waiting on, of course.

I wanted to update you on the status of the litigation between Harmon and Chi-Mac. We've hired Tom Evashevski to represent us in the litigation. Chi-Mac is planning on bringing us in as a third party. I tried to talk them out of that (indicating I don't know what claims they really have against us -- we are more a significant witness than a party). But Mark Wilson thinks (and I suspect he's right) that there's a better chance of getting the litigation dismissed in its entirety if we are a party rather than if we're just helping out. The plan is for us to file a pretty quick motion for summary judgment and try to get this thing dismissed ASAP. But the courts never seem to move quickly, so I don't know how long

this might
drag on.

One of Harmon's complaints to me is that we "duped" him in paying him so
little for the property, using our appraisal (which he considered low) and
our non-profit status (which prohibits us from paying more than FMV) to do
so. I don't think he's got a leg to stand on, as he agreed to what he
agreed to, and no one was twisting his arm. He made an easy $100,000 on
this. I don't know where your appraisal is going to come in on this, but I
think we ought to do what we can to keep that very confidential, perhaps
having the appraiser send it directly to me so that we can claim attorney
client privilege or other confidentiality privileges that might be available
to us. Given that it appears we are going to wind up in litigation on this,
we need to be very careful how we handle the sale to Jung so we don't
jeopardize our position in the litigation.

I wanted to get these thoughts down and off to you in written form so we
both have a record for our files, but if you'd like to discuss any of this
please give me a call.

Thanks,

Diane

Diane B. Ray
Division Attorney
The Nature Conservancy
Midwestern Resource Office
1313 5th Street S.E., Suite 314
Minneapolis, MN 55414
Phone: (612) 331-0732
Fax: (612) 331-0770
Email: dray @tnc.org

The information contained in this email, or attached files, including
replies and forwarded copies, is confidential and intended solely for the

addressee(s) and may be legally privileged or prohibited from disclosure and
unauthorized use.

Diane Ray

From: Bill McCort [bmccort@tnc.org]
Sent: Friday, February 15, 2002 10:38 AM
To: jknoop@tnc.org; dray@tnc.org
Cc: Andrea L. Kline
Subject: RE: ChiMac

Jeff, here are my thoughts and options that I can think of regarding getting the 2 acres from Shillingburg:

1. When Shillingburg and I talked on the phone on 8-25-2000, he told me about the 2-acres he quit claimed to Cedar Campus, but my notes do not indicate that he said anything about the 2-acres Cedar Campus gave to him. I still kinda remember that he explained the swap to me. It certainly would have been odd to give Cedar Campus something without anything in return. My purchase agreement that I sent to Shillingburg on August 25, 2000 after our phone conversation does not include the 2-acre swap in the legal description, not the 2-acres excepted out, nor the 2-acres he got from Cedar Campus. So, I just don't know what his intentions were. He may have known that he was not conveying the 2-acres he got from Cedar Campus. He may have overlooked the two acres given that he never did record his deed.

2. You or I can call him and explain that we think an error was made in this transaction and see how he responds.

3. Cedar Campus can approach him as you suggested below.

4. Either Cedar Campus or TNC can offer him the tax benefits for a gift of the two acres (though it bothers me that I think I was expecting to get all that he owns in the original deal).

5. If Cedar Campus gets the gift from him, will they still give you the full $200,000 that we were looking for in this deal? If not, and they are only going to give us money for the 24 acre tract on the north end of the tract, I would suggest that we should try to get it from Shillingburg first, and then get all the money from Cedar Campus.

6. If Cedar Campus will and can give us the $200,000 without the Shillingburg 2-acre parcel, and they have a good working relationship with them, I don't have a problem with them going ahead and asking for the gift.

7. Remember Shillingburg wrote us on January 17, 2001 asking if we wanted to sell the property back to him with deed restrictions. I suspect that he was trying and will try to get as much money out of this as he can get.

Hope this helps.

Bill

-----Original Message-----
From: Jeff Knoop [mailto:jknoop@tnc.org]
Sent: Thursday, February 14, 2002 5:06 PM
To: bmccort@tnc.org; dray@tnc.org
Subject: ChiMac

I forgot to tell the two of you. Don Erickson and others at Cedar Campus seem to have a good relationship with Shillinberg and they have agreed to approach him for gift of two acre parcel. If he agrees fine and dandy he can take write-off. If not he's stuck with a land-locked two acres. The tract was appraised for an

JUL 3 1 2003

Faxed 2/14/03

The Nature Conservancy®
MICHIGAN CHAPTER

A fax from...

The Nature Conservancy, Michigan Chapter
101 E. Grand River u Lansing, MI 48906
Phone: (517) 316-0300 u Fax: (517) 316-9886
Email: michigan@tnc.org u nature.org/michigan

To: Priscilla G. Herbilla

Fax: 703.247.3725

Re: Presidential Acknowledgement – Jerry Jung File

No. of pgs w/cover: 4

Message:
Here is the info you requested and below you will find the verbage Helen Taylor would like you to use in the letter. Thank you and feel free to contact me with any further questions.
Renee Marcoux
517.316.2271

Jerry, Helen speaks very highly of you, and I realize from her comments that you are one of those special behind-the-scenes advisors and leaders that makes our work possible. Your efforts in Michigan in helping them advance the scale and scope of their conservation is truly remarkable. Your support on so many fronts with the staff in Michigan is truly helping them take the chapter, and the Conservancy overall, to the next level.

The Nature Conservancy
MICHIGAN CHAPTER
Saving the Last Great Places

Michigan Field Office
101 East Grand River
Lansing, Michigan 48906

TEL 517 316-0300
FAX 517 316-9886

Upper Peninsula Conservation Center
125 West Washington Street, Suite G
Marquette, Michigan 49855

TEL 906 225-0399
FAX 906 225-6731

West Michigan Project Office
456 Plymouth Avenue NE, Suite A
Grand Rapids, Michigan 49505

TEL 616 776-0230
FAX 616 776-0231

Worldwide Office
Arlington, Virginia
TEL 703 841-5300

nature.org/michigan
michigan@tnc.org

January 22, 2003

Mr. Jerrold M. Jung
4669 Ravine Drive
Bloomfield Hills, MI 48301-3640

Dear Jerry:

Thank you for your $650,000 gift on December 30, 2002, which has been applied toward the protection of the Northern Lake Huron Portfolio Site. We are deeply grateful for your strong commitment to the preservation of Michigan's natural heritage, and especially to the protection of this truly unique area.

Your donation is another demonstration of your commitment to land conservation and your faith in the Conservancy. We are pleased that our efforts merit your confidence.

Again, thank you for your support.

Sincerely,

Helen Taylor
State Director

So that you may fully deduct this gift when you file a tax return, we must detail that any services or goods provided in return for your contribution are defined within the meaning of applicable tax law as "nominal value" or "low cost logo items." Any items we provide to members in acknowledgment of contribution do not affect the value of your gift. Please retain this letter for your tax purposes.

The Nature Conservancy
MICHIGAN CHAPTER
Saving the Last Great Places

Michigan Field Office
[illegible] Grand River
Lansing, Michigan 48906
TEL 517 316-0300
FAX 517 316-9886

Upper Peninsula Conservation Center
The Nature Conservancy
125 West Washington Street, Suite G
Midwestern Resource Office
Marquette, Michigan 49855
1101 West River Parkway, Suite 200
Minneapolis, Minnesota 55415
TEL 906 225-0399
FAX 906 225-6731

West Michigan Project Office
456 Plymouth Avenue NE, Suite A
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TEL 616 776-0230
FAX 616 776-0231

Worldwide Office
Arlington, Virginia
TEL 703 841-5300
nature.org/michigan
michigan@tnc.org

JUL 3 1 2003

Memorandum

To: File

From: Densie Copen, Senior Attorney, Midwestern Resoure Office

cc: Gail Lewellan, Attorney, MRO; Helen Taylor, State Director, MIFO

Date: May 6, 2003

Re: Purchase of Chi-Mac and Shillingburg/Sale to Jung

The Nature Conservancy purchased Northern Lake Huron (Chi-Mac Associates Limited Partnership) for a total of $1,099,500 (which includes $107,000 of assignment consideration that was paid to the developer, Larry Harmon, who assigned his purchase agreement to buy the land to the Conservancy). The appraised fair market value of the approximately 81 acre Chi-Mac tract was $1,054,000. The purchase of the Chi-Mac tract was completed in April of 2001.

The Conservancy purchased the approximately 129 acre Northern Lake Huron (Shillingburg) for a total of $1,475,000 (which includes assignment consideration of $100,000 paid to Larry Harmon). The appraised fair market value of Shillingburg at the time of our purchase was $1,578,000. The Shillingburg purchase took place in October of 2000.

The Conservancy's total investment in the two properties was $2,574,500, and the FMV of the combined properties was $2,632,000.

The Conservancy sold 24.8 acres of the property, subject to several use restrictions contained in the deed, to Inter-Varsity Ministries, a tax-exempt, non-profit organization that owned a neighboring property, for $200,000. This sale was completed in December of 2002.

The fair market value of the remaining property (184.5 acres), without any restrictions on use, was determined by appraisal to be $2,298,500. The conservation easement was valued by appraisal at $1,236,500. The property was sold to Jerrold Jung, as Trustee of the Jerrold M. Jung Trust UTA. The trust's purchase price for the property as restricted by the easement was the difference between these two figures, $1,062,000. I do not have any documentation in our file regarding the charitable pledge/donation made by Jerry Jung.

recycled paper

The Nature Conservancy
SAVING THE LAST GREAT PLACES ON EARTH

The Nature Conservancy
Midwestern Resource Office
1101 West River Parkway, Suite 200
Minneapolis, Minnesota 55415-2

tel [612] 331-0700
fax [612] 331-0770

Memorandum

JUL 31 2003

To: File

From: Diane Ray, Senior Attorney, Midwestern Resoure Office

cc: Gail Lewellan, Attorney, MRO; Helen Taylor, State Director, MIFO

Date: May 6, 2003

Re: Purchase of Chi-Mac and Shillingburg/Sale to Jung

During the summer of 2000, The Nature Conservancy was negotiating with two sellers of interlocking adjacent parcels along the shores of Lake Huron which totaled approximately 210 acres. These parcels are located on a major road close to the Mackinac Bridge, in an area where second home development is booming. Both sellers rejected options presented to them by the Conservancy in favor of a purchase agreements with a local developer, Larry Harmon. Harmon secured the rights to purchase each property and had plans drawn up for construction of at least 27 residential housing units and a golf course on the combined properties. Upon learning of the purchase agreements that the developer secured, Helen Taylor began talks with the developer to attempt to convince him of the importance of preserving these parcels, and to request that he assign his purchase agreements to The Nature Conservancy. Simultaneously, in order to secure funding for the purchase, Helen Taylor made several phone calls to current trustees to determine if they or anyone they knew would be interested in being a conservation buyer for the parcels. The only person who emerged from that inquiry as a potential conservation buyer was Jerry Jung, a former Michigan Chapter Trustee. Helen had never worked with Jerry Jung as a Trustee as his term had expired prior to her becoming State Director.

The Nature Conservancy purchased Northern Lake Huron (Chi-Mac Associates Limited Partnership) for a total of $1,099,500 (which includes $107,000 of assignment consideration that was paid to the developer, Larry Harmon, who assigned his purchase agreement to buy the land from Chi-Mac to the Conservancy). The appraised fair market value of the approximately 81 acre Chi-Mac tract was $1,054,000. This appraisal was completed by an appraiser hired by the Conservancy, Edward Steigerwalt. Larry Harmon had an appraisal of the property performed by another local appraiser which valued the property at $1,210,000. The purchase of the Chi-Mac tract was completed in April of 2001.

The Conservancy purchased the approximately 129 acre Northern Lake Huron (Shillingburg) tract (which interlocked with the Chi-Mac Tract) for a total of $1,475,000 (which includes assignment consideration of $100,000 paid to Larry Harmon). Based on an appraisal by Ed Steigerwalt, the appraised fair market value of Shillingburg at the time of the Conservancy's

purchase was $1,578,000. Again, the developer had his own appraisal for the property which placed its value at $$1,700,000. The Shillingburg purchase took place in October of 2000.

The Conservancy's total investment in the two properties was$2,574,500, and the FMV of the combined properties, based on the Steigerwalt appraisals, was $2,632,000.

The Conservancy sold 24.8 acres of the property, subject to several use restrictions contained in the deed, to Inter-Varsity Ministries, a tax-exempt, non-profit organization that owns a neighboring property run as a Christian camp, for $200,000. This sale was completed in December of 2002.

The fair market value of the remaining property (184.5 acres), without any restrictions on use, was determined by appraisal (again performed by Ed Steigerwalt) to be $2,298,500. The conservation easement is a VERY restrictive one that essentially allows maintenance or replacement in the same location of existing structures/roads/dock etc. and no other development or commercial use. The easement was valued by appraisal at $1,236,500. The Conservancy signed a purchase agreement with Jerrold Jung, as Trustee of the Jerrold M. Jung Trust, on March 1, 2002. The trust's purchase price for the property as restricted by the easement was the difference between these two figures, $1,062,000. The sale was completed on December 9, 2002.

I never had any direct contact with the purchaser, Jerry Jung, and my file contains no documentation or information about his gift to the Conservancy. However, I have checked with the Michigan Field Office staff who indicated that Jerry Jung never made any kind of formal pledge, written or unwritten, in conjunction with the transaction. Approximately two weeks after closing, Jung made a gift of $650,000 to the Michigan chapter.

CHI-MAC file

From: Diane Ray [dray@tnc.org]
Sent: Tuesday, May 6, 2003 12:40 PM
To: glewellan@tnc.org; Helen
Cc: Sue Corbin; Denise M. Copen
Subject: RE: Jung numbers check

JUL 3 1 2003

All,

I have checked the numbers in our files regarding the purchases and sales of the two Northern Lake Huron tracts. We purchased Northern Lake Huron (Chi-Mac Associates Limited Partnership) for a total of $1,099,500 (which includes a $107,000 assignment payment to Larry Harmon). We purchased Northern Lake Huron (Shillingburg) for a total of $1,475,000 (which includes a $100,000 assignment payment to Larry Harmon). That makes our total investment in the two properties $2,574,500. We sold 25 acres of the property to Inter-Varsity Ministries for $200,000. We sold the remainder of the combined Chi-Mac and Shillingburg properties to Jerry Jung for $1,062,000. I do not have any documentation in our file regarding the charitable pledge/donation made by Jerry Jung. Please let me know if you have any further questions I can answer.

Diane

-----Original Message-----
From: Gail Lewellan [mailto:glewellan@tnc.org]
Sent: Tuesday, May 06, 2003 10:48 AM
To: Helen Taylor
Cc: Diane Ray; Sue Corbin; Denise M. Copen
Subject: Jung numbers check

Diane Ray has checked the numbers on the Jung deal from the article and we'll get back to you. Gail

Gail Lewellan, Attorney
The Nature Conservancy
1101 West River Parkway
Minneapolis, MN 55415-1291
(612) 331-0725
Fax: (612) 331-0770
E-mail: glewellan@tnc.org

APPENDIX Q

DOCUMENTS RELATING TO BRAZIL ATLANTIC RAINFOREST RESTORATION PROJECT

BRAZIL ATLANTIC RAINFOREST RESTORATION PROJECT

COMPREHENSIVE AGREEMENT

General Motors Corporation

Sociedade de Pesquisa em Vida Selvagem

The Nature Conservancy

COMPREHENSIVE AGREEMENT FOR THE GENERAL MOTORS ATLANTIC RAINFOREST RESTORATION PROJECT

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COMPREHENSIVE AGREEMENT FOR THE GENERAL MOTORS ATLANTIC RAINFOREST RESTORATION PROJECT

This COMPREHENSIVE AGREEMENT FOR THE GENERAL MOTORS ATLANTIC RAINFOREST RESTORATION PROJECT ("Agreement"), together with the Attachments hereto, is made and entered into by and between, General Motors Corporation, a corporation incorporated under the laws of the State of Delaware, U.S.A. (hereinafter "GM"), General Motors do Brasil Ltda., a limited liability company incorporated under the laws of Brazil (hereinafter "GMB"), The Nature Conservancy, a non-profit corporation incorporated under the laws of Washington D.C., U.S.A. (hereinafter "The Conservancy"), and Sociedade de Pesquisa e Vida Selvagem e Educacao Ambiental a not-for-profit conservation organization established under the laws of Brazil (hereinafter "SPVS") (each referred to separately as a Party and all of which are cumulatively referred to herein as "the Parties").

RECITALS

WHEREAS, GM, GMB, THE CONSERVANCY and SPVS have decided to undertake a climate action mitigation project in the municipality of Guaratuba on the coastal plain of Paraná State in southeastern Brazil;

WHEREAS, this Project has not been submitted to or accepted by the United States Initiative on Joint Implementation or to any other governmental or inter-governmental program or entity;

WHEREAS, on 4 June 1992, the Government of Brazil ratified and thereby became a party to the United Nations Framework Convention on Climate Change (hereinafter "UNFCCC");

WHEREAS, on 15 October 1992, the Government of the United States of America ratified and thereby became a party to the UNFCCC;

WHEREAS, on 29 April 1998, the Government of Brazil signed the Kyoto Protocol;

WHEREAS, on 12 November 1998, the Government of the United States signed the Kyoto Protocol under which it would be committed to reduce its level of greenhouse gas emissions by 7% below 1990 levels between the period 2008-2012;

WHEREAS, the text of the Kyoto Protocol includes the Clean Development Mechanism to assist developing countries achieve sustainable development while assisting industrialized countries to meet their emissions reductions obligations;

WHEREAS, neither the Government of the United States nor the Government of Brazil has ratified the Kyoto Protocol;

WHEREAS, the Parties have determined, after careful review, that the area selected for the Project Site is an optimal location for demonstrating greenhouse gas mitigation through the process of carbon sequestration, carbon storage and other strategies, and have thus undertaken various actions, set forth in this Agreement, to develop a pilot greenhouse gas mitigation project on the Project Site;

WHEREAS, the Parties intend that this climate action mitigation project shall promote the protection of plants and animals, sequester carbon from the atmosphere, otherwise reduce so-called greenhouse gases in the atmosphere and achieve sustainable development through community conservation; and

WHEREAS, GM, GMB, THE CONSERVANCY and SPVS wish to convey to GM any credits or benefits which may result from this endeavor to the extent related to efforts by any country to achieve sustainable development and to meet any net greenhouse gas emissions reduction goals either through the UNFCCC including any Protocols related thereto (including but not limited to the Kyoto Protocol) or otherwise;

NOW, THEREFORE, in consideration of the mutual promises, obligations and undertakings set forth herein, it is agreed by and among the Parties as follows:

ARTICLE I - DEFINITIONS

The terms used in this Agreement shall have the meanings set forth below.

1. "Annual Technical and Financial Report" has the meaning set forth in Article VII of this Agreement.

2. "Annual Workplan and Budget" means a plan for operations and activities under this Agreement for a given Project Year, including a work plan and operating budget.

3. "Business Day" means any day other than a Saturday, Sunday or a United States or Brazilian national holiday. If the last date for performing any act referred to in this Agreement is not a Business Day, the time for performance of such act shall be extended to the next succeeding Business Day. All other references to "days" shall mean calendar days.

4. "Carbon Monitoring Protocol" shall mean the Carbon Monitoring, Offset Creation, and Reporting Protocol prepared by the Project Site Manager and Project Funds Manager and reviewed and evaluated by the TAP, which protocol will provide the factual basis and procedures for documenting changes over time in the greenhouse gases emitted, reduced, avoided, or sequestered by the Project, including definition of the methods, procedures, and frequency of measurement of carbon pools in and around the Project Site; calculation of a Project reference case; calculation of Leakage; carbon emissions calculations and accounting procedures; and preparation and submission of Offset reports.

5. "Certified Offset" means an Offset that has been demonstrated to a Mechanism or Certifying Entity designated by GM pursuant to this Agreement and certified by such Mechanism or Certifying Entity.

6. "Certifying Entity" means (1) an agency, instrumentality, department or other entity established, accredited, or recognized by a Mechanism as having legal authority to certify Offsets that are entitled or may or will be entitled, currently or in the future, to recognition by a Mechanism for compliance determination purposes; (2) any other agency, instrumentality, department or other entity that undertakes to certify, on its own authority, Offsets that will or may be recognized by a Mechanism or that will or may have commercial value.

7. "Comprehensive Agreement" or "Agreement" means this Comprehensive Agreement, for the Brazil Atlantic Rainforest Restoration Project including all Attachments and amendments hereto.

8. "THE CONSERVANCY Long-Term Project Funds Account" has the meaning set forth in Article VII of this Agreement.

9. "THE CONSERVANCY Medium-Term Project Funds Account" has the meaning set forth in Article VII of this Agreement.

10. "Disbursement" means each transfer by the Project Funds Manager of Project Funds.

11. "Donation Agreement" means an agreement between THE CONSERVANCY and SPVS in the form found in Attachment 6 hereto and providing conditions and restrictions on the use of funds donated to SPVS for the purchase of lands pursuant to this Agreement.

12. "Executive Committee" has the meaning ascribed to it in Article IV of this Agreement.

13. "Financial Statement" means a balance sheet, statements of income and expenditures, and sources and application of funds for the fiscal period, with comparable figures for the corresponding periods of its previous fiscal year and prepared in accordance with generally accepted accounting principles in the United States, consistently applied.

14. "Law" means the applicable statutes, regulations, judicial decisions, directives, treaties, government policies and authorizations having the force of law, of all governmental authorities of Brazil, the United States, or any other nation with jurisdiction, and shall include without limitation all applicable environmental standards and programs, the Brazilian laws and regulations relating to forest management, genetic resources and biodiversity conservation, the United States Initiative on Joint Implementation ground rules and guidelines, the U.S. Department of Energy procedures established under Section 1605(b) of the Energy Policy Act of 1992 for the registration of Offsets, and the applicable ordinances and regulations of any state, federal, district or local governing authority within the United States or Brazil.

15. "Leakage" means a measurable positive or negative change in the metric tons of carbon-equivalent ("C-eq.") greenhouse gas emissions caused by activities occurring outside those lands acquired by the Project but occurring directly and solely as a result of the Project, calculated in accordance with standards and procedures established by the Intergovernmental Panel on Climate Change or a relevant Mechanism or Certifying Entity, and monitored using the measuring and modeling procedures established in the Project Plan. For purposes of this Agreement, Leakage shall not include any change in metric tons of C-eq. emissions caused by the continuation based on historical and projected future trends, of current or established activities outside the Project Site.

16. "Mechanism" means an agreement, arrangement, program, agency, instrumentality, department or other entity currently established or established in the future pursuant to international and/or domestic law, including the law of Brazil or the law of the United States, or other nation with legal authority to certify, recognize and/or grant credit for Offsets for purposes of determining compliance by the owner or holder of the credit or Offset with international or domestic greenhouse gas emissions limitations, obligations or commitments, voluntary or otherwise. "Mechanism" includes, without limitation, the Clean Development Mechanism defined by the Kyoto Protocol to the Framework Convention on Climate Change and the program established by Section 1605(b) of the United States Energy Policy Act of 1992.

17. "Offset" means one metric ton of Carbon equivalent ("C-eq.") demonstrated by the Project Site Manager to be mitigated, reduced, avoided, sequestered or fixed in any calendar year, in accordance with this Agreement and the Carbon Monitoring Protocol.

18. "Operating Protocols" means the Carbon Monitoring Protocol and the binding written procedures, authorizations, delegations and Project management systems that are developed by the Project Site Manager and the Project Funds Manager to manage and implement the Project in conformance with Law and this Agreement.

19. "Party" means the signatories hereto, or any Person that is hereafter assigned a Party's rights, duties and obligations, or portions thereof.

20. "Person" includes any natural or juridical person, any individual, corporation, partnership, association, or other private or commercial entity, and any sovereign state, district municipality, political subdivision, agency, department, or instrumentality of a sovereign state, and any officer, employee, representative or agent thereof.

21. "Principal Contact" has the meaning ascribed to it in Article IV of this Agreement.

22. "Project" shall mean the climate action mitigation project described in Section II hereof.

23. "Project Documents" means this Agreement, including all Attachments and amendments hereto, the Annual Workplan and Budget and any updates to the Project Plan, all Operating Protocols, the Financial Statement, the Annual Technical and Financial Report, and other documents that are established after the signing of this Agreement by agreement of the Parties for the management and implementation of the Project. The term "Project Documents" shall not include filings made by any Person under Section 1605(b) of the United States Energy Policy Act of 1992 or any other program for the purpose of registering Offsets of the Project that have been conveyed to GM as contemplated herein.

24. "Project Funds" means the total of funds deposited into THE CONSERVANCY Long-Term Project Funds Account, THE CONSERVANCY Medium-Term Project Funds Account or the SPVS Project Account, under this Agreement and all interest earned on such funds, during the Project Term.

25. "Project Funds Manager" has the meaning ascribed to it in Section V of this Agreement.

26. "Project Implementation Team" means SPVS and THE CONSERVANCY employees directly involved in the execution of activities contemplated in this Agreement and outside service providers necessary to implement the Project.

27. "Project Plan" means the General Motors Atlantic Rainforest Restoration Project Plan set forth in Attachment 3 to the Agreement and any revisions to it approved by the Parties.

28. "Project Site" means lands purchased for the express purpose of implementing the Project, exclusive of the lands that are outside of the boundaries of this purchased land on which activities related to the Project take place.

29. "Project Site Manager" shall have the meaning set forth in Section V of this Agreement.

30. "Project Term" shall have the meaning set forth in Article III of this Agreement.

31. "Project Year" shall be from July 1 through June 30.

32. "Registration Interest" means the right accorded to GM under the terms of this Agreement, Section 1605(b) of the United States Energy Policy Act of 1992, and any other relevant Mechanism to claim, to obtain certification to formally register or otherwise to obtain environmental or other credit for Offsets conveyed to GM in accordance with this Agreement.

33. "Restricted Information" means any non-public information regarding any Party, provided by such Party or by an agent, employee or representative of such Party and marked as "Restricted Information" to any other Party or to an agent, representative or employee of such other Party. "Restricted Information" does not include (1) Project-verified information that must be disclosed to obtain Offset Certification, or to register Offsets under the ground rules of the United States Department of Energy's Section 1605 (b) registration program or of any other relevant Mechanism, or to comply with an order of a federal, state or local court or governmental agency; (2) information which at the date of this Agreement is publicly available; (3) information which after the date of this Agreement becomes publicly available through no fault of a Party or its employees or agents; (4) information that a Party can show was in its possession before the date of this Agreement; or (5) information received by a Party without restriction as to disclosure from a third party who has the lawful right to disclose the same.

34. "SPVS Project Account" has the meaning set forth in Article VII of this Agreement.

35. "TAP" means the Technical Advisory Panel assembled by THE CONSERVANCY and composed of THE CONSERVANCY climate change experts and other outside specialists. The TAP will review and evaluate the Carbon Monitoring Protocol, other Project carbon monitoring procedures, Offset reports and any other items requiring TAP review and evaluation under the Carbon Monitoring Protocol.

ARTICLE II - OBJECTIVE

2.1 Objective. The Parties to this Agreement have as their objective the implementation of a climate action mitigation project (hereinafter "Project") for the following purposes:

1. to protect plants and animals
2. to protect biodiversity on the project site
3. to mitigate greenhouse gases in the Earth's atmosphere, principally through reforestation and the prevention of deforestation
4. to sequester carbon from the Earth's atmosphere as rapidly as possible without compromising the biodiversity of the Project
5. to promote sustainable development
6. to generate Certified Offsets for GM.

2.2 Project Activities. The specific detailed activities to be undertaken under this Agreement are set forth in the Project Plan contained in Attachment 3 of this Agreement. The Project Plan should be implemented so as to avoid, to the extent possible, the loss of jobs or homes and other events with negative social or environmental consequences.

ARTICLE III - TERM

3.1 Project Term. This Comprehensive Agreement shall enter into force upon its execution by the Parties hereto, and shall continue from the date of execution hereof through the date of June 30, 2040.

ARTICLE IV - PROJECT GOVERNANCE

4.1 Legal Address, Address of the Project Site Manager. The address of the Project and the Project Site Manager shall be the SPVS office in Curitiba, Brazil as listed in Attachment 4 of this Agreement; or at other places in Brazil as the Parties may from time-to-time designate in writing, should there be a change

4.2. The Executive Committee. The Executive Committee shall have four members and consist of the Principal Contacts for GM, GMB, SPVS and THE CONSERVANCY. It shall meet at least once per Project Year during the first five Project Years, and as the Parties deem necessary during the remaining Project Term. At least three-quarters of all Executive Committee members must be present for a quorum. In lieu of a meeting the Executive Committee may act by written resolution, signed by at least three-quarters of all Executive Committee members in the case of an advisory action and by all Executive Committee members in the case of a binding decision. All meetings shall be noticed in writing by the Project Site Manager at least forty-five (45) days prior to the date of the meeting. This notice is considered waived if all members of the Executive Committee are present at a meeting. The site for Executive Committee meetings shall be the office of the Project Site Manager in Curitiba, Brazil, unless the Parties agree to an alternate location. Executive Committee meetings may be held by teleconference. The Project

Site Manager shall keep minutes of the Executive Committee meetings in English and Portuguese, which shall be distributed to the Parties within thirty (30) days following a meeting. Reasonable expenses of THE CONSERVANCY and SPVS to attend Executive Committee meetings can be paid out of the Overall Project Budget in Attachment 2 to this Agreement; GM and GMB shall bear the expenses of their own attendance in Executive Committee meetings.

4.2.1 Advisory Role. Except to the extent otherwise provided in this Agreement, during the Project Term the Executive Committee may consider in an advisory capacity any issues concerning the Project that any Party requests be considered. While consensus shall be the goal, recommendations of the Executive Committee shall be by approval of at least three-quarters of all Executive Committee members. The Executive Committee may provide, but is not limited to providing, recommendations on the following matters:

(a) Annual Work plans and Budgets (following the first four years of the Project Term);
(b) Annual Technical and Financial Reports;
(c) General project implementation activities.

4.2.2 Decision Making Role. Any and all binding decisions of the Executive Committee shall require the agreement of all members of the Executive Committee. In addition to its advisory role, the Executive Committee shall have the following duties and responsibilities with respect to which its decisions will be binding upon the Project Funds Manager and the Project Site Manager:

(a) recommend appropriate changes to this Agreement including any changes to the Project Plan;
(b) review and approve the Annual Workplans and Budgets covering the first four calendar years of the Project Term (under this section, following the first four years of the Project Term, the Executive Committee at its discretion may decide to continue to review and approve the Annual Workplans and Budgets);
(c) the determination of when and to whom to submit any filing, submission, or registration of any Offsets generated by the Project, the delegation of responsibility for preparing and submitting all necessary documentation and applications, and approval of any such filing, submission, or registration;
(d) the approval of any sale, assignment, conveyance, lease or other disposition of the Project Site or the placing on, or permitting to exist on or in respect of the Project Site of any encumbrance, including but not limited to a mortgage, lease, lien, security interest, pledge or other encumbrance of any kind or nature whatsoever;
(e) the changing of the frequency or number of any audits or reports required under this Agreement;
(f) the changing of the definition of the Project Year;
(g) any other binding decision identified in this Agreement to be undertaken by the Executive Committee.

4.3 Principal Contacts. Each Party agrees to be represented at all times during the Project Term by a Principal Contact, who shall be fully authorized to represent and bind his or her appointing Party in connection with all matters concerning the Project. The names of the Principal Contacts shall be set forth in Attachment 4 to this Agreement, provided that each Party

shall notify the Project Site Manager within fifteen (15) days following any change in the names of the Principal Contacts or in the address to which communications should be sent. The Project Site Manager shall record any change and notify the other Parties of the change within ten (10) days thereafter.

4.4 Communication Among Parties. Unless explicitly provided for otherwise herein, all communications among the Parties may be given orally, by phone, or in writing. Any communications that are required to be in writing, shall be in English and may be delivered by hand, mail, telegram, facsimile, e-mail or telex, postage prepaid. All Annual Workplans and Budgets, Annual Technical and Financial Reports shall be deemed to have been given when received by the Principal Contact of a Party.

4.5 Consultation With External Advisors and Other Service Providers. The Parties may consult with independent advisors, including government entities, and separately engage accountants, technical experts and other service providers in addition to those funded under the Project to review, verify and advise the Parties on implementation of the Project. Such advisors may include such other experts in greenhouse gas mitigation, monitoring or other matters pertaining to the Project, as may be helpful or necessary to ensure the reliability and success of the Project; provided that, matters reviewed by independent advisors shall not include Restricted Information and each Party shall be solely responsible for any fees or other costs (beyond those contemplated by the Annual Workplans and Budgets) incurred by such separate engagements. The Executive Committee and Implementation Team are hereby directed by the Parties to cooperate fully with all reasonable requests made by any such independent advisors or separate service providers.

4.6 Authentications, Certifications & Warranties. All documents required to be prepared under this Agreement shall be prepared by or upon reasonable inquiry of persons with personal knowledge of the information contained in such documents, and shall be accompanied by all appropriate warranties as to the quality, truthfulness, authenticity and accuracy of the supporting work and the Project Documents. Nothing in this Agreement shall require a Principal Contact to obtain actual personal knowledge of the information contained in a document, provided that, such Principal Contact shall make reasonable inquiry of individuals having such personal knowledge.

4.7 Public Communications. Recognizing the importance of the Project to the public and to the relationships between nations, the Parties hereby direct that all information regarding the Project Plan (including any changes to the Project Plan), carbon monitoring data and methodologies, documentation of community work, reforestation data and methodologies, the content of this Comprehensive Agreement and any other Project contracts or subcontracts, the Operating Protocols, Annual Workplans and Budgets, Annual Technical and Financial Reports, Leakage reduction data and strategies, and any information required by law to be publicly available be publicly available, subject only to the following:

(a) Uses of Names and Logos. The names and logos of each of the Parties hereto (including the Design of Oak Leaf of THE NATURE CONSERVANCY) are registered trademarks/service marks. No Party shall use the name and/or logo of another Party for commercial purposes. A Party intending to use another Party's name or logo shall submit in writing, via an overnight carrier, a final copy of all descriptions, copy and other materials not previously approved, associated with said name or logo for review and prior written approval no less than fifteen (15)

Business Days before publication. A Party's failure to provide written approval within ten (10) days of receipt of the foregoing information shall be deemed a disapproval. Such approvals shall not be unreasonably withheld by a Party; provided that, the criteria to be applied for such approval may include an assessment by the reviewing Party of whether the proposed communication, if published, would diminish, injure or damage such reviewing Party's reputation or good will.

(b) Other Communication. Each Party shall communicate to each other Party the contents of and receive concurrence from each other Party on the content of all press statements and releases concerning any activities that have occurred or are occurring pursuant to this Agreement. No Party to this Agreement will be required to provide an endorsement or recommendation with respect to any of the other Parties to this Agreement or any of their activities. Descriptive language previously approved by the Parties is not subject to the restriction on non-commercial use found in section 4.7(a).

(c) Restricted Information. The Parties each hereby agree not to use or disclose to any person any information that has been previously identified by any other Party as Restricted Information without such other Party's prior written approval. The Parties further agree to use best efforts to apply the same procedures to prevent the disclosure and use of such Restricted Information as they each apply to maintain the integrity and (if applicable) confidentiality of their own confidential and proprietary business information.

4.8 Terms of Project Plans. All Executive Committee decisions, Project Site Manager actions and future revisions to the Project Plan shall be consistent with the terms and principles established in the Project Plan. The Project Plan is included as Attachment 3 to this Agreement.

ARTICLE V - ROLES OF THE PARTIES

5.1 Roles of the Parties.

5.1.1 Duties of SPVS. SPVS is hereby designated Project Site Manager and in this capacity shall, in consultation with the Executive Committee, be principally responsible for managing and implementing the Project in a timely and professional manner. The duties of the Project Site Manager include:

(a) purchasing and holding title to the lands comprising the Project Site, and managing the Project Site in accordance with the Project Plan;

(b) hiring staff, contracting consultants, training, directing, managing and coordinating the work of the Project Implementation Team;

(c) assuring that the Operating Protocols, Annual Workplans and Budgets, Annual Technical and Financial Reports and other such reports and Party updates necessary to implement the Project are prepared and presented to the Executive Committee;

(d) submitting to the Project Funds Manager an Annual Workplan and Budget as described in Article VII that is in conformance with the Project Plan and in substantive conformance with the Overall Budget found in Attachments 3 and 2, respectively, to this Agreement and acceptable to the Project Funds Manager;

(e) submitting to the Project Funds Manager for advanced approval an Annual Technical and Financial Report as described in Article VII;

(f) submitting to the Project Funds Manager Quarterly Financial Reports as described in Article VII;

(g) obtaining Executive Committee approvals for items that require it;

(h) maintaining regular contact, but not less often than annually, with the appropriate Brazilian governmental entities and with technical scientific advisors and the local communities as appropriate to facilitate the Project and to respond promptly to any inquires of the appropriate Brazilian governmental entities.

(i) designing, managing and implementing the Project's Offset creation strategies and sustainable development activities contemplated by the Project to assure the financial and environmental viability of the Project; managing the accounts for creation, deduction, certification and conveyance of Offsets to GM; and maintaining all necessary and appropriate records in connection therewith;

(j) managing the Project Site in accordance with the Project Plan;

(k) developing Offsets reports and submitting them as well as other necessary Project filings and Project Documents to the appropriate Brazilian or other national governmental entities on behalf of the Parties, with the appropriate certification to the truth and accuracy of such Offset reports, Project filings and other necessary Project Documents;

(l) serving as custodian of all Project records required under Law to be kept at SPVS, at the Project Site, or pursuant to this Agreement, and ensuring the availability of such records to the Executive Committee, the appropriate governmental entities and the Parties;

(m) establishing the SPVS Project Account in accordance with Section 7.4 hereof, maintaining disbursed Project Funds in a SPVS Project Account and expending Project Disbursements in accordance with this Agreement and the Annual Workplan and Budget;

(n) engaging, coordinating and managing the work of accountants, scientific experts and other service providers as appropriate and necessary to implement the Project, including - providing the direction necessary regarding such work to ensure its quality, accuracy and timeliness;

(o) acquiring, maintaining and renewing all rights, contracts, powers, leases, and franchises, and making all payments, filings and records pertaining thereto, as necessary for the conduct of its business and the performance of its obligations under this and all other Project Documents;

(p) obtaining and maintaining in force at all times during the Project Term, such property, general liability and other insurance on its property and business as is in accordance with good commercial practice in Brazil and satisfactory to the Executive Committee;

(q) serving as a member of the Executive Committee, and in that capacity voting as required on issues brought before the Executive Committee.

(r) undertaking all actions as may be necessary or appropriate to ensure the success of the Project, within the frame of this Agreement and Laws.

5.1.2 Duties of GM Subject to the continuing satisfaction of the conditions precedent set forth in Article VII and the default provisions set forth in Article XII, GM shall:

(a) provide financing for the Project according to the schedule of contributions set forth in Attachment 2; and

(b) serve as a member of the Executive Committee, and in that capacity vote as required on issues brought before the Executive Committee, and consult with the Project Funds Manager and the Project Site Manager regarding the financing and implementation of the Project.

5.1.3 Duties of GMB Subject to the continuing satisfaction of the conditions precedent set forth in Article VII and the default provisions set forth in Article XII, GMB shall serve as a member of the Executive Committee, and in that capacity vote as required on issues brought before the Executive Committee, and consult with the Project Funds Manager and the Project Site Manager regarding the financing and implementation of the Project.

5.1.4 Duties of CONSERVANCY.

(a) Project Funds Manager. THE CONSERVANCY is hereby designated as the Project Funds Manager, and in such capacity it shall be responsible, in consultation with the Executive Committee, for providing the financial management services set forth in this Agreement, in a timely and professional manner. THE CONSERVANCY shall serve as a member of the Executive Committee, and in that capacity vote as required on issues brought before the Executive Committee. The duties of the Project Funds Manager include:

(i) establishing a THE CONSERVANCY Medium-Term Project Funds Account and a THE CONSERVANCY Long-Term Project Funds Account with Project Funds received from GM, and tracking, managing and maintaining these Project Funds Account throughout the Project Term;

(ii) approving the Annual Workplan and Budget submitted by the Project Site Manager to the extent approval of the Executive Committee is not required;

(iii) disbursing funds to the Project Site Manager on such dates and in accordance with the Annual Workplan and Budget, the Project Plan and its Operating Protocols;

(iv) approving Quarterly Financial Reports submitted by the Project Site Manager and sending such Reports to GM and GMB;

(v) approving the Annual Technical and Financial Report submitted by the Project Site Manager and sending such Reports to GM and GMB;

(vi) seeking and facilitating technical support for the financial administration of the Project according to the necessities and requirements of the Project Site Manager;

(vii) establishing and managing the Endowment Fund established under this Project and described in Article VII; and

(viii) collaborating, as considered necessary, with the Project Site Manager to ensure the success of the Project conservation activities.

(b) Project Technical Assistance. THE CONSERVANCY shall also provide technical assistance to the project for the following activities:

(i) seeking and facilitating technical support required by the Project Site Manager as set forth in Article V;

(ii) reviewing and approving all of the decisions of the Project Site Manager that require Project Funds Manager approval under the Operating Protocols, and approving revisions and amendments to the Project Plan and Annual Workplans and Budgets for better compliance with the objectives of this Agreement; and

(iii) providing advice and technical assistance in the development and revision of Operating Protocols, Annual Workplans and Budgets, Annual Technical and Financial Reports and other such reports and Party updates as are necessary to implement the Project and as required by the Project Site Manager.

ARTICLE VI - COVENANTS

6.1 Covenants. Each Party independently and separately hereby covenants to perform as follows:

6.1.1 Due Diligence. It shall perform its obligations under this Agreement, and shall conduct the Project on the basis of customary commercial practice and arm's length arrangements, with due diligence and efficiency, within the due dates and time lines established herein or in any other Project Document;

6.1.2 Assignment of Duties and Obligations and Transfer of Rights. A Party shall not terminate, amend or grant any waiver of, or assign any of its duties or obligations under any provision of this Agreement except by written agreement of all of the Parties; provided, however, that GM may assign all or any portion of its interest herein to any third party subject to approval of the other Parties which approval may not be reasonably withheld;

6.1.3 Notification. It shall notify the other Parties in writing within five (5) Business Days of:

(a) the occurrence of an Event of Default (as defined in Article XII) and of any event known to any of its officers which, upon the giving of notice, the lapse of time or both, would become an Event of Default,

(b) the filing of any lawsuit against any Party involving claims that could directly and materially affect such Party's performance of this Agreement, or

(c) the occurrence of any other condition or event which is likely to directly and materially adversely affect any Party's financial condition and its ability to perform its obligations under this Agreement.

6.1.4 Professional Performance of Obligations. All obligations to be performed under this Agreement by each one of the Parties and their respective employees, representatives and agents, shall be performed in a professional and efficient manner using due diligence to prevent unnecessary injury or damage to the Offsets and Certified Offsets produced on the Project Site.

6.1.5 Materials Prepared and Submitted. All materials prepared and submitted to any governmental or non-governmental entity, made by a Party or its employee, representative or agent, shall be prepared and submitted in a manner that meets the requirements of this Agreement and Law;

6.1.6 Reliance on Information. To the extent permitted by Law and this Agreement, all service providers, and each employee, representative and agent of any other Party working on the Project shall have the rights to rely on information provided, and preparations and representations made by such Party or its duly authorized employee, representative or agent;

6.1.7 Support. Each Party will provide its appointees and the persons engaged to assist such appointees, with the support necessary to ensure timely and full performance of such appointees' responsibilities and obligations under this Agreement and any subsequent document approved by the Project Funds Manager and/or the Executive Committee;

6.1.8 Communication With Accountants. Upon the Executive Committee's reasonable request, each Party will instruct its respective accountants and auditors to communicate directly with the Executive Committee regarding their accounts and operations as they relate to the Project.

6.1.9 Covenants of SPVS and THE CONSERVANCY

SPVS and THE CONSERVANCY further Covenant:

(a) not to sell, assign, convey, lease or otherwise dispose of all or a substantial part of its assets or real properties to the extent such action would have an effect on the Project, whether such assets or real properties are now owned or hereafter acquired, except for the replacement of capital assets with assets of equal or greater value;
(b) not to voluntarily dissolve, liquidate or otherwise cease to do business during the Project Term;
(c) not to change the nature or scope of the Project without the written consent of the other Parties;
(d) not to change its Articles of Association or other organizing documents, in a manner that would be inconsistent with the provisions of any Project Document;
(e) not to enter into any partnership, profit-sharing or royalty agreement or other similar arrangement whereby Project Disbursement are, or might be, shared with any person, except as specifically authorized in a Project Document;
(f) to maintain its corporate existence and its right and authorities to carry on the Project;
(g) to assist GM in defending the conveyance of Offsets transferred under this Agreement, against the claims of any person including by providing any documentation in their possession;
(h) to ensure observance of confidentiality with regard to any Restricted Information or confidential information or data disclosed to it.
(i) not to sell, assign, convey, lease or otherwise dispose of any of the real estate or assets which comprise the Project without the written approval of the Executive Committee.

6.2. SPVS further covenants during the Project Term not to sell, assign, convey, lease or otherwise dispose of the Project Site or place on, or permit to exist on or in respect of, the Project Site any encumbrance, including but not limited to a mortgage, lien, security interest, lease, pledge or other encumbrance of any kind or nature whatsoever on the Project Site, unless approved by the Executive Committee per Article 4.2.

6.3 SPVS further covenants that all approvals required or necessary to go forward with the Project, have either been granted and not modified or withdrawn, or will be sought in a timely manner by SPVS as Project Site Manager pursuant to the procedures established in the Operating Protocols to be established hereunder.

ARTICLE VII - PROJECT FINANCE

7.1. Funding for the Project. GM to date has provided Five-Hundred Thousand United States Dollars (US$500,000) for the planning and implementation of the Project. Some portion of these fund have been expended to date for development of the Project Plan and feasibility study. The balance shall be disbursed by the Project Funds Manager in accordance with this Agreement. Within 30 days of the signing of this Agreement, GM shall transfer an additional US$9,500,000 to THE CONSERVANCY for Project implementation. Further contributions by GM are permitted and will be subject to the same conditions, herein stipulated, as the initial funding, or as may be agreed to by GM and THE CONSERVANCY.

7.1.1 Project Funds.

(a) Project Development and Initial Implementation Expenses. As reflected in Attachment 2 to this Agreement THE CONSERVANCY to date has expended funds for Project development and initial implementation expenses.

(b) THE CONSERVANCY Medium-Term Project Funds Account. THE CONSERVANCY shall deposit a portion of the Project Funds into an internally cost-segregated medium-term investment account (" THE CONSERVANCY Medium-Term Project Funds Account") to be invested in short- to medium-term money-market, investment-grade instruments at the discretion of THE CONSERVANCY with the objective of ensuring that the Project's medium-term financial needs are met. The Parties understand that the value of THE CONSERVANCY Medium-Term Project Funds Account will fluctuate and may lose value. During the Project Term, the principal and income from THE CONSERVANCY Medium-Term Project Funds Account (less any custodial costs and fund management fees) shall only be utilized for the purposes of supporting the Project or for the support of the Project Site.

(c) THE CONSERVANCY Long-Term Project Funds Account. THE CONSERVANCY shall deposit the balance of the Project Funds (the total of all Project Funds less those expended for Project development and initial implementation expenses and those placed in THE CONSERVANCY Medium-Term Project Funds Account) into an internally cost-segregated long-term investment account (" THE CONSERVANCY Long-Term Project Funds Account") to be invested with the same care and diligence as used to invest its other long-term

financial resources at THE CONSERVANCY'S discretion and in accordance with the investment criteria put in place by THE CONSERVANCY Board of Governors with the objective of ensuring that the Project is financed for the balance of the Project Term from the principal and income earned in THE CONSERVANCY Long-Term Project Funds Account. Notwithstanding the above conditions the annual payout from THE CONSERVANCY Long-Term Project Funds Account may exceed the payout rate provided for THE CONSERVANCY's other long-term accounts. The Parties understand that the value of THE CONSERVANCY Long-Term Project Funds Account will fluctuate and may lose value. During the Project Term, the principal and income from THE CONSERVANCY Long-Term Project Funds Account (less any custodial costs and fund management fees) shall only be utilized for the purposes of supporting the Project or for the support of the Project Site.

(d) Project Site Endowment Fund. The Parties intend that sufficient funds remain after the initial 40-year period to endow the protection of the flora and fauna of the project site indefinitely. Upon termination of the Project for any reason, any funds remaining in THE CONSERVANCY Medium-Term Project Funds Account or THE CONSERVANCY Long-Term Project Funds Account shall be used by THE CONSERVANCY to establish a Project Site Endowment Fund to support the protection of flora and fauna on the Project Site indefinitely. This Project Site Endowment Fund shall be established pursuant to the Policies, Procedures and practices of THE CONSERVANCY and the laws of the Commonwealth of Virginia, U.S.A. and invested at THE CONSERVANCY'S discretion and according to the investment criteria put in place by ' THE CONSERVANCY'S Board of Governors with the objective that a reliable source of income is available to protect the flora and fauna on the Project Site beyond the Project Term. THE CONSERVANCY shall own, manage, and administer the Project Site Endowment Fund with the same care and diligence as used to administer its other endowment funds.

7.1.2 Economic and Commercial Uses of Project Site. Income from any use of the Project Site during the Project Term shall be used solely for the benefit of the Project unless otherwise decided by the Executive Committee.

7.2. Disbursements.

7.2.1 Disbursement Obligation. As Project Funds Manager, THE CONSERVANCY shall make Disbursements of all Project Funds to the Project Site Manager or THE CONSERVANCY for authorized Project uses. Such Disbursements shall be in accordance with this Article, the Annual Workplan, and the Budget and the Project Plan. All disbursements to the Project Site Manager for the purpose of purchasing land shall also be governed by Donation Agreements the form of which is found in Attachment 6 hereto. All Disbursements to the Project Site Manager for purposes other than purchasing land shall also be governed by Deposit Contract(s) the form of which is found in Attachment 7 hereto.

7.2.2 Public Announcement Costs. It is anticipated that out-of-pocket costs will be incurred by all the Parties in connection with the public announcement of the execution of the Agreement and commencement of the related Project. It is the intent of the Parties that all such reasonable costs be paid from Project Funds. All such costs incurred by any party in connection with such a public announcement and contained in an approved Annual Workplan and Budget or otherwise approved by all the Parties shall be reimbursed from Project Funds.

7.2.3 Disbursement Schedule. All disbursements shall be made on a quarterly basis and only upon receipt of the previous quarter's Quarterly Financial Report, or at such other times as may be agreed to by the Project Funds Manager and the Project Site Manager. At the end of Project Year 5, the Executive Committee shall review reporting and disbursement requirements to determine if any of the changes are warranted in the disbursement schedule; any changes which the Executive Committee votes to accept will then take precedence over this Article.

7.3. Undisbursed Funds. All undisbursed Project Funds shall be retained by the Project Funds Manager in THE CONSERVANCY Medium-Term Project Funds Account or THE CONSERVANCY Long-Term Project Funds Account. If it becomes apparent that excess Project Funds will exist, the Parties shall endeavor to expand the Project to use the excess Project Funds consistent with the objectives of the Project as described in Article II.

7.4. Uses of Project Disbursements.

7.4.1 Obligation. All Project Funds disbursed to the Project Site Manager and the Project Funds Manager shall be used exclusively in furtherance of the Project in accordance with this Agreement, the Project Plan, and the Annual Workplans and Budgets, and for no other purposes whatsoever.

7.4.2 SPVS Project Account. The Project Site Manager shall deposit all Project Funds disbursed in accordance with this Article into a SPVS separate specific Project bank account to be applied to the Project ("SPVS Project Account"). SPVS will receive the funds as depository pursuant to the terms and conditions set forth by a Deposit Contract, the form of which is found in Attachment 6.

7.4.3 Expenditure Categories and Authorizations. The Project Site Manager and Project Funds Manager are authorized to expend disbursed Project Funds strictly in accordance with the categories and amounts authorized by the Project Plan and Annual Workplans and Budgets for the Project. Any change in these categories or amounts shall be reflected in a revision to the Project Plan and will require authorization by the Executive Committee. As laid out in the Project Plan, the Site Manager is authorized, without approval by, but with notification in writing of, the Project Funds Manager, to transfer funds amounting to no more than the lesser of US$5000 or ten percent (10%) of any individual budget category to another budget category, provided that such transfer does not impact the successful implementation of Project activities as laid out in the Project Plan.

7.5. Conditions Precedent. The Fund Manager's Disbursement obligations under this Article shall be subject to the following conditions precedent:

(a) Performance by SPVS and THE CONSERVANCY of the covenants set

forth in Article VI;

(b) The warranties and representations set forth in Article X being true and remaining true;

(c) That SPVS continues to control and administer the Project Site and the facilities necessary for conducting the Project, free and clear of any and all circumstances that would interfere with the creation and conveyance of Offsets contemplated under this Agreement;

(d) That the Project Site Manager continues to have all governmental authorities, licenses and permits with regard to the Project Site to ensure full and successful implementation of the Project Site Manager's Offset generating and Project financing activities for the Project Term;

(e) That the Project Site Manager remains in compliance with the provisions of any Donation Agreements; and

(f) If a condition precedent is not satisfied because of a Party's action or inaction, Article XI of this Agreement shall control. If a condition precedent is unsatisfied for any other reason, disbursement and payment obligations shall be suspended until all conditions have been satisfied.

7.6. Accounting. The Parties shall implement financial and Project implementation accounting mechanisms as necessary and appropriate to ensure good business practice, and to credibly document performance by all Parties of their respective Project obligations. The Executive Committee has the power to change the frequency and number of any audits or reports under this Agreement.

7.6.1 The Project Funds Manager shall maintain a complete, up-to-date and segregated cost center within its accounting structure for all Project Funds it receives, which shall include accounting for all THE CONSERVANCY Project Account deposits and withdrawals, for all Project services costs and expenditures, and for all Project costs and expenses actually incurred.

7.6.2 The Project Site Manager shall maintain a complete, up-to-date and segregated cost center within its accounting structure for the Project Funds it receives, which shall include accounting for all SPVS Project Account deposits and withdrawals, for all Project services costs and expenditures, and for all Project costs and expenses actually incurred.

7.6.3 Annual Workplans and Budgets, and Annual Financial and Technical Reports.

(a) Annual Workplan and Budget. In substantial conformance with the overall Project Budget found in Attachment 2 to this Agreement and in conformance with the Project Plan, The Project Site Manager shall submit an Annual Workplan and Budget to the Project Funds Manager. The Annual Workplan and Budget will detail spending for the coming Project Year and will be submitted not later than ten weeks prior to the start of THE CONSERVANCY's Fiscal Year (July 1) for each Project Year, unless otherwise stipulated by the Executive Committee. Project Funds Manager approval of the Annual Workplan and Budget for the Project that is consistent with this Agreement and the limitations on the Parties' obligations set forth in this Agreement, shall be given by not later than June 15 of each Project Year. Should the Project Funds Manager wish to change the Annual Workplan and Budget submitted to the Project Site

Manager, it will consult with the Project Site Manager before doing so. The Project Plan and any revisions to it shall govern implementation of the Project throughout the Project Term.

(b) Annual Technical and Financial Report. The Project Site Manager shall submit an Annual Technical and Financial Report to the Project Funds Manager within 60 days after the end of each Project Year, with the first Project Year ending on June 30, 2001. The Annual Technical and Financial Report will provide detailed progress reporting on the Project including Disbursements and Expenditures of funds, unexpended or surplus funds available to the Project Funds Manager and Project Site Manager, and the progress and percentage of completion of major phases and milestones of the Project. If major phases and/or milestones have not been completed on schedule, the Annual Technical and Financial Report will include an explanation for the delays and set forth the steps that the Project Site Manager intends to take to bring Project implementation activities back into conformance with the Project Plan. The Annual Technical and Financial Report shall contain a statement signed by an Authorized Officer or the Principal Contact of SPVS and THE CONSERVANCY that acknowledges the contents of the reports. If they choose, and at their sole expense, any of the Parties may also conduct an external project evaluation of the Project Site Manager at any time during the Project Term.

(c) Quarterly Financial Reports. The Project Site Manager shall submit Quarterly Financial Reports to the Project Funds Manager using financial reporting forms provided by the Project Funds Manager within 30 days after the end of each quarter of the Project (quarters shall end on March 31, June 30, September 31 and December 31) and including copies of all bank statements for bank accounts controlled by the Project Site Manager and related to the Project during the quarter. At the end of Project Year 5, the Executive Committee shall review financial reporting requirements to determine if any changes are warranted in the financial reporting schedule. Any changes which the Executive Committee unanimously votes to accept will then take precedence over this article.

(d) Change in Conditions Precedent, Covenants, or Warranties. If a change, to the Project, the Project Site, or this Agreement that is beyond the control of any of the Parties, causes any of the conditions precedent, covenants or warranties set forth in this Agreement to materially change, SPVS or THE CONSERVANCY as appropriate shall notify the Executive Committee in writing within thirty days of the change; such notification will advise the Executive Committee as to the nature and impact of such change, and propose a plan to address such impact.

(e) Access and Examination. Upon the request of any Executive Committee member, any other Party shall grant the requesting Executive Committee member or a person designated by the requesting Executive Committee member during normal business hours, access to, and permission to examine, copy and make extracts from, any and all records and documents (pertinent to the Project) in the possession or subject to the control of the requested Party relating to the Project, and to inspect the Project Site facilities and properties. Subject to all applicable legal requirements, the

requesting Executive Committee member shall treat the financial information provided under this Subsection, as Restricted Information not to be disclosed to other persons or entities.

7.6.4 Audits and Reviews. Copies of the following audits and reviews shall be provided to all members of the Executive Committee in a timely manner.

(a) Annual External Organizational Audit. The Project Site Manager and Project Funds Manager shall provide to the Executive Committee their annual external organizational audits.

(b) Project Site Manager Audit. If they choose, and at their sole expense, any of the Parties may also audit the Project Site Manager.

(c) TAP. The TAP will review and evaluate the Carbon Monitoring Protocol, other Project carbon monitoring procedures, Offset reports and any other items requiring TAP review and evaluation under the Carbon Monitoring Protocol. The reasonable costs of these reviews will be paid out of Project funds.

ARTICLE VIII REAL PROPERTY TRANSACTIONS

Funds transferred to SPVS or to any sellers of real property from THE CONSERVANCY for the purpose of purchasing land pursuant to this Agreement shall be donations from THE CONSERVANCY to SPVS and shall be governed by Donation Agreement(s) the form of which is found in Attachment 5 to this Agreement.

ARTICLE IX - OFFSETS RECOGNITION AND TREATMENT

9.1. Pilot Project. The Parties to this Agreement understand and agree that this Project is being developed as a pilot project to demonstrate the viability and effectiveness of reforestation and forest protection greenhouse gas mitigation strategies and to generate Certified Offsets that may be used at a later date.

(a) The Parties to this Agreement further understand and agree that this Project has not been submitted to any Mechanism or Certifying Entity for approval or acceptance. However, the Executive Committee may decide to submit this Project for such approval or acceptance in the future;

(b) In order to implement the Project objective of generating Certified Offsets, the Executive Committee, shall, as feasible and appropriate, take all necessary steps to obtain certification of Project Offsets by one or more Mechanisms or Certifying Entities approved by GM. The Parties agree that THE CONSERVANCY or such other entity selected by the Executive Committee, shall have the responsibility for preparing, in compliance with all applicable modalities and procedures, all necessary documentation for Project approval or acceptance and/or certification, registration and/or tracking of greenhouse gas Offsets accruing from the Project, submitting the documentation to the Mechanism or Certifying Entity, and obtaining the necessary approvals, certifications, or other actions. It is the intention of the Parties that out-of-pocket costs associated with any preparation and application for Certified Offsets under this Section should be kept to a

minimum GM, as the sole recipient of the Project's Certified Offsets under this Agreement shall bear all such out-of-pocket charges, fees, or "share of the proceeds" (as indicated in Article 12 of the Kyoto Protocol) or other costs provided GM has approved the costs before incurred.
Notwithstanding the above, Project Funds may be utilized to cover costs of THE CONSERVANCY's or SPVS's public engagement activities in promotion of the Project or acceptance for crediting of forestry projects in general, as specified in the Annual Work Plan and Budget.

(c) No Party guarantees that any such Mechanisms or Certifying Entities will be adopted, established or authorized by the parties to the "UNFCCC" or otherwise. In addition, no Party assumes financial liability for failure of such Mechanism or Certifying Entity to be adopted, established or authorized by the Parties to the "UNFCCC".

9.2. Offsets Calculation, Demonstration, and Certification. The Project Site Manager, or such other Party or entity as may be designated by the Executive Committee, will be responsible for the demonstration and calculation of the Project's Offsets while THE CONSERVANCY or such other entity selected by the Executive Committee will be responsible for the preparation and submission of all necessary documentation to the relevant Mechanism or Certifying Entity, in accordance with the methods and procedures set forth herein, in the Carbon Monitoring Protocol. SPVS and THE CONSERVANCY shall support and encourage the Certification of such Offsets and their registration and conveyance to GM by any Mechanism or Certifying Entity.

9.2.1 Carbon Monitoring Protocol. THE CONSERVANCY and SPVS will prepare a Carbon Monitoring Protocol that will provide the factual basis and procedures for documenting changes over time in the greenhouse gases emitted, reduced, avoided, or sequestered by the Project. This Carbon Monitoring Protocol will be reviewed and evaluated by the TAP and will define the methods, procedures, and frequency of activities in the following areas:

(a) measurement of carbon pools in and around the Project Site;
(b) calculation of a Project reference case or baseline;
(c) calculation of net carbon emissions attributed to Project leakage or avoided through the Project's leakage prevention activities as compared to the Project reference case;
(d) carbon emissions calculations and accounting procedures;
(e) preparation and submission of Offset reports;
(f) evaluation of Offset reports by the TAP.

9.2.2. Refinements of Methodologies. The Parties to this Agreement mutually understand and agree that, as a pilot effort, the Project's Offsets monitoring, measurement and reference case calculation methodologies and techniques will be developed and refined over the Project Term, consistent with those methodologies or techniques that are or are likely to be acceptable to or approved by relevant Mechanisms or Certifying Entities.

9.3 Certification Protocol. The Parties to this Agreement shall cooperate to submit the necessary documentation for obtaining certification of Offsets from the relevant Mechanism or Certifying Entity or Entities annually, or at such other intervals as shall be consistent with the rules, policies, and practices of the Mechanism or Certifying Entity and the Project objective of generating Certified Offsets on as rapid and regular a basis as is feasible. The Parties to the

Agreement shall work with the relevant Mechanism or Certifying Entity or Entities to develop a transparent procedure for certification and obtain certification decisions as expeditiously as feasible.

9.4 Conveyance of Offsets. As long as GM and GMB are not in default of their duties under this Agreement, all Offsets shall be conveyed to GM providing sufficient time to register such Offsets with registries and tracking systems established by relevant Mechanisms or Certifying Entities. Such conveyance shall transfer to GM the right to hold, register, sell, hypothecate, transfer or otherwise dispose of such Offsets subject to all applicable legal requirements.

9.5 Registration and Recognition of Offsets. The Parties to this Agreement mutually understand, intend and agree that, subject to all applicable legal requirements whatsoever, each Offset conveyed, or to be conveyed, to GM under this Agreement shall constitute an unconditional marketable private right for GM, or GM's successor in interest or permitted assignees, to register the Offset, in a metric tons of carbon-equivalent amount equal to the net greenhouse gas mitigation represented by such Offset, with the Energy Information Administration Section 1605(b) Registry of the United States government or with any other relevant Mechanism or Certifying Entity, and to count such Offset toward compliance by GM, or its successor in interest or assignee, with its current or potential future greenhouse gas limitation obligation or commitments, voluntary or otherwise.

ARTICLE X – RELATIONS WITH GOVERNMENT ENTITIES

10.1. U.S. Government Institutional Relationship. THE CONSERVANCY shall be responsible for maintaining regular contact as required by Law with any U.S. government entity that implements a program into which the Project has been accepted for the purposes of certifying, registering, accrediting, or otherwise recognizing greenhouse gas Offsets. It will also be responsible for all Project filings, reports and other necessary or appropriate Project Documents on behalf of the Parties to the U.S. government entity, except in the case of Offset registrations under Section 1605(b) of the United States Energy Policy Act of 1992 or any similar or successor governmental or non-governmental greenhouse gas mitigation registries and tracking systems that may be hereafter established under applicable law, for which the affected Party shall be responsible.

10.2. Government Communications. Should the Project be accepted by any Mechanism or Certifying Entity, all Project Documents required to be filed, submitted, or registered to such Mechanism or Certifying Entity under this Agreement or any applicable Law shall be:

(a) prepared by the Party or Parties designated by the Executive Committee under the direction of THE CONSERVANCY or, in the case of Offset registration under Section 1605(b) (or any other governmental or non-governmental GHG mitigation registries and tracking systems that are or may be hereafter established under applicable law), by GM:

(b) approved by the Executive Committee prior to making the filing, submission, or registration; and

(c) following the approvals and procedures set forth in this Subsection, filed, submitted, and registered on behalf of the Parties by the Party designated by the Executive Committee, in conformance with the Executive Committee's directions

and intentions.

10.3. External Verification. Consistent with the rules and regulations or practices of relevant Certifying Entities or Mechanisms, the Parties direct their respective appointees to provide representatives from such Certifying Entities or Mechanisms such opportunities for external verification of the Project as are necessary, appropriate, or required to ensure the reliability of the greenhouse gas benefits reported for the Project.

ARTICLE XI - WARRANTIES

11.1 Warranties. Each Party independently and separately hereby warrants as follows:

11.1.1 Transfer of Influence. It will not make, offer, or authorize payment of anything of value to a governmental official, political organization or official thereof, or political candidate, for the purpose of influencing an official act or decision by such person to obtain, retain, or direct business to any person. Further, in performing its obligations under this Agreement, it will not be given nor will it give or offer to give any sum of money or anything of value to any person, either directly or indirectly, as an inducement to influence the granting of any right or privilege, whether or not such an act constitutes a violation of law.

11.1.2 It has the legal authority to own and operate its properties and to carry on its business;

11.1.3 It is authorized to make the appointments, and grant the authorizations and delegations provided for elsewhere herein, including granting its appointees the authorities to act on behalf of, and to fully bind and represent such Party in all matters that may arise under this Agreement, the Project or Law;

11.1.4 It has duly obtained all material consents, licenses, approvals and authorizations and has effected all declarations, filings and registrations necessary for the due implementation, delivery and performance of this Agreement and of all other duly adopted Project Documents (not including those relating to future operations and transactions herein contemplated not yet due);

11.1.5 Its implementation, delivery and performance of this Agreement and of all other duly adopted Project Documents to the extent it will materially affect their performance under this Agreement: (i) will not violate any applicable regulation or ruling of any governmental authority; and (ii) will cause each such respective instrument to constitute a legal, valid and binding obligation of such Party, enforceable in accordance with its terms; and

11.1.6 It is a corporation duly organized, validly existing, and in good standing under the Laws of the states, the District of Columbia or the country in which it is incorporated, as applicable;

11.2 Additional Warranties of SPVS. In addition to the warranties set forth in Section 11.1, SPVS specifically warrants the following:

11.2.1 Debts & Encumbrances.

(a) It does not have outstanding, nor is it contractually bound to create, any mortgage, pledge, encumbrance or any other kind of security interest in or with respect to any of its properties or revenues that would materially interfere with its performance hereunder and all tax returns and reports required by Law to be filed by SPVS have been duly filed, and all taxes, assessments, fees and other governmental charges due upon it, or upon any of its assets or income, have been duly paid;

(b) It is not in breach of any provision of any contract to which it is a party which would have a materially adverse effect upon its financial condition or ability to perform its obligations under this Agreement or any other Project Document and no action, suit, proceeding or investigation is pending against it by or before any domestic or foreign court or governmental authority, nor, to the best of its knowledge and belief after due inquiry, is any action threatened against it or against any of its properties or rights that, if adversely determined, is likely to materially adversely affect its financial condition or its ability to perform its obligations under this Agreement or any other Project Document.

11.2.2 All documents, reports or other written information pertaining to the Project (including, without limitation, this Agreement) which have been furnished by it to another Party are true and correct, and do not contain any material misstatement of fact, or omit to state a material fact, or omit to state a fact necessary to make the statements contained herein or therein not materially misleading.

11.2.3 The Financial Statement dated April 5, 2000, which has been furnished to the other Parties, is complete, correct and fairly represents SPVS's financial condition and the results of its operations for the period then ended. No contingent obligation, liability for taxes, material or long-term commitment, or outstanding debt of an kind exists except as disclosed in such statements, and there has been no material adverse change in its financial condition or prospects from that set forth in such Financial Statements, except as disclosed to the Parties in writing.

11.3 Additional Warranties of THE CONSERVANCY.

11.3.1 In addition to the warranties set forth in Section 11.1, THE CONSERVANCY specifically warrants that it has received US$500,000 for development of the Project Feasibility Study and Plan on or about January 3, 2000 from GM.

11.3.2 THE CONSERVANCY's Financial Statement dated October 7, 1999, which has been furnished to GM, is complete, correct and fairly represents THE CONSERVANCY's financial condition and the results of its operations for the period then ended.

11.3.3 It is not in breach of any provision of any contract to which it is a party which would have a materially adverse effect upon its financial condition or ability to perform its obligations under this Agreement or any other Project Document and no action, suit, proceeding or investigation is pending against it by or before any domestic or foreign court or governmental authority, nor, to the best of its knowledge and belief after due inquiry, is any action threatened against it or against any of its properties or rights that, if adversely determined, is likely to materially adversely affect its financial condition or its ability to perform its obligations under

this Agreement or any other Project Document.

11.3.4 All documents, reports or other written information pertaining to the Project (including, without limitation, this Agreement) which have been furnished by it to another Party are true and correct, and do not contain any material misstatement of fact, or omit to state a material fact, or omit to state a fact necessary to make the statements contained herein or therein not materially misleading.

11.4 Guarantee. No Party represents, warrants, or guarantees to any other Party, successor or assign that any Mechanism or Certifying Entity will be adopted, established or authorize. In addition, no Party assumes financial responsibility or liability for the failure of such Mechanism or Certifying Entity to be adopted, established or authorize, or for the level of value placed on any Offsets generated under this Agreement. Further, no Party represents, warrants or guarantees to any other Party, successor or assign that this Agreement or any action under this Agreement, shall cause the creation of any Offset or credit that will be recognized by any governmental or inter-governmental authority of any kind.

11.5 Continuation. The warranties, covenants and acknowledgments set forth shall continue in effect as to each Party so long as such Party remains obligated to perform hereunder.

ARTICLE XII - EVENTS OF DEFAULT

12.1 Events Constituting Default. The occurrence and continuation of any of the following events or circumstances constitutes as "Event of Default" under this Agreement:

12.1.1 Failure to Pay. A Party fails to pay when due any amount payable pursuant to this Agreement which failure continues for a period in excess of thirty (30) days; or

12.1.2 Failure to Perform Material Obligation. Any Party fails to comply with or perform any other material obligation, undertaking, agreement, covenant or provision contained herein or in any other Project Document; or

12.1.3 Representations. Any representation or warranty made by or on behalf of any Party in this Agreement or other Project Document, notice, certificate, or other statement delivered pursuant hereto shall prove to have been incorrect or false in any material respect when made;

12.1.4 Authorizations. Any authorization, consent or approval of any governmental agency or public authority required to be obtained by a Party and necessary for the implementation, delivery or performance of a material provision of this Agreement or any other Project Document, or for the validity or enforceability of any material obligations under this Agreement or other Project Document, in the degree and shape permissible by Brazilian law, is not given or is withdrawn or ceases to remain in full force and effect due to the malfeasance or nonfeasance of such Party; or

12.1.5 Cessation of Grants of Rights. In all material respects a Party ceases to give or grant another Party the rights, titles, remedies, powers or privileges provided by this Agreement or any other Project Document; or

12.1.6 Condemnation. Any governmental authority condemns, nationalizes, seizes or otherwise expropriates any substantial portion of the assets of Project Site, or takes any other action that would prevent such Party from performing any material obligation under this Agreement or any other Project Document, due to the malfeasance or nonfeasance of such Party; or

12.1.7 Contesting of Obligations. Any Party takes any judicial or other action to void, repudiate or otherwise contest the validity of its obligations hereunder or under any other Project Document, including:

(a) applying for or consenting to the appointment of a receiver, trustee, custodian, intervenor or liquidator of itself or of all or a substantial part of its assets,
(b) filing a voluntary petition in bankruptcy, admitting in writing that it is unable to pay its debts as they become due or generally not paying its debts as they become due,
(c) making a general assignment for the benefit of creditors,
(d) filing a petition or answer seeking a reorganization or arrangement with creditors, or to take advantage of any bankruptcy or insolvency Laws,

(e) filing an answer admitting the material allegations of, or consenting to, or defaulting in answering, a petition filed against it in any bankruptcy, reorganization or insolvency proceeding where such action or failure to act will result in a determination of bankruptcy or insolvency against such entity; or

12.1.8 Bankruptcy. Without its application, approval or consent, a proceeding that could void a Party's obligations hereunder or under any other Project Document is instituted in a court of competent jurisdiction, or by or before any government or governmental agency of competent jurisdiction, seeking in respect to any Party an adjudication in bankruptcy, reorganization, dissolution, winding up, liquidation, composition or other arrangement with creditors, a readjustment of debt, the appointment of a trustee, receiver, liquidator or the like, of it or of all or any substantial part of its property or assets, or other like relief in respect of it under any bankruptcy, reorganization or insolvency Law; and, if such proceeding is being contested by it in good faith, the same shall continue undismissed for a period of sixty (60) days; or

12.1.9 Discharge of Judgments. Any final judgment(s) for the payment of money is rendered against SPVS or THE CONSERVANCY, and such judgment or judgments shall affect SPVS's ability to perform its obligations as Project Site Manager or THE CONSERVANCY's ability to perform its obligations as Project Funds Manager and that shall not be satisfied or discharged within sixty (60) days of entry; or

12.1.10 SPVS:

(a) is not or will not be able to perform its obligations as Project Site Manager in any respect in accordance with the terms of this Agreement or any other Project Document, or

(b) ceases to exist, retain, or exercise management control of the Project Site.

12.1.11 THE CONSERVANCY:

(a) is not or will not be able to perform its obligations as Project Funds Manager in any respect in accordance with the terms of this Agreement or any other Project Document, or

(b) is not or will not be able to perform its obligations regarding the Endowment Fund in any respect in accordance with t he terms of this Agreement or any other Project Document, or

(c) ceases to exist or is substantially restructured to the point that its activities in Brazil cease to be a priority.

12.2 Notice Upon an Event of Default. In the event that any Party shall become in default in the performance of any of the terms and conditions herein contained on the part of that Party to be performed, and such Event of Default is determined by a simple majority of the non-defaulting Parties to be of a material nature, then notice of such default shall be given to such Party by the non-defaulting Parties, which notice shall be directed to the defaulting Party by registered mail at the address listed in Attachment 4 of this Agreement.

12.3 Remedies Upon an Event of Default.

12.3.1 Opportunity to Cure. The defaulting Party shall cure the Event of Default within thirty (30) days from the date on which notice is given to the defaulting Party under Section 12.2, except for:

(a) an Event of Default arising under Subsections 12.1.8 or 12.1.9, in which case no cure period will be allowed, or

(b) an Event of Default that cannot be cured within thirty (30) days despite diligent efforts, in which case the defaulting Party shall commence the cure within the thirty (30) day period and proceed diligently thereafter until the cure is effected.

12.3.2 Failure to Cure. If the Event of Default is not cured within the applicable deadline set forth above, or the default arises under Subsection 12.1.8 or 12.1.9, and except when the noticed Party disputes the alleged default diligently and in good faith, then and in that event the following remedies shall be available to the non-defaulting Parties (without limiting the availability of any other remedies available under this Agreement, or in law or equity, all such remedies to be cumulative):

(i) suspend or defer performance of the non-defaulting Parties' obligations under the Project Documents, in whole or in part, until the event of default is cured by the defaulting Party, or

(ii) continue performance if it deems it reasonable to do so, or

(iii) in the event of an incurred payment of Project Funds default by a Party, withhold the defaulting Party's Registration Interest in, and/or delivery of, Offsets.

12.3.3 If the defaulting Party is a member of the Executive Committee, a majority of the Executive Committee shall proceed under this Subsection without the concurrence of such defaulting Party.

(a) Project Site Manager Default. In the event of a Project Site Manager default under 12.1.10, the non-defaulting Parties may seek such relief in proceedings initiated under Article XIII, as is permitted by applicable legal requirements or in equity to continue the expeditious and full implementation of the Project. To the extent that the equitable relief necessary to prevent irreparable harm to the Project or any Party cannot be awarded in arbitration under Article XIII, the non-defaulting Parties shall have the right to (1) replace the Project Site Manager with another entity acceptable to GM, GMB and THE CONSERVANCY, and SPVS shall transfer to such entity all of the assets it holds or possesses in connection with its obligations under this Agreement (including, but not limited to, the Project Site), shall transfer to such entity all of its records in connection with such obligations and shall otherwise cooperate with GM, GMB and THE CONSERVANCY in conducting such replacement effectively and efficiently; and/or (2) seek such relief directly in any court of competent jurisdiction. SPVS hereby agrees and consents to such relief including:

(i) such (affirmative or negative) temporary, preliminary or permanent injunctive relief as may be necessary to ensure the timely and full implementation of the Project Site Manager performance, duties and obligations established under this Agreement, and

(ii) an order transferring such obligation to another organization selected by the non-defaulting Parties, during the term established by the Parties

(b) The non-defaulting Parties may, by unanimous agreement:

(i) declare, by written demand to the defaulting Party, to be made whole without any other presentment, demand, diligence, protest, notice of acceleration, or other notice of any kind, all of which the Parties hereby expressly waive;

(ii) without notice of default or demand, proceed to protect and enforce its rights and remedies by appropriate proceedings, whether for damages or the specific performance of any provision of this Agreement, in any other Project Document or by Law; and

(iii) suspend or terminate this Agreement as to such Party, in which case all the rights, titles and interests of the defaulting Party hereunder shall wholly cease without any right of reclamation or compensation for expenditures made or money paid or to be paid hereunder or otherwise.

(c) Costs. In any such event of continuing default, the reasonable costs incurred by the Executive Committee as a result of a Party's default shall be due and payable by such defaulting Party upon submission to such Party by the Executive Committee of invoices thereof. In the event that the defaulting Party shall institute any suit or action to enforce any right hereunder and not prevail, the defaulting Party shall pay to the other Parties such sum as the tribunal or Court may adjudge reasonable as attorney's fees and costs for the defense of such suit or action.

ARTICLE XIII - DISPUTE RESOLUTION

13.1 Any dispute shall be construed and resolved in accordance with the laws of the Commonwealth of Virginia, and the United States, without regard to its conflict of laws provision.

13.2 The Parties hereby agree that, in the event of any dispute between any Parties relating to this Agreement, the Parties shall first seek to resolve the dispute through informal discussions. In the event any dispute cannot be resolved informally within sixty (60) days, the Parties agree to attempt to resolve the dispute through non-binding mediation. The Parties shall select a mediator who is a member of The Commercial Arbitration and Mediation Center for the Americas. In the event the Parties cannot agree on a mediator, the Commercial Arbitration and Mediation Center for the Americas shall select the mediator. The Parties to such mediation shall endeavor to agree on rules of procedure to govern the mediation proceedings. In the event the Parties cannot agree on such rules of procedure, the mediator shall establish such rules which shall be binding on the mediation proceeding. The costs of mediation shall be shared equally by the Parties involved in the dispute.

13.3 In the event of any litigation over the interpretation or application of any of the terms or provisions of this Agreement, the Parties agree that litigation shall be initiated in the United States District Court for the Eastern District of Virginia, Alexandria Division. The Parties hereby agree that venue in the Eastern District of Virginia shall be proper. In the event of the unavailability of the U.S. Federal Court system, the closest court of appropriate jurisdiction in the Commonwealth of Virginia shall be selected. The Parties agree they are subject or will make themselves subject to personal jurisdiction of the appropriate court.

ARTICLE XIV - LIMITATIONS ON LIABILITY AND FORCE MAJEURE

14.1 Limitations on Liability.

14.1.1 No Warranty Regarding Offsets. It is mutually understood and agreed by the Parties that, notwithstanding any good faith estimates of the net greenhouse gas benefit of the Project, they make no representations, warranties or guarantees as to the amount, quality, or quantity of the Offsets that will be produced, demonstrated or certified under the Project; provided that, each Party hereto does hereby covenant and agree that it will faithfully comply with the responsibilities and obligations under this Agreement on its part to be performed, and it does hereby warrant performance of the same against the claims of any person whatsoever, and that it will deliver under this Agreement within the time established.

14.1.2 Liability for Matters Not within the Scope of Responsibility. Nothing in this Agreement is intended to impose liability on the Parties for matters not expressly within the scope of their responsibilities.

14.1.3 Responsibility for Acts, Omissions or Malfeasance. Each Party shall be solely responsible for the acts, omissions or malfeasance of such Party or its employees, representatives or agents, and no Party shall be liable for the acts, omissions, or malfeasance of any other Party or its employees, representatives or agents.

14.1.4 Liability for Non-Agents on Project Site. In no event shall any Party be made liable by virtue of this Agreement for any loss sustained by any person that is not such Party's employee, representative or agent while on the Project Site.

14.2 Force Majeure.

14.2.1 "Force Majeure," for purposes of this Agreement, means any event, including acts of God, arising from causes beyond the control of a Party or of any person engaged, employed by or associated with a Party, such as a Party's contractors and subcontractors that delays the timely performance of any material obligation under this Agreement notwithstanding that Party's use of best efforts to avoid the delay. The requirement that the Party exercise "best efforts to avoid the delay" includes using best efforts to anticipate any potential Force Majeure event and best efforts to address the effects of any actual Force Majeure event (a) as it is occurring, and (b) following the Force Majeure event, such that the delay and the adverse effects of the delay are minimized to the greatest extent practicable.

14.2.2 If any event occurs or has occurred that may delay the performance by a Party of any material obligation under this Agreement, whether or not caused by a Force Majeure event, that Party shall notify the other Parties by telephone, within 48 hours of when the Party knows that the event might cause or contribute to a delay or non-performance of such obligation. Each Party shall exercise best efforts to avoid or minimize any delay and any adverse effects of a delay. Failure to comply with the above requirements shall preclude such Party from asserting any claim of Force Majeure.

14.2.3 If all the other Parties agree unanimously that the delay or anticipated delay by one Party is attributable to a Force Majeure event, the time for performance of the mutual obligations of the Parties under this Agreement that are directly affected by the Force Majeure event shall be extended by agreement of the Parties. In any such proceeding, to qualify for a Force Majeure defense, the Party claiming Force Majeure shall have the burden of demonstrating by a preponderance of the evidence that the delay or anticipated delay has been, or will be, caused by a Force Majeure event, that the duration of the delay was or will be warranted under the circumstances, that the delaying Party did exercise or is exercising due diligence by using its best efforts to avoid and mitigate the effects of the delay, and that the delaying Party complied with the notification requirements of Subsection 13.2.2.

14.2.4 Should the delaying Party carry the burden set forth in Subsection 14.2.3, the delay at issue shall be deemed not to be a violation of the affected obligation or a default of this Agreement.

ARTICLE XV - MISCELLANEOUS

15.1 No Waivers. The failure of any Party to seek redress for violations of, or to insist upon the strict performance of, any covenant, agreement, provision or condition of this Agreement shall not constitute a waiver thereof and such Party shall have all remedies provided in this Agreement and under applicable Law with respect to any subsequent act which originally would have constituted a violation, breach or default of or under this Agreement.

15.2 Incorporation by Reference. The Attachments hereto are incorporated herein by reference at the places mentioned as if their terms were set forth fully herein.

15.3 Applicable Law. Except where specifically stipulated to the contrary, the Agreement shall be governed in all respects by the Laws of the Commonwealth of Virginia, U.S.A. applicable to contracts made and performed therein, without regard to the principles of conflict laws. In the event of any conflict between any Attachment and any other provision of this Agreement, such other provision shall control.

15.4 Amendments, Construction and Termination. The provisions of this Agreement may be waived, modified, supplemented, amended, canceled, renewed, extended or terminated to the extent consistent with the requirements of Law only by a written instrument signed by all the Parties.

15.4.1 References. Reference to, and the definition of, any Project Document (including this Agreement) shall be deemed a reference to such document as it may hereafter be amended or modified from time-to-time in writing by the Parties.

15.4.2 Revisions Due to Changes of Law.

(a) It is the intent of the Parties that the rights, authorities, duties, responsibilities and obligations of the Parties provided for in this Agreement and in any other Project Document shall be consistent and implemented in conformance with Law. If any provision of this Agreement or other Project Documentation is found to be illegal, invalid, or unenforceable, the remaining provisions shall remain fully enforceable and unimpaired.

(b) For purposes of this Subsection a "Change in the Law" shall mean any change in the text, or interpretation by a governmental authority with jurisdiction, of a Law of the United States or Brazil, that materially affected by such Change in the Law.

(c) The Parties agree to re-negotiate in good faith any revisions to this Agreement necessitated by any Change in the Law, and to limit the scope of such re-negotiation to provisions materially affected by such Change in the Law.

15.5 Descriptive Headings. Titles and headings used in this Agreement are for reference purposes only and shall not in any way affect or limit the meaning or construction of any provision of this Agreement.

15.6 Complete Agreement. This Agreement, including all, Attachments hereto, embodies the entire and complete understanding and agreement between the Parties, and supersedes all prior negotiations, understandings and agreements between them, whether written or oral, with respect to the subject matter hereof. The rights, duties, responsibilities and obligations of any Party hereto with regard to any future Project Document shall be set forth in those other Project Documents; *provided that*, in the event of any conflict between the terms of this Agreement and any such other Project Document, the terms of this Agreement shall control.

15.7 Form of the Comprehensive Agreement. The Parties specifically declare that it is neither their intent nor purpose by entering into this Comprehensive Agreement to create, and this Comprehensive Agreement shall not be construed to have created, a partnership, joint venture or other such business arrangement, nor is it a principal purpose of the Parties to enter into a commercial undertaking. No Party shall (a) refer to or treat the project or the arrangements arising under this Agreement as a partnership in connection with the filing or making of any form or return or (b) take any other action inconsistent with such intention.

15.8 Successors and Assigns. This Agreement shall be binding on and inure to the benefit of the Parties and to their respective successors in interest and assigns.

15.9 Counterparts. This Agreement may be executed in multiple counterparts, each of which shall constitute an original, but all of which together shall constitute one and the same instrument.

15.10 No Third Party Beneficiaries. There are no third party beneficiaries of this Agreement.

15.11 Insurance or Guarantees. GM, in its sole discretion, may decide at any time to obtain insurance or guarantees with respect to Offsets, regardless of whether they are certified. THE CONSERVANCY and SPVS will cooperate with GM to provide GM with the assistance it requests in order to assemble information to obtain such insurance or guarantees, including, but not limited to, providing assistance in connection with relevant Certifying Entities or Mechanisms.

15.12 Access. GM shall have access to the site of all activities contemplated by the Project at any reasonable time.

ATTACHMENTS

ATTACHMENT 1

AUTHORITIES OF THE SIGNATORIES (Including Certificates of Good Standing)

ATTACHMENT 2

DESCRIPTION OF PROJECT FINANCING, OVERALL PROJECT BUDGET AND 40 YEAR PROJECTED CASH FLOW

ATTACHMENT 3

PROJECT PLAN

ATTACHMENT 4

NAMES AND ADDRESSES OF PRINCIPAL CONTACTS

ATTACHMENT 5

FORM OF DONATION AGREEMENT

ATTACHMENT 6

FORM OF DEPOSIT CONTRACT

IN WITNESS WHEREOF, the Parties have executed and delivered this Agreement as of the date and year first above written.

GENERAL MOTORS CORPORATION

By: John F. Smith Jr.
John F. Smith, Jr.

Date: 6/9/2000

GENERAL MOTORS do BRASIL

By: John F. Smith Jr.
John F. Smith, Jr.

Date: 6/9/2000

THE NATURE CONSERVANCY

By: W. William Weeks
W. William Weeks

Date: 6/9/2000

SOCIEDADE de PESQUISA e VIDA SELVAGEM e EDUCACAO AMBIENTAL

By:
CLOVIS RICARDO SCHRAPPE BORGES

Date: 6/23/2000

GOVERNMENT OF THE DISTRICT OF COLUMBIA
DEPARTMENT OF CONSUMER AND REGULATORY AFFAIRS

CERTIFICATE

THIS IS TO CERTIFY that there were received and accepted for record in the Department of Consumer and Regulatory Affairs, Corporations Division, on the **27th** day of **February ,1998 .** on behalf of:

NATURE CONSERVANCY (THE)

An Election to Accept the provision of the present NONPROFIT CORPORATION ACT.

WE FURTHER CERTIFY that the above Corporation was originally incorporated on **22nd** day of **October , 1951 .**

WE FURTHER CERTIFY that the above name Non Profit Corporation is duly incorporated and existing under and by virtue of the code of law of the District of Columbia and authorized to conduct its affairs in the District of Columbia as of the date hereinafter mentioned.

IN TESTIMONY WHEREOF I have hereunto set my hand and caused the seal of this office to be affixed this **8th** day of **June , 2000 .**

Lloyd J. Jordan
Director

Patricia E. Grays
Acting Administrator
Business Regulation Administration

Maxine M. Hinson

Maxine M. Hinson
Act. Assistant Superintendent of Corporations
Corporations Division

Anthony A. Williams
Mayor

To: Jonathon Rotter, Steve Cox, Joe Keenan

Cc: Tom Fitzgerald, Greg Low, Craig Neyman, Bill Weeks, David Williamson, Kristan Beck, Mike Coda, Alec Watson, George Spicer, Dawn Murray

From: Mike Dennis

Date: 04/28/2000

FAX BALLOT FOR BRAZIL ATLANTIC RAINFOREST RESTORATION PROJECT, BRAZIL

The above referenced project was approved on 04/25/00 through a fax ballot to the Executive Committee and the Conservation Committee as follows:

Executive Committee:

Carter F. Bales	4/20/00
David C. Cole	4/20/00
Ian M. Cumming	4/22/00
Carol E. Dinkins	4/19/00
Louisa C. Duemling	4/22/00
Anthony P. Grassi	4/19/00
Philip J. James	4/20/00
Samuel C. Johnson	4/25/00
Peter M. Kareiva	4/24/00
Wendy J. Paulson	4/24/00
Leigh H. Perkins, Jr.	4/25/00
John C. Sawhill	4/21/00
Ward W. Woods	4/19/00

Conservation Committee:

Catherine G. Abbott	4/22/00
Mary Fleming Finlay	4/21/00
Christopher H. Foreman, Jr.	4/24/00
Arturo Gomez-Pompa	4/19/00
John S. Hendricks	4/22/00
William L. Horton	4/27/00
Jan V. Portman	4/20/00
John F. Smith Jr.	4/26/00
Joy B. Zedler	4/25/00

International Committee:

A.W. Dahlberg	4/21/00
Livio D. DeSimone	4/19/00
E. Linn Draper, Jr.	4/24/00
Durk I. Jager	4/19/00
Glenn C. Janss	4/20/00
Howard Stringer	4/20/00
Jeffrey N. Watanabe	4/20/00
John C. Whitehead	4/19/00

BOARD OF GOVERNORS
REAL ESTATE PROJECT ABSTRACT
AND RESOLUTION
BRAZIL ATLANTIC RAINFOREST RESTORATION PROJECT
Brazil

Ecoregion: Serra do Mar Coastal Forest (project site); Southeast Brazil Mangroves (vicinity).

Ecoregional significance of the site: Serra do Mar (or Atlantic) coastal forest is one of the 17 most critically endangered ecoregions in the Americas (Dinerstein, 1995). The Atlantic Forest is an internationally recognized world biosphere reserve (UNESCO, 1991) and encompasses one of the planet's most diverse and most endangered assemblages of life forms. Of Brazil's 202 officially recognized endangered species, 171 of them depend on the Atlantic Forest to survive. Several bird species are known only from the site and its immediate vicinity.

Conservancy's specific role at the site: The Conservancy is currently engaged in a Climate Action Project with Brazilian partner Sociedade de Pesquisa e Vida Selvagem (SPVS) and Central and South West Services, Inc. in the Guaraquecaba region some 30 miles north of the proposed project site. With the support of General Motors Corporation, the Conservancy and SPVS will implement the Brazil Atlantic Rainforest Restoration Project in the Guaratuba region, inside the state-designated Guaratuba Environmental Protection Area. The Conservancy, through its customary land acquisition approval process, will approve each tract before its purchase by SPVS. The Conservancy will coordinate the project plan and oversee both project implementation and the monitoring and verification on carbon benefits. General Motors Corporation, the Conservancy and SPVS will engage the Brazilian government with the medium-term objective of obtaining host-country approval for the carbon sequestered on site.

Key threats: Asian water buffalo ranching has been responsible for converting an estimated 1,800 acres of the project site to pasture over the last two decades; banana production and rice production are moving rapidly into the area and causing considerable deforestation. Recent road improvements (November 1999) have increased access to the area for farmers and settlers. Coastal zone development for tourism has affected oceanfront areas and is expanding inland toward the project site as well.

Key conservation strategies: The Conservancy and SPVS will work to create a new approximately 30,000-acre private nature reserve inside the Guaratuba Environmental Protection Area through land acquisition, active restoration and long-term management for forest and biodiversity protection. The acquired tracts will be registered as a private nature reserve under Brazilian law. The Conservancy and SPVS will work with neighboring communities and landholders to

make their activities more compatible with our goals for forest and biodiversity protection. This project is committed to no net loss of employment opportunities for local residents; jobs will be created in land management and reforestation and potentially in cottage industries and ecotourism. As a consequence of both forest protection and reforestation activities, an estimated 1.5 to 2.0 million tons of carbon will be sequestered on the project area over the 40-year life of project. The Rainforest Restoration Project seeks to combine reforestation and forest management practices to capture atmospheric carbon.

Tract significance: The approximately 14,000-acre Estrela tract is the keystone property for the project. An additional approximately 17,000 acres of mostly contiguous properties will round out the final project site. The Estrela tract has the greatest significance for potential carbon capture, protection and restoration of critical habitats, and manageability. The project will have the highest and most direct conservation benefit possible on at least 30,000 acres of fast-disappearing Atlantic Forest, representing an area probably large enough to contain viable populations of almost all resident wildlife species.

Maps: See attached maps: site location within ecoregion and tract location within site boundaries.

Description of the transaction: If General Motors Corporation approves the project plan, the Conservancy expects to sign a comprehensive agreement with General Motors Corporation and SPVS outlining project implementation. The Conservancy may also submit the project for approval to whatever international institution may be responsible for certifying credit for any carbon benefits that the project may generate when those international institutional arrangements have been established. The Rainforest Restoration Project may allow General Motors Corporation to receive recognition and greenhouse gas emission offsets. Without compromising biodiversity objectives, the Conservancy will design the project plan to place General Motors in a position to be eligible for carbon offsets. It is conceivable that these offsets at some future date will have monetary value. The distribution of carbon offsets will be negotiated and outlined in the comprehensive agreement among all parties to be completed approximately within the next 60 days. However, the Conservancy will not be held responsible should General Motors Corporation not be credited for carbon offsets. The Conservancy, General Motors Corporation and SPVS have signed a Memorandum of Agreement stating that there is no guarantee that any carbon offsets will be created, credited or certified. The Memorandum of Agreement also stipulates that no party will assume financial responsibility or liability for the failure of the project to be accepted under any international institutional arrangements that may be established.

Total project costs: $23,130,000.00

Status of funding: General Motors Corporation granted $500,000 to the Conservancy in January 2000; upon General Motors Corporation's approval of the project plan, which approval may come before May 15, General Motors would transfer $9.5 million to the Conservancy's Brazil program. This would fund short-term costs, including land acquisition, with the remainder being placed in an endowment to finance site-management costs over the 40 year life of the project, which are forecasted to reach $23,130,000. Following the 40 year life of the project, the endowment shall remain in place to continue to fund the management of the property.

Proposed loan repayment schedule: N/A

Approvals: Any officer of The Nature Conservancy, any person designated in writing by any such officer, the Brazil Division Director, and the Assistant Brazil Division Director may take any and all actions (including the execution, delivery or acceptance of deeds and other legal documents), provided such actions are consistent with internal policies and procedures, necessary to implement the project as described above, including:

* Negotiating and signing a Comprehensive Agreement with General Motors Corporation and SPVS.
* Utilizing a total of $23,130,000 during the 40-year project to carry out project development and implementation.
* Assisting SPVS to apply for Private Reserve Status from the Brazilian Environmental Ministry, and utilizing other legal tools to ensure the long-term protection of the tracts.

State of Delaware

Office of the Secretary of State

I, EDWARD J. FREEL, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY "GENERAL MOTORS CORPORATION" IS DULY INCORPORATED UNDER THE LAWS OF THE STATE OF DELAWARE AND IS IN GOOD STANDING AND HAS A LEGAL CORPORATE EXISTENCE SO FAR AS THE RECORDS OF THIS OFFICE SHOW, AS OF THE TWENTY-FIFTH DAY OF MAY, A.D. 2000.

AND I DO HEREBY FURTHER CERTIFY THAT THE ANNUAL REPORTS HAVE BEEN FILED TO DATE.

AND I DO HEREBY FURTHER CERTIFY THAT THE FRANCHISE TAXES HAVE BEEN PAID TO DATE.

Edward J. Freel, Secretary of State

0056825 8300

001265622

AUTHENTICATION: 0459539

DATE: 05-25-00

CERTIFICATE OF AUTHORITY

I, Anne T. Larin, an Assistant Secretary of General Motors Corporation, a corporation organized and existing under the laws of the State of Delaware, U.S.A., hereby certify that John F. Smith, Jr. is the Chairman of General Motors Corporation and in that capacity is authorized to sign any and all documents on behalf of General Motors in connection with the General Motors Atlantic Rain Forest Restoration Project.

IN WITNESS WHEREOF, I have signed this Certificate and affixed the corporate seal of General Motors Corporation this 7th day of June, 2000.

GENERAL MOTORS CORPORATION

By: Anne T. Larin

Anne T. Larin
Assistant Secretary

Subscribed and sworn to before me this 7th day of June, 2000.

Kathleen A. Taylor
Notary Public

KATHLEEN A. TAYLOR
Notary Public, Wayne County, MI
Commission Date: 02-01-00
Commission Expires: 02-09-04

GENERAL MOTORS DO BRASIL LTDA.

CERTIFICATE

The undersigned, in the capacity of legal representative of GENERAL MOTORS DO BRASIL LTDA (" the Company") does hereby state and concern that the Company is a Brazilian Limited Liability Company duly incorporated and registered under the laws of Brazil and in good standing.

São Caetano do Sul, June 06, 2000

José Carlos da Silveira Pinheiro Neto
Vice-President

São Caetano do Sul - SP
Av Goiás, 1805
Cx Postal 197 CEP 09501-970
Tel (011) 4234-7700 PABX

São José dos Campos - SP
Av General Motors, 1959
Cx. Postal 92 CEP 12201-970
Tel (012) 380-3000 PABX

São Paulo - SP
Av Indianópolis, 3096
CEP 04062-003
Tel. (011) 5079-7233 PABX

GENERAL MOTORS DO BRASIL LTDA.

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS that General Motors do Brasil Ltda., a company duly organized and existing under the laws of Brazil, with offices at Avenida Goiás, 1805, São Caetano do Sul, São Paulo, Brazil, ("GM Brasil")does hereby constitute, name and appoint Mr. John F. Smith, Jr., Chairman of General Motors Corporation, as its true and lawful attorney-in-fact empowered hereby to act with full power and authority on behalf of GM Brasil:

1. to execute, sign and deliver any and all documentation on behalf of GM Brasil relating to the General Motors Atlantic Rainforest Restoration Project, and

2. to do any and all acts or things, and to execute, sign, seal, and deliver any and all agreements, documents, instruments, and other papers proper or desirable to effectuate the purposes of the preceding subparagraph of this Power of Attorney, including, but not limited to, obtaining notarization of documents described above or related to the foregoing.

The Power and Authority granted hereunder shall, unless sooner terminated or revoked, terminate at midnight, eastern standard time, July 31, 2000.

IN WITNESS WHEREOF, said GENERAL MOTORS DO BRASIL LTDA has caused these presents to be executed by its Vice-President, this 7th day of June, 2000.

GENERAL MOTORS DO BRASIL LTDA.

By _____
José Carlos da Silveira Pinheiro Neto
Vice-President

São Caetano do Sul - SP
Av. Goiás, 1805
Cx. Postal 197 CEP 09501-970
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SOCIEDADE DE PESQUISA EM VIDA SELVAGEM E EDUCAÇÃO AMBIENTAL

- S P V S -

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232-1731
Reg. de Tit. Docs.

E S T A T U T O

TÍTULO I

Art. 1º - A Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental, doravante denominada SPVS, pessoa jurídica de direito privado, constituída na forma de associação, sem fins lucrativos, de âmbito nacional, com prazo de duração indeterminado, fundada em 19 de novembro de 1984 e inscrita sob nº 630428, no livro A-9774, do Registro de Títulos e Documentos, do 1º Ofício de Pessoas Jurídicas, e no CGC/MF sob nº 78696242/0001-59, com sede e foro na cidade de Curitiba, Estado do Paraná, podendo ter, no Brasil ou no exterior, tantos escritórios ou representações quantos forem necessários para atender a seus objetivos, reger-se-á pela legislação atinente à espécie, pelo presente estatuto e pelo regimento interno.

Art. 2º - A SPVS tem por finalidade desenvolver ações com vistas à proteção, conservação e preservação de áreas naturais, utilização racional dos recursos naturais, recuperação de áreas degradadas e educação conservacionista da população, prioritariamente no Paraná e estados limitrofes.

Art. 3º - Para a consecução destes objetivos à SPVS compete:
a) formular, coordenar e executar, isoladamente ou em conjunto com entidades privadas ou órgãos públicos, projetos voltados à conservação e recuperação do meio ambiente, utilização racional dos recursos naturais e educação ambiental;
b) realizar estudos e projetos destinados à proteção efetiva do ambiente regional;
c) realizar cursos, conferências, simpósios, seminários, estudos e treinamentos no âmbito de suas finalidades;
d) publicar artigos, livros, boletins ou qualquer informação de interesse público referente a seus objetivos estatuários;
e) desenvolver campanhas públicas, atividades culturais e educacionais, com vistas à formação de uma consciência conservacionista na população;
f) promover a criação e manutenção de parques, reservas e demais unidades de conservação previstas na legislação.

6º TABELIONATO
MÔNICA MALUCELLI
AUTENTICAÇÃO
Curitiba / PR 13 MAR. 2000
A presente cópia reprográfica é reprodução fiel desta face do documento apresentado. DOU FÉ.
Juramentado / Autorizado
Rua Comendador Araújo, 143 - Loja 03
Fone / Fax: (41) 232-2109 / 223-6643

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Art. 7º - São deveres dos associados:
a) Cumprir e fazer cumprir este estatuto e demais normas internas;
b) zelar pelo nome da SPVS e pela consecução dos seus objetivos;
c) participar de reuniões e assembléias, bem como de comissões e grupos de trabalho para os quais for eleito ou indicado;
d) acatar os atos e decisões dos órgãos diretivos;
e) prestigiar a SPVS, zelando pelo seu conceito e difundindo seus objetivos;
f) não falar em nome da SPVS, salvo quando autorizado pelo Diretor-executivo.

Capítulo III
Das penalidades

Art. 8º - Os associados que infringirem este estatuto e as demais normas internas estarão sujeitos às seguintes penalidades:
a) advertência escrita;
b) suspensão de 15 (quinze) dias a 12 (doze) meses;
c) expulsão;

Parágrafo único: No caso da alínea b o associado poderá interpor recurso à Assembléia Geral no prazo de 15 (quinze) dias, contados da data em que teve ciência da penalidade, devendo, enquanto pendente a decisão, permanecer afastado do quedro associativo.

TÍTULO III
Do patrimônio e da receita

Art. 9º - O patrimônio e a receita são constituídos de todos os bens móveis e imóveis, bem como de legados, doações e subvenções de pessoas físicas ou jurídicas, de direito público ou privado, nacionais, internacionais ou estrangeiras, e de contribuições dos associados.

Parágrafo 1º - O patrimônio e a receita da SPVS somente poderão ser aplicados na consecução de seus objetivos estatutários.

Parágrafo 2º - A SPVS não distribui parcelas de seu patrimônio ou de suas receitas, nem vantagens de qualquer espécie a título de participação nos seus resultados.

TÍTULO IV
Dos órgãos da administração

Capítulo I
Das disposições gerais

6º TABELIONATO
MÔNICA MALUCELLI
AUTENTICAÇÃO
Curitiba / PR 13 MAR. 2000
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Art. 16 - A Assembléia Geral compete:
a) reformar o presente estatuto, em reunião convocada especialmente para este fim;
b) eleger e destituir os membros da Diretoria e Conselho Fiscal;
c) escolher e destituir os membros do Conselho Deliberativo, o Diretor-executivo e o Tesoureiro;
d) decidir sobre alteração dos objetivos da SPVS, bem como a sua fusão, incorporação, cisão e extinção;
e) aprovar os programas, relatórios de atividades e balanços elaborados pelo Diretor-executivo, Tesoureiro, pela Diretoria, Conselho Fiscale Conselho Deliberativo;
f) decidir sobre a aplicação da penalidade prevista na alínea c do artigo 8º deste estatuto e, em grau de recurso, sobre aplicação da penalidade prevista na alínea b do mesmo artigo, garantindo-se ao associado o amplo direito de defesa;
g) criar representações ou escritórios no Brasil ou exterior;
h) decidir sobre a venda de bens imóveis;
i) decidir sobre o pagamento de mensalidades ou anuidades pelos associados;
j) decidir sobre a admissão de associados.

Parágrafo 1º - As deliberações serão tomadas por maioria simples dos presentes.

Parágrafo 2º - Os associados que tiverem sua conduta, relatórios de atividades e balanços submetidos a votação pela Assembléia Geral, estarão impedidos de compor o **quórum** e participar do escrutinio.

Capítulo III
Da Diretoria

Art. 17 - A Diretoria, reunindo-se trimestralmente ou sempre que julgar necessário, é o órgão responsável pela orientação, supervisão e avaliação gerais das atividades da SPVS.

Art. 18 – A Diretoria é composta de 05 (cinco) membros, eleitos dentre os associados efetivos na forma do parágrafo 1º do artigo 10 deste estatuto, sendo que um exercerá as funções de presidente e o outro as de vice-presidente.

Art. 19 - A Diretoria compete:
a) cumprir e fazer cumprir os objetivos estatutários e demais resoluções da Assembléia Geral;
b) fixar a remuneração do Diretor-executivo e do Tesoureiro;
c) zelar pelo nome da SPVS e difundir suas atividades no Brasil e no exterior;
d) examinar e submeter à Assembléia Geral os programas, relatórios de atividades e balanços apresentados pelo Diretor-executivo e Tesoureiro;
e) deliberar sobre a venda de bens móveis ou instituição de ônus sobre os bens imóveis;
f) deliberar sobre atos capazes de introduzir alterações de substância no modelo organizacional;
g) decidir sobre a criação de Departamento ou Chefias, com vistas [illegible] eficiência nos trabalhos de cada área de atuação da SPVS.

1º TABELIONATO
MÔNICA [illegible]
AUTENTICAÇÃO
Curitiba / PR 13 MAR. 2000
A presente cópia [illegible] é reprodução fiel desta face do documento apresentado DOU FÉ.
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b) opinar sobre intenções de contratação de empréstimos e outras operações financeiras;
c) referendar a decisão da Diretoria quanto à venda de bens móveis e instituição de garantias sobre os bens imóveis;
d) fiscalizar o cumprimento deste estatuto.

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Capítulo V
Do Conselho Deliberativo

Art. 24 - Ao Conselho Deliberativo, composto na forma do parágrafo 1º do artigo 10 deste estatuto, compete:
a) fixar metas e diretrizes básicas de funcionamento da SPVS;
b) apoiar a SPVS nas atividades de auto-suficiência;
c) colaborar com a definição de parcerias;
d) deliberar sobre atos capazes de introduzir alterações de substância no modelo organizacional;
e) discutir as linhas prioritárias de atuação;
f) apoiar a estrutura executiva na realização de contatos com o Setor Privado e Governamental;
g) julgar implicações éticas e políticas envolvendo a participação da SPVS em ações ou projetos.

Parágrafo 1º : O Conselho Deliberativo reunir-se-á sempre que necessário.

Parágrafo 2º : O Conselho Deliberativo será formado pelos membros da Diretoria, Conselho Fiscal, pelo Diretor Executivo, pelo Tesoureiro e por até oito pessoas escolhidas em Assembléia Geral.

Parágrafo 3º : O Conselho Deliberativo decidirá por maioria simples de voto, observado o disposto no parágrafo artigo 10, parágrafo 4º

Parágrafo 4º : Nas reuniões do Conselho Deliberativo, os membros vinculados à estrutura profissionalizada da SPVS terão direito a voz, enquanto os demais terão direito a voz e voto.

TÍTULO V
Da estrutura administrativa

Capítulo I
Do Diretor-executivo

Art. 25 - O Diretor-executivo, contratado para integrar a estrutura profissionalizada da SPVS, mediante contraprestação de salário, executará e dirigirá, articuladamente com o tesoureiro e demais Departamentos ou Chefias, as ações na área de sua competência.

MONICA MALUCELLI
AUTENTICAÇÃO
Curitiba / PR 13 MAR. 2000
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Art. 31 - No caso de extinção da SPVS, seu patrimônio deverá ser revertido para entidades que possuam objetivos afins.

Art. 32 - Os casos omissos neste estatuto serão resolvidos pela Assembléia Geral.

Art. 33 - Este estatuto entrará em vigor a partir do dia 06 de abril de 1993, garantindo o prazo de até 45 (quarenta e cinco) dias para que os novos dirigentes, eleitos em Assembléia Geral Ordinária, assumam o controle contábil.

Curitiba, 23 de outubro de 1998..

Curitiba - Paraná
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Clóvis Ricardo Schruppa Borges
Diretor Executivo da Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental - S.P.V.S.

Mônica [illegible] Aguiar Borges
Tesoureira da Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental - S.P.V.S.

II.º OFICIO
Registro Civil de Pessoas Jurídicas
Registro de Títulos e Documentos
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Diomar Ajala Bafieiro
Escrevente

RECONHECIMENTO
MONICA MALUCELLI
AUTENTICAÇÃO
Curitiba / PR 13 MAR. 2000
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Secretaria da Receita Federal

Certidão Negativa de Débitos de Tributos e Contribuições Federais

(Emitida para os efeitos do art. 8º da Instrução Normativa SRF nº 80, de 23 de outubro de 1997)

SOCIEDADE DE PESQUISA EM VIDA SELVAGEM E EDUC AMBIENTAL
CNPJ: 78.696.242/0001-59

RESSALVADO O DIREITO DE A FAZENDA NACIONAL COBRAR QUAISQUER DÍVIDAS DE RESPONSABILIDADE DO CONTRIBUINTE ACIMA QUE VIEREM A SER APURADAS, É CERTIFICADO QUE NÃO CONSTAM, ATÉ ESTA DATA, PENDÊNCIAS EM SEU NOME, RELATIVAS AOS TRIBUTOS E CONTRIBUIÇÕES FEDERAIS ADMINISTRADOS PELA SECRETARIA DA RECEITA FEDERAL.

ESTA CERTIDÃO REFERE-SE EXCLUSIVAMENTE À SITUAÇÃO DO CONTRIBUINTE NO ÂMBITO DA SECRETARIA DA RECEITA FEDERAL, NÃO CONSTITUINDO, POR CONSEGUINTE, PROVA DE INEXISTÊNCIA DE DÉBITOS INSCRITOS EM DÍVIDA ATIVA DA UNIÃO, ADMINISTRADOS PELA PROCURADORIA GERAL DA FAZENDA NACIONAL.

Emitida às 16:41:10 do dia 10/03/2000.
Válida por 30 dias da data de emissão.

Esta Certidão abrange somente o estabelecimento acima identificado.

TRIBUNAL DE CONTAS DO ESTADO DO PARANÁ

Diretoria Geral

Certidão Negativa: 6610/99

CERTIFICO, a pedido da parte interessada que, revendo os registros competentes deste tribunal, constatou-se que SOCIEDADE DE PESQUISA EM VIDA SELVAGEM E EDUCAÇÃO AMBIENTAL DO PARANÁ - CGC nº 78696242/0001-59, no município de CURITIBA, nada tem a comprovar perante esta Corte relativamente a recursos transferidos a seu favor pelo governo do Estado, a título de Auxílios, Subvenções Sociais e Convênios, ATÉ O EXERCÍCIO DE 1997, e ainda, tendo cumprido o disposto no art. 1, § 3 do Prov. nº 02/94. A presente tem VALIDADE somente para o EXERCÍCIO FINANCEIRO DE 1999. Do que, para constar, extrai esta CERTIDÃO, a qual me reporto e dou fé. Curitiba, vinte e nove de julho de um mil e novecentos e noventa e nove.

Fabrício R da Luz

EDGAR ANTONIO CHIURATTO GUIMARÃES
Diretor Geral

TC

TC-2

PREFEITURA MUNICIPAL DE CURITIBA

SECRETARIA MUNICIPAL DE FINANÇAS

PROTOCOLO Nº **012.235/2000** *CERTIDÃO NEGATIVA Nº* **1276/2000**

CONTRIBUINTE: **SOC. PESQUISA EM VIDA SELVAGEM E EDUCAÇÃO AMBIENTAL** *Nº FISCAL:* **158.343-1**

ENDEREÇO: **Rua Gutemberg, 345**

ALVARÁ EM VIGÊNCIA A PARTIR DE: **02/01/97**

FINALIDADE: **CONCORRÊNCIA E CADASTRO**

CERTIFICO, para os devidos fins, que de conformidade com as informações prestadas pelos órgãos competentes desta Prefeitura, em nome do (a) requerente **NÃO CONSTA DÉBITO**, referente a Tributos Municipais inscritos ou não em Dívida Ativa, até a presente data.....
Em firmeza do que eu, Eloisa A. Ferraz, Assistente Administrativo, passei e digitei a presente certidão, que não apresentando rasuras, emendas ou entrelinhas, vai por mim conferida, visada e assinada.....
.....
.....

-Reserva-se o direito da Fazenda Municipal cobrar dívidas posteriormente constatadas, mesmo as referentes a períodos compreendidos nesta CERTIDÃO.....

- A presente CERTIDÃO é válida por 120(cento e vinte) dias e cópia da mesma só terá validade se conferida com a original.....

Curitiba, 03 de Fevereiro de 2000.

ELOISA A. FERRAZ
CHEFE DE SERVIÇO
MAT. 82636-4

6º TABELIONATO
MÔNICA MALUCELLI
AUTENTICAÇÃO
Curitiba, 18 FEV. 2000
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Curitiba - Paraná
1.º OFÍCIO
232-1731
Reg. de Tit. Docs.

Ata no. 67

Aos quinze dias do mês de julho do ano de hum mil, novecentos e noventa e nove, na sede da Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental – SPVS, sito à Rua Gutemberg, 345 – Curitiba-PR, às dezenove horas, o presidente da SPVS, Claudemir Gonçalves Liberal e o Diretor Executivo, Clóvis Ricardo Schrappe Borges abriram a reunião de Assembléia Geral da instituição indicando os temas a serem tratados, com ênfase a discussão e votação da substituição do cargo de Presidente da SPVS em função do mesmo vir a iniciar o desempenho de atividades no departamento financeiro brevemente. O cargo seria assumido pelo atual Vice Presidente, o biólogo Mauro de Moura Britto, companheiro que acompanha as atividades da instituição desde a sua fundação há quase quinze (15) anos. Os demais assuntos em pauta referiram-se às principais novidades referentes a projetos em andamento e novas perspectivas na área de desenvolvimento institucional, sendo as mesmas discorridas brevemente pelo Diretor Executivo e outros presentes. Inicialmente solicitou-se ao atual presidente que fizesse uma sumária apresentação de suas perspectivas futuras na instituição, que implicariam em sua saída da diretoria atual. Em seguida, realizou-se a indicação de Mauro de Moura Britto como novo presidente da SPVS, colocando-se a mesma para votação. Por posição unânime de todos os presentes, o mesmo foi eleito para a posição de presidente, com gestão a ser cumprida até o final do período em que a Diretoria atual foi eleita. Mauro de Moura Britto externou sua determinação em colaborar com a SPVS, como já vem fazendo durante anos passados, especialmente neste momento de transição pelo qual passa a instituição. Definida a indicação e eleição do novo presidente, passou-se a discorrer sobre os seguintes temas: -Apoio da Fundação Summit: a SPVS teve um projeto de políticas públicas aprovado por esta fundação, para um trabalho com duração de dois anos para fortalecer as medidas para a viabilização do Programa de Desenvolvimento Sustentável para a APA de Guaraqueçaba, do Governo do Estado do Paraná. -Apoio da Fundação Avina: está em processo final de aprovação um projeto para dar suporte à área de desenvolvimento da SPVS, buscando-se maior aproximação com o setor privado paranaense e, ao mesmo tempo obter mudanças comportamentais que impliquem em medidas de desenvolvimento limpo. - Campanha com a Tim Celular: devendo iniciar nos próximos dias, uma campanha de recolhimento de baterias de telefones celulares terá a participação da SPVS. É o primeiro resultado mais significativo do trabalho na área de desenvolvimento institucional. - Campanha do Papagaio-de-cara-roxa: está em fase de busca de suporte uma campanha para o projeto de conservação da espécie *Amazona brasiliensis* no litoral do Paraná. - Projeto de Mudança do Clima: com apoio da TNC, a SPVS acaba de adquirir uma área principal para a execução de um projeto de Mudança de Clima. A Fazenda Caçada, com 2770 ha foi transferida para a SPVS. A recuperação das áreas degradadas e a medição periódica do carbono agregado nesta área será a atividade principal do projeto, com duração prevista para 40 anos. - Nova sede: foi apresentado estudo arquitetônico preliminar para a implantação da nova sede da SPVS em área verde na Região Metropolitana de Curitiba.

1º TABELIONATO
MÔNICA MALUCELLI
AUTENTICAÇÃO
Curitiba / PR 13 MAR. 2000
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SOCIEDADE DE PESQUISA EM VIDA SELVAGEM

SPVS

PROCURAÇÃO

Por este instrumento particular, eu, **MAURO DE MOURA BRITTO**, nacionalidade BRASILEIRA, estado civil casado, profissão Biólogo, portador da carteira de identidade no. 4.525.590-5 IIPr e do CPF no. 545.962.977-20 eleito presidente do Conselho Diretor da Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental – SPVS em Assembléia Geral realizada nesta cidade, no dia 15 de julho de 1999 (Ata devidamente registrada no Cartório de Títulos e Documentos), nomeio e constituo meu bastante procurador o Sr. **CLÓVIS RICARDO SCHRAPPE BORGES**, nacionalidade BRASILEIRA, estado civil casado, profissão Médico Veterinário, portador da carteira de identidade no. 1.342.653-6 IIPr e do CPF no. 348.462.989-49, Diretor Executivo, outorgando-lhe todos os poderes que me são conferidos pelo artigo 1°, do Estatuto aprovado em Assembléia Geral Extraordinária realizada no dia 06 de abril de 1993, reservando-me iguais poderes.

Curitiba, 20 de julho de 1999.

Cº TABELIONATO MÔNICA MALUCELLI
AUTENTICAÇÃO
Curitiba PR 16 FEV 2000
A presente cópia [illegible] e reprodução fiel desta face do documento apresentado. DOU-FÉ
Juramentado / Autorizado

CARTÓRIO MERCÊS

Mauro de Moura Britto
Presidente da SPVS

CARTÓRIO DAS MERCÊS
Andréa Bordin Jacob Santos - TABELIÃ
Av. Manoel Ribas, 1308 - Tel.335.9119 FAX 335.6722
Reconheço por semelhança a(s) firma(s) de supra
Mauro de Moura Britto
do que dou Fé.
Curitiba(PR). 29 de julho de 99
Em Test° da Verdade

Rua Gutemberg, 345 - Batel - Fone/Fax (041) 242-0280 - CEP 80420-030 - Curitiba - Paraná - Brasil
Av. Ararapira, s/nº - Caixa Postal, 43 - CEP 83390-000 - Guaraqueçaba - Paraná - Brasil
spvs @ mps.com.br

SOCIEDADE PESQ SELVAGEM E EDUC AMBIENTAL
CURITIBA-PR
CNPJ/CPF: 78.696.242/0001-57

B A L A N C O P A T R I M O N I A L

Pagina: 0001
Apurado em Dezembro/1999

Codigo Contabil	Reduz.	Descricao da Conta	Saldo do Exercicio
1.0.0.0.00.		ATIVO	
1.1.0.0.00.		ATIVO CIRCULANTE	
1.1.1.0.00.		DISPONIVEL	
1.1.1.1.00.		BENS NUMERARIOS	
1.1.1.1.01.		CAIXA	
1.1.1.1.01.0001	19	CAIXA	6.202,93
		* Total CAIXA.....	6.202,93
1.1.1.1.02.		DEPOSITOS BANCARIOS	
1.1.1.1.02.0001	27	HSBC BAMERINDUS - C/C 20721-70	6.956,77
1.1.1.1.02.0002	35	BCO DO BRASIL S/A C/C 133820-X	12.539,32
1.1.1.1.02.0003	43	BCO DO BRASIL S/A C/C 138360-4	4.185,22
1.1.1.1.02.0006	51	BCO DO BRASIL S/A C/C 156332-7	0,00
1.1.1.1.02.0012	60	UNIBANCO - C/C 116829-7	0,00
1.1.1.1.02.0019	78	UNIBANCO - C/C 117523-5	0,00
1.1.1.1.02.0020	86	UNIBANCO - C/C 117656-3	5,59
1.1.1.1.02.0022	94	HSBC BAMERINDUS - C/C 28159-20	87,17C
1.1.1.1.02.0023	108	HSBC BAMERINDUS - C/C 28627-83	7,86
1.1.1.1.02.0036	183	HSBC BAMERINDUS - C/C 30845-20	2,35
1.1.1.1.02.0041	213	UNIBANCO - C/C 118945-9	13,12
1.1.1.1.02.0044	1627	BCO DO BRASIL S/A C/C 109586-9	16,26
1.1.1.1.02.0045	221	BCO DO BRASIL S/A C/C 189726-8	2,32
1.1.1.1.02.0046	230	HSBC BAMERINDUS - C/C 31847-70	141,42
1.1.1.1.02.0047	248	BCO DO BRASIL S/A C/C 190123-0	46,90
1.1.1.1.02.0048	256	HSBC BAMERINDUS - C/C 32556-35	0,00
1.1.1.1.02.0049	1473	BANESTADO - C/C 071219-6	0,00
1.1.1.1.02.0050	1562	BCO DO BRASIL S/A C/C 190833-2	0,00
1.1.1.1.02.0052	1732	BCO DO BRASIL S/A C/C 190878-2	0,00
1.1.1.1.02.0053	2534	UNIBANCO C/C 119828-6	3.845,04
1.1.1.1.02.0054	2593	HSBC BAMERINDUS - C/C 02674-03	29.178,45
1.1.1.1.02.0055	2690	BANESTADO - C/C 073401-7	19.994,00
1.1.1.1.02.0056	2941	HSBC BAMERINDUS - C/C 06043-45	43.022,19
1.1.1.1.02.0057	3042	HSBC BAMERINDUS - C/C 06570-66	6.200,17
1.1.1.1.02.0058	3085	HSBC BAMERINDUS - C/C 06675-33	553,44
		* Total DEPOSITOS BANCARIOS.....	126.623,27
1.1.1.1.03.		APLICACOES LIQUIDEZ IMEDIATA	
1.1.1.1.03.0009	1570	UNIBANCO - CMR 116829-7	0,00
1.1.1.1.03.0039	272	UNIBANCO PERFORMANCE 118939-2	0,00
1.1.1.1.03.0053	299	HSBC BBB DEBENTURES - 32556-35	34,94
1.1.1.1.03.0056	1490	BCO DO BRASIL C PRAZO 190123-0	0,00
1.1.1.1.03.0059	1651	HSBC BBB FAQ 30 - C/C 31847-70	0,00
1.1.1.1.03.0060	1678	HSBC BBB FAQ 30 - C/C 20721-70	0,00
1.1.1.1.03.0062	1694	HSBC BBB FAQ 30 - C/C 30845-20	171,22
1.1.1.1.03.0063	2436	HSBC BBB FAQ 30 - C/C 28159-20	1.621,16

CARTÓRIO DO TABOÃO
R. Marcus Lemo, 1425 - Curitiba-PR
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DOU FÉ.
Curitiba, 05 ABR 2000
Escrevente

SOCIEDADE PESQ SELVAGEM E EDUC AMBIENTAL
CURITIBA-PR
CNPJ/CPF: 78.696.242/0001-59

BALANCO PATRIMONIAL

Pagina: 0002

Apurado em Dezembro/1999

Codigo Contabil	Reduz.	Descricao da Conta	Saldo do Exercicio
		* Total APLICACOES LIQUIDEZ IMEDIATA...	1.227,32
		* Total BENS NUMERARIOS.....	134.053,52
		* Total DISPONIVEL.....	134.053,52
1.1.2.0.00.		REALIZAVEL A CURTO PRAZO	
1.1.2.1.00.		REALIZAVEL A CURTO PRAZO	
1.1.2.1.02.		C/C DEVEDORAS	
1.1.2.1.02.0001	329	C/C DEVEDORAS	11.304,40
1.1.2.1.02.0002	337	CAUCOES	3.091,23
		* Total C/C DEVEDORAS.....	14.395,63
1.1.2.1.06.		ADIANTAMENTOS	
1.1.2.1.06.0001	1538	ADIANTAMENTO A EMPREGADOS	0,00
1.1.2.1.06.0002	1546	ADIANTAMENTO A TERCEIROS	3.233,83
1.1.2.1.06.0003	345	ADIANTAMENTOS P/DESP DE VIAGEM	1.449,56
		* Total ADIANTAMENTOS.....	4.683,39
		* Total REALIZAVEL A CURTO PRAZO.....	19.079,02
1.1.2.2.00.		INVESTIMENTOS TEMPORARIOS	
1.1.2.2.01.		APLICACOES FINANCEIRAS A PRAZO	
1.1.2.2.01.0008	361	BCO DO BRASIL S/A - DER	0,00
1.1.2.2.01.0014	370	HSBC BBB COMMOD - 20721-70	189,35
1.1.2.2.01.0037	388	HSBC BBB FRF - 30845-20	0,00
1.1.2.2.01.0052	2470	HSBC BBB RENDA FIXA 28159-20	0,00
1.1.2.2.01.0060	3115	HSBC BAM FAQ DI PLUS 06675-33	19.136,89
		* Total APLICACOES FINANCEIRAS A PRAZO.	19.326,24
		* Total INVESTIMENTOS TEMPORARIOS.....	19.326,24
		* Total REALIZAVEL A CURTO PRAZO.....	38.405,26
		* Total ATIVO CIRCULANTE.....	172.458,78
1.3.0.0.00.		PERMANENTE	
1.3.2.0.00.		IMOBILIZADO	
1.3.2.1.00.		IMOBILIZADO	
1.3.2.1.02.		INSTALACOES	
1.3.2.1.02.0001	1767	INSTALACOES	1.227,00
		* Total INSTALACOES.....	1.227,00
1.3.2.1.04.		MOVEIS E UTENSILIOS	
1.3.2.1.04.0001	418	MOVEIS E UTENSILIOS	1.023,81
1.3.2.1.04.0002	2844	MOVEIS E UTENSILIOS - USAID	800,00
1.3.2.1.04.0003	3107	MOVEIS E UTENSILIOS - ANTONINA	1.200,00

CARTÓRIO DO TABOÃO
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SOCIEDADE PESQ SELVAGEM E EDUC AMBIENTAL
CURITIBA-PR
CNPJ/CPF: 78.696.242/0001-59

BALANCO PATRIMONIAL

Pagina: 0003

Apurado em Dezembro/1999

Codigo Contabil	Reduz.	Descricao da Conta	Saldo do Exercicio
		* Total MOVEIS E UTENSILIOS.....	3.023,81
1.3.2.1.05.		VEICULOS	
1.3.2.1.05.0001	426	VEICULOS	852,23
		* Total VEICULOS.....	852,23
1.3.2.1.06.		PLANTAS E MAQUETES	
1.3.2.1.06.0001	434	PLANTAS E MAQUETES	0,07
		* Total PLANTAS E MAQUETES.....	0,07
1.3.2.1.07.		CERCAS E JARDINS	
1.3.2.1.07.0001	442	CERCAS E JARDINS	0,01
		* Total CERCAS E JARDINS.....	0,01
1.3.2.1.08.		DIREITOS, MARCAS E PATENTES	
1.3.2.1.08.0001	450	DIREITOS AUTORAIS	1,72
		* Total DIREITOS, MARCAS E PATENTES....	1,72
1.3.2.1.09.		AREAS DE PRESERVACAO	
1.3.2.1.09.0001	469	IMOVEL GUARAQUECABA	312,90
1.3.2.1.09.0002	477	IMOVEL ANTONINA/MORRETES	22.970,93
1.3.2.1.09.0003	3034	FAZENDA CACADA - ANTONINA/PR	900.141,90
1.3.2.1.09.0004	3131	COLONIA TABACABA-GUARAQUECABA	1.399.377,46
		* Total AREAS DE PRESERVACAO.....	2.322.803,19
1.3.2.1.10.		EQUIPAMENTOS	
1.3.2.1.10.0001	485	EQUIPAMENTOS DE OTICA/SOM	4.796,40
		* Total EQUIPAMENTOS.....	4.796,40
1.3.2.1.12.		EQUIPAMENTOS E SISTEMAS	
1.3.2.1.12.0001	507	EQUIPAMENTOS E SISTEMAS	9.982,62
		* Total EQUIPAMENTOS E SISTEMAS....	9.982,62
1.3.2.1.13.		INSTALACOES	
1.3.2.1.13.0001	1724	INSTALACOES - ANTONINA	3.678,66
		* Total INSTALACOES.....	3.678,66
		* Total IMOBILIZADO.....	2.346.365,71
		* Total IMOBILIZADO.....	2.346.365,71
		* Total PERMANENTE.....	2.346.365,71
		* Total ATIVO.....	2.518.824,49

CARTÓRIO DO TABOÃO
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Curitiba, 05 ABR 2000
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SOCIEDADE PESQ SELVAGEM E EDUC AMBIENTAL
CURITIBA-PR
CNPJ/CPF: 78.696.242/0001-59

B A L A N C O P A T R I M O N I A L

Pagina: 0004
Apurado em Dezembro/1999

Codigo Contabil	Reduz.	Descricao da Conta	Saldo do Exercicio
2.0.0.0.00.		PASSIVO	
2.1.0.0.00.		PASSIVO CIRCULANTE	
2.1.1.0.00.		OBRIGACOES	
2.1.1.1.00.		OBRIGACOES A PAGAR	
2.1.1.1.01.		OBRIG TRABALHISTAS/PREVIDENC	
2.1.1.1.01.0001	515	SALARIOS A PAGAR	0,00
2.1.1.1.01.0002	523	INSS A RECOLHER	63,64C
2.1.1.1.01.0003	531	FGTS A RECOLHER	1.555,61C
2.1.1.1.01.0004	540	CONTRID SINDICAL A RECOLHER	29,36C
		* Total OBRIG TRABALHISTAS/PREVIDENC...	1.648,61C
2.1.1.1.02.		OBRIGACOES FISCAIS	
2.1.1.1.02.0001	550	ISS A RECOLHER	435,19C
2.1.1.1.02.0002	566	IRF A RECOLHER	1.700,63C
2.1.1.1.02.0004	574	PIS A RECOLHER	96,20C
		* Total OBRIGACOES FISCAIS.....	2.232,02C
2.1.1.1.03.		OBRIGACOES DIVERSAS	
2.1.1.1.03.0001	582	C/C CREDORAS	2.606,68C
2.1.1.1.03.0003	1511	CONVENIOS MIN MEIO AMBIENTE	0,00
2.1.1.1.03.0004	1520	SUBPROJETO 57 PD/A - 190123-0	0,00
2.1.1.1.03.0005	1700	CONVENIO CNPQ - C/C 133820-X	13.419,31C
		* Total OBRIGACOES DIVERSAS.....	16.025,99C
		* Total OBRIGACOES A PAGAR.....	19.906,62C
		* Total OBRIGACOES.....	19.906,62C
		* Total PASSIVO CIRCULANTE.....	19.906,62C
2.2.0.0.00.		PASSIVO EXIGIVEL A LONGO PRAZO	
2.2.1.0.00.		C/C DIVERSAS	
2.2.1.1.00.		C/C DIVERSAS	
2.2.1.1.01.		C/C DIVERSAS	
2.2.1.1.01.0001	1813	CLOVIS R S BORGES	0,00
		* Total C/C DIVERSAS.....	0,00
		* Total C/C DIVERSAS.....	0,00
		* Total C/C DIVERSAS.....	0,00
		* Total PASSIVO EXIGIVEL A LONGO PRAZO....	0,00
2.4.0.0.00.		PATRIMONIO LIQUIDO	

CARTÓRIO DO TABELIÃO
R. Marques Lima, 1325 Curitiba PR
AUTENTICAÇÃO
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SOCIEDADE PESQ SELVAGEM E EDUC AMBIENTAL
CURITIBA-PR
CNPJ/CPF: 78.696.242/0001-59

B A L A N C O P A T R I M O N I A L

Pagina: 0005

Apurado em Dezembro/1999

Codigo Contabil	Reduz.	Descricao da Conta	Saldo do Exercicio
2.4.1.0.00.		PATRIMONIO LIQUIDO	
2.4.1.1.00.		PATRIMONIO LIQUIDO	
2.4.1.1.01.		PATRIMONIO SOCIAL	
2.4.1.1.01.0001	604	PATRIMONIO SOCIAL	2.427.873,60C
2.4.1.1.01.0003	3140	SUPERAVIT DO EXERCICIO	71.044,27C
		* Total PATRIMONIO SOCIAL.....	2.498.917,87C
		* Total RESULTADO APURADO.....	0,00
		* Total PATRIMONIO LIQUIDO.....	2.498.917,87C
		* Total PATRIMONIO LIQUIDO.....	2.498.917,87C
		* Total PATRIMONIO LIQUIDO.....	2.498.917,87C
		* Total PASSIVO.....	2.518.824,49C

D E C L A R A C A O

Reconhecemos a autenticidade e a exatidao do presente Balanco Patrimonial, somando, tanto o Ativo quanto o Passivo R$ ****2.518.824,49, conforme documentacao apresentada para escrituracao.

CURITIBA, 31 DE DEZEMBRO DE 1999.

MAURO DE MOURA BRITTO

GELSON ORLANDO PEDRON

GELSON ORLANDO PEDRON
Av. Winston Churchill, 896 - Bl. E - S/6
Curitiba - PR Tel. 246-9000
Contador CRC PARTÉRIO DO TOCAÇÃO
R. Mateus Leme, 1425 - Curitiba-PR
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CURITIBA-PR
CNPJ/CPF: 78.696.242/0001-59

DEMONSTRACAO DO RESULTADO DO EXERCICIO

Pagina: 0006

Apurado em Dezembro/1999

Codigo Contabil	Reduz.	Descricao da Conta	Saldo do Exercicio
3.0.0.0.00.		RECEITAS E DESPESAS	
3.1.0.0.00.		RECEITAS GERAIS	
3.1.1.0.00.		RECEITAS	
3.1.1.1.00.		RECEITAS	
3.1.1.1.01.		RECEITAS GERAIS	
3.1.1.1.01.0002	655	DOACOES RECEBIDAS	8.538,34C
3.1.1.1.01.0004	671	DESPESAS RECUPERADAS	273,20C
3.1.1.1.01.0005	680	DOACOES RECEBIDAS - EXTERIOR	329.204,60C
3.1.1.1.01.0006	698	DOACOES/CONVENIOS	547.163,73C
		* Total RECEITAS GERAIS.....	885.179,87C
		* Total RECEITAS.....	885.179,87C
		* Total RECEITAS.....	885.179,87C
		* Total RECEITAS GERAIS.....	885.179,87C
3.4.0.0.00.		DESPESAS GERAIS	
3.4.1.0.00.		DESPESAS GERAIS	
3.4.1.1.00.		DESPESAS ADMINISTRATIVAS	
3.4.1.1.01.		DESPESAS ADMINISTRATIVAS	
3.4.1.1.01.0001	701	SERVICOS TECNICOS DE TERCEIROS	126.555,54
3.4.1.1.01.0002	710	SALARIOS	54.163,72
3.4.1.1.01.0003	728	AVISO PREVIO E INDENIZACOES	1.102,32
3.4.1.1.01.0004	736	DECIMO TERCEIRO SALARIO	5.103,53
3.4.1.1.01.0006	752	DESCANSO SEMANAL REMUNERADO	2.398,62
3.4.1.1.01.0008	779	AUXILIO MORADIA	275,00
3.4.1.1.01.0009	2909	ABONO PECUNIARIO	240,42
3.4.1.1.01.0014	787	SERVICOS DE TERCEIROS - PJ	214.947,42
3.4.1.1.01.0015	795	FERIAS	3.485,96
3.4.1.1.01.0016	809	PREVIDENCIA SOCIAL	29.798,86
3.4.1.1.01.0017	817	F G T S	4.878,38
3.4.1.1.01.0018	825	PIS FOLHA DE PAGAMENTO	585,31
3.4.1.1.01.0019	833	DESPESAS DE VIAGEM	32.564,78
3.4.1.1.01.0020	841	MATERIAL DE EXPEDIENTE	6.150,61
3.4.1.1.01.0021	850	DESPESAS DE CONDUCAO	3.875,00
3.4.1.1.01.0022	868	CAFE E LANCHES	223,38
3.4.1.1.01.0023	876	ALUGUEIS	11.487,12
3.4.1.1.01.0024	884	CONSERTOS E REPAROS	2.572,51
3.4.1.1.01.0025	892	CONSERVACAO E LIMPEZA	275,00
3.4.1.1.01.0026	906	AGUA E LUZ	1.116,27
3.4.1.1.01.0027	914	DESPESAS POSTAIS	2.344,06
3.4.1.1.01.0028	922	DESPESAS LEGAIS E JUDICIAIS	1.092,82
3.4.1.1.01.0029	930	SERVICOS PROFISSIONAIS	7.881,50
3.4.1.1.01.0031	957	MATERIAL DE CONSUMO	66,00
3.4.1.1.01.0032	965	CONTRIBUICOES ORGAOS DE CLASSE	116,67
3.4.1.1.01.0033	973	MANUTENCAO DE VEICULOS	17.559,42

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DEMONSTRACAO DO RESULTADO DO EXERCICIO

Pagina: 0007

Apurado em Dezembro/1999

Codigo Contabil	Reduz.	Descricao da Conta	Saldo do Exercicio
3.4.1.1.01.		DESPESAS ADMINISTRATIVAS	
3.4.1.1.01.0034	981	DESPESAS COM VEICULOS	0,00
3.4.1.1.01.0035	990	JORNAIS E REVISTAS	276,20
3.4.1.1.01.0036	1007	DESPESAS DE CAMPO	31.725,03
3.4.1.1.01.0037	1015	ANUNCIOS E PUBLICACOES	0,00
3.4.1.1.01.0038	1023	MULTAS FISCAIS	5,63
3.4.1.1.01.0040	1031	IMPOSTOS E TAXAS	2.221,76
3.4.1.1.01.0041	1040	VALE TRANSPORTE	2.005,50
3.4.1.1.01.0042	1058	EDUCACAO AMBIENTAL	5.971,87
3.4.1.1.01.0044	1074	DESPESAS DE INSTRUCAO	730,00
3.4.1.1.01.0047	1090	COPIAS E REPRODUCOES	4.302,32
3.4.1.1.01.0048	1104	PREMIOS DE SEGUROS DIVERSOS	2.400,21
3.4.1.1.01.0050	1112	DESPESAS DIVERSAS	268,85
3.4.1.1.01.0052	1120	IOF - IMPOSTO S/OPERAC FINANC	11,84
3.4.1.1.01.0053	1139	FRETES E CARRETOS	1.785,90
3.4.1.1.01.0054	1147	COMUNICACOES	3.174,60
3.4.1.1.01.0055	1155	CPMF - CONTRIB S/OPERAC FINANC	2.511,77
3.4.1.1.01.0056	1163	IRF S/APLICACOES FINANCEIRAS	1.282,79
3.4.1.1.01.0057	1171	MANUTENCAO DE COMPUTADORES	645,00
3.4.1.1.01.0061	1660	SERVICOS PRESTADOS ESTAGIARIOS	94,28
3.4.1.1.01.0062	2968	IMOBILIZACOES DEDUTIVEIS	983,00
		* Total DESPESAS ADMINISTRATIVAS.....	591.257,17
3.4.1.1.02.		OUTRAS DESPS ADM GUARAQUECABA	
3.4.1.1.02.0010	1244	F G T S	0,00
3.4.1.1.02.0026	1309	ENERGIA ELETRICA	0,00
3.4.1.1.02.0054	1341	AGUA	0,00
3.4.1.1.02.0056	1368	IMPOSTOS E TAXAS	318,37
		* Total OUTRAS DESPS ADM GUARAQUECABA..	318,37
3.4.1.1.03.		PROJETOS	
3.4.1.1.03.0001	3158	PROJETO USAID	229.186,38
		* Total PROJETOS.....	229.186,38
		* Total DESPESAS ADMINISTRATIVAS.....	820.761,92
3.4.1.4.00.		ENCARGOS FINANCEIROS LIQUIDOS	

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3.4.1.4.01.		DESPESAS FINANCEIRAS	
3.4.1.4.01.0001	1376	JUROS PASSIVOS	215,20
3.4.1.4.01.0002	1304	DESPESAS BANCARIAS	661,29
3.4.1.4.01.0005	3123	VARIACAO CAMBIAL	9,88
		* Total DESPESAS FINANCEIRAS.....	886,37
3.4.1.4.02.		RECEITAS FINANCEIRAS	
3.4.1.4.02.0001	1414	DESCONTOS OBTIDOS	7,78C
3.4.1.4.02.0003	1430	CORRECAO MONETARIA ATIVA	7.504,91C

Escrevente

SOCIEDADE PESQ SELVAGEM E EDUC AMBIENTAL
CURITIBA-PR
CNPJ/CPF: 78.696.242/0001-59

DEMONSTRACAO DO RESULTADO DO EXERCICIO

Pagina: 0008

Apurado em Dezembro/1999

Codigo Contabil	Reduz. Descricao da Conta	Saldo do Exercicio
	* Total RECEITAS FINANCEIRAS.....	7.512,69C
	* Total ENCARGOS FINANCEIROS LIQUIDOS...	6.626,32C
	* Total DESPESAS GERAIS.....	814.135,60
	* Total DESPESAS GERAIS.....	814.135,60
	* Total RECEITAS E DESPESAS.....	71.044,27C

GELSON ORLANDO PEDRON
Av. Winston Churchill. 896 - Bl. E - S/6
Curitiba - PR - Tel. 246-9090
Contador CRC-PR 21244 - CPF 300488099-16

CARTÓRIO DO TABELIÃO
R. Mateus Leme, [illegible]
AUTENTICAÇÃO
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CURITIBA-PR
CNPJ/CPF: 78.696.242/0001-59

DEMONSTRACAO DO RESULTADO DO EXERCICIO

Apurado em Dezembro/1999

Codigo Contabil	Reduz.	Descricao da Conta	Saldo do Exercicio
4.0.0.0.00.		DESPESAS DE PROJETOS	
4.1.0.0.00.		DESPESAS DIVERSOS PROJETOS	
4.1.1.0.00.		DESPESAS DIVERSOS PROJETOS	
4.1.1.1.00.		DESPESAS DIVERSOS PROJETOS	
4.1.1.1.01.		PROJETO CNPQ	
4.1.1.1.01.0001	1840	DESPESAS DE CAMPO	2.075,85
4.1.1.1.01.0002	1856	MANUTENCAO DE VEICULOS	1.535,68
4.1.1.1.01.0003	1864	IMPOSTOS E TAXAS	861,98
4.1.1.1.01.0004	1872	SERVICOS DE TERCEIROS - PJ	22.318,65
4.1.1.1.01.0005	1880	PREMIOS DE SEGUROS DIVERSOS	7.564,59
4.1.1.1.01.0006	1899	SERVICOS DE TERCEIROS - PF	19.949,05
4.1.1.1.01.0007	2143	DESPESAS POSTAIS	506,60
4.1.1.1.01.0008	2151	COPIAS E REPRODUCOES	925,69
4.1.1.1.01.0009	2160	PREVIDENCIA SOCIAL	1.492,03
4.1.1.1.01.0010	2340	FRETES E CARRETOS	0,00
4.1.1.1.01.0011	2356	C P M F	199,20
4.1.1.1.01.0012	2364	DESPESAS BANCARIAS	29,98
4.1.1.1.01.0013	2500	DESPESAS DE VIAGEM	2.558,48
4.1.1.1.01.0014	2518	MATERIAL DE EXPEDIENTE	1.060,31
4.1.1.1.01.0015	2526	DESPESAS DE CONDUCAO	218,91
4.1.1.1.01.0016	2542	ENERGIA ELETRICA	1.882,44
4.1.1.1.01.0017	2550	COMUNICACOES	10.921,11
4.1.1.1.01.0018	2682	A G U A	646,59
4.1.1.1.01.0019	2704	DESPESAS COM APOIO COMUNITARIO	1.591,91
4.1.1.1.01.0020	2933	ALUGUEIS	6.210,00
4.1.1.1.01.0022	3000	DESPESAS DE INSTRUCAO	583,75
4.1.1.1.01.0050	2631	TRANSFERENCIA/REEMBOLSO	83.920,80C
		* Total PROJETO CNPQ.....	0,00
4.1.1.1.02.		PROJETO ENCONTRO - CONV 004/97	
4.1.1.1.02.0001	1902	DESPESAS DE CAMPO	0,00
4.1.1.1.02.0002	1910	MANUTENCAO DE VEICULOS	0,00
4.1.1.1.02.0003	1929	SERVICOS DE TERCEIROS - PJ	0,00
4.1.1.1.02.0004	1937	SERVICOS DE TERCEIROS - PF	0,00
4.1.1.1.02.0005	1945	DESPESAS POSTAIS	0,00
4.1.1.1.02.0006	2178	DESPESAS DE CONDUCAO	0,00
4.1.1.1.02.0007	2186	DESPESAS DE VIAGEM	0,00
4.1.1.1.02.0008	2313	MATERIAL DE EXPEDIENTE	0,00
4.1.1.1.02.0009	2321	PREVIDENCIA SOCIAL	0,00
4.1.1.1.02.0010	2330	COPIAS E REPRODUCOES	0,00

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R. Marques Lapa, 1425 - Curitiba - PR
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BRAZIL ATLANTIC RAINFOREST RESTORATION PROJECT
GM, SPVS & TNC
Guaratuba Environmental Protection Area, Brazil
Project Plan Budget & Cash Flow

	Total	1	2	3	4	5	6	7	8	9	10	Total Years 11-40
PROJECT COSTS												
Land Stewardship	9,012,077	193,913	162,272	167,140	121,910	141,775	125,205	189,142	132,830	136,815	159,708	7,481,367
Land Acquisition and Titling	3,797,209	2,913,750	720,750	38,760	39,131	13,113	13,506	13,911	14,329	14,758	15,201	0
Reforestation & Forest Enhancement	351,770	32,241	74,753	76,995	54,282	55,911	57,588	0	0	0	0	0
Leakage Control	593,952	0	58,465	60,219	62,026	63,886	65,803	67,777	69,810	71,905	74,062	0
Sustainable Rural Development	1,451,039	40,000	80,000	82,400	84,872	87,418	90,041	92,742	95,524	98,390	101,342	598,310
Monitoring and Verification	884,967	51,918	216,126	99,340	110,811	21,030	93,784	0	0	0	0	291,957
Technical Assistance & Oversight	7,173,080	610,902	271,942	242,019	224,042	212,494	168,940	152,887	148,175	152,621	175,495	4,813,565
Total Operating Costs	23,264,095	3,842,725	1,584,307	766,873	697,074	595,628	614,867	516,458	460,669	474,489	525,807	13,185,199
Combined Funds Summary		Year 1	2	3	4	5	6	7	8	9	10	
Beginning Combined Funds Balance	10,000,000	10,000,000	6,752,362	5,646,522	5,327,770	5,074,356	4,923,994	4,747,699	4,657,741	4,617,676	4,559,328	6,127,848
Capital contributions	0	0	0	0	0	0	0	0	0	0	0	0
Investment income (short plus long)	19,322,767	595,087	478,466	448,120	443,661	445,265	438,573	426,500	420,604	416,141	408,160	14,802,190
Operating Costs	23,264,095	3,842,725	1,584,307	766,873	697,074	595,628	614,867	516,458	460,669	474,489	525,807	13,185,199
Ending fund balance	6,058,672	6,752,362	5,646,522	5,327,770	4,533,511	4,964,195	4,747,699	4,657,741	4,617,676	4,559,328	4,441,681	

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BRAZIL ATLANTIC RAINFOREST RESTORATION PROJECT

PRELIMINARY PROJECT PLAN

April 10, 2000

General Motors Corporation

Sociedade de Pesquisa em Vida Selvagem

The Nature Conservancy

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1. **Executive Summary**
2. **Project Description**
3. **Project Partners**
4. **Land Acquisition Strategy**
5. **Conservation Importance Assessment**
6. **Estimate of Carbon Benefits**
7. **Government Relations Plan**
8. **Public Relations Plan**
9. **Sustainable Development / Community Outreach Plan**
10. **Feasibility Assessment**
11. **Project Budget**

1. Executive Summary

The BRAZIL ATLANTIC RAINFOREST RESTORATION PROJECT has the potential to become one of the most significant projects ever to address global climate change and biodiversity conservation. It has the following key features:

- creation of a private nature reserve of at least 30,000 acres owned and managed by a Brazilian non-profit group, SPVS, and abutting a proposed national park (currently proposed and before Congress). The area would join two mountain ranges, embrace a lush, broad valley and protect world-class and world-recognized endangered biodiversity, including an astonishing two (and possibly three) bird species found almost *exclusively on this property* – i.e., virtually nowhere else in the world.

- focused reforestation of a 1,800-acre "scar" of denuded buffalo pasture in the heart of the reserve and assisted restoration of all other degraded areas on the property;

- a rigorous carbon inventory and monitoring plan that measures carbon benefits produced by the project and documents them as carbon offsets;

- an ongoing, multi-year community development program with traditional communities adjacent to the reserve, and an initial, one-time investment in the just settlement of any and all of their legitimate historical land claims, up to 980 acres;

- establishment of an area suitable for developing a small, high-visibility public outreach center focused on environmental education and outreach for southeast Brazil's urban population.

This report has assessed the feasibility of the project's objectives being achieved and concluded that the project, as designed and described herein, has a high likelihood of producing the results in terms of GHG emission reductions, biodiversity protection and favorable recognition that the project partners are seeking.

2. Project Description

The BRAZIL ATLANTIC RAINFOREST RESTORATION PROJECT is the most significant effort to date to use reforestation and forest protection strategies in Brazil's Atlantic Forest to capture and conserve atmospheric carbon and thereby reduce the threat of global climate change. Over a period of 40 years, the project will restore and protect at least 30,000 acres of partially degraded and/or deforested tropical forest within the Guaratuba Environmental Protection Area (Area de Proteção Ambiental, or APA) of southern Brazil.

With a $10.0 million investment from General Motors Corporation, the project will promote assisted natural forest regeneration on pastures and degraded forests on the acquired lands. It will also protect standing forest that still exists within the project area but is under imminent threat of deforestation. As part of the project, SPVS (*Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental*, a Brazilian non-profit group) will acquire and manage in perpetuity a private nature reserve that contains some of the best remaining examples of Atlantic Rainforest in the world. This newly created private protected area will ensure the survival of numerous species of wildlife that otherwise would likely face extinction because of ongoing forest destruction in the region.

As a pioneer project and one of the few attempts to recover degraded areas within the Atlantic Forest, the RAINFOREST RESTORATION PROJECT will design its forest restoration activities as experiments that will contribute to our understanding of the rainforest's ultimate restoration. Reforestation and forest enhancement activities will reestablish forest cover on the areas most affected by clear-cutting for buffalo-ranching and attempt to rebuild the original forest structure on slopes and floodplain areas that have been degraded. The strategy is to plant small areas, or "islands", of native tree species that will be the source of seeds to be spread to other areas by birds, bats, other animals, the wind, etc. Careful tracking of regrowth rates will help choose the most effective methods for fast forest regrowth and proper forest composition. A nursery will be constructed on or near the project site that will produce tens of thousands of seedlings of native tree species each year. SPVS expects to work in partnership with EMBRAPA, the federal agriculture research institute, to conduct soil and vegetation surveys to determine the ideal mix of native species to plant to restore the forest to its original condition. SPVS and TNC will also be looking for opportunities to use reforestation and restoration activities for educational purposes, with volunteers, schoolchildren and others.

The project aims to produce significant net carbon benefits that are scientifically quantifiable and long-lasting. Through its forest restoration and protection activities, the project is expected to reduce or avoid emissions equivalent to approximately 1.5 to 2 million tons of carbon over the next 40 years. Through a rigorous monitoring and verification program, the carbon benefits generated by the project will be quantified and validated in such a way as to maximize the probability that they will be accepted under any future international carbon trading regime. A project endowment fund will be established to provide permanent protection and management of the project site, thus ensuring that these net carbon benefits continue in perpetuity.

3. Project Partners

The ATLANTIC RAINFOREST RESTORATION PROJECT is a collaborative effort between the General Motors Corporation, The Nature Conservancy (TNC), and Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental (SPVS), a Brazilian non-profit group dedicated to biodiversity conservation. Since its inception in 1984, SPVS has acted to protect natural areas, reverse environmentally damaging practices, and promote economic development opportunities that are compatible with conservation. SVPS brings to the project a well-respected track record of conservation action in the region, strong working relationships with the region's key environmental actors, including state and local government officials, and direct experience working with local communities on the Paraná coast to integrate economic and environmental priorities.

The Nature Conservancy is a private, non-profit organization established in 1951 to preserve the plants, animals and natural communities that represent the diversity of life on earth by protecting the lands and waters they need to survive. With a headquarters in Arlington, VA, TNC has chapters in every U.S. state and a network of international conservation partners. To date, the Conservancy and its more than 1,000,000 members have protected more than 11 million acres in the United States and have helped protect more than 50 million acres in Latin America, the Caribbean, Canada, Asia and the Pacific. Using a science-based, non-confrontational approach to environmental preservation, TNC brings extensive conservation experience and institutional capabilities that will help to ensure the project's long-term viability.

As set forth in the Comprehensive Agreement, to be signed by the project partners, the project will be governed and managed by three distinct entities: an Executive Committee, a Project Funds Manager and a Project Site Manager. The Executive Committee will be comprised of one designated representative each from GM, TNC and SPVS, and will meet annually or as necessary to monitor the progress of project implementation, approve any significant modifications to the project plan and budget, and make decisions regarding the submission of applications for carbon benefits. TNC will be the Project Funds Manager and will be responsible for keeping the project on a sound financial footing and ensuring that it meets its overall financial targets and goals. SPVS will act as the Project Site Manager and will be responsible for the day-to-day implementation of project activities in accordance with the project plan.

As Project Site Manager, SPVS will be responsible for:

- preparing and submitting annual workplans, reports, and budgets;
- hiring the staff necessary to implement the workplan;
- managing all aspects of implementation for each of these components.

SPVS will continuously monitor implementation activities and request technical support as necessary to correct any problems or deviations from project workplans. SPVS will directly manage the Land Acquisition Strategy and the Sustainable Development and Community Outreach Strategy. It will own and manage the project site lands. In

addition, in year five SPVS will assume responsibility for managing the project's carbon monitoring component. As Project Site Manager, SPVS will ensure that the project partners are kept fully informed about the status of project implementation primarily through the submission of regular financial and technical reports, and other project updates as necessary. SPVS will report to TNC, the Project Funds Manager, any unforeseen events affecting the project and their impact on project implementation. SPVS will also be responsible for organizing and convening meetings of the project's Executive Committee.

As the Project Funds Manager, TNC will:

- review the project endowment fund reports to gauge the fund's performance relative to expected returns;
- review and approve SPVS's annual workplan and budget;
- disburse project funds to SPVS in conformance with project budgets and disbursement schedules;
- review and approve SPVS's quarterly and annual financial and technical reports;
- assist SPVS in adjusting project budgets when necessary to maintain the integrity of the Project Endowment Fund

TNC will oversee all carbon monitoring activities to ensure that they are being conducted with sufficient rigor. It will also provide technical assistance to SPVS on an ongoing basis in such areas as carbon monitoring and reporting requirements, financial planning and budgeting, conservation science and land management, and organizational development. TNC will carry out its financial management and technical assistance responsibilities so as to improve the possibility that the net carbon benefits generated by the project will be recognized and credited under a future international greenhouse gas carbon trading regime, and to achieve the project's biodiversity goals. TNC will contract reputable experts to design and implement a carbon monitoring program and will oversee implementation of this program through year 5. If and when the project partners decide to submit an application to register the project's carbon benefits and/or apply for GHG offset credits under an international GHG trading regime, TNC will lead the efforts to prepare and submit this application to the relevant authorities, and will ensure that all necessary submissions are of the highest technical quality possible.

TNC investment managers manage the project endowment fund and provide quarterly updates on its performance. The project has a segregated cost center, which is used to deposit and withdraw project funds, and to track the value of the Project Endowment Fund. TNC has projected that in Year 40 the project endowment fund will have a balance of $6,058,672; this is expected to be sufficient to finance the protection and management of the project site in perpetuity.

4. Land Acquisition Strategy

An area known as Estrela Ranch has been selected as the "core area" for the project site. It is located in the municipality of Guaratuba on the coastal plain of Paraná State in southeastern Brazil. This area is about 40 miles southeast of Curitiba, the state capital, and about 18 miles south of Paranagua, the nearest large town. Road access is by dirt road, requiring four-wheel-drive after heavy rains and involving a river-crossing at a ford in all seasons. The area lies behind and above Guaratuba Bay, a marine estuary. The beaches of the Atlantic Ocean lie just 15 miles to the east of the edge of the project site, and are separated from it by the Serra da Prata mountain range.

The acquisition of at least 30,000 acres of land and the creation there of a private nature reserve are the cornerstone of all other project activities. Three key criteria have been used to select among different land parcels and design the project site:

1) biodiversity importance;

2) potential for carbon capture; and

3) overall site manageability.

Once these criteria were reviewed for different properties, price and availability (the presence of a willing seller) were analyzed as well. The result has been the identification of an initial area suitable for purchase and reserve-creation, and the identification of several viable options for expanding the project site and reserve to its target size over the next 6-18 months.

The core area – Estrela Ranch – contains the largest cleared pasture area (approximately 1,800 acres) in the region. The property covers the broad, flat valley of the Cubetãozinho River and runs up mountain slopes to the west. This property has the highest carbon-capture potential of any area analyzed, and also includes areas of degraded lowland forest, relatively intact hillside and montane forest, and some permanent wetlands, including a significant part of the unique and biodiversity-rich Lagoa do Parado. The site is bordered by rivers at several key points, improving access for patrolling and thus site manageability. The properties making up Estrela Ranch measure approximately 14,000 acres, and represent the critical center of the core project area.

To complete the project site, TNC will work with SPVS to purchase an additional 17,000 acres over the next months, for a total project size of at least 30,000 acres (as much as 940 acres of the Estrela Ranch may be ceded to local communities; see below under component #8, Sustainable Rural Development). Our preferred project-site growth option involves acquiring properties to the **south and east** of Estrela Ranch. These properties total as much as 13,000 acres, and would link the project site to Guaratuba Bay; they contain large areas of selectively logged forest with high regrowth potential, and are known to contain significant biodiversity in their unique forests. These properties would also provide a continuous border between the project site and a

proposed national park in the mountains of Serra da Prata, east of the site. This would be a major boon to site management, effectively protecting the eastern "flank" from most forms of encroachment.

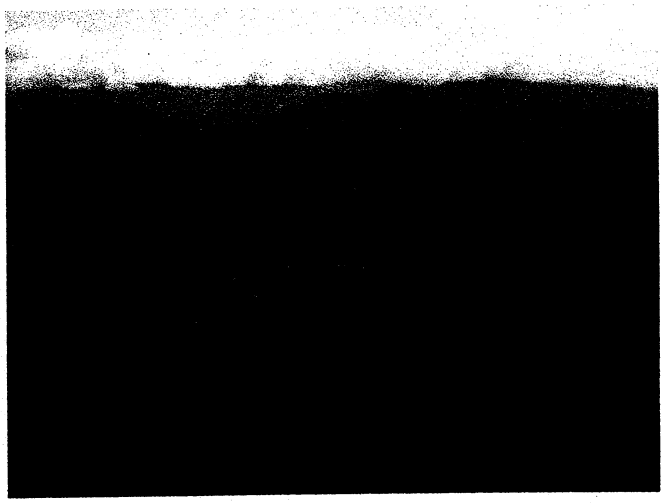
To the **north** of Estrela Ranch, meanwhile, several properties that together equal 27,000 acres could be added as necessary to reach the target project size. These areas typically contain more hillside and montane forest than open areas, and thus on average have lower value from a carbon-capture standpoint. From a biodiversity standpoint they contain excellent forest, but of a type that is less rare and at-risk than the lowland forest types found to the south and east of Estrela Ranch. Finally, these areas would also provide an even longer border with the proposed national park, and the intent is to purchase selected areas to achieve river boundaries and other advantages and thereby improve conditions for carbon capture and site management.

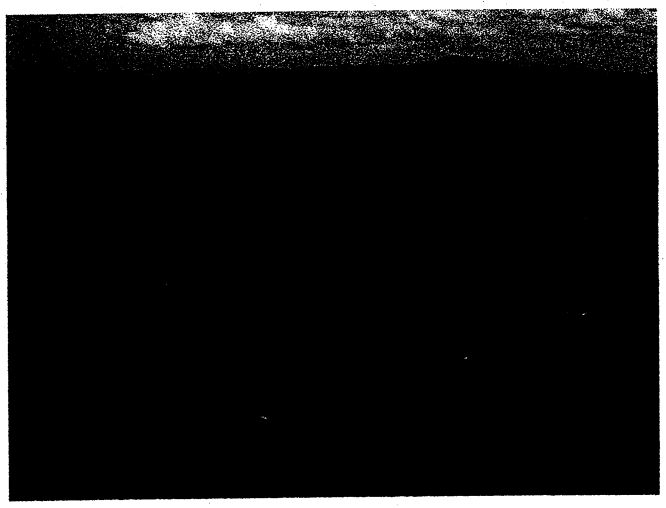
In addition to Estrela and the large blocks southeast and north of it, the project would purchase perhaps six to eight small (up to about 200 acres) inholdings that are scattered around the region. These inholdings would be judged on a case-by-case basis largely on the basis of their importance to site management and protection. With the purchase of the large blocks and the small inholdings, SPVS expects to purchase title to at least 28,000 contiguous acres centered on Estrela Ranch within the next 18 months. There exists a possibility that we would not be able to put together a single block of properties contiguous to Estrela Ranch; in that case, we would purchase suitable non-contiguous properties (from carbon-capture, biodiversity and land-management perspectives) as needed to reach at least 30,000 acres. Again, we prefer a contiguous site, and will work towards it, with the following proposed exception.

About 10 miles north of the project site, and connected to it through the mountain range and proposed national park but with no direct border with it, is a 2,250-acre area that has been made available to SPVS at an attractive price. The property is interesting to the project as a high-profile location for a small public outreach center showing the importance of SPVS's work and partnerships in the restoration of degraded lands. The property straddles the main four-lane highway between Curitiba and beach and port destinations, as well as the touristic rail line between Curitiba and the coast. Hundreds of thousands of Curitibans and tourists from elsewhere pass through the property (1.5 miles of highway frontage on both sides) each year. The property is quite badly degraded and its restoration, in addition to being valuable to showcase the project's restoration efforts, would also generate considerable carbon-capture benefits. The property is more valuable than others we are looking at due to its excellent location, but SPVS expects to be offered the land at a reasonable price in return for naming the small park created there to honor a family member of the current owner. Some other costs of the center will require additional resources beyond those included in the project budget. With the addition of this area, the project site would reach the minimum of 30,000 acres.

The price of these different properties varies, of course, but we are allocating $3.5 million for land acquisition (not counting transfer fees, lawyer fees, etc.) in the project budget. We expect average land prices to range from $100 and $117 dollars per acre, permitting the purchase of at least 30,000 and as many as 35,000 acres. Actual costs of

lands in Brazil are hard to estimate until actual negotiations are under way with each owner, and may vary somewhat from the estimates presented here. Dollar-to-real exchange rates may also ultimately affect dollar costs of different properties. Nonetheless, we expect to meet our goals for land acquisition at or under the present budget.





4. Conservation Importance Assessment

The project site falls within Brazil's world-renowned Serra do Mar, an area recognized by the United Nations Economic and Social Organization (UNESCO) as one of the planet's highest priorities for conservation and designated as a World Biosphere Reserve. The Atlantic Forest contains some of the greatest biological diversity registered on the planet, and an astonishing number of its organisms are found nowhere else in the world. For instance, on one 2.5-acre lot of Atlantic Forest scientists found 450 tree species – more than in the entire eastern United States. An estimated 50% of its tree species, 70% of its palm trees and bromeliads, 40% of its mammals, 60% of its reptiles and 92% of its amphibians are endemic – exclusive to this part of the world. For biologists and conservationists, the presence of so many endemic species magnifies the importance of this area, for if tree and animal species are lost here, they are perforce lost everywhere.

The Atlantic Forest once covered about 400,000 square miles of Brazil. Now no more than 32,000 square miles, or 8% of its original extension, remains. This region of the country has borne the brunt of European settlement, with tragic consequences for the forest. More than 50% of Brazil's population and 80% of its GNP are concentrated in the Atlantic Forest region. So, unfortunately, are 84% of Brazil's plant and animal species in imminent danger of extinction. Among scientists and conservation professionals, and as evidenced in a long series of priority-setting exercises conducted by many different groups, there is rare consensus that the conservation of the Atlantic Forest is one of our generation's highest priorities and greatest challenges.

Within the Atlantic Forest region, any remaining forest area is of great importance. But certain areas have been identified as of exceptional importance for the richness and rarity of their flora and fauna. Beyond a doubt, one of these exceptional areas is the Estrela Ranch and environs – the area chosen as the project site. While not a great deal is known yet about the flora and fauna on the property, initial studies of bird populations conducted over the last several years by ornithologists Marcos Bornschein and Bianca Reinert provide an amazing view of this area's importance. According to Bornschein and Reinert's findings, Estrela Ranch and environs has:

- the world's largest known population of the Marsh Antbird *(Stymphalornis acutirostris)*, which was unknown to science until 1995
- the world's largest known population of the Kaempfer's Tody-Tyrant *(Hemitriccus kaempferi)*, which was thought to be extinct until being rediscovered in the area three years ago
- a total of 42 threatened bird species and 13 *world-endangered* species of birds – more than in all of Canada, for instance.
- a total of 322 species of birds – about as many species as regularly occur in the entire eastern United States.

The creation of a permanent nature reserve at the project site will have many other benefits to a wide range of plant and animal species. With at least 30,000 contiguous

acres, the reserve will be large enough to guarantee the protection of viable populations of all but the largest carnivores. It will also create critical natural corridors between mountain ranges, making possible key species' local and altitudinal migrations. Finally, by restoring the degraded areas on the property – especially the much-eroded riverbanks – the reserve will significantly reduce erosion and downstream sedimentation and its impacts on aquatic biodiversity.

5. Estimate of Carbon Benefits

Based on preliminary projections made for the feasibility study, which were based on literature and field data for projects in similar areas, the proposed project area will yield as much as 2 million tons of carbon over 40 years. According to these projections, 48% of the carbon capture (985,018 tons) will be from forest protection, and 52% (1,054,518 tons) will be from reforestation and forest regeneration. These numbers will depend on the eventual configuration, forest cover, topography and other features of the properties ultimately chosen to make up the project site; they should be expected to vary significantly as more detailed analyses of these and other variables are completed.

	hectares	*estimated carbon capture*		*total,*
Landscape Type		*avoidance*	*sequestration*	*tons of C*
Pasture	3380	0	446971	
Lowland 10-15 yr forest	1420	24921	130143	
Lowland 40-yr forest	4700	513240	400440	
Lowland primary forest	930	175403	0	
Hilly 40-yr forest	1420	139302	76964	
Steep slope primary forest	2350	132152	0	
TOTAL	14200	985018	1054518	
PROJECT TOTAL		**48%**	**52%**	**2,039,536**

The project will monitor greenhouse gas (GHG) benefits of the project using the highest practical scientific and technical standards. It will also prepare estimates for independent evaluation by incorporating outside experts into the process through TNC's "Technical Advisory Panel," or TAP.

As soon as the bulk of land acquisitions is completed, carbon inventory and monitoring plans will be designed to quantify the changes in key carbon (C) pools for all project components, to develop baseline estimates and to track land-use change in the project region. Data from the inventory and monitoring activities are used to estimate the differences between the with- and without-project carbon cases. The difference between these pools is the basis for determination of the project's actual GHG benefits.

TNC has a partnership with the Winrock International Institute for Agricultural Development as its primary carbon monitoring contractor for climate action projects. Winrock has developed a peer-reviewed cost-effective methodology for inventorying C and monitoring C inventories on a commercial basis. This methodology was developed to provide reliable results using accepted principles and practices of forest inventory, soil science and ecological surveys. In the future, third party organizations may also be needed to verify and certify carbon-benefit claims. The TAP will help to ensure that carbon monitoring for the project performs well under future certification criteria.

With support from Winrock, TNC and SPVS will document changes in the greenhouse gases emitted, reduced, avoided or sequestered throughout the project term. To maximize the possibility that the project's GHG benefits will be creditable under a

prospective GHG emissions trading regime, the project will have a rigorous carbon monitoring component that will include the following elements:

Desk Study and Development of Provisional Carbon Monitoring Plan: This first version of the plan is used to aid sample design and guide efforts during the initial carbon inventory. The provisional plan outlines methods and procedures anticipated for the monitoring of all changes in greenhouse gases anticipated due to project activities, and identifies vegetative strata that should be inventoried to determine sample design.

Field Sampling and Data Analysis Report: The field sampling and subsequent report is developed from the initial field sampling and analysis and defines the strata and number of plots necessary within each strata for the development of the carbon monitoring plan. It is also used to improve the initial offset estimates.

Carbon Inventory and Monitoring Plan: The Carbon Inventory and Monitoring Plan provides a detailed explanation of which strata and carbon pools must be inventoried and monitored, how they will be monitored, and how often they should be monitored in both project and without-project reference areas over the life of the project.

Deforestation and Forest Degradation Trend Model: A fundamental challenge in a project that seeks to improve carbon balance through stemming deforestation is projecting the carbon balance that would have occurred if the project were *not* implemented. The Deforestation and Forest Degradation Trend Model will allow projections of "without-project" deforestation and forest degradation in the project area to be used to develop a "without-project" baseline and project offsets over the project term.

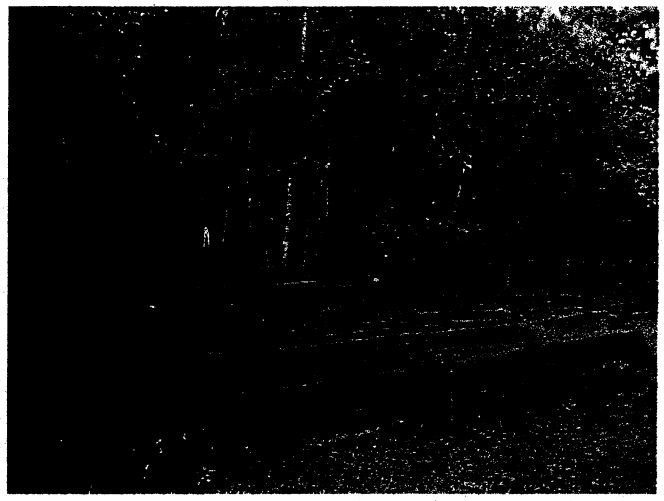
Periodic Carbon Inventories and Monitoring: Additional carbon inventories and monitoring will be conducted throughout the life of the project. Monitoring is anticipated to take place once every two years in years 1-5, and once every five or ten years thereafter. Frequent monitoring during the early stages of the project is needed to determine seedling mortality and establishment. Carbon monitoring may be conducted using advanced videography or other remote-sensing technologies if they prove to be as practical and cost-effective as anticipated.

Technical Advisory Panel Meetings and Evaluations: The Technical Advisory Panel, made up of TNC, Winrock and outside specialists, will evaluate carbon monitoring procedures and offset reports annually or as needed.

Leakage Control Strategy: To produce real GHG reductions, the project much ensure that none of the carbon benefits produced within the project's boundaries are negated by project-related impacts that might "leak" offsite, e.g. the displacement of ranching or forestry activities to another area. The Leakage Control Strategy will analyze the potential sources and magnitudes of "leakage" and develop measures to offset them.

Carbon Monitoring, Offset Creation, and Reporting Protocol: This Protocol will provide the factual basis and procedures for documenting changes over time in the greenhouse gases emitted, reduced, avoided, or sequestered by the project, including

definition of the methods, procedures, and frequency of measurement of carbon pools in and around the project site; calculation of a project reference case or baseline; calculation of leakage; carbon emissions calculations and accounting procedures; and preparation and submission of carbon offset reports.



6. Government Relations Plan

A primary goal of the project is to generate as much as 2 million tons of carbon benefits that are scientifically quantifiable and long-lasting and that will be recognized as certified carbon offsets eligible for credit under a prospective international carbon trading regime.

While the project's eligibility for carbon credits is contingent upon the outcome of international negotiations that will establish the ground rules for any such regime, the project partners will make every effort to maximize the possibility that the carbon benefits generated by the project will ultimately be accepted, credited, and available to GM to meet its emission-reductions targets.

In 1992 at the U.N. Conference on Environment and Development (UNCED, also known as the "Earth Summit") in Rio de Janeiro, the majority of the world's nations signed the U.N. Framework Convention on Climate Change (UNFCCC), an accord to limit anthropogenic greenhouse gas emissions. Under the UNFCCC, industrialized countries (referred to as "Annex I countries") committed to reduce their aggregate carbon emissions to 1990 levels, although these reduction targets were not legally binding. Both the U.S. and Brazil signed the convention in June 1992, and subsequently ratified it on 15 October 1992 and 28 February 1994, respectively. The Convention entered into force on 29 May 1994.

Since the signing of the UNFCCC, the Parties to the Convention have held an annual Conference of the Parties (COP) to discuss duties, obligations, and mechanisms to implement the Convention. At the first COP in 1993, the Parties created "Activities Implemented Jointly" as a pilot phase to define a permanent "Joint Implementation" program; this program would allow a party that took commitments to meet part of its emissions-reductions obligation through investments that reduce emissions or increase sequestration outside its borders.

To evaluate different approaches to implement the "Joint Implementation" concept, the United States Government established the United States Initiative on Joint Implementation ("USIJI"), a pilot program to promote voluntary bilateral private-sector cooperation on projects to mitigate global greenhouse gas emissions. The USIJI Program has developed a format and set of criteria that are recognized as a potential model for a formal carbon crediting regime.

In December 1997, at COP-3 in Kyoto Japan, the Parties signed the Kyoto Protocol to the UNFCCC under which industrialized nations committed to binding emissions reductions during the period 2008-2012. The U.S. emissions reduction target is 7% below 1990 levels. Both the U.S. and Brazil have signed the Kyoto Protocol, though to date neither has ratified it.

With the goal of reaching these emissions targets in a cost-effective manner, the Protocol created several "flexibility mechanisms," including greenhouse gas emissions

trading and the Clean Development Mechanism (CDM). Article 12 of the Kyoto Protocol identifies three specific goals for the CDM:

(1) to assist in the achievement of sustainable development;

(2) to contribute to the attainment of the environmental goals of the UNFCCC;

(3) to assist Annex B parties in complying with their emissions-reductions commitments.

While the structure and format of the CDM have yet to be defined, members to the FCCC are attempting to finalize rules and regulations for JI-like crediting of CDM projects by COP-6 in November, 2000. At this time, the project partners expect that the CDM will be the international regime through which they will seek credit for carbon benefits generated by the project.

The following elements form the core of the project partners' strategy to obtain credits for the greenhouse gas emissions reductions generated by the project.

1. Ensure that the project is "JI Worthy." Criteria developed for the U.S. Initiative for Joint Implementation currently constitute the best guideline for what eventual CDM project requirements will entail. From its inception, the BRAZIL ATLANTIC RAINFOREST RESTORATION PROJECT has been designed to address each of these criteria, which consist of the following:

- Is it acceptable to the government of the host country?
- Does it involve specific measures to reduce or sequester greenhouse gas emissions initiated as a result of the USIJI Program, or in reasonable anticipation thereof?
- Will it reduce or sequester greenhouse gas emissions beyond those referred to in 5a below, and if federally funded, is or will be undertaken with funds in excess of those available for such activities in fiscal year 1993?
- Does it identify associated environmental and developmental benefits and impacts?
- Does it provides data and methodological information sufficient to establish a baseline of current and future greenhouse gas emissions:
    - in the absence of the specific measures of the project?
    - as a result of the specific measures of the project?
- Does it contain adequate provisions for tracking the greenhouse gas emissions reduced or sequestered as a result of the project, and on a periodic basis, for modifying such estimates and for comparing actual results with those originally projected?
- Does it contain adequate provisions for external verification of the greenhouse gas emissions reduced or sequestered by the project?

- Does it provide adequate assurance that greenhouse gas emissions reduced or sequestered over time will not be lost or reversed?
- Does it provide for annual reports to the Evaluation Panel on the emissions reduced or sequestered, and on the share of such emissions attributed to each of the participants – domestic and foreign – pursuant to the terms of voluntary agreements among participants?

2. *Inform key decision-makers in the climate change arena about the benefits of forest conservation projects.* Brazil is considered the "intellectual author" of the CDM concept and is a major player in negotiations to determine its structure and eligibility requirements. However, to date the Government of Brazil has been reluctant to accept the idea of allowing forest conservation projects to receive credit under a CDM, while being supportive of reforestation and forest recuperation projects. Thus, an integral part of this strategy will entail informing key decision-makers, particularly within those agencies of the federal government most active in climate change negotiations (e.g. the GOB's Ministry of Science and Technology that takes the lead in climate change negotiations), about our efforts to demonstrate the validity and benefits of forest conservation projects in reducing atmospheric carbon levels.

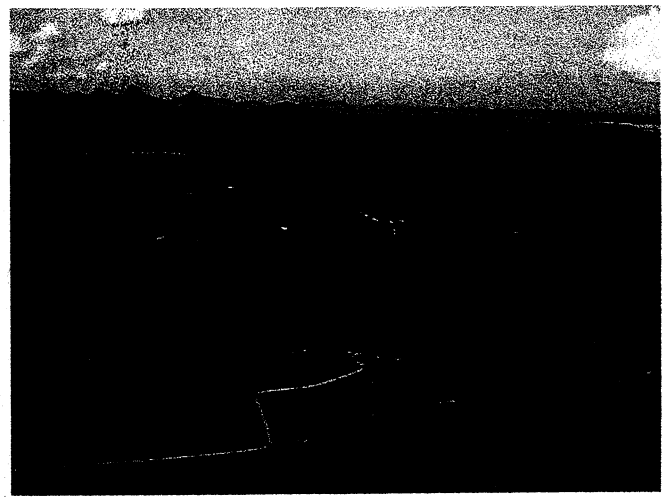
All three project partners have pre-established channels of communication with key actors within the Brazilian Government on the climate change debate. The partners will thus coordinate to engage Brazilian officials and keep them apprised of project developments and provide technical information on various aspects of the project. At the state-level, the partners will engage the state government in discussions of the investment potential for conservation projects in the state. Since municipalities within Paraná receive a portion of state sales tax revenues based on conservation areas within their district, local officials will also be approached and informed of the implications of the project.

3. *Position the project as a CDM pilot project for the Brazilian Government.* In mid-1999, the Government of Brazil (GOB) created a new Interministerial Commission on Climate Change that will be the body that oversees CDM activities. To date, little has been reported about the Commission in the press, and private conversations with officials indicate that it is still in an organizational phase. At least one expert who was active in the Commission's formation has suggested that the GOB should undertake pilot projects to help define the issues and problems of designing the CDM structure. By keeping Brazilian officials apprised of project activities and implementation progress, project partners hope to position the project as a candidate for pilot activities the GOB undertakes. Likewise, project partners will engage and inform U.S. officials to promote the project's acceptance under guidelines established by this government.

4. *Subject the project's Carbon Monitoring Protocol to external technical review.* As described in the Carbon Monitoring and Verification Component, TNC and SPVS will implement a rigorous Carbon Monitoring Protocol and submit it to a Technical Advisory Panel (TAP) for review and evaluation. By subjecting the project's monitoring activities to external review and critique, the TAP will demonstrate

methodological transparency and build credibility about the quantity and validity of the carbon benefits generated by the project.

Upon GM's approval of this project plan, the project partners will meet to discuss and design specific activities for gaining host-country acceptance of the project. Prior to COP-6 in November, these actions will focus especially on participation in the debate concerning the crediting of forest conservation projects under the CDM.



7. Public Relations Plan

The project partners recognize the value of this project in demonstrating each group's commitment to conservation and voluntary action against climate change. Upon approval of this project plan, specific actions will be discussed and designed to take full advantage of the project's broad appeal to a wide-ranging constituency, both in Brazil and internationally. Some types of actions that will be discussed include:

Press release: A mutually agreed-upon press release will describe the project's multiple benefits and the partnership of the three groups in carrying it out. The release will be made available to national and international media representatives on the occasion of the formal public announcement.

Formal public announcement (roll-out): Tentatively scheduled for late August or early September of this year (2000), the formal public announcement will be held in Brazil (Curitiba, Brasilia or São Paulo). One possibility to be explored is asking a major public figure, such as Paraná Governor Jaime Lerner or even President Cardoso, to host the announcement.

Ongoing media exposure: In addition to the "hard news" story involving the project's launch, there are expected to be numerous opportunities to publicize the project in feature stories with both print and electronic media. GM, SPVS and TNC will work together to identify, communicate with, refer and/or attend to media outlets suitable for project coverage.

In-house materials: Each group expects to give coverage and attention to the project in their in-house organs of communication, potentially including magazines, employee bulletins, websites, annual reports and other venues as deemed appropriate by each group.

Commercial advertisement: General Motors especially may consider using the project in its commercial advertisements, either in Brazil or in other countries. This will be in carried out in consultation with the other project partners.

Visits to the project site: Each group expects to give coverage and attention to the project as well by means of escorting select visitors, guests, executives, board members and other dignitaries to the project site.

On-site public outreach center: As described above, tentative plans exist for using one particularly high-profile property as a site for a small public outreach center, where the partners would inform a broad swath of Brazilian public about the goals and actions of the project. Components of the design, construction and ongoing staffing of the center will require additional resources beyond those included in the project budget, and will need to be identified and obtained by the project partners.

All dissemination strategies will be governed by the Comprehensive Agreement in terms of prior consultation and approvals, use of logos and so on.

8. Sustainable Rural Development / Community Outreach Plan

One of the key features of the Clean Development Mechanism is that projects must promote sustainable development. The sustainable development of rural communities is also a top policy priority for the Paraná state government and Brazil's federal government. The ATLANTIC RAINFOREST RESTORATION PROJECT seeks to contribute to this goal by helping communities neighboring the project site harmonize their economic activities with the environmental integrity of the area.

SPVS has worked since 1993 directly with communities on the Paraná coast to improve their health and education services and to develop environmentally compatible alternatives for income-generation and self-sufficiency. And while it is premature at this point to describe more than the general outlines of a community relations and engagement strategy, TNC and SPVS have put together a dual approach that involves two distinct target audiences.

1) Key local communities

Any effort to work with communities requires a previous period of consultation and engagement of the community in question. SPVS will work with key local communities in a participatory fashion to promote strong community buy-in from the earliest stages. As a result of this consultation, SPVS expects to help interested communities to develop economic activities that are compatible with the environmental goals of the project. The following ideas give a general feeling of the type of activities SPVS would expect to promote, budget constraints and community interest permitting, to foment organization and job creation on or around the project site. Handicraft production has potential for absorbing a part of the economically active population, and TNC and SPVS's role could be to help build linkages to marketing outlets. The reforestation effort will employ local laborers, and SPVS will study the possibility of making the project's tree nursery a locally owned and managed endeavor. Organic agriculture, sustainable heart-of-palm harvesting, ornamental and medicinal plant production and ecotourism are other examples of potentially appropriate activities for local communities.

Underlying all of the partners' project activities on the project site is a shared commitment to *no net loss of jobs* as a result of the project's implementation. In addition to direct job creation, the project will also create indirect economic benefits since SPVS will procure as many supplies as possible from the surrounding communities, and researchers and other visitors to the site will spend money on food, lodging, and local products during their visits.

Specific activities of local communities that have a deleterious environmental impact – and in many cases are in violation of environmental legislation – may be addressed as part of the sustainable development component as well. Examples include the excessive use of agrotoxins and clearing of riverbank forest, both of which affect the water quality throughout the project site and beyond. Projects promoting riverbank reforestation and organic techniques of agricultural production may be appropriate with certain communities.

SPVS's community relations on this project will be linked initially to the negotiated resolution of long-standing land claims by the community of Rasgadinho. These claims overlap by as much as 940 acres with areas that are titled to the owner of Estrela Ranch, but occupied in part by local villagers. SPVS has begun discussions with the Pastoral Land Commission, a Catholic Church-affiliated organizations that assists and advises rural communities, on how best to reach a lasting settlement of the land claims. The Commission is extremely open to SPVS's involvement in – and potential resolution of – the claims. TNC and SPVS have decided to pursue a strategy of:

- purchasing the title to this area from the current ranch owner for a reduced price (the area in dispute represents about 6.7% of the total property being negotiated with that owner, and the owner is unwilling to consider selling only the 93.3% of the property that has no claims); a 6.7% reduction in the overall price of the property thus effectively passes the disputed area on to SPVS free-of-charge;

- SPVS would sign a blanket agreement with the Pastoral Land Commission to work together to promote environmental and sustainable development goals with rural communities, and then develop a specific agreement to work together in Rasgadinho; this would be a significant breakthrough, opening the door to a constructive working partnership between this church group and a leading environmental NGO;

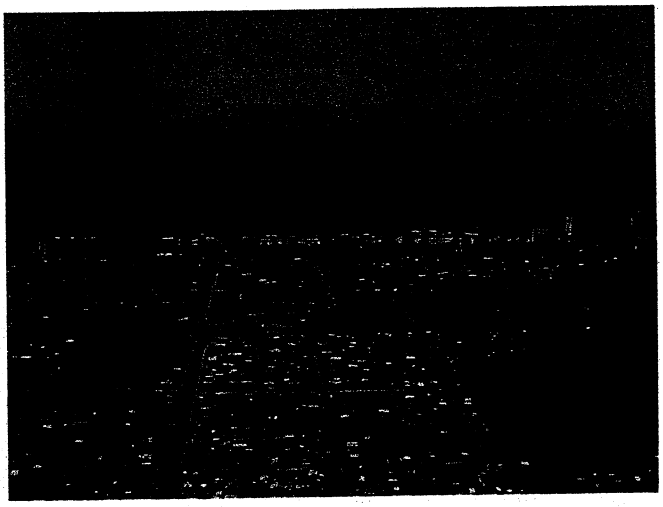
- after a period of discussion and agreement with the community, SPVS would proceed to title the original members of the community only, definitively giving up title to at most 940 acres of land; SPVS may condition the cession of title to land-use restrictions (as TNC commonly does with conservation easements in the U.S. and elsewhere), and may restrict as well the resale of any of the properties, at least for a time. These and other conditions would be analyzed from a legal and sociological standpoint before being offered to the community.

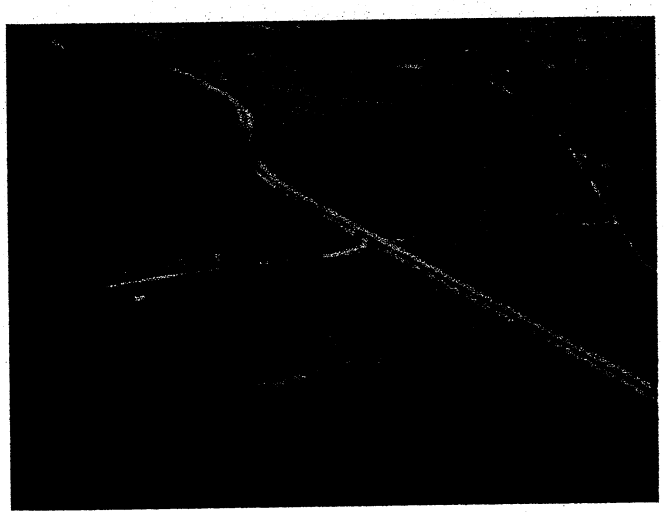
Over the medium and long terms, SPVS may choose to focus some of its community outreach efforts on the Rasgadinho community, helping the community organize itself and seek resources for its compatible economic development, and perhaps helping to set up or design cottage industries or other ventures such as the ones detailed above.

2) Paraná's urban population

As a second approach to outreach, SPVS would focus on the urban public in Curitiba, seeking to inform and educate that public about SPVS's conservation projects and particularly about this climate-action project. As described above, SPVS would do this by purchasing a 2,250-acre area 10 miles north of the main project site suitable for establishing a small public outreach center. (The land would also be used for restoring the native forest in the property's degraded areas, contributing to the project's potential carbon benefit.) SPVS envisions using the outreach center to receive visitors, carry out educational activities for them, display and distribute information on this and other SPVS projects, and perhaps mount a small museum and gift shop where handicrafts

from local communities and other products can be sold. Nature trails and other exhibits may be developed as well. A key goal of this outreach component is to bring accurate information on SPVS's partnership with GM and TNC to the attention of potentially tens of thousands of visitors each year. It is important to note, however, that certain design, construction and ongoing staffing costs of the outreach center will require additional resources beyond those included in the project budget, and will need to be identified and obtained by the project partners.





9. Feasibility Assessment

As described in the "Agreement to Prepare a Feasibility Assessment and Project Plan," signed by the project partners in December 1999, the purpose of the BRAZIL ATLANTIC RAINFOREST RESTORATION PROJECT can be summarized as follows:

- to promote the protection of plants and animals
- to sequester carbon
- to achieve sustainable development through community conservation
- to receive recognition
- to generate greenhouse gas emission reduction benefits

It is our assessment that these objectives are readily attainable as a direct result of the project activities described in this project plan, and that the project is therefore eminently feasible. Plant and animal protection will be accomplished in a truly spectacular fashion by the creation of a private nature reserve of at least 30,000 acres and the protection and restoration of its natural habitats. Carbon sequestration will occur both through the avoidance of imminent deforestation and the reforestation and regeneration of forest habitats on the properties. Sustainable development in the neighboring communities will be the target and focus of specific outreach efforts and investments. Both short-term and ongoing recognition is being designed into the project, which is undoubtedly one of the most dramatic statements in favor of biodiversity protection and against climate change ever made by a corporation. Finally, a strategy is in place to prepare the project to qualify for GHG reduction offsets, and actions will be taken and protocols designed to maximize the project's eligibility in this regard.

Our assessment of project feasibility took a special look at two specific aspects that were judged to be indispensable to project success: land acquisition; and additionality, leakage and duration of greenhouse gas benefits.

1) Land Acquisition: Finding a suitable site for the project is obviously a necessary precondition for the project's implementation and success. In that regard, we considered it essential to find a combination of properties that: (a) had clear land title or the possibility of obtaining it; (b) were available for sale at a reasonable price by willing sellers; (c) were contiguous or largely so, or otherwise presented no insurmountable challenges to land stewardship and protection; and (d) were not the subject of any dispute, now or potentially, that could tarnish the reputations of the project partners. We found this combination of characteristics in the proposed project site centered on Estrela Ranch.

Over the past several months, SPVS and TNC have collected and reviewed all available title-related information pertaining to the project site's core area and other properties being considered for inclusion in the reserve. Lawyers specializing in land tenure issues and acquisition have reviewed the documentation and concluded that each constituent

property examined has either clean and legitimate title or the conditions leading to obtaining clear title. A more in-depth analysis of title history – the final safeguard in TNC's due diligence of lands to be acquired – is under way and will be completed for key properties before May 15. It bears noting that the existence of clean title does not rule out the possibility of future claims on a particular property, but it does bode well for the favorable resolution of any such claim.

Negotiations for the acquisition of the keystone Estrela tract and adjacent properties are well under way. SPVS has reached an initial verbal agreement with the owner to purchase the 14,000-acre Estrela Ranch properties at an acceptable price (approximately US$110/acre). By the time the historical analysis of title is completed (before May 15), SPVS will have a signed purchase option for the Estrela ranch complex, as well as for any neighboring tracts for which options can be obtained at no cost. As for most of the adjacent properties, SPVS will selectively negotiate purchase options over the coming months. For certain tracts, TNC and SPVS may wait to conduct negotiations until later in 2000 or early 2001, to guarantee time to study their title issues fully and attain the best prices. All told, an estimated 40,000 acres are available for purchase in addition to the 14,000-acre Estrela complex; of those 40,000 acres, SPVS will need to purchase at least 17,000 acres. The flexibility afforded by this "excess" supply contributes strongly to our positive assessment of the feasibility of the project's land acquisition component.

As noted above, part of the Estrela Ranch involves a somewhat complex negotiation with a traditional community located there. As part of the purchase of the 14,000-acre Estrela Ranch, SPVS would acquire an area of no more than 940 acres where, apparently, the ranch's boundaries were superimposed on top of an area inhabited by small farmers with no documented claim to the lands. The communities' legal claim to the land has been disputed for several years by the current owner and is not in any way assured. But SPVS and TNC have concluded that continuing to dispute their claims is not consistent with the philosophy of the project or the organizations involved, and that in any case it would likely lead to a difficult situation and ongoing animosities that would not help the project achieve its objectives. Negotiations with the community and its interlocutors are under way, and TNC and SPVS have concluded that the situation is manageable, that a mutually agreeable solution can and will be devised, and that the community represents no risk – and indeed, a special opportunity – for the achievement of the project's goals, in that it offers an opportunity to demonstrate techniques for sustainable rural development.

2) Additionality, Leakage and Duration of Benefits: These three features are critical to a project's ability to generate legitimate net greenhouse gas benefits. *Additionality* refers in its simplest form to the fact that the project's benefits are additional to what would have occurred in its absence. In the case of the BRAZIL ATLANTIC RAINFOREST RESTORATION PROJECT, we conducted an initial examination of historical and recent land-use changes around the project site and concluded that forest-destructive practices were clearly on the increase in the region and represented a direct threat to the project site itself. This analysis of land-use trends was confirmed first-hand by the project partners on a site visit in November 1999 and helicopter overflights of the project site in April 2000. In addition to the large area cleared for water buffalo

production (principally on Estrela Ranch), other large forested areas are being steadily converted to banana and rice farms, while small-scale clearing for slash-and-burn agriculture continues apace. All of the properties being reviewed for purchase are either directly in the path of fast-moving forest-conversion trends or have been degraded or deforested already. Financially as well, the project intervention is clearly additional to what would have occurred in its absence since it provides resources that otherwise would not have been available for the reforestation, conservation, and sustainable economic development activities that result in carbon benefits.

Leakage: Initial analysis suggests that the potential for the project's carbon benefits to be displaced off the project site (and thus lost) is quite low. This is mostly because the buffalo on Estrela Ranch will be sent to slaughter, and not passed on to another ranch where they would continue to have impacts. In addition, given that only 8 percent of Atlantic Forest and 4% of Paraná's forest remains, there are far more opportunities for destructive activities to be transferred to *non-forested* areas than to still-forested ones.

Nonetheless, it will be important to understand and address any potential leakage. The area where the project site is located is subject to many pressures affecting land use and forest cover. On the site itself, buffalo ranching has been responsible for most of the forest-clearing and degradation that has occurred. Other destructive land uses such as banana plantations and rice farming are also present and increasing in the area, although not on the project site itself (as currently envisioned). Finally, some parts of the project site have been used historically, and until very recently, for selective timber extraction. The project partners will need to design a leakage-control strategy that systematically considers, weighs and addresses these different threats to the forest and their respective potential as sources of leakage. As the project site begins to take final shape and as the carbon inventory work begins, TNC and SPVS will bring in specialists on leakage issues to analyze land-use patterns and recommend appropriate actions. Based on these recommendations, SPVS and TNC will design a strategy to control as much as possible any leakage that might result from the project.

Duration: The project's carbon and other benefits are expected to last *in perpetuity* through the mitigation of risks to the project site and the establishment of a permanent project endowment fund to assure management of the project site beyond the 40-year life-of-project. This issue is therefore adequately addressed in the project design.

In all, our assessment concludes that the project as designed and described herein has a high likelihood of producing the results in terms of GHG emission reductions, biodiversity protection and favorable recognition that the project partners are seeking.

10. Project Budget

The preliminary project budget is presented below. At the end of the project development phase, actual numbers on spending-to-date will be entered and the value of the project endowment fund net of these outflows will be established. Based on that exercise and on the more in-depth planning of project components that will result in the project's master plan, a revised and more detailed budget will be prepared.

ATTACHMENT 4
TO THE COMPREHENSIVE AGREEMENT FOR THE GENERAL MOTORS ATLANTIC RAINFOREST RESTORATION PROJECT

PRINCIPAL CONTACTS

General Motors

Frederick S. Sciance
300 Renaissance Center
P.O. Box 300
Detroit, Michigan 48265-3000 USA

313-665-2962

General Motors do Brasil

Benno Kialka
Avenida Gioas, 1805
Sao Caetano do Sul – SP
CEP 09501-900 – Brazil

55-11-4234-7269

The Nature Conservancy

Joseph Keenan
4245 North Fairfax Drive
Suite 100
Arlington, Virginia 22203-1606 USA

703-841-4501

Sociedade de Pesquisa e Vida Selvagem e Educação Ambiental

Clovis Borges
Rua Gutemberg, 345
Curitiba, Paraná, Brazil
CEP 80420 030

55-41-242-0280

ATTACHMENT 5
TO THE COMPREHENSIVE AGREEMENT FOR THE GENERAL MOTORS ATLANTIC RAINFOREST RESTORATION PROJECT

PRIVATE INSTRUMENT OF CONTRACT OF DONATION SUBJECT TO DUTY

By the present private instrument of contract, the ENVIRONMENTAL CONSERVATION INSTITUTE "THE NATURE CONSERVANCY DO BRAZIL," a non-profit civil society with headquarters located at SHIN Centro de Atividades 05, Conjunto J Bloco B Salas 301-309, in the city of Brasilia, DF, represented by _____, hereinafter designated as "DONOR" and the SOCIEDADE DE PESQUISA EM VIDA SELVAGEM E EDUCAÇÃO AMBIENTAL "SPVS," a non-profit civil association with headquarters at Rua Gutemberg, 345: 80.420-030 in the city of Curitiba, Paraná, represented by _____, hereinafter designated as "DONEE," have mutually agreed and accepted what follows:

RECITALS

A. DONOR and DONEE are each non-profit organizations and have as their primary purpose the protection and conservation of land in its natural condition.

B. DONATION PURPOSE:

The donation aims at the exclusive acquisition of the real estate properties listed in Annex 1, all of them located at the city of Curitiba, in the State of Paraná, a region considered to be of relevant importance because of their biodiversity, aspects referring to their landscape, or yet because of their environmental characteristics, (hereinafter designated as "Property"), in order to establish a Private Reserve of Natural Patrimony (RPPN), according to Decree number 1.922, of June 15, 1996.

C. Property contains unique native habitat and values which both DONOR and DONEE seek to protect and conserve as a result of DONEE's acquisition of Property.

NOW THEREFORE, DONOR and DONEE agree as follows:

1. The Grant

Between **[START DATE]** and **[END DATE]**, DONOR shall grant to DONEE, under DONEE's express acceptance, the amount of money needed to the acquisition of the real estate properties listed in Annex 1, equivalent in U.S. dollars, at the closing date, to R$**[AMOUNT]** (the "Grant") for the purpose of entirely funding the purchase of Property.

2. Conditions to Grant

DONOR's obligation to make Grant under this Agreement is subject to and conditioned upon the following:

2.1 Before releasing the necessary funds to acquire each one of the real estate properties

listed in Annex 1, DONOR is to receive the following material, each of which must be in form and substance satisfactory to DONOR:

(a) evidence that execution, delivery, and performance by DONEE of this Agreement and any instrument or agreement required under this Agreement, as appropriate, have been duly authorized;

(b) proof that a fair market price is being paid for Property, Environmental Hazards Form for Property in the form as attached to this Agreement;

(c) description of Property and its conservation value;

evidence, sealed and acknowledged by the SELLER, that Property will be conveyed free and clear of all liens or encumbrances and defects, including a commitment to proceed with the execution of the lawful deed to DONEE until **[DATE]**.

(e) evidence all outstanding real estate taxes, water, sewer and other municipal or other governance betterment assessments and charges have been paid;

(f) a letter of opinion from an attorney indicating a good route of title free and clear of any encumbrances or liens, which title is vested in DONEE, as well as an affidavit from the SELLER to the effect that there are no liens on Property. Attorney must run the title down to the date of closing to ensure that no liens or encumbrances have arisen with respect to Property; and

(g) certification that the Property is free of any and all possessors, adverse or otherwise, other than those approved by DONOR; and

(h) a map showing the legal boundary of the property, and bordering properties.

2.1.1 At closing DONOR shall provide funds for the purchase of the property. If DONOR cannot attend the closing then the closing shall take place in escrow with an escrow agent and on conditions acceptable to the donor.

2.1.2. Upon closing each one of the deals, DONEE shall immediately forward to the DONOR a copy of the signed deed including the statement indicated in clause number 2.2 (b) of this Contract.

2.1.3 Within 60 (sixty) days of closing each deal, DONEE shall forward to the DONOR evidence of registration of the deed including the statement indicated in clause number 2.2 (b) of this Contract.

2.2 DONOR and DONEE make the following agreements, which shall remain in force and effect and survive payment in full of all amounts payable hereunder and satisfaction in full of all other obligations of DONEE under this Agreement:

(a) DONEE shall apply the Grant toward paying for the purchase of the Property, which must occur until **[DATE]**.

(b) DONEE'S DUTIES: DONEE is to buy the above mentioned real estate properties, free and clear of any onus or burden, and to promote their respective registration before the competent real estate register office within 30 (thirty) days of each acquisition, assuring to include in the terms of the respective deeds the following statement:

"Financial resources to buy this property were obtained from a donation subject to duty made by the ENVIRONMENTAL CONSERVATION INSTITUTE "THE NATURE CONSERVANCY DO BRASIL." The Buyer and any subsequent owner oblige themselves to entirely fulfill the imposed duties, in other words, to reserve the property, to the exclusive protection and conservation of biodiversity, especially applying, when using the land, the existing rules on Private Reserve of Natural Patrimony as established in Decree 1922/96. Should the property fail to qualify under Decree 1922/96 for any reason, the Buyer and any subsequent owner shall nonetheless be obligated to reserve the property to the exclusive protection and conservation of biodiversity. In case of partial or total failure to fulfill its duties, the Buyer and any subsequent owner recognize Donor's right to recover the ownership of the land. In the event of liquidation or insolvency of the Buyer or any subsequent owner, the ownership of the property shall revert to the Donor. The property shall not be available at any time for the satisfaction of any of the Buyer's or any subsequent owner's creditors."

DONEE obliges itself to file a request before IBAMA's Regional Authority or the Local Environmental Office until 30 (thirty) days after **[DATE]**, and take every measure established by Decree 1.922/96 in order to have it entirely recognized as a RPPN.

(c) LAND USE:

DONEE obliges itself to manage the RPPN according to the law. While RPPN is not established, or in case that the request be denied by the competent governmental authority, or in case Decree 1922/96 be rescinded, DONEE commit itself to deal with the Property as if it was a formal RPPN under the language of Decree 1922/96 as it exists at the time of this contract, encouraging, promoting, coordinating, executing and administrating the execution of projects in partnership, or not, with other conservation organizations, in order to promote conservation of its biodiversity. May one of these duties be disregarded, donation, at DONOR's sole discretion, may be canceled.

(d) DONEE shall not transfer any rights to the Property without ensuring the protection of its significant natural values and without the express written consent of the DONOR.

(e) DONEE shall provide DONOR at least 60 (sixty) days advance written notice of the date of any proposed transfer of the Property, and such other information as DONOR may require to evidence performance of DONEE's obligations under this Agreement.

(f) DONEE shall monitor and manage the property in accordance to the rules that will be outlined and agreed to by the DONEE in the Project Plan for the General Motors Atlantic Rainforest Restoration Project.

(g) TERMINATION OF DONATION:

In the hypothesis of non-accomplishment of the time-limit established in clause 2.2 (a), DONEE

will be under default, with no need for formal notice, and donation will be considered canceled. The sum granted as donation shall be returned at the sole discretion of DONOR.

If time-limits established under clauses 2.1.2, 2.1.3 and 2.2 (b) expire without the fulfillment of duties, DONEE will be considered under default, with no need for formal notice, for the matter of canceling the donation. In case that the DONEE fails to comply with duties referred to in clause number 2.2 (c), DONOR will give DONEE some time to execute specific obligations, after which, provided that DONEE fails again, donation, at DONOR's sole discretion, may be canceled, unless DONOR grant an extension to DONEE to fulfill its obligation.

(h) DONOR'S RIGHT IN CASE OF NON-COMPLIANCE WITH DUTIES:

Considering the purpose of this contract and the overall need to assure the protection of the environmental resources of the land, if donation is to be canceled, the DONOR has the right to recover real estate property. If the DONEE is removed as Project Site Manager of the Climate Action Project, Property shall revert to the DONOR.

3. Representations and Warranties

DONEE represents and warrants as of the date Grant is made that:

3.1 DONEE is a Brazilian non-profit civil association" duly organized and existing under the laws of the jurisdiction of its organization and the execution, delivery, and performance of this Agreement are within DONEE's powers, have been duly authorized, and are not in conflict with the terms of any charter, by-law, or other organization papers of DONEE;

3.2 The execution, delivery, and performance of this Agreement are not in conflict with any law or any indenture, agreement, or undertaking to which DONEE is a party or by which DONEE is bound or affected;

3.3 DONEE has complied with all national, state, and local laws, rules, and regulations affecting the existence or business of DONEE;

3.4 Property is free and clear of all exceptions to title and of all liens, encumbrances, assignments, and rights of others, except those disclosed to and approved by DONOR in writing;

3.5 There is no litigation, tax claim, proceeding or dispute pending, or, to the knowledge of DONEE, threatened, against or affecting DONEE or its property, the adverse determination of which might affect DONEE's financial condition or operations or impair DONEE's ability to perform its obligations under this Agreement. DONEE shall not use property as collateral to satisfy creditors.

4. Miscellaneous

4.1 This Agreement shall find and inure to the benefit of the parties to this Agreement and their respective successors and assigns; provided, however, that DONEE shall not assign this Agreement or any of the rights, duties or obligations of DONEE under this Agreement.

4.2 No consent or waiver under this Agreement shall be effective unless in writing. No waiver of any breach or default shall be deemed a waiver of any breach or default thereafter occurring.

4.3 DONEE agrees to pay DONOR, on demand, all out-of-pocket expenses and attorneys' fees incurred by DONOR in connection with the enforcement of this Agreement and any instrument required under this Agreement.

4.4 DONEE shall not sell, assign, convey, lease or otherwise dispose of the Property or place on, or permit to exist on or in respect of the Property any encumbrance, including but not limited to a mortgage, lien, security interest, pledge or other encumbrance of any kind or nature whatsoever, without approval from the DONOR.

4.5 In the event of the DONEE's liquidation or insolvency, Property shall revert to DONOR.

4.6 The Property shall not be available at any time for the satisfaction of any of DONEE's creditors.

4.7 This Agreement and any instrument or agreement attached hereto or referred to herein integrate all the terms and conditions mentioned herein or incidental hereto, and supersede all oral negotiations and prior writings in respect to the subject matter hereof. In the event of any conflict between the terms, conditions and provisions of this Agreement and any such instrument or agreement, the terms, conditions and provisions of this Agreement shall prevail.

In Witness Whereof, the parties to this Agreement have executed this Agreement as of the day and year first above written.

_____

[DONOR]

_____

[DONEE]

Witnesses:

1. _____

   Name:

   R.G.:

2. _____

   Name:

   R.G.:

ATTACHMENT 6
TO THE COMPREHENSIVE AGREEMENT FOR THE GENERAL MOTORS ATLANTIC RAINFOREST RESTORATION PROJECT

FORM OF DEPOSIT AGREEMENT

This deposit agreement (the "Agreement") is made and entered into this ____ day of _____ 2000 by and among the following parties: as depositor **THE NATURE CONSERVANCY** ("TNC"), a District of Columbia corporation with its principal place of business in Arlington, Virginia U.S.A.; and as depositary **SOCIEDADE DE PESQUISA EM VIDA SELVAGEM EDUCAÇÃO AMBIENTAL** ("SPVS"), with its principal place of business at [•], in the City of Curitiba, State of Paraná, Federative Republic of Brazil ("Brazil"), enrolled in the National Register of Legal Entities of the Ministry of Finance (CNPJ/MF) under No. [•], herein represented by [•]

WHEREAS, TNC is principally dedicated to the protection and conservation of endangered flora and fauna within the United States, and to assisting non-governmental conservation organizations such as SPVS in other countries;

WHEREAS, SPVS is principally dedicated to the preserving the environment integrity and biodiversity of the Atlantic Forest and to facilitating sustainable economic opportunities for the communities located there;

WHEREAS, through the Comprehensive Agreement for the General Motors Atlantic Rainforest Restoration Project ("Comprehensive Agreement") dated as _____ ,2000 entered by and among General Motors Corporation ("GM") an international for-profit organization incorporated under the laws of _____ U.S.A., TNC and SPVS the parties thereto have set forth the agreements regarding their participation in the environmental project denominated General Motors Atlantic Rainforest Restoration Project (the "Project") in Brazil;

WHEREAS, according to the Comprehensive Agreement, TNC, on behalf of GM, is the Funds Manager of the Project , which duties and obligations are regulated in Article VII-Project Finance- of the Comprehensive Agreement;

WHEREAS, according to Article V of the Comprehensive Agreement, SPVS is the Project Site Manager, which duties and obligations are regulated in Article V- Roles of the Parties- of the Comprehensive Agreement;

WHEREAS, TNC, under the terms and conditions set forth by the Comprehensive Agreement, desires to disburse in installments in accordance with the appropriate schedule (ANNEX 1) funds for the implementation, establishment and management of the Project;

NOW, THEREFORE, in consideration of the mutual obligations and undertaking set forth herein, it is agreed by and among the Parties as follows:

ARTICLE 1. In order to provide the implementation, establishment and management of the Project TNC will remit timely to SPVS as deposit the necessary funds in accordance with ANNEX.

ARTICLE 2. The funds deposited with SPVS will only be spent in accordance with the terms and conditions set forth by the Comprehensive Agreement and specific instructions addressed by TNC to SPVS.

ARTICLE 3. The funds to be received by SPVS shall be maintained in a segregated bank account under number [•] at Bank [•], in the city of [•], state of [•], held by SPVS with the exclusive purpose to be used for the Project.

ARTICLE 4. SPVS is aware of all its duties and obligations as the Project Site Manager under the terms and conditions set forth by the Comprehensive Agreement and therefore agrees that the responsibilities undertaken herein as depositary will be carried on for free.

ARTICLE 5. TNC at its sole discretion shall be entitled to redeem the balance of the funds deposited with SPVS in case SPVS fails to comply with any of the terms and conditions established herein and/or any of the Events of Default of Article XI of the Comprehensive Agreement occurs.

ARTICLE 6. The definitions contained in Article I of the Comprehensive Agreement shall be applicable to this agreement.

ARTICLE 7. Any notice, request, information or other document to be given hereunder shall be in writing and shall be sent via an express, overnight carrier or courier service, postage prepaid, to the intended recipient, addressed as follows:

If to the Depositor:

THE NATURE CONSERVANCY
[Address]:
Attention:
Phone:
Fax:

with a copy to GENERAL MOTORS CORPORATION
[Address]:
Attention:
Phone:
Fax:

If to the Depositary:

SOCIEDADE DE PESQUISA EM VIDA SELVAGEM EDUCAÇÃO AMBIENTAL [Address]:
Attention:
Phone:
Fax:

ARTICLE 8. This Agreement is made an integral part of the Comprehensive Agreement and shall be governed by the provisions stated therein whenever appropriate.

ARTICLE 9. This agreement shall be governed in all respects by the laws of Brazil.

ARTICLE 10. The parties elect the jurisdiction of the City of Curitiba, State of Paraná, Brazil to resolve any dispute from this Agreement, and hereby it is waived any other courts the most special or privileged they may be.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the day and year first above written.

[•], _____ of 2000

_____
THE NATURE CONSERVANCY
Depositor

_____
SOCIEDADE DE PESQUISA EM VIDA SELVAGEM EDUCAÇÃO AMBIENTAL
Depositary

Witness

1._____
Name:

2._____
Name:

The Nature Conservancy
SAVING THE LAST GREAT PLACES ON EARTH

Worldwide Office
4245 N. Fairfax Drive, Suite 100
Arlington, VA 22203-1606

tel [703] 841.5300
fax [703] 841.1283
nature.org

APR 05 2004

RESPONSES TO NEW QUESTION I AND II FUNCTIONALLY RELATED REVENUE AND OTHER QUESTIONS REGARDING REVENUES, EXPENSES AND FORM 990 REPORTED ITEMS MARCH 3, 2004, LETTER FROM U.S. SENATE COMMITTEE ON FINANCE TO THE NATURE CONSERVANCY

Discounted equipment price amount left for TNC to pay to Cisco	$234
Effective discount from list price	76.90%

3. GENERAL MOTORS

In 2001, General Motors provided $10 million to a climate action and biodiversity protection project within the Guaraqueçaba Environmental Protection Area, in the Atlantic Rainforest in southern Brazil. This project is one of several currently undertaken by The Nature Conservancy ("TNC") and its in-country partners to help protect and restore threatened forests and create a demonstrable reduction in the build-up of greenhouse gases in the atmosphere. In addition to General Motors, TNC is collaborating with the Brazilian-based nongovernmental organization Sociedade de Pesquisa em Vida Selvagem e Educação Ambiental ("SPVS") on this project.

The project seeks to restore and protect approximately 30,000 acres of tropical forest. Deforested and degraded areas within the acquired land will be reforested with native tree species, which may sequester up to 600,000 tons of carbon dioxide over 40 years. Protection activities and improved management could sequester and avoid the emission of another 500,000 tons of carbon over 40 years. In the event that the project produces any measurable greenhouse gas benefits that could be used as offsets in a future regulatory regime, the rights to those offsets would be held by General Motors under its agreement with TNC and SPVS.

The primary objective of this project is to protect and restore one of the most threatened rainforests remaining in the world. The secondary objective is to enhance learning about the degree to which forest protection and restoration can produce measurable greenhouse gas benefits. TNC does not promise that any marketable offsets will be produced by this project activity. As of March 2004, no marketable offsets have been created by this project.

The Comprehensive Agreement for the General Motors Atlantic Rainforest Restoration Project, dated June 9, 2000, is attached as Exhibit New Question II 3.

4. INSURANCE PROCEEDS

Insurance proceeds are primarily amounts received from insurance companies for a variety of property and casualty loss claims. These amounts are, in essence, recoupment of losses, not income, and thus are not included in unrelated business income.

5. TAX EXEMPT BOND FINANCINGS

Tax-exempt bond financings reported on Statement 15 include the IDA of Arlington County, Virginia Headquarters Facility Revenue Bonds (Series 1997A) and the IDA of the City of Alexandria. Both of these borrowings were refinanced with proceeds from a December of 2002 issuance of $25,053,000 by the Colorado Educational and Cultural Facilities Authority,

STATEMENT 24
FORM 990 - SCHEDULE A, PART III - EXPLANATION FOR LINE 2a

Mr. A.D. Correll is Chairman of the Board and Chief Executive Officer of Georgia-Pacific Corporation, which entered into the following transaction with The Nature Conservancy:

> Purchased by The Nature Conservancy (TNC) in February 2000, of 9,477 acres of land in Louisiana from North American Timber Corp. (dba) The Timber Company, a subsidiary of Georgia Pacific, for $7.5 million. This transaction occurred in three partial closings, two of which occurred in FY00 (total of 1264 acres for $1 million). The final closing on the remaining acreage occurred in November 2000. On October 7,1999, TNC bought 5,481.9 acres (known as Van Swamp in North Carolina) from The Timber Co., a subsidiary of Georgia Pacific).

Mr. Correll recused himself from participating in and voting upon said transaction.

Mr. Durk I. Jager, retired Chairman of the Board, former President and Chief Executive of the Proctor & Gamble Co. Millstone Coffee, Inc. (a subsidiary of Proctor & Gamble) entered into the following transaction with The Nature Conservancy:

> An agreement executed January 10, 1997, between The Nature Conservancy and Millstone Coffee, Inc., grants Millstone the rights to use Conservancy trademarks on licensed product packaging, advertisements, point-of-purchase displays, and other material. Licensed product is defined as Millstone Exotics brand Organic Mayan/Black Onyx and Organic Aztec Star & Sky coffees. The term is five years, from December 1,1996 to December 2001. Millstone will pay the Conservancy royalties of a minimum of $400,000 over five years plus two percent of net sales of licensed product.

Mr. Jager did not participate in said transaction.

Mr. John P. Morgridge is chairman of Cisco Systems, Inc. which entered into the following transaction with TNC:

> The Nature Conservancy acquires computer upgrades and purchases from Cisco Systems, Inc., at a substantial discount. Before any orders are placed Mr. Morgridge reviews the order and approves the discounts.

Mr. John C. Sawhill serves on the Board of Proctor & Gamble. Proctor & Gamble owns and controls Millstone Coffee, Inc. Millstone Coffee, Inc. entered into the following described transaction with The Nature Conservancy:

> An agreement executed January 10, 1997, between The Nature Conservancy and Millstone Coffee, Inc., grants Millstone the rights to use Conservancy trademarks on licensed product packaging, advertisements, point-of-purchase displays, and other material. Licensed product is defined as Millstone Exotics brand Organic Mayan/Black Onyx and Organic Aztec Star & Sky coffees. The term is five years, from December 1,1996 to December 2001. Millstone will pay the Conservancy royalties of a minimum of $400,000 over five years plus two percent of net sales of licensed product.

Mr. Sawhill did not participate in said transactions.

Mr. Jack Smith, Jr., is former Chairman and Chief Executive Officer of General Motors Corp. General Motors entered into the following described transaction with The Nature Conservancy:

> An agreement to support The Nature Conservancy which provides The Nature Conservancy cash for its general purposes, as it chooses; vehicles; and other miscellaneous assets of value. General Motors signed an agreement with TNC to undertake a climate change project under which TNC received $10 million and General Motors may potentially receive greenhouse gas mitigation offsets.

Mr. Smith did not participate or vote on said transactions.

STATEMENT 24 - PAGE 1 OF 2
FORM 990 - SCHEDULE A. PART III - EXPLANATION FOR LINE 2a

Mr. A.D. Correll is Chairman of the Board and Chief Executive Officer of Georgia-Pacific Corporation, which entered into the following transaction with The Nature Conservancy:

> Purchased by The Nature Conservancy (TNC) in February 2000, of 9,477 acres of land in Louisiana from North American Timber Corp. (dba) The Timber Company, a subsidiary of Georgia Pacific, for $7.5 million. This transaction occurred in three partial closings, two of which occurred in FY00 (total of 1264 acres for $1 million) and one of which occurred in FY01 in November 2000 (total of 8199.12 acres for $6,489,396).

Mr. Correll recused himself from participating in and voting upon said transaction.

Mr. Durk I. Jager, retired Chairman of the Board, former President and Chief Executive of the Proctor & Gamble Co. Millstone Coffee, Inc. (a subsidiary of Proctor & Gamble) entered into the following transaction with The Nature Conservancy:

> An agreement executed January 10, 1997, between The Nature Conservancy and Millstone Coffee, Inc., grants Millstone the rights to use Conservancy trademarks on licensed product packaging, advertisements, point-of-purchase displays, and other material. Licensed product is defined as Millstone Exotics brand Organic Mayan/Black Onyx and Organic Aztec Star & Sky coffees. The term is five years, from December 1,1996 to December 2001. Millstone will pay the Conservancy royalties of a minimum of $400,000 over five years plus two percent of net sales of licensed product.

Mr. Jager did not participate in said transaction.

Mr. John P. Morgridge is chairman of Cisco Systems, Inc. which entered into the following transaction with TNC:

> The Nature Conservancy acquires computer upgrades and purchases from Cisco Systems, Inc., at a substantial discount. Before any orders are placed Mr. Morgridge reviews the order and approves the discounts.

Mr. Jeffrey N. Watanabe, is senior Partner, with the law firm of Watanabe, Ing & Kawashima. Watanabe, Ing & Kawashima entered into the following transaction with The Nature Conservancy:

> Representation of The Nature Conservancy in reviewing a fishing license agreement encumbering Palmyra Atoll and addressing related legal issues, both prior and subsequent to the acquisition of Palmyra Atoll. The law firm contributed a substantial discount on legal fees to the Conservancy. Initiated possible acquisition of Kahuka Ranch on the Big Island of Hawaii from Damon Estate, a client of Watanabe, Ing & Kawashima. Watanabe, Ing & Kawashima, retained to assist The Nature Conservancy in the acquisition and management of the Palmyra Atoll.

Mr. Watanabe did not participate in said transactions.

Mr. John Smith, Jr., is former Chairman and Chief Executive Officer of General Motors Corp. General Motors entered into the following described transaction with The Nature Conservancy:

> An agreement to support The Nature Conservancy which provides The Nature Conservancy cash for its general purposes, as it chooses; vehicles; and other miscellaneous assets of value. General Motors signed an agreement with TNC to undertake a climate change project under which TNC received $10 million and General Motors may potentially receive greenhouse gas mitigation offsets.

Mr. Smith did not participate or vote on said transactions.

Mr. John Smith, Jr., is Chairman of General Motors Corp. General Motors entered into the following described transaction with The Nature Conservancy:

> An agreement covering a five year (1999-2004) which provides The Nature Conservancy cash for its general purposes, as it chooses; vehicles; and other miscellaneous assets of value. General Motors signed an agreement with TNC to undertake a climate change project under which TNC received $10 million and General Motors may potentially receive greenhouse gas mitigation offsets.

Mr. Smith did not participate or vote on said transactions.

STATEMENT 24
FORM 990 - SCHEDULE A, PART III - EXPLANATION FOR LINE 2a

Mr. Leigh H. Perkins, Jr. (TNC board member), is President and Chief Executive Officer of The Orvis Company, Inc. Orvis entered into the following transactions with The Nature Conservancy:

Orvis paid The Nature Conservancy $59,000 for licenses to conduct two experimental ecotourist fishing trips to its acquired Palmyra Atoll property. The first trip took place from about April 5, 2003 until about April 11,2003; the second, from about May 25,2003 until about June 1,2003. The major purpose of these trips was to evaluate the long-term feasibility of conducting environmentally compatible ecotourism on Palmyra.

Mr. John P. Morgridge (TNC board member) is chairman of Cisco Systems, Inc. , which entered into the following transaction with The Nature Conservancy:

The Nature Conservancy purchased computer equipment directly from Cisco Systems, Inc. for $8,366.

Mr. John Smith Jr.(TNC board member), retired as Chairman of the Board of General Motors Corporation in March, 2003. General Motors entered into the following two transactions with The Nature Conservancy:

An agreement covering a five-year period (1999-2004) which provides The Nature Conservancy cash for its general purposes, as it chooses, vehicles, and other miscellaneous assets of value, in exchange for the right to publicize this relationship subject to Conservancy approval.

An agreement with the Conservancy to undertake a climate change project under which the Conservancy received $10 million and General Motors may potentially receive greenhouse gas mitigation offsets.

Mr. Smith did not participate in or vote on said transactions.

April 18, 2000

Dear Jack,

Enclosed you will find a fax ballot for several projects. One of these projects is the TNC/GM Brazil Atlantic Rainforest Restoration project. I'm going to ask you to recuse yourself from voting on this particular project for obvious reasons. Thanks for all of your help on this tremendous project.

Best Regards,

Mike Dennis

IN WITNESS WHEREOF, the Parties have executed and delivered this Agreement as of the date and year first above written.

GENERAL MOTORS CORPORATION

By: _____
John F. Smith, Jr.

Date: 6/9/2000

GENERAL MOTORS do BRASIL

By: _____
John F. Smith, Jr.

Date: 6/9/2000

THE NATURE CONSERVANCY

By: _____
W. William Weeks

Date: 6/9/2000

SOCIEDADE de PESQUISA e VIDA SELVAGEM e EDUCACAO AMBIENTAL

By: _____
CLOVIS RICARDO SCHRAPPE BORGES

Date: 6/23/2000

To: Jonathon Rotter, Steve Cox, Joe Keenan

Cc: Tom Fitzgerald, Greg Low, Craig Neyman, Bill Weeks, David Williamson, Kristan Beck, Mike Coda, Alec Watson, George Spicer, Dawn Murray

From: Mike Dennis

Date: 04/28/2000

FAX BALLOT FOR BRAZIL ATLANTIC RAINFOREST RESTORATION PROJECT, BRAZIL

The above referenced project was approved on 04/25/00 through a fax ballot to the Executive Committee and the Conservation Committee as follows:

Executive Committee:

Carter F. Bales	4/20/00
David C. Cole	4/20/00
Ian M. Cumming	4/22/00
Carol E. Dinkins	4/19/00
Louisa C. Duemling	4/22/00
Anthony P. Grassi	4/19/00
Philip J. James	4/20/00
Samuel C. Johnson	4/25/00
Peter M. Kareiva	4/24/00
Wendy J. Paulson	4/24/00
Leigh H. Perkins, Jr.	4/25/00
John C. Sawhill	4/21/00
Ward W. Woods	4/19/00

Conservation Committee:

Catherine G. Abbott	4/22/00
Mary Fleming Finlay	4/21/00
Christopher H. Foreman, Jr.	4/24/00
Arturo Gomez-Pompa	4/19/00
John S. Hendricks	4/22/00
William L. Horton	4/27/00
Jan V. Portman	4/20/00
John F. Smith Jr.	4/26/00
Joy B. Zedler	4/25/00

International Committee:

A.W. Dahlberg	4/21/00
Livio D. DeSimone	4/19/00
E. Linn Draper, Jr.	4/24/00
Durk I. Jager	4/19/00
Glenn C. Janss	4/20/00
Howard Stringer	4/20/00
Jeffrey N. Watanabe	4/20/00
John C. Whitehead	4/19/00

COPY

To: Mike Dennis, John Sawhill
From: Jonathan Rotter
Date: February 1, 2000

Jon S -
when this goes to the BoC I will remind Jack Smith to recuse himself

W

JACK SMITH'S INVOLVEMENT IN GENERAL MOTORS CORPORATION AND ROLE AS PRESIDENT OF THE BOARD OF DIRECTORS OF THE NATURE CONSERVANCY

I. Background

The Nature Conservancy signed a Memorandum of Agreement with General Motors Corporation (GM) and its Brazilian partner, Sociedade de Pesquisa e Vida Selvagem (SPVS) to prepare a feasibility assessment and project plan for a General Motors/Brazil Climate Action Project. The purpose of the Project is to develop and implement a climate change mitigation project in Brazil designed to protect approximately 25,000 acres, sequester carbon, otherwise reduce net greenhouse gases and achieve sustainable development through community conservation, while allowing GM to receive recognition and any greenhouse gas emission reduction credits or offsets which may be allowable for their participation in this Project.

The Memorandum of Agreement stipulates that GM must approve of the feasibility study, and that the Conservancy must obtain approval from its Board of Directors before they and SPVS will enter into a Comprehensive Agreement to implement the Climate Action Project.

Jack Smith is the current Chairman of The Nature Conservancy's Board of Directors, as well as the President and Chief Executive Officer of GM.

II. Analysis

Mr. Smith has a de facto power to exercise a controlling influence in the decision to participate, as well as under which terms, for GM and the Conservancy.

III. Recommended Course of Action

Mr. Smith should recuse himself from a potential conflict of interest by not participating in the Conservancy's board decision to determine whether, and under what terms, the Conservancy will participate in the Climate Action Project with GM and SPVS.

Attachment: Memorandum of Agreement

Seen and Agreed to [signature]
Mike Dennis

Date: 2/2/00
Notes/Additions:

Seen and Agreed to [signature]
John C. Sawhill

Date: 2/2/00
Notes/ Additions:

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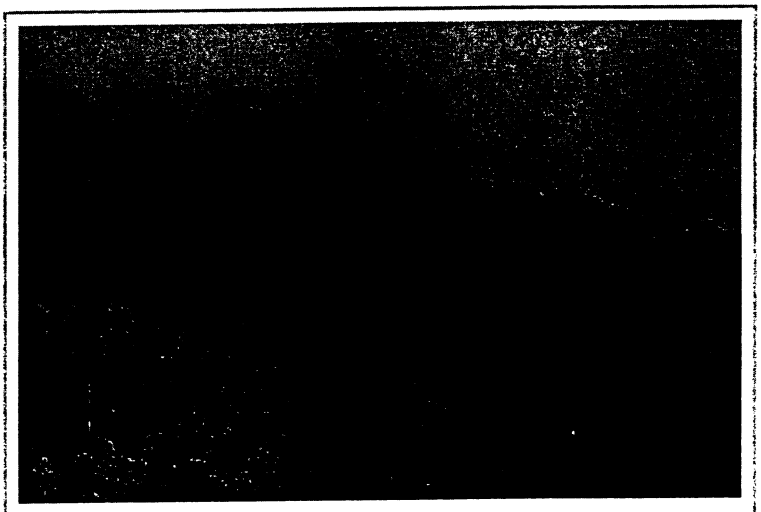


Only 7 percent of the original Atlantic Rainforest remains. (Photo © by John Maier)

GM Partners with The Nature Conservancy and SPVS To Restore and Protect 30,000 Acres of Brazilian Rainforest

Project to protect habitats, help the global climate and support local communities

SAO PAULO, Brazil (Aug. 29, 2001) — General Motors has announced its sponsorship of the Atlantic Rainforest Restoration Project, a $10 million partnership with The Nature Conservancy and SPVS (Society for Wildlife Research and Environmental Education) to restore and protect more than 30,000 acres of critically endangered rainforest in southern Brazil.

The majority of the funds will go toward the purchase and restoration of largely deforested sections of the Guaraqueçaba Environmental Protection Area, the largest remaining area of Atlantic Rainforest. The remainder of the funds will enable the creation of a stewardship endowment to protect and manage

More on the Atlantic Rainforest:

Video from the rainforest

Video interview with TNC's Joe Keenan

the property, which will be designated as a nature reserve.

The Brazilian conservation organization SPVS will own and manage the reserve, which will be more than twice the size of New York's Manhattan Island. The Nature Conservancy, the international conservation organization that brought together this partnership, will provide technical assistance in the project's implementation. The $10 million from GM marks the largest known private investment in a forest protection and restoration project.

Video interview with SPVS's Clovis Borges

- English
- Portuguese

- Get RealPlayer to view videos
- Project description
- GM's report on greenhouse gas emissions
- The Nature Conservancy's web article on the project

"GM is very pleased to spartner with The Nature Conservancy, SPVS and the surrounding communities to restore and protect this important part of Brazil's natural heritage," said Dennis Minano, former GM vice president, chief environmental officer. "GM's support for this project reaffirms our overarching goal of environmental stewardship, and helps preserve a unique and invaluable portion of the world's biological diversity."

Once spanning more than 400,000 square miles from eastern Paraguay to northeastern Brazil, the Atlantic Rainforest has been reduced to less than 7 percent of its original size. Ongoing deforestation due to urban sprawl, logging and conversion to agriculture threatens to destroy the vast array of plant and animal species that call this forest home.

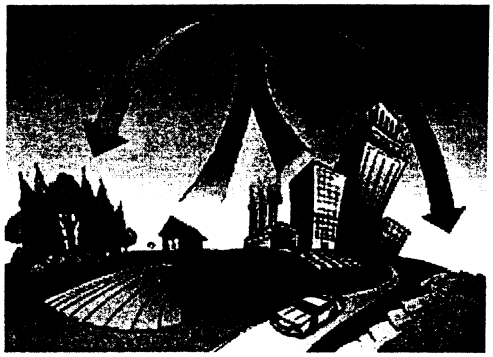
"This exciting partnership will help protect one of the most important and most threatened places on Earth," said Steve McCormick, president of The Nature Conservancy. "What's more, it will provide a replicable model for how rainforest conservation and restoration can help combat climate change. GM should be applauded for their support of this innovative effort."

The Atlantic Rainforest shelters one of the richest and most unique assemblages of life forms on the planet. A phenomenal 53 percent of its trees and 77 percent of its other plants are found nowhere else on Earth. This is also true for 50 of the region's 131 vertebrate species, 158 classifications of birds, and 17 of the 20 primate species known to inhabit the region. In addition, 171 of the 202 species on Brazil's list of endangered species list are found in the Atlantic Rainforest.

Guaraqueçaba contains the largest remaining remnant of Atlantic Rainforest. Composed primarily of private land holdings, it covers 774,000 acres (313,000 hectares) of tropical rainforests, coastal woodlands, estuaries and mangroves and stretches from the Atlantic coast to the

5,000-foot (1,500-meter) summits of the Serra do Mar mountain range. This rare treasure of plant and animal life has been threatened by the clearing of extensive tracts of forest for buffalo ranching — an activity that has proved ecologically unsustainable and economically unprofitable — as well as clearing for extractive activities such as logging, heart-of-palm gathering and illegal hunting.

The Atlantic Rainforest Restoration Project will restore many of Guaraqueçaba's deforested areas, and protect many of its pristine zones. The project will help restore and protect habitat for jaguar, tapir and hundreds of other species. The area is well known for its diversity of birds, including six globally threatened species, one of which, the marsh ant bird, was only discovered by science four years ago. It is also famed for its assortment of trees, with estimates of 200 species per hectare in the project area.



Burning fossil fuels, such as coal, oil and natural gas, releases carbon into the atmosphere. This carbon can be captured and stored by forests, oceans and soil.

In addition to the protection of biodiversity, the Atlantic Rainforest Restoration Project has as a goal the creation of a scientifically based model to better understand the role that reforestation and the prevention of deforestation can play in responding to concerns about the global climate. A growing forest absorbs the greenhouse gas carbon dioxide (CO_2) through photosynthesis and the carbon in its plants and soils. By restoring damaged areas, preventing further deforestation and capturing carbon, the project will provide a net benefit to the global atmosphere.

The project will operate in partnership with those who live in the small communities that are its neighbors. It will create jobs in fields such as reforestation, monitoring and management. It will also include the study and promotion of economic activities — such as ecotourism and organic agriculture — compatible with conservation. In addition, the project will help make the local economy healthier by making the local environment healthier, reducing the erosion that has caused siltation problems in a nearby port and protecting supplies of clean water for consumption and production.

The Nature Conservancy's mission is to preserve the plants, animals and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive. To date, the Conservancy and its more than 1 million members have been responsible for the protection of more than 12 million acres in the United States, where it owns 1,400 preserves — the largest private system of nature sanctuaries in the world. It has helped partner organizations to preserve more than 80 million acres in Asia Pacific, Canada, the Caribbean and Latin America.

SPVS is a Brazilian non-governmental, non-profit public interest organization headquartered in Curitiba, with branch offices in the towns of Antonina and Guaraqueçaba on the northern coast of the state of Paraná. It operates in partnership with entities such as The Nature Conservancy, the Boticario Foundation for the Protection of Nature, the Ministry of the Environment and the Government of Paraná.

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The Nature Conservancy and General Motors

In 1994, The Nature Conservancy and General Motors began a relationship that was unprecedented for both organizations because of its size and scope; $18 million in cash and trucks over 10 years. General Motors was drawn to the Conservancy because its collaborative approach promotes a healthy economy and a healthy environment. It also generates innovative initiatives within local communities that preserve our landscapes, help local economies and save precious places around the world.

Helen Taylor, The Nature Conservancy's Michigan director, accepts one of the four trucks donated by GM Cardmembers in April.

During the past 10 years, GM has donated more than $8.3 million in cash and more than 160 trucks to aid the often-rugged conservation work of the Conservancy. GM's funding supports many different projects within the Conservancy, including five preserves in the U.S. and four abroad.

In addition, GM has provided $10 million to the Conservancy to restore and protect about 30,000 acres of endangered land in the Atlantic Rainforest Restoration Project in Brazil.

The Nature Conservancy
Saving the Last Great Places

Joint Initiatives – The Nature Conservancy and GM

The Nature Conservancy : A GM Partner at a Glance

Click for The Nature Conservancy website.

In 1999 and 2000, the GM Card Group invited its cardmembers to donate a portion of their earnings to the Conservancy through the "Cardmembers for Conservation" program. Generous cardmembers contributed 19 Chevrolet trucks, including four Chevy S-10 electric pickups, and $175,000 in cash, for a combined donation total of $768,000.

In 2001, The Conservancy celebrated its 50th anniversary with a photographic exhibition, "In Response to Place: Photographs from The Nature Conservancy's Last Great Places." The 4 ½-year traveling exhibit, featuring the work of 12 internationally recognized photographers, is sponsored by GM and its Cadillac division.

GM employees also have been very generous. Through the employee-giving program, employees are allowed to donate a portion of their pay to The Nature Conservancy. Since 1998, GM

employees have pledged and donated $395,000. GM Chairman Jack Smith sits on the Conservancy's international Board of Governors and co-chairs its billion-dollar Campaign for Conservation.

The Nature Conservancy is a private, international, non-profit organization that preserves plants, animals and natural communities representing the diversity of life on Earth by protecting the lands and waters they need to survive. To date, the Conservancy and its more than one million members have been responsible for the protection of more than 14 million acres in the United States and have helped preserve more than 80 million acres in Latin America, the Caribbean, Asia and the Pacific.

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Partnerships | The Nature Conservancy

Joint Initiatives – The Nature Conservancy and GM

Summary

During the past 10 years GM has donated to The Nature Conservancy:

- $8.3 million in cash plus $10 million for the Rainforest Restoration Project
- By the end of 2003, GM's total contribution to TNC will be just under $23 million including 171 vehicles donated

Vehicle Donations - 2003

- Domestic donations – 8 vehicles
- International donations – 5 vehicles including Costa Rica, China, Canada, Brazil and Mexico
- 2003 – donation events held at Arlington, Saturn, Oklahoma City and Oshawa Assembly Plants

>> LAUNCH MAP

Click on image to launch an interactive map showing how the trucks donated by GM are at work for The Nature Conservancy. (Download and install free Flash player to view map.)

Rainforest Restoration Project

- SPVS, TNC's local partner in Brazil, has purchased two-thirds of the desired property and has offers to sell from sufficient land to complete the project, pending title search.
- Joint visitor center with AEP has been completed.

The GM Card - Two Programs

- 1999 – TNC National – 13 vehicles and $125k cash - $596k total value
- 2000 – TNC Michigan Shoreline Program – 6 vehicles and $50k cash - $172k total value
- $768k grand total value to TNC
- Final truck was delivered to the Mich. Chapter on January 29th, 2002

GM's Employee Charitable Contributions Campaign (Fall of year)

- 2003 - $146k – 590 employees

- 2002 - $112k – 484 employees
- 2001 – $100k – 443 employees
- 2000 - $83k – 382 employees
- 1999 - $57k - 284 employees
- 1998 - $43k including both GM and Delphi employees

2002 Accomplishments

- 50th Anniversary Photographic Exhibition – launched at the Corcoran Gallery of Art, Wash. – 9/10/01; 9/23/02 Cadillac reception at the High Museum in Atlanta; RenCen is host during the spring of 2005
- Chevy Suburban sponsorship of Valley Land Trust photographic contest with TNC Texas – August, 2002 awards events with 8 local Chevy dealers
- TNC Texas awarded GM their Conservation Leadership Award for 2002 in Houston on October 23rd – Beth Lowery accepted the award
- International Leadership Council

2001 Accomplishments

- April 5th – GM Card Program truck delivery ceremony in GM World
- April 5th – GM hosted TNC National Development Council in Detroit
- 6/18 – Fritz Henderson addressed the TNC Conservation Training Week in Miami
- Truck delivery ceremonies were held with TNC in North Carolina, Colorado, and Texas
- GM was featured in The Conservancy and the Natural Assets magazines

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Jack Smith Named Co-Chairman of The Nature Conservancy's Campaign for Conservation

Jack Smith

ARLINGTON, Va. (Oct. 19, 2000) — John F. "Jack" Smith, Jr., chairman of General Motors Corp., has been named co-chairman of The Nature Conservancy's "Campaign for Conservation," a $1 billion capital campaign that will raise money to preserve "200 Last Great Places" in more than 200 natural areas in the Americas, Asia and the Pacific. The Nature Conservancy preserves habitats and species by saving the lands and waters they need to survive.

General Motors has been a prominent supporter of The Nature Conservancy for many years, and Smith has served on the board of governors for The Nature Conservancy since 1997. From 1994 through 1999, General Motors donated $5 million in the form of financial support and trucks to the Conservancy's Campaign for the Last Great Places. In 1999, General Motors again confirmed its commitment to the Conservancy with another $5 million pledge to The Campaign for Conservation. To date, The Nature Conservancy has received over 100 trucks from General Motors for use on Conservancy project sites in the United States. In addition, the company's Cadillac division has also agreed to help sponsor The Nature Conservancy's 50th Anniversary photography exhibit, which will feature the work of 12 well-known artists and appear in galleries worldwide starting in 2001.

Click for The Nature Conservancy website.

"Jack Smith has been an exemplary member of our board, and under his direction General Motors has been the leading corporate contributor to our conservation work", said W. William Weeks, executive vice president for The Nature Conservancy. He is going to be a great Campaign for Conservation co-chairman."

Smith said, "General Motors strongly believes in the work The Nature Conservancy is doing around the world. By preserving plant and animal species and threatened ecosystems, The Nature Conservancy is helping to make sure that our children will be able to enjoy the same natural wonders that we enjoy. Rarely does one find a nonprofit organization so dedicated to specific, measurable results."

In addition to being chairman of General Motors, Smith is a director of

Proctor & Gamble Co., Detroit Renaissance and the U.S.-Japan Business Council. He serves as chairman of Catalyst, president of the Beta Gamma Sigma Director's Table, the Chancellor's Executive Committee of the University of Massachusetts, and the board of trustees to Boston University.

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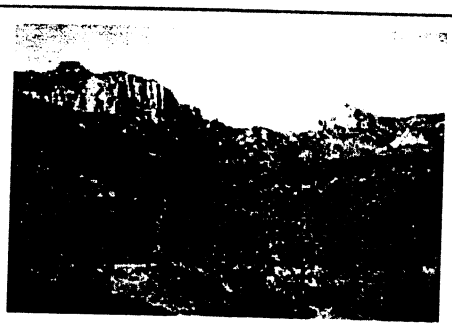
GM Recognized as Conservation Leader

- See interactive map showing how GM trucks work for The Nature Conservancy

Elizabeth Lowery, GM VP Environment & Energy, accepts the 2002 Conservation Leadership Award from Jim Sulentich, The Nature Conservancy's Texas director

HOUSTON (Oct. 23, 2002) — The Texas chapter of The Nature Conservancy gathers at the Hyatt Regency today to honor General Motors with its 2002 Conservation Leadership Award for donating Chevy Suburbans and other GM vehicles to the Texas cause, helping to protect and preserve the Brazilian rainforest, its GM Card Group "Cardmembers for Conservation" program from 1999 and 2000, and other efforts from its ten year commitment to the organization that will exceed $21 million dollars.

"GM has demonstrated the kind of leadership in support of conservation that sets the standard for successful partnerships between corporations and environmental organizations," said James M. Sulentich, the Conservancy's Texas state director. "GM has recognized not only our need for funds to sustain our work but has helped get the conservation message across to people far and wide. GM also clearly understands our practical needs — trucks and SUVs are essential tools that enable us to do the work we do."



Davis Mountains Preserve
© Lynn McBride/TNC

For example, the Conservancy's Davis Mountains Preserve in far West Texas is a remote and rugged wilderness area that protects habitat for black bears and elk, along with some animals and plants found nowhere else in the world. In the Davis Mountains, Chevy Suburbans and other GM vehicles enable stewardship activities ranging from biological surveys to trail-building and also provide access to mountains and canyons for schoolchildren who learn about conservation science first hand.

Partnerships | The Nature Conservancy

GM Issues Challenge Grant with The Nature Conservancy to Preserve Brazilian Forests

ARLINGTON, Va. (Feb. 19, 2002) — General Motors and The Nature Conservancy today pledged to raise $400,000 in a continuing effort to preserve and reforest rainforest areas in the world through the Conservancy's Adopt an Acre program.

Brazil rainforest

As part of its ongoing partnership with The Nature Conservancy, GM issued a challenge grant, pledging to match up to $200,000 of every dollar raised by the Conservancy's Adopt-an-Acre program for the Atlantic Forest project in Brazil. The Adopt an Acre program raises funds to reforest rainforest areas around the world.

"General Motors was drawn to The Nature Conservancy because of its dedication to preserving a variety of ecosystems," said Elizabeth A. Lowery, GM vice president of environment and energy. "The Adopt an Acre program makes it possible for us to aid in the protection of a vital area."

Funds raised through the Challenge Grant will be used to purchase an estimated 6,000 acres of mountain terrain in the Atlantic Forest along the eastern coast of Brazil. The region is home to hundreds of endangered animal and plant species that can be found nowhere else on Earth.

"This matching grant from General Motors will allow donors to protect Brazil's forests twice as fast," said Steve McCormick, president of The Nature Conservancy. "These national and international partnerships are critical in preserving the vast biodiversity of the Atlantic Forest and protecting the global environment."

The Brazilian Atlantic Forest is one of the highest conservation priorities on the planet. Once spanning more than 500,000 square miles across Brazil and into neighboring Paraguay and Argentina, the Atlantic Forest has been reduced to less than 7 percent of its original size. The region is home to 55 mammal species — including 17 primates — and 188 bird species that can be found nowhere else in the world. Of Brazil's 202 endangered species, 171 of them depend on the Atlantic Forest to survive.

The mountain terrain to be purchased under the Adopt-an-Acre and GM

matching grant program will be part of the Atlantic Forest Restoration Project in the state of Paraná, in southern Brazil. That 30,000-acre reserve — more than twice the size of Manhattan — was originally created in 2000 with a landmark $10 million investment from GM. A local Brazilian conservation partner owns and manages the reserve with the technical assistance of The Nature Conservancy.

The project will not only ensure the protection of endangered species in the area but also benefit the global atmosphere by capturing carbon dioxide through photosynthesis during forest growth.

The Nature Conservancy is a leading international, non-profit organization that preserves plants, animals and natural communities representing the diversity of life on Earth by protecting the lands and waters they need to survive. To date, the Conservancy and its more than one million members have been responsible for the protection of more than 14.5 million acres in the United States and have helped preserve more than 83.5 million acres in Latin America, the Caribbean, Asia and the Pacific. To learn more about The Nature Conservancy, visit its web site at ***nature.org****.*

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Partnerships | The Nature Conservancy

GM and The Nature Conservancy: Pronatura Strategic Alliance for Conservation

Español

Click to see photos of the nature preserve and the dedication activities.

Cuatro Ciénegas, Coahuila, Mexico (June 5, 2003) — General Motors, in an alliance with The Nature Conservancy, supports the conservation projects of Pronatura Noreste, A.C. within the Natural Reserve of Cuatro Ciénegas, which is located in the Desert of Chihuahua. The alliance also includes the generation of novel initiatives for sustainable production with local communities.

The Natural Reserve of Cuatro Ciénegas is a historically, culturally and biologically valued site in northern Mexico, considered as the most relevant wetland in the eco-region and one of the nation's most important sites. Due to its variety of endemic species, it is comparable to the Galapagos Islands of Ecuador. It was declared a natural protected area in 1996, precisely because of its diversity of plant and animal species. The reserve also offers other important resources, such as its gypsum dunes, the second largest in America.

The Nature Conservancy and its partner, Pronatura, comprise Mexico's largest alliance of non-profit conservation organizations.

Background
In 1994, the General Motors Corporation established an alliance with The Nature Conservancy (TNC) in which it committed to provide, over a time period of 10 years, 10 million dollars in cash and the donation of vehicles, fundamentally for conservation efforts. However, it is estimated that GM's contributions will have reached nearly 23 million dollars by the end of 2003.

TNC is a world-leading non-profit organization devoted to the conservation of natural reserves and of endangered species.

The vehicles donated by General Motors to TNC are mainly Chevrolets: S-10 pickup trucks (four of them electric), Silverados, Suburbans and Blazers. Additionally, events for the benefit of TNC have been held with the sponsorship of Cadillac — GM's luxury brand — and of Pontiac and its Aztek model, produced in Mexico. Likewise, GM employees make voluntary contributions to the cause. Both the vehicles and the resources are allocated to the conservation of nearly 200 natural areas throughout the Americas, Asia, and the Pacific.

Due to its sheer magnitude, a major effort is the Atlantic Rainforest Restoration project in Brazil, seeking to protect and restore 30,000 acres of endangered lands, thus protecting 171 of the 202 existing endangered species. Beyond the mere protection of such species, the project is also a boon to the atmosphere, a sort of "global lung" that captures carbon dioxide during the photosynthesis that drives the development of these forests. The location has been acknowledged by the UNESCO (United Nations Economic and Social Organization) as one of the top conservation priorities worldwide, and even designated as a Worldwide Biosphere Reserve.

Other significant projects include: the Ives Road Fen, in Michigan; the Delaware Bayshores, in New Jersey; the Edge of Appalachia, in Ohio; the preservation of the Cosumnes River in California, and Mount Davis in Texas. Internationally, GM is working on the conservation of the major rivers in China's Yunnan Province, the Komodo National Park in Indonesia, the Serra Do Divisor National Park of Brazil, and the Canaima National Park in Venezuela.

In Mexico, GM has supported actions on behalf of habitats and wildlife reserves in Yucatan, Chiapas, Tabasco and Quintana Roo, fundamentally to preserve flamingoes and other endangered species.

It is also protecting the northeastern region of Mexico, thanks to TNC, which operates in Mexico through its partners, Pronatura Noreste, A.C. This region includes the plant and animal life protection area of Cuatro Ciénegas, in the state of Coahuila, notable for its halophyte grasslands and its many endemic species of fish, reptiles, crustaceans and plants. It is therefore classified as a unique location on the planet, equal in biological importance to the Galapagos Islands. It also includes the Pozas Azules Reserves, which comprise 2,800 hectares (6,900 acres) of land and over 140 pools that are unique in the planet; so much so, that the NASA (National Aeronautics and Space Administration) and other international and domestic organizations are now conducting research here, relating to the origin of life.

Pronatura Noreste recently received several Chevrolet LUV pickups. These will be used to transport field personnel in the conservation programs for this eco-region of the Desert of Chihuahua, which extends to the states of Chihuahua, Durango, Coahuila, Nuevo León, San Luis Potosí, and Zacatecas. This second donation follows the previously delivered batch of Chevrolet S-10 pickups and Blazer SUVs.

Additionally, GM has donated resources for the construction of an onsite museum. The museum will constitute a permanent display of the historic, cultural and environmental significance of the northeastern flatlands, located along one of the busiest highways for the freight generated by the North American Free Trade Agreement. Some 60 km away from Saltillo, state capital of Coahuila, lies one of GM's most important assembly plants: the Ramos Arizpe Manufacturing Complex.

Through the above-described actions, General Motors ratifies its commitment to support any actions required to restore and preserve the environment and to help the development of the communities in which the company operates.

General Motors has operated in Mexico for 67 years, and runs three large manufacturing complexes located in Toluca, State of Mexico; Ramos

Arizpe , Coahuila, and Silao, Guanajuato, as well as its corporate headquarters in Mexico City. General Motors de México (GMM) has led the country's automotive industry since 1996. GMM has "Clean Industry" certification and all of its operations comply with an environmental management system based on the ISO 14001 international standard. GM México markets the Chevrolet, Pontiac, Fiat, Cadillac and Saab brands. Web site: ***www.gm.com.mx***

The Nature Conservancy is a non-profit organization devoted to the conservation of natural reserves and the preservation of endangered species worldwide, established 1951. It is an international leader in conservation because it helps protect more than 120 million acres of high-priority conservation sites worldwide, as well as due to its extraordinary fund-raising efforts, which on average attract 100 million dollars in donations each year. Web site: ***nature.org.***

Pronatura Noreste, A.C. is a Mexican non-profit organization with the mission to preserve plant and animal life and priority ecosystems by fostering the development of society in harmony with nature. Pronatura Noreste, established in 1997 to serve the conservation needs of the Mexican Northeast, is one of the seven divisions of the Pronatura organization. As a nationwide organization, Pronatura has 21 years of conservation experience and success in Mexico. The other divisions of Pronatura are: Pronatura Chiapas, Pronatura Península Yucatán, Pronatura Veracruz, Pronatura Península Baja California, Pronatura Sonora, and the Pronatura headquarters in Mexico City. Web site: ***www.pronaturane.org.***

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GM and The Nature Conservancy Honor Jack Smith with Preserve

GM Ft. Wayne Assembly builds Chevrolet Silverado for use by Conservation Group

CAPE COD, Mass. (August 19, 2003) — The Nature Conservancy today announced it is naming a 12-acre Massachusetts nature preserve after newly retired GM chairman, John F. (Jack) Smith. The dedication serves as a legacy to Smith following years of personal and professional commitment to conserving our natural heritage. Massachusetts is Smith's home state.

The Dunes of Sandy Neck, located within the dedicated preserve.

The Nature Conservancy's Jack Smith Preserve at Sandy Neck is located along the coastline of Cape Cod, within a regionally significant resource area spanning the communities of Sandwich, Barnstable, Yarmouth and Dennis. The preserve is at the core of Sandy Neck, a 1,000 acre, seven-mile-long peninsula with beaches and dunes that provide nesting habitat for federally endangered piping plovers and least terns, as well as feeding habitat for other migrating shorebirds. The area also provides critical habitat for diamond back terrapin turtles and horseshoe crabs, two species in decline.

Smith along the trails in the preserve.

Smith has served on The Nature Conservancy's board of governors since 1997. Since 2000, he has been co-chairman of the Conservancy's Campaign for Conservation, a fundraising campaign that has raised close to $1.25 billion. Under Smith's leadership, GM has been a leading contributor to the Conservancy's conservation work around the world.

"I can't think of a better recipient for this honor than Jack Smith," said Elizabeth A. Lowery, GM vice president, Environment and Energy. "He has been such an enthusiastic supporter of The Nature Conservancy's important conservation work. Although he's retiring to Massachusetts, his commitment to preserving our precious places around the world continues, and is shared by all of us at GM."

"Jack Smith and GM have helped the Conservancy achieve true conservation results across the United States and around the world through generous contributions of time, leadership and resources," said Steve McCormick, president and CEO of The Nature Conservancy. "The dedication of this preserve in his name is meant to honor Jack Smith's on-going commitment to the enduring conservation of some of the world's most ecologically important places."

Click to see photos of the nature preserve and the dedication activities.

GM and The Nature Conservancy have an on-going relationship that is unprecedented in size and scope. In 1994, GM made a five-year commitment to provide $1 million per year in cash and vehicles. Since then, GM has donated more than $8.3 million in cash and 162 trucks to aid the often rugged work of The Nature Conservancy across the U.S. and around the world. GM also provided $10 million to The Nature Conservancy to restore and protect about 30,000 acres of endangered land in the Atlantic Rainforest Restoration Project in Brazil. In total, GM's 10-year commitment to The Nature Conservancy will reach nearly $23 million.

The Nature Conservancy is a private, international, non-profit organization that preserves plants, animals and natural communities representing the diversity of life on Earth by protecting the lands and waters they need to survive. To date, the Conservancy and its more than one million members have been responsible for the protection of more than 14 million acres in the United States, including 23,000 in Massachusetts, and have helped preserve more than 80 million acres in Latin America, the Caribbean, Asia and the Pacific. Learn more about The Nature Conservancy at http://nature.org.

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Partnerships | The Nature Conservancy

Give a Unique Gift and Help GM and The Nature Conservancy Save Brazil's Atlantic Rainforest

Adopt an Acre® of endangered rain forest and GM will match your donation dollar for dollar

General Motors and The Nature Conservancy are working together this holiday season to protect the last remaining area of Brazil's once-gigantic Atlantic Forest. The Brazilian Atlantic Forest is home to a wide variety of plants, animals and birds found nowhere else. Today, only 7 percent of the original forest lands remain.

Jaguar in Brazil's Atlantic Forest
© Lynn M. Stone

Now you can help The Nature Conservancy 'Save the Last Great Places on Earth' -- and finish your holiday gift shopping early!

And to go the extra mile, GM will match every dollar contributed to this program, up to $200,000 in total donations.

For your contribution of only $75*, your gift recipient will receive:

- a personalized certificate featuring a signature photo of the Atlantic Forest;
- a set of beautiful postcards featuring rainforest species; and
- a complementary one-year subscription to *Nature Conservancy* magazine.

To donate:

- visit http://nature.org/gmchallenge
- or call 1-800-84-ADOPT

Your gift today that will help ensure that one of the Earth's last great natural places has a tomorrow.

* Contributions of less than $75 will apply towards matching funds, but will not be eligible to receive the personalized certificate, postcards or complementary magazine subscription. To ensure delivery of the personalized certificates by the holidays, payments must be received by December 15th.

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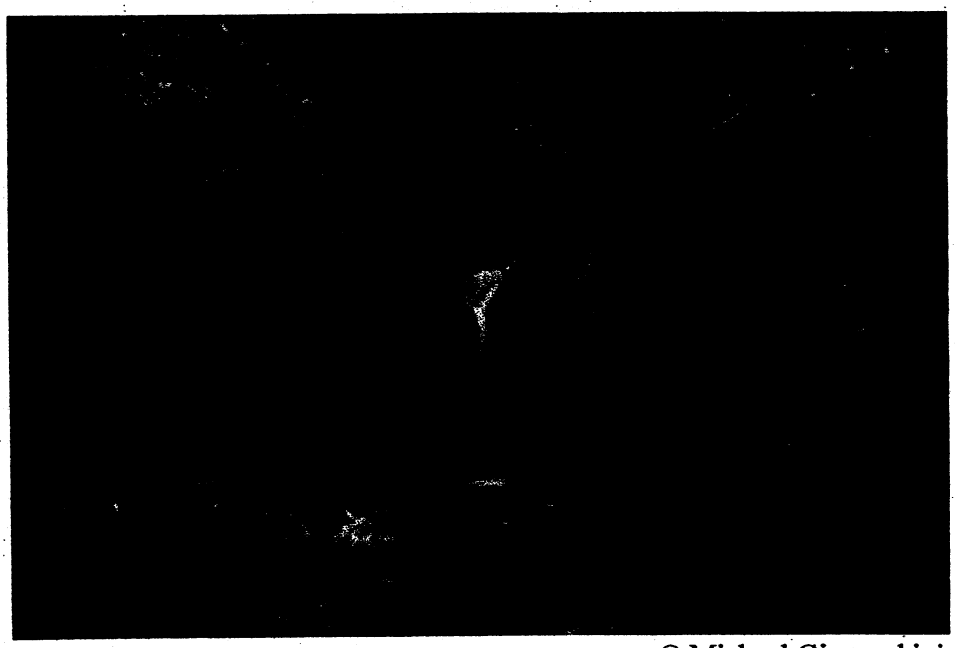
APPENDIX R

DOCUMENTS RELATING TO OTHER EMISSIONS ARRANGEMENTS

ANTONINA PILOT REFORESTATION PROJECT

COMPREHENSIVE AGREEMENT



© Michael Giannechini

Texaco Inc.

Sociedade de Pesquisa em Vida Selvagem

The Nature Conservancy

AGREEMENT FOR THE
TEXACO ANTONINA PILOT REFORESTATION PROJECT

This AGREEMENT FOR THE TEXACO ANTONINA PILOT REFORESTATION PROJECT ("Agreement"), together with the Attachments hereto, is made and entered into as of its execution, by, between, and among Sociedade de Pesquisa e Vida Selvagem, a not-for-profit conservation organization established under the laws of Brazil (hereinafter "SPVS"), TEXACO INC., a Delaware U.S.A. Corporation (hereinafter "TEXACO"), and THE NATURE CONSERVANCY, a non-profit corporation incorporated under the laws of Washington, D.C., U.S.A. (hereinafter the "CONSERVANCY"), (each referred to separately as a "Party" and all of which are cumulatively referred to herein as the "Parties"). The Parties understand and agree that the Parties shall not be bound by this Agreement until such time as the CONSERVANCY's Board of Directors approves the CONSERVANCY's participation in this TEXACO ANTONINA PILOT REFORESTATION PROJECT ("Project").

RECITALS

WHEREAS, this Project has not been submitted to or accepted by the United States Initiative on Joint Implementation or to any other governmental program or entity;

WHEREAS, on 4 June 1992, the Government of Brazil ratified and thereby became a party to the United Nations Framework Convention on Climate Change (the "FCCC");

WHEREAS, on 15 October 1992, the Government of the United States of America ratified and thereby became a party to the FCCC;

WHEREAS, on 29 April 1998, the Government of Brazil signed the Kyoto Protocol;

WHEREAS, on 12 November 1998, the Government of the United States signed the Kyoto Protocol under which it would be committed to reduce its level of greenhouse gas emissions by 7% below 1990 levels between the period 2008-2012;

WHEREAS, the text of the Kyoto Protocol includes the Clean Development Mechanism to assist developing countries achieve sustainable development while assisting industrialized countries to meet their emissions reductions obligations;

WHEREAS, neither the Government of the United States nor the Government of Brazil has ratified the Kyoto Protocol;

WHEREAS, TEXACO wishes to undertake substantial voluntary greenhouse gas mitigation strategies within the United States and internationally;

WHEREAS, SPVS is principally dedicated to preserving the environmental integrity and biodiversity of the Atlantic Forest particularly in the state of Parana, Brazil and to facilitating sustainable economic opportunities for the communities located there;

WHEREAS, the CONSERVANCY is principally dedicated to the protection and conservation of endangered flora and fauna, and to assisting non-governmental conservation organizations such as SPVS;

WHEREAS, the CONSERVANCY's Board of Governors has not yet approved the CONSERVANCY's involvement in this project;

WHEREAS, the Parties have determined, after careful review, that the area, in which the Project Site will be located, is an optimal location for demonstrating greenhouse gas mitigation through the process of carbon sequestration, carbon storage and other strategies, and have thus undertaken various actions, set forth in this Agreement, to develop a pilot greenhouse gas mitigation project on the Project Site;

WHEREAS, the Parties desire that the Project generate the maximum number of Certified Offsets on as rapid and regular a basis as feasible, consistent with the Project Proposal to TEXACO found in Attachment 8 to this Agreement, and that TEXACO obtain a proprietary interest in any Offsets which may be generated from the Project;

WHEREAS, the Parties desire to hereby formally establish and implement the TEXACO ANTONINA PILOT REFORESTATION PROJECT;

NOW, THEREFORE, in consideration of the mutual promises, obligations and undertakings set forth herein, it is agreed by and among the Parties as follows:

ARTICLE I
DEFINITIONS

The terms used in this Agreement shall have the meanings set forth below.

1. "Agreement" means this Agreement, including all Attachments and amendments hereto.

2. "Annual Workplan and Budget" means a plan for operations and activities under this Agreement for a given calendar year (or fiscal year), including a work plan and operating budget.

3. "Apportion" means the process established in accordance with this Agreement for transferring title to all Offsets produced by the Project to TEXACO.

4. "Authorized Officer" means a legal representative of each one of the Parties hereto.

5. "Business Day" means any day other than a Saturday, Sunday or a United States or Brazilian national holiday. If any performance date referred to in this Agreement is not a Business Day, such performance date shall be the next Business Day. All other references to "days" shall mean calendar days.

6. "Carbon Monitoring Protocol" shall mean the Carbon Monitoring, Offset Creation, and Reporting Protocol, which protocol will provide the procedures for documenting changes over time in the greenhouse gases emitted, reduced, avoided, or sequestered by the Project, including definition of the methods, procedures, and frequency of measurement of carbon pools in and around the Project Site; calculation of a Project reference case; calculation of Leakage; carbon emissions calculations and accounting procedures; and preparation and submission of Offset reports.

7. "Certified Offset" means an Offset that has been demonstrated to any Certifying Entity designated by TEXACO and certified by such Certifying Entity.

8. "Certifying Entity" means (1) an agency, instrumentality, department or other entity established, accredited, or recognized by a Mechanism as having legal authority to certify Offsets that are entitled or may or will be entitled, currently or in the future, to recognition by a Mechanism for compliance determination purposes; (2) any other agency, instrumentality, department or other entity that undertakes to certify, on its own authority, Offsets that will or may be recognized by a Mechanism or that will or may have commercial value.

9. "CONSERVANCY Medium-Term Project Funds Account" has the meaning ascribed to it in Article VII of this Agreement.

10. "CONSERVANCY Long-Term Project Funds Account" has the meaning ascribed to it in Article VII of this Agreement.

11. "Disbursement" means each transfer by the Project Funds Manager of Project Funds.

12. "Donation Agreement" means an agreement between the CONSERVANCY and SPVS in the form found in Attachment 5 hereto and providing conditions and restrictions on the use of funds donated to SPVS for the purchase of lands pursuant to this Agreement.

13. "Executive Committee" has the meaning ascribed to it in Article IV of this Agreement.

14. "Financial Statement" means a SPVS or CONSERVANCY periodic balance sheet (active and passive), statements of income and periodic expenditures, and sources and application of funds for the fiscal period, with comparable figures for the corresponding periods of its previous fiscal year.

15. "Leakage" means a measurable positive or negative change in the metric tons of carbon dioxide-equivalent ("CO2-eq.") greenhouse gas emissions caused by activities occurring outside those lands acquired by the Project but occurring directly and solely as a result of the Project, calculated in accordance with standards and procedures established by the Intergovernmental Panel on Climate Change or a relevant Mechanism or Certifying Entity, and monitored using the measuring and modeling procedures established in the Project Plan or Carbon Monitoring Protocol. For purposes of this Agreement, "Leakage" shall not include any change in metric tons of CO2-eq. emissions caused by the continuation, based on historical and projected future trends, of current or established activities outside the Project Site.

16. "Mechanism" means an agreement, arrangement, program, agency, instrumentality, department or other entity currently established or established in the future pursuant to international and/or domestic law, including the law of Brazil or the law of the United States, with legal authority to certify, recognize and/or grant credit for Offsets for purposes of determining compliance by the owner or holder of the Offset with international or domestic greenhouse gas emissions limitations, obligations or commitments, voluntary or otherwise. "Mechanism" includes, without limitation, the Clean Development Mechanism defined by the Kyoto Protocol to the Framework Convention on Climate Change and the program established by Section 1605(b) of the United States Energy Policy Act of 1992.

17. "Offset" means a unit of carbon dioxide-equivalent ("CO2-eq.") greenhouse gas emissions demonstrated to be mitigated, reduced, avoided, sequestered or fixed in any calendar year.

18. "Operating Protocols" means the Carbon Monitoring Protocol and any other binding written procedures, authorizations, delegations and Project management systems that are developed by the Project Site Manager and the Project Funds Manager to manage and implement the Project Plan and this Agreement.

19. "Party" means the signatories hereto, or a natural or juridical person that is hereafter assigned a Party's rights, duties and obligations, or portions thereof (but does not include any assignee whose assignment is limited to the purchase or acquisition of any Offset Registration Interest of Texaco).

20. "Person" means any natural or juridical person with the capacity to work, any individual, corporation, partnership, association, or other private or commercial entity, and any sovereign state, district municipality, political subdivision, agency, department, or instrumentality of a sovereign state, and any officer, employee, representative or agent thereof.

21. "Principal Contact" has the meaning ascribed to it in Article IV of this Agreement.

22. "Project Documents" means this Agreement, including all Attachments and amendments hereto, the Project Plan and any updates to the Project Plan, the Carbon Monitoring Protocol and any updates to the Carbon Monitoring Protocol, and other documents that are established after the signing of this Agreement by agreement of the Parties for the management and implementation of the Project. The term "Project Documents" shall not include filings made by any Person under Section 1605(b) of the United States Energy Policy Act of 1992 or any other Mechanism for the purpose of registering Offsets of the Project that have been apportioned to TEXACO as contemplated herein.

23. "Project Funds" means the sum total of funds deposited into the CONSERVANCY Medium-Term Project Funds Account, the CONSERVANCY Long-Term Project Funds Account, the SPVS Project Account, and the Project Endowment Fund under this Agreement and all interest earned on such funds.

24. "Project Funds Manager" has the meaning ascribed to it in Article V of this Agreement.

25. "Project Plan" means the TEXACO ANTONINA PILOT REFORESTATION PROJECT PLAN to be completed by the CONSERVANCY and approved by the Parties before the one year anniversary of the execution of this Agreement, and any revisions to it approved by the Parties. The Project Plan shall include activities designed to address the sustainable development criteria of the local government(s) of Brazil and other authorities authorized under the Kyoto Protocol.

26. "Project Site" means lands purchased for the express purpose of implementing the Project, exclusive of the lands that are outside of the boundaries of this purchased land on which activities related to the Project take place.

27. "Project Site Manager" has the meaning ascribed to it in Article V of this Agreement.

28. "Project Technical and Financial Report" has the meaning ascribed to it in Article VII of this Agreement.

29. "Project Term" has the meaning ascribed to it in Article III of this Agreement.

30. "Registration Interest" means the right accorded to TEXACO under the terms of this Agreement, Section 1605(b) of the United States Energy Policy Act of 1992, and any other relevant Mechanism to claim, to obtain certification to formally register or otherwise to obtain environmental or other credit for Offsets generated pursuant to activities under this Agreement.

31. "Restricted Information" means any non-public information regarding any Party, provided by such Party or by an agent, employee, or representative of such Party and marked or otherwise identified as "Restricted Information" to any other Party or to an agent, representative, or employee of such other Party. "Restricted Information" does not include (1) Project-verified information that must be disclosed to obtain Offset Certification, or to register Certified Offsets under the ground rules of the United States Department of Energy's Section 1605(b) registration program or of any other relevant Mechanism, or to comply with an order or legal requirement of a federal, state or local court or governmental agency, unless such disclosure is protected by a valid claim on confidentiality or other disclosure restriction; (2) information which at the date of this Agreement is publicly available; (3) information which after the date of this Agreement becomes publicly available through no fault or activity of a Party or its employees or agents; (4) information that a Party can show was in its possession before the date of this Agreement and which is not subject to any other disclosure restrictions; or (5) information received by a Party without restriction as to disclosure from a third party who has the lawful right to disclose the same.

32. "SPVS Project Account" has the meaning ascribed to it in Article VII of this Agreement.

33. "TAP" means the Technical Advisory Panel assembled by the CONSERVANCY, in consultation with TEXACO, and composed of climate change experts as well as other outside specialists.

34. "TEXACO" means TEXACO or any Person that may hereafter be assigned their rights, duties and obligations, or a portion thereof (but does not include any assignee whose

assignment is limited to the purchase or acquisition of any Offset Registration Interest of Texaco).

ARTICLE II
OBJECTIVE

2.1 Objective. This Agreement has as its objective to implement during the Project Term the TEXACO ANTONINA PILOT REFORESTATION PROJECT for the following purposes:

(a) to mitigate greenhouse gases in the Earth's atmosphere, principally through reforestation on the Project Site;

(b) to protect the biodiversity on the Project Site in particular and in the Guaraqueçaba region in general;

(c) to promote sustainable economic development in the Guaraqueçaba region;

(d) to generate on as rapid and regular a basis as is feasible, without compromising the biodiversity objectives of the Project, the maximum amount of Certified Offsets for TEXACO; and

(e) to carry out the activities contemplated by the TEXACO ANTONINA PILOT REFORESTATION PROJECT, consistent with the Project Plan.

ARTICLE III
TERM

3.1 Project Term. This Agreement shall enter into force upon its execution, and shall continue in effect until June 30, 2040. This period shall constitute the Project Term. A Project Year shall be from July 1 through June 30.

ARTICLE IV
PROJECT GOVERNANCE

4.1 Legal Address, Address of the Project Site Manager. The address of the Project and the Project Site Manager shall be the SPVS office in Curitiba, Brazil, as listed in Attachment 4 of this Agreement, unless the Parties designate in writing an alternate address.

4.2 The Executive Committee. The Executive Committee shall have three members and consist of three members, the Principal Contacts for TEXACO, SPVS and the CONSERVANCY. It shall meet, at a minimum, once per year during the first eight years of the Project Term, and as the Parties deem necessary during the remaining Project Term. The Executive Committee shall hold additional meetings whenever requested by two-thirds of the Executive Committee. At least two-thirds of all Executive Committee members must be present for a quorum. In lieu of meeting, the Executive Committee may act by written resolution, signed by at least two-thirds of all Executive Committee members in the case of an advisory action and by all Executive Committee members in the case of a binding decision. All annual meetings and other meetings shall be noticed in writing by the Project Site Manager at least thirty (30) days

prior to the date of the meeting. This notice is considered waived if all members of the Executive Committee are present at the meeting. The site for Executive Committee annual meetings shall be the office of the Project Site Manager in Curitiba, Brazil, unless the Parties agree to an alternate location. Executive Committee meetings may be held by teleconference. The Project Site Manager shall keep minutes of the Executive Committee meetings in English and Portuguese, which shall be distributed to the Parties within thirty (30) days following a meeting. Reasonable expenses of the CONSERVANCY and SPVS to attend Executive Committee meetings can be paid out of Project Funds; TEXACO shall bear the expenses of its own attendance in Executive Committee meetings.

4.2.1 Advisory Role. Except to the extent otherwise provided in this Agreement, during the Project Term the Executive Committee may consider in an advisory capacity any issues concerning the Project that any Party requests be considered. While consensus shall be the goal, recommendations of the Executive Committee shall be by approval of at least two of the three Executive Committee members. The Executive Committee may provide, but is not limited to providing, recommendations on the following matters:

(a) Annual Workplan and Budget;

(b) Annual Technical and Financial Report;

(c) General project implementation activities.

4.2.2 Decision Making Role. Any and all binding decisions of the Executive Committee shall require the agreement of all three members of the Executive Committee. In addition to its advisory role, the Executive Committee shall have the following duties and responsibilities with respect to which its decisions will be binding upon the Project Funds Manager and the Project Site Manager:

(a) the review and approval of the Project Plan and the Carbon Monitoring Protocol and any changes to this Agreement, the Project Plan, and the Carbon Monitoring Protocol;

(b) the delegation of responsibility for preparing and submitting all necessary documentation and applications related to the filing, submission and registration of certified Offsets;

(c) the approval of any sale, assignment, conveyance, lease or other disposition of the Project Site or the placing on, or permitting to exist on or in respect of the Project Site of any encumbrance, including but not limited to a mortgage, lien, security interest, pledge or other encumbrance of any kind or nature whatsoever;

(d) the changing of the frequency or number of any audits or reports required under this Agreement;

(e) the changing of the fiscal year for the Project;

(f) any other binding decision identified in this Agreement to be undertaken by the Executive Committee.

4.3 Principal Contacts. Each Party agrees to be represented at all times during the Project Term by a Principal Contact, who shall be fully authorized to represent and bind his or her appointing Party in connection with all matters concerning the Project and this Agreement. The names of the Principal Contacts shall be set forth in Attachment 4 to this Agreement, *provided that,* each Party shall notify the Project Site Manager within thirty (30) days of any change in the names of the Principal Contacts or in the address to which communications should be sent. The Project Site Manager shall record any change and notify the other Parties of the change within ten (10) days thereafter.

4.4 Communication Among Parties. Unless explicitly provided for otherwise within this Agreement, all communications among the Parties may be given orally, by phone, or in writing. Any communications that are required to be in writing shall be in the language of receptor or accompanied by a certified translation in the language of the receptor and may be delivered by hand, mail, telegram, facsimile, e-mail, or telex, postage prepaid. All Project Documents shall be deemed to have been given when received by the Principal Contact of a Party.

4.5 Consultation With External Advisors and Other Service Providers. The Parties may consult with independent advisors, including government entities and Certifying Entities, and separately engage accountants, technical experts and other service providers, including Certifying Entities in addition to those approved and paid for as specified by the Project Plan to review, verify, and advise the Parties on implementation of the Project, and each Party shall be solely responsible for any fees or costs (beyond those specified by the Project Plan) incurred by such separate engagements.

4.6 Public Communications. Recognizing the importance of the Project to the public and to the relationships between nations, the Parties hereby direct that all information regarding the Project be publicly available, subject only to the following:

(a) Uses of Names and Logos. No Party shall use the name and/or logo or registered trademarks/service marks of another Party without the approval of that Party. A Party intending to use another Party's name or logo shall submit in writing, via an overnight carrier, a final copy of all descriptions, copy and other materials not previously approved, associated with said name or logo for review and prior written approval before publication. Such approvals shall not be unreasonably withheld by a Party; *provided that,* acceptable criteria for disapproving a request include the conclusion by the reviewing Party that (i) the proposed communication, if published, would measurably diminish, injure, or damage such reviewing Party's reputation or good will or (ii) the requesting Party is proposing to make a commercial use of a Party's name or logo.

(b) Other Communication. Each Party agrees to communicate to the other Parties the content of and receive concurrence from the other Parties on the content of public statements, press statements, and press releases concerning any activities that have occurred or are occurring pursuant to this Agreement. Each Party will grant

its concurrence at its sole discretion. No Party to this Agreement will be required to provide an endorsement or recommendation with respect to any of the other Parties to this Agreement or any of their activities.

(c) Restricted Information. The Parties each hereby agree not to use or disclose to any person any information that has been previously identified by any other Party as Restricted Information without such other Party's prior written approval. The Parties further agree to apply the same procedures to prevent the disclosure and use of such Restricted Information as they each apply to maintain the integrity and (if applicable) confidentiality of their own confidential and proprietary business information.

4.7 Subjection to the Project Plan. All decisions of the Project Funds Manager regarding Project Site Manager actions shall be in accordance with the provisions of the Project Plan. All future revisions of the Project Plan shall be consistent with the objective in Article II of this Agreement and approved by the Executive Committee.

ARTICLE V
ROLES OF THE PARTIES

5.1 Roles of the Parties.

5.1.1 Duties of SPVS. SPVS is hereby designated Project Site Manager and in this capacity shall, in consultation with the Project Funds Manager, TEXACO and, as appropriate, the Executive Committee, be principally responsible for managing and implementing the Project in a timely and professional manner in accordance with the Project Plan. SPVS shall serve as a member of the Executive Committee, and in that capacity vote as required on issues brought before the Executive Committee. The duties of the Project Site Manager include:

(a) purchasing and holding title to the lands comprising the Project Site, and managing the Project Site in accordance with the Project Plan;

(b) hiring staff, contracting consultants, training, directing, managing, and coordinating the work to implement the Project as laid out in the Project Plan and the Annual Workplans and Budgets;

(c) assuring that the Project Plan, annual Technical and Financial Reports, Quarterly Financial Reports, and other such reports and Party updates necessary to implement the Project are developed and presented to the Project Funds Manager and, as appropriate, the Executive Committee;

(d) submitting to the Project Funds Manager an Annual Workplan and Budget as described in Article VII that is in conformance with the Project Plan and in substantive conformance with the Overall Budget, found in Attachments 3 and 2 to this Agreement, respectively, and acceptable to the Project Funds Manager.

(e) submitting to the Project Funds Manager an Annual Technical and Financial Report as described in Article VII;

(f) submitting to the Project Funds Manager Quarterly Financial Reports as described in Article VII;

(g) managing and implementing the Project's Offset creation strategies and sustainable development activities set forth in the Project Plan; calculating for the Executive Committee's review the number of Offsets; managing the accounts for creation, deduction, certification, and transfer of Offsets to TEXACO; and maintaining all necessary and appropriate records in connection with these activities;

(h) managing the Project Site in accordance with the Project Plan;

(i) developing Offset reports and submitting them as well as other necessary Project filings and Project Documents to the appropriate Brazilian government entities on behalf of the Parties, with the appropriate certification to the truth and accuracy of such Offset reports, Project filings and other necessary Project Documents;

(j) serving as custodian of all Project records legally required to be kept at SPVS, at the Project Site, or pursuant to this Agreement, and ensuring the availability of such records to the Project Funds Manager, TEXACO, the Executive Committee, and the appropriate governmental entities;

(k) maintaining disbursed Project Funds in an SPVS Project Bank Account, as described in Article VII, and expending Project Disbursements in accordance with this Agreement and the Annual Workplans and Budgets as approved by the Project Funds Manager;

(l) engaging, coordinating and managing the work for accountants, scientific experts and other service providers as appropriate and necessary to implement the Project, including providing the direction necessary regarding such work to ensure its quality, accuracy and timeliness;

(m) acquiring, maintaining, and renewing all rights, contracts, powers, leases, and franchises, and making all payments, filings, and records pertaining thereto, as necessary for the conduct of its business and the performance of its obligations under this and all other Project Documents;

(n) obtaining and maintaining in force at all times during the Project Term, such property, general liability, and other insurance on its property, business and the Project Site as is appropriate for the activities in the Project Plan, is in accordance with good commercial practice in Brazil, and is satisfactory to the Project Funds Manager;

(o) undertaking all actions as may be necessary or appropriate to ensure the success of the Project, within the framework of this Agreement and applicable legal requirements.

5.1.2 Duties of TEXACO. Subject to the continuing satisfaction of the conditions precedent set forth in Article VII and the default provisions set forth in Article XII, TEXACO shall:

(a) within thirty (30) days of the execution of this Agreement, pay to the CONSERVANCY the sum of US Three Million Dollars ($3,000,000.00), which will be employed to finance the development of the Project and its implementation throughout the Project Term. Texaco's payment under this subsection 5.1.2(a) will constitute its sole financial obligation under this Agreement. Further contributions to the Project by TEXACO beyond those described in Article V are permitted at Texaco's sole discretion and will be subject to the same conditions, herein stipulated, as the initial funding, or as may be agreed to by TEXACO and CONSERVANCY;

(b) serving as a member of the Executive Committee, and in that capacity vote as required on issues brought before the Executive Committee, and consult with the Project Funds Manager and the Project Site Manager regarding the financing and implementation of the Project;

(c) reviewing and commenting on the Project Plan, the Carbon Monitoring Protocol, and Annual Workplans and Budgets.

5.1.3 Duties of the CONSERVANCY.

The CONSERVANCY is hereby designated the Project Funds Manager, and in such capacity it shall be responsible for providing the financial management services set forth in this Agreement, in a timely and professional manner, and overseeing the Project implementation by the Project Site Manager. The CONSERVANCY shall serve as a member of the Executive Committee, and in that capacity vote as required on issues brought before the Executive Committee. The duties of the Project Funds Manager include:

(a) Project Financial Management. The CONSERVANCY shall provide the Project's financial management through the following responsibilities:

(i) establishing a CONSERVANCY Medium-Term Project Funds Account and CONSERVANCY Long-Term Project Funds Account with Project Funds received from TEXACO, and tracking, managing and maintaining this CONSERVANCY Medium-Term Project Funds Account and CONSERVANCY Long-Term Project Funds Account throughout the Project Term, as described in Article VII;

(ii) approving the Annual Workplan and Budget submitted by the Project Site Manager after allowing for review and comment by TEXACO;

(iii) disbursing funds to the Project Site Manager on such dates and in accordance with the Project Plan;

(iv) approving Quarterly Financial Reports submitted by the Project Site Manager;

(v) approving the Annual Technical and Financial Report submitted by the Project Site Manager;

(vi) seeking and facilitating technical support for the financial administration of the Project according to the requirements of the Project Site Manager;

(vii) establishing and managing the Project Site Endowment Fund established as described in Article VII; and

(viii) collaborating with the Project Site Manager to ensure the success of the Project conservation activities.

(b) Project Technical Assistance. The CONSERVANCY shall also provide technical assistance to the Project for the following activities:

(i) seeking and facilitating technical support required by the Project Site Manager as set forth in Article V;

(ii) providing advice and technical assistance in the development and revision of the Project Plan, the Operating Protocols (including the Carbon Monitoring Protocol), the Annual Workplan and Budget, the Annual Technical and Financial Report, Quarterly Financial Reports, and other such reports and Party updates as are necessary to implement the Project and as required by the Project Site Manager; and

(iii) reviewing and approving all of the decisions of the Project Site Manager that require Project Funds Manager approval, and reviewing proposed revisions and amendments to the Project Plan.

ARTICLE VI
COVENANTS

6.1 Covenants. Each Party independently and separately hereby covenants to perform as follows:

6.1.1 Due Diligence. Each Party shall perform its obligations under this Agreement, and shall conduct the Project on the basis of customary commercial practice, reasonable care and arm's length arrangements, in accordance with the objective in Article II, with due diligence and efficiency, within the due dates and time lines established herein, in the Project Plan or in any

other Project Document and in accordance with applicable legal requirements of any kind or nature whatsoever;

6.1.2 Assignment of Duties and Obligations and Transfer of Rights. Except as otherwise expressly provided herein, a Party shall not assign any of its duties, rights, or obligations under any provision of this Agreement to any third party except by written agreement of all of the Parties, which agreement may not be unreasonably withheld; *provided that*:

(a) TEXACO may assign all or any portion of its interest herein to any TEXACO subsidiary or affiliate without written agreement of the other Parties; and

(b) TEXACO may assign, sell, or trade any or all Offsets generated pursuant to this Agreement at its sole discretion, without notice to or agreement of the other Parties.

6.1.3 Notification. It shall notify the other Parties orally as soon as possible and in writing within five (5) Business Days of:

(a) the occurrence of an Event of Default and of any event known to any of its officers which, upon the giving of notice, the lapse of time or both, would become an Event of Default;

(b) the filing of any lawsuit, or the assertion of any claim, against such Party involving claims that could directly and materially affect such Party's performance of this Agreement, or that concern activities in connection with this Agreement;

(c) the occurrence of any other condition or event which is likely to materially adversely affect the Party's financial condition or its ability to perform its obligations under this Agreement.

6.1.4 Professional Performance of Obligations. All obligations to be performed under this Agreement by each one of the Parties and their respective employees, representatives, and agents, shall be performed in a professional and efficient manner using due diligence to prevent unnecessary injury or damage to the Offsets produced on the Project Site, and shall use their best efforts to ensure that such Offsets shall be of good quality;

6.1.5 Materials Prepared and Submitted. All materials prepared and submitted to any governmental or non-governmental entity, made by a Party or its employee, representative or agent, shall be prepared and submitted in a manner that meets the requirements of this Agreement, applicable Project Documents, and applicable guidelines, Mechanisms, or legal requirements of any kind or nature whatsoever;

6.1.6 Reliance on Information. To the extent permitted by applicable legal requirements of any kind or nature whatsoever and this Agreement, all service providers, and each employee, representative, and agent of any other Party working on the Project shall have

the rights to rely on information provided and preparations and representations made by such Party or its duly authorized employee, representative, or agent.

6.1.7 Support. Each Party will provide its employees, and the persons engaged to assist such employees, with the support necessary to ensure timely and full performance of such appointees' responsibilities and obligations under this Agreement and any subsequent document approved by the Project Funds Manager and/or the Executive Committee;

6.1.8 Communication with Accountants. Upon the Executive Committee's request, each Party will instruct its respective accountants and auditors to communicate directly with the Executive Committee regarding their accounts and operations as they relate to the Project.

6.1.9 Covenants of SPVS and the CONSERVANCY. SPVS and the CONSERVANCY each further covenant:

(a) not to sell, assign, convey, lease, or otherwise dispose of all or a substantial part of its assets or real properties to the extent such action would have a material effect on the Project, whether such assets or real properties are now owned or hereafter acquired, except for the replacement of capital assets with assets of equal or greater value;

(b) not to voluntarily dissolve, liquidate, or otherwise cease to do business during the Project Term to the extent such action would have a material effect on the Project;

(c) not to change the nature or scope of the Project without the written consent of the other Parties;

(d) not to change its bylaws, articles of association, or other organizing documents, in a manner that would be inconsistent with the provisions of any Project Document;

(e) not to enter into any legal partnership, profit-sharing or royalty agreement, or other similar arrangement whereby Project Disbursements are, or might be, shared with any person, except as authorized in a Project Document or approved by the Project Funds Manager;

(f) to maintain its corporate existence and its right and authorities to carry on the Project;

(g) to assist TEXACO in advocating for or defending the transfer of Offsets under this Agreement, against the claims of any persons by providing any documentation in their possession;

(h) to ensure observance of confidentiality with regard to any Restricted Information or confidential information or data disclosed to it, pursuant to this Agreement; and

(i) to use reasonable care in designing and implementing the Project activities so that the Project will not result in the loss of jobs or homes or other events with negative social or environmental consequences.

6.2 SPVS further covenants during the Project Term not to sell, assign, convey, lease, or otherwise dispose of the Project Site or place on, or permit to exist on or in respect of, the Project Site any encumbrance, including but not limited to a mortgage, lien, security interest, pledge, or other encumbrance of any kind or nature whatsoever on the Project Site, unless approved by the Executive Committee per Article 4.2.

6.3 SPVS further covenants that all permits, licenses and approvals required or necessary to go forward with the Project, have either been granted and not modified or withdrawn, or will be sought in a timely manner by SPVS as Project Site Manager pursuant to the procedures established in the Project Plan and Operating Protocols.

ARTICLE VII
PROJECT FINANCE

7.1 Funding for the Project.

7.1.1 Project Funds.

(a) Project Development and Initial Implementation Expenses. As reflected in and limited by Attachment 2 to this Agreement, the CONSERVANCY shall expend funds for certain Project development and initial implementation expenses prior to CONSERVANCY Board of Governors approval of the Project. The total of these Project development and initial implementation expenses expended prior to such approval shall not exceed US$30,000. If the CONSERVANCY Board of Governors does not approve the Project, all remaining Project Funds shall be returned to TEXACO.

(b) CONSERVANCY Medium-Term Project Funds Account. CONSERVANCY shall deposit a portion of the Project Funds into an internally cost-segregated medium-term investment account ("CONSERVANCY Medium-Term Project Funds Account") to be invested in short- to medium-term money-market, investment-grade instruments at the discretion of the CONSERVANCY, with the same care and diligence as used to invest its other similar financial resources and with the objective of ensuring that the Project's medium-term financial needs are met. The Parties understand that the value of the CONSERVANCY Medium-Term Project Funds Account will fluctuate and may lose value. During the Project Term, the principal and income from the CONSERVANCY Medium-Term Project Funds Account (less any custodial costs and fund management fees) shall only be utilized for the purposes of supporting the Project or for the support of the Project

Site.

(c) CONSERVANCY Long-Term Project Funds Account. CONSERVANCY shall deposit the balance of the Project Funds (the total of all Project Funds less those expended for Project development and initial implementation expenses and those placed in the CONSERVANCY Medium-Term Project Funds Account) into an internally cost-segregated long-term investment account ("CONSERVANCY Long-Term Project Funds Account") to be invested with the same care and diligence as used to invest its other long-term financial resources at CONSERVANCY's discretion and in accordance with the investment criteria put in place by CONSERVANCY Board of Governors with the objective of ensuring that the Project is financed for the balance of the Project Term from the principal and income earned in the CONSERVANCY Long-Term Project Funds Account. Notwithstanding the above conditions, the annual payout from the CONSERVANCY Long-Term Project Funds Account may exceed the payout rate provided for the CONSERVANCY's other long-term accounts. The Parties understand that the value of the CONSERVANCY Long-Term Project Funds Account will fluctuate and may lose value. During the Project Term, the principal and income from the CONSERVANCY Long-Term Project Funds Account (less any custodial costs and fund management fees) shall only be utilized for the purposes of supporting the Project or for the support of the Project Site.

(d) Project Site Endowment Fund Upon termination of the Project for any reason, any funds remaining in the CONSERVANCY Medium-Term Project Funds Account or the CONSERVANCY Long-Term Project Funds Account shall be used by CONSERVANCY to establish a Project Site Endowment Fund, which shall be used solely to support the protection of flora and fauna on the Project Site beyond the Project Term. This Project Site Endowment Fund shall be established pursuant to the policies, procedures and practices of CONSERVANCY and the laws of the State of Virginia, U.S.A. and invested at CONSERVANCY's discretion and according to the investment criteria put in place by CONSERVANCY's Board of Governors with the objective that a reliable source of income is available to protect the flora and fauna on the Project Site beyond the Project Term. CONSERVANCY shall own, manage, and administer the Project Site Endowment Fund with the same care and diligence as used to administer its other endowment funds.

7.1.2 Economic and Commercial Uses of Project Site. Income from any use of the Project Site during the Project Term shall be used solely for the benefit of the Project unless otherwise decided by the Executive Committee. Income from any use of the Project Site following the Project Term shall be used solely to support the protection of flora and fauna on the Project site indefinitely.

7.2 Disbursements.

7.2.1 Disbursement Obligation. As Project Funds Manager, CONSERVANCY shall make Disbursements of all Project Funds to the Project Site Manager or CONSERVANCY for authorized Project uses. Such Disbursements shall be in accordance with this Article and the Project Plan. All Disbursements to the Project Site Manager for the purpose of purchasing land shall also be governed by Donation Agreements the form of which is found in Attachment 5 hereto. All Disbursements to the Project Site Manager for purposes other than purchasing land shall also be governed by Deposit Contract(s) the form of which is found in Attachment 6 hereto.

7.2.2 Disbursement Schedule. All disbursements shall be made on a quarterly basis and only upon receipt of the previous quarter's Financial Report, or at such other times as may be agreed to by the Funds Manager and the Project Site Manager. At the end of Year 8 of the Project Term, or at any other time as requested by a Party, the Executive Committee shall review reporting and Disbursement requirements to determine if any changes are warranted in the Disbursement schedule; any changes which the Executive Committee votes to accept will then take precedence over this Article VII.

7.3 Undisbursed Funds. During the Project Term, all undisbursed Project Funds shall be retained by the Project Funds Manager in the CONSERVANCY Medium-Term Project Funds Account or CONSERVANCY Long-Term Project Funds Account.

7.4 Uses of Project Disbursements.

7.4.1 Obligation. All Project Funds disbursed to the Project Site Manager and the Funds Manager shall be used exclusively in furtherance of the Project in accordance with this Agreement, the Project Plan, and the Annual Workplans and Budgets, and for no other purposes whatsoever.

7.4.2 SPVS Project Account. The Project Site Manager shall deposit all Project Funds disbursed in accordance with this Article into a SPVS separate specific Project bank account to be applied solely to the Project. SPVS will receive the funds as depository pursuant to the terms and conditions set forth by a Deposit Contract, the form of which is found in Attachment 6.

7.4.3 Expenditure Categories and Authorizations. The Project Site Manager and Funds Manager are authorized to expend disbursed Project Funds strictly in accordance with the categories and amounts authorized by the Project Plan and Annual Workplans and Budgets for the Project. Any change in the categories or amounts indicated in the Project Plan shall be reflected in a revision to the Project Plan and will require authorization by the Executive Committee. Notwithstanding the foregoing, the Project Site Manager is authorized, without approval by, but with notification in writing to, the Funds Manager, to transfer funds amounting to no more than the lesser of $3,000 (or such other amount as is approved by the Executive Committee) or ten percent (10%) (or another percentage as is approved by the Executive Committee) of any individual annual budget category to another annual budget category, *provided that,* such transfer does not impact the successful implementation of Project activities as laid out in the Project Plan or exceed the overall approved annual budget as indicated in the Annual Workplan and Budget.

7.5 Conditions Precedent. The Project Fund Manager's Disbursement obligations under this Article shall be subject to the following conditions precedent:

(a) Performance by SPVS and CONSERVANCY of the covenants set forth in Articles VI and XI;

(b) The warranties and representations set forth in Article XI being true and remaining true;

(c) That SPVS continues to control and administer the Project Site and the facilities necessary for conducting the Project, free and clear of any and all circumstances that would interfere with the creation and Apportionment of Offsets contemplated under this Agreement;

(d) That the Project Site Manager continues to have all Government of Brazil approvals, licenses, and permits with regard to the Project Site to ensure full and successful implementation of the Project Site Manager's Offset generating and Project financing activities;

(e) That the Project Site Manager remains in compliance with the provisions of any Donation Agreements and Deposit Contracts; and

(f) If a condition precedent is not satisfied because of a Party's action or inaction, Article XII of this Agreement shall control. If a condition precedent is unsatisfied for any other reason, disbursement and payment obligations shall be suspended until all conditions have been satisfied.

7.6 Accounting. The Parties shall implement financial and Project implementation accounting mechanisms as necessary and appropriate to ensure good business practice, and to document performance by all Parties of their respective Project obligations. The Executive Committee has the power to change the frequency, form, and number of any audits or reports under this Agreement.

7.6.1 The Funds Manager shall maintain a complete, up-to-date and segregated cost center within its accounting structure for all Project Funds it receives, which shall include accounting for all CONSERVANCY Medium-Term Project Funds Account and CONSERVANCY Long-Term Project Funds Account deposits and withdrawals, for all Project services costs and expenditures, and for all Project costs and expenses actually incurred.

7.6.2 The Project Site Manager shall maintain a complete, up-to-date and segregated cost center within its accounting structure for the Project Funds it receives, which shall include accounting for all SPVS Project Account deposits and withdrawals, for all Project services costs and expenditures, and for all Project costs and expenses actually incurred.

7.6.3 Annual Workplans and Budgets, and Annual Financial and Technical Reports.

(a) Annual Workplan and Budget. In substantial conformance with the overall Project Budget, found in Attachment 2 to this Agreement, and in

conformance with the Project Plan, found in Attachment 3 to this Agreement, the Project Site Manager shall submit an Annual Workplan and Budget to the Project Funds Manager. The Annual Workplan and Budget will detail spending for the coming Project Year and will be submitted not later than ten weeks prior to the start of CONSERVANCY's Fiscal Year (July 1) for each year of the Project, unless otherwise stipulated by the Executive Committee. The Project Funds Manager's approval of the Annual Workplan and Budget for the Project that is consistent with this Agreement and the limitations on the Parties' obligations set forth in this Agreement, shall be given by not later than June 15 of each year of the Project. Should the Project Funds Manager wish to change the Annual Workplan and Budget submitted to the Project Site Manager, it will consult with and obtain approval from the Project Site Manager before doing so. The Project Plan and any revisions to it shall govern implementation of the Project throughout the Project Term.

(b) Annual Technical and Financial Report. The Project Site Manager shall submit an Annual Technical and Financial Report to the Project Funds Manager within 60 days after the end of each year of the Project, with the first year ending on June 30, 2001. The Annual Technical and Financial Report will provide detailed progress on the Project including Disbursements and Expenditures of funds, unexpended or surplus funds available to the Funds Manager and Project Site Manager, and the progress and percentage of completion of major phases and milestones of the Project. If major phases and/or milestones have not been completed on schedule, the Annual Technical and Financial Report will include an explanation for the delays and set forth the steps that the Project Site Manager intends to take to bring Project implementation activities back into conformance with the Project Plan. The Annual Technical and Financial Report shall contain a statement signed by an Authorized Officer or the Principal Contact of SPVS and CONSERVANCY of each of the applicable conditions that acknowledges the contents of the reports. If they choose, and at their sole expense, any of the Parties may also conduct an External Project Evaluation of the Project Site Manager at any time during the Project Term.

(c) Quarterly Financial Reports. The Project Site Manager shall submit Quarterly Financial Reports to the Project Funds Manager within 30 days after the end of each quarter of the Project (quarters shall end on March 31, June 30, September 31 and December 31) using financial reporting forms provided by the Project Funds Manager and including copies of all bank statements relevant to the Project during the quarter. Any changes which the Executive Committee votes to accept will then take precedence over this Article VII.

(d) Change in Conditions Precedent, Covenants, or Warranties. If a change that is beyond the control of any of the Parties causes any of the conditions

precedent, covenants or warranties set forth in this Agreement to materially change, SPVS or CONSERVANCY as appropriate shall notify the Executive Committee in writing within thirty days of the change; such notification will advise the Executive Committee as to the nature and impact of such change, and propose a plan to address such impact.

(e) Access and Examination. Upon the request of any Executive Committee member, any other Party shall grant the requesting Executive Committee member or a person designated by the requesting Executive Committee member during normal business hours, access to, and permission to examine, copy and make extracts from, any and all records and documents pertinent to the Project in the possession or subject to the control of the requested Party relating to the Project, and to inspect the Project Site facilities and properties. Subject to all applicable legal requirements, the requesting Executive Committee member shall treat the financial information provided under this Subsection, as Restricted Information.

7.6.4 Audits. Copies of the following audits shall be provided to all members of the Executive Committee in a timely manner.

(a) Annual External Organizational Audit. The Project Site Manager and Funds Manager shall do annual external organizational audits and shall provide copies of these to the Executive Committee.

(b) Project Site Manager Audit. If they choose, and at their sole expense, any of the Parties may also audit the Project Site Manager.

(c) Other Audits. If they choose, and at their sole expense, any of the Parties may also audit the SPVS Project Account, the CONSERVANCY Medium-Term Project Funds Account, the CONSERVANCY Long-Term Project Funds Account, the Project Site Endowment Fund, and all other Project programs or activities.

ARTICLE VIII
REAL PROPERTY TRANSACTIONS

8.1 Real Property Transactions. Funds transferred from the CONSERVANCY to SPVS or to any sellers of real property for the purpose of purchasing land pursuant to this Agreement shall be donations from the CONSERVANCY to SPVS and shall be governed by Donation Agreement(s) the form of which is found in Attachment 5 to this Agreement.

ARTICLE IX
OFFSETS RECOGNITION AND TREATMENT

9.1 Pilot Project. The Parties to this Agreement understand and agree that this Project is being developed as a pilot project to demonstrate the viability and effectiveness of reforestation

and forest protection greenhouse gas mitigation strategies and to generate Certified Offsets that may be used at a later date.

(a) The Parties to this Agreement further understand and agree that this Project has not been submitted to any Mechanism or Certifying Entity for approval or acceptance.

(b) In order to implement the Project objective of generating Certified Offsets, the Executive Committee, shall, as feasible and appropriate, take all necessary steps to obtain certification of Project Offsets by one or more Mechanisms or Certifying Entities identified or approved by TEXACO. TEXACO, as the sole recipient of the Project's Certified Offsets under this Agreement shall bear any and all charges, fees, or "share of the proceeds" (as indicated in Article 12 of the Kyoto Protocol) or other costs associated with any preparation and application for Certified Offsets under this Section.

(c) No Party guarantees that any such Mechanisms or Certifying Entities will be adopted, established, or authorized by the parties to the FCCC or otherwise. In addition, no Party assumes financial liability for failure of such Mechanism or Certifying Entity to be adopted, established, or authorized by the Parties to the FCCC.

9.2 Offsets Calculation, Demonstration, and Certification. The Project Site Manager, or such other Party or entity as may be designated by the Executive Committee, will be responsible for the demonstration and calculation of the Project's Offsets while the CONSERVANCY or such other entity selected by the Executive Committee will be responsible for the preparation and submission of all necessary documentation to the relevant Mechanism or Certifying Entity, in accordance with the methods and procedures set forth herein, in the Carbon Monitoring Protocol.

9.2.1 Carbon Monitoring Protocol. The CONSERVANCY and SPVS will prepare a Carbon Monitoring Protocol that will provide the factual basis and procedures for documenting changes over time in the greenhouse gases emitted, reduced, avoided, or sequestered by the Project. The Carbon Monitoring Protocol shall include provisions for monitoring and measurement of biomass for the purpose of determining the rate of carbon sequestration. Such monitoring shall be conducted once every two years for the first eight years of the Project Term and then as agreed to by the Parties for the remainder of the Project Term. This Carbon Monitoring Protocol will be reviewed and evaluated by the TAP and will define the methods, procedures, and frequency of activities in the following areas:

(a) measurement of carbon pools in and around the Project Site;

(b) calculation of a Project reference case or baseline;

(c) calculation of net carbon emissions attributed to Project leakage or avoided through the Project's leakage prevention activities as compared to the Project reference case;

(d) carbon emissions calculations and accounting procedures;

(e) preparation and submission of Offset reports;

(f) evaluation of Offset reports by the TAP.

9.2.2 Refinements of Methodologies. The Parties to this Agreement mutually understand and agree that, as a pilot effort, the Project's Offsets monitoring, measurement, and reference case calculation methodologies and techniques may be developed and refined over the Project Term, consistent with those methodologies or techniques that are or are likely to be acceptable to or approved by relevant Mechanisms or Certifying Entities.

9.3 Certification Protocol. The Parties to this Agreement shall cooperate to submit the necessary documentation for obtaining certification of Offsets from the relevant Mechanism or Certifying Entity or Entities annually, or at such other intervals as shall be consistent with the rule, policies, and practices of the Mechanism or Certifying Entity and the Project objective of generating Certified Offsets on as rapid and regular a basis as is feasible and procedures set forth herein, in the Carbon Monitoring Protocol. The Parties to the Agreement shall work with the relevant Mechanism or Certifying Entity or Entities to develop a transparent procedure for certification and obtain certification decisions as expeditiously as feasible.

9.4 Conveyance of Offsets. As long as TEXACO is not in default of its duties under this Agreement, all Offsets generated pursuant to this Agreement shall be conveyed to TEXACO. Such Offsets shall be conveyed providing sufficient time to register such Offsets with registries and tracking systems established by relevant Mechanisms or Certifying Entities. Such conveyance shall transfer to TEXACO the right to hold, register, sell, hypothecate, transfer, or otherwise dispose of such Offsets subject to all applicable legal requirements whatsoever.

9.5 Registration and Recognition of Offsets. The Parties to this Agreement mutually understand, intend, and agree that, subject to all applicable legal requirements whatsoever, each Offset conveyed, or to be conveyed, to TEXACO under this Agreement shall constitute an unconditional marketable private right for TEXACO, or TEXACO's successor in interest or permitted assignees, to register the Offset, in a metric tons, or other acceptable unit measure, of carbon-dioxide equivalent amount equal to the net greenhouse gas mitigation represented by such Offset, with the Energy Information Administration Section 1605(b) Registry of the United States government or with any other relevant Mechanism or Certifying Entity, and to count such Offset toward compliance by TEXACO, or its successor in interest or assignee, with its current or potential future greenhouse gas limitation obligation or commitments, voluntary or otherwise.

9.6 TAP. The TAP will review and evaluate the Carbon Monitoring Protocol, other Project carbon monitoring procedures, Offset reports and any other items requiring TAP review and evaluation under the Carbon Monitoring Protocol. The reasonable costs of these reviews will be paid out of Project funds.

ARTICLE X
RELATIONS WITH GOVERNMENT ENTITIES

10.1 U.S. Government Institutional Relationship. The CONSERVANCY shall be responsible for maintaining regular contact as required by Law with any U.S. government entity that implements a program into which the Project has been accepted for the purposes of certifying, registering, accrediting, or otherwise recognizing greenhouse gas Offsets. It will also be responsible for all Project filings, reports, and other necessary or appropriate Project Documents on behalf of the Parties other than the U.S. government entity, except in the case of Offset registrations under Section 1605(b) of the United States Energy Policy Act of 1992 or any similar or successor governmental or non-governmental GHG mitigation registries and tracking systems that may be hereafter established under applicable law, for which the affected Party shall be responsible.

10.2 Government Communications. Should the Project be accepted by any Mechanism or Certifying Entity, all Project Documents required to be filed, submitted, or registered to such Mechanism or Certifying Entity under this Agreement or any applicable Law shall be:

(a) prepared by the Party or Parties designated by the Executive Committee under the direction of the CONSERVANCY or, in the case of Offset registration under Section 1605(b) (or any other governmental or non-governmental GHG mitigation registries and tracking systems that are or may be hereafter established under applicable law), by TEXACO:

(b) except for registration under Section 1605(b), approved for content by the Executive Committee prior to making the filing, submission, or registration; and

(c) following the approvals and procedures set forth in this Subsection, filed, submitted, and registered by the Party designated by the Executive Committee, in the manner designated by the Executive Committee, or by TEXACO, as applicable.

10.3 External Verification. Consistent with the rules and regulations or practices of relevant Certifying Entities or Mechanisms, the Parties shall direct their respective appointees to provide representatives from such Entities or Mechanisms such opportunities for external verification of the Project as are necessary, appropriate, or required to ensure the reliability of the greenhouse gas benefits reported for the Project.

ARTICLE XI
REPRESENTATIONS, WARRANTIES AND ADDITIONAL COVENANTS

11.1 Representation, Warranties, and Covenants. Each Party independently and separately hereby represents, warrants, and covenants as follows:

11.1.1 Transfer of Influence.

(a) It will not use any form of influence at any level to obtain or elicit favors as is prohibited under U.S. or Brazilian law.

(b) In connection with any business transactions under this Agreement it will not make, offer, or authorize a payment of anything of value to a government official, political party or official thereof, or a political candidate, for the purpose of influencing an official act or decision by such person to obtain, retain, or direct business to any Person.

11.1.2 It has the organizational power to own and operate its properties and to carry on its business;

11.1.3 It is authorized to make the appointments, and grant the authorizations and delegations provided for elsewhere herein, including granting its appointees the authorities to act on behalf of, and to fully bind and represent such Party in all matters that may arise under this Agreement, the Project, or applicable legal requirements of any kind or nature whatsoever;

11.1.4 It has duly obtained or will in a timely fashion obtain, so as not to delay implementation of the Project Plan, all material consents, permits, licenses, approvals, and authorizations and has effected all declarations, filings, and registrations necessary for the due implementation, delivery, and performance of this Agreement and of all other Project Documents;

11.1.5 Its implementation, delivery, and performance of this Agreement and of all other Project Documents to the extent it will materially affect its performance under this Agreement: (i) will not violate any applicable law, regulation, or ruling of any governmental authority; and (ii) will cause each such respective instrument to constitute a legal, valid, and binding obligation of such Party, enforceable in accordance with its terms;

11.1.6 It is a corporation duly organized, validly existing, and in good standing under the Laws of the state, the District of Columbia or the country in which it is incorporated, as applicable; and

11.1.7 No Warranty Regarding Offsets. It is mutually understood and agreed by the Parties that, notwithstanding any good faith estimates of the net greenhouse gas benefit of the Project, they make no representations, warranties, or guarantees as to the amount, quality, or quantity of the Offsets that will be produced, demonstrated, or certified under the Project; *provided that*, each Party hereto does hereby covenant and agree that it will faithfully comply with the responsibilities and obligations under this Agreement on its part to be performed, including, but not limited to those set forth in Articles VIII and IX of this Agreement, and it does hereby warrant performance of the same against the claims of any person whatsoever, and that it will deliver under this Agreement within the time established.

11.2 Additional Warranties of SPVS. In addition to the warranties set forth in Section 11.1, SPVS specifically warrants the following:

11.2.1 Debts & Encumbrances.

(a) It does not have outstanding, nor is it contractually bound to create, any mortgage, pledge, encumbrance, or any other kind of security interest in or with respect to any of its properties or revenues that would materially interfere with performance hereunder and all tax returns and reports required by Law to be filed by SPVS have been duly filed, and all taxes, assessments, fees, and other governmental charges due upon it, or upon any of its assets or income, have been duly paid;

(b) It is not in breach of any provision of any contract to which it is a party which would have a materially adverse effect upon its financial condition or ability to perform its obligations under this Agreement or any other Project Document and no action, suit, proceeding, or investigation is pending against it by or before any domestic or foreign court or governmental authority, nor, to the best of its knowledge and belief after due inquiry, is any action threatened against it or against any of its properties or rights that, if adversely determined, is likely to materially adversely affect its financial condition or its ability to perform its obligations under this Agreement or any other Project Document.

11.2.2 All documents, reports or other written information pertaining to the Project (including, without limitation, this Agreement) which have been furnished by it to another Party are true and correct, and do not contain any material misstatement of fact, or omit to state a material fact, or omit to state a fact necessary to make the statements contained herein or therein not materially misleading.

11.2.3 The Financial Statement dated April 5, 2000, which has been furnished to the other Parties, is complete, correct and fairly represents SPVS's financial condition and the results of its operations for the period then ended. No contingent obligation, liability for taxes, material or long-term commitment, or outstanding debt of any kind exists except as is closed in such statements, and there has been no material adverse change in its financial condition or prospects from that set forth in such Financial Statements, except as disclosed to the Parties in writing.

11.3. Additional Warranties of the CONSERVANCY.

11.3.1 The CONSERVANCY's Financial Statement dated October 2, 1999, which has been furnished to TEXACO, is complete, correct and fairly represents the CONSERVANCY's financial condition and the results of its operations for the period then ended.

11.3.2 Debts & Encumbrances.

(a) It does not have outstanding, nor is it contractually bound to create, any mortgage, pledge, encumbrance or any other kind of security interest in or with respect to any of its properties or revenues that would materially interfere with performance hereunder and all tax returns and reports required by Law to be filed by the CONSERVANCY have been duly

filed, and all taxes, assessments, fees, and other governmental charges due upon it, or upon any of its assets or income, have been duly paid;

(b) It is not in breach of any provision of any contract to which it is a party which would have a materially adverse effect upon its financial condition or ability to perform its obligations under this Agreement or any other Project Document and no action, suit, proceeding, or investigation is pending against it by or before any domestic or foreign court or governmental authority, nor, to the best of its knowledge and belief after due inquiry, is any action threatened against it or against any of its properties or rights that, if adversely determined, is likely to materially adversely affect its financial condition or its ability to perform its obligations under this Agreement or any other Project Document.

11.3.4 All documents, reports, or other written information pertaining to the Project (including, without limitation, this Agreement) which have been furnished by it to another Party are true and correct, and do not contain any material misstatement of fact, or omit to state a material fact, or omit to state a fact necessary to make the statements contained herein or therein not materially misleading.

11.4 Guarantee. No Party represents, warrants, or guarantees to any other Party, successor or assign that any mechanism for achieving national obligations under the FCCC or related documents will be adopted, established, or authorized by the parties to the FCCC. In addition, no Party assumes financial responsibility or liability for the failure of such mechanism to be adopted, established or authorized by the parties to the FCCC, or for the level of value placed on any Offsets generated under this Agreement. Further, no Party represents, warrants, or guarantees to any other Party, successor, or assign that this Agreement or any action under this Agreement, shall cause the creation of any Offset or credit that will be recognized by any governmental or inter-governmental authority of any kind.

11.5 Continuation. The warranties, covenants and acknowledgements set forth in this Agreement shall continue in effect as to each Party so long as such Party remains obligated to perform hereunder.

ARTICLE XII
EVENTS OF DEFAULT

12.1 Events Constituting Default. The occurrence and continuation of any of the following events or circumstances constitutes an "Event of Default" under this agreement:

12.1.1 Failure to Pay. A Party fails to pay when due any amount payable pursuant to this Agreement which failure continues for a period in excess of thirty (30) days; or

12.1.2 Failure to Perform Material Obligation. Any Party fails to comply with or perform any other material obligation, undertaking, agreement, covenant or provision contained herein or in any other Project Document; or

12.1.3 Representations. Any representation or warranty made by or on behalf of any Party in this Agreement or other Project Document, notice, certificate, or other statement delivered pursuant hereto shall prove to have been incorrect, misleading, or false in any material respect when made; or

12.1.4 Authorizations. Any authorization, permit, license, consent or approval of any governmental agency or public authority required to be obtained by a Party and necessary for the implementation, delivery or performance of a material provision of this Agreement or any other Project Document, or for the validity or enforceability of any material obligations under this Agreement or other Project Document is not given or is withdrawn or ceases to remain in full force and effect due to the malfeasance or nonfeasance of such Party; or

12.1.5 Cessation of Grants of Rights. In any material respect a Party ceases to give or grant another Party the rights, titles, remedies, powers or privileges provided by this Agreement or any other Project Document; or

12.1.6 Condemnation. Any governmental authority condemns, nationalizes, seizes or otherwise expropriates a portion of the assets of the Project Site, or takes any other action that would prevent a Party from performing any material obligation under this Agreement or any other Project Document, due to the malfeasance or nonfeasance of such party; or

12.1.7 Contesting of Obligations. Any Party takes any judicial or other action to void, repudiate or otherwise contest the validity of its obligations hereunder or under any other Project Document, including:

(a) applying for or consenting to the appointment of a receiver, trustee, custodian, intervenor or liquidator of itself or of all or a substantial part of its assets,

(b) filing a voluntary petition in bankruptcy, admitting in writing that it is unable to pay its debts as they become due or generally not paying its debts as they become due,

(c) making a general assignment for the benefit of creditors,

(d) filing a petition or answer seeking a reorganization or arrangement with creditors, or to take advantage of any bankruptcy or insolvency Laws,

(e) filing an answer admitting the material allegations of, or consenting to, or defaulting in answering, a petition filed against it in any bankruptcy, reorganization or insolvency proceeding where such action or failure to act will result in a determination of bankruptcy or insolvency against such entity; or

12.1.8 Bankruptcy. Without its application, approval or consent, a proceeding that could void a Party's obligations hereunder or under any other Project Document is instituted in a court of competent jurisdiction, or by or before any government or governmental agency of competent jurisdiction, seeking in respect to any Party an adjudication in bankruptcy, reorganization,

dissolution, winding up, liquidation, composition or other arrangement with creditors, a readjustment of debt, the appointment of a trustee, receiver, liquidator or the like, of it or of all or any substantial part of its property or assets, or other like relief in respect of it under any bankruptcy, reorganization or insolvency Law; and, if such proceeding is being contested by it in good faith, the same shall continue undismissed for a period of sixty (60) days; or

12.1.9 Discharge of Judgments. Any final judgment(s) for the payment of money is rendered against SPVS or the CONSERVANCY, and such judgment or judgments shall affect SPVS's ability to perform its obligations as Project Site Manager or the CONSERVANCY's ability to perform its obligations as Project Funds Manager and such judgment or judgments shall not be satisfied or discharged within sixty (60) days of entry; or

12.1.10 SPVS:

(a) is not performing or will not be able to perform its obligations as Project Site Manager in any respect in accordance with the terms of this Agreement or any other Project Document, or

(b) ceases to exist, or retain or exercise management control of the Project Site; or

12.1.11 The CONSERVANCY:

(a) is not performing or will not be able to perform its obligations as Project Funds Manager in any respect in accordance with the terms of this Agreement or any other Project Document, or

(b) is not performing or will not be able to perform its obligations regarding the Project Site Endowment Fund in any respect in accordance with the terms of this Agreement or any other Project Document, or

(c) Ceases to exist or is substantially restructured to the point that its activities in Brazil cease to be a priority.

12.2 Notice Upon an Event of Default. If an Event of Default is determined by a simple majority of the non-defaulting Parties, or in the case of an Event of Default by two Parties the non-defaulting Party, to be of a material nature, then notice of such default shall be given to such Party or Parties by the non-defaulting Party or Parties, which notice shall be directed to the defaulting Party or Parties by registered mail at the address listed in Attachment 4 of this Agreement.

12.3 Remedies Upon an Event of Default.

12.3.1 Opportunity to Cure. The defaulting Party shall cure the Event of Default within thirty (30) days from the date on which notice is given to the defaulting Party under Section 11.2, except for:

(a) an Event of Default arising under Subsections 12.1.6, 12.1.8, 12.1.9 or 12.1.10 or 12.1.11, in which case no cure period will be allowed, or

(b) an Event of Default that cannot be cured within thirty (30) days despite diligent efforts, in which case the defaulting Party shall commence the cure within the thirty (30) day period and proceed diligently thereafter until the cure is effected.

12.3.2 Failure to Cure. If the Event of Default is not cured within the applicable deadline set forth above, or the default arises under Subsection 12.1.6, 12.1.8, 12.1.9 or 12.1.10 or 12.1.11, and except when the noticed Party disputes the alleged default diligently and in good faith pursuant to Article XIII, then and in that event the following remedies shall be available to the non-defaulting Parties (without limiting the availability of any other remedies available under this Agreement, or in law or equity, all such remedies to be cumulative):

(a) suspend or defer performance of the non-defaulting Parties' obligations under the Project Documents, in whole or in part, until the Event of Default is cured by the defaulting Party,

(b) continue performance if it deems it reasonable to do so, or

(c) if Texaco is the non-defaulting Party, it may elect to obtain reimbursement of the remaining Project Funds. Such remedy shall not affect Texaco's rights regarding any Offsets generated to the date of such election.

12.3.3 Non-defaulting Parties may invoke their rights in this Subsection against a defaulting Party.

(a) Project Site Manager Default. In the event of a Project Site Manager default under 12.1.10, the non-defaulting Parties may seek such relief in proceedings initiated under Article XII, as is permitted by applicable legal requirements or in equity to continue the expeditious and full implementation of the Project. To the extent that the equitable relief necessary to prevent irreparable harm to the Project or any Party cannot be awarded in arbitration under Article XII, the non-defaulting Parties shall have the right to (1) replace the Project Site Manager with another Brazilian entity with appropriate conservation objectives acceptable to the non-defaulting Parties, and SPVS shall transfer to such entity all of the assets it holds or possesses in connection with this Agreement (including, but not limited to, the Project Site), shall transfer to such entity all of its records in connection with this Agreement and shall otherwise cooperate with TEXACO and The CONSERVANCY in conducting such replacement effectively and efficiently; and/or (2) notwithstanding Article XIII, seek such relief directly in any court of competent jurisdiction. SPVS hereby agrees and consents to such relief including:

(i) such (affirmative or negative) temporary, preliminary or permanent injunctive relief as may be necessary to ensure the timely and full implementation of the Project Site manager performance, duties and obligations established under this Agreement, and

(ii) an order transferring such obligation to another Brazilian organization with appropriate conservation objectives selected by the non-defaulting Parties, during the term established by the Parties

(b) The non-defaulting Parties may, by unanimous agreement:

(i) declare, by written demand to the defaulting Party, to be made whole without any other presentment, demand, diligence, protest, notice of acceleration, or other notice of any kind, all of which the Parties hereby expressly waive;

(ii) without notice of default or demand, proceed to protect and enforce their rights and remedies by appropriate proceedings, whether for damages or the specific performance of any provision of this Agreement, in any other Project Document or by Law; and

(iii) suspend or terminate this Agreement as to such Party, in which case all the rights, titles and interests of the defaulting Party hereunder shall wholly cease without any right of reclamation or compensation for expenditures made or money paid or to be paid hereunder or otherwise.

(c) Costs. In any such event of continuing default, the reasonable costs incurred by the Executive Committee as a result of a Party's default shall be due and payable by such defaulting Party upon submission to such Party by the Executive Committee of invoices thereof. In the event that the defaulting Party shall institute any suit or action to enforce any right hereunder and not prevail, the defaulting Party shall pay the other Parties such sum as the tribunal or Court may adjudge reasonable as attorney's fees and costs for the defense of such suit or action.

ARTICLE XIII
DISPUTE RESOLUTION

13.1 The Parties hereby delegate to their respective Principal Contacts all responsibility and authority with regard to disputes and the settlement of disputes between the Parties under this Agreement (including disputes regarding the monitoring, certification and Apportionment of Offsets, or the Apportionment of Offsets proceeds or costs).

13.2 Except as otherwise provided in this Agreement, the Parties hereby agree that, in the event of any claim, counterclaim, dispute or other matter in question between any two or more

Parties arising out of, or relating to, this Agreement or a breach of this Agreement, the Parties shall first seek to resolve the matter in question through informal discussions.

13.3 In the event any matter in question cannot be resolved between any two or more Parties informally within thirty (30) days of the raising of such matter by one Party to another, the Parties agree that such matter shall be negotiated between the parties in dispute through mediation in accordance with Mediation Rules ("Mediation Rules") of the American Arbitration Association's Commercial Arbitration and Mediation Center for the Americas ("CAMCA"); *provided that,* notwithstanding any provision in the Mediation Rules to the contrary, any list of persons prepared by the administrator of the Mediation Rules for consideration in the mediator selection process shall include any persons proposed by any Party. The language to be used in all mediation proceedings under this Agreement shall be English unless Parties agree otherwise. The cost of the mediator shall be shared equally by the Parties to the mediation, but each Party shall bear its own costs, including but not limited to, it own attorney fees, internal costs and travel expenses. The Parties' costs shall not be paid for from Project Funds.

13.4 In the event any matter in question cannot be resolved between any two or more Parties through mediation and such mediation is terminated as provided in the Mediation Rules, the Parties in dispute agree that such matter shall be settled between the Parties by binding arbitration administered by the American Arbitration Association under its International Arbitration Rules. The determination of such arbitration shall be binding on all Parties to such dispute and enforceable according to its terms within all relevant jurisdictions. The cost of administering the arbitration that is imposed by the Arbitration Rules shall be shared equally by the Parties to the arbitration, but each Party shall bear its own costs, including but not limited to, its own attorneys' fees, internal costs and travel expenses. The Parties' costs shall not be paid for from Project Funds.

13.5 The Parties agree that except as expressly provided to the contrary in this Agreement, this Article XIII sets forth the exclusive procedures the Parties shall follow regarding any dispute in connection with this Agreement, and except as expressly provided to the contrary in this Agreement, no party shall file or otherwise assert any claim in any court in connection with any dispute under this Agreement.

ARTICLE XIV
LIMITATIONS ON LIABILITY AND FORCE MAJEURE

14.1 Limitations on Liability.

14.1.1 Liability for Matters Not Within the Scope of Responsibility. Nothing in this Agreement is intended to impose liability on the Parties for matters not expressly within the scope of their responsibilities under this Agreement.

14.1.2 Responsibility for Acts, Omissions or Malfeasance. Each Party shall be solely responsible for the acts, omissions or malfeasance of such Party and its employees, representatives, invitees, or agents, and no Party shall be liable for the acts, omissions, or malfeasance of any other Party or its employees, representatives, invitees, or agents.

14.1.3 Liability for Non-Agents on Project Site. In no event shall any Party be made liable by virtue of this Agreement for any loss sustained by any person that is not such Party's employee, representative, invitee, or agent while on the Project Site, unless such loss results from the omissions or malfeasance of that Party or its employees, representatives, invitees, or agents.

14.2 Force Majeure.

14.2.1 *"Force Majeure,"* for purposes of this Agreement, means any event, including acts of God, arising from causes beyond the control of a Party or of any person engaged, employed by or associated with a Party, such as a Party's contractors and subcontractors, that delays the timely performance of any material obligation under this Agreement notwithstanding that Party's use of best efforts to avoid the delay. The requirement that the Party exercise "best efforts to avoid the delay" includes using best efforts to anticipate any potential *force majeure* event (a) as it is occurring, and (b) following the *force majeure* event, such that the delay and the adverse effects of the delay are minimized to the greatest extent practicable.

14.2.2 Pursuant to Subsection 6.1.3, if any event occurs or has occurred that may delay the performance by a Party of any material obligation under this Agreement, whether or not caused by a *force majeure* event, that Party shall notify the other Parties orally as soon as possible and in writing within five (5) Business Days of when the Party knows that the event might cause or contribute to a delay or non-performance of such obligation. Each Party shall exercise best efforts to avoid or minimize any delay and any adverse effects of a delay. Failure to comply with the above requirements shall preclude such Party from asserting any claim of *force majeure*.

14.2.3 If all the other Parties agree unanimously that the delay or anticipated delay by one Party is attributed to a *force majeure* event, the time for performance of the mutual obligations of the Parties under this Agreement that are directly affected by the *force majeure* event shall be extended by agreement of the Parties. In any proceeding, to qualify for a *force majeure* defense, the Party claiming *force majeure* shall have the burden of demonstrating by a preponderance of the evidence that the delay or anticipated delay has been, or will be, caused by a *force majeure* event, that the duration of the delay was or will be warranted under the circumstances, that the delaying Party did exercise or is exercising due diligence by using its best efforts to avoid and mitigate the effects of the delay, and that the delaying Party complied with the notification requirements of Subsection 6.1.3.

14.2.4 Should the delaying Party carry the burden set forth in Subsection 14.2.3, the delay at issue shall be deemed not to be a violation of the affected obligation or a default of this Agreement and the time for performance of the mutual obligations of the Parties under this Agreement shall be extended to reflect the period of *force majeure*.

14.3 Indemnification.

14.3.1 Notwithstanding any provision of this Agreement or any other Project Document to the contrary, SPVS shall release, defend and indemnify TEXACO and the CONSERVANCY and their officers, directors, shareholders, employees, affiliates, successors and assigns from and against any claim, suit, liability, or proceeding (and any costs, expenses, fines or penalties

associated with the foregoing) of any kind or nature whatsoever that is asserted or brought by any Person and that arises from or in connection with SPVS' acts or omissions in connection with the Project or the Project Documents.

14.3.2 Notwithstanding any provision of this Agreement or any other Project Document to the contrary, the CONSERVANCY shall release, defend and indemnify TEXACO and SPVS and their officers, directors, shareholders, employees, affiliates, successors and assigns from and against any claim, suit, liability, or proceeding (and any costs, expenses, fines or penalties associated with the foregoing) of any kind or nature whatsoever that is asserted or brought by any Person and that arises from or in connection with the CONSERVANCY's acts or omissions in connection with the Project or the Project Documents.

14.3.3 Notwithstanding any provision of this Agreement or any other Project Document to the contrary, TEXACO shall release, defend and indemnify the CONSERVANCY and SPVS and their officers, directors, shareholders, employees, affiliates, successors and assigns from and against any claim, suit, liability, or proceeding (and any costs, expenses, fines or penalties associated with the foregoing) of any kind or nature whatsoever that is asserted or brought by any Person and that arises from or in connection with the TEXACO's acts or omissions in connection with the Project or the Project Documents.

ARTICLE XV
MISCELLANEOUS

15.1 Incorporation by Reference. The Attachments hereto are incorporated herein by reference at the places mentioned as if their terms were set forth fully herein. In the event of any conflict between any Attachment and any other provision of this Agreement, such other provision shall control.

15.2 Applicable law. Except where specifically stipulated to the contrary, the Agreement shall be governed in all respects by the Laws of the State of New York applicable to contracts made and performed therein, without regard to the principles of conflict laws.

15.3 Amendments, Construction and Termination. The provisions of this Agreement may be waived, modified, supplemented, amended, canceled, renewed, extended or terminated to the extent consistent with the requirements of Law only be a written instrument signed by all the Parties.

15.3.1 References. Reference to, and the definition of, any Project Document (including this Agreement) shall be deemed a reference to such document as it may hereafter be amended or modified from time-to-time in writing by the Parties.

15.3.2 Revisions Due to Changes of Law.

(a) It is the intent of the Parties that the rights, authorities, duties, responsibilities and obligations of the Parties provided for in this Agreement and in any other Project Document shall be consistent and implemented in conformance with applicable legal requirements. If any provision of this Agreement or other Project Document is found to be

illegal, invalid, or unenforceable, the remaining provisions shall remain fully enforceable and unimpaired.

(b) For purposes of this Subsection a "Change in the Law" shall mean any change in the text, or interpretation by a governmental authority with jurisdiction, of a legal requirement of the United States or Brazil, that materially affects this Agreement or other Project Document.

(c) The Parties agree to renegotiate in good faith any revisions to this Agreement necessitated by any Change in the Law, and to limit the scope of such renegotiation to provisions materially affected by such Change in the Law.

15.4 Descriptive Headings. Title and headings used in this Agreement are for reference purposes only and shall not in any way affect or limit the meaning or construction of any provision of this Agreement.

15.5 Complete Agreement. This Agreement, including all Attachments hereto, embodies the entire and complete understanding and agreement between the Parties, and supersedes all prior negotiations, understandings and agreements between them, whether written or oral, with respect to the subject matter hereof. The rights, duties, responsibilities and obligations of any Party hereto with regard to any future Project Document shall be set forth in those other Project Documents; *provided that*, in the event of any conflict between the terms of this Agreement and any such other Project Document, the terms of this Agreement shall control.

15.6 Form of the Agreement. The Parties specifically declare that it is neither their intent nor purpose by entering into this Agreement to create, and this Agreement shall not be construed to have created, a partnership, joint venture or other business arrangement, nor is it a principal purpose of the Parties to enter into a commercial undertaking. No party shall (a) refer to or treat the Project or the arrangements arising under this Agreement as a partnership in connection with the filing or making or any form or return or (b) take any other action inconsistent with such intention.

15.7 Successors and Assigns. This Agreement shall be binding on and inure to the benefit of the Parties and to their respective successors in interest and assigns, including any successor in interest or assign to any Registration Interest granted to the Parties under this Agreement.

15.8 Counterparts. This Agreement may be executed in multiple counterparts each of which shall constitute an original, but all of which together shall constitute one and the same instrument.

15.9 No Third Party Beneficiaries. There are no third party beneficiaries of this Agreement.

15.10 No Waivers. The failure of any Party to seek redress for violations of, or to insist upon the strict performance of, any covenant, agreement, provision or condition of this Agreement shall not constitute a waiver thereof and such Party shall have all remedies provided in this Agreement and under applicable Law with respect to any subsequent act which originally would have constituted a violation, breach or default of or under this Agreement.

15.11 Insurance or Guarantees. TEXACO, in its sole discretion, may decide at any time to obtain insurance or guarantees with respect to Offsets, regardless of whether they are certified. The CONSERVANCY and SPVS will cooperate with TEXACO to provide TEXACO with the assistance it requests in order to assemble information to obtain such insurance or guarantees, including, but not limited to, providing assistance in connection with relevant Certifying Entities or Mechanisms.

15.12 Survival. All of the covenants, agreements, representations and warranties, and indemnities made by each Party contained in this Agreement and its Attachments shall survive the execution of this Agreement.

IN WITNESS WHEREOF, the Parties have executed and delivered this Agreement as of the date and year first above written.

UNDERSTOOD AND AGREED TO:

SOCIEDADE DE PESQUISA E VIDA SELVAGEM

SIG: _____
BY: Clovis Ricardo Schrappe Borges
TITLE: Executive Director
DATE: 12/6/2000

_____
WITNESS

_____
WITNESS

TEXACO INC.

SIG: _____
BY: Elliott P. Laws
TITLE: President Safety, Health & Environment
DATE: 12-12-00

_____
WITNESS

_____
WITNESS

THE NATURE CONSERVANCY

SIG: _____
BY: Michael Coda
TITLE: Director, Climate Change Program
DATE: 12-1-2000

_____
WITNESS

_____
WITNESS

ATTACHMENTS

ATTACHMENT 1

AUTHORITIES OF THE SIGNATORIES (Including Certificates of Good Standing)

ATTACHMENT 2

DESCRIPTION OF PROJECT FINANCING, OVERALL PRELIMINARY PROJECT BUDGET AND 40 YEAR PROJECTED CASH FLOW

ATTACHMENT 3

PROJECT PLAN [RESERVED]

ATTACHMENT 4

NAMES AND ADDRESSES OF PRINCIPAL CONTACTS

ATTACHMENT 5

FORM OF DONATION AGREEMENT

ATTACHMENT 6

FORM OF DEPOSIT CONTRACT

ATTACHMENT 7

MEMORANDUM OF AGREEMENT [RESERVED]

ATTACHMENT 8

PROJECT PROPOSAL

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AGREEMENT FOR

THE BAYOU PIERRE FLOODPLAIN CLIMATE ACTION PROJECT

BETWEEN

POWERTREE CARBON COMPANY, LLC

AND

THE NATURE CONSERVANCY

Article 1
Introduction

In consideration of the terms in this agreement and noted attachments (hereinafter the "Agreement"), PowerTree Carbon Company, LLC, hereinafter known as "PowerTree", contracts with The Nature Conservancy, hereinafter known as "Conservancy" (hereinafter, collectively, the "Parties"), to fund The Bayou Pierre Floodplain Climate Action Project, hereinafter the "Project", and that such Project aims to generate greenhouse gas emission reductions and associated benefits for the use of PowerTree and its member companies. As used in this Agreement, "Emission Reduction" shall mean one ton of carbon-equivalent Greenhouse Gas emissions demonstrated to be mitigated, reduced, avoided, sequestered or fixed in any calendar year and any associated credits, rights, authorizations, permits, or other benefits, including but not limited to any rights with respect to any database maintained pursuant to section 1605(b) of the Energy Policy Act of 1992 (Pub. L. No.102-486) or any successor statute.

Notwithstanding anything in this Agreement to the contrary, Conservancy makes no representations, warranties or guarantees regarding the amount, quality or quantity of Emission Reductions produced, demonstrated or certified under the Project and makes no representations, warranties or guarantees of any kind whatsoever regarding the climate change or greenhouse gas mitigation effects that are anticipated to be generated as a result of this Agreement. Conservancy further makes no representations, warranties or guarantees that the Project or any action taken under this Agreement shall cause the creation of any offset, benefit or credit that will be recognized by any governmental authority.

Article 2
Project Description

2.1 Project Scope

Conservancy agrees that the Project scope is as described in Attachment B, Bayou Pierre Floodplain Climate Action Project proposal to PowerTree Carbon Company, LLC, the key details being:

2.1.1 Conservancy has identified a tract of land consisting of 580 acres, more or less, located in the Bayou Pierre Floodplain area, which Conservancy can purchase from the current owner (referred to as the Barlow-Steel tract or the "Property"). The Project scope will include all that portion of the Property that is suitable for reforestation, or approximately 500 acres of marginal cropland. PowerTree and the Conservancy intends either that the Property will eventually be transferred to the Louisiana Department of Wildlife and Fisheries (LDWF) to be incorporated into the Bayou Pierre Wildlife Management Area or that it be transferred to a mutually acceptable alternative entity. The Project and each Parties' obligations under this Agreement are expressly subject to and conditioned upon Conservancy's successful acquisition of the Property. In the event Conservancy does not acquire the Property, this Agreement shall terminate and the parties hereto shall have no further rights or obligations to the other. The entire 500 acres will be planted in the first planting season following the Conservancy's acquisition of the Property with bottomland hardwood seedlings under the direction of Environmental Synergy Inc. ("ESI"), or such other contractor as PowerTree may contract with under separate agreement and at PowerTree's expense.

2.1.2 In exchange for the rights to plant approximately 500 acres of the Property and retain exclusive ownership of Emission Reductions resulting therefrom, PowerTree agrees to: 1) make payments to Conservancy to be used toward the purchase price of the Property (currently estimated to be $800.00 per acre), said payment not to exceed $320,000.00; 2) make additional payments to Conservancy to reimburse any closing costs, survey and appraisal fees and interest carrying charges on the un-reimbursed principal incurred by Conservancy for the years 2004 thru 2006 (up to $84,520.00); and 3) make payment to Conservancy an additional $20,000.00 representing a management fee which Conservancy will in turn transfer to: (1) LDWF for operation and maintenance of the Property once Conservancy has transferred the Property to the LDWF for inclusion in the Bayou Pierre Wildlife Management Area or (2) a mutually acceptable alternative entity

2.1.3 PowerTree will contract for planting on approximately 500 acres in the first planting season following the Conservancy's acquisition of the Property . Conservancy will allow PowerTree's contractor access to the Property for planting and may, at its discretion, require PowerTree's contractor to execute a Surface Use Agreement, License, or similar agreement as Conservancy deems necessary prior to any access and use of the Property by PowerTree's contractor.

2.1.4 Conservancy will verify that PowerTree's contractor has planted the trees according to ESI standards.

2.1.5 If the Conservancy (or PowerTree on the Conservancy's behalf) collects damages for damage to the Project pursuant to paragraph 14 of the Oil, Gas and Mineral Lease in favor of Clark Energy Company, dated July 24, 2002 ("Mineral Lease"), then the Conservancy shall promptly remit such damages to PowerTree. If the Conservancy does not pursue or collect such damages, the Conservancy agrees that PowerTree may pursue or collect such damages under the Mineral Lease on behalf of the Conservancy.

2.1.6 Conservancy shall, at a time mutually agreed by Conservancy and PowerTree but prior to the end of this Agreement transfer the Property to the LDWF for inclusion in the Bayou Pierre Wildlife Management Area or to a mutually acceptable alternative entity, subject to the following deed restrictions, which restrictions shall be reasonably acceptable to PowerTree: (1) a restriction recognizing that PowerTree holds right to any and all Emission Reductions resulting from tree-planting activities on the Property; (2) a restriction recognizing PowerTree's rights to damages as set forth in 2.1.5 above; (3) such other restrictions as reasonably requested by PowerTree to protect the planted seedlings and the purpose of this Agreement; and (4) an obligation in the transferee to execute any additional documents reasonably requested by PowerTree to effect the purposes of this Project, providing the costs of executing such additional documents are reasonable.

2.1.7 Conservancy shall execute any additional documents reasonably requested by PowerTree to effect the purposes of this Agreement, providing the costs of executing such additional documents are reasonable.

2.1.8 The parties intend this Agreement to represent a non-real estate contract between PowerTree and Conservancy, granting certain contractual rights to PowerTree as described in paragraphs 2.1.2, 2.1.3, 2.1.5, 2.1.6, and 2.1.7 above. Nothing herein shall be construed to grant a real property interest to PowerTree in any real property acquired by Conservancy for purposes of this Project. The parties further agree that Emission Reductions do not constitute a "real property interest" at the time of the execution of this Agreement.

2.1.8 PowerTree acknowledges and agrees that its right to plant trees on the Property is subject to all existing easements, rights-of-way, leases and other encumbrances affecting the Property, including the Mineral Lease. Upon request, Conservancy will provide PowerTree a copy of any title commitment obtained by Conservancy in connection with the purchase of the Property.

2.2 Reports

The Conservancy shall submit, with each payment request below, brief status reports regarding progress, relative to Conservancy's obligations and activities as stated above. Said reports will be kept confidential by PowerTree to the extent permitted by law for a period of three years.

Article 3
Period of Contract

The duration of this Agreement shall be over the period from _____, 2004 through September 15, 2006.

Article 4
Agreement Amount and Payment

The Parties agree that the total payment by PowerTree to Conservancy will be $424,520.00 and does not include any additional costs incurred by PowerTree to purchase the hardwood seedlings or hire the contractor to plant the seedlings (PowerTree's payment to Conservancy together with PowerTree's additional costs represent total Project cost). Payments will be made by PowerTree to Conservancy as follows:

4.1 The first payment will be $54,520.00 and will be paid within 15 days signing the Agreement, to be applied to closing costs and staff costs on fee title acquisition, interest, and principal.

4.2 $95,000.00 on or before September 15, 2005, to be applied to interest payments on the land purchase principal and payment of the principal.

4.3 $255,000.00 on or before September 15, 2006, to be applied to interest payments on the land purchase principal and payment of the balance of the principal (subject to Final Acceptance by PowerTree).

4.4 $20,000.00 on or before December 15, 2006, to be transferred as a management fee to LDWF or to another mutually acceptable entity to which the Property is transferred pursuant to section 2.1.7 of this Agreement.

Payments will be made by PowerTree within 30 days of receipt of a payment request from Conservancy together with the status report referenced in Section 2.2 above. Payment requests shall include Conservancy's contact name and address to receive payment.

Article 5
Additional Provisions

The following Attachments are incorporated into this Agreement by reference in

their entirety:

Attachment A – General Terms and Conditions to Agreement
Attachment B – Bayou Pierre Floodplain Climate Action Project Proposal
Attachment C – Property Description (to be inserted once Property is under contract for acquisition by Conservancy)
Attachment D – Insurance Requirements

Article 6
Notices

All notices or other communications between the Parties hereto shall be in English and shall be directed to the following officials:

Conservancy's Representative:

Keith Ouchley, State Director
The Nature Conservancy – Louisiana Chapter
201 St. Charles Street
Baton Rouge, Louisiana 22203

With copy to:

The Nature Conservancy
Attn: Legal Department
P.O. Box 1440
San Antonio, Texas 78295

PowerTree's Representative:

Gary Kaster, President
PowerTree Carbon Company, LLC
59 West Main Street
McConnelsville, Ohio 43756

By signing this Agreement, the Parties represent that they have the authority and capacity to bind their respective entity to this Agreement.

PowerTree Carbon Company, LLC	The Nature Conservancy
Gary Kaster	Keith Ouchley
[Representative's Name]	**[Representative's Name]**
4-19-04	4-19-04
Date	Date

ATTACHMENT A
GENERAL TERMS AND CONDITIONS
TO AGREEMENT

ARTICLE 1
Definitions

1.1. "Agreement" shall, unless the precise context means otherwise, include all written Attachments, and other written exhibits, schedules, modifications and amendments to this Agreement.

1.2. "PowerTree" shall mean PowerTree Carbon Company, LLC or any of its authorized officers, directors, managers, agents or contractors.

1.3. "PowerTree Document" shall mean any description, narrative, drawing, design, specification, blueprint, diagram, illustration or other depiction furnished by PowerTree.

1.4. "Date of Execution" shall be the last date on which either Party has signed this Agreement.

1.5. "Final Acceptance" shall mean the acceptance and/or approval of the Project by PowerTree, provided that it meets the requirements of this Agreement, and all other contractual requirements have been successfully completed. The term "Finally Accepted" shall have a correlative meaning.

1.6. "Force Majeure" shall include but not be limited to acts of God, fires, floods, storms, droughts, strikes, labor disputes, riots, insurrections, acts of war (whether declared or otherwise), acts or omissions of governmental, regulatory, or judicial bodies, or any other causes beyond the reasonable control of and without the fault or negligence of the Party claiming Force Majeure.

1.7. "Greenhouse Gas" shall mean any gas defined by the Intergovernmental Panel on Climate Change to have a global warming potential and for which the Project will provide a quantifiable benefit, primarily including carbon dioxide, methane and nitrous oxide.

1.8. "Parties" shall mean PowerTree and Conservancy; "Party" shall mean PowerTree or Conservancy.

1.9. "Performance Test" shall mean any test or inspection for purposes of making a determination of the extent to which Conservancy's services meet the standards, criteria or measurements set forth in this Agreement, whether or not related to Final Acceptance.

1.10. "Restricted Information" means any non-public information regarding a Party that is identified as confidential or restricted when provided by such Party, or its agent, employee or representative, to any other Party or to an agent, representative or employee of such other Party. "Restricted Information" does not include any verified greenhouse

gas monitoring data or other information relating to the production, certification, apportionment or registration of offsets under the Department of Energy's Section 1605(b) registration program, the Laws of the United States, or to comply with an order of a Federal, State, or local court or governmental agency.

1.11. "Project" shall mean the services described in the Agreement and further specified in Attachment B, "Bayou Pierre Floodplain Climate Action Project Proposal."

1.12. "Site" shall mean the location at which any of the project deliverables are to be performed or provided.

1.13. "Notice" shall mean a communication from one Party to another which relates to this Agreement or a provision of this Agreement, or any other communication which a Party deems material to this Agreement or its performance.

1.14. "Emission Reduction" shall mean one ton of carbon-equivalent Greenhouse Gas emissions demonstrated to be mitigated, reduced, avoided, sequestered or fixed in any calendar year and any associated credits, rights, authorizations, permits, or other benefits, including but not limited to any rights with respect to any database maintained pursuant to section 1605(b) of the Energy Policy Act of 1992 (Pub. L. No.102-486) or any successor statute.

ARTICLE 2
Representations and Statements Made In Response To Request For Proposals

2.1. Conservancy acknowledges that PowerTree is entering into this Agreement in reliance upon representations made in the project proposal, Attachment B attached and submitted by Conservancy to representatives of PowerTree Carbon Company, LLC, dated January 5, 2004 . However, PowerTree acknowledges and agrees that any figures and/or data included in said project proposal regarding expected carbon sequestration, carbon dioxide offsets, emission reductions or carbon credits resulting from the Project, are intended as estimates only and that Conservancy makes no warranties or guarantees as to the amount of Emission Reductions, if any, that will result from the Project.

ARTICLE 3
Compensation And Security

3.1. PowerTree agrees to compensate Conservancy for its services as outlined by Articles 2 and 4 of the Agreement Document. All compensation due Conservancy shall be payable in U. S. dollars. In the event that Conservancy is in default of any obligation under this Agreement, PowerTree's payment obligation shall be suspended until the default is cured or removed.

3.2 In the event that PowerTree is in default of any obligation under this Agreement, Conservancy's obligations shall be suspended until the default is cured or removed. In the event PowerTree's default is not cured or removed, Conservancy may pursue any remedies available at law or in equity to enforce the terms of the Agreement.

ARTICLE 4
Rights In Emission Reductions

4.1. Any Emission Reductions that directly or indirectly result from the Project, and are paid for by PowerTree, are the sole property of PowerTree, and Conservancy shall have no rights whatsoever with respect to such Emission Reductions.

4.2. Conservancy shall provide all reasonable cooperation to PowerTree to enable PowerTree to achieve the maximum benefit attainable as a result of the Emission Reductions resulting from the Project. PowerTree shall provide reasonable compensation to Conservancy if PowerTree requests services that are beyond the scope of this Agreement.

4.3. Conservancy represents and warrants to PowerTree that, to the best of Conservancy's knowledge, it has done nothing to cloud, encumber or impair title to Emission Reductions resulting from the Project, nor done anything to contrary to PowerTree's intention to claim such rights.

ARTICLE 5
Conservancy Responsibilities

In its performance of this Agreement, Conservancy agrees:

5.1. To provide information on reasonable request of Conservancy about the Project.

5.2. To refrain, so long as this Agreement continues in effect, from engaging in any activity with respect to the Property, which impedes performance of the Project and generation of Emissions Reductions under this Agreement.

ARTICLE 6
Laws, Regulations and Permits

Conservancy shall comply with all federal, state and local laws, rules or regulations applicable to the Project. PowerTree shall in no event be liable for any costs, fines,

penalties, awards, damages or other liabilities associated with any violations of laws, rules or regulations by Conservancy or Conservancy's subcontractors or agents.

ARTICLE 7
Insurance

Conservancy shall, at all times during which this Agreement is in effect, procure and continue in full force and effect the policies of insurance specified in Attachment D. Any insurance specified in Attachment D shall be primary and in addition to, and not in lieu of, any policy or policies of insurance maintained by PowerTree. Conservancy shall provide a certificate of insurance for each policy required by this Agreement within thirty (30) days of the effective date of such policy. Notwithstanding the above, Conservancy's obligation to procure and continue in force property insurance on any real property acquired by Conservancy in connection with the Project shall terminate if and when Conservancy transfers title to such real property to the Louisiana Department of Wildlife and Fisheries or any other individual or entity as allowed under the Agreement.

ARTICLE 8
Trademarks

Conservancy agrees that "PowerTree," or the PowerTree logo, trademarks or service marks or trade names are the property of PowerTree. Conservancy agrees to use the trademarks or service marks or trade names of PowerTree only in the manner directed by PowerTree, and in no other manner. PowerTree agrees that "The Nature Conservancy" or The Nature Conservancy logo, trademarks or service marks or trade names are the property of The Nature Conservancy. PowerTree agrees to use the trademarks or service marks or trade names of The Nature Conservancy only in the manner directed by The Nature Conservancy, and in no other manner. Use of The Nature Conservancy's name, logo, trademarks or service marks is subject to The Nature Conservancy's internal policies and procedures and subject to all internal approval requirements.

ARTICLE 9
Public Communications

Conservancy and PowerTree shall not issue any written press statement to any public media concerning the relationships created by this Agreement, or concerning any activities that have occurred or are occurring pursuant to this Agreement, without first discussing the content of the proposed statement with the other Party and obtaining the other Party's consent to a final version of the statement.

ARTICLE 10
Site And Environmental Responsibilities

10.1. If the performance of the Project, or any portion thereof, is suspended, Conservancy shall take such reasonable steps as may be necessary or advisable to protect the Project that are in conformance with this Agreement and completed by the Conservancy as part of the Project. Any obligation of Conservancy to protect the real property acquired in connection with this Project shall only apply as long as Conservancy owns such real property and shall terminate upon Conservancy's transfer of title to the real property.

10.2. Conservancy shall immediately notify PowerTree, in sufficient detail to enable PowerTree to determine the significance and implications of such notice, if:

(a) Conservancy is served with any notice of violation of environmental laws relating to, or that may affect, any aspect of the Project;

(b) proceedings are commenced against Conservancy which could lead to revocation or suspension of any environmental registration, permit, license, or approval relating to the performance of any aspect of the Project;

(c) Conservancy receives notice of any environmental liability, including any administrative or judicial action, whether by any governmental body or any other third party, commenced against Conservancy relating to, or that may affect, any aspect of the Project;

(d) Conservancy becomes aware that any activity or condition, or its equipment or facilities relating to the Project, do not comply, or have the potential of creating an unsafe condition or a non-compliance, with environmental laws.

10.3 The Parties recognize that certain portions of the Project shall be performed by PowerTree's contractor (ESI or such other contractor as PowerTree selects) pursuant to a separate agreement between PowerTree and its contractor, and that Conservancy has no control or responsibility for the work performed by PowerTree's contractor other than as specifically stated in the Agreement and Attachments. Nothing in this Agreement shall be construed to require Conservancy to assume any liability for or to correct any work performed by PowerTree's contractor.

ARTICLE 11
Records

Conservancy shall keep accurate and complete records and books of account showing all charges, disbursements or expenses made or incurred by it in performing the Project and

shall preserve such records and books of account for three (3) years after Final Acceptance or termination of the Agreement, or longer if required by law.

ARTICLE 12
Safety

Conservancy is responsible for the safety of its personal property, and its employees or agents. Conservancy shall take all necessary or advisable precautions for the safety of its employees or agents and personal property at, on, or near any site, which relates to the Project. Conservancy shall comply with all safety standards established and promulgated under the Federal Occupational Safety and Health Act that apply to Conservancy and shall comply with all additional applicable regulations of Federal, state, county, municipal and other regulatory bodies which may have jurisdiction over the Project involved.

ARTICLE 13
Indemnification

13.1. Conservancy shall promptly notify PowerTree of any claim by any third party that may result in any liability hereunder to PowerTree. Conservancy assumes the risk of, and shall at all times defend, indemnify, protect, and save harmless PowerTree and its officers, directors, employees, representatives, associates, agents, successors, and assigns against any personal injury or property damage sustained or alleged to have been sustained in connection with or arising out of or resulting from the Project, if such personal injury or property damage liability was caused or alleged to have been caused, directly or indirectly, in whole or in part, by the fault, negligence, failure to comply with law, rule, regulation, or order, by Conservancy, any of its agents, subcontractors/assignees, and anyone directly or indirectly employed by any of them in conjunction with the Project. Notwithstanding the immediately preceding sentence, PowerTree shall be entitled at its own expense to conduct the defense of any third party claim with counsel of its own choosing.

13.2. PowerTree shall promptly notify Conservancy of any claim by any third party that may result in any liability hereunder to PowerTree. PowerTree assumes the risk of, and shall at all times defend, indemnify, protect, and save harmless Conservancy and its officers, directors, employees, representatives, associates, agents, successors, and assigns against any personal injury or property damage sustained or alleged to have been sustained in connection with or arising out of or resulting from the Project, if such personal injury or property damage liability was caused or alleged to have been caused, directly or indirectly, in whole or in part, by the fault, negligence, failure to comply with law, rule, regulation, or order, by PowerTree, any of its agents, subcontractors/assignees, and anyone directly or indirectly employed by any of them in conjunction with the Project. Notwithstanding the immediately preceding sentence, Conservancy shall be entitled at its

own expense to conduct the defense of any third party claim with counsel of its own choosing.

ARTICLE 14
Quality Control; Prior Approval of Materials; Inspections And Safety Precautions

14.1. Conservancy shall, within the scope of its authority and consistent with the terms of this Agreement, permit PowerTree or its authorized representatives to inspect at PowerTree's expense, during normal business hours and without disrupting normal business activities, any Site on which the Project is being performed, for a period of time so long as Conservancy remains responsible for any portion of the Project under this Agreement. If in the sole judgment of PowerTree, the Project or any activities of Conservancy:

(a) do not substantially comply, or create a risk of lack of substantial compliance, with the provisions of this Agreement; or

(b) create or are likely to create a risk that PowerTree may be liable for a claim based on negligence, breach of contract, failure to comply with or meet regulatory requirements or other contractual, tort or other legal or equitable theory; then

PowerTree shall promptly notify Conservancy in writing and shall identify all objections. Conservancy shall respond within twenty (20) days, or within any lesser period of time specified by PowerTree in the event of an emergency, and shall specify the steps it shall take to cure PowerTree's objections. The Parties shall attempt to mediate any dispute with respect to PowerTree's objections or steps to be taken to cure such objections. In the event that the Parties cannot reach agreement on PowerTree's objections or the steps to be taken to cure PowerTree's objections, the Parties may proceed to dispute resolution as set forth in Article 19 of this Agreement.

14.2 Notwithstanding any other provision of this Agreement, if at any time in its sole judgment, PowerTree reasonably believes that the Project or any activities of Conservancy;

(a) create or are likely to create a risk of imminent personal injury or material property damage; or

(b) create or are likely to create a substantial risk that PowerTree may be liable for a material amount of damages or a claim based on negligence, breach of contract, failure to comply with or meet regulatory requirements or other contractual, tort or other legal or equitable theory, then

PowerTree may, in addition to any other rights it may have under this Agreement or otherwise, take any and all such steps to protect itself against such risks, including notification of the owner, operator, contractor or agent for such facility, notification of

government authorities or such other steps as permitted by law. In the event that it exercises any of its rights under this paragraph, PowerTree shall have no liability to Conservancy for any claim based in whole or in part on PowerTree's exercise of its rights.

14.3 Nothing in this Article 14 shall be construed to hold Conservancy liable or responsible for the work of PowerTree's contractor unless it is otherwise expressly stated in the Agreement or Attachments. Conservancy shall not be required to cure any objections of PowerTree that are attributable to the work to be performed by PowerTree's contractor.

ARTICLE 15
Warranties And Limitations on Warranties

15.1. Conservancy shall perform its obligations as stated in the Agreement with the highest degree of skill and care that is required by customarily accepted good and sound professional practices and procedures, to ensure that they are correct and appropriate for the purpose intended.

15.2. Conservancy hereby additionally agrees to perform its obligations in connection with the Project according to the standards set forth in Attachment B, BAYOU PIERRE FLOODPLAIN ACTION PROJECT.

15.3 Conservancy shall indemnify and hold harmless PowerTree from all claims arising from or in connection with any intentional or grossly negligent acts, misrepresentations or breach of this Agreement by Conservancy, its employees, agents and contractors.

15.4. PowerTree's remedies specified in this Article are in addition to and not in lieu of any other remedies available to PowerTree.

15.5 Conservancy makes no representations, warranties or guarantees regarding the amount, quality or quantity of Emission Reductions produced, demonstrated or certified under the Project and makes no representations, warranties or guarantees of any kind whatsoever regarding the climate change or greenhouse gas mitigation effects that are anticipated to be generated as a result of this Agreement. Conservancy further makes no representations, warranties or guarantees that the Project or any action taken under this Agreement shall cause the creation of any offset, benefit or credit that will be recognized by any governmental authority.

ARTICLE 16
Limitations on Liability

In no event shall either Party be liable to the other for special or consequential damages, including but not limited to lost commissions, lost profits, loss of goodwill, loss of reputation, impairment of other goods, work stoppage or breach of other contract.

ARTICLE 17
Final Acceptance

Conservancy shall notify PowerTree when, in its opinion, the Project is complete. PowerTree shall inspect the Project and notify Conservancy in writing either: (a) that the Project is satisfactory and is acceptable to PowerTree, or (b) that all or parts of the Project do not conform to the Agreement. Conservancy shall correct such non-conforming parts of the Project to suit PowerTree's schedule, at Conservancy's expense, provided the non-conforming parts of the Project can be attributed to Conservancy's obligations and responsibilities under the Agreement and not to work for which PowerTree's contractor is responsible. Final Acceptance and final payment by PowerTree shall not waive any rights and remedies, which PowerTree has, or release Conservancy from any duties and obligations set forth in the Agreement.

ARTICLE 18
Termination

18.1. Either Party may terminate this Agreement immediately upon written notice to the other Party if either Party fails to cure a breach or default of any of its obligations under this Agreement within thirty (30) days of the delivery of written notice of breach or default. Failure of either Party to deliver such notice shall not constitute any waiver of breach or default or otherwise affect either Party's rights at law or equity to terminate this Agreement.

18.2. Either Party may, at its sole option, unilaterally terminate this Agreement upon

(a) either Party's cessation of business, election to dissolve, dissolution, insolvency, failure in business, commission of an act of bankruptcy, general assignment for the benefit or creditors, or filing of any petition in bankruptcy or for relief under the provisions of the bankruptcy laws; or

(b) if either Party materially fails to perform or complete the Project or any part of the Project in accordance with the schedule and other provisions of the Agreement, subject to the notice and opportunity to cure provisions in Paragraph 18.1 above.

18.3. In the event of termination of this Agreement, and at the end of the term of this Agreement, Conservancy shall;

(a) provide to PowerTree copies of any documents or other materials specifically relating to the Project and requested by PowerTree;

(b) comply with all reasonable requests of PowerTree relating to the winding up of matters between the Parties.

18.4 In the event of termination by PowerTree for any reason other than Conservancy's breach or default, Conservancy shall be entitled to payment of all sums due under this Agreement but unpaid as of the date of termination provided that Conservancy has satisfied its obligations under the Agreement.

18.5. The expiration or termination of this Agreement shall be without prejudice to any other rights or claims of either Party against the other, or any other remedy available to it, and such expiration or termination shall not relieve either Party of any of its obligations to the other Party existing at the time of expiration or termination or terminate those obligations of either Party which, by their nature, survive the expiration or termination of this Agreement.

18.6 This Agreement may be modified or amended upon mutual agreement of the Parties, provided that such modification or amendment is in writing and signed by both Parties.

ARTICLE 19
Dispute Resolution

Any dispute, controversy or claim arising out of or relating to the subject matter of this Agreement, or any breach thereof, including, without limitation, any claim that all or any part of this Agreement is invalid, illegal or otherwise avoidable or void, and including any dispute regarding the arbitrability of any dispute, shall be submitted to binding arbitration in accordance with the Rules of the American Arbitration Association. The arbitration shall be conducted in a location mutually agreed upon by the parties, and in the English language. Each Party shall bear its own expenses and costs of arbitration. Judgment upon the award may be entered in any court of competent jurisdiction. Any Party seeking to enforce or collect an award shall be entitled to payment by the Party against whom such enforcement is sought all expenses, including reasonable attorneys' fees and court costs incurred in seeking to enforce or collect the arbitration award.]

ARTICLE 20
No Agency Relationship Created; Taxes

20.1. Conservancy shall not be deemed to be an agent, employee, representative or servant of PowerTree, and any representation or implication to the contrary shall be void and grounds for termination. The relationship of PowerTree and Conservancy shall be that of "customer" and "independent contractor." PowerTree shall not be deemed an agent, employee, representative or servant of Conservancy and any representation to the contrary shall be void and grounds for termination.

20.2. Each Party shall be responsible for payment of any taxes of any kind assessed against it by any authority by reason of the operation of this Agreement. No deduction for taxes shall be made from any payment due from one Party to another under this Agreement except as required by law.

ARTICLE 21
Miscellaneous

21.1. There are no other agreements or understandings, either oral or in writing, pertaining to the subject matter of this Agreement. This Agreement supersedes all previous agreements between the Parties relating to the subject matters of this Agreement.

21.2. This Agreement shall be governed by the substantive law of the State of Louisiana notwithstanding any conflict of law rules of the State of Louisiana which might dictate the application of the law of another state.

21.3. No waiver by either Party of any breach or series of breaches or defaults in performance by the other Party and no failure, refusal or neglect of either Party to exercise any right, power or option given to it hereunder or to insist upon strict compliance with or performance of the other Party's obligations under this Agreement, shall constitute a waiver of the provisions of this Agreement with respect to any subsequent breach or default of either Party, or a waiver by either Party of its right at any time thereafter to require exact and strict compliance with the provisions of this Agreement.

21.4. The covenants contained in this Agreement which, by their terms, require performance by the Parties after the expiration or termination of this Agreement, shall be enforceable notwithstanding said expiration or other termination of this Agreement for any reason whatsoever.

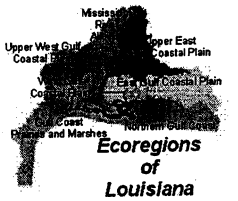
21.5. In the event that any provision of this Agreement is declared by a court of competent jurisdiction to be void or unenforceable, the remainder of this Agreement shall not be affected thereby and shall remain in full force and effect.

21.6. This Agreement shall be binding upon and inure to the benefit of the successors, and assigns of the Parties and their respective heirs, executors, administrators, successors and assigns, subject to the restrictions on assignment in this Agreement.

21.7. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

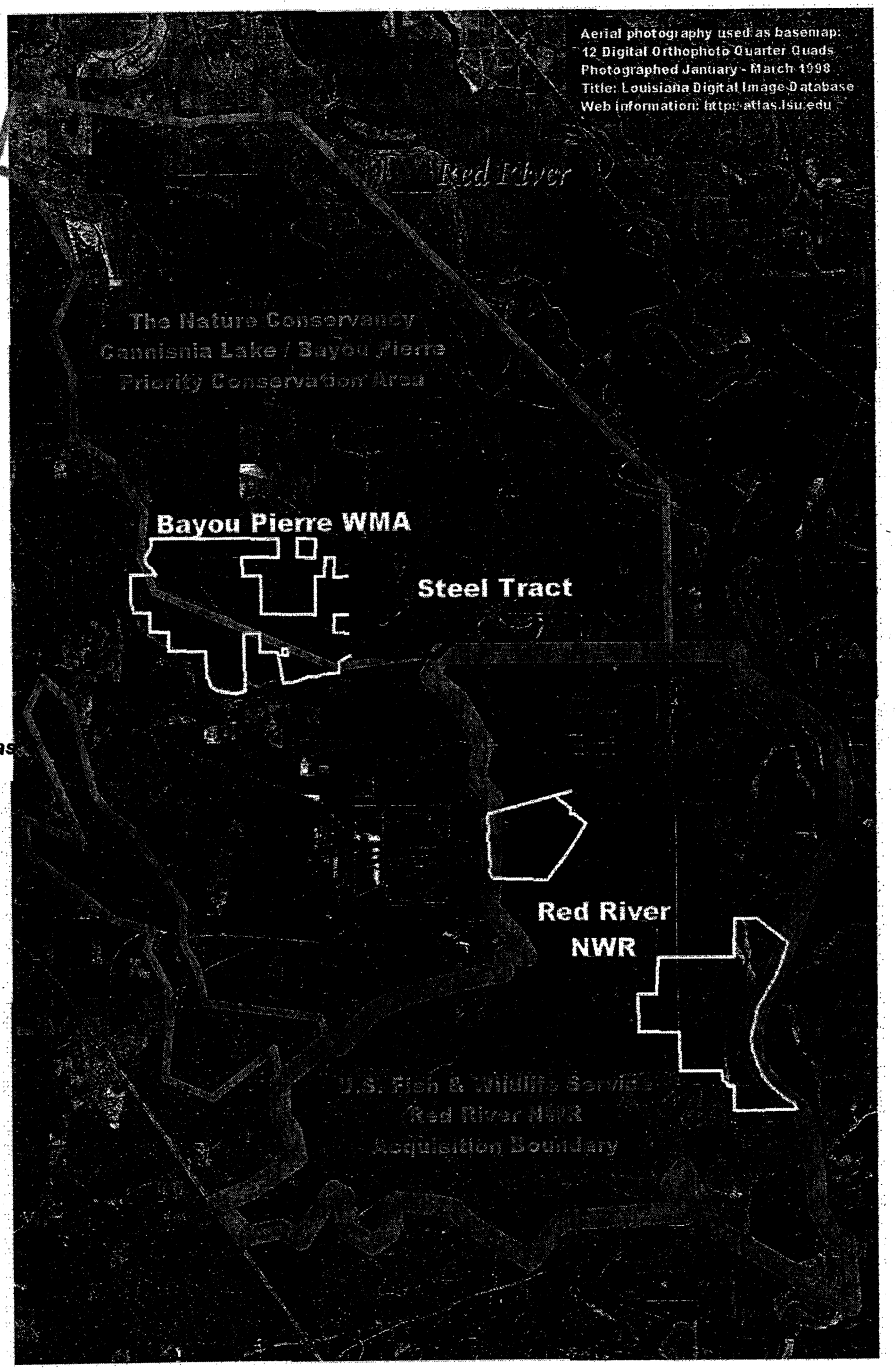
ATTACHMENT B
PROJECT PROPOSAL

Bayou Pierre Floodplain Climate Action Project



Ecoregions of Louisiana

Priority Conservation Areas of Louisiana for TNC



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Pr

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prepared by The Nature Conservancy

April 1, 2004

Bayou Pierre Floodplain Climate Action Project

Summary

The Nature Conservancy (TNC) proposes to partner with PowerTree Carbon Company, LLC (PowerTree) in the reforestation of approximately 500 acres of marginal agricultural land (see cover page), in the Red River Valley of Louisiana. The tract which has been cleared since the early 1980s, falls within TNC's Bayou Pierre Floodplain priority conservation area. The Bayou Pierre Floodplain was identified as a priority conservation area through TNC's science-based planning process, Conservation by Design.

PowerTree will make payments to TNC to be used to reimburse all or part of TNC's costs to acquire a suitable tract of marginal agricultural land consisting of approximately 500 acres that can be used to fulfill the purpose of the Project. Approximately five hundred acres will be reforested with native tree species to create suitable habitat for increasing biodiversity. Long-term protection will be achieved by TNC initially holding title to the land purchased with the PowerTree funding and later transferring the restored acreage to the Louisiana Department of Wildlife and Fisheries (LDWF) to be incorporated into the Bayou Pierre Wildlife Management Area. It is expected that approximately 61,000 short tons of carbon (225,000 short tons of CO_2) will be sequestered over the 100-year lifetime of this project on the approximately 500 reforested acres. In exchange for the funding provided, PowerTree will have sole ownership of all carbon sequestered as a result of this effort. The project offers cost-effective carbon dioxide offsets while also addressing important conservation priorities.

Table 1. Overview of the Bayou Pierre Floodplain Bottomland Hardwood Restoration

Tract involved (see cover page)	
Project acreage	500 acres
Lifetime of project	100 years
Expected sequestration per acre (short tons over project lifetime)	
CO_2	450
Carbon	122
Expected project sequestration (short tons over project lifetime)	
CO_2	225,000
Carbon	61,000

Partners: PowerTree, The Nature Conservancy, Environmental Synergy Inc, Winrock International Institute for Agricultural Development

Project Activities

Project implementation involves acquiring approximately 500 acres of agricultural land and planting trees on 500 acres, and monitoring the carbon sequestered over time. A description of these activities follows.

Acquisition. TNC expects it will be able to negotiate acquisition of a suitable tract by the end of 2004. Acquisition activities involve the reimbursement of:

- Tract purchase price paid by TNC,
- Tract closing costs paid by TNC,
- Interest and other holding costs incurred by TNC,
- TNC staff time spent on the project.

- Planting. Environmental Synergy Inc. (ESI), an independent contractor, will carry out initial site analysis, provide tree planting and GPS/GIS services, undertake survivability checking and respond to issues of survival shortfall. The bottomland hardwood species to be planted include nuttall oak, water oak, willow oak, green ash, hackberry, sweet pecan, cypress, persimmon, sweetgum and honey locust. Planting density will be 302 trees per acre on a 12-foot by 12-foot spacing. Site prep, if needed, will be done by ESI.

- Monitoring. The project will rely on ESI's monitoring protocol, developed jointly with Winrock International. The monitoring activities will consist of three components: base-year analysis to determine soil carbon stocks and establish permanent monitoring plots, tree survival analysis, and monitoring of soil and tree biomass carbon. This project will be monitored as part of a larger population of other similar reforestation projects in the same region and the same stratum thus allowing ESI to achieve greater accuracy levels at lower cost. This "monitoring umbrella" will include a planting establishment report, a survival evaluation at the third growing season, and biomass measurement and carbon quantification in the 5th and 10th growing season. The benefit for each client is that, although the size of its project may be small, the monitoring results are derived not only from the sample plots installed on the project site, but from the sample plots on all lands that are under reforestation by ESI in this area and stratum. This umbrella monitoring system yields considerable synergy, reduced sampling error, and thus potentially a greater amount of carbon credits that can be claimed in the future.

PowerTree will contract directly with ESI for the planting and monitoring for the project.

Carbon Sequestration Estimate

The first carbon sequestration projects involving bottomland hardwood restoration in the region were started in 1996. Given that these projects contain very young trees, it is not possible to measure the carbon sequestered in mature bottomland hardwood stands that were established and managed as carbon sequestration projects.

To provide an estimate of the carbon sequestration potential of the subject tract, we have looked at a variety of sources, including:

- measurements of mature (80-100 years old) bottomland hardwood forest in St. Francis National Forest (Powell, 2002)
- region-wide forest inventory data (Birdsey, 1996)
- estimates of growth rates of bottomland species based on site indices adjusted for abandoned soybean field conditions (Amacher, et al, 1997)
- and estimates provided in a Louisiana Tech University study (Newbold, 1999)

Table 2. Estimates of carbon sequestration in 70-year old bottomland hardwood forest[1]

Source	Area	Short tons of carbon/acre	Short tons of CO_2/acre

[1] The estimates include carbon stored in trees (including roots), understory vegetation, leaf litter and debris, and soils.

Powell, 2002	St. Francis National Forest	88	322
Birdsey, 1996	South Central States	103	377
Amacher et al, 1997[2]	Lower Mississippi Delta	106	388
Newbold, 1999	-	162	593

Table 2 provides a range of carbon sequestration estimates. We have chosen to use the Birdsey (1996) estimate as a guide to calculate the carbon sequestration potential of the subject tract because it has been peer reviewed and published and is a regional average drawing from a large amount of inventory data on biologically diverse bottomland forests[3]. It is also similar to the estimate provided by Powell (2002) that we understand was developed using credible empirical inventory techniques. Using the Birdsey data, the estimated carbon sequestration in 100-year old bottomland hardwood forest is 429 short tons of CO_2/acre. PowerTree Carbon Company, LLC uses 450 short tons of CO_2/acre to compare projects. We have used the PowerTree estimate in this proposal for purposes of comparison (the PowerTree estimate is only 5% higher than the estimate from the Birdsey data). Actual carbon sequestered over the lifetime of the project will be determined through ongoing monitoring work.

Project Costs

The estimated cost of the project includes those costs associated with acquisition, planting, and monitoring (see table 3). The project cost is based on acquisition by TNC of a tract of land at $800.00 per acre. PowerTree's expected contribution will be based on the average purchase price on 400 acres and reforestation costs on 500 acres.

Table 3. Costs for project

Activity	Cost	Details
Land purchase	$320,000[4]	• the purchase price of 400 acres (@ $800/acre)
Costs to TNC	$84,520	• appraisal and survey • closing costs • staff time • interest carrying costs
Planting and Monitoring	$125,000[5]	• planting on 500 acres • monitoring through 10th growing season
Management	$20,000	• establishment of land management fund for LDWF ($50/acre)
Total Cost	$549,520[6]	

[2] This estimate derived from Amacher's linear product growth model by using the conversion factor provided in Birdsey, 1996.
[3] Inventory data is from the USFS Forest Inventory and Analysis (FIA).
[4] The appraised value of the tract is $800/acre.
[5] PowerTree will make this payment directly to Environmental Synergy, Inc.
[6] Any portion of total acquisition cost for the entire tract not reimbursed by PowerTree funding will be covered by TNC.

Key Analytical Issues

Additionality – The business-as-usual, or baseline scenario for this project is that the land will remain as degraded agricultural land and pasture. The monitoring program includes base year analysis of the soils. Carbon measurements from the project will be reduced by the amount measured in the baseline analysis.

Leakage – We do not anticipate significant leakage from the project because the agricultural production on the properties currently is minimal and demand can be met by existing farms.

Permanence – Because the land will be held for conservation purposes by the LDWF, TNC is confident that project can meet any permanence criteria established by a government agency in the future. For purposes of analysis, we have used a project lifetime of 100 years for our estimate of the carbon benefit, and assume the stock change method of accounting.

Project Expansion Potential

Within a year, TNC could expand the project in this area to include another 1,500 acres, bringing the total to over 2,000 acres. In addition, TNC could add a further 2,500 acres a year beyond the initial year.

Conservation Significance

Historically, the Red River Valley was an almost continuous expanse of forested wetlands from the confluence of the Red and Mississippi Rivers north to the Arkansas-Louisiana state line. Conversion to agriculture has reduced the forest to isolated fragments and many wildlife species requiring large, contiguous forests – the Florida panther, the red wolf, the Louisiana black bear, and many bird species – have declined or disappeared.

Water quality has declined as a result of excessive sediments and nutrients entering the waterways. Land practices and waterway channelization have threatened many fish and mussel species. These effects can be seen as far downstream as the Gulf of Mexico where a huge zone of oxygen-depleted water, the Dead Zone, has developed and aquatic species populations have plummeted.

The Red River Valley represents a historic migration corridor for migratory birds funneling out of North America to the Gulf Coast and beyond to as far as Tierra del Fuego in South America. Reforesting areas in the Red River Valley will provide habitat for wildlife species requiring large, contiguous forests such as the red wolf, the Louisiana black bear, and many bird species.

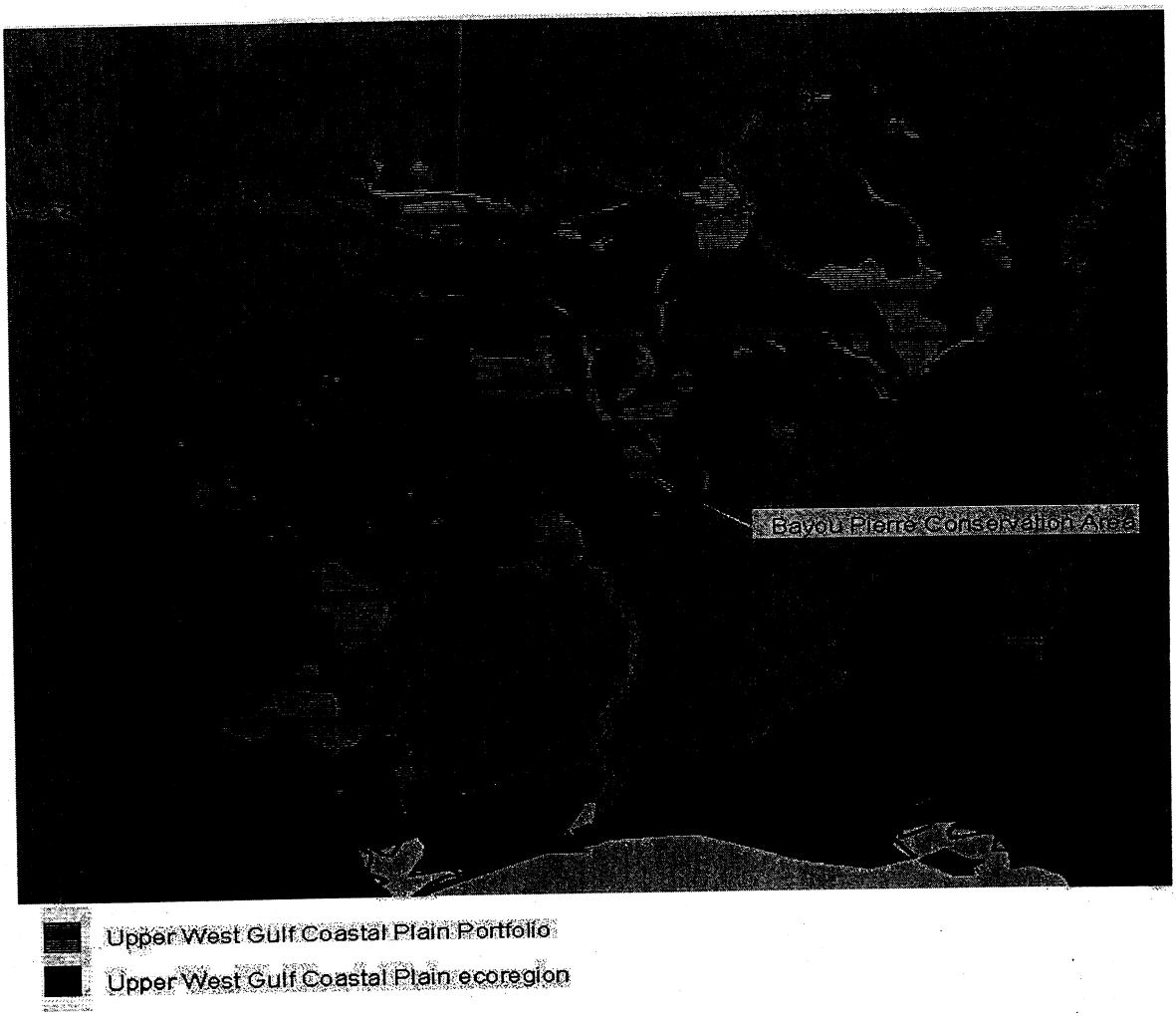
Through a multi-state ecoregional planning effort for the Upper West Gulf Coastal Plain, TNC has identified the Bayou Pierre Floodplain as a priority conservation area (see enclosed publication titled *Conservation By Design* to learn more about TNC's planning process and conservation approach). The ecoregional planning process found several of TNC's conservation targets (species and plant communities of concern) located in the project area or immediate vicinity (see table 4). Reforestation of the tract will positively impact these conservation targets through habitat restoration and water quality improvement.

Table 4. Upper West Gulf Coastal Plain conservation targets present in Bayou Pierre Floodplain priority conservation area or immediate vicinity

Common name
BIRD-VOICED TREEFROG
SHOVELNOSE STURGEON
BLUE SUCKER
PADDLEFISH
ALLIGATOR GAR
RED RIVER SHINER
BLACKNOSE SHINER
TAILLIGHT SHINER
SILVERBAND SHINER
SPECKLED CHUB
WESTERN STARHEAD TOMPMINNOW
PINK MUCKET
ALLIGATOR SNAPPING TURTLE
SOUTHEASTERN COASTAL PLAIN BACKSWAMP/SLOUGH FLOOD PLAIN FORESTS
SOUTHEASTERN COASTAL PLAIN BOTTOMLAND HARDWOOD FORESTS
SOUTHEASTERN COASTAL PLAIN RIVERFRONT AND LEVEE BOTTOMLAND FORESTS

Within the 48,100-acre Bayou Pierre Floodplain priority conservation area 37,500 acres are in agricultural production or abandoned fields and 10,600 acres remain forested. It is the goal of TNC to create a 20,000 acre forested block in the Bayou Pierre Floodplain priority conservation area by restoring key tracts and building on existing forest. This effort will restore critical habitat for migratory birds, the Louisiana black bear, and other terrestrial species as well as areas along stream corridors that are important for maintaining water quality for aquatic organisms. The tract fall within the boundaries of the Bayou Pierre Floodplain priority conservation area (see cover page). A map of the Upper West Gulf Coastal Plain portfolio of priority conservation areas, indicating the Bayou Pierre Floodplain priority conservation area has also been provided (see Figure 1).

Figure 1. Location of the Bayou Pierre Floodplain priority conservation area within TNC's Upper West Gulf Coastal Plain portfolio



References

Amacher, Gregory, Jay Sullivan, Leonard Shabman, Laura Zepp. *Restoration of the Lower Mississippi Delta Bottomland Hardwood Forest: Economic and Policy Considerations*, Research Bulletin 185, Virginia Water Resources Research Center, Virginia Tech, November 1997.

Birdsey, Richard A. Appendix 2: Regional Estimates of Timber Volume and Forest Carbon for Fully Stocked Timberland, Average Management After Final Clearcut Harvest, in *Forests and Global Change, Volume 2: Forest Management Opportunities for Mitigating Carbon Emissions*, American Forests:Washington, DC 1996, p.257.

Newbold, Ray. Above ground cubic foot volume of stem wood per acre by year converted to total tons of CO_2 per acre per year, Louisiana Tech University, School of Forestry, fax dated October 21, 1999.

Powell, Mark. Winrock International, Presentation at Carbon Sequestration and Forest Wetland Restoration in the Lower Mississippi Valley meeting, Vicksburg, Mississippi, February 13, 2002.

ATTACHMENT C
SCOPE OF WORK AND DELIVERABLES

DATES OF SIGNIFICANT MILESTONES AND BUDGETARY COST

DATE	AMOUNT	ACTIVITY
No later than 15 days after executing the Agreement.	$ 54,520	Closing costs and staff costs on fee title acquisition, interest, and principal.

DATE	AMOUNT	ACTIVITY
On or before September 15, 2005	$95,000	Interest payment on land purchase principal, and payment on principal.

DATE	AMOUNT	ACTIVITY
On or before September 15, 2006	$255,000	Interest payment on land purchase principal, and payment on principal.

DATE	AMOUNT	ACTIVITY
On or before December 15, 2006	$ 20,000	Management fee for LDWF.
PROJECT TOTAL	**$424,520**	

ATTACHMENT D
INSURANCE REQUIREMENTS

No insurance requirements were necessary for this agreement. Thus attachment D is blank.

MRO LEGAL DEPT.
JAN 20 1999
RECEIVED

REFORESTATION AND BIODIVERSITY PROJECTS AGREEMENT BETWEEN THE NATURE CONSERVANCY AND CINERGY SERVICES

This Reforestation And Biodiversity Projects Agreement ("Agreement") made and entered as of the date appearing below by and between Cinergy Services, Inc., a corporation organized and existing under the laws of the State of Delaware with a place of business in Cincinnati, Ohio, on behalf of its affiliated utility operating companies ("Cinergy"), and The Nature Conservancy, Inc., a non-profit corporation organized and existing under the laws of the District of Columbia with its principal place of business at 4245 North Fairfax Dr., Suite 100, Arlington, VA 22203, ("the Conservancy"), collectively referred to as the "Parties".

WHEREAS, the Parties are mutually interested in restoring and protecting biologically significant ecosystems and critical habitats in Ohio and Indiana for the purpose of preserving and protecting biodiversity, and to reduce, offset or sequester significant amounts of atmospheric carbon dioxide.

NOW, THEREFORE, in consideration of the promises and mutual covenants contained within this Agreement, the Parties agree as follows:

Projects: Under this Agreement, the Conservancy and Cinergy Services agree to cooperate in various reforestation and biodiversity projects. In locating projects to be funded under this Agreement, the Conservancy agrees to seek out, in cooperation with Cinergy, and implement critical habitat or restoration projects within Ohio and Indiana watersheds, preferring those projects located within or nearest to Cinergy company service territories that maximize cost-effectiveness of carbon sequestration while

advancing protection of biodiversity. In all cases, restoration projects in which Cinergy funding under this agreement is used shall first occur on property that is owned in fee simple or which is under permanent easement by Cinergy or its utility operating or land holding companies, a State; U.S. Government; the Conservancy; or a not-for-profit environmental/conservation organization and managed for biodiversity and/or wildlife habitat. In addition, reforestation projects shall occur on property where Cinergy, or its contractors or agents, have guaranteed access to such properties for the purpose of monitoring and verifying carbon dioxide reductions, offsets or sequestered for a period of fifty (50) years. The Conservancy, shall be responsible for the selection of project sites. However, the Conservancy will consult with Cinergy in selecting project sites. Finally, if necessary, the Conservancy may use up to ten percent ($50,000) of Cinergy funds to purchase conservation easements in the name of the Conservancy or such other organizations as deemed appropriate by the Conservancy and Cinergy on privately owned lands where restoration is a high biodiversity conservation priority.

The Conservancy agrees to reforest 925 acres over the term of this Agreement. Cinergy funding will be used by the Conservancy to accomplish this reforestation, and for related administrative, acquisition, and annual reporting costs (for the reports specified in the "Reporting" section of this Agreement), ("Administrative Costs"), provided that annual Administrative Costs shall be limited as described below under "Project Funding."

The Conservancy may explore the cost effectiveness and carbon reduction, offset and sequestration capabilities of establishing a native tree/seed nursery to support this

Agreement. If cost effective, and Cinergy believes it may be able to claim the carbon dioxide emissions reduced, offset or sequestered by the nursery project, the Parties may mutually agree to redirect some of the funds to the native tree nursery project.

Additionally, the Conservancy may explore the cost effectiveness and carbon reduction, offset and sequestration capabilities of warm season prairie grass ecosystem restoration. If cost effective and Cinergy believes it may be able to claim the carbon dioxide emission reduced, offset or sequestered by the prairie ecosystem restoration, the Parties may mutually agree to redirect some of the funds to the prairie ecosystem restoration.

Project Funding: Cinergy agrees to provide $500,000 to the Conservancy, in five (5) annual Installments of $100,000. The Conservancy will split each annual Installment approximately equally to fund projects in Ohio and Indiana. The Conservancy agrees to minimize Administrative Costs for the projects to maximize substantive reforestation, biodiversity, and other objectives of this Agreement. However, in no case shall Administrative Costs exceed $30,000 annually, or thirty percent (30%) of the annual Cinergy fund allocation.

The initial Installment shall be provided to the Conservancy on the effective date of this Agreement, and each installment thereafter shall be provided to the Conservancy on the anniversary of the effective date of this Agreement. Except as discussed elsewhere in this agreement, the Conservancy agrees to use project funding provided by Cinergy solely for reforestation, acquisition, administration, annual reporting, planting and maintenance costs. Moreover, the Conservancy agrees that the total cost of

reforestations, acquisitions, planting and maintenance costs, under this Agreement will not exceed an average of $375 per acre unless agreed to and approved by Cinergy. The Conservancy also agrees that it will use its best efforts to work with Cinergy, and to coordinate with other potential project sponsors to obtain additional funding for reforestation to increase the number of acres reforested with Cinergy funds. Cinergy and the Conservancy agree to work cooperatively to analyze reforestation methodologies in order to maximize the cost effectiveness of achieving conservation and carbon sequestration goals.

Term: The effective date shall be the date upon which this agreement has been executed by both of the parties. The term of this Agreement shall be five (5) years from the effective date of this Agreement. However, the Parties agree to review the success of the program annually, and, at the end of the third year, to determine whether to continue reforestation or redirect efforts to forest management, forest preservation or a combination thereof. Under no circumstances will the Conservancy be required to absorb costs related to the carbon offsets after the initial five-year period without compensation from Cinergy. The parties may mutually agree to extend the term of this Agreement by attaching an addendum signed by the parties, and containing any additional and modified provisions to the Agreement prior to the conclusion of the initial term of this Agreement. In addition, Cinergy will back any claim of carbon offsets by a monitoring and verification program of approximately 40-50 yrs.

Cinergy or its contractors or agents shall have the right to access project sites for the purposes of monitoring and verifying carbon dioxide reductions, offsets or

sequestered for a period of fifty (50) years. Cinergy shall be solely responsible for any costs associated with this monitoring and verifying.

Carbon Credits: Registration Interest in and ownership of all net atmospheric carbon dioxide sequestered, offset or reduced as a result of each and every project resulting from this Agreement, shall be owned and held in perpetuity by, and be the sole property of Cinergy to do with as Cinergy, in its sole discretion, determines. For the purposes of this Agreement, Registration Interests means the right accorded to Cinergy under any other terms of this Agreement, and Section 1605(b) of the United States' Energy Policy Act of 1992, and other similar agreements, programs, laws, regulations, and systems as may presently exist, or hereafter be established under the laws of the United States to be apportioned, claim, formally register or otherwise obtain environmental credit for all Registration Interest in net carbon dioxide sequestered, offset or reduced under this Agreement.

Should Cinergy default on any of its payment obligations under this Agreement, after being provided notice of and a reasonable time to cure the default, its Registration Interest and ownership shall be limited to all present and future carbon dioxide emissions reduced, offset or sequestered resulting from reforestation accomplished with Cinergy funds provided under this Agreement. Should the Conservancy default on its obligation to undertake projects on 925 acres in Ohio and Indiana, the Conservancy shall return any unspent and/or unapproved funds (when considering the cost per project acre) to Cinergy. Calculating, monitoring and verifying the amount of carbon sequestered as a result of any and all projects under this Agreement shall be the responsibility of Cinergy and be

performed by Cinergy or its contractor or agent. Cinergy has contracted with Trexler & Associates to design the Monitoring and Verification Protocol (M/V Protocol) in a way that will maximize the possibility of Cinergy receiving credit for the carbon dioxide emissions reduced, offset or sequestered under this Agreement.

However, the Conservancy shall advise, review, and provide written approval for the method(s) used and calculations performed. To that end, the Conservancy agrees to assist in the collection of necessary baseline data, cooperate in the development of carbon measurement protocols/methodologies, formally document these activities, and concur in the calculated results. Every attempt will be made to make monitoring and verification protocols available for review and discussion by March 31st, 1999. The Conservancy also agrees to provide reasonable assistance to Cinergy in obtaining the carbon credits through actions, including, but not limited to, providing an accounting of the annual number of acres reforested, the species of trees/seeds planted, and the number and location of trees/seeds per acre planted, certification that the trees/seeds have been planted, certification that the trees/seeds planted are in addition to what would have been planted without Cinergy funding, and a reasonable opportunity for Cinergy, its contractors or agents, or representatives of the U.S. Government or its agents to inspect the trees and their condition.

Public Relations: The Conservancy agrees to use reasonable efforts to generate public, visible, and valuable use of the Cinergy name as a result of this Agreement which shall include, but not be limited to: (1) active promotion of projects under this Agreement to Conservancy membership through Conservancy meetings, State and National Conservancy publications, notices, etc.; (2) showcasing projects under the Agreement

through Cinergy sponsorship of the 1999 Conservancy annual meeting in Cincinnati; (3) pursue opportunities to publish articles in news media pertaining to the projects under this Agreement whenever possible; (4) recognizing Cinergy's contributions to projects at dedication ceremonies, on signs, in news releases, video productions, submitted newspaper articles, interviews, seminars, field trips, etc.; and (5) working directly with Cinergy and/or its contractors on all of the above as well as additional public relations efforts. All public recognition materials generated by either Party, including news releases, articles, video productions, promotional items, etc. shall be reviewed and approved by both Parties prior to release. No Party to this agreement shall use the name, logo, any trademark or any service mark of the other Party for any commercial purpose including, but not limited to, the following: paid advertising, promotions, or direct mail.

Reporting: the Conservancy agrees to submit an annual report to Cinergy, due on March 1 of each year addressing the activities of the prior calendar year, or partial calendar year as will be the case in year 1 and year 5. Each report shall be submitted in draft form to Cinergy by February 1 for review and comment by Cinergy. At a minimum, the annual report shall address the following: (1) reforestation methodology; (2) number of acres reforested ; (3) the unit cost per acre reforested; (4) source of trees and/or seeds; (5) species of trees/seeds purchased and planted; (6) location of reforestation projects including a map; (7) applicable program and level of permanent protection afforded the land on which the trees are located, including but not limited to property ownership, property manager, address, agency, program; (8) management objective for each project; and (9) a detailed documentation of use of Cinergy funds, and Cinergy leveraged funds

resulting from Cinergy contributions. Each report shall be verified by the Conservancy project manager as true, accurate, correct, and reliable for use in accounting for the amount of carbon sequestered by the projects.

Limitation of Liability: Each Party shall indemnify and hold harmless the other party from any losses, claims, damages, (including without limitation, special, incidental, indirect, or consequential damages), liabilities, judgments, settlements, costs and expenses, (including reasonable attorney fees) (collectively "Damages") arising out of or resulting from the negligent acts or omissions of the Party or its agents or employees, whether arising out of contract, tort, or otherwise.

Neither Party represents, warrants, or guarantees to the other Party, its successor, or assign that any mechanism for achieving national obligations that may be created by any government or under the United Nations Framework Convention on Climate Change (FCCC) or related documents will be adopted, established or authorized by the Parties to the FCCC; or that this Project will be accepted under whatever mechanism is adopted or authorized by the Parties to the FCCC or any other mechanism in such a manner that it will create greenhouse gas credits or offsets. In addition, no Party assumes financial responsibility or liability for the failure of such mechanism to be adopted, established or authorized by the Parties to the FCCC or any other mechanism; that this Project will be accepted under whatever mechanism is adopted, accepted, or authorized; or for the level of value placed on any greenhouse gas credits or offsets generated under this Agreement. However, if a mechanism is adopted during the Term of this Agreement, and any

extension thereof, the parties agree to use their best efforts to adapt the activities undertaken, and to be undertaken, under this Agreement to conform to that mechanism.

It is mutually understood and agreed by the Parties that, notwithstanding any good faith estimates of the net greenhouse gas benefit of the Project, they make no representations, warranties or guarantees as to the amount, quality, or quantity of any credits or offsets that may be produced, demonstrated or certified under the Project.

No Party shall be liable for any losses or delays caused by Acts of God or nature beyond the control of the Party.

State Law: This Agreement shall be governed by the laws of the State of Ohio regardless of choice of law principles of Ohio or any other state.

Notice. Notice required by this Agreement shall be deemed to have been provided if provided to:

Cinergy: Timothy A. Hayes
Sr. Environmental Scientist
Cinergy Corp.
1000 E. Main Street
Plainfield, IN 46168
(317) 838-1725

The Conservancy: SCOTT DAVIS
TNC
6375 RIVERSIDE DR.
SUITE 50
DUBLIN, OH 43017

or such other individuals as the Parties may specify to each other in writing.

Successors and Assigns. This Agreement is not assignable without the prior written approval of both Parties, which consent shall not be unreasonably withheld. This

ent by: NATURE CONSERVANCY 6147172777; 11/30/00 14:39; #262; Page 2/2

Agreement shall be binding upon, and inure to, the successors and assigns of Cinergy and the Conservancy.

Entire Agreement. This writing shall constitute the entire agreement between the Parties, and no oral agreement(s) shall vary the terms of this Agreement. Any amendments hereto shall be in writing and signed by both Parties.

IN WITNESS HEREOF, the parties hereto execute this Agreement on the day and year first written below.

WITNESS:

Patricia K. Bischoff

Printed: PATRICIA K. BISCHOFF

Title: Exec. Adm. Asst.

Date: 1-5-99

CINERGY SERVICES, INC.

By W F Tyndall

Printed: WILLIAM F. TYNDALL

Title: VICE PRESIDENT, ENV. SERVICES

Date: 1-5-99

WITNESS:

Scott Davis

Printed: SCOTT DAVIS

Title: Associate Director

Date: 12/21/98

The Nature Conservancy, INC.

By David H. Weekes

Printed: DAVID H. WEEKES

Title: V.P. Midwest Division

Date: 12/21/98

335440

APPENDIX S

DOCUMENTS RELATING TO CONSERVATION BEEF, LLC

October 27, 2004
Senate Finance Committee Letter

Question 18: Narrative Re: Conservation Beef, LLC

Conservation Beef, LLC (CBL) Structure.

- ***Did CBL enter into a joint venture agreement, management agreement, or similar arrangement with PM Holdings LLC (PMHL) or another for-profit party with respect to the Conservation Beef project? If so, please (a) provide a copy of the executed agreement, and (b) describe the arrangement between CBL and PM Holdings, including specifically the economic sharing arrangement and roles and responsibilities of the parties.***
- ***How did TNC limit the development rights of ranchers who participated in the Conservation Beef program?***
- ***Please provide a description of the Sun Ranch easement referred to in the April 19, 2004, CBL withdrawal agreement.***
- ***Provide a description of the land stewardship plans that CBL engaged in with respect to SBL ranchers' properties.***

With respect to the above:

i. CBL had a verbal agreement with PM Holdings, LLC on terms similar to those described in the form of Joint Venture Agreement previously provided in response to your March 3, 2004 request. Due to changed circumstances and the performance of PM Holdings, LLC, the two parties never formalized a joint venture agreement. Instead, CBL elected to hire a salaried president to direct and implement much of the work which CBL had originally intended PM to perform.

ii. As detailed in the cattle option/purchase agreements previously provided to you in response to your March 3, 2004 request, sellers to CBL agree to an introductory stewardship plan in the first year of participation in the conservation beef program and, if a second year of participation is desired, sellers implement a full stewardship plan. These plans are all unique to the landscapes involved, but must be approved by CBL, pursuant to CBL's stewardship guidelines. A copy of the guidelines is attached.

Long-term conservation of unfragmented landscapes is a central goal of the CBL stewardship plans. With regard to development rights, the ranchers are able to choose among a variety of acceptable strategies to achieve the goal as detailed in the stewardship guidelines, and may retain specific, limited development rights provided they are consistent with CBL goals of conservation of landscape, watershed and habitat integrity.

iii. A complete copy of the Deed of Conservation Easement relating to the Sun Ranch is attached.

CONSERVATION BEEF® STEWARDSHIP GUIDELINES

GOAL

Conservation Beef's® mission is to save the best of the West for future generations. Our goal is to support diverse, flourishing communities of human, plant, and animal life in biologically important lands in the West by developing market forces that promote economically sustainable and ecologically sound cattle ranching. We will accomplish this by creating a niche market for beef that will return a premium price to ranchers who commit to long-term land conservation strategies that maintain healthy open spaces for generations to come.

PARTICIPATION

Conservation Beef® (CB) is a landscape conservation program. As such, its core elements require: 1) a landscape or watershed which has been designated by The Nature Conservancy as a biologically high-priority landscape; 2) a watershed and/or landscape-based, collaborative rancher group whose goals include sustaining the ranching way of life and the functional, unfragmented landscapes on which ranching depends; 3) cattle ranchers within that watershed/landscape who raise suitable cattle and desire to participate in CB and who prepare and submit for review and approval a stewardship plan that meets CB's Stewardship Standards and Long-Term Conservation Commitments. Individual rancher participation must be approved by the local rancher group and CB.

LONG-TERM CONSERVATION

Long-term conservation of unfragmented landscapes is a central CB goal. To that end, each CB rancher, before the beginning of his or her second year of supplying cattle to the program, will choose among acceptable strategies to achieve this goal. The percentage or number of acres of the home ranch required to be committed to such long-term disincentives to subdivision shall be determined by several factors, including

relation of CB cattle purchases to the size of the ranch's annual production, as well as physical factors impacting watershed and landscape integrity. Options include:

1) Placement of a perpetual conservation easement, either donated to, or purchased by a public and/or private entity. Such easement may retain strictly limited, carefully planned development rights where such retention does not, in the opinion of both the local ranch group and CB, conflict with CB's core goals.

2) Participation in a phased, limited transfer of development rights program as outlined in The Nature Conservancy's "Ranch Conservation Agreement". (Copy available from CB.) This alternative involves the annual transfer of a small percentage interest in any subdivision sale of the ranch or designated acreage, to a watershed-based, rancher-led Private Area Trust. Thus, the more years as a CB supplier, the greater the percentage of potential subdivision sale revenues that would pass to the local Trust, with a "ceiling" for the percentage transferred. Under this option, the landowner retains the right to sell for subdivision, but a portion of revenues from such sale would go to the rancher-led Trust, providing it with funds to purchase development rights/conservation easements from area ranchers. All proceeds from a non-subdivision sale would go to the landowner.

3) Placement of a "rolling easement", under which the acreage designated is protected from subdivision for seven years during year two of CB beef supply, eight years in year three, nine in the fourth year. From the fifth year of participation, the rolling easement remains at ten years, meaning that the acreage in question cannot be subdivided for ten years after withdrawal from the CB program. Under this alternative, The Nature Conservancy, as a means to avoid potential ranch subdivision, would have a right of first refusal to match, at an agreed upon modest discount, a bona fide offer to purchase the ranch or agreed on parts thereof.

4) Another mutually acceptable way to achieve significant and permanent disincentives to subdivision of the whole or agreed upon part of the participating rancher's holding.

NOTE: Under all options, the acreage placed under the agreement can retain specific, limited development rights provided they are consistent with the core CB goals of conservation of landscape, watershed and habitat integrity. Thus, a rancher may retain selected home sites that can be sold, if needed.

Long-Term Conservation Agreements under 2) and 3) are binding for the duration of time specified in the individual agreement. However, in the event Conservation Beef® ceases to do business prior to its tenth year (October, 2009), the conservation conditions shall terminate on the date Conservation Beef® ends its business operations.

STEWARDSHIP STANDARDS

Standard One – Soils, Hydrology, and Water Quality

Stewardship practices are directed toward achieving soil stability, minimal surface runoff, and adequate water infiltration to provide for desired plant species. Water quality meets applicable state and/or Federal standards.

Indicators may include, but are not limited to:

- Vegetative cover (gully bottoms and slopes);
- Bare ground and litter;
- Water infiltration rates;
- Soil compaction;
- Erosion (rills, gullies, pedestals, capping);
- Soil micro-organisms;
- Chemical characteristics (e.g., pH, conductivity, dissolved oxygen);
- Physical characteristics (e.g., sediment, temperature, color);
- Biological characteristics (e.g., macro- and micro-invertebrates, fecal coliform, and plant and animal species).

Standard Two – Riparian and Wetland Condition

Stewardship practices are directed toward achieving riparian area and wetland conditions that are in, or trending toward, properly functioning condition.

Indicators may include but are not limited to:

- Productive and diverse plant and animal communities.

- Diverse ponding and channel characteristics that provide the habitat and the water depth, duration, and temperature necessary for fish production, waterfowl breeding, and other uses;

- Plant composition and diversity (species, age class, structure, successional stages, desired plant community, etc.);

- Root masses that stabilize stream banks against cutting action;

- Dissipation of stream energy associated with high water flows;

- Sediment filtration, captured bed load, and floodplain development;

- Flood water retention and ground water recharge.

Standard Three – Upland Condition

Stewardship practices are directed toward achieving plant communities that are resilient, diverse, and able to recover from natural and human disturbance.

Indicators may include, but are not limited to:

- Plant composition and diversity (species, age class, structure, successional stages, desired plant community, etc.);

- Bare ground and litter;

- Erosion (rills, gullies, pedestals, capping);

- Water infiltration rates; and

- Vegetative cover.

Standard Four – Wildlife Habitat

Stewardship plans are directed toward maintaining or enhancing habitats that are capable of sustaining viable populations and a diversity of native plant and animal species including migratory birds, sensitive, threatened and endangered species, and those of special concern, if they occur. Where livestock/predator conflicts exist, management strategies will be implemented, where practical, to minimize these conflicts. In controlling predation of livestock, predator control will be designed to eliminate problem animals only. Any predator displacement not related to livestock predation is required to be included in the Stewardship Plan and meet criteria for

healthy functioning ecosystems. Land use will not adversely impact traditional wildlife migration and movement patterns.

Indicators may include but are not limited to:

- Species diversity;
- All indicators associated with the upland and riparian standards;
- Wildlife population trends;
- Habitat fragmentation.

Conservation Beef Animal Husbandry Standards

Animal husbandry will be uniformly consistent with USDA/FSIS standards where required to comply with the CB label claims of "natural," "free range," "no artificial hormones," and "not raised with antibiotics." CB ranchers will be required to document all antibiotic use to CB and agree to remove, if requested by CB, such treated animals from Conservation Beef supply. Ranchers are required to sign husbandry compliance affidavits annually.

In addition, CB livestock will be treated at all times with respect and care and handled to minimize stress. To protect product quality, electric cattle prods will not be used in loading, unloading, and transport.

IMPLEMENTATION

Local Rancher Group and Conservation Beef Stewardship Review Panel

The local rancher group panel and CB Stewardship Review Panel will:

- Review and approve the submitted Stewardship Plan;
- Insure the monitoring methods selected in each plan are appropriate to measure progress toward meeting the CB Standards;
- Review and approve the annual letter of re-certification;
- Evaluate monitoring reports to determine if the rancher is moving toward the goals expressed in the CB Standards. If necessary, work with the ranchers to determine

modified management strategies. Based on satisfactory monitoring results certify compliance.

Stewardship Plans

Each participating CB supplier shall have in place an approved Stewardship Plan implementing the CB Standards. During the first year a rancher supplies beef to CB, an Introductory CB Stewardship Plan will be acceptable. Each such plan must reflect substantive management practices aimed at achieving each of the Stewardship Standards, and will require approval by CB, but not by the local rancher group panel or the CB Stewardship Review Panel.

It is understood by the cooperating parties that Stewardship Plans will be directed toward achieving the CB Standards within realistic budgetary constraints and timelines and that priorities for improvements will need to be established based on the condition of the acreage involved and other considerations. Further, CB recognizes that Stewardship Plans cannot control the effects of natural events, such as flood or drought, though planning for such events may mitigate potential adversity.

If desired by the CB rancher, CB and/or The Nature Conservancy will: (1) provide technical advice in preparation of the required Introductory and full Stewardship Plans and; (2) make recommendations for monitoring methods that are appropriate to measure progress toward meeting the CB Standards. It is the rancher's right and responsibility to determine specific management proposals to meet the CB Stewardship Standards and to develop and submit the Stewardship Plan to the CB review process.

Each full Stewardship Plan will be reviewed and, if satisfactory, approved by the local, collaborative rancher group or by a panel the collaborative group appoints. A plan will then be forwarded for review and approval by the CB Stewardship Review Panel. Composition of the CB Stewardship Review Panel will include expertise in landscape ecology, rangeland stewardship, and wildlife biology. Appointments will be made by The Nature Conservancy, subject to review and approval by the collaborative ranch groups participating in CB at the time of the appointments. To assure consideration of local expertise in Plan and monitoring review, a designated representative of the involved local rancher group will have the right to participate as a full member of the CB Stewardship Review Panel during deliberations of Plans/monitoring from that particular watershed/landscape.

All CB review/approval procedures of Stewardship Plans and monitoring will be designed to be expeditious.

Annual Re-certification

An annual qualitative assessment will be conducted on representative parts of the ranch by a natural resource professional mutually designated by the rancher and CB. A letter will be submitted to document implementation of the individual Stewardship Plan. Upon review and approval of the letter by the local ranch group and the CB Stewardship Review Panel, the ranch will be re-certified as a CB supplier for the next year.

Monitoring

Monitoring to document long-term trends, ecological conditions, and progress toward meeting all applicable CB Standards will be conducted at 3-5 year intervals, as designated in the Stewardship Plan. If the rancher has no monitoring program in place prior to plan submittal, CB will recommend appropriate monitoring methods to measure progress toward meeting the CB Standards, but the final decision on what monitoring method to use is the rancher's. It is recognized that different methodologies may be utilized by different ranchers. CB will accept these methodologies provided they are scientifically credible and address one or more of the CB Standards to be evaluated on a given ranch.

Where adverse trends are documented, and determined to be results of management actions, modifications of the Stewardship Plans will be recommended and approved by all parties.

Monitoring methods should be designed to give ranchers information that is relevant to making management decisions. CB will encourage use of methodologies that can be implemented by CB ranchers themselves, to assist them in identifying and responding to early warning indicators.

Monitoring reports shall be submitted to the local rancher group and the CB Review Board for review/approval.

Use of Information

Ranch-specific baseline and monitoring information will be available to CB only for purposes of insuring compliance with CB standards. Any other use of this information will require rancher approval. Each member of the local rancher group and the CB Stewardship Review Panel must agree to hold all information in strict confidence.

However, CB retains the right to use non-ranch-specific and/or cumulative monitoring information within CB watersheds or landscapes to publicly document the effectiveness of the CB program in achieving its conservation goals.

October 27, 2004
Senate Finance Committee Letter

Question 18: Narrative Re: Conservation Beef, LLC

Conservation Beef, LLC (CBL) Structure.

- ***Did CBL enter into a joint venture agreement, management agreement, or similar arrangement with PM Holdings LLC (PMHL) or another for-profit party with respect to the Conservation Beef project? If so, please (a) provide a copy of the executed agreement, and (b) describe the arrangement between CBL and PM Holdings, including specifically the economic sharing arrangement and roles and responsibilities of the parties.***
- ***How did TNC limit the development rights of ranchers who participated in the Conservation Beef program?***
- ***Please provide a description of the Sun Ranch easement referred to in the April 19, 2004, CBL withdrawal agreement.***
- ***Provide a description of the land stewardship plans that CBL engaged in with respect to SBL ranchers' properties.***

With respect to the above:

i. CBL had a verbal agreement with PM Holdings, LLC on terms similar to those described in the form of Joint Venture Agreement previously provided in response to your March 3, 2004 request. Due to changed circumstances and the performance of PM Holdings, LLC, the two parties never formalized a joint venture agreement. Instead, CBL elected to hire a salaried president to direct and implement much of the work which CBL had originally intended PM to perform.

ii. As detailed in the cattle option/purchase agreements previously provided to you in response to your March 3, 2004 request, sellers to CBL agree to an introductory stewardship plan in the first year of participation in the conservation beef program and, if a second year of participation is desired, sellers implement a full stewardship plan. These plans are all unique to the landscapes involved, but must be approved by CBL, pursuant to CBL's stewardship guidelines. A copy of the guidelines is attached.

Long-term conservation of unfragmented landscapes is a central goal of the CBL stewardship plans. With regard to development rights, the ranchers are able to choose among a variety of acceptable strategies to achieve the goal as detailed in the stewardship guidelines, and may retain specific, limited development rights provided they are consistent with CBL goals of conservation of landscape, watershed and habitat integrity.

iii. A complete copy of the Deed of Conservation Easement relating to the Sun Ranch is attached.

iv. See attached CBL stewardship guidelines. Specific plans are subject to a confidentiality agreement between the rancher and CBL. The Conservancy does not have copies of these plans as we are no longer a member of CBL.

SECRETARY OF STATE

STATE OF MONTANA
MIKE COONEY

PRIORITY

Business Services Bureau
LesLee Shell-Beckert, Deputy

Montana State Capitol
PO Box 202801
Helena, MT 59620-2801
(406)444-3665
http://www.state.mt.us/sos/

ARTEMIS WILDLIFE FEDERATION
PO BOX 748
HELENA MT 59624

RE: CONSERVATION BEEF, LLC
ARTICLES OF ORGANIZATION
Date of Filing: October 20, 1999
Filing Number: 364293 - C100562

October 20, 1999

Dear Sir or Madam:

I've approved the filing of the documents for the above named entity. The document number and filing date have been recorded on the original document. This letter serves as your certificate of filing and should be maintained in your files for future reference.

Thank you for giving this office the opportunity to serve you. If you have any questions in this regard, or need additional assistance, please do not hesitate to contact the Business Services Bureau professionals at (406) 444-3665.

Sincerely,

Mike Cooney
Secretary of State
Enclosure

You can correspond with our office via facsimile. Our fax number is (406) 444-3976. You can now fax in your search, copy, and certificate requests.

#364293

STATE OF MONTANA

FILED

OCT 20 1999

SECRETARY OF STATE

ARTICLES OF ORGANIZATION OF CONSERVATION BEEF, LLC

The undersigned, acting as organizer of Conservation Beef, LLC, adopts the following Articles of Organization:

1. The name of the limited liability company is Conservation Beef, LLC.

2. The Company is not a term company and shall continue until dissolved as provided in the Montana Limited Liability Company Act.

3. No member shall be liable for the Company's debts or obligations.

4. The principal place of business and registered office in Montana is:

25 South Ewing Street, Suite 415
Helena, MT 59101

and the registered agent at such office is:

Brian Kahn

5. Management of the Company is vested in managers rather than in the members, and the name and street address of the initial managers is as follows:

Brian Kahn
25 South Ewing Street, Suite 415
Helena, MT 59624

ORGANIZER:

Brian Kahn
25 South Ewing Street, Suite 415
Helena, MT 59624

Registered Agent:

Brian Kahn

DENVER:0950224.01

Signed + Approved

FILE
CB-Imp. Doc.

Execution Copy

OPERATING AGREEMENT

OF

CONSERVATION BEEF, LLC

A MONTANA LIMITED LIABILITY COMPANY

EFFECTIVE AS OF OCTOBER 20, 1999

THIS AGREEMENT is made and entered into as of October 20, 1999, by and among the Company, ARTEMIS WILDLIFE FOUNDATION, a California non-profit charitable corporation ("Artemis") and, THE NATURE CONSERVANCY, tax-exempt, non-profit charitable corporation, organized under the laws of the District of Columbia, doing business as the CENTER FOR COMPATIBLE ECONOMIC DEVELOPMENT ("CCED" collectively with Artemis, the "Initial Members"). In consideration of the mutual covenants herein contained and for other good and valuable consideration, the Members and the Company (and each person who subsequently becomes an Equity Owner) hereby agree as follows:

ARTICLE 1.
DEFINITIONS

The following terms used in this Agreement shall have the following meanings (unless otherwise expressly provided herein):

1.1 Act. Act shall mean the Montana Limited Liability Company Act, as amended.

1.2 Affiliate. Affiliate shall mean, with respect to any Person, (i) any Person directly or indirectly controlling, controlled by, or under common control with such Person, (ii) any Person owning or controlling ten percent (10%) or more of the outstanding voting interests of such Person, (iii) any officer, director, or general partner of such Person, or (iv) any Person who is an officer, director, general partner, trustee, or holder of ten percent (10%) or more of the voting interests of any Person described in clauses (i) through (iii) of this sentence. For purposes of this definition, the term "controls," "is controlled by," or "is under common control with" shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

1.3 Agreement. Agreement shall mean this Operating Agreement as originally executed and as amended from time to time.

1.4 Annual Operating Plan. Annual Operating Plan shall mean the plan adpted as provided in Section 5.13 as amended from time to time.

1.5 Articles of Organization. The Articles of Organization of the Company as filed with the Secretary of State as the same may be amended from time to time.

1.6 Capital Account. Capital Account as of any given date shall mean the Capital Account of each Equity Owner as described in Article 8 and maintained to such date in accordance with this Agreement.

1.7 Capital Contribution. Capital Contribution shall mean any contribution to the capital of the Company in cash or property by an Equity Owner whenever made. "Initial Capital Contribution" shall mean the initial contribution to the capital of the Company pursuant to this Agreement.

1.8 Code. Code shall mean the Internal Revenue Code of 1986, as amended from time to time.

1.9 Company. Company shall mean Conservation Beef, LLC.

1.10 Company Purpose. The purpose for which the Company was organized as described in Article 3.

1.11 Company Property. All assets (real or personal, tangible or intangible, including cash) of the Company.

1.12 Deficit Capital Account. Deficit Capital Account shall mean with respect to any Equity Owner, the deficit balance, if any, in such Equity Owner's Capital Account as of the end of the Fiscal Year, after giving effect to the following adjustments:

(a) credit to such Capital Account the amount, if any, which such Equity Owner is obligated to restore under Section 1.704-1(b)(2)(ii)(c) of the Regulations, as well as any addition thereto pursuant to the next to last sentence of Sections 1.704-2(g)(1) and (i)(5) of the Regulations, after taking into account thereunder any changes during such year in partnership minimum gain as determined in accordance with Section 1.704-2(d) of the Regulations ("Company Minimum Gain") and in any partner nonrecourse debt minimum as determined under Section 1.704-2(i)(3) of the Regulations ("Member Minimum Gain"); and

(b) debit to such Capital Account the items described in Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6) of the Regulations.

This definition of Deficit Capital Account is intended to comply with the provisions of Regulations Sections 1.704-1(b)(2)(ii)(d) and 1.704-2, and shall be interpreted consistently with those provisions.

1.13 Depreciation. For each Fiscal Year, an amount equal to the depreciation, amortization, or other cost recovery deduction allowable with respect to an asset for such Fiscal Year, except that if the Gross Asset Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such Fiscal Year, Depreciation shall be an amount which bears the same ratio to such beginning Gross Asset Value as the federal income tax depreciation, amortization, or other cost recovery deduction for such Fiscal Year bears to such beginning adjusted tax basis; provided, however, that if the adjusted basis for federal income tax purposes of an asset at the beginning of such Fiscal Year is zero, Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the Managers.

1.14 Distributable Cash. All cash, whether revenues or other funds received by the Company, less the sum of the following to the extent paid or set aside by the Company: (i) all amounts to be expended in fulfillment of the Company Purpose including amounts to be reserved for the Company Purpose as provided in the Annual

Operating Plan, (ii) all principal and interest payments on indebtedness of the Company and all other sums paid to lenders; (iii) all cash expenditures incurred incident to the normal operation of the Company's business; and (iv) Reserves.

1.15 Distribution. Any Transfer of Company Property from the Company to or for the benefit of an Equity Owner by reason of such Equity Owner's ownership of an Economic Interest.

1.16 Economic Interest. An Equity Owner's share of one or more of the Profits, Losses and Distributions pursuant to this Agreement and the Act, but shall not include any right to participate in the management or affairs of the Company, including, the right to vote on, consent to or otherwise participate in any decision of the Members or Managers.

1.17 Economic Interest Owner. The owner of an Economic Interest who is not a Member.

1.18 Entity. Any general partnership (including a limited liability partnership), limited partnership (including a limited liability limited partnership), limited liability company, corporation, joint venture, trust, business trust, cooperative or association or any foreign trust or foreign business organization.

1.19 Equity Owner. An Economic Interest Owner or a Member.

1.20 Fiscal Year. The taxable year of the Company as determined under the Code.

1.21 Gross Asset Value. Gross Asset Value means, with respect to any asset, the asset's adjusted basis for federal income tax purposes, except as follows:

(a) The initial Gross Asset Value of any asset contributed by an Equity Owner to the Company shall be the gross fair market value of such asset, as determined by the contributing Member and the Managers;

(b) The Gross Asset Values of all Company assets shall be adjusted to equal their respective gross fair market values, as reasonably determined by the Managers as of the following times: (i) the acquisition of an additional interest by any new or existing Equity Owner in exchange for more than a *de minimis* contribution of property (including money); (ii) the Distribution by the Company to an Equity Owner of more than a *de minimis* amount of property as consideration for an Ownership Interest; and (iii) the liquidation of the Company within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g); provided, however, that adjustments pursuant to clauses (i) and (ii) above shall be made only if the Managers reasonably determine that such adjustments are necessary or appropriate to reflect the relative economic interests of the Equity Owners in the Company;

(c) The Gross Asset Value of any Company asset Distributed to any Equity Owner shall be adjusted to equal the gross fair market value of such asset on the

date of Distribution as reasonably determined by the distributee and the Managers, provided that, if the distributee is a Manager, the determination of the fair market value of the Distributed asset shall require the consent of theManagers; and

(d) The Gross Asset Values of Company assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Section 734(b) or Section 743(b) of the Code, but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Regulation Section 1.704-1(b)(2)(iv)(m) and **Section 8.3** and subparagraph (e) under the definition of Profits and Losses; provided, however, that Gross Asset Values shall not be adjusted pursuant to this subparagraph (d) of this definition to the extent that the Managers reasonably determine that an adjustment pursuant to subparagraph (b) of this definition is necessary or appropriate in connection with a transaction that would otherwise result in an adjustment pursuant to this subparagraph (d).

If the Gross Asset Value of an asset has been determined or adjusted pursuant to subparagraph (a), (b) or (d) of this definition, then such Gross Asset Value shall thereafter be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Profits and Losses.

1.22 Managers. Managers shall mean one or more managers. The "Artemis Manager" shall be a Manager appointed by Artemis as provided in this Agreement, and the "CCED Manager", both as provided in **Article 5.** The initial Artemis Manager shall be Brian Kahn and the initial CCED Manager shall be William Weeks.

1.23 Member. Each of the parties who executes a counterpart of this Agreement as a Member (an "Initial Member") and each of the parties who may hereafter become a Member. If a Person is a Member immediately prior to the purchase or other acquisition by such Person of an Economic Interest, such Person shall have all of the rights of a Member with respect to such purchased or otherwise acquired Ownership Interest, as the case may be.

1.24 Membership Interest. A Member's entire interest in the Company, including such Member's Economic Interest and such other rights and privileges that the Member may enjoy by being a Member.

1.25 Ownership Interest. Ownership interest shall mean:

(a) in the case of a Member, the Member's Membership Interest; and

(b) in the case of an Economic Interest Owner, the Economic Interest Owner's Economic Interest.

1.26 Person. Any individual or Entity, and the heirs, executors, administrators, legal representatives, successors, and assigns of such "Person" where the context so permits.

1.27 Profits and Losses. Profits and Losses shall mean for each Fiscal Year of the Company an amount equal to the Company's net taxable income or loss for such year as determined for federal income tax purposes (including separately stated items) in accordance with the accounting method and rules used by the Company and in accordance with Section 703 of the Code with the following adjustments:

(a) Any items of income, gain, loss and deduction allocated to Equity Owners pursuant to **Sections 9.2, 9.3 or 9.13** shall not be taken into account in computing Profits or Losses;

(b) Any income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Profits and Losses (pursuant to this definition) shall be added to such taxable income or loss;

(c) Any expenditure of the Company described in Section 705(a)(2)(B) of the Code and not otherwise taken into account in computing Profits and Losses (pursuant to this definition) shall be subtracted from such taxable income or loss;

(d) In the event the Gross Asset Value of any Company asset is adjusted pursuant to subparagraphs (b) or (c) of the definition of Gross Asset Value, the amount of such adjustment shall be taken into account as gain or loss from the disposition of such asset for purposes of computing Profits and Losses;

(e) Gain or loss resulting from any disposition of any Company asset with respect to which gain or loss is recognized for federal income tax purposes shall be computed with reference to the Gross Asset Value of the asset disposed of, notwithstanding that the adjusted tax basis of such asset differs from its Gross Asset Value;

(f) In lieu of the depreciation, amortization and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Fiscal Year; and

(g) To the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Section 734(b) or Section 743(b) of the Code is required pursuant to Section 1.704-1(b)(2)(iv)(m)(4) of the Regulations to be taken into account in determining Capital Accounts as a result of a Distribution other than in liquidation of an Ownership Interest, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases the basis of the asset) from the disposition of the asset and shall be taken into account for purposes of computing Profits or Losses.

1.28 Regulations. Regulations shall include proposed, temporary and final regulations promulgated under the Code in effect as of the date of filing the Articles of Organization and the corresponding sections of any regulations subsequently issued that amend or supersede such regulations.

1.29 Reorganization. Reorganization shall mean the merger or conversion of the Company, or a sale or other disposition of assets of the Company, or sale or other disposition of Ownership Interests, or other transaction pursuant to which a Person or Persons acquire all or substantially all of the assets of, or Ownership Interests in, the Company in a single or series of related transactions, including without limitation, a merger or conversion of the Company into a corporation or other entity, whether or not such corporation or other entity has the same owners as the Partnership and whether or not additional capital is contributed to such corporation or other entity; provided, however, that a Reorganization shall not include the merger or conversion of the Company into a general partnership which is not a limited liability partnership.

1.30 Reserves. Reserves shall mean, with respect to any fiscal period, funds set aside or amounts allocated during such period to reserves which shall be maintained in amounts reasonably deemed sufficient by the Managers for working capital and for payment of taxes, insurance, debt service or other costs or expenses incident to the Company Purpose, including, but not limited to, the designation of Reserves for the purchase of conservation agreements.

1.31 Sale or Sell. A sale, assignment, exchange, or other transfer for consideration equal to full fair market value.

1.32 Secretary of State. The Secretary of State of Montana.

1.33 Selling Equity Owner. Any Equity Owner which Sells all or any portion of its Ownership Interest.

1.34 Sharing Ratio. The percentages in which the Equity Owners share those items making specific references to "Sharing Ratios" in this Agreement. Sharing Ratio shall mean:

Initial Member	Sharing Ratio
Artemis	50%
CCED	50%

Upon the Transfer of all or any portion of an Ownership Interest, unless otherwise agreed by the Transferring Equity Owner and the Transferee, the Sharing Ratio of the Transferring Equity Owner shall be divided between the Transferring Equity Owner and the Transferee in proportion to the percentage of the Transferring Equity Owner's Capital Account balance being Transferred.

1.35 Transfer. Transfer shall mean any Sale or any other assignment, gift, exchange, or other transfer regardless of whether gratuitous or for consideration, pledge, hypothecation, or grant of a security interest.

1.36 Transferring Equity Owner. Transferring Equity Owner shall mean an Equity Owner who Transfers or proposes to Transfer all or any Part of the Equity Owner's Ownership Interest.

ARTICLE 2.
FORMATION OF COMPANY

2.1 Formation. On October 20, 1999, Brian Kahn organized a limited liability company pursuant to the Act by executing and delivering articles of organization to the Secretary of State in accordance with and pursuant to the Act. The Company and the Members hereby forever discharge the organizer, and the organizer shall be indemnified by the Company and the Member from and against, any expense or liability actually incurred by the organizer by reason of having been the organizer of the Company.

2.2 Name. The name of the Company is Conservation Beef, LLC.

2.3 Principal Place of Business. The principal place of business of the Company shall be as set forth in the Articles. The Company may locate its places of business and registered office at any other place or places as the Managers may from time to time deem advisable.

2.4 Registered Office and Registered Agent. The Company's initial registered office and the name of the registered agent at such address shall be as set forth in the Articles. The registered office and registered agent may be changed from time to time by filing the address of the new registered office and/or the name of the new registered agent with the Secretary of State pursuant to the Act.

2.5 Term. The Company shall continue in existence until terminated in accordance with the provisions of this Agreement or the Act.

ARTICLE 3.
PURPOSE OF COMPANY

The purpose of the Company (the "Company Purpose") shall be to operate in a manner that furthers the exempt purposes of the Members, to-wit: in the case of Artemis, to conserve biologically significant lands in the western United States by developing market forces that will support economically sustainable and ecologically sound livestock ranching; and in the case of CCED, to be operated, exclusively for educational, scientific and charitable purposes as may qualify it for tax exempt status under section 501(c)(3) of the Internal Revenue Code, more specifically, to preserve plants, animals, and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive. The Company shall endeavor to attain the Company Purpose by creating a niche market for beef that will return a premium price to ranchers who commit to long-term land conservation strategies such as ecologically sound land stewardship practices, land-use planning, and conservation easements, but in no circumstances may the Company take any action that is not in furtherance of the exempt purposes of the Members. The Company may exercise all other powers necessary to or reasonably connected with the Company Purpose which may be legally exercised by limited liability companies under the Act and may engage in all activities necessary, customary, convenient, or incident to the Company Purpose.

The Company Business shall include the establishment and maintenance of Reserves for the purpose of purchasing development rights or fee title in appropriate lands, or implementing other effective conservation measures, and the use of the Reserves for such purchases.

ARTICLE 4.
NAMES AND ADDRESSES OF EQUITY OWNERS

The names and addresses of the Initial Members are as follows:

NAME	ADDRESS
ARTEMIS WILDLIFE FOUNDATION	25 South Ewing Street, Suite 415 Helena, MT 59101
THE NATURE CONSERVANCY	4245 North Fairfax Drive, Arlington, VA 22203

The names and addresses of other Equity Owners shall be maintained as provided under Section 13.1.

ARTICLE 5.
RIGHTS AND DUTIES OF MANAGERS

5.1 Management. The business and affairs of the Company shall be managed by its Managers as provided in this Article 5. Unless authorized to do so by this Agreement or by the Managers, no attorney-in-fact, employee or other agent of the Company shall have any power or authority to bind the Company in any way, to pledge its credit or to render it liable pecuniarily for any purpose.

5.2 Number, Tenure and Qualifications. The Company shall initially have two (2) Managers. The number of Managers shall be fixed from time to time by the unanimous consent of the Members holding at least a Two-Thirds Interest, but in no instance shall there be less than one Manager. Each Manager shall hold office until such Manager resigns pursuant to **Section 5.9** or is removed pursuant to **Section 5.10**. One Manager (the "Artemis Manager") shall be appointed by Artemis subject to the approval of CCED and the other Manager (the "CCED Manager") shall be appointed by CCED subject to the approval of Artemis. The approvals of the non-appointing Member under this **Section 5.2** shall not be unreasonably withheld. The initial Artemis Manager shall be Brian Kahn and the initial CCED Manager shall be William Weeks.

5.3 Powers of Artemis Manager. Without limiting the generality of **Section 5.1** but subject to the limitations of **Sections 5.5 and 5.6**, the Artemis Manager shall have power and authority, on behalf of the Company to take the following actions to the extent the same are consistent with the Annual Operating Plan and budget approved by the Members:

(a) To acquire property (including livestock at approved prices and in approved numbers) from any Person as the Artemis Manager may determine. The fact that a Manager or an Equity Owner is directly or indirectly affiliated or connected with any such Person shall not prohibit the Artemis Manager from dealing with that Person provided that such fact shall be disclosed to all of the Members;

(b) To purchase liability and other insurance to protect the Company's property and business;

(c) To hold and own any Company real and/or personal properties in the name of the Company;

(d) To invest any Company funds (by way of example but not limitation) in time deposits, short-term governmental obligations, or other investments consistent with the approved budget;

(e) To execute on behalf of the Company all instruments and documents, including, without limitation, checks, drafts, notes and other negotiable instruments; assignments; bills of sale; leases; and any other instruments or documents necessary, in the reasonable opinion of the Artemis Manager to the extent necessary to conduct the routine, day to day business of the Company, to the conduct of the business of the Company;

(f) To employ accountants, legal counsel, managing agents or other experts to perform services for the Company and to compensate them from Company funds;

(g) To execute and file such other instruments, documents and certificates which may from time to time be required by the laws of Montana or any other jurisdiction in which the Company shall determine to do business, or any political subdivision or agency thereof, to effectuate, implement, continue and defend the valid existence of the Company;

(h) To open bank accounts the checks on which shall require the signature of both Managers, unless the Managers determine otherwise and to provide all members with regular, full, complete and current information on all such accounts;

(i) To appoint and hire agents and employees of the Company other than a Project Director to the extent provided in the Annual Operating Plan with a limit of up to $1,000; and

(j) To do and perform all other acts as may be necessary or appropriate to the conduct of the Company's business.

5.4 Powers of CCED Manager. Without limiting the generality of **Section 5.1** but subject to the limitations of **Sections 5.5 and 5.6**, the CCED Manager shall have power and authority, on behalf of the Company to determine which landscapes and/or

watersheds meet the Company's ecological criteria for participation in the Company's programs.

5.5 Certain Powers of Managers. Notwithstanding **Section 5.3 and 5.4**, but subject to the limitations of **Section 5.6**, the Managers shall have power and authority, by unanimous consent of both Managers, on behalf of the Company to take the following actions:

(a) To take any action described in **Section 5.3** provided the amount expended or incurred does not exceed the Annual Operating Plan by more than 5 %;

(b) To determine the expenditure of Reserves for the purchase of development rights or fee title in appropriate lands, or implementing other effective conservation measures

(c) To consent to the Transfer of an Interest as provided in **Section 10.2**;

(d) To approve additional contributions as provided in **Section 8.2**; and

(e) To take any other action delegated to the Managers by this Agreement.

5.6 Limitations on Authority. Notwithstanding any other provision of this Agreement, the Managers shall not cause or commit the Company to do any of the following without the unanimous consent of the Members:

(a) Establish Conservation Standards to be used in conservation agreements;

(b) Agree on an Annual Operating Plan as provided in **Section 5.15**;

(c) Amend the Agreement as provided in **Section 13.5**;

(d) Consent to the Dissolution of the Company as provided in **Section 12.1**;

(e) Cause the Issuance of an Additional Membership Interest as provided in **Section 11.1**;

(f) Sell or otherwise dispose all or substantially all of the Company Property or any Company Property than in the ordinary course of business;

(g) Mortgage, pledge, or grant a security interest (collectively, "pledge") in any Company Property to the extent that the secured indebtedness from such pledge would exceed the amount provided for by the Annual Operating Plan by more than 15%;

(h) Incur or refinance any indebtedness for money borrowed by the Company, whether secured or unsecured and including any indebtedness for money borrowed from a Member if, after such financing, the aggregate indebtedness of the Company would exceed would exceed the amount provided for by the Annual Operating Plan by more than 15%;

(i) Incur any liability or make any single expenditure or series of related expenditures in an amount exceeding would exceed the amount provided for by the Annual Operating Plan by more than 15%;

(j) Construct any capital improvements, repairs, alterations or changes involving an amount that would exceed the amount provided for by the Annual Operating Plan by more than 15%;

(k) Compromise or settle any claim against or inuring to the benefit of the Company involving an amount in controversy in excess of $500;

(l) Cause the Company to commence a voluntary case as debtor under the United States Bankruptcy Code; and

(m) Take any other action not otherwise delegated to the Artemis Manager or the Managers by this Agreement.

5.7 Liability for Certain Acts.

(a) The Managers do not, in any way, guarantee the return of the Equity Owners' Capital Contributions or a profit for the Equity Owners from the operations of the Company.

(b) The Managers shall not be liable to the Company or to any Member for any loss or damage sustained by the Company or any Member (or successor thereto), except to the extent, if any, that the loss or damage shall have been the result of gross negligence, fraud, deceit, willful misconduct, or breach of this Agreement.

5.8 Managers' and Equity Owners' Duties to Company.

(a) The Managers and Equity Owners shall have no exclusive duty to act on behalf of the Company. Each Manager and Equity Owner may have other business interests and may engage in other activities in addition to those relating to the Company. Neither the Company nor any Manager shall have any right, by virtue of this Agreement, to share or participate in any other investments or activities of any other Manager or Member. Neither any Manager nor any Equity Owner shall incur any liability to the Company or to any of the Equity Owners as a result of engaging in any other business or venture, except that no Equity Owner or Manager may engage in competition with the Company or disseminate any information of the Company in violation of this Agreement.

(b) Notwithstanding any other provision of this Agreement, no Equity Owner or Manager shall take any action the effect of which will cause any Member qualified for exemption from federal income tax as an organization described in section 501(c)(3) of the Code to cease to be so qualified or to be subject to any tax or penalty under the Code.

(c) The Equity Owners agree to make a good faith effort to seek contributions from donors of sufficient funds to the operation of the Company.

5.9 Bank Accounts. The Managers may from time to time open bank accounts in the name of the Company the checks on which shall require the signature of both Managers, unless the Managers determine otherwise. All members shall receive regular, full, complete and current information on all such accounts.

5.10 Indemnity of the Managers, Employees and Other Agents.

(a) The Company shall indemnify each Manager and make advances for expenses to the maximum extent permitted under the Act, except to the extent the claim for which indemnification is sought results from an act or omission for which the Manager may be held liable to the Company or a Member under **Section 5.5(b)**. The Company shall indemnify its employees and other agents who are not Managers to the fullest extent permitted by law.

(b) Expenses (including legal fees and expenses) incurred by a Manager in defending any claim, demand, action, suit or proceeding subject to subsection (a) above shall be paid by the Company in advance of the final disposition of such claim, demand, action, suit or proceeding upon receipt of an undertaking (which need not be secured) by or on behalf of the Manager to repay such amount if it shall ultimately be finally determined by a court of competent jurisdiction and not subject to appeal, that the Manager is not entitled to be indemnified by the Company as authorized hereunder.

5.11 Resignation. Any Manager may resign at any time by giving written notice to the Members. The resignation of any Manager shall take effect upon receipt of notice thereof or at such later time as shall be specified in such notice; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. The resignation of a Manager who is also an Equity Owner shall not affect the Manager's rights as an Equity Owner.

5.12 Removal. At a meeting called expressly for that purpose, all or any lesser number of Managers may be removed at any time the Member appointing the Manager. The removal of a Manager who is also a Member shall not affect the Manager's rights as a Member and shall not constitute a withdrawal of a Member. In the event the number of Managers is increased and a Manager is appointed by the unanimous consent of the Members, such Manager may be removed by the unanimous consent of the Members.

5.13 Vacancies. Any vacancy occurring for any reason in the number of Managers shall be filled by Member who initially appointed the Manager subject to the approval of the other Member as provided in **Section 5.02**. Any Manager's position to

be filled by reason of an increase in the number of Managers shall be filled by the unanimous consent of the Members.

5.14 Compensation, Reimbursement, Organization Expenses.

(a) The compensation of the Managers shall be fixed from time to time by the unanimous consent of the Members, provided, however, if the amount of the compensation paid to any Manager is in excess of the value of the services provided by that Manager as determined by the Members or by a final administrative of judicial proceeding under the Code, the Manager shall, within ten days of such determination, return the amount of such excess to the Company.

(b) The Managers shall cause the Company to make an appropriate election to treat the expenses incurred by the Company in connection with the formation and organization of the Company to be amortized under the 60-month period beginning with the month in which the Company begins business to the extent that such expenses constitute "organizational expenses" of the Company within the meaning of Code Section 709(b)(2).

5.15 Annual Operating Plan. The Managers shall prepare for the approval of the Members each Fiscal Year (no later than thirty (30) days prior to the end of the then current Fiscal Year) a business plan ("Annual Operating Plan") for the next Fiscal Year, setting forth at a minimum the estimated receipts (including capital calls) and expenditures (capital, operating and other) of the Company in sufficient detail to provide an estimate of cash flow, capital proceeds, markets, marketing, business strategy, employment and employees planned, and other financial requirements of the Company for such year. The Annual Operating Plan shall also set forth amounts to be designated for Reserves for the purchase of conservation agreements. Any such Annual Operating Plan shall also include such other information or other matters necessary in order to inform the Members of the Company's business and to enable the Members to make an informed decision with respect to their approval of such Annual Operating Plan. The Members shall review the proposed Operating Plan and shall offer any revisions thereto within 30 days. After the final Operating Plan has been approved by the Members, the Managers shall implement the Annual Operating Plan and shall be authorized to make only the expenditures and incur only the obligations provided for therein (subject to **Section 5.4(b)**). Notwithstanding the foregoing, the Managers may make any expenditure or incur any obligation, whether or not such expenditure or obligation is provided for in an Annual Operating Plan, which is the legal obligation of the Company and not within the reasonable control of the Managers (*e.g.*, real or personal property taxes). If the Members are not able to agree on an Annual Operating Plan for any year, either Member may declare a "Deadlock" in which case the the business of the Company shall continue with each line item in the Annual Operating Plan for the prior year shall be increased by the percentage increase in the CPI Index from the first day for which the previous Annual Operating Plan was in effect to the first day for which the new Annual Operating Plan is to be in effect, with each Member submitting any disputes with respect to the revision of the Annual Operating Plan to mediation with a mutually agreeable third party. The Members shall seek in good faith

to designate a mutually agreeable third party. In the event the Members cannot agree upon a third party, the Members shall seek to appoint a third party under the rules of the American Arbitration Association. In the event the Members are unable to reach a resolution of the dispute within 120 days after the designation of a mediator, either Member may cause the Company to dissolve pursuant to **§12.01(a)(1)**. As used herein, "CPI Index" shall mean the Consumer Price Index for All Items All Urban Consumers (DPI-U) (1982-84 = 100) for the United States, as published by the United States Department of Labor's Bureau of Labor Statistics (the "Bureau"). Should the Bureau discontinue the publication of the above index, or publish the index less frequently, or alter the index in some other manner, then the Managers shall, from time to time, adopt a substitute index or substitute procedure which reasonably reflects and monitors consumer prices, and the resulting plan shall be the Annual Operating Plan for the current year.

5.16 Right to Rely on the Managers.

(a) Any Person dealing with the Company may rely (without duty of further inquiry) upon a certificate signed by any Manager as to:

(i) The identity of any Manager or Equity Owner;

(ii) The existence or nonexistence of any fact or facts which constitute a condition precedent to acts on behalf of the Company by any Manager or which are in any other manner germane to the affairs of the Company;

(iii) The Persons who are authorized to execute and deliver any instrument or document of the Company; or

(b) Any act or failure to act by the Company or any other matter whatsoever involving the Company or any Equity Owner.

ARTICLE 6.
RIGHTS AND OBLIGATIONS OF EQUITY OWNERS

6.1 Limitation of Liability. Except as otherwise provided by the non-waivable provisions of the Act and by this Agreement, no Equity Owner shall be liable for an obligation of the Company solely by reason of being or acting as an Equity Owner.

6.2 List of Equity Owners. Upon written request of any Member made in good faith and for a purpose reasonably related to the Member's rights as Member under this Agreement (which reason shall be set forth in the written request), the Manager shall provide a list showing the names, addresses and Ownership Interests of all Equity Owners. Economic Interest Owners shall have no rights to information under this **Section 6.2**.

6.3 Equity Owners Have No Agency Authority. Except as expressly provided in this Agreement, the Equity Owners (in their capacity as Equity Owners) shall have no agency authority on behalf of the Company.

6.4 Company Books. In accordance with **Section 9.10** herein, the Managers shall maintain and preserve, during the term of the Company, and for five (5) years thereafter, all accounts, books, and other relevant Company documents. Upon reasonable request, each Member shall have the right, during ordinary business hours, to inspect and copy such Company documents at the requesting Member's expense.

6.5 Priority and Return of Capital. Except as may be expressly provided in Article 9, no Equity Owner shall have priority over any other Equity Owner, either as to the return of Capital Contributions or as to Profits, Losses or Distributions; provided, however, that this **Section 6.5** shall not apply to loans (as distinguished from Capital Contributions) which an Equity Owner has made to the Company.

ARTICLE 7.
ACTIONS OF MANAGERS AND MEMBERS

Unless otherwise required in this Agreement, actions and consents of the Managers and Members may be communicated or reflected orally, electronically or in writing, and no action need be taken at a formal meeting. Managers or Members may, but are not required to, meet from time to time on such notice, if any, as the Manager or Member convening the meeting chooses to give. Any consent required to be in writing may be evidenced by separate written counterparts. Any action of the Members shall be effective when a sufficient number of Members to take such action communicate their consent to the action to the Managers.

ARTICLE 8.
CONTRIBUTIONS TO THE COMPANY AND CAPITAL ACCOUNTS

8.1 Members' Capital Contributions. The Initial Members have made the following contributions:

Initial Member	Initial Cash Constribution
Artemis	$252,500
CCED	$135,000

8.2 Additional Contributions. No Equity Owner shall be required to make any Capital Contributions. To the extent unanimously approved by the Managers, from time to time, the Equity Owners may be permitted to make additional Capital Contributions if and to the extent they so desire, and if the Managers determine that such additional Capital Contributions are necessary or appropriate in connection with the conduct of the Company's business (including without limitation, expansion or diversification). In such event, the Equity Owners shall have the opportunity (but not the obligation) to

participate in such additional Capital Contributions proportionate to their Sharing Ratios.

8.3 Capital Accounts.

(a) A separate Capital Account shall be maintained for each Equity Owner. Each Equity Owner's Capital Account shall be increased by (1) the amount of money contributed by such Equity Owner to the Company; (2) the fair market value of property contributed by such Equity Owner to the Company (net of liabilities secured by such contributed property that the Company is considered to assume or take subject to under Section 752 of the Code); (3) allocations to such Equity Owner of Profits; and (4) any items in the nature of income and gain which are specially allocated to the Equity Owner pursuant to **Sections 9.2** and **9.3**. Each Equity Owner's Capital Account shall be decreased by (1) the amount of money Distributed to such Equity Owner by the Company; (2) the fair market value of property Distributed to such Equity Owner by the Company (net of liabilities secured by such Distributed property that such Equity Owner is considered to assume or take subject to under Section 752 of the Code); (3) any items in the nature of deduction and loss that are specially allocated to the Equity Owner pursuant to **Sections 9.2** and **9.3**; and (4) allocations to such Equity Owner of Losses.

(b) Without limiting the other rights and duties of a transferee of an Ownership Interest pursuant to this Operating Agreement, in the event of a permitted sale or exchange of an Ownership Interest in the Company, (1) the Capital Account of the transferor shall become the Capital Account of the transferee to the extent it relates to the transferred Ownership Interest in accordance with Section 1.704-1(b)(2)(iv) of the Regulations; and (2) the transferee shall be treated as the transferor for purposes of allocations and distributions pursuant to Article 9 to the extent that such allocations and distributions relate to the transferred Ownership Interest.

(c) The manner in which Capital Accounts are to be maintained pursuant to this **Section 8.3** is intended to comply with the requirements of Section 704(b) of the Code and the Regulations promulgated thereunder. If in the opinion of the Company's accountants the manner in which Capital Accounts are to be maintained pursuant to the preceding provisions of this Section 8.3 should be modified in order to comply with Section 704(b) of the Code and the Regulations thereunder, then, notwithstanding anything to the contrary contained in the preceding provisions of this **Section 8.3**, the method in which Capital Accounts are maintained shall be so modified; provided, however, that any change in the manner of maintaining Capital Accounts shall not materially alter the economic agreement between or among the Equity Owners.

(d) Upon liquidation of the Company, liquidating Distributions shall be made in accordance with the positive Capital Account balances of the Equity Owners, as determined after taking into account all Capital Account adjustments for the Company's taxable year during which the liquidation occurs. Liquidation proceeds shall be paid in accordance with **Section 12.3**. The Company may offset damages for breach of this Agreement by any Equity Owner whose interest is liquidated (either upon the

withdrawal of the Equity Owner or the liquidation of the Company) against the amount otherwise Distributable to such Equity Owner. No Equity Owner shall have any obligation to restore all or any portion of a deficit balance in such Equity Owner's Capital Account.

8.4 Withdrawal or Reduction of Equity Owners' Contributions to Capital.

(a) An Equity Owner may withdraw at any time.

(b) Upon the withdrawal of any Equity Owner, the Company shall:

(1) If agreed by the Company and the withdrawing Equity Owner, retain any amount to which the Equity Owner would have been entitled on liquidation of the Company, provided, that if the withdrawing Equity Owner is exempt from taxation under Section 501(c)(3) of the Code, the Company shall use such amounts exclusively for charitable, scientific, or educational purposes for which the Equity Owner is organized, and no part of the amount retained or the net earnings on such amount shall be allowed to inure to the benefit of any individual or entity other than another entity that is exempt from taxation under Section 501(c)(3) of the Code for use in such entity's exempt purposes.

(2) Distribute an amount equal to the amount that the Equity Owner would have received on liquidation of the Company as of the date of withdrawal (less any amount retained pursuant to **Section 8.4(b)(1)**) to the Equity Owner. Unless otherwise agreed between the Company and the withdrawing Equity Owner, any amount to be distributed pursuant to this **Section 8.4(b)(2)** shall be paid over a 30 months period to the withdrawing equity holder in five equal payments of an amount sufficient to amortize the amount plus interest on the outstanding balance on such amount as the Federal mid-term rate as established under Section 1274(d) of the Code as of the date of the withdrawal, provided, however, that no Equity Owner shall receive a Distribution to the extent such Distribution would violate **Section 9.5**.

(c) An Equity Owner, irrespective of the nature of its Capital Contribution, does not have the right to demand and receive property other than cash in return for its Capital Contribution.

ARTICLE 9.
ALLOCATIONS, INCOME TAX, DISTRIBUTIONS, ELECTIONS AND REPORTS

9.1 Allocations of Profits and Losses from Operations. Except as provided in **Sections 9.2** and **9.3**, the Profits and Losses for each Fiscal Year shall be allocated among the Equity Owners in accordance with their relative Sharing Ratios.

9.2 Special Allocations to Capital Accounts. Notwithstanding **Section 9.1** hereof:

(a) In the event that any Equity Owner unexpectedly receives any adjustments, allocations or Distributions described in Sections 1.704-1(b)(2)(ii)(d)(4), (5), or (6) of the Regulations, which create or increase a Deficit Capital Account of such Equity Owner, then items of Company income and gain (consisting of a *pro rata* portion of each item of Company income, including gross income, and gain for such year and, if necessary, for subsequent years) shall be specially allocated to such Equity Owner in an amount and manner sufficient to eliminate, to the extent required by the Regulations, the Deficit Capital Account so created as quickly as possible. It is the intent that this **Section 9.2(a)** be interpreted to comply with the alternate test for economic effect set forth in Section 1.704-1(b)(2)(ii)(d) of the Regulations.

(b) The Losses allocated pursuant to Section 9.1 hereof shall not exceed the maximum amount of Losses that can be so allocated without causing any Member to have a Deficit Capital Account at the end of any Fiscal Year. In the event that some, but not all, of the Members would have Deficit Capital Accounts as a consequence of an allocation of Losses pursuant to **Section 9.1** hereof, the limitation set forth in the preceding sentence shall be applied on a Member by Member basis so as to allocate the maximum permissible Losses to each Member under Section 1.704-1(b)(2)(ii)(d) of the Regulations. All Losses in excess of the limitation set forth in this **Section 9.2(b)** shall be allocated to the Members in proportion to their respective positive Capital Account balances, if any, and thereafter to the Members in accordance with their interests in the Company as determined by the Managers in their reasonable discretion. In the event that any Equity Owner would have a Deficit Capital Account at the end of any Fiscal Year which is in excess of the sum of any amount, if any, that such Equity Owner is obligated to restore to the Company under Section 1.704-1(b)(2)(ii)(c) of the Regulations and such Equity Owner's share of Company Minimum Gain as defined in Section 1.704-2(g)(1) of the Regulations (which is also treated as an obligation to restore in accordance with Section 1.704-1(b)(2)(ii)(d) of the Regulations), the Capital Account of such Equity Owner shall be specially credited with items of Company income (including gross income) and gain in the amount of such excess as quickly as possible.

(c) Notwithstanding any other provision of this **Section 9.2**, if there is a net decrease in the Company Minimum Gain as during a Fiscal Year, then the Capital Accounts of each Equity Owner shall be allocated items of income (including gross income) and gain for such Fiscal Year (and if necessary for subsequent Fiscal Years) equal to that Equity Owner's share of the net decrease in Company Minimum Gain. This **Section 9.2(c)** is intended to comply with the minimum gain chargeback requirement of Section 1.704-2 of the Regulations and shall be interpreted consistently therewith. If in any Fiscal Year that the Company has a net decrease in the Company Minimum Gain, if the minimum gain chargeback requirement would cause a distortion in the economic arrangement among the Equity Owners and it is not expected that the Company will have sufficient other income to correct that distortion, the Managers may in their discretion (and shall, if requested to do so by a Member) seek to have the Internal Revenue Service waive the minimum gain chargeback requirement in accordance with Section 1.704-2(f)(4) of the Regulations.

(d) Notwithstanding any other provision of this **Section 9.2** except **Section 9.2(c)**, if there is a net decrease in Member Minimum Gain attributable to a Member Nonrecourse Debt during any Company Fiscal Year, each Member who has a share of the Member Minimum Gain as of the beginning of the Fiscal Year shall be specially allocated items of Company income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) equal to such Member's share of the net decrease in Member Minimum Gain attributable to such Member Nonrecourse Debt. A Member's share of the net decrease in Member Minimum Gain shall be determined in accordance with Section 1.704-2(i)(4) of the Regulations; provided, however, that a Member shall not be subject to this provision to the extent that an exception is provided by Section 1.704-2(i)(4) of the Regulations and any Revenue Rulings issued with respect thereto. Any Member Minimum Gain allocated pursuant to this provision shall consist of first, gains recognized from the disposition of Company property subject to the Member Nonrecourse Debt, and, second, if necessary, a *pro rata* portion of the Company's other items of income or gain (including gross income) for that Fiscal Year. This **Section 9.2(d)** is intended to comply with the minimum gain chargeback requirement in Section 1.704-2(i)(4) of the Regulations and shall be interpreted consistently therewith.

(e) Items of Company loss, deduction and expenditures described in Section 705(a)(2)(B) of the Code which are attributable to any nonrecourse debt of the Company and are characterized as partner nonrecourse deductions under Section 1.704-2(i) of the Regulations shall be allocated to the Equity Owners' Capital Accounts in accordance with said Section 1.704-2(i) of the Regulations.

(f) Beginning in the first taxable year in which there are allocations of "nonrecourse deductions" (as described in Section 1.704-2(b) of the Regulations), such deductions shall be allocated to the Equity Owners in the same manner as Loss is allocated for such period.

(g) To the extent that an adjustment to the adjusted tax basis of any Company asset pursuant to Section 734(b) or 743(b) of the Code is required pursuant to Section 1.704-1(b)(2)(iv)(m)(2) or 1.704-1(b)(2)(iv)(m)(4) of the Regulations, to be taken into account in determining Capital Accounts as the result of a Distribution to an Equity Owner in complete liquidation of its Ownership Interest, the amount of such adjustment to Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis), and such gain or loss shall be specially allocated to the Equity Owners in accordance with their interests in the Company in the event Section 1.704-1(b)(2)(iv)(m)(2) of the Regulations applies, or to the Equity Owner to whom such Distribution was made in the event Section 1.704-1(b)(2)(iv)(m)(4) of the Regulations applies.

(h) Any income, gain, loss or deduction realized by the Company as a direct or indirect result of the issuance of an interest in the Company by the Company to an Equity Owner (the "Issuance Items") shall be allocated among the Equity Owners so that, to the extent possible, the net amount of such Issuance Items, together with all other allocations under this Agreement to each Equity Owner, shall be equal to the net

amount that would have been allocated to each such Equity Owner if the Issuance Items had not been realized.

9.3 Credit or Charge to Capital Accounts. Any credit or charge to the Capital Accounts of the Equity Owners pursuant to **Sections 9.2(a), 9.2(b), 9.2(c), 9.2(d), 9.2(e), 9.2(f)** and **9.2(g)** ("Regulatory Allocations") hereof shall be taken into account in computing subsequent allocations of Profits and Losses pursuant to **Section 9.1**, so that the net amount of any items charged or credited to Capital Accounts pursuant to **Section 9.1** and the Regulatory Allocations hereof and this **Section 9.3** shall to the extent possible, be equal to the net amount that would have been allocated to the Capital Account of each Equity Owner pursuant to the provisions of this Article 9 if the special allocations required by the Regulatory Allocations hereof had not occurred.

9.4 Distributions. Except as provided in **Sections 8.3(d)** (with respect to liquidating Distributions) and **9.5** (with respect to limitations on Distributions), the Managers may from time to time Distribute so much of the Company's Distributable Cash to the Equity Owners at any time they determine in proporation to the Members' Sharing Ratios. No Equity Owner shall be entitled to receive a Distribution at any time that the Equity Owner is in default in making any Capital Contribution pursuant to **Section 8.1(c).**

9.5 Limitation Upon Distributions. No Distribution shall be made if such Distribution would violate the Act or for any purpose that would violate the Company Purposes.

9.6 Accounting Principles. For financial reporting purposes, the Company shall use accounting principles applied on a consistent basis using the accrual method of accounting determined by the Managers, unless the Company is required to use a different method of accounting for federal income tax purposes, in which case that method of accounting shall be the Company's method of accounting.

9.7 Interest on and Return of Capital Contributions. No Member shall be entitled to interest on its Capital Contribution or to return of its Capital Contribution, except as otherwise specifically provided for herein.

9.8 Loans to Company. Nothing in this Agreement shall prevent any Member from making secured or unsecured loans to the Company by agreement with the Company.

9.9 Accounting Period. The Company's accounting period shall be the Fiscal Year.

9.10 Records and Reports. At the expense of the Company, the Managers shall maintain records and accounts of all operations and expenditures of the Company. At a minimum the Company shall keep at its principal place of business the following records:

(a) A current list of the full name and last known business, residence, or mailing address of each Equity Owner and Manager, both past and present;

(b) A copy of the Articles of Organization and all amendments thereto, together with executed copies of any powers of attorney pursuant to which any amendment has been executed;

(c) Copies of the Company's federal, state, and local income tax returns and reports, if any, for the four (4) most recent Fiscal Years;

(d) Copies of the Company's currently effective written Agreement, copies of any writings permitted or required with respect to an Equity Owner's obligation to contribute cash, property or services, and copies of any financial statements of the Company for the three (3) most recent Fiscal Years;

(e) Minutes of every annual, special meeting and court-ordered meeting;

(f) Any written consents obtained from Members for actions taken by Members without a meeting.

9.11 Returns and Other Elections. The Managers shall cause the preparation and timely filing of all tax returns required to be filed by the Company pursuant to the Code and all other tax returns deemed necessary and required in each jurisdiction in which the Company does business. Copies of such returns, or pertinent information therefrom, shall be furnished to the Equity Owners within a reasonable time after the end of the Fiscal Year.

All elections permitted to be made by the Company under federal or state laws shall be made by the Managers in their sole discretion; provided, however, that the Managers shall make any tax election requested by the unanimous consent of the Members.

9.12 Tax Matters Partner. Artemis, is hereby designated the Tax Matters Partner ("TMP") as defined in Section 6231(a)(7) of the Code. The TMP and the other Members shall use their reasonable efforts to comply with the responsibilities outlined in Sections 6221 through 6233 of the Code (including any Regulations promulgated thereunder), and in doing so shall incur no liability to any other Member.

9.13 Certain Allocations for Income Tax (But Not Book Capital Account) Purposes.

(a) In accordance with Section 704(c)(1)(A) of the Code and Section 1.704-1(b)(2)(i)(iv) of the Regulations, if a Member contributes property with an initial Gross Asset Value that differs from its adjusted basis at the time of contribution, income, gain, loss and deductions with respect to the property shall, solely for federal income tax purposes (and not for Capital Account purposes), be allocated among the Equity Owners so as to take account of any variation between the adjusted

basis of such property to the Company and its Gross Asset Value at the time of contribution pursuant to the traditional method under Section 1.704-3(b) of the Regulations

(b) Pursuant to Section 704(c)(1)(B) of the Code, if any contributed property is Distributed by the Company other than to the contributing Equity Owner within seven (7) years of being contributed, then, except as provided in Section 704(c)(2) of the Code, the contributing Equity Owner shall, solely for federal income tax purposes (and not for Capital Account purposes), be treated as recognizing gain or loss from the sale of such property in an amount equal to the gain or loss that would have been allocated to such Equity Owner under Section 704(c)(1)(A) of the Code if the property had been sold at its fair market value at the time of the Distribution.

(c) In the case of any Distribution by the Company to an Equity Owner, such Equity Owner shall, solely for federal income tax purposes (and not for Capital Account purposes), be treated as recognizing gain in an amount equal to the lesser of:

(1) the excess (if any) of (A) the fair market value of the property (other than money) received in the Distribution over (B) the adjusted basis of such Equity Owner's Ownership Interest immediately before the Distribution reduced (but not below zero) by the amount of money received in the Distribution; or

(2) the Net Precontribution Gain (as defined in Section 737(b) of the Code) of the Equity Owner. The Net Precontribution Gain means the net gain (if any) which would have been recognized by the distributee Equity Owner under Section 704(c)(1)(B) of the Code if all property which (A) had been contributed to the Company within seven (7) years of the Distribution, and (B) is held by the Company immediately before the Distribution, had been Distributed by the Company to another Equity Owner. If any portion of the property Distributed consists of property which had been contributed by the distributee Equity Owner to the Company, then such property shall not be taken into account under this **Section 9.13(c)** and shall not be taken into account in determining the amount of the Net Precontribution Gain. If the property Distributed consists of an interest in an Entity, the preceding sentence shall not apply to the extent that the value of such interest is attributable to the property contributed to such Entity after such interest had been contributed to the Company.

(d) All recapture of income tax deductions resulting from sale or disposition of Company property shall be allocated to the Equity Owners to whom the deduction that gave rise to such recapture was allocated hereunder to the extent that such Equity Owner is allocated any gain from the sale or other disposition of such property.

ARTICLE 10.
TRANSFERABILITY

10.1 General.

(a) Except as otherwise specifically provided in **Section 10.2** or with the unanimous consent of the Members, no Equity Owner shall have the right to Transfer the Equity Owner's Ownership Interest.

(b) Each Equity Owner hereby acknowledges the reasonableness of the restrictions on sale and gift of Ownership Interests imposed by this Agreement in view of the Company purposes and the relationship of the Equity Owners. Accordingly, the restrictions on sale and gift contained herein shall be specifically enforceable.

(c) In the event that any Equity Owner pledges or otherwise encumbers any of its Ownership Interest as security for repayment of a liability, any such pledge or hypothecation shall be made pursuant to a pledge or hypothecation agreement that requires the pledgee or secured party to be bound by all the terms and conditions of this Article 10, and the pledging Equity Owner shall provide notice of such pledge or encumbrance to the Managers.

10.2 Right of First Refusal.

(a) A Selling Equity Owner which desires to Sell all or any portion of its Ownership Interest to a third party purchaser other than a Member shall obtain from such third party purchaser ("Third Party Purchaser") a *bona fide* written offer to purchase such interest, stating the terms and conditions upon which the purchase is to be made and the consideration offered therefor ("Third Party Offer"). The Selling Equity Owner shall give written notification ("Notice of Sale") to the Company and the other Equity Owners who are Members (the "Remaining Members"), by certified mail or personal delivery, of its intention to so transfer such Ownership Interest (the "Offered Interest"). The Notice of Sale shall be accompanied by a copy of the Third Party Offer. If any portion of the purchase price offered by such third party purchaser consists of consideration other than cash or a promissory note ("Non-cash Consideration"), then: (1) the Notice of Sale also shall be accompanied by a good faith estimate by the Selling Equity Owner of the fair market value of the Non-cash Consideration, and (2) for purposes of **Section 10.2(b)** and **10.2(c)** the purchase price of the Offered Interest (the "Purchase Price") shall be adjusted as follows:

(i) The Purchase Price shall be decreased by the Non-cash Consideration; and

(ii) The Purchase Price shall be increased by an amount equal to either (aa) the Selling Equity Owner's good faith estimate of the fair market value of the Non-cash Consideration ("Seller's Estimate") or (bb) in the discretion of the Managers, the appraised fair market value of the Non-cash Consideration determined by an independent appraiser selected by the Managers in their sole discretion. The Managers shall have the sole discretion to choose

between the amount determined pursuant to clauses (aa) and (bb) of this **subsection 10.2(a)(ii)**. If the appraised fair market value of the Non-cash Consideration is not determined within twenty (20) days after the Notice of Sale, then such fair market value shall be equal to the amount of the Seller's Estimate.

(b) The Remaining Members shall have the option ("Buy Option") to purchase all, but not less than all, of the Offered Interest, on a basis *pro rata* to the Sharing Ratios of the Remaining Members exercising such option pursuant to this **Section 10.2(b)**. The Buy Option may be exercised by one or more of the Remaining Members by giving written notification ("Buy Notice") to the Selling Equity Owner within thirty (30) days after receiving the Notice of Sale (the "Option Period"). Each Remaining Member who timely gives a Buy Notice ("Buying Member") shall purchase such portion of the Offered Interest which is equal to the relative Sharing Ratios of all of the Buying Members. If there are no Buying Members, the Buy Option shall terminate and at any time within ninety (90) days following the expiration of the Option Period, the Selling Equity Owner shall be entitled to consummate the sale of the Offered Interest to the Third Party Purchaser or one or more of its Affiliates upon terms no less favorable than are set forth in the Third Party Offer.

(c) If there is at least one Buying Member (i) the Buying Members shall designate the time, date and place of closing, provided that the date of closing shall be within thirty (30) days after the receipt of the Buy Notice, and (ii) at the closing, the Buying Members shall purchase, and the Selling Equity Owner shall sell, the Offered Interest for an amount equal to the Purchase Price (as modified in accordance with **Section 10.2(a)(i)** and **(ii)**) and in accordance with such other terms and conditions set forth in the Third Party Offer.

(d) A sale of an Offered Interest pursuant to this **Section 10.2**, shall be subject to **Sections 10.3** and **10.4**.

10.3 Transferee Not Member in Absence of Consent.

(a) Except as provided in this **Section 10.3(a),** if the Managers do not approve by unanimous written consent of the proposed sale of the Transferring Equity Owner's Ownership Interest to a transferee which is not a Member immediately prior to the sale, then the proposed transferee shall have no right to participate in the management of the business and affairs of the Company or to become a Member. Such transferee shall be merely an Economic Interest Owner. No transfer of a Member's Membership Interest (including any transfer of the Economic Interest or any other transfer which has not been approved as provided herein) shall be effective unless and until written notice (including the name and address of the proposed transferee and the date of such transfer) has been provided to the Company and the non-transferring Members.

(b) Upon and contemporaneously with any Transfer of a Member's Ownership Interest, the Transferring Member shall cease to have any residual rights associated with the Ownership Interest transferred to the transferee.

10.4 Additional Conditions to Recognition of Transferee.

(a) If a Transferring Equity Owner Transfers an Ownership Interest to a Person who is not already a Member, as a condition to recognizing one or more of the effectiveness and binding nature of such sale or gift (subject to **Section 10.3** above), the Managers may require the Transferring Equity Owner and the proposed successor-in-interest to execute, acknowledge and deliver to the Managers such instruments of transfer, assignment and assumption and such other certificates, representations and documents, and to perform all such other acts which the Managers may deem necessary or desirable to accomplish any one or more of the following:

(1) constitute such successor-in-interest as an Equity Owner;

(2) confirm that the proposed successor-in-interest as an Economic Interest Owner, or to be admitted as a Member, has accepted, assumed and agreed to be subject and bound by all of the terms, obligations and conditions of this Agreement, as the same may have been further amended (whether such Person is to be admitted as a new Member or will merely be an Economic Interest Owner);

(3) preserve the Company after the completion of such sale, transfer, assignment, or substitution under the laws of each jurisdiction in which the Company is qualified, organized or does business;

(4) maintain the status of the Company as a partnership for federal tax purposes; and

(5) assure compliance with any applicable state and federal laws, including securities laws and regulations.

(b) Any sale or gift of an Ownership Interest and admission of a Member in compliance with this Article 10 shall be deemed effective as of the last day of the calendar month in which the Managers' consent thereto was given. The Transferring Equity Owner hereby indemnifies the Company and the remaining Members against any and all loss, damage, or expense (including, without limitation, tax liabilities or loss of tax benefits) arising directly or indirectly as a result of any transfer or purported transfer in violation of this Article 10.

ARTICLE 11.
ISSUANCE OF MEMBERSHIP INTERESTS

11.1 Issuance of Additional Membership Interests to New Members. From the date of the formation of the Company, any Person acceptable to the Members may become a Member in the Company by the issuance by the Company of Membership Interests on such terms and conditions and for such consideration as the Members by their unanimous consent shall determine, subject to the terms and conditions of this Agreement.

11.2 Issuance of Additional Membership Interests to Existing Members. From the date of the formation of the Company, the Company may issue additional Membership Interests to one or more existing Members for such consideration as the Members by their unanimous consent shall determine, subject to the terms and conditions of this Agreement.

11.3 Part Year Allocations With Respect to New Members. No new Members shall be entitled to any retroactive allocation of losses, income or expense deductions incurred by the Company. In accordance with the provisions of Section 706(d) of the Code and the Regulations promulgated thereunder, the Managers may, at his or their option, at the time a Member is admitted, close the Company books (as though the Company's Fiscal Year had ended) or make *pro rata* allocations of loss, income and expense deductions to a new Equity Owner for that portion of the Company's Fiscal Year in which an Equity Owner became an Equity Owner.

ARTICLE 12.
DISSOLUTION AND TERMINATION

12.1 Dissolution.

(a) The Company shall be dissolved only upon the occurrence of any of the following events:

(1) by the declaration of either Member as provided in **Section 15.5**;

(2) by the unanimous written agreement of the Members;

(3) by an order of a court of competent jurisdiction in an action commenced by any Member in which the Member can show that:

(i) In an action by or on behalf of any Member qualified for exemption from federal income tax as an organization described in section 501(c)(3) of the Code, the Company is being operated in such a manner as to cause the Member to to cease to be so qualified or to be subject to any tax or penalty under the Code.

(ii) The Managers or other Members in control of the Company have acted, are acting, or will act in a manner that is illegal, oppressive, or fraudulent;

(iii) There have been repeated, material breaches of the Agreement by the Company or by other Members or Managers; or

(iv) The assets of the Company are not being used for Company Purposes or are being misapplied or wasted.

(4) upon the expiration of the term, if any, specified in Section 2.5 of this Agreement.

Notwithstanding anything to the contrary in the Act, the Company shall not be dissolved upon the death, retirement, resignation, expulsion, bankruptcy or dissolution of an Equity Owner.

(b) As soon as possible following the occurrence of any of the events specified in **Section 12.1(a)** effecting the dissolution of the Company, the appropriate representative of the Company shall execute all documents required by the Act at the time of dissolution and file or record such statements with the appropriate officials.

12.2 Effect of Dissolution. Upon dissolution, the Company shall cease to carry on its business, except insofar as may be necessary for the winding up of its business, but its separate existence shall continue until winding up and Distribution is completed.

12.3 Winding Up, Liquidation and Distribution of Assets.

(a) Upon dissolution, an accounting shall be made by the Company's Managers of the accounts of the Company and of the Company's assets, liabilities and operations, from the date of the last previous accounting until the date of dissolution. The Managers shall immediately proceed to wind up the affairs of the Company.

(b) If the Company is dissolved and its affairs are to be wound up, the Managers shall:

(1) Sell all of the Company's assets as promptly as practicable (except to the extent that the Managers may determine to Distribute in kind any assets to the Equity Owners);

(2) Allocate any Profit or Loss resulting from such Sale to the Equity Owners' Capital Accounts in accordance with Article 9 hereof;

(3) Discharge all liabilities of the Company, including liabilities to Equity Owners who are also creditors, to the extent otherwise permitted by law, other than liabilities to Equity Owners for Distributions and the return of capital, and establish such Reserves as may be reasonably necessary to provide for contingent liabilities of the Company (for purposes of determining the Capital Accounts of the Equity Owners, the amounts of such Reserves shall be deemed to be an expense of the Company);

(4) Apply some or all of the remaining assets in accordance with the Company Purposes as determined unanimously by the Members, and Distribute the balance of the remaining assets, if any, to the Equity Owners in accordance with their positive Capital Account balances;

(5) If any assets of the Company are to be distributed in kind, the net fair market value of such assets as of the date of dissolution shall be

determined by independent appraisal or by agreement of the Members. Such assets shall be deemed to have been sold as of the date of dissolution for their fair market value, and the Capital Accounts of the Equity Owners shall be adjusted pursuant to the provisions of Article 9 and **Section 8.3** of this Agreement to reflect such deemed sale; and

(6) The positive balance (if any) of each Equity Owner's Capital Account (as determined after taking into account all Capital Account adjustments for the Company's Fiscal Year during which the liquidation occurs) shall be Distributed to the Equity Owners, either in cash or in kind, as determined by the Managers, with any assets Distributed in kind being valued for this purpose at their fair market value. Any such Distributions to the Equity Owners in respect of their Capital Accounts shall be made in accordance with the time requirements set forth in Section 1.704-1(b)(2)(ii)(b)(2) of the Regulations.

(c) Notwithstanding anything to the contrary in this Agreement, upon a liquidation within the meaning of Section 1.704-1(b)(2)(ii)(g) of the Regulations, if any Equity Owner has a Deficit Capital Account (after giving effect to all contributions, Distributions, allocations and other Capital Account adjustments for all Fiscal Years, including the year during which such liquidation occurs), such Equity Owner shall have no obligation to make any Capital Contribution, and the negative balance of such Member's Capital Account shall not be considered a debt owed by such Equity Owner to the Company or to any other Person for any purpose whatsoever.

(d) Upon completion of the winding up, liquidation and Distribution of the assets, the Company shall be deemed terminated.

(e) The Managers shall comply with any applicable requirements of applicable law pertaining to the winding up of the affairs of the Company and the final Distribution of its assets.

12.4 Filing or Recording Statements. Upon the conclusion of winding up, the appropriate representative of the Company shall execute all documents required by the Act at the time of completion of winding up and file or record such statements with the appropriate officials.

12.5 Return of Contribution Nonrecourse to Other Equity Owners. Except as provided by law or as expressly provided in this Agreement, upon dissolution, each Equity Owner shall look solely to the assets of the Company for the return of its Capital Contribution. If the Company property remaining after the payment or discharge of the debts and liabilities of the Company is insufficient to return the cash contribution of one or more Equity Owners, such Equity Owners shall have no recourse against any other Equity Owner.

ARTICLE 13.
MISCELLANEOUS PROVISIONS

13.1 Notices. Any notice, demand, or communication required or permitted to be given by any provision of this Agreement shall be deemed to have been sufficiently given or served if sent by telecopy or facsimile transmission, delivered by messenger or overnight courier, or mailed, certified first class mail, postage prepaid, return receipt requested, and addressed or sent to the Equity Owner's and/or Company's address, as reflected in this Agreement or the Records of the Company. Such notice shall be effective, (a) if delivered by messenger or by overnight courier, upon actual receipt (or if the date of actual receipt is not a business day, upon the next business day); (b) if sent by telecopy or facsimile transmission, upon confirmation of receipt (or if the date of such confirmation of receipt is not a business day, upon the next business day); or (c) if mailed, upon the earlier of three (3) business days after deposit in the mail and the delivery as shown by return receipt therefor. Any Equity Owner or the Company may change its address by giving notice in writing to the Company and the other Equity Owners of its new address.

13.2 Books of Account and Records. Proper and complete records and books of account shall be kept or shall be caused to be kept by the Managers, in which shall be entered fully and accurately all transactions and other matters relating to the Company's business in such detail and completeness as is customary and usual for businesses of the type engaged in by the Company. Such books and records shall be maintained as provided in **Section 9.10**. The books and records shall at all times be maintained at the principal executive office of the Company and shall be open to the reasonable inspection and examination of the Equity Owners or their duly authorized representatives during reasonable business hours.

13.3 Application of State Law. This Agreement, and the application and interpretation hereof, shall be governed exclusively by its terms and by the laws of Montana, and specifically the Act.

13.4 Waiver of Action for Partition. Each Equity Owner irrevocably waives during the term of the Company any right that it may have to maintain any action for partition with respect to the Company Property.

13.5 Amendments . This Agreement may not be amended except by the unanimous written agreement of all of the Members.

13.6 Execution of Additional Instruments. Each Equity Owner hereby agrees to execute such other and further statements of interest and holdings, designations, powers of attorney and other instruments necessary to comply with any laws, rules or regulations.

13.7 Construction. Whenever the singular number is used in this Agreement and when required by the context, the same shall include the plural and vice versa, and the masculine gender shall include the feminine and neuter genders and vice versa.

13.8 Effect of Inconsistencies with the Act. It is the express intention of the Equity Owners and the Company that this Agreement shall be the sole source of agreement among them, and, except to the extent that a provision of this Agreement expressly incorporates federal income tax rules by reference to sections of the Code or Regulations or is expressly prohibited or ineffective under the Act, this Agreement shall govern, even when inconsistent with, or different than, the provisions of the Act or any other law or rule. In the event that the Act is subsequently amended or interpreted in such a way to make valid any provision of this Agreement that was formerly invalid, such provision shall be considered to be valid from the effective date of such interpretation or amendment. The Members and the Company hereby agree that the duties and obligations imposed on the Members as such shall be those set forth in this Agreement, which is intended to govern the relationship among the Company and the Equity Owners, notwithstanding any provision of the Act or common law to the contrary.

13.9 Waivers. The failure of any party to seek redress for violation of or to insist upon the strict performance of any covenant or condition of this Agreement shall not prevent a subsequent act, which would have originally constituted a violation, from having the effect of an original violation.

13.10 Rights and Remedies Cumulative. The rights and remedies provided by this Agreement are cumulative and the use of any one right or remedy by any party shall not preclude or waive the right to use any or all other remedies. Said rights and remedies are given in addition to any other rights the parties may have by law, statute, ordinance or otherwise.

13.11 Attorneys' Fees. Should the Company or any party to this Agreement reasonably retain counsel for the purpose of enforcing or preventing breach of any provision of this Agreement, including but not limited to instituting any action or proceeding to enforce any provision of this Agreement, for damages by reason of any alleged breach of any provision of this Agreement, for damages by reason of any alleged breach of any provision of this Agreement, for a declaration of such party's rights or obligations under this Agreement or for any other judicial remedy, then, if the matter settled by judicial determination or arbitration, the prevailing party (whether at trial, on appeal, or arbitration) shall be entitled, in addition to such other relief as may be granted, to be reimbursed by the losing party for all costs and expenses incurred, including, but not limited to, reasonable attorneys' fees and costs for services rendered to the prevailing party.

13.12 Severability. If any provision of this Agreement or the application thereof to any person or circumstance shall be invalid, illegal or unenforceable to any extent, the remainder of this Agreement and the application thereof shall not be affected and shall be enforceable to the fullest extent permitted by law. Without limiting the generality of the foregoing sentence, to the extent that any provision of this Agreement is prohibited or ineffective under the Act or common law, this Agreement shall be considered amended to the smallest degree possible in order to make the Agreement effective under the Act or common law.

13.13 Heirs, Successors and Assigns. Each and all of the covenants, terms, provisions and agreements herein contained shall be binding upon and inure to the benefit of the parties hereto and, to the extent permitted by this Agreement, their respective heirs, legal representatives, successors and assigns.

13.14 Creditors. None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditors of the Company.

13.15 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

Rule Against Perpetuities. The parties hereto intend that the Rule Against Perpetuities (and any similar rule of law) not be applicable to any provisions of this Agreement. However, notwithstanding anything to the contrary in this Agreement, if any provision in this Agreement would be invalid or unenforceable because of the Rule Against Perpetuities or any similar rule of law but for this **Section 13.16**, the parties hereto hereby agree that any future interest which is created pursuant to said provision shall cease if it is not vested within twenty-one (21) years after the death of the survivor of the group composed of the Initial Managers and their issue who are living on the effective date of this Agreement.

13.16 Arbitration. Any dispute, deadlock, or controversy arising under this Agreement, if not resolved by mutual agreement of the parties hereto, shall be submitted to arbitration before a panel of three arbitrators in the city of Helena, Montana for settlement under the commercial arbitration rules of the American Arbitration Association as then in effect, and judgment upon the award may be entered in any court of competent jurisdiction, provided, however, that the panel of arbitrators shall be chosen as follows: each party shall select one arbitrator and the two arbitrators thus selected shall select a third arbitrator. If the two arbitrators selected by the parties to the controversy are unable to agree upon the third arbitrator within thirty (30) days after their selection, the third arbitrator, shall be selected by the American Arbitration Association.

13.17 Representations and Warranties

(a) In General. As of the date hereof, each of the Equity Owners hereby makes each of the representations and warranties applicable to such Equity Owner as set forth in Section 13.18 hereof, and such warranties and representations shall survive the execution of this Agreement.

(b) Representations and Warranties. Each Member hereby represents and warrants that:

(1) Due Incorporation or Formation; Authorization of Agreement. Such Equity Owner is a corporation duly organized or a partnership or limited liability company duly formed, validly existing, and in good standing under the laws of the jurisdiction of its incorporation or formation and has the

corporate, partnership or limited liability company power and authority to own its property and carry on its business as owned and carried on at the date hereof and as contemplated hereby. Such Equity Owner is duly licensed or qualified to do business and in good standing in each of the jurisdictions in which the failure to be so licensed or qualified would have a material adverse effect on its financial condition or its ability to perform its obligations hereunder. Such Equity Owner has the corporate, partnership or limited liability company power and authority to execute and deliver this Agreement and to perform its obligations hereunder and the execution, delivery, and performance of this Agreement has been duly authorized by all necessary corporate, partnership or limited liability company action. This Agreement constitutes the legal, valid, and binding obligation of such Equity Owner.

(2) No Conflict with Restrictions; No Default. Neither the execution, delivery, and performance of this Agreement nor the consummation by such Equity Owner of the transactions contemplated hereby (1) will conflict with, violate, or result in a breach of any of the terms, conditions, or provisions of any law, regulation, order, writ, injunction, decree, determination, or award of any court, any governmental department, board, agency, or instrumentality, domestic or foreign, or any arbitrator, applicable to such Equity Owner or any of its Affiliates, (2) will conflict with, violate, result in a breach of, or constitute a default under any of the terms, conditions, or provisions of the articles of incorporation, bylaws, partnership agreement, limited liability company agreement or operating agreement of such Equity Owner or any of its Affiliates or of any material agreement or instrument to which such Equity Owner or any of its Affiliates is a party or by which such Equity Owner, or any of its Affiliates is or may be bound or to which any of its material properties or assets is subject, (3) will conflict with, violate, result in a breach of, constitute a default under (whether with notice or lapse of time or both), accelerate or permit the acceleration of the performance required by, give to others any material interests or rights, or require any consent, authorization, or approval under any indenture, mortgage, lease agreement, or instrument to which such Equity Owner or any of its Affiliates is a party or by which such Equity Owner or any of its Affiliates is or may be bound, or (4) will result in the creation or imposition of any lien upon any of the material properties or assets of such Equity Owner or any of its Affiliates.

(3) Government Authorizations. Any registration, declaration, or filing with, or consent, approval, license, permit, or other authorization or order by, any government or regulatory authority, domestic or foreign, that is required in connection with the valid execution, delivery, acceptance, and performance by such Equity Owner under this Agreement or the consummation by such Equity Owner of any transaction contemplated hereby has been completed, made, or obtained on or before the effective date of this Agreement.

(4) Litigation. There are no actions, suits, proceedings, or investigations pending or, to the knowledge of such Equity Owner or any of its Affiliates, threatened against or affecting such Equity Owner or any of its Affiliates or any of their properties, assets, or businesses in any court or before or by any governmental department, board, agency, or instrumentality, domestic or foreign, or any arbitrator which could, if adversely determined (or, in the case of an investigation could lead to any action, suit, or proceeding, which if adversely determined could) reasonably be expected to materially impair such Equity Owner's ability to perform its obligations under this Agreement or to have a material adverse effect on the consolidated financial condition of such member; and such Equity Owner or any of its Affiliates has not received any currently effective notice of any default, and such Equity Owner or any of its Affiliates is not in default, under any applicable order, writ, injunction, decree, permit, determination, or award of any court, any governmental department, board, agency, or instrumentality, domestic or foreign, or any arbitrator which could reasonably be expected to materially impair such Equity Owner's ability to perform its obligations under this Agreement or to have a material adverse effect on the consolidated financial condition of such Equity Owner.

13.18 Confidentiality. Except as contemplated hereby or required by a court of competent authority, each Equity Owner shall keep confidential and shall not disclose to others and shall use its reasonable efforts to prevent its Affiliates and any of its, or its Affiliates' present or former employees, agents, and representatives from disclosing to others without the prior written consent of the Managers any information which (1) pertains to this Agreement, any negotiations pertaining thereto, any of the transactions between the parties hereto contemplated hereby, or the business of the Company, (2) pertains to confidential or proprietary information of any Member or the Company or which any Equity Owner has labeled in writing as confidential or proprietary; provided that any Equity Owner may disclose to its Affiliates' employees, agents, and representatives any information made available to such Equity Owner; or (3) customer lists, supplier lists, contracts, agreements, marketing strategies, and other documents and information of any description developed in the course of the Company's business. No Equity Owner shall use, and each Equity Owner shall use its best efforts to prevent any Affiliate of such Equity Owner from using, any information which (1) pertains to this Agreement, any negotiations pertaining hereto, any of the transactions contemplated hereby, or the business of the Company, (2) pertains to the confidential or proprietary information of any Equity Owner or the Company or which any Equity Owner has labeled in writing as confidential or proprietary, or (3) other information described herein, except in connection with the transactions contemplated hereby. The parties hereto acknowledge CCED's important obligations to share appropriate information that can leverage conservation on other lands and the Company's right to preserve the viability of the Company by preventing the use of information developed by the Company by other entities in competition with the Company without the consent of the Members.

13.19 Advertisement and Communications Each Manager shall have the right to review and approve any communication, promotional materials, or advertisements or

similar materials prior to publication or use where such communication or materials are to include the name or description of a Member, any of its marks, any depiction of its lands or activities, or any of its employees, volunteers, or others acting on its behalf. Such approval shall not be unreasonably withheld and shall be based on the Manager's assessment of whether the proposed communication would, if published, diminish, tarnish, injure or damage a Member's reputation or good will. Nothing in this agreement shall be construed as an endorsement of the products of the Company by either Member without that Member's express consent.

CERTIFICATE

The undersigned hereby agree, acknowledge and certify that the foregoing Agreement, consisting of ____ pages, excluding the Table of Contents constitutes the Agreement of Conservation Beef, LLC adopted by the Equity Owners as of October 20, 1999.

Conservation Beef, LLC

By: _____
Brian Kahn, its: Manager

MEMBERS:

Artemis Wildlife Foundation,
a California corporation

By _____
its _____

The Nature Conservancy,
a District of Columbia corporation

By _____
its _____

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FIRST AMENDED AND RESTATED

OPERATING AGREEMENT

OF

CONSERVATION BEEF, LLC

A MONTANA LIMITED LIABILITY COMPANY

EFFECTIVE AS OF JANUARY 1, 2003

THIS FIRST AMENDED AND RESTATE OPERTATING AGREEMENT is made effective as of January 1, 2003 and amends and restates the Operating Agreement of Conservation Beef, LLC (the "Initial Operating Agreement") made and entered into as of October 20, 1999, by and among the Company, ARTEMIS WILDLIFE FOUNDATION, a California non-profit charitable corporation ("Artemis"); THE NATURE CONSERVANCY, tax-exempt, non-profit charitable corporation, organized under the laws of the District of Columbia, formerly referred to in this Agreement as the CENTER FOR COMPATIBLE ECONOMIC DEVELOPMENT ("TNC" collectively with Artemis, the "Initial Members"). In consideration of the mutual covenants herein contained and for other good and valuable consideration, the Initial Members and each Person who subsequently becomes a Member (collectively, the "Members"); each Person who becomes an Equity Owner and the Company hereby agree as follows:

ARTICLE 1.
DEFINITIONS

The following terms used in this Agreement shall have the following meanings (unless otherwise expressly provided herein):

1.1 Act. Act shall mean the Montana Limited Liability Company Act, as amended.

1.2 Adjusted Capital Contributions. Adjusted Capital Contributions shall mean an amount equal to such Equity Owner's Capital Contributions, if any, pursuant to **Section 8.1 and Section 8.2**, less any Distributions made to such Equity Owner pursuant to **9.4(c)**

1.3 Affiliate. Affiliate shall mean, with respect to any Person, (i) any Person directly or indirectly controlling, controlled by, or under common control with such Person, (ii) any Person owning or controlling ten percent (10%) or more of the

outstanding voting interests of such Person, (iii) any officer, director, or general partner of such Person, or (iv) any Person who is an officer, director, general partner, trustee, or holder of ten percent (10%) or more of the voting interests of any Person described in clauses (i) through (iii) of this sentence. For purposes of this definition, the term "controls," "is controlled by," or "is under common control with" shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

1.4 Agreement. This Operating Agreement as originally executed (the "Initial Operating Agreement") and as amended from time to time.

1.5 Annual Operating Plan. The plan adopted as provided in Section 5.13 as amended from time to time.

1.6 Articles of Organization. The Articles of Organization of the Company as filed with the Secretary of State as the same may be amended from time to time.

1.7 Board of Directors. The Board of Directors described in Section 5.3.

1.8 Capital Account. As of any given date the Capital Account of each Equity Owner as described in Article 8 and maintained to such date in accordance with this Agreement.

1.9 Capital Contribution. Any contribution to the capital of the Company in cash or property by an Equity Owner whenever made. "Initial Capital Contribution" shall mean the initial contribution to the capital of the Company pursuant to this Agreement.

1.10 Class A Member. The Initial Members and any Person admitted as a Class A Member.

1.11 Class B Member. Any Person admitted as a Class B Member.

1.12 Class A Equity Owner. Any Equity Owner the Economic Interest of whom is or was owned by a Class A Member.

1.13 Class B Equity Owner. Any Equity Owner the Economic Interest of whom is or was owned by a Class B Member.

1.14 Code. The Internal Revenue Code of 1986, as amended from time to time.

1.15 Company. Conservation Beef, LLC.

1.16 Company Purpose. The purpose for which the Company was organized as described in Article 3.

1.17 Company Property. All assets (real or personal, tangible or intangible, including cash) of the Company.

1.18 Deficit Capital Account. Deficit Capital Account shall mean with respect to any Equity Owner, the deficit balance, if any, in such Equity Owner's Capital Account as of the end of the Fiscal Year, after giving effect to the following adjustments:

(a) credit to such Capital Account the amount, if any, which such Equity Owner is obligated to restore under Section 1.704-1(b)(2)(ii)(c) of the Regulations, as well as any addition thereto pursuant to the next to last sentence of Sections 1.704-2(g)(1) and (i)(5) of the Regulations, after taking into account thereunder any changes during such year in partnership minimum gain as determined in accordance with Section 1.704-2(d) of the Regulations ("Company Minimum Gain") and in any partner nonrecourse debt minimum as determined under Section 1.704-2(i)(3) of the Regulations ("Member Minimum Gain"); and

(b) debit to such Capital Account the items described in Sections 1.704-1(b)(2)(ii)(d)(4), (5) and (6) of the Regulations.

This definition of Deficit Capital Account is intended to comply with the provisions of Regulations Sections 1.704-1(b)(2)(ii)(d) and 1.704-2, and shall be interpreted consistently with those provisions.

1.19 Depreciation. For each Fiscal Year, an amount equal to the depreciation, amortization, or other cost recovery deduction allowable with respect to an asset for such Fiscal Year, except that if the Gross Asset Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such Fiscal Year, Depreciation shall be an amount which bears the same ratio to such beginning Gross Asset Value as the federal income tax depreciation, amortization, or other cost recovery deduction for such Fiscal Year bears to such beginning adjusted tax basis; provided, however, that if the adjusted basis for federal income tax purposes of an asset at the beginning of such Fiscal Year is zero, Depreciation shall be determined with reference to such beginning Gross Asset Value using any reasonable method selected by the Board of Directors.

1.20 Director. An individual designated by this Agreement or in accordance with Section 5.3. The terms "Artemis Director" and "TNC Director" shall have the meaning set forth in **Section 5.3** except that the initial Artemis Director shall be Brian Kahn and the initial TNC Directors shall be: W. William Weeks, Bruce Runnels, Jamie Williams, and Stephen C. Howell.

1.21 Distributable Cash. All cash, whether revenues or other funds received by the Company, less the sum of the following to the extent paid or set aside by the Company: (i) all amounts to be expended in fulfillment of the Company Purpose including amounts to be reserved for the Company Purpose as provided in the Annual Operating Plan, (ii) all principal and interest payments on indebtedness of the Company

and all other sums paid to lenders; (iii) all cash expenditures incurred incident to the normal operation of the Company's business; and (iv) Reserves.

1.22 Distribution. Any Transfer of Company Property from the Company to or for the benefit of an Equity Owner by reason of such Equity Owner's ownership of an Economic Interest.

1.23 Economic Interest. An Equity Owner's share of one or more of the Profits, Losses and Distributions pursuant to this Agreement and the Act, but shall not include any right to participate in the management or affairs of the Company, including, the right to vote on, consent to or otherwise participate in any decision of the Members, Managers or Board of Directors.

1.24 Economic Interest Owner. The owner of an Economic Interest who is not a Member.

1.25 Entity. Any general partnership (including a limited liability partnership), limited partnership (including a limited liability limited partnership), limited liability company, corporation, joint venture, trust, business trust, cooperative or association or any foreign trust or foreign business organization.

1.26 Equity Owner. An Economic Interest Owner or a Member. Equity Owner shall include Class A Equity Owners and Class B Equity Owners.

1.27 Fiscal Year. The taxable year of the Company as determined under the Code.

1.28 Grant of Interest. Those agreements by which a Class B Member is admitted to the Company.

1.29 Gross Asset Value. Gross Asset Value means, with respect to any asset, the asset's adjusted basis for federal income tax purposes, except as follows:

(a) The initial Gross Asset Value of any asset contributed by an Equity Owner to the Company shall be the gross fair market value of such asset, as determined by the contributing Member and the Board of Directors;

(b) The Gross Asset Values of all Company assets shall be adjusted to equal their respective gross fair market values, as reasonably determined by the Board of Directors as of the following times: (i) the acquisition of an additional interest by any new or existing Equity Owner in exchange for more than a *de minimis* contribution of property (including money); (ii) the Distribution by the Company to an Equity Owner of more than a *de minimis* amount of property as consideration for an Ownership Interest; and (iii) the liquidation of the Company within the meaning of Regulations Section 1.704-1(b)(2)(ii)(g); provided, however, that adjustments pursuant to clauses (i) and (ii) above shall be made only if the Board of Directors reasonably determine that such adjustments are necessary or appropriate to reflect the relative economic interests of the Equity Owners in the Company;

(c) The Gross Asset Value of any Company asset Distributed to any Equity Owner shall be adjusted to equal the gross fair market value of such asset on the date of Distribution as reasonably determined by the distributee and the Board of Directors; and

(d) The Gross Asset Values of Company assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Section 734(b) or Section 743(b) of the Code, but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Regulation Section 1.704-1(b)(2)(iv)(m) and **Section 8.3** and subparagraph (e) under the definition of Profits and Losses; provided, however, that Gross Asset Values shall not be adjusted pursuant to this subparagraph (d) of this definition to the extent that the Board of Directors reasonably determine that an adjustment pursuant to subparagraph (b) of this definition is necessary or appropriate in connection with a transaction that would otherwise result in an adjustment pursuant to this subparagraph (d).

If the Gross Asset Value of an asset has been determined or adjusted pursuant to subparagraph (a), (b) or (d) of this definition, then such Gross Asset Value shall thereafter be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Profits and Losses.

1.30 Managers. Managers shall mean one or more managers. The "Artemis Manager" shall be a Manager appointed by Artemis as provided in this Agreement, and the "TNC Manager", both as provided in **Article 5.** The initial Artemis Manager shall be Brian Kahn and the initial TNC Manager shall be William Weeks.

1.31 Member. Each of the parties who executes a counterpart of this Agreement as a Member (an "Initial Member") and each Person who may hereafter becomes a Member. If a Person is a Member immediately prior to the purchase or other acquisition by such Person of an Economic Interest, such Person shall have all of the rights of a Member with respect to such purchased or otherwise acquired Ownership Interest, as the case may be.

1.32 Membership Interest. A Member's entire interest in the Company, including such Member's Economic Interest and such other rights and privileges that the Member may enjoy by being a Member.

1.33 Officer. Officer shall include the President and any other officer of the Company.

1.34 Ownership Interest. Ownership interest shall mean:

(a) in the case of a Member, the Member's Membership Interest; and

(b) in the case of an Economic Interest Owner, the Economic Interest Owner's Economic Interest.

1.35 Person. Any individual or Entity, and the heirs, executors, administrators, legal representatives, successors, and assigns of such "Person" where the context so permits.

1.36 President. The Person appointed as president under Section 5.4.

1.37 Profits and Losses. Profits and Losses shall mean for each Fiscal Year of the Company an amount equal to the Company's net taxable income or loss for such year as determined for federal income tax purposes (including separately stated items) in accordance with the accounting method and rules used by the Company and in accordance with Section 703 of the Code with the following adjustments:

(a) Any items of income, gain, loss and deduction allocated to Equity Owners pursuant to **Sections 9.2, 9.3 or 9.13** shall not be taken into account in computing Profits or Losses;

(b) Any income of the Company that is exempt from federal income tax and not otherwise taken into account in computing Profits and Losses (pursuant to this definition) shall be added to such taxable income or loss;

(c) Any expenditure of the Company described in Section 705(a)(2)(B) of the Code and not otherwise taken into account in computing Profits and Losses (pursuant to this definition) shall be subtracted from such taxable income or loss;

(d) In the event the Gross Asset Value of any Company asset is adjusted pursuant to subparagraphs (b) or (c) of the definition of Gross Asset Value, the amount of such adjustment shall be taken into account as gain or loss from the disposition of such asset for purposes of computing Profits and Losses;

(e) Gain or loss resulting from any disposition of any Company asset with respect to which gain or loss is recognized for federal income tax purposes shall be computed with reference to the Gross Asset Value of the asset disposed of, notwithstanding that the adjusted tax basis of such asset differs from its Gross Asset Value;

(f) In lieu of the depreciation, amortization and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Fiscal Year; and

(g) To the extent an adjustment to the adjusted tax basis of any Company asset pursuant to Section 734(b) or Section 743(b) of the Code is required pursuant to Section 1.704-1(b)(2)(iv)(m)(4) of the Regulations to be taken into account in determining Capital Accounts as a result of a Distribution other than in liquidation of an Ownership Interest, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases the basis of the asset) from the disposition of the asset and shall be taken into account for purposes of computing Profits or Losses.

1.38 Regulations. Regulations shall include proposed, temporary and final regulations promulgated under the Code in effect as of the date of filing the Articles of Organization and the corresponding sections of any regulations subsequently issued that amend or supersede such regulations.

1.39 Reorganization. The merger or conversion of the Company, or a sale or other disposition of assets of the Company, or sale or other disposition of Ownership Interests, or other transaction pursuant to which a Person or Persons acquire all or substantially all of the assets of, or Ownership Interests in, the Company in a single or series of related transactions, including without limitation, a merger or conversion of the Company into a corporation or other entity, whether or not such corporation or other entity has the same owners as the Partnership and whether or not additional capital is contributed to such corporation or other entity; provided, however, that a Reorganization shall not include the merger or conversion of the Company into a general partnership which is not a limited liability partnership.

1.40 Reserves. With respect to any fiscal period, funds set aside or amounts allocated during such period to reserves which shall be maintained in amounts reasonably deemed sufficient by the Board of Directors for working capital and for payment of taxes, insurance, debt service or other costs or expenses incident to the Company Purpose, including, but not limited to, the designation of Reserves for the purchase of conservation agreements.

1.41 Sale or Sell. A sale, assignment, exchange, or other transfer for consideration equal to full fair market value.

1.42 Secretary of State. The Secretary of State of Montana.

1.43 Selling Equity Owner. Any Equity Owner which Sells all or any portion of its Ownership Interest.

1.44 Sharing Ratio. The percentages in which the Class A Equity Owners share those items making specific references to "Sharing Ratios" in this Agreement. Sharing Ratio shall mean:

Class A Member	Sharing Ratio
Artemis	50%
TNC	50%

Upon the Transfer of all or any portion of an Ownership Interest, unless otherwise agreed by the Transferring Equity Owner and the Transferee, the Sharing Ratio of the Transferring Equity Owner shall be divided between the Transferring Equity Owner and the Transferee in proportion to the percentage of the Transferring Equity Owner's Capital Account balance being Transferred.

1.45 Transfer. Any Sale or any other assignment, gift, exchange, or other transfer regardless of whether gratuitous or for consideration, pledge, hypothecation, or grant of a security interest.

1.46 Transferring Equity Owner. An Equity Owner who Transfers or proposes to Transfer all or any Part of the Equity Owner's Ownership Interest.

ARTICLE 2.
FORMATION OF COMPANY

2.1 Formation. On October 20, 1999, Brian Kahn organized a limited liability company pursuant to the Act by executing and delivering articles of organization to the Secretary of State in accordance with and pursuant to the Act. The Company and the Members hereby forever discharge the organizer, and the organizer shall be indemnified by the Company and the Member from and against, any expense or liability actually incurred by the organizer by reason of having been the organizer of the Company.

2.2 Name. The name of the Company is Conservation Beef, LLC.

2.3 Principal Place of Business. The principal place of business of the Company shall be as set forth in the Articles. The Company may locate its places of business and registered office at any other place or places as the Board of Directors may from time to time deem advisable.

2.4 Registered Office and Registered Agent. The Company's initial registered office and the name of the registered agent at such address shall be as set forth in the Articles. The registered office and registered agent may be changed from time to time by filing the address of the new registered office and/or the name of the new registered agent with the Secretary of State pursuant to the Act.

2.5 Term. The Company shall continue in existence until terminated in accordance with the provisions of this Agreement or the Act.

ARTICLE 3.
PURPOSE OF COMPANY

The purpose of the Company (the "Company Purpose") shall be to operate in a manner that furthers the exempt purposes of the Class A Members, to-wit: in the case of Artemis, to conserve biologically significant lands in the western United States by developing market forces that will support economically sustainable and ecologically sound livestock ranching; and in the case of TNC, to be operated, exclusively for educational, scientific and charitable purposes as may qualify it for tax exempt status under Section 501(c)(3) of the Code, more specifically, to preserve plants, animals, and natural communities that represent the diversity of life on Earth by protecting the lands and waters they need to survive. The Company shall endeavor to attain the Company Purpose by creating a niche market for beef that will return a premium price to ranchers who commit to long-term land conservation strategies such as ecologically sound land stewardship practices, land-use planning, and conservation easements, but in no

circumstances may the Company take any action that is not in furtherance of the exempt purposes of the Class A Members. The Company may exercise all other powers necessary to or reasonably connected with the Company Purpose that may be legally exercised by limited liability companies under the Act and may engage in all activities necessary, customary, convenient, or incident to the Company Purpose. The Company Business shall include the establishment and maintenance of Reserves for the purpose of purchasing development rights or fee title in appropriate lands, or implementing other effective conservation measures, and the use of the Reserves for such purchases.

ARTICLE 4.
NAMES AND ADDRESSES OF EQUITY OWNERS

The names and addresses of the Initial Members are as follows:

NAME	ADDRESS
ARTEMIS WILDLIFE FOUNDATION	25 South Ewing Street, Suite 415 Helena, MT 59101
THE NATURE CONSERVANCY	4245 North Fairfax Drive, Arlington, VA 22203

The names and addresses of other Equity Owners shall be maintained as provided under **Section 13.1**.

ARTICLE 5.
RIGHTS AND DUTIES OF MANAGERS, OFFICERS AND THE BOARD OF DIRECTORS

5.1 Management. The business and affairs of the Company shall be managed by the Board of Directors as provided in this Article 5. Unless authorized to do so by this Agreement or by the Board of Directors, no attorney-in-fact, employee or other agent of the Company shall have any power or authority to bind the Company in any way, to pledge its credit or to render it liable pecuniarily for any purpose.

5.2 Number, Tenure and Qualifications. The Company shall initially have two (2) Managers. The number of Managers shall be fixed from time to time by the unanimous consent of the Class A Members, but in no instance shall there be less than one Manager. Each Manager shall hold office until such Manager resigns pursuant to **Section 5.9** or is removed pursuant to **Section 5.10**. One Manager (the "Artemis Manager") shall be appointed by Artemis subject to the approval of TNC and the other Manager (the "TNC Manager") shall be appointed by TNC subject to the approval of Artemis. The approvals of the non-appointing Class A Member under this **Section 5.2** shall not be unreasonably withheld. The initial Artemis Manager shall be Brian Kahn and the initial TNC Manager shall be William Weeks.

5.3 Board of Directors. The Board of Directors shall consist of from two to eight individuals who shall be appointed and replaced as follows: Each of the Artemis

Manager and the TNC Manager shall be entitled to appoint, replace and remove from one to four directors. The directors appointed by the Artemis Manager shall be referred to in this Agreement as the "Artemis Directors" and the Directors appointed by the TNC Director shall be referred to in this Agreement as the "TNC Directors." Approval of any action to be approved by the Directors shall require the approval of a majority of the Artemis Directors and a majority of the TNC Directors. The Board of Directors may, but need not, act at a meeting of the Board of Directors. The Board of Directors shall have two Co-Chairpersons: the TNC Manager and the Artemis Manager. Either Co-Chairperson may call a meeting of the Board of Directors. The agenda for Board meetings shall be developed by the Co-Chairpersons. A quorum shall be required to conduct Board business and will consist of a majority of the TNC Directors and a majority of the Artemis Directors. Any action required or permitted to be taken at a meeting of the Board of Directors or any committee thereof may be taken without a meeting if Directors sufficient to adopt such action at a meeting give written consent to such action in writing. Notwithstanding any other provision of this **Section 5.3**, in the event that an action of the Board of Directors is required with respect to matter on an urgent or emergency basis, but a quorum cannot be obtained despite every reasonable effort being made to obtain one, the action otherwise requiring the approval of the Board of Directors may be approved by the unanimous consent of the Managers. The Board of Directors may establish an Advisory Committee to the Company. The Advisory Committee shall have no legal authority, responsibility or liability with respect to the Company. The Advisory Committee shall meet at such times and consider such matters as the Board specifies.

5.4 President and other Officers. The Board of Directors may appoint a President and provide for the compensation of a President and other officers (which other officers shall have the powers, duties and authority assigned them by the Board of Directors from time to time). The President shall have power and authority, on behalf of the Company to take the following actions to the extent the same are consistent with the Annual Operating Plan and budget approved by the Board of Directors:

(a) To acquire property (including livestock at approved prices and in approved numbers) from any Person as the President may determine. The fact that the President or an Equity Owner is directly or indirectly affiliated or connected with any such Person shall not prohibit the President from dealing with that Person provided that such fact shall be disclosed to all of the Board of Directors;

(b) To purchase liability and other insurance to protect the Company's property and business;

(c) To hold and own any Company real and/or personal properties in the name of the Company;

(d) To invest any Company funds (by way of example but not limitation) in time deposits, short-term governmental obligations, or other investments consistent with the approved budget;

(e) To execute on behalf of the Company all instruments and documents, including, without limitation, checks, drafts, notes and other negotiable instruments; assignments; bills of sale; leases; and any other instruments or documents necessary, in the reasonable opinion of the Artemis Manager to the extent necessary to conduct the routine, day to day business of the Company, to the conduct of the business of the Company;

(f) To employ accountants, legal counsel, managing agents or other experts to perform services for the Company and to compensate them from Company funds;

(g) To execute and file such other instruments, documents and certificates which may from time to time be required by the laws of Montana or any other jurisdiction in which the Company shall determine to do business, or any political subdivision or agency thereof, to effectuate, implement, continue and defend the valid existence of the Company;

(h) To open bank accounts the checks on which shall require the signature of both Managers, unless the Managers determine otherwise and to provide all Class A Members with regular, full, complete and current information on all such accounts;

(i) To appoint and hire agents and employees of the Company to the extent provided in the Annual Operating Plan;

(j) To do and perform all other acts as may be necessary or appropriate to the conduct of the Company's business;

(k) To determine which landscapes and/or watersheds meet the Company's ecological criteria for participation in the Company's programs;

(l) To take any action described in **Section 5.4** provided the amount expended or incurred does not exceed the Annual Operating Plan by more than 5 %.

5.5 Certain Powers of the Board of Directors. Notwithstanding **Section 5.4**, but subject to the limitations of **Section 5.6**, the Board of Directors shall have power and authority, on behalf of the Company to take the following actions:

(a) To determine the expenditure of Reserves for the purchase of development rights or fee title in appropriate lands, or implementing other effective conservation measures;

(b) To consent to the Transfer of an Interest as provided in **Section 10.2**;

(c) To approve additional contributions as provided in **Section 8.2**; and

(d) To take any other action delegated to the Board of Directors by this Agreement.

5.6 Limitations on Authority. Notwithstanding any other provision of this Agreement, the Board of Directors shall not cause or commit the Company to do any of the following without the unanimous consent of the Class A Members:

(a) Establish Conservation Standards to be used in conservation agreements;

(b) Agree on an Annual Operating Plan as provided in **Section 5.15**;

(c) Amend the Agreement as provided in **Section 13.5**;

(d) Consent to the Dissolution of the Company as provided in **Section 12.1**;

(e) Cause the Issuance of an Additional Membership Interest as provided in **Section 11.1**;

(f) Sell or otherwise dispose all or substantially all of the Company Property or any Company Property than in the ordinary course of business;

(g) Mortgage, pledge, or grant a security interest (collectively, "pledge") in any Company Property to the extent that the secured indebtedness from such pledge would exceed the amount provided for by the Annual Operating Plan by more than 15%;

(h) Incur or refinance any indebtedness for money borrowed by the Company, whether secured or unsecured and including any indebtedness for money borrowed from a Member if, after such financing, the aggregate indebtedness of the Company would exceed would exceed the amount provided for by the Annual Operating Plan by more than 15%;

(i) Incur any liability or make any single expenditure or series of related expenditures in an amount exceeding would exceed the amount provided for by the Annual Operating Plan by more than 15%;

(j) Construct any capital improvements, repairs, alterations or changes involving an amount that would exceed the amount provided for by the Annual Operating Plan by more than 15%;

(k) Compromise or settle any claim against or inuring to the benefit of the Company involving an amount in controversy in excess of $500;

(l) Cause the Company to commence a voluntary case as debtor under the United States Bankruptcy Code; and

(m) Take any other action not otherwise delegated to the President or Board of Directors by this Agreement.

5.7 Liability for Certain Acts.

(a) Neither the Managers nor the Board of Directors, in any way, guarantee the return of the Equity Owners' Capital Contributions or a profit for the Equity Owners from the operations of the Company.

(b) Neither the Managers not the Board of Directors shall be liable to the Company or to any Member for any loss or damage sustained by the Company or any Member (or successor thereto), except to the extent, if any, that the loss or damage shall have been the result of gross negligence, fraud, deceit, willful misconduct, or breach of this Agreement.

5.8 Directors', Officers', Managers' and Equity Owners' Duties to Company.

(a) The Directors, Officers, Managers and Equity Owners shall have no exclusive duty to act on behalf of the Company. Each Director, Officer, Manager and Equity Owner may have other business interests and may engage in other activities in addition to those relating to the Company. Neither the Company nor any Director, Officer, or Manager shall have any right, by virtue of this Agreement, to share or participate in any other investments or activities of any other Director, Officer, Manager or Member. Neither any Director, Officer, Manager nor any Equity Owner shall incur any liability to the Company or to any of the Equity Owners as a result of engaging in any other business or venture, except that no Equity Owner, Director, Officer, or Manager may engage in competition with the Company or disseminate any information of the Company in violation of this Agreement or any other agreement with the Company to which such person is subject.

(b) Notwithstanding any other provision of this Agreement, no Equity Owner, Director, Officer or Manager shall take any action the effect of which will cause any Member qualified for exemption from federal income tax as an organization described in Section 501(c)(3) of the Code to cease to be so qualified or to be subject to any tax or penalty under the Code.

(c) The Equity Owners agree to make a good faith effort to seek contributions from donors of sufficient funds to the operation of the Company.

5.9 Bank Accounts. The Managers may from time to time open bank accounts in the name of the Company the checks on which shall require the signature of both Managers, unless the Managers determine otherwise. All Class A Members shall receive regular, full, complete and current information on all such accounts.

5.10 Indemnity of the Managers, Employees and Other Agents.

(a) The Company shall indemnify each Manager and make advances for expenses to the maximum extent permitted under the Act, except to the extent the

claim for which indemnification is sought results from an act or omission for which the Manager may be held liable to the Company or a Member under **Section 5.5(b)**. The Company shall indemnify its employees and other agents who are not Managers to the fullest extent permitted by law.

(b) Expenses (including legal fees and expenses) incurred by a Manager in defending any claim, demand, action, suit or proceeding subject to subsection (a) above shall be paid by the Company in advance of the final disposition of such claim, demand, action, suit or proceeding upon receipt of an undertaking (which need not be secured) by or on behalf of the Manager to repay such amount if it shall ultimately be finally determined by a court of competent jurisdiction and not subject to appeal, that the Manager is not entitled to be indemnified by the Company as authorized hereunder.

5.11 Resignation. Any Director, Officer, or Manager may resign at any time by giving written notice to the Class A Members. The resignation of any Director, Officer or Manager shall take effect upon receipt of notice thereof or at such later time as shall be specified in such notice; and, unless otherwise specified therein, the acceptance of such resignation shall not be necessary to make it effective. The resignation of a Manager who is also an Equity Owner shall not affect the Manager's rights as an Equity Owner.

5.12 Removal. At a meeting called expressly for that purpose, all or any lesser number of Managers may be removed at any time the Class A Member appointing the Manager. The removal of a Manager who is also a Member shall not affect the Manager's rights as a Member and shall not constitute a withdrawal of a Member. In the event the number of Managers is increased and a Manager is appointed by the unanimous consent of the Class A Members, such Manager may be removed by the unanimous consent of the Class A Members.

5.13 Vacancies. Any vacancy occurring for any reason in the number of Managers shall be filled by Class A Member who initially appointed the Manager subject to the approval of the other Class A Member as provided in **Section 5.02**. Any Manager's position to be filled by reason of an increase in the number of Managers shall be filled by the unanimous consent of the Class A Members.

5.14 Compensation, Reimbursement, Organization Expenses.

(a) Persons serving on the Board of Directors shall not be entitled to compensation from the Company for serving as such. Persons who are Managers or Directors may be compensated for providing consulting services to the Company at a reasonable fee. An hourly fee not to exceed one hundred dollars per hour (or such higher hourly fee as may be approved by the President) shall be deemed reasonable. Any fees paid to a Person under this **Section 5.14(a)** shall be promptly disclosed by the President to the Board of Directors.

(b) The Board of Directors shall cause the Company to make an appropriate election to treat the expenses incurred by the Company in connection with the formation and organization of the Company to be amortized under the 60-month period beginning with the month in which the Company begins business to the extent that such expenses constitute "organizational expenses" of the Company within the meaning of Code Section 709(b)(2).

5.15 Annual Operating Plan. The President shall prepare for the approval of the Board of Directors each Fiscal Year (no later than thirty (30) days prior to the end of the then current Fiscal Year) a business plan ("Annual Operating Plan") for the next Fiscal Year, setting forth at a minimum the estimated receipts (including capital calls) and expenditures (capital, operating and other) of the Company in sufficient detail to provide an estimate of cash flow, capital proceeds, markets, marketing, business strategy, employment and employees planned, and other financial requirements of the Company for such year. The Annual Operating Plan shall also set forth amounts to be designated for Reserves for the purchase of conservation agreements. Any such Annual Operating Plan shall also include such other information or other matters necessary in order to inform the Board of Directors of the Company's business and to enable the Board of Directors to make an informed decision with respect to their approval of such Annual Operating Plan. The Board of Directors shall review the proposed Operating Plan and shall offer any revisions thereto within 30 days. After the final Operating Plan has been approved by the Board of Directors, the President shall implement the Annual Operating Plan and shall be authorized to make only the expenditures and incur only the obligations provided for therein (subject to **Section 5.6**). Notwithstanding the foregoing, the President may make any expenditure or incur any obligation, whether or not such expenditure or obligation is provided for in an Annual Operating Plan, which is the legal obligation of the Company and not within the reasonable control of the President (*e.g.*, real or personal property taxes). If the Board of Directors are not able to agree on an Annual Operating Plan for any year, either a majority of the Artemis Directors or a majority of the TNC Directors may declare a "Deadlock" in which case the business of the Company shall continue with each line item in the Annual Operating Plan for the prior year shall be increased by the percentage increase in the CPI Index from the first day for which the previous Annual Operating Plan was in effect to the first day for which the new Annual Operating Plan is to be in effect, with each Board of Directors submitting any disputes with respect to the revision of the Annual Operating Plan to mediation with a mutually agreeable third party. The Board of Directors shall seek in good faith to designate a mutually agreeable third party. In the event the Board of Directors cannot agree upon a third party, the Board of Directors shall seek to appoint a third party under the rules of the American Arbitration Association. In the event the Board of Directors are unable to reach a resolution of the dispute within 120 days after the designation of a mediator, either Class A Member may cause the Company to dissolve pursuant to **§12.01(a)(1)**. As used herein, "CPI Index" shall mean the Consumer Price Index for All Items All Urban Consumers (DPI-U) (1982-84 = 100) for the United States, as published by the United States Department of Labor's Bureau of Labor Statistics (the "Bureau"). Should the Bureau discontinue the publication of the above index, or publish the index less frequently, or alter the index in some other manner, then the Board of Directors shall, from time to time, adopt a substitute index or

substitute procedure which reasonably reflects and monitors consumer prices, and the resulting plan shall be the Annual Operating Plan for the current year.

5.16 Right to Rely on the Managers and President.

(a) Any Person dealing with the Company may rely (without duty of further inquiry) upon a certificate signed by any Manager or the President as to:

(i) The identity of any Manager or Equity Owner;

(ii) The existence or nonexistence of any fact or facts which constitute a condition precedent to acts on behalf of the Company by any Manager or which are in any other manner germane to the affairs of the Company;

(iii) The Persons who are authorized to execute and deliver any instrument or document of the Company; or

(b) Any act or failure to act by the Company or any other matter whatsoever involving the Company or any Equity Owner.

ARTICLE 6.
RIGHTS AND OBLIGATIONS OF EQUITY OWNERS

6.1 Limitation of Liability. Except as otherwise provided by the non-waivable provisions of the Act and by this Agreement, no Equity Owner shall be liable for an obligation of the Company solely by reason of being or acting as an Equity Owner.

6.2 List of Equity Owners. Upon written request of any Class A Member made in good faith and for a purpose reasonably related to the Class A Member's rights as Member under this Agreement (which reason shall be set forth in the written request), the Manager shall provide a list showing the names, addresses and Ownership Interests of all Equity Owners. Economic Interest Owners shall have no rights to information under this **Section 6.2**.

6.3 Equity Owners Have No Agency Authority. Except as expressly provided in this Agreement, the Equity Owners (in their capacity as Equity Owners) shall have no agency authority on behalf of the Company.

6.4 Company Books. In accordance with **Section 9.10** herein, the Managers shall maintain and preserve, during the term of the Company, and for five (5) years thereafter, all accounts, books, and other relevant Company documents. Upon reasonable request, each Class A Member shall have the right, during ordinary business hours, to inspect and copy such Company documents at the requesting Class A Member's expense. Class B Members agree that their right to inspect the books and records of the Company shall be limited to the maximum extent permitted under the Act and that they shall hold any information obtained through review of the books in

confidence and trust and shall not use the same except with respect to the exercise of their rights as Class B Members.

6.5 Priority and Return of Capital. Except as may be expressly provided in Article 9, no Equity Owner shall have priority over any other Equity Owner, either as to the return of Capital Contributions or as to Profits, Losses or Distributions; provided, however, that this **Section 6.5** shall not apply to loans (as distinguished from Capital Contributions) which an Equity Owner has made to the Company.

ARTICLE 7.
ACTIONS OF MANAGERS AND MEMBERS

Unless otherwise required in this Agreement, actions and consents of the Managers and Members may be communicated or reflected orally, electronically or in writing, and no action need be taken at a formal meeting. Managers or Members may, but are not required to, meet from time to time on such notice, if any, as the Manager or Member convening the meeting chooses to give. Any consent required to be in writing may be evidenced by separate written counterparts. Any action of the Members shall be effective when a sufficient number of Members to take such action communicate their consent to the action to the Managers.

ARTICLE 8.
CONTRIBUTIONS TO THE COMPANY AND CAPITAL ACCOUNTS

8.1 Members' Capital Contributions. On or before January 1, 2003, the Class A Members have made the following contributions:

Member	Cash Contribution
Artemis	$499,021
TNC	$1,150,864

8.2 Additional Contributions. No Equity Owner shall be required to make any Capital Contributions. To the extent unanimously approved by the Managers, from time to time, the Equity Owners may be permitted to make additional Capital Contributions if and to the extent they so desire, and if the Managers determine that such additional Capital Contributions are necessary or appropriate in connection with the conduct of the Company's business (including without limitation, expansion or diversification). In such event, the Equity Owners shall have the opportunity (but not the obligation) to participate in such additional Capital Contributions proportionate to their Sharing Ratios.

8.3 Capital Accounts.

(a) A separate Capital Account shall be maintained for each Equity Owner. Each Equity Owner's Capital Account shall be increased by (1) the amount of money contributed by such Equity Owner to the Company; (2) the fair market value of

property contributed by such Equity Owner to the Company (net of liabilities secured by such contributed property that the Company is considered to assume or take subject to under Section 752 of the Code); (3) allocations to such Equity Owner of Profits; and (4) any items in the nature of income and gain which are specially allocated to the Equity Owner pursuant to **Sections 9.2** and **9.3**. Each Equity Owner's Capital Account shall be decreased by (1) the amount of money Distributed to such Equity Owner by the Company; (2) the fair market value of property Distributed to such Equity Owner by the Company (net of liabilities secured by such Distributed property that such Equity Owner is considered to assume or take subject to under Section 752 of the Code); (3) any items in the nature of deduction and loss that are specially allocated to the Equity Owner pursuant to **Sections 9.2** and **9.3**; and (4) allocations to such Equity Owner of Losses.

(b) Without limiting the other rights and duties of a transferee of an Ownership Interest pursuant to this Operating Agreement, in the event of a permitted sale or exchange of an Ownership Interest in the Company, (1) the Capital Account of the transferor shall become the Capital Account of the transferee to the extent it relates to the transferred Ownership Interest in accordance with Section 1.704-1(b)(2)(iv) of the Regulations; and (2) the transferee shall be treated as the transferor for purposes of allocations and distributions pursuant to Article 9 to the extent that such allocations and distributions relate to the transferred Ownership Interest.

(c) The manner in which Capital Accounts are to be maintained pursuant to this **Section 8.3** is intended to comply with the requirements of Section 704(b) of the Code and the Regulations promulgated thereunder. If in the opinion of the Company's accountants the manner in which Capital Accounts are to be maintained pursuant to the preceding provisions of this **Section 8.3** should be modified in order to comply with Section 704(b) of the Code and the Regulations thereunder, then, notwithstanding anything to the contrary contained in the preceding provisions of this **Section 8.3**, the method in which Capital Accounts are maintained shall be so modified; provided, however, that any change in the manner of maintaining Capital Accounts shall not materially alter the economic agreement between or among the Equity Owners.

(d) Upon liquidation of the Company, liquidating Distributions shall be made in accordance with the positive Capital Account balances of the Equity Owners, as determined after taking into account all Capital Account adjustments for the Company's taxable year during which the liquidation occurs. Liquidation proceeds shall be paid in accordance with **Section 12.3**. The Company may offset damages for breach of this Agreement by any Equity Owner whose interest is liquidated (either upon the withdrawal of the Equity Owner or the liquidation of the Company) against the amount otherwise Distributable to such Equity Owner. No Equity Owner shall have any obligation to restore all or any portion of a deficit balance in such Equity Owner's Capital Account.

8.4 Withdrawal or Reduction of Equity Owners' Contributions to Capital.

(a) An Equity Owner may withdraw at any time.

(b) Upon the withdrawal of any Equity Owner, the Company shall:

(1) If agreed by the Company and the withdrawing Equity Owner, retain any amount to which the Equity Owner would have been entitled on liquidation of the Company, provided, that if the withdrawing Equity Owner is exempt from taxation under Section 501(c)(3) of the Code, the Company shall use such amounts exclusively for charitable, scientific, or educational purposes for which the Equity Owner is organized, and no part of the amount retained or the net earnings on such amount shall be allowed to inure to the benefit of any individual or entity other than another entity that is exempt from taxation under Section 501(c)(3) of the Code for use in such entity's exempt purposes.

(2) Distribute an amount equal to the amount that the Equity Owner would have received on liquidation of the Company as of the date of withdrawal (less any amount retained pursuant to **Section 8.4(b)(1)**) to the Equity Owner. Unless otherwise agreed between the Company and the withdrawing Equity Owner, any amount to be distributed pursuant to this **Section 8.4(b)(2)** shall be paid over a 30 months period to the withdrawing equity holder in five equal payments of an amount sufficient to amortize the amount plus interest on the outstanding balance on such amount as the Federal mid-term rate as established under Section 1274(d) of the Code as of the date of the withdrawal, provided, however, that no Equity Owner shall receive a Distribution to the extent such Distribution would violate **Section 9.5**.

(c) An Equity Owner, irrespective of the nature of its Capital Contribution, does not have the right to demand and receive property other than cash in return for its Capital Contribution.

ARTICLE 9.
ALLOCATIONS, INCOME TAX, DISTRIBUTIONS, ELECTIONS AND REPORTS

9.1 Allocations of Profits and Losses. Except as provided in **Sections 9.2** and **9.3**, the Profits and Losses for each Fiscal Year shall be allocated among the Equity Owners as follows:

(a) Profits shall be allocated among the Equity Owners as follows:

(1) First, to the Class A Equity Owners in proportion to, and to the extent of any Losses allocated to the Equity Owners pursuant to **Section 9.1(b)** or the corresponding provision in the Initial Operating Agreement;

(2) Second, to the Class B Equity Owners to the extent provided in their respective Grants of Interest in the Company;

(3) Third, to the Class A Equity Owners in accordance with their respective Sharing Ratios.

(b) Losses shall be allocated among the Equity Owners as follows:

(1) First, to Equity Owners in proportion to, and to the extent of, any Profits allocated to the Equity Owners pursuant to **Section 9.1(a)**;

(2) Second, to Equity Owners in to the extent of, and in proportion to, their respective positive capital accounts;

(3) Third, to Class A Equity Owners in accordance with their respective Sharing Ratios.

9.2 Special Allocations to Capital Accounts. Notwithstanding **Section 9.1** hereof:

(a) In the event that any Equity Owner unexpectedly receives any adjustments, allocations or Distributions described in Sections 1.704-1(b)(2)(ii)(d)(4), (5), or (6) of the Regulations, which create or increase a Deficit Capital Account of such Equity Owner, then items of Company income and gain (consisting of a *pro rata* portion of each item of Company income, including gross income, and gain for such year and, if necessary, for subsequent years) shall be specially allocated to such Equity Owner in an amount and manner sufficient to eliminate, to the extent required by the Regulations, the Deficit Capital Account so created as quickly as possible. It is the intent that this **Section 9.2(a)** be interpreted to comply with the alternate test for economic effect set forth in Section 1.704-1(b)(2)(ii)(d) of the Regulations.

(b) The Losses allocated pursuant to **Section 9.1** hereof shall not exceed the maximum amount of Losses that can be so allocated without causing any Equity Owner to have a Deficit Capital Account at the end of any Fiscal Year. In the event that some, but not all, of the Equity Owners would have Deficit Capital Accounts as a consequence of an allocation of Losses pursuant to **Section 9.1** hereof, the limitation set forth in the preceding sentence shall be applied on Equity Owner by Equity Owner basis so as to allocate the maximum permissible Losses to each Equity Owner under Section 1.704-1(b)(2)(ii)(d) of the Regulations. All Losses in excess of the limitation set forth in this **Section 9.2(b)** shall be allocated to the Equity Owners in proportion to their respective positive Capital Account balances, if any, and thereafter to the Equity Owners in accordance with their interests in the Company as determined by the Board of Directors in their reasonable discretion. In the event that any Equity Owner would have a Deficit Capital Account at the end of any Fiscal Year which is in excess of the sum of any amount, if any, that such Equity Owner is obligated to restore to the Company under Section 1.704-1(b)(2)(ii)(c) of the Regulations and such Equity Owner's share of Company Minimum Gain as defined in Section 1.704-2(g)(1) of the Regulations (which is also treated as an obligation to restore in accordance with Section 1.704-1(b)(2)(ii)(d) of the Regulations), the Capital Account of such Equity

Owner shall be specially credited with items of Company income (including gross income) and gain in the amount of such excess as quickly as possible.

(c) Notwithstanding any other provision of this **Section 9.2**, if there is a net decrease in the Company Minimum Gain as during a Fiscal Year, then the Capital Accounts of each Equity Owner shall be allocated items of income (including gross income) and gain for such Fiscal Year (and if necessary for subsequent Fiscal Years) equal to that Equity Owner's share of the net decrease in Company Minimum Gain. This **Section 9.2(c)** is intended to comply with the minimum gain chargeback requirement of Section 1.704-2 of the Regulations and shall be interpreted consistently therewith. If in any Fiscal Year that the Company has a net decrease in the Company Minimum Gain, if the minimum gain chargeback requirement would cause a distortion in the economic arrangement among the Equity Owners and it is not expected that the Company will have sufficient other income to correct that distortion, the Board of Directors may in their discretion (and shall, if requested to do so by an Equity Owner) seek to have the Internal Revenue Service waive the minimum gain chargeback requirement in accordance with Section 1.704-2(f)(4) of the Regulations.

(d) Notwithstanding any other provision of this **Section 9.2** except **Section 9.2(c)**, if there is a net decrease in Member Minimum Gain attributable to a Member Nonrecourse Debt during any Company Fiscal Year, each Member who has a share of the Member Minimum Gain as of the beginning of the Fiscal Year shall be specially allocated items of Company income and gain for such Fiscal Year (and, if necessary, subsequent Fiscal Years) equal to such Equity Owner's share of the net decrease in Member Minimum Gain attributable to such Member Nonrecourse Debt. An Equity Owner's share of the net decrease in Member Minimum Gain shall be determined in accordance with Section 1.704-2(i)(4) of the Regulations; provided, however, that an Equity Owner shall not be subject to this provision to the extent that an exception is provided by Section 1.704-2(i)(4) of the Regulations and any Revenue Rulings issued with respect thereto. Any Member Minimum Gain allocated pursuant to this provision shall consist of first, gains recognized from the disposition of Company property subject to the Member Nonrecourse Debt, and, second, if necessary, a *pro rata* portion of the Company's other items of income or gain (including gross income) for that Fiscal Year. This **Section 9.2(d)** is intended to comply with the minimum gain chargeback requirement in Section 1.704-2(i)(4) of the Regulations and shall be interpreted consistently therewith.

(e) Items of Company loss, deduction and expenditures described in Section 705(a)(2)(B) of the Code which are attributable to any nonrecourse debt of the Company and are characterized as partner nonrecourse deductions under Section 1.704-2(i) of the Regulations shall be allocated to the Equity Owners' Capital Accounts in accordance with said Section 1.704-2(i) of the Regulations.

(f) Beginning in the first taxable year in which there are allocations of "nonrecourse deductions" (as described in Section 1.704-2(b) of the Regulations), such deductions shall be allocated to the Equity Owners in the same manner as Loss is allocated for such period.

(g) To the extent that an adjustment to the adjusted tax basis of any Company asset pursuant to Section 734(b) or 743(b) of the Code is required pursuant to Section 1.704-1(b)(2)(iv)(m)(2) or 1.704-1(b)(2)(iv)(m)(4) of the Regulations, to be taken into account in determining Capital Accounts as the result of a Distribution to an Equity Owner in complete liquidation of its Ownership Interest, the amount of such adjustment to Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis), and such gain or loss shall be specially allocated to the Equity Owners in accordance with their interests in the Company in the event Section 1.704-1(b)(2)(iv)(m)(2) of the Regulations applies, or to the Equity Owner to whom such Distribution was made in the event Section 1.704-1(b)(2)(iv)(m)(4) of the Regulations applies.

(h) Any income, gain, loss or deduction realized by the Company as a direct or indirect result of the issuance of an interest in the Company by the Company to an Equity Owner (the "Issuance Items") shall be allocated among the Equity Owners so that, to the extent possible, the net amount of such Issuance Items, together with all other allocations under this Agreement to each Equity Owner, shall be equal to the net amount that would have been allocated to each such Equity Owner if the Issuance Items had not been realized.

9.3 Credit or Charge to Capital Accounts. Any credit or charge to the Capital Accounts of the Equity Owners pursuant to **Sections 9.2(a), 9.2(b), 9.2(c), 9.2(d), 9.2(e), 9.2(f)** and **9.2(g)** ("Regulatory Allocations") hereof shall be taken into account in computing subsequent allocations of Profits and Losses pursuant to **Section 9.1**, so that the net amount of any items charged or credited to Capital Accounts pursuant to **Section 9.1** and the Regulatory Allocations hereof and this **Section 9.3** shall to the extent possible, be equal to the net amount that would have been allocated to the Capital Account of each Equity Owner pursuant to the provisions of this Article 9 if the special allocations required by the Regulatory Allocations hereof had not occurred.

9.4 Distributions. Except as provided in **Sections 8.3(d)** (with respect to liquidating Distributions) and **9.5** (with respect to limitations on Distributions), the Board of Directors may from time to time Distribute so much of the Company's Distributable Cash to the Equity Owners at any time they determine as follows:

(a) First, to the Class A Equity Owners proportionate with their Adjusted Capital Contributions until the amount of their respective Adjusted Capital Contributions equals zero.

(b) Second, to the Equity Owners in proportion to their respective positive Capital Accounts.

(c) Third, to the Class A Equity Owners in accordance with their respective Sharing Ratios.

9.5 Limitation Upon Distributions. No Distribution shall be made if such Distribution would violate the Act or for any purpose that would violate the Company Purposes.

9.6 Accounting Principles. For financial reporting purposes, the Company shall use accounting principles applied on a consistent basis using the accrual method of accounting determined by the Board of Directors, unless the Company is required to use a different method of accounting for federal income tax purposes, in which case that method of accounting shall be the Company's method of accounting.

9.7 Interest on and Return of Capital Contributions. No Equity Owner shall be entitled to interest on its Capital Contribution or to return of its Capital Contribution, except as otherwise specifically provided for herein.

9.8 Loans to Company. Nothing in this Agreement shall prevent any Equity Owner from making secured or unsecured loans to the Company by agreement with the Company.

9.9 Accounting Period. The Company's accounting period shall be the Fiscal Year.

9.10 Records and Reports. At the expense of the Company, the President shall maintain records and accounts of all operations and expenditures of the Company. At a minimum the Company shall keep at its principal place of business the following records:

(a) A current list of the full name and last known business, residence, or mailing address of each Equity Owner and Board of Director, both past and present;

(b) A copy of the Articles of Organization and all amendments thereto, together with executed copies of any powers of attorney pursuant to which any amendment has been executed;

(c) Copies of the Company's federal, state, and local income tax returns and reports, if any, for the four (4) most recent Fiscal Years;

(d) Copies of the Company's currently effective written Agreement, copies of any writings permitted or required with respect to an Equity Owner's obligation to contribute cash, property or services, and copies of any financial statements of the Company for the three (3) most recent Fiscal Years;

(e) Minutes of every annual, special meeting and court-ordered meeting;

(f) Any written consents obtained from Members for actions taken by Members without a meeting.

9.11 Returns and Other Elections. The President shall cause the preparation and timely filing of all tax returns required to be filed by the Company pursuant to the Code and all other tax returns deemed necessary and required in each jurisdiction in which the Company does business. Copies of such returns, or pertinent information therefrom, shall be furnished to the Equity Owners within a reasonable time after the end of the Fiscal Year.

All elections permitted to be made by the Company under federal or state laws shall be made by the Board of Directors in their sole discretion; provided, however, that the Tax Matters Partner shall make any tax election requested by the unanimous consent of the Class A Members.

9.12 Tax Matters Partner. Artemis, is hereby designated the Tax Matters Partner ("TMP") as defined in Section 6231(a)(7) of the Code. The TMP and the other Members shall use their reasonable efforts to comply with the responsibilities outlined in Sections 6221 through 6233 of the Code (including any Regulations promulgated thereunder), and in doing so shall incur no liability to any other Member.

9.13 Certain Allocations for Income Tax (But Not Book Capital Account) Purposes.

(a) In accordance with Section 704(c)(1)(A) of the Code and Section 1.704-1(b)(2)(i)(iv) of the Regulations, if a Member contributes property with an initial Gross Asset Value that differs from its adjusted basis at the time of contribution, income, gain, loss and deductions with respect to the property shall, solely for federal income tax purposes (and not for Capital Account purposes), be allocated among the Equity Owners so as to take account of any variation between the adjusted basis of such property to the Company and its Gross Asset Value at the time of contribution pursuant to the traditional method under Section 1.704-3(b) of the Regulations

(b) Pursuant to Section 704(c)(1)(B) of the Code, if any contributed property is Distributed by the Company other than to the contributing Equity Owner within seven (7) years of being contributed, then, except as provided in Section 704(c)(2) of the Code, the contributing Equity Owner shall, solely for federal income tax purposes (and not for Capital Account purposes), be treated as recognizing gain or loss from the sale of such property in an amount equal to the gain or loss that would have been allocated to such Equity Owner under Section 704(c)(1)(A) of the Code if the property had been sold at its fair market value at the time of the Distribution.

(c) In the case of any Distribution by the Company to an Equity Owner, such Equity Owner shall, solely for federal income tax purposes (and not for Capital Account purposes), be treated as recognizing gain in an amount equal to the lesser of:

(1) the excess (if any) of (A) the fair market value of the property (other than money) received in the Distribution over (B) the adjusted basis of such Equity Owner's Ownership Interest immediately before the Distribution reduced (but not below zero) by the amount of money received in the Distribution; or

(2) the Net Precontribution Gain (as defined in Section 737(b) of the Code) of the Equity Owner. The Net Precontribution Gain means the net gain (if any) which would have been recognized by the distributee Equity Owner under Section 704(c)(1)(B) of the Code if all property which (A) had been contributed to the Company within seven (7) years of the Distribution, and (B) is held by the Company immediately before the Distribution, had been Distributed by the Company to another Equity Owner. If any portion of the property Distributed consists of property which had been contributed by the distributee Equity Owner to the Company, then such property shall not be taken into account under this **Section 9.13(c)** and shall not be taken into account in determining the amount of the Net Precontribution Gain. If the property Distributed consists of an interest in an Entity, the preceding sentence shall not apply to the extent that the value of such interest is attributable to the property contributed to such Entity after such interest had been contributed to the Company.

(d) All recapture of income tax deductions resulting from sale or disposition of Company property shall be allocated to the Equity Owners to whom the deduction that gave rise to such recapture was allocated hereunder to the extent that such Equity Owner is allocated any gain from the sale or other disposition of such property.

ARTICLE 10.
TRANSFERABILITY

10.1 General.

(a) Except as otherwise specifically provided in **Section 10.2** or with the unanimous consent of the Members, no Equity Owner shall have the right to Transfer the Equity Owner's Ownership Interest.

(b) Each Equity Owner hereby acknowledges the reasonableness of the restrictions on sale and gift of Ownership Interests imposed by this Agreement in view of the Company purposes and the relationship of the Equity Owners. Accordingly, the restrictions on sale and gift contained herein shall be specifically enforceable.

(c) In the event that any Equity Owner pledges or otherwise encumbers any of its Ownership Interest as security for repayment of a liability, any such pledge or hypothecation shall be made pursuant to a pledge or hypothecation agreement that requires the pledgee or secured party to be bound by all the terms and conditions of this Article 10, and the pledging Equity Owner shall provide notice of such pledge or encumbrance to the Board of Directors.

10.2 Right of First Refusal.

(a) A Selling Equity Owner which desires to Sell all or any portion of its Ownership Interest to a third party purchaser other than a Member shall obtain from such third party purchaser ("Third Party Purchaser") a *bona fide* written offer to purchase such interest, stating the terms and conditions upon which the purchase is to be made and the consideration offered therefor ("Third Party Offer"). The Selling Equity Owner shall give written notification ("Notice of Sale") to the Company and the other Equity Owners who are Class A Members (the "Remaining Members"), by certified mail or personal delivery, of its intention to so transfer such Ownership Interest (the "Offered Interest"). The Notice of Sale shall be accompanied by a copy of the Third Party Offer. If any portion of the purchase price offered by such third party purchaser consists of consideration other than cash or a promissory note ("Non-cash Consideration"), then: (1) the Notice of Sale also shall be accompanied by a good faith estimate by the Selling Equity Owner of the fair market value of the Non-cash Consideration, and (2) for purposes of **Section 10.2(b)** and **10.2(c)** the purchase price of the Offered Interest (the "Purchase Price") shall be adjusted as follows:

(i) The Purchase Price shall be decreased by the Non-cash Consideration; and

(ii) The Purchase Price shall be increased by an amount equal to either (aa) the Selling Equity Owner's good faith estimate of the fair market value of the Non-cash Consideration ("Seller's Estimate") or (bb) in the discretion of the Board of Directors, the appraised fair market value of the Non-cash Consideration determined by an independent appraiser selected by the Board of Directors in their sole discretion. The Board of Directors shall have the sole discretion to choose between the amount determined pursuant to clauses (aa) and (bb) of this **subsection 10.2(a)(ii)**. If the appraised fair market value of the Non-cash Consideration is not determined within twenty (20) days after the Notice of Sale, then such fair market value shall be equal to the amount of the Seller's Estimate.

(b) The Remaining Members shall have the option ("Buy Option") to purchase all, but not less than all, of the Offered Interest, on a basis *pro rata* to the Sharing Ratios of the Remaining Members exercising such option pursuant to this **Section 10.2(b)**. The Buy Option may be exercised by one or more of the Remaining Members by giving written notification ("Buy Notice") to the Selling Equity Owner within thirty (30) days after receiving the Notice of Sale (the "Option Period"). Each Remaining Member who timely gives a Buy Notice ("Buying Member") shall purchase such portion of the Offered Interest which is equal to the relative Sharing Ratios of all of the Buying Members. If there are no Buying Members, the Buy Option shall terminate and at any time within ninety (90) days following the expiration of the Option Period, the Selling Equity Owner shall be entitled to consummate the sale of the Offered Interest to the Third Party Purchaser or one or more of its Affiliates upon terms no less favorable than are set forth in the Third Party Offer.

(c) If there is at least one Buying Member (i) the Buying Members shall designate the time, date and place of closing, provided that the date of closing shall be within thirty (30) days after the receipt of the Buy Notice, and (ii) at the closing, the Buying Members shall purchase, and the Selling Equity Owner shall sell, the Offered Interest for an amount equal to the Purchase Price (as modified in accordance with **Section 10.2(a)(i)** and **(ii)**) and in accordance with such other terms and conditions set forth in the Third Party Offer.

(d) A sale of an Offered Interest pursuant to this **Section 10.2**, shall be subject to **Sections 10.3** and **10.4**.

10.3 Transferee Not Member in Absence of Consent.

(a) Except as provided in this **Section 10.3(a),** if the Board of Directors do not approve by unanimous written consent of the proposed sale of the Transferring Equity Owner's Ownership Interest to a transferee which is not a Member immediately prior to the sale, then the proposed transferee shall have no right to participate in the management of the business and affairs of the Company or to become a Member. Such transferee shall be merely an Economic Interest Owner. No transfer of a Member's Membership Interest (including any transfer of the Economic Interest or any other transfer which has not been approved as provided herein) shall be effective unless and until written notice (including the name and address of the proposed transferee and the date of such transfer) has been provided to the Company and the non-transferring Class A Members.

(b) Upon and contemporaneously with any Transfer of a Member's Ownership Interest, the Transferring Member shall cease to have any residual rights associated with the Ownership Interest transferred to the transferee.

10.4 Additional Conditions to Recognition of Transferee.

(a) If a Transferring Equity Owner Transfers an Ownership Interest to a Person who is not already a Member, as a condition to recognizing one or more of the effectiveness and binding nature of such sale or gift (subject to **Section 10.3** above), the Board of Directors may require the Transferring Equity Owner and the proposed successor-in-interest to execute, acknowledge and deliver to the Board of Directors such instruments of transfer, assignment and assumption and such other certificates, representations and documents, and to perform all such other acts which the Board of Directors may deem necessary or desirable to accomplish any one or more of the following:

(1) constitute such successor-in-interest as an Equity Owner;

(2) confirm that the proposed successor-in-interest as an Economic Interest Owner, or to be admitted as a Member, has accepted, assumed and agreed to be subject and bound by all of the terms, obligations and conditions of this Agreement, as the same may have been further amended

(whether such Person is to be admitted as a new Member or will merely be an Economic Interest Owner);

(3) preserve the Company after the completion of such sale, transfer, assignment, or substitution under the laws of each jurisdiction in which the Company is qualified, organized or does business;

(4) maintain the status of the Company as a partnership for federal tax purposes; and

(5) assure compliance with any applicable state and federal laws, including securities laws and regulations.

(b) Any sale or gift of an Ownership Interest and admission of a Member in compliance with this Article 10 shall be deemed effective as of the last day of the calendar month in which the Board of Directors' consent thereto was given. The Transferring Equity Owner hereby indemnifies the Company and the remaining Members against any and all loss, damage, or expense (including, without limitation, tax liabilities or loss of tax benefits) arising directly or indirectly as a result of any transfer or purported transfer in violation of this Article 10.

ARTICLE 11.
ISSUANCE OF MEMBERSHIP INTERESTS

11.1 Issuance of Additional Membership Interests to New Members. From the date of the formation of the Company, any Person acceptable to the Class A Members may become a Member in the Company by the issuance by the Company of Class A Membership Interests, Class B Membership Interests or other Membership Interests on such terms and conditions and for such consideration as the Class A Members by their unanimous consent shall determine, subject to the terms and conditions of this Agreement. To the extent of the issuance of Class B Membership Interests, the Grants of Interest shall be incorporated into and become a part of this Agreement by reference.

11.2 Issuance of Additional Membership Interests to Existing Members. From the date of the formation of the Company, the Company may issue additional Membership Interests to one or more existing Members for such consideration as the Class A Members by their unanimous consent shall determine, subject to the terms and conditions of this Agreement.

11.3 Part Year Allocations With Respect to New Members. No new Members shall be entitled to any retroactive allocation of losses, income or expense deductions incurred by the Company. In accordance with the provisions of Section 706(d) of the Code and the Regulations promulgated thereunder, the Board of Directors may, at his or their option, at the time a Member is admitted, close the Company books (as though the Company's Fiscal Year had ended) or make *pro rata* allocations of loss, income and expense deductions to a new Equity Owner for that portion of the Company's Fiscal Year in which an Equity Owner became an Equity Owner.

ARTICLE 12.
DISSOLUTION AND TERMINATION

12.1 Dissolution.

(a) The Company shall be dissolved only upon the occurrence of any of the following events:

(1) by the declaration of either Class A Member as provided in **Section 15.5**;

(2) by the unanimous written agreement of the Class A Members;

(3) by an order of a court of competent jurisdiction in an action commenced by any Class A Member in which the Class A Member can show that:

(i) In an action by or on behalf of any Class A Member qualified for exemption from federal income tax as an organization described in Section 501(c)(3) of the Code, the Company is being operated in such a manner as to cause the Class A Member to cease to be so qualified or to be subject to any tax or penalty under the Code.

(ii) The Board of Directors or other Members in control of the Company have acted, are acting, or will act in a manner that is illegal, oppressive, or fraudulent;

(iii) There have been repeated, material breaches of the Agreement by the Company or by other Members or Board of Directors; or

(iv) The assets of the Company are not being used for Company Purposes or are being misapplied or wasted.

(4) upon the expiration of the term, if any, specified in **Section 2.5**.

Notwithstanding anything to the contrary in the Act, the Company shall not be dissolved upon the death, retirement, resignation, expulsion, bankruptcy or dissolution of an Equity Owner.

(b) As soon as possible following the occurrence of any of the events specified in **Section 12.1(a)** effecting the dissolution of the Company, the appropriate representative of the Company shall execute all documents required by the Act at the time of dissolution and file or record such statements with the appropriate officials.

12.2 Effect of Dissolution. Upon dissolution, the Company shall cease to carry on its business, except insofar as may be necessary for the winding up of its business, but its separate existence shall continue until winding up and Distribution is completed.

12.3 Winding Up, Liquidation and Distribution of Assets.

(a) Upon dissolution, an accounting shall be made by the Company's Board of Directors of the accounts of the Company and of the Company's assets, liabilities and operations, from the date of the last previous accounting until the date of dissolution. The Board of Directors shall immediately proceed to wind up the affairs of the Company.

(b) If the Company is dissolved and its affairs are to be wound up, the Board of Directors shall:

(1) Sell all of the Company's assets as promptly as practicable (except to the extent that the Board of Directors may determine to Distribute in kind any assets to the Equity Owners);

(2) Allocate any Profit or Loss resulting from such Sale to the Equity Owners' Capital Accounts in accordance with Article 9 hereof;

(3) Discharge all liabilities of the Company, including liabilities to Equity Owners who are also creditors, to the extent otherwise permitted by law, other than liabilities to Equity Owners for Distributions and the return of capital, and establish such Reserves as may be reasonably necessary to provide for contingent liabilities of the Company (for purposes of determining the Capital Accounts of the Equity Owners, the amounts of such Reserves shall be deemed to be an expense of the Company);

(4) Apply some or all of the remaining assets in accordance with the Company Purposes as determined unanimously by the Class A Members, and Distribute the balance of the remaining assets, if any, to the Equity Owners in accordance with their positive Capital Account balances;

(5) If any assets of the Company are to be distributed in kind, the net fair market value of such assets as of the date of dissolution shall be determined by independent appraisal or by agreement of the Class A Members. Such assets shall be deemed to have been sold as of the date of dissolution for their fair market value, and the Capital Accounts of the Equity Owners shall be adjusted pursuant to the provisions of Article 9 and **Section 8.3** of this Agreement to reflect such deemed sale; and

(6) The positive balance (if any) of each Equity Owner's Capital Account (as determined after taking into account all Capital Account adjustments for the Company's Fiscal Year during which the liquidation occurs) shall be Distributed to the Equity Owners, either in cash or in kind, as determined by the Board of Directors, with any assets Distributed in kind being valued for this

purpose at their fair market value. Any such Distributions to the Equity Owners in respect of their Capital Accounts shall be made in accordance with the time requirements set forth in Section 1.704-1(b)(2)(ii)(b)(2) of the Regulations.

(c) Notwithstanding anything to the contrary in this Agreement, upon a liquidation within the meaning of Section 1.704-1(b)(2)(ii)(g) of the Regulations, if any Equity Owner has a Deficit Capital Account (after giving effect to all contributions, Distributions, allocations and other Capital Account adjustments for all Fiscal Years, including the year during which such liquidation occurs), such Equity Owner shall have no obligation to make any Capital Contribution, and the negative balance of such Member's Capital Account shall not be considered a debt owed by such Equity Owner to the Company or to any other Person for any purpose whatsoever.

(d) Upon completion of the winding up, liquidation and Distribution of the assets, the Company shall be deemed terminated.

(e) The Board of Directors shall comply with any applicable requirements of applicable law pertaining to the winding up of the affairs of the Company and the final Distribution of its assets.

12.4 Filing or Recording Statements. Upon the conclusion of winding up, the appropriate representative of the Company shall execute all documents required by the Act at the time of completion of winding up and file or record such statements with the appropriate officials.

12.5 Return of Contribution Nonrecourse to Other Equity Owners. Except as provided by law or as expressly provided in this Agreement, upon dissolution, each Equity Owner shall look solely to the assets of the Company for the return of its Capital Contribution. If the Company property remaining after the payment or discharge of the debts and liabilities of the Company is insufficient to return the cash contribution of one or more Equity Owners, such Equity Owners shall have no recourse against any other Equity Owner.

ARTICLE 13.
MISCELLANEOUS PROVISIONS

13.1 Notices. Any notice, demand, or communication required or permitted to be given by any provision of this Agreement shall be deemed to have been sufficiently given or served if sent by telecopy or facsimile transmission, delivered by messenger or overnight courier, or mailed, certified first class mail, postage prepaid, return receipt requested, and addressed or sent to the Equity Owner's and/or Company's address, as reflected in this Agreement or the Records of the Company. Such notice shall be effective, (a) if delivered by messenger or by overnight courier, upon actual receipt (or if the date of actual receipt is not a business day, upon the next business day); (b) if sent by telecopy or facsimile transmission, upon confirmation of receipt (or if the date of such confirmation of receipt is not a business day, upon the next business day); or (c) if mailed, upon the earlier of three (3) business days after deposit in the mail and the

delivery as shown by return receipt therefor. Any Equity Owner or the Company may change its address by giving notice in writing to the Company and the other Equity Owners of its new address.

13.2 Books of Account and Records. Proper and complete records and books of account shall be kept or shall be caused to be kept by the President, in which shall be entered fully and accurately all transactions and other matters relating to the Company's business in such detail and completeness as is customary and usual for businesses of the type engaged in by the Company. Such books and records shall be maintained as provided in **Section 9.10**. The books and records shall at all times be maintained at the principal executive office of the Company and shall be open to the reasonable inspection and examination of the Equity Owners or their duly authorized representatives during reasonable business hours.

13.3 Application of State Law. This Agreement, and the application and interpretation hereof, shall be governed exclusively by its terms and by the laws of Montana, and specifically the Act.

13.4 Waiver of Action for Partition. Each Equity Owner irrevocably waives during the term of the Company any right that it may have to maintain any action for partition with respect to the Company Property.

13.5 Amendments . This Agreement may not be amended except by the unanimous written agreement of all of the Class A Members, it being expressly agreed that the Class A Members may make any modifications to the Operating Agreement they deem appropriate without the consent of the Class B Members, even if such amendment has an effect upon the Class B Members.

13.6 Execution of Additional Instruments. Each Equity Owner hereby agrees to execute such other and further statements of interest and holdings, designations, powers of attorney and other instruments necessary to comply with any laws, rules or regulations.

13.7 Construction. Whenever the singular number is used in this Agreement and when required by the context, the same shall include the plural and vice versa, and the masculine gender shall include the feminine and neuter genders and vice versa.

13.8 Effect of Inconsistencies with the Act. It is the express intention of the Equity Owners and the Company that this Agreement shall be the sole source of agreement among them, and, except to the extent that a provision of this Agreement expressly incorporates federal income tax rules by reference to Sections of the Code or Regulations or is expressly prohibited or ineffective under the Act, this Agreement shall govern, even when inconsistent with, or different than, the provisions of the Act or any other law or rule. In the event that the Act is subsequently amended or interpreted in such a way to make valid any provision of this Agreement that was formerly invalid, such provision shall be considered to be valid from the effective date of such interpretation or amendment. The Members and the Company hereby agree that the

duties and obligations imposed on the Members as such shall be those set forth in this Agreement, which is intended to govern the relationship among the Company and the Equity Owners, notwithstanding any provision of the Act or common law to the contrary.

13.9 Waivers. The failure of any party to seek redress for violation of or to insist upon the strict performance of any covenant or condition of this Agreement shall not prevent a subsequent act, which would have originally constituted a violation, from having the effect of an original violation.

13.10 Rights and Remedies Cumulative. The rights and remedies provided by this Agreement are cumulative and the use of any one right or remedy by any party shall not preclude or waive the right to use any or all other remedies. Said rights and remedies are given in addition to any other rights the parties may have by law, statute, ordinance or otherwise.

13.11 Attorneys' Fees. Should the Company or any party to this Agreement reasonably retain counsel for the purpose of enforcing or preventing breach of any provision of this Agreement, including but not limited to instituting any action or proceeding to enforce any provision of this Agreement, for damages by reason of any alleged breach of any provision of this Agreement, for damages by reason of any alleged breach of any provision of this Agreement, for a declaration of such party's rights or obligations under this Agreement or for any other judicial remedy, then, if the matter settled by judicial determination or arbitration, the prevailing party (whether at trial, on appeal, or arbitration) shall be entitled, in addition to such other relief as may be granted, to be reimbursed by the losing party for all costs and expenses incurred, including, but not limited to, reasonable attorneys' fees and costs for services rendered to the prevailing party.

13.12 Severability. If any provision of this Agreement or the application thereof to any person or circumstance shall be invalid, illegal or unenforceable to any extent, the remainder of this Agreement and the application thereof shall not be affected and shall be enforceable to the fullest extent permitted by law. Without limiting the generality of the foregoing sentence, to the extent that any provision of this Agreement is prohibited or ineffective under the Act or common law, this Agreement shall be considered amended to the smallest degree possible in order to make the Agreement effective under the Act or common law.

13.13 Heirs, Successors and Assigns. Each and all of the covenants, terms, provisions and agreements herein contained shall be binding upon and inure to the benefit of the parties hereto and, to the extent permitted by this Agreement, their respective heirs, legal representatives, successors and assigns.

13.14 Creditors. None of the provisions of this Agreement shall be for the benefit of or enforceable by any creditors of the Company.

13.15 Counterparts. This Agreement may be executed in counterparts, each of which shall be deemed an original but all of which shall constitute one and the same instrument.

Rule Against Perpetuities. The parties hereto intend that the Rule Against Perpetuities (and any similar rule of law) not be applicable to any provisions of this Agreement. However, notwithstanding anything to the contrary in this Agreement, if any provision in this Agreement would be invalid or unenforceable because of the Rule Against Perpetuities or any similar rule of law but for this **Section 13.16**, the parties hereto hereby agree that any future interest which is created pursuant to said provision shall cease if it is not vested within twenty-one (21) years after the death of the survivor of the group composed of the Initial Managers and their issue who are living on the effective date of this Agreement.

13.16 Arbitration. Any dispute, deadlock, or controversy arising under this Agreement, if not resolved by mutual agreement of the parties hereto, shall be submitted to arbitration before a panel of three arbitrators in the city of Helena, Montana for settlement under the commercial arbitration rules of the American Arbitration Association as then in effect, and judgment upon the award may be entered in any court of competent jurisdiction, provided, however, that the panel of arbitrators shall be chosen as follows: each party shall select one arbitrator and the two arbitrators thus selected shall select a third arbitrator. If the two arbitrators selected by the parties to the controversy are unable to agree upon the third arbitrator within thirty (30) days after their selection, the third arbitrator, shall be selected by the American Arbitration Association.

13.17 Representations and Warranties.

(a) In General. As of the date hereof, each of the Equity Owners hereby makes each of the representations and warranties applicable to such Equity Owner as set forth in Section 13.18 hereof, and such warranties and representations shall survive the execution of this Agreement.

(b) Representations and Warranties. Each Member hereby represents and warrants that:

(1) Due Incorporation or Formation; Authorization of Agreement. Such Equity Owner is a corporation duly organized or a partnership or limited liability company duly formed, validly existing, and in good standing under the laws of the jurisdiction of its incorporation or formation and has the corporate, partnership or limited liability company power and authority to own its property and carry on its business as owned and carried on at the date hereof and as contemplated hereby. Such Equity Owner is duly licensed or qualified to do business and in good standing in each of the jurisdictions in which the failure to be so licensed or qualified would have a material adverse effect on its financial condition or its ability to perform its obligations hereunder. Such Equity Owner has the corporate, partnership or limited liability company power

and authority to execute and deliver this Agreement and to perform its obligations hereunder and the execution, delivery, and performance of this Agreement has been duly authorized by all necessary corporate, partnership or limited liability company action. This Agreement constitutes the legal, valid, and binding obligation of such Equity Owner.

(2) No Conflict with Restrictions; No Default. Neither the execution, delivery, and performance of this Agreement nor the consummation by such Equity Owner of the transactions contemplated hereby (1) will conflict with, violate, or result in a breach of any of the terms, conditions, or provisions of any law, regulation, order, writ, injunction, decree, determination, or award of any court, any governmental department, board, agency, or instrumentality, domestic or foreign, or any arbitrator, applicable to such Equity Owner or any of its Affiliates, (2) will conflict with, violate, result in a breach of, or constitute a default under any of the terms, conditions, or provisions of the articles of incorporation, bylaws, partnership agreement, limited liability company agreement or operating agreement of such Equity Owner or any of its Affiliates or of any material agreement or instrument to which such Equity Owner or any of its Affiliates is a party or by which such Equity Owner, or any of its Affiliates is or may be bound or to which any of its material properties or assets is subject, (3) will conflict with, violate, result in a breach of, constitute a default under (whether with notice or lapse of time or both), accelerate or permit the acceleration of the performance required by, give to others any material interests or rights, or require any consent, authorization, or approval under any indenture, mortgage, lease agreement, or instrument to which such Equity Owner or any of its Affiliates is a party or by which such Equity Owner or any of its Affiliates is or may be bound, or (4) will result in the creation or imposition of any lien upon any of the material properties or assets of such Equity Owner or any of its Affiliates.

(3) Government Authorizations. Any registration, declaration, or filing with, or consent, approval, license, permit, or other authorization or order by, any government or regulatory authority, domestic or foreign, that is required in connection with the valid execution, delivery, acceptance, and performance by such Equity Owner under this Agreement or the consummation by such Equity Owner of any transaction contemplated hereby has been completed, made, or obtained on or before the effective date of this Agreement.

(4) Litigation. There are no actions, suits, proceedings, or investigations pending or, to the knowledge of such Equity Owner or any of its Affiliates, threatened against or affecting such Equity Owner or any of its Affiliates or any of their properties, assets, or businesses in any court or before or by any governmental department, board, agency, or instrumentality, domestic or foreign, or any arbitrator which could, if adversely determined (or, in the case of an investigation could lead to any action, suit, or proceeding, which if adversely determined could) reasonably be expected to materially impair such Equity Owner's ability to perform its obligations under this Agreement or to

have a material adverse effect on the consolidated financial condition of such member; and such Equity Owner or any of its Affiliates has not received any currently effective notice of any default, and such Equity Owner or any of its Affiliates is not in default, under any applicable order, writ, injunction, decree, permit, determination, or award of any court, any governmental department, board, agency, or instrumentality, domestic or foreign, or any arbitrator which could reasonably be expected to materially impair such Equity Owner's ability to perform its obligations under this Agreement or to have a material adverse effect on the consolidated financial condition of such Equity Owner.

13.18 Confidentiality. Except as contemplated hereby or required by a court of competent authority, each Equity Owner shall keep confidential and shall not disclose to others and shall use its reasonable efforts to prevent its Affiliates and any of its, or its Affiliates' present or former employees, agents, and representatives from disclosing to others without the prior written consent of the Board of Directors any information which (1) pertains to this Agreement, any negotiations pertaining thereto, any of the transactions between the parties hereto contemplated hereby, or the business of the Company, (2) pertains to confidential or proprietary information of any Member or the Company or which any Equity Owner has labeled in writing as confidential or proprietary; provided that any Equity Owner may disclose to its Affiliates' employees, agents, and representatives any information made available to such Equity Owner; or (3) customer lists, supplier lists, contracts, agreements, marketing strategies, and other documents and information of any description developed in the course of the Company's business. No Equity Owner shall use, and each Equity Owner shall use its best efforts to prevent any Affiliate of such Equity Owner from using, any information which (1) pertains to this Agreement, any negotiations pertaining hereto, any of the transactions contemplated hereby, or the business of the Company, (2) pertains to the confidential or proprietary information of any Equity Owner or the Company or which any Equity Owner has labeled in writing as confidential or proprietary, or (3) other information described herein, except in connection with the transactions contemplated hereby. The parties hereto acknowledge TNC's important obligations to share appropriate information that can leverage conservation on other lands and the Company's right to preserve the viability of the Company by preventing the use of information developed by the Company by other entities in competition with the Company without the consent of the Class A Members.

13.19 Advertisement and Communications. Each Manager shall have the right to review and approve any communication, promotional materials, or advertisements or similar materials prior to publication or use where such communication or materials are to include the name or description of a Member, any of its marks, any depiction of its lands or activities, or any of its employees, volunteers, or others acting on its behalf. Such approval shall not be unreasonably withheld and shall be based on the Manager's assessment of whether the proposed communication would, if published, diminish, tarnish, injure or damage a Member's reputation or good will. Nothing in this agreement shall be construed as an endorsement of the products of the Company by either Class A Member without that Class A Member's express consent.

CERTIFICATE

The undersigned hereby agree, acknowledge and certify that the foregoing Agreement, consisting of ____ pages, excluding the Table of Contents constitutes the Agreement of Conservation Beef, LLC adopted by the Equity Owners effective as of January 1, 2003.

Conservation Beef, LLC

MEMBERS:

Artemis Wildlife Foundation,
a California corporation

By _____
its President

The Nature Conservancy,
a District of Columbia corporation

By _____
its Vice President and Senior Advisor

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AGREEMENT TO WITHDRAW

By and between The Nature Conservancy
and Conservation Beef®, LLC, dated February 19, 2004

WHEREAS, as of October 20, 1999, Artemis Wildlife Foundation, a California non-profit charitable corporation (hereinafter "**Artemis**"), and The Nature Conservancy, a District of Columbia nonprofit corporation, also doing business as the Center for Compatible Economic Development (hereinafter "**Conservancy**"), entered into an agreement (hereinafter the "**Prior Agreement**") to form Conservation Beef®, LLC, a Montana limited liability company (hereinafter "**CBLLC**"), whose purpose is to conserve biologically significant lands in the western U.S. by developing market forces that will support economically sustainable and ecologically sound livestock ranching; and

WHEREAS, pursuant to the Prior Agreement Artemis and Conservancy are currently the Members and Equity Owners of CBLLC; and

WHEREAS, the Prior Agreement provides that a Member or Equity Owner may withdraw at any time, and further provides that CBLLC and the withdrawing Member or Equity Owner may agree upon the terms and conditions of such withdrawal;

NOW, THEREFORE, CBLLC and Conservancy agree as follows:

1. Withdrawal. For value received, and in consideration of the mutual promises contained herein, Conservancy hereby withdraws as a Member, Manager, and Equity Owner from CBLLC, thereby relinquishing all rights arising from Prior Agreement, effective upon full execution of this Agreement to Withdraw.

2. Consideration Paid by CBLLC. CBLLC agrees to pay Conservancy the sum of Two Hundred Twenty-Five Thousand Dollars ($225,000), payable as follows, the receipt and sufficiency of which is acknowledged by Conservancy:

a) $100,000.00 in cash upon execution of this Agreement to Withdraw;

b) $125,000.00 in the form of a Promissory Note attached as Exhibit I, which by this reference is incorporated and made part of this agreement.

c) With the Agreement to Withdraw, Conservancy expressly waives any rights, remedies, compensation, and or interest, including any such in Prior Agreement, that are not specifically provided for herein.

3. For the avoidance of doubt, the parties agree as follows:

a) Interests Retained by Conservancy. Conservancy retains all rights, titles and interests in and to certain conservation easements granted to and acquired by Conservancy through the joint efforts of Conservancy and CBLLC, including, but not limited to, the Sun Ranch easement in Madison County, MT, which is valued on Conservancy's books at approximately $5.84 million.

b) CBLLC Trademarks and Interest Retained by CBLLC. CBLLC retains all right, title and interest in and to the trademark CONSERVATION BEEF (CB Mark). Conservancy may continue to use CB Mark in an appropriate manner, provided that prior express written approval of CBLLC is obtained for any such use, which approval may be granted or withheld in CBLLC's sole discretion.

c) Conservancy Trademarks. The license agreement made as of August 16, 2001, by and between Conservancy and CBLLC, concerning use by CBLLC of the Conservancy mark THE NATURE CONSERVANCY and the mark THE NATURE CONSERVANCY AND DESIGN OF OAK LEAF (the "Marks"), is hereby terminated. It is the intent of the parties that CBLLC may continue to use the Marks in an appropriate manner, provided that the prior express written approval of Conservancy is obtained for any such use, which approval may be granted or withheld in Conservancy's sole discretion.

4. Future Cooperation.

The easement donation program developed by CBLLC has resulted in significant conservation success, including the donation of the scientifically significant Sun Ranch easement. Conservancy looks forward to future opportunities to collaborate that further its mission and align with its priorities.

IN WITNESS WHEREOF, the parties have duly executed this Agreement to Withdraw as of the day and year first written above.

THE NATURE CONSERVANCY

BY: _____
Stephen C. Howell
Chief Financial Officer

CONSERVATION BEEF, LLC

BY: _____
Brian Kahn
President, CBLLC

PROMISSORY NOTE

Date: February 19, 2004

Amount: $ 125,000.00

Lender:	Borrower:
The Nature Conservancy 4245 North Fairfax Drive Arlington, VA 22203	Conservation Beef®, LLC 25 South Ewing Street Helena, MT 59624

FOR VALUE RECEIVED the undersigned Borrower promises to pay during the term and according to the provisions of this note to the order of Lender, its successors and assigns, without setoff, at Lender's offices identified above or at any other place Lender designates, the principal amount of **One Hundred Twenty Five Thousand and no/100 Dollars ($125,000.00)**, together with interest computed on the outstanding principal balance at a fixed annual interest rate, and in accordance with the payment schedule, indicated below.

1. Term and Cancellation.

Term: the term of this note begins upon execution and ends upon full payment of all principal and accrued fees and interest, or upon cancellation.

Cancellation: this note shall be cancelled on March 2, 2009 provided no principal or interest payment is due or past due according to the provisions of this note. When cancelled, any outstanding principal and accrued fees or interest on this note will be forgiven by Lender or successors and assigns.

2. Rate of Interest, Payment Delivery, and Interest Calculation.

Interest Rate: the Rate shall be fixed at 3.02 percent during the term of this note, which is the United States Treasury Five Year Bond rate as of the date of execution of this Promissory Note, as published in the applicable edition of the Wall Street Journal.

Payment Delivery: all amounts borrowed or repaid will be paid by check; checks will be hand delivered, delivered by courier, or delivered via overnight express service.

Interest Calculation: interest will be calculated by the 365/360 day method (a daily amount of interest is computed for a hypothetical year of 360 days; that amount is multiplied by the actual number of days for which any principal is outstanding hereunder).

3. Principal and Interest Payment Schedule. If Principal and interest is due and payable according to the terms herein it shall be paid annually, beginning on March 1, 2005, and continuing on the first day of March each year, until all principal and accrued interest has been repaid or this note is otherwise cancelled.

original in file 2/2/04

9. **Remedies upon Default; Non-Waiver.** Whenever there is a default under this Note, Lender shall have all rights and remedies available at law or in equity, including, without limitation, the option to declare the entire balance outstanding hereunder to be immediately due and payable. Lender's failure to exercise any option or any other right under this Note is not a waiver of that right or option, and will not bar Lender's exercise of any options or rights at a later date. All rights and remedies of Lender are cumulative and may be pursued singly, successively or together, at Lender's option. Lender's acceptance of any partial payment is not a waiver of any default or of any of Lender's rights under this Note. Any waiver of Lender's rights and any modification of this Note must be in writing and duly signed on behalf of Lender; any such waiver shall apply only to the specific instance involved, and will not impair the rights of Lender or the obligations of Borrower to Lender in any other respect or at any other time.

10. **Voluntary Liquidation or Termination of Business Operations.** Lender acknowledges that this note is given and offered at a time of financial stress and uncertainty for Borrower. The contingent nature of principal payment, and the limited percentage of net income demanded by Lender reflect Lender's desire to facilitate the survival and success of Borrower. Lender also acknowledges having received other payment in connection with its withdrawal from Conservation Beef, LLC. Borrower represents that its member[s] continue to seek capital and to devote time and other resources toward the goal of maintaining the business and achieving its conservation purposes. Borrower and Lender acknowledge that Conservation Beef, LLC may continue its operations using a different business model which shall not be considered a voluntary liquidation or termination of business operations. In consideration thereof, Lender agrees that in the event management of Conservation Beef, LLC determines at any time after the date hereof to dissolve, liquidate or terminate all business operations of Conservation Beef, LLC, this note is cancelled provided that if determination is made prior to January 1, 2005 Borrower pays Lender an amount equal to 60% of the then current fair market value of Borrower's assets upon liquidation and, excepting this payment, Lender shall have no additional or alternative claims upon Borrower or any member, employee, officer, or investor therein.

11. **Applicable Law, Venue and Jurisdiction.** This Note and the rights and obligations of Borrower and Lender shall be governed by and interpreted under the law of Virginia. In any litigation involving this Note, Borrower irrevocably consents to and confers personal jurisdiction on the courts of Virginia and expressly waives any objections as to venue in any such courts. Lender shall have the option, however, to bring any action or exercise any right within any other state of jurisdiction or to obtain personal jurisdiction by any other means available under applicable law.

12. **Partial Invalidity.** The unenforceability or enforceability or validity of any other provision of this Note and the invalidity or unenforceability circumstance shall not affect the enforceability or validity of such persons or circumstances.

13. **Binding Effect.** This Note shall be binding upon and inure to the benefit of Borrower and Lender and their respective successors, assigns, heirs and personal representatives, but no obligations of Borrower can be assigned without prior written consent of Lender.

14. **Absence of Additional Claims.** Lender recognizes that Borrower shall have no personal liability on this note beyond the obligation to pay from profit on its operations as described in Paragraph 3, above. Further, this Note creates no claim for payment upon any member, investor, employee, or officer of Conservation Beef, LLC.

Borrower represents to Lender that the assets of Conservation Beef, LLC are to be used primarily for conservation, business, commercial or agricultural purposes. Borrower acknowledges having read and understood, and agrees to be bound by, all terms and

conditions of this Note and hereby executes this Note under seal as of the date here above written.

NOTICE OF FINAL AGREEMENT. THIS WRITTEN PROMISSORY NOTE REPRESENTS THE FINAL AGREEMENT BETWEEN THE PARTIES AND MAY NOT BE CONTRADICTED BY EVIDENCE OF PRIOR, CONTEMPORANEOUS, OR SUBSEQUENT ORAL AGREEMENTS OF THE PARTIES. THERE ARE NO UNWRITTEN ORAL AGREEMENTS BETWEEN THE PARTIES.

CONSERVATION BEEF, LLC

By: _____ (Seal)
Name: Brian Kahn
Title: President, Conservation Beef, LLC;

CONSERVATION BEEF, LLC
25 S. EWING, # 415
HELENA, MT 59601
(406) 495-8653

March 22, 2004

The Nature Conservancy
Center for Compatible Econ Devt
4245 North Fairfax Drive
Arlington, VA 22203

RE:
Conservation Beef, LLC
81-0530132
Schedule K-1 from Partnership's 2003 Return of Income

Dear The Nature Conservancy:

Enclosed is your 2003 Schedule K-1 (Form 1065) Partner's Share of Income, Credits, Deductions, Etc. from Conservation Beef, LLC. This information reflects the amounts you need to complete your income tax return. The amounts shown are your distributive share of partnership tax items to be reported on your tax return, and may not correspond to actual distributions you have received during the year. This information is included in the Partnership's 2003 Federal Return of Partnership Income that was filed with the Internal Revenue Service.

If you have any questions concerning this information, please contact us immediately.

Sincerely,

Conservation Beef, LLC

Enclosure(s)

Form **1065**

Department of the Treasury
Internal Revenue Service

U.S. Return of Partnership Income

For calendar year 2003, or tax year beginning _____, 2003, and ending _____, 20 ____.

► See separate instructions.

OMB No.1545-0099

2003

A Principal business activity: Sales

B Principal product or service: Organic Beef

C Business code number: 115210

Use the IRS label. Otherwise, print or type.

Conservation Beef, LLC
25 S. Ewing, # 415
Helena, MT 59601

D Employer identification number: 81-0530132

E Date business started: 10/01/1999

F Total assets (see instrs): $ 354,931.

G Check applicable boxes: (1) [ ] Initial return (2) [ ] Final return (3) [ ] Name change (4) [ ] Address change (5) [ ] Amended return

H Check accounting method: (1) [ ] Cash (2) [X] Accrual (3) [ ] Other (specify) ► _____

I Number of Schedules K-1. Attach one for each person who was a partner at any time during the tax year ► 2

Caution: *Include **only** trade or business income and expenses on lines 1a through 22 below. See the instructions for more information.*

INCOME	1a Gross receipts or sales	1a	304,836.		
	b Less returns and allowances	1b		1c	304,836.
	2 Cost of goods sold (Schedule A, line 8)			2	435,888.
	3 Gross profit. Subtract line 2 from line 1c			3	-131,052.
	4 Ordinary income (loss) from other partnerships, estates, and trusts *(attach schedule)*			4	
	5 Net farm profit (loss) *(attach Schedule F (Form 1040))*			5	
	6 Net gain (loss) from Form 4797, Part II, line 18			6	
	7 Other income (loss) *(attach schedule)*			7	
	8 **Total income (loss).** Combine lines 3 through 7			8	-131,052.
DEDUCTIONS (SEE INSTRUCTIONS FOR LIMITATIONS)	9 Salaries and wages (other than to partners) (less employment credits)			9	176,814.
	10 Guaranteed payments to partners			10	
	11 Repairs and maintenance			11	
	12 Bad debts			12	1,168.
	13 Rent			13	4,573.
	14 Taxes and licenses			14	14,208.
	15 Interest			15	159.
	16a Depreciation (if required, attach Form 4562)	16a	1,432.		
	b Less depreciation reported on Schedule A and elsewhere on return	16b		16c	1,432.
	17 Depletion **(Do not deduct oil and gas depletion.)**			17	
	18 Retirement plans, etc.			18	26,086.
	19 Employee benefit programs			19	13,405.
	20 Other deductions *(attach schedule)* See Statement 1			20	-368,897.
	21 **Total deductions.** Add the amounts shown in the far right column for lines 9 through 20			21	-131,052.
	22 **Ordinary income (loss)** from trade or business activities. Subtract line 21 from line 8			22	

Sign Here

Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than general partner or limited liability company member) is based on all information of which preparer has any knowledge.

Copy For Your Files and Information

► Signature of general partner or limited liability company member ► Date

May the IRS discuss this return with the preparer shown below (see instrs)? [X] Yes [ ] No

Paid Preparer's Use Only

Preparer's signature: Dan Gruber & Co. Date 3/22/04 Check if self-employed ► [ ] Preparer's SSN or PTIN P00024405

Firm's name (or yours if self-employed), address, and ZIP code ► Dan Gruber & Co.
PO Box 1342
East Helena, MT 59635-1342

EIN ► 81-0545110

Phone no. (406) 442-9112

BAA For Paperwork Reduction Act Notice, see separate instructions.

PTPA0105L 08/25/03 Form **1065** (2003)

Schedule A Cost of Goods Sold (see instructions)

1	Inventory at beginning of year	1	214,957.
2	Purchases less cost of items withdrawn for personal use	2	177,004.
3	Cost of labor	3	
4	Additional section 263A costs *(attach schedule)*	4	
5	Other costs *(attach schedule)* See Statement 2	5	297,321.
6	**Total.** Add lines 1 through 5	6	689,282.
7	Inventory at end of year	7	253,394.
8	**Cost of goods sold.** Subtract line 7 from line 6. Enter here and on page 1, line 2	8	435,888.

9a Check all methods used for valuing closing inventory:

(i) [ ] Cost as described in Regulations section 1.471-3

(ii) [X] Lower of cost or market as described in Regulations section 1.471-4

(iii) [ ] Other (specify method used and attach explanation) ►

b Check this box if there was a writedown of 'subnormal' goods as described in Regulations section 1.471-2(c) ► [ ]

c Check this box if the LIFO inventory method was adopted this tax year for any goods *(if checked, attach Form 970)* ► [ ]

d Do the rules of section 263A (for property produced or acquired for resale) apply to the partnership? [ ] Yes [X] No

e Was there any change in determining quantities, cost, or valuations between opening and closing inventory? [ ] Yes [X] No

If 'Yes', attach explanation.

Schedule B Other Information

		Yes	No
1	What type of entity is filing this return? Check the applicable box:		
	a [ ] Domestic general partnership b [ ] Domestic limited partnership		
	c [X] Domestic limited liability company d [ ] Domestic limited liability partnership		
	e [ ] Foreign partnership f [ ] Other ►		
2	Are any partners in this partnership also partnerships?		X
3	During the partnership's tax year, did the partnership own any interest in another partnership or in any foreign entity that was disregarded as an entity separate from its owner under Regulations sections 301.7701-2 and 301.7701-3? If yes, see instructions for required attachment		X
4	Is this partnership subject to the consolidated audit procedures of sections 6221 through 6233? If 'Yes,' see **Designation of Tax Matters Partner** below		X
5	Does this partnership meet **all three** of the following requirements?		
	a The partnership's total receipts for the tax year were less than $250,000;		
	b The partnership's total assets at the end of the tax year were less than $600,000; **and**		
	c Schedules K-1 are filed with the return and furnished to the partners on or before the due date (including extensions) for the partnership return.		
	If 'Yes,' the partnership is not required to complete Schedules L, M-1, and M-2; Item F on page 1 of Form 1065; or Item J on Schedule K-1		X
6	Does this partnership have any foreign partners? If 'Yes,' the partnership may have to file Forms 8804, 8805 and 8813. See instructions		X
7	Is this partnership a publicly traded partnership as defined in section 469(k)(2)?		X
8	Has this partnership filed, or is it required to file, **Form 8264,** Application for Registration of a Tax Shelter?		X
9	At any time during calendar year 2003, did the partnership have an interest in or a signature or other authority over a financial account in a foreign country (such as a bank account, securities account, or other financial account)? See the instructions for exceptions and filing requirements for Form TD F 90-22.1. If 'Yes,' enter the name of the foreign country ►		X
10	During the tax year, did the partnership receive a distribution from, or was it the grantor of, or transferor to, a foreign trust? If 'Yes,' the partnership may have to file Form 3520. See instructions		X
11	Was there a distribution of property or a transfer (e.g., by sale or death) of a partnership interest during the tax year? If 'Yes,' you may elect to adjust the basis of the partnership's assets under section 754 by attaching the statement described in the instructions under **Elections Made By the Partnership**		X
12	Enter the number of **Forms 8865**, Return of U.S. Persons With Respect to Certain Foreign Partnerships, attached to this return ► 0		

Designation of Tax Matters Partner (see instructions)

Enter below the general partner designated as the tax matters partner (TMP) for the tax year of this return:

Name of designated TMP ► Artemis Wildlife Foundation

Identifying number of TMP ► 94-2906085

Address of designated TMP ► PO Box 748
Helena, MT 59624

Schedule K Partners' Shares of Income, Credits, Deductions, etc

	(a) Distributive share items		(b) Total amount
Income (Loss)	1 Ordinary income (loss) from trade or business activities (page 1, line 22)	1	
	2 Net income (loss) from rental real estate activities *(attach Form 8825)*	2	
	3a Gross income from other rental activities 3a		
	b Expenses from other rental activities *(attach sch)* 3b		
	c Net income (loss) from other rental activities. Subtract line 3b from line 3a	3c	
	4 Portfolio income (loss) *(attach Schedule D (Form 1065) for lines 4d and 4e:*		
	a Interest income	4a	
	b Dividends: (1) Qualified dividends ► _____ (2) Total ordinary dividends ►	4b (2)	33.
	c Royalty income	4c	
	d Net short-term capital gain (loss): (1) post-May 5, 2003 ► _____ (2) Entire year ►	4d (2)	
	e Net long-term capital gain (loss): (1) post-May 5, 2003 ► _____ (2) Entire year ►	4e (2)	
	f Other portfolio income (loss) *(attach schedule)*	4f	
	5 Guaranteed payments to partners	5	
	6a Net section 1231 gain (loss) (post-May 5, 2003) *(attach Form 4797)*	6a	
	b Net section 1231 gain (loss) (entire year) *(attach Form 4797)*	6b	
	7 Other income (loss) See Statement 3	7	-441,216.
Deductions	8 Charitable contributions *(attach schedule)*	8	
	9 Section 179 expense deduction *(attach Form 4562)*	9	
	10 Deductions related to portfolio income (itemize)	10	
	11 Other deductions	11	
Credits	12a Low-income housing credit: (1) From partnerships to which section 42(j)(5) applies	12a (1)	
	(2) Other than on line 12a(1)	12a (2)	
	b Qualified rehabilitation expenditures related to rental real estate activities *(attach Form 3468)*	12b	
	c Credits (other than credits shown on lines 12a and 12b) related to rental real estate activities	12c	
	d Credits related to other rental activities	12d	
	13 Other credits	13	
Investment Interest	14a Interest expense on investment debts	14a	
	b (1) Investment income included on lines 4a, 4b(2), 4c, and 4f above	14b (1)	33.
	(2) Investment expenses included on line 10 above	14b (2)	
Self-Employment	15a Net earnings (loss) from self-employment	15a	
	b Gross farming or fishing income	15b	
	c Gross nonfarm income	15c	
Adjustments and Tax Preference Items	16a Depreciation adjustment on property placed in service after 1986	16a	133.
	b Adjusted gain or loss	16b	
	c Depletion (other than oil and gas)	16c	
	d (1) Gross income from oil, gas, and geothermal properties	16d (1)	
	(2) Deductions allocable to oil, gas, and geothermal properties	16d (2)	
	e Other adjmnts & tax pref items	16e	
Foreign Taxes	17a Name of foreign country or U.S. possession ► _____		
	b Gross income from all sources	17b	
	c Gross income sourced at partner level	17c	
	d Foreign gross income sourced at partnership level: (1) Passive ► _____ (2) Listed categories *(attach sch)* ► _____ (3) General limitation ►	17d (3)	
	e Deductions allocated and apportioned at partner level: (1) Interest expense ► _____ (2) Other ►	17e (2)	
	f Deductions allocated and apportioned at partnership level to foreign source income: (1) Passive ► _____ (2) Listed categories *(attach sch)* ► _____ (3) General limitation ►	17f (3)	
	g Total foreign taxes (check one): ► ☐ Paid ☐ Accrued	17g	
	h Reduction in taxes available for credit *(attach schedule)*	17h	
Other	18 Section 59(e)(2) expenditures: a Type ► _____ b Amount ►	18b	
	19 Tax-exempt interest income	19	
	20 Other tax-exempt income	20	
	21 Nondeductible expenses	21	
	22 Distributions of money (cash and marketable securities)	22	
	23 Distributions of property other than money	23	
	24 Other items and amounts required to be reported separately to partners *(attach schedule)*		

Analysis of Net Income (Loss)

1 Net income (loss). Combine Schedule K, lines 1 through 7 in column (b). From the result, subtract the sum of Schedule K, lines 8 through 11, 14a, 17g, and 18b	1	-441,183.

2 Analysis by partner type:	(i) Corporate	(ii) Individual (active)	(iii) Individual (passive)	(iv) Partnership	(v) Exempt organization	(vi) Nominee/Other
a General partners					-441,183.	
b Limited partners						

Note: Schedules L, M-1 and M-2 are not required if Question 5 of Schedule B is answered 'Yes.'

Schedule L Balance Sheets per Books

	Beginning of tax year		End of tax year	
Assets	(a)	(b)	(c)	(d)
1 Cash		17,807.		77,042.
2a Trade notes and accounts receivable	36,068.		21,135.	
b Less allowance for bad debts		36,068.		21,135.
3 Inventories		214,957.		253,394.
4 U.S. government obligations				
5 Tax-exempt securities				
6 Other current assets *(attach schedule)*				
7 Mortgage and real estate loans				
8 Other investments *(attach schedule)*				
9a Buildings and other depreciable assets	4,794.		7,181.	
b Less accumulated depreciation	2,589.	2,205.	4,021.	3,160.
10a Depletable assets				
b Less accumulated depletion				
11 Land (net of any amortization)				
12a Intangible assets (amortizable only)	1,335.		1,335.	
b Less accumulated amortization	868.	467.	1,135.	200.
13 Other assets *(attach schedule)*				
14 **Total** assets		271,504.		354,931.
Liabilities and Capital				
15 Accounts payable		34,840.		43,552.
16 Mortgages, notes, bonds payable in less than 1 year		40,000.		
17 Other current liabilities *(attach sch)*				
18 All nonrecourse loans				
19 Mortgages, notes, bonds payable in 1 year or more				
20 Other liabilities *(attach schedule)*				
21 Partners' capital accounts		196,664.		311,379.
22 **Total** liabilities and capital		271,504.		354,931.

Schedule M-1 Reconciliation of Income (Loss) per Books With Income (Loss) per Return

1 Net income (loss) per books	-441,183.	6 Income recorded on books this year not included on Schedule K, lines 1 though 7 (itemize): a Tax-exempt interest $	
2 Income included on Schedule K, lines 1 through 4, 6b, and 7, not recorded on books this year (itemize):		7 Deductions included on Schedule K, lines 1 through 11, 14a, 17g, and 18b, not charged against book income this year (itemize): a Depreciation $	
3 Guaranteed pmts (other than health insurance)		8 Add lines 6 and 7	
4 Expenses recorded on books this year not included on Schedule K, lines 1 through 11, 14a, 17g, and 18b (itemize): a Depreciation $ b Travel and entertainment $		9 Income (loss) (Analysis of Net Income (Loss), line 1). Subtract line 8 from line 5	-441,183.
5 Add lines 1 through 4	-441,183.		

Schedule M-2 Analysis of Partners' Capital Accounts

1 Balance at beginning of year	196,664.	6 Distributions: a Cash	
2 Capital contributed: a Cash	555,898.	b Property	
b Property		7 Other decreases (itemize):	
3 Net income (loss) per books	-441,183.		
4 Other increases (itemize):		8 Add lines 6 and 7	
5 Add lines 1 through 4	311,379.	9 Balance at end of year. Subtract line 8 from line 5	311,379.

Schedule K-1 (Form 1065)

Department of the Treasury
Internal Revenue Service

Partner's Share of Income, Credits, Deductions, etc

For calendar year 2003 or tax year beginning , 2003, and ending , 20

OMB No. 1545-0099

2003

Partner's identifying number ► 94-2906085

Partner's name, address, and ZIP code

Artemis Wildlife Foundation
PO Box 748
Helena, MT 59624

Partnership's identifying number ► 81-0530132

Partnership's name, address, and ZIP code

Conservation Beef, LLC
25 S. Ewing, # 415
Helena, MT 59601

A This partner is a [ ] general partner [ ] limited partner
[X] limited liability company member

B What type of entity is this partner? .. ► Exempt Org.

C Is this partner a [X] domestic or a [ ] foreign partner?

D Enter partner's % of:

	(i) Before change or termination	(ii) End of year
Profit sharing	%	50 %
Loss sharing	%	50 %
Ownership of capital	%	%

E IRS Center where partnership filed return: Ogden, UT

F Partner's share of liabilities (see instructions):
Nonrecourse $
Qualified nonrecourse financing $
Other $

G Tax shelter registration number ►

H Check here if this partnership is a publicly traded partnership as defined in section 469(k)(2) [ ]

I Check applicable boxes: (1) [ ] Final K-1 (2) [ ] Amended K-1

J Analysis of partner's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Partner's share of lines 3, 4, and 7, Form 1065, Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year (combine columns (a) through (d))
-201,720.		-220,592.		-422,312.

	(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Income (Loss)	1 Ordinary income (loss) from trade or business activities	1		See Partner's Instructions for Schedule K-1 (Form 1065).
	2 Net income (loss) from rental real estate activities	2		
	3 Net income (loss) from other rental activities	3		
	4 Portfolio income (loss):			
	a Interest income	4a		Form 1040, line 8a
	b (1) Qualified dividends	4b(1)		Form 1040, line 9b
	(2) Total ordinary dividends	4b(2)	16.	Form 1040, line 9a
	c Royalty income	4c		Schedule E, Part I, line 4
	d (1) Net short-term capital gain (loss) (post-May 5, 2003)	4d(1)		Schedule D, line 5, column (g)
	(2) Net short-term capital gain (loss) (entire year)	4d(2)		Schedule D, line 5, column f)
	e (1) Net long-term capital gain (loss) (post-May 5, 2003)	4e(1)		Schedule D, line 12, column g)
	(2) Net long-term capital gain (loss) (entire year)	4e(2)		Schedule D, line 12, column (f)
	f Other portfolio income (loss) *(attach schedule)*	4f		See Partner's Instructions for Schedule K-1 (Form 1065).
	5 Guaranteed payments to partner	5		
	6a Net section 1231 gain (loss) (post-May 5, 2003)	6a		
	b Net section 1231 gain (loss) (entire year)	6b		
	7 Other income (loss) *(attach schedule)* See Line 25	7	-220,608.	
Deductions	8 Charitable contributions (see instructions) *(attach schedule)*	8		Schedule A, line 15 or 16
	9 Section 179 expense deduction	9		See Partner's Instructions for Schedule K-1 (Form 1065).
	10 Deductions related to portfolio income *(attach schedule)*	10		
	11 Other deductions *(attach schedule)*	11		
Credits	12a Low-income housing credit:			
	(1) From section 42(j)(5) partnerships	12a(1)		Form 8586, line 5
	(2) Other than on line 12a(1)	12a(2)		
	b Qualified rehabilitation expenditures related to rental real estate activities	12b		See Partner's Instructions for Schedule K-1 (Form 1065).
	c Credits (other than credits shown on lines 12a and 12b) related to rental real estate activities	12c		
	d Credits related to other rental activities	12d		
	13 Other credits	13		

BAA For Paperwork Reduction Act Notice, see Instructions for Form 1065.

Schedule **K-1** (Form 1065) 2003

PTPA0312L 10/21/03

Partner 1

	(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Investment Interest	14a Interest expense on investment debts	14a		Form 4952, line 1
	b (1) Investment income included on lines 4a, 4b(2), 4c, and 4f	14b(1)	16.	See Partner's Instructions for Schedule K-1 (Form 1065).
	(2) Investment expenses included on line 10	14b(2)		
Self-employment	15a Net earnings (loss) from self-employment	15a		Schedule SE, Section A or B
	b Gross farming or fishing income	15b		See Partner's Instructions for Schedule K-1 (Form 1065).
	c Gross nonfarm income	15c		
Adjustments and Tax Preference Items	16a Depreciation adjustment on property placed in service after 1986	16a	66.	See Partner's Instructions for Schedule K-1 (Form 1065) and Instructions for Form 6251.
	b Adjusted gain or loss	16b		
	c Depletion (other than oil and gas)	16c		
	d (1) Gross income from oil, gas, and geothermal properties	16d(1)		
	(2) Deductions allocable to oil, gas, and geothermal properties	16d(2)		
	e Other adjustments and tax preference items *(attach sch)*	16e		
Foreign Taxes	17a Name of foreign country or U.S. possession ►			Form 1116, Part I
	b Gross income from all sources	17b		
	c Gross income sourced at partner level	17c		
	d Foreign gross income sourced at partnership level:			
	(1) Passive	17d(1)		
	(2) Listed categories *(attach schedule)*	17d(2)		
	(3) General limitation	17d(3)		
	e Deductions allocated and apportioned at partner level:			
	(1) Interest expense	17e(1)		
	(2) Other	17e(2)		
	f Deductions allocated and apportioned at partnership level to foreign source income:			
	(1) Passive	17f(1)		
	(2) Listed categories *(attach schedule)*	17f(2)		
	(3) General limitation	17f(3)		
	g Total foreign taxes (check one): ► ☐ Paid ☐ Accrued	17g		Form 1116, Part II
	h Reduction in taxes available for credit *(attach schedule)*	17h		Form 1116, line 12.
Other	18a Section 59(e)(2) expenditures: a Type ►			See Partner's Instructions for Schedule K-1 (Form 1065).
	b Amount	18b		
	19 Tax-exempt interest income	19		Form 1040, line 8b
	20 Other tax-exempt income	20		See Partner's Instructions for Schedule K-1 (Form 1065).
	21 Nondeductible expenses	21		
	22 Distributions of money (cash and marketable securities)	22		
	23 Distributions of property other than money	23		
	24 Recapture of low-income housing credit:			
	a From section 42(j)(5) partnerships	24a		Form 8611, line 8
	b Other than on line 24a	24b		

Supplemental Information

25 Supplemental information required to be reported separately to each partner *(attach additional schedules if more space is needed)*:

Line 7
Other Income (Loss)

Net loss, see attached explanation ..... $ -220,608.
Total $ -220,608.

Line 25
Supplemental Information

Partner 1: Artemis Wildlife Foundation 94-2906085

Line 25 (continued)
Supplemental Information

The net income or loss furthers the exempt purpose of the Member, to wit: in the case of Artemis Wildlife Foundation, to conserve biologically significant lands in the Western United States by developing market forces that will support economically sustainable and ecologically sound livestock ranching; and in the case of The Nature Conservancy, to be operated, exclusively for educational, scientific and charitable purposes.

Supplemental Information

Schedule K-1
(Form 1065)

Department of the Treasury
Internal Revenue Service

Partner's Share of Income, Credits, Deductions, etc

For calendar year 2003 or tax year
beginning , 2003, and ending , 20

OMB No. 1545-0099

2003

Partner's identifying number ► 53-0242652

Partnership's identifying number ► 81-0530132

Partner's name, address, and ZIP code

The Nature Conservancy
Center for Compatible Econ Devt
4245 North Fairfax Drive
Arlington, VA 22203

Partnership's name, address, and ZIP code

Conservation Beef, LLC
25 S. Ewing, # 415
Helena, MT 59601

A This partner is a [ ] general partner [ ] limited partner
[X] limited liability company member

B What type of entity is this partner? .. ► Exempt Org.

C Is this partner a [X] domestic or a [ ] foreign partner?

D Enter partner's % of:

	(i) Before change or termination	(ii) End of year
Profit sharing	%	50 %
Loss sharing	%	50 %
Ownership of capital	%	100 %

E IRS Center where partnership filed return: Ogden, UT

F Partner's share of liabilities (see instructions):
Nonrecourse ..... $
Qualified nonrecourse financing ..... $
Other ..... $

G Tax shelter registration number ►

H Check here if this partnership is a publicly traded partnership as defined in section 469(k)(2) ..... [ ]

I Check applicable boxes: (1) [ ] Final K-1 (2) [ ] Amended K-1

J Analysis of partner's capital account:

(a) Capital account at beginning of year	(b) Capital contributed during year	(c) Partner's share of lines 3, 4, and 7, Form 1065, Schedule M-2	(d) Withdrawals and distributions	(e) Capital account at end of year (combine columns (a) through (d))
398,384.	555,898.	-220,591.		733,691.

	(a) Distributive share item		(b) Amount	(c) 1040 filers enter the amount in column (b) on:
Income (Loss)	1 Ordinary income (loss) from trade or business activities	1		See Partner's Instructions for Schedule K-1 (Form 1065).
	2 Net income (loss) from rental real estate activities	2		
	3 Net income (loss) from other rental activities	3		
	4 Portfolio income (loss):			
	a Interest income	4a		Form 1040, line 8a
	b (1) Qualified dividends	4b(1)		Form 1040, line 9b
	(2) Total ordinary dividends	4b(2)	17.	Form 1040, line 9a
	c Royalty income	4c		Schedule E, Part I, line 4
	d (1) Net short-term capital gain (loss) (post-May 5, 2003)	4d(1)		Schedule D, line 5, column (g)
	(2) Net short-term capital gain (loss) (entire year)	4d(2)		Schedule D, line 5, column f)
	e (1) Net long-term capital gain (loss) (post-May 5, 2003)	4e(1)		Schedule D, line 12, column g)
	(2) Net long-term capital gain (loss) (entire year)	4e(2)		Schedule D, line 12, column (f)
	f Other portfolio income (loss) *(attach schedule)*	4f		See Partner's Instructions for Schedule K-1 (Form 1065).
	5 Guaranteed payments to partner	5		
	6a Net section 1231 gain (loss) (post-May 5, 2003)	6a		
	b Net section 1231 gain (loss) (entire year)	6b		
	7 Other income (loss) *(attach schedule)* See Line 25	7	-220,608.	
Deductions	8 Charitable contributions (see instructions) *(attach schedule)*	8		Schedule A, line 15 or 16
	9 Section 179 expense deduction	9		See Partner's Instructions for Schedule K-1 (Form 1065).
	10 Deductions related to portfolio income *(attach schedule)*	10		
	11 Other deductions *(attach schedule)*	11		
Credits	12a Low-income housing credit:			
	(1) From section 42(j)(5) partnerships	12a(1)		Form 8586, line 5
	(2) Other than on line 12a(1)	12a(2)		
	b Qualified rehabilitation expenditures related to rental real estate activities	12b		See Partner's Instructions for Schedule K-1 (Form 1065).
	c Credits (other than credits shown on lines 12a and 12b) related to rental real estate activities	12c		
	d Credits related to other rental activities	12d		
	13 Other credits	13		

BAA For Paperwork Reduction Act Notice, see Instructions for Form 1065.

Schedule **K-1** (Form 1065) 2003

PTPA0312L 10/21/03

Partner 2

Form **4562**

Department of the Treasury
Internal Revenue Service

Depreciation and Amortization
(Including Information on Listed Property)

► See separate instructions.
► Attach to your tax return.

OMB No. 1545-0172

2003

67

Name(s) shown on return: Conservation Beef, LLC

Identifying number: 81-0530132

Business or activity to which this form relates: Form 1065

Part I Election To Expense Certain Property Under Section 179

Note: *If you have any listed property, complete Part V before you complete Part I.*

1	Maximum amount. See instructions for a higher limit for certain businesses	1	$100,000.
2	Total cost of section 179 property placed in service (see instructions)	2	
3	Threshold cost of section 179 property before reduction in limitation	3	$400,000.
4	Reduction in limitation. Subtract line 3 from line 2. If zero or less, enter -0-	4	
5	Dollar limitation for tax year. Subtract line 4 from line 1. If zero or less, enter -0-. If married filing separately, see instructions	5	

6	(a) Description of property	(b) Cost (business use only)	(c) Elected cost

7	Listed property. Enter the amount from line 29	7	
8	Total elected cost of section 179 property. Add amounts in column (c), lines 6 and 7	8	
9	Tentative deduction. Enter the **smaller** of line 5 or line 8	9	
10	Carryover of disallowed deduction from line 13 of your 2002 Form 4562	10	
11	Business income limitation. Enter the smaller of business income (not less than zero) or line 5 (see instrs)	11	
12	Section 179 expense deduction. Add lines 9 and 10, but do not enter more than line 11	12	
13	Carryover of disallowed deduction to 2004. Add lines 9 and 10, less line 12 ►	13	

Note: *Do not use Part II or Part III below for listed property. Instead, use Part V.*

Part II Special Depreciation Allowance and Other Depreciation (Do not include listed property.)

14	Special depreciation allowance for qualified property (other than listed property) placed in service during the tax year (see instructions)	14	
15	Property subject to section 168(f)(1) election (see instructions)	15	
16	Other depreciation (including ACRS) (see instructions)	16	

Part III MACRS Depreciation (Do not include listed property.) (See instructions)

Section A

17	MACRS deductions for assets placed in service in tax years beginning before 2003	17	955.
18	If you are electing under section 168(i)(4) to group any assets placed in service during the tax year into one or more general asset accounts, check here ► ☐		

Section B — Assets Placed in Service During 2003 Tax Year Using the General Depreciation System

(a) Classification of property	(b) Month and year placed in service	(c) Basis for depreciation (business/investment use only — see instructions)	(d) Recovery period	(e) Convention	(f) Method	(g) Depreciation deduction
19a 3-year property						
b 5-year property		2,387.	5	HY	200DB	477.
c 7-year property						
d 10-year property						
e 15-year property						
f 20-year property						
g 25-year property			25 yrs		S/L	
h Residential rental			27.5 yrs	MM	S/L	
property			27.5 yrs	MM	S/L	
i Nonresidential real			39 yrs	MM	S/L	
property				MM	S/L	

Section C — Assets Placed in Service During 2003 Tax Year Using the Alternative Depreciation System

20a Class life					S/L	
b 12-year			12 yrs		S/L	
c 40-year			40 yrs	MM	S/L	

Part IV Summary (see instructions)

21	Listed property. Enter amount from line 28	21	
22	**Total.** Add amounts from line 12, lines 14 through 17, lines 19 and 20 in column (g), and line 21. Enter here and on the appropriate lines of your return. Partnerships and S corporations — see instructions	22	1,432.
23	For assets shown above and placed in service during the current year, enter the portion of the basis attributable to section 263A costs	23	

BAA For Paperwork Reduction Act Notice, see instructions.

FDIZ0812L 10/28/03

Form **4562** (2003)

Part V **Listed Property** (Include automobiles, certain other vehicles, cellular telephones, certain computers, and property used for entertainment, recreation, or amusement.)

Note: *For any vehicle for which you are using the standard mileage rate or deducting lease expense, complete* ***only*** *24a, 24b, columns (a) through (c) of Section A, all of Section B, and Section C if applicable.*

Section A – Depreciation and Other Information (Caution: *See instructions for limits for passenger automobiles.***)**

24a Do you have evidence to support the business/investment use claimed? ☐ Yes ☐ No **24b** If 'Yes,' is the evidence written? ☐ Yes ☐ No

(a) Type of property (list vehicles first)	(b) Date placed in service	(c) Business/ investment use percentage	(d) Cost or other basis	(e) Basis for depreciation (business/investment use only)	(f) Recovery period	(g) Method/ Convention	(h) Depreciation deduction	(i) Elected section 179 cost
25 Special depreciation allowance for qualified listed property placed in service during the tax year and used more than 50% in a qualified business use (see instructions)						**25**		
26 Property used more than 50% in a qualified business use (see instructions):								
27 Property used 50% or less in a qualified business use (see instructions):								
28 Add amounts in column (h), lines 25 through 27. Enter here and on line 21, page 1						**28**		
29 Add amounts in column (i), line 26. Enter here and on line 7, page 1							**29**	

Section B – Information on Use of Vehicles

Complete this section for vehicles used by a sole proprietor, partner, or other 'more than 5% owner,' or related person. If you provided vehicles to your employees, first answer the questions in Section C to see if you meet an exception to completing this section for those vehicles.

	(a) Vehicle 1		(b) Vehicle 2		(c) Vehicle 3		(d) Vehicle 4		(e) Vehicle 5		(f) Vehicle 6	
30 Total business/investment miles driven during the year (**do not** include commuting miles – see instructions)												
31 Total commuting miles driven during the year												
32 Total other personal (noncommuting) miles driven												
33 Total miles driven during the year. Add lines 30 through 32												
	Yes	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**	**Yes**	**No**
34 Was the vehicle available for personal use during off-duty hours?												
35 Was the vehicle used primarily by a more than 5% owner or related person?												
36 Is another vehicle available for personal use?												

Section C – Questions for Employers Who Provide Vehicles for Use by Their Employees

Answer these questions to determine if you meet an exception to completing Section B for vehicles used by employees who **are not** more than 5% owners or related persons (see instructions).

	Yes	No
37 Do you maintain a written policy statement that prohibits all personal use of vehicles, including commuting, by your employees?		
38 Do you maintain a written policy statement that prohibits personal use of vehicles, except commuting, by your employees? See instructions for vehicles used by corporate officers, directors, or 1% or more owners		
39 Do you treat all use of vehicles by employees as personal use?		
40 Do you provide more than five vehicles to your employees, obtain information from your employees about the use of the vehicles, and retain the information received?		
41 Do you meet the requirements concerning qualified automobile demonstration use? (see instructions)		

Note: *If your answer to 37, 38, 39, 40, or 41 is 'Yes,' do not complete Section B for the covered vehicles.*

Part VI **Amortization**

(a) Description of costs	(b) Date amortization begins	(c) Amortizable amount	(d) Code section	(e) Amortization period or percentage	(f) Amortization for this year
42 Amortization of costs that begins during your 2003 tax year (see instructions):					
43 Amortization of costs that began before your 2003 tax year				**43**	267.
44 **Total.** Add amounts in column (f). See instructions for where to report				**44**	267.

Attachment to Statement 3

The net income or loss furthers the exempt purpose of the Member, to wit: in the case of Artemis Wildlife Foundation, to conserve biologically significant lands in the Western United States by developing market forces that will support economically sustainable and ecologically sound livestock ranching; and in the case of The Nature Conservancy, to be operated, exclusively for educational, scientific and charitable purposes.

11:40 AM
03/29/04
Accrual Basis

Conservation Beef, LLC
Profit & Loss
January through December 2003

		Jan - Dec 03
Ordinary Income/Expense		
Income		
Retail Sales		44,324.18
Wholesale Sales		164,421.71
Cattle Sale Income		94,090.06
Other Income		2,000.00
Total Income		304,835.95
Cost of Goods Sold		
Cattle Purchases		185,082.01
Feed - Grazing		68,596.12
Feed - Supplemental		20,140.50
Transportation		29,718.94
Processing		105,690.79
Storage		7,614.00
Supplies		7,404.51
Replacement Orders		1,050.00
Inventory Change		-47,565.14
Total COGS		377,731.73
Gross Profit		-72,895.78
Expense		
Marketing Expense		
Advertising	815.00	
Consulting	19,949.11	
Printing / Mailing	4,443.08	
Promotional Items	4,931.39	
Samples	3,715.00	
Total Marketing Expense		33,853.58
Fullfillment		
Credit Card Fees	1,205.53	
Product Handling Fees	8,021.56	
Product Delivery	41,487.95	
Total Fullfillment		50,715.04
Administrative		
Bank Fees	127.22	
Computer Expenses	2,836.91	
Insurance	2,372.00	
Office Expense	2,889.23	
Postage	1,094.36	
Printing	517.01	
Professional Fees	6,798.74	
Rent	4,573.38	
Telephone	7,235.09	
Travel	21,439.79	
Total Administrative		49,883.73
Bad Debt Expense		1,168.07
Personnel		
Salaries Expense		
Salaries Reimbursed	-1,560.45	
Salaries Expense - Other	176,814.37	
Total Salaries Expense	175,253.92	
Payroll Taxes	13,404.58	
Benefits	39,594.54	
Unemployment Insurance	803.57	
Workers Comp	1,784.97	
Total Personnel		230,841.58

Conservation Beef, LLC
Profit & Loss
January through December 2003

	Jan - Dec 03
Amortization Expense	267.00
Depreciation Expense	1,432.00
Total Expense	368,161.00
Net Ordinary Income	-441,056.78
Other Income/Expense	
Other Income	
Interest Income	33.02
Total Other Income	33.02
Other Expense	
Interest Expense	158.76
Total Other Expense	158.76
Net Other Income	-125.74
Net Income	**-441,182.52**

11:42 AM
03/29/04
Accrual Basis

Conservation Beef, LLC
Balance Sheet
As of December 31, 2003

	Dec 31, 03
ASSETS	
Current Assets	
Checking/Savings	
CB-Mountain West Ckg	77,042.46
Total Checking/Savings	77,042.46
Accounts Receivable	
Accounts Receivable	21,135.21
Total Accounts Receivable	21,135.21
Total Current Assets	98,177.67
Fixed Assets	
Furniture & Equipment	7,181.00
Accumulated Depreciation	-4,021.00
Total Fixed Assets	3,160.00
Other Assets	
Finished Goods Inventory	134,129.91
Live Cattle Inventory	119,264.31
Organizational Expenditures	1,334.50
Accumulated amoritization	-1,135.00
Total Other Assets	253,593.72
TOTAL ASSETS	**354,931.39**
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	43,552.43
Total Accounts Payable	43,552.43
Other Current Liabilities	
Direct Deposit Liabilities	-0.76
Payroll Liabilities	0.76
Total Other Current Liabilities	0.00
Total Current Liabilities	43,552.43
Total Liabilities	43,552.43
Equity	
Capital - TNC	1,563,710.62
Net Losses - TNC	-609,428.11
Capital - Artemis	439,021.08
Net Losses - Artemis	-640,742.11
Net Income	-441,182.52
Total Equity	311,378.96
TOTAL LIABILITIES & EQUITY	**354,931.39**

11:16 AM

03/29/04

Accrual Basis

Conservation Beef, LLC 2002
Balance Sheet
As of December 31, 2002

	Dec 31, 02
ASSETS	
Current Assets	
Checking/Savings	
CB-Mountain West Ckg	13,007.57
CB/Crumley Premium Account	4,798.98
Merrill Lynch Money Market	0.27
Total Checking/Savings	17,806.82
Accounts Receivable	
Accounts Receivable	36,067.79
Total Accounts Receivable	36,067.79
Total Current Assets	53,874.61
Fixed Assets	
Furniture & Equipment	4,794.00
Accumulated Depreciation	-2,589.00
Total Fixed Assets	2,205.00
Other Assets	
Finished Goods Inventory	14,120.00
Live Cattle Inventory	200,836.58
Organizational Expenditures	1,334.50
Accumulated amoritization	-868.00
Total Other Assets	215,423.08
TOTAL ASSETS	**271,502.69**
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	33,629.09
Total Accounts Payable	33,629.09
Other Current Liabilities	
Accrued Expenses Payable	1,166.06
Loan Payable - Artemis	40,000.00
Payroll Liabilities	44.06
Total Other Current Liabilities	41,210.12
Total Current Liabilities	74,839.21
Total Liabilities	74,839.21
Equity	
Capital - TNC	1,007,812.62
Net Losses - TNC	-424,691.22
Capital - Artemis	439,021.08
Net Losses - Artemis	-456,005.23
Net Income	-369,473.77
Total Equity	196,663.48
TOTAL LIABILITIES & EQUITY	**271,502.69**

11:13 AM

03/29/04

Accrual Basis

Conservation Beef, LLC 2002
Profit & Loss
January through December 2002

		Jan - Dec 02
Ordinary Income/Expense		
Income		
Interest Income		377.12
Cattle Sale Income		5,542.64
Retail Sales		49,907.84
Retail Sales PM		205.00
PM Beef Returns		-17,565.30
Wholesale Sales		86,120.84
Returns / Refunds		-278.40
Total Income		124,309.74
Cost of Goods Sold		
Cattle Expense		
Cattle Purchases	188,196.16	
Trucking Live Cattle	26,654.25	
Fabrication & Processing	50,912.41	
Feeding	20,889.48	
Cattle Expense - Other	3,107.50	
Total Cattle Expense		289,759.80
Product Expenses		
Credit Card Fees	1,368.99	
Freezer Storage	780.00	
Product Shipping	20,272.81	
Complimentary Products	3,373.50	
Replacement Product	2,400.00	
Total Product Expenses		28,195.30
Inventory Change for Year		-42,313.77
Total COGS		275,641.33
Gross Profit		-151,331.59
Expense		
Amortization Expense		267.00
Bank Fees		448.88
Consultants		
Rich Hewitt	2,035.36	
Novak	3,000.00	
Peterson	1,350.00	
Vollmer	1,559.95	
Other Consultants	785.00	
Total Consultants		8,730.31
Depreciation Expense		1,038.00
Insurance		
Health	1,466.06	
Workers Comp	665.75	
Liability	1,713.83	
Unemployment Insurance	940.53	
Total Insurance		4,786.17
Marketing Expense		
Design Services	1,094.95	
Postage / Mailing	292.00	
Printing / Mailing	4,652.30	
Total Marketing Expense		6,039.25
Meeting Expenses		59.04
Office Expense		
Office Expense	1,994.32	
Computer Expenses	1,071.68	
Total Office Expense		3,066.00
Office Rent		2,011.95

11:13 AM

03/29/04

Accrual Basis

Conservation Beef, LLC 2002
Profit & Loss
January through December 2002

	Jan - Dec 02
Payroll Expenses	
Retirement Benefits	16,387.41
Payroll Taxes	8,486.44
Salaries Expense	110,933.85
Payroll Expenses - Other	5,217.55
Total Payroll Expenses	141,025.25
Postage - Office	985.77
Printing	554.79
Professional Fees	18,554.45
Telephone	6,507.02
Travel	24,068.30
Total Expense	218,142.18
Net Ordinary Income	-369,473.77
Net Income	**-369,473.77**

8:13 AM
05/03/02
Accrual Basis

Conservation Beef, LLC
Balance Sheet
As of December 31, 2001

	Dec 31, 01
ASSETS	
Current Assets	
Checking/Savings	
CB-Mountain West Ckg	6,455.81
CB/PM Holding MT West Ckg.	26,969.91
CB/Sun Ranch ML Acct	24,485.10
Merrill Lynch Money Market	5,213.88
Total Checking/Savings	63,124.70
Accounts Receivable	
Accounts Receivable	37,270.55
Total Accounts Receivable	37,270.55
Other Current Assets	
Inventory	50,520.08
Total Other Current Assets	50,520.08
Total Current Assets	150,915.33
Fixed Assets	
Furniture & Equipment	4,794.00
Accumulated Depreciation	-1,551.00
Total Fixed Assets	3,243.00
Other Assets	
Organizational Expenditures	1,334.50
Accumulated amortization	-601.00
Total Other Assets	733.50
TOTAL ASSETS	**154,891.83**
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	24,458.93
Total Accounts Payable	24,458.93
Total Current Liabilities	24,458.93
Total Liabilities	24,458.93
Equity	
Capital - TNC	572,108.27
Net Losses - TNC	-424,691.22
Capital - Artemis	439,021.08
Net Losses - Artemis	-456,005.23
Retained Earnings	176,162.45
Net Income	-176,162.45
Total Equity	130,432.90
TOTAL LIABILITIES & EQUITY	**154,891.83**

Conservation Beef, LLC
Addendum to Balance Sheet
Capital Contribution Schedule

Balance Sheet Date: December 31, 2001

Capital Contributions per Accounting Records	572,107	439,021
Additional Contributions made prior to legal formation	143,053	
Total Partnership Investment to Date	715,160	439,021

8:13 AM
05/03/02
Accrual Basis

Conservation Beef, LLC
Profit & Loss
January through December 2001

		Jan - Dec 01
Ordinary Income/Expense		
Income		
Cattle Sale Income		168,267.83
Retail Sales		18,220.65
Retail Sales PM		47,485.93
Wholesale Sales		62,573.04
Returns / Refunds		-48.00
Total Income		296,499.45
Cost of Goods Sold		
Cattle Expense		
Cattle Purchases	255,713.15	
Trucking Live Cattle	23,117.60	
Fabrication & Processing	12,529.98	
Cattle Expense - Other	735.00	
Total Cattle Expense		292,095.73
Product Expenses		
Credit Card Fees	2,118.67	
Inventory Change for Year	6,673.63	
Freezer Storage	2,914.04	
Product Shipping	11,964.23	
Complimentary Products	4,439.00	
Total Product Expenses		28,109.57
Total COGS		320,205.30
Gross Profit		-23,705.85
Expense		
Amortization Expense		267.00
Advertising		101.60
Bank Fees		82.77
Consultants		
Breuer	1,186.85	
Peterson	3,988.55	
Vollmer	3,139.88	
Other Consultants	884.46	
Consultants - Other	9,559.52	
Total Consultants		18,759.26
Depreciation Expense		858.00
Insurance		
Workers Comp	341.03	
Liability	1,431.98	
Unemployment Insurance	874.77	
Total Insurance		2,647.78
Marketing Expense		
Design Services	1,505.39	
Postage / Mailing	2,358.58	
Printing / Mailing	15,619.13	
Promotional Items	1,097.77	
Total Marketing Expense		20,580.87
Meeting Expenses		48.32
Misc. Expense		1,009.18
Office Expense		
Office Expense	2,749.55	
Computer Expenses	1,802.91	
Total Office Expense		4,552.46
Office Furniture & Equipment		715.99
Office Rent		1,699.80
Payroll Expenses		
Retirement Benefits	10,788.89	
Payroll Taxes	5,671.79	

Conservation Beef, LLC
Profit & Loss
January through December 2003

	Jan - Dec 03
Amortization Expense	267.00
Depreciation Expense	1,432.00
Total Expense	368,161.00
Net Ordinary Income	-441,056.78
Other Income/Expense	
Other Income	
Interest Income	33.02
Total Other Income	33.02
Other Expense	
Interest Expense	158.76
Total Other Expense	158.76
Net Other Income	-125.74
Net Income	**-441,182.52**

11:16 AM

03/29/04

Accrual Basis

Conservation Beef, LLC 2002
Balance Sheet
As of December 31, 2002

	Dec 31, 02
ASSETS	
Current Assets	
Checking/Savings	
CB-Mountain West Ckg	13,007.57
CB/Crumley Premium Account	4,798.98
Merrill Lynch Money Market	0.27
Total Checking/Savings	17,806.82
Accounts Receivable	
Accounts Receivable	36,067.79
Total Accounts Receivable	36,067.79
Total Current Assets	53,874.61
Fixed Assets	
Furniture & Equipment	4,794.00
Accumulated Depreciation	-2,589.00
Total Fixed Assets	2,205.00
Other Assets	
Finished Goods Inventory	14,120.00
Live Cattle Inventory	200,836.58
Organizational Expenditures	1,334.50
Accumulated amoritization	-868.00
Total Other Assets	215,423.08
TOTAL ASSETS	**271,502.69**
LIABILITIES & EQUITY	
Liabilities	
Current Liabilities	
Accounts Payable	
Accounts Payable	33,629.09
Total Accounts Payable	33,629.09
Other Current Liabilities	
Accrued Expenses Payable	1,166.06
Loan Payable - Artemis	40,000.00
Payroll Liabilities	44.06
Total Other Current Liabilities	41,210.12
Total Current Liabilities	74,839.21
Total Liabilities	74,839.21
Equity	
Capital - TNC	1,007,812.62
Net Losses - TNC	-424,691.22
Capital - Artemis	439,021.08
Net Losses - Artemis	-456,005.23
Net Income	-369,473.77
Total Equity	196,663.48
TOTAL LIABILITIES & EQUITY	**271,502.69**

Conservation Beef, LLC
Profit & Loss
January through December 2000

		Jan - Dec '00
Ordinary Income/Expense		
Income		
Interest Income		2,156.30
Retail Sales		52,494.43
Wholesale Sales		69,996.16
Returns / Refunds		-1,050.26
Total Income		123,596.63
Expense		
Advertising		3,533.74
Bank Fees		111.19
Cattle Expense		
Inventory on Hand	-55,836.02	
Trucking	6,122.83	
Cattle Purchases	165,017.35	
Fabrication & Processing	59,116.34	
Cattle Expense - Other	634.45	
Total Cattle Expense		175,054.95
Consultants		
Brandenburg	6,448.05	
Breuer	2,724.22	
Zadig	27,528.83	
Peterson	9,816.38	
Vollmer	10,325.52	
Other Consultants	4,131.22	
Total Consultants		60,974.22
Credit Card Fees		2,453.23
Insurance		
Auto	471.21	
Workers Comp	955.42	
Liability	4,711.27	
Unemployment Insurance	1,145.60	
Total Insurance		7,283.50
Marketing Expense		
Comp Products	16,792.31	
Design Services	17,146.51	
Postage / Mailing	-6,596.73	
Printing / Mailing	10,412.83	
Promotional Items	3,155.18	
Brochure Other	500.00	
Total Marketing Expense		41,410.10
Meeting Expenses		
Conference Call Meetings	1,967.06	
Total Meeting Expenses		1,967.06
Office Expense		
Office Expense	2,026.83	
Computer Expenses	2,606.06	
Total Office Expense		4,632.89
Office Furniture & Equipment		1,527.86
Office Rent		5,661.45
Payroll Expenses		
Retirement Benefits	8,661.34	
Payroll Taxes	6,560.02	
Salaries Expense	96,657.24	
Payroll Expenses - Other	68.50	
Total Payroll Expenses		111,947.10
Postage - Office		2,347.00
Printing		936.81
Product Expense		
Freezer Storage	4,029.50	

Conservation Beef, LLC
Profit & Loss
January through December 2000

	Jan - Dec '00
Shipping	44,197.02
Total Product Expense	48,226.52
Professional Fees	10,549.49
Telephone	10,911.16
Travel	27,543.22
Total Expense	517,071.49
Net Ordinary Income	-393,474.86
Other Income/Expense	
Other Income	
Grant Income	22,500.00
Donations	277,565.72
Total Other Income	300,065.72
Net Other Income	300,065.72
Net Income	-93,409.14

PM-CONSERVATION BEEF® PROTOCOL FOR LIVE ANIMAL HANDLING, HARVEST, BEEF FABRICATION, PORTIONING AND SHIPPING

Conservation Beef® (CB) is a premium product commanding a premium price. To justify that price, all steps must be taken in processing, fabrication and shipment to insure maintenance of the impeccable standard of excellence that CB customers expect. CB and PM are fully capable of and committed to meeting this standard. This protocol outlines the key requirements to do so. As experience dictates, this protocol may be updated and revised.

HANDLING OF LIVE ANIMALS:

All CB animals will be treated and handled in a humane manner, with all appropriate steps taken to minimize animal stress. No electric prods, "hot shots" or other such tools will be used at any time. While in pre-harvest holding areas, the animals will always have adequate supply of clean drinking water. If held for more than six hours after delivery, CB animals will be fed ample amounts of high quality hay. They will be kept in holding pens that have concrete floors and are cleaned regularly.

HARVEST:

Animals will be harvested in Windom, MN. Carcasses will be slow-cooled, and each half shall be placed prior to cooling in a cotton canvas shroud to further reduce any chance of cold-shortening.

Once cooled, carcasses will be shipped hanging in refrigerated trucks to Hartley, Iowa, where they will promptly be broken down into fabs for refrigerated truck shipment. Middle meats will be shipped to Chicago for dry-aging, non-middle meats to the Richmond, VA plant. Portioning will be done in Richmond, as will all order fulfillment of non-middle meats to wholesale clients, and all fulfillment of frozen/gift pack product. As of the date of this memo it is anticipated that after dry-aging in Chicago, wholesale middle meats will be shipped from Chicago to food service clients; subprimal middle meats will be sent to Richmond for portioning.

CARCASS IDENTIFICATION AND SEGREGATION:

All CB cattle, carcasses, fabs and portioned beef will be kept separate at all times from other animals. As CB is free of artificial hormones and a significant portion is antibiotic free, it is essential that all necessary steps be taken to maintain product integrity,

including but not limited to avoidance of any co-mingling of other meat residues through tools, surfaces or any other means.

It is essential that CB be able to trace carcasses back to the live animal/source. All primals cuts shipped by PM will retain on the primal the PM Carcass ID #, which will be traceable back to the animal ear tag color/# and brand. When primals are broken into subprimals, CB will be notified of all carcasses/ID# that are deemed of unsatisfactory quality, as well as the specific quality problem.

HARVEST DATES, DRY AND WET-AGING AND TIMELY DELIVERY

Harvest dates for 2001 will begin on approximately September 13 and will continue weekly, approximately forty cattle each week, for approximately ten weeks.

Dry-aging is essential for maximum flavor and quality of CB middle meats. It is essential that every step be taken prior to, during and after dry aging to minimize temperature and humidity changes. If PM is uncertain about the details of this handling, it will make a thorough, best effort to obtain the needed information from people experienced in and excellent at dry-aging. All middle meats will be dry-aged for a minimum of twenty-one days.

Wet-Aging: Non-middle meats will be aged in cryovac.

Shelf life is limited on the fresh dry-aged product. Therefore that portion of dry-aged middle meat fabs designated for D'Artagnan Meats in Newark, New Jersey will be delivered by refrigerated truck to D'Artagnan no later than 24 hours after the completion of the twenty-one day aging period. Wet-aged meats will be delivered to D'Artagnan no sooner than ten days, nor later than seventeen days after harvest.

Middle meats designated for corporate/home delivery customers will be portioned and flash-frozen no sooner than the twenty-first day after harvest, and no later than the twenty-eighth day. Ground Steak for corporate/home delivery customers will be ground and flash-frozen between five and eight days after harvest.

ORDER FULFILLMENT/SHIPPING:

CB is responsible for receiving restaurant, corporate and home delivery orders and will communicate clearly and in writing—by fax or e-mail, as specified by PM--all orders and needed delivery dates. PM's responsibility is to insure all orders are fulfilled in a timely and fully professional manner. CB home delivery is shipped by second day Federal Express and guaranteed on a date certain. Therefore, PM will need to establish internal procedures to assure orders are shipped on the dates required to meet this commitment to the customer. PM will notify CB as to the minimum "advance" timing required to fulfill such orders. CB will observe those timeframes. In exceptional circumstances customer satisfaction may require that orders be fulfilled within less than the agreed minimum. In

such cases, both CB and PM will make best reasonable effort to meet customer needs, but the parties recognize this may not always be feasible.

After consultation with PM, CB may decide to serve specific western food service customers, such as Yellowstone National Park. For such deliveries, PM will thoroughly assess the most cost/effective shipping options to deliver product in a timely manner.

FABRICATION:

All wholesale and retail cuts will be trimmed, cut and otherwise fabricated with a consistent standard of excellence.

CB Ground Steak: This is a premium product in every respect and must be handled accordingly. PM will process ground steak as follows:

Frozen Ground Steak Patties: Double grind—first grind at ¼ inch, second at 3/16 inch. 85/15 lean to fat ratio. Patties are to have a "hand-formed" appearance. The tight-packed "hockey-puck" factory patty appearance is not acceptable for our retail patties, for which we are charging in excess of $8.00 a pound. Patties will be 2/1, either oval or round. Minimum pressure will be applied to form the patty so as to avoid the "tight packed" look and mouth feel. Two patties, with waxed paper in between, will be cryovaced in a single packet. Vacuum used for the cryovac will be limited to that needed to remove excess air and to avoid visible air crystals on the product. Excess vacuum results in patty deformation "squashing" and will be avoided. Patties will be pre-frozen or chilled prior to cryovacing if needed to achieve the proper presentation. Each pack of two patties (and each pack of all cuts sold for home delivery) will have the "blue sky/white cloud" CB label neatly attached.

Frozen Ground Steak Bulk: Same grind, pressure, put in one-pound chubs. Labeled on each chub. Wholesale accounts may want 10 lb. chubs.

Some food service clients may require 80/20 ground beef and/or other patty shapes/weights or chub weights, which PM will provide.

Fresh Ground Streak for Markets: PM will provide CB with written customer specs for lean/fat ratio and all other issues, and process accordingly. Unless otherwise required by customer, grind will be the same as for frozen product.

Fat content of each batch of Ground Steak processed will be accurately measured, and the results recorded and communicated to CB by e-mail by the end of the next business day.

SUBPRIMALS

Middle meat subprimals will be cryovaced, boxed and delivered to customers on time, as specified above. PM will take all necessary steps to insure that refrigerated truck

shippers utilized to deliver CB are fully professional and reliable in their handling of CB. Subprimals will be needled whenever technically feasible.

PORTIONED CUTS:

All portioned cuts will be cut, within one ounce of the weight agreed upon by PM and CB, as reflected the Gift Pack list or as specified by CB for specific food service customers. Any errors must be on the heavy side, to avoid under weight cuts. All steaks will be cut of uniform and even thickness from one side to the other. Unless otherwise specified, fat trim will be one-quarter inch. Portioned cuts will be needled, unless otherwise directed by CB.

No middle meat steaks will be cut less than 1 ¼ inches in thickness, or more than 1 5/8 inches maximum, unless otherwise specified by CB. In the event a subprimal's dimensions are too small to achieve weight at maximum thickness, that subprimal will be cut to fit the parameters of the Petite Steak line, or if that is not feasible, used wherever possible for other cuts, such as value-added items.

All retail portion cuts will be cryovaced after dry aging, as described above. Sufficient vacuum pressure will be utilized to avoid visible ice crystals inside the package; Each steak will be pre-frozen or chilled to the extent necessary to avoid significant vacuum pressure distortion of the steak inside the package.

CB/NATURAL BEEF SEGREGATION:

All CB will be handled according to written protocols and in a manner which insures no mingling of CB with, or contamination by residues from, any other meats, except where CB is sold to PM for marketing under another label.

QUALITY CONTROL:

Impeccable Quality Control is essential for CB. PM will inspect CB at every point in fabrication and separate out meat it deems unsuitable for CB marketing. Wholesale cuts will be re-inspected prior to packing for shipment. At the time of retail order fulfillment, PM will visually re-inspect every portioned cut prior to wrapping for shipment to be sure that cryovac vacuum seal is intact and the meat is fully presentable in every respect. Every portioned package of steaks and/or Ground Steak, shall have neatly and uniformly attached CB label, either the CB "Blue Sky" label or a design acceptable to CB utilizing the CB logo. CB will work with PM to try to develop a label design enabling use of PM's existing labeling equipment.

SHIPMENT TO CUSTOMER:

Retail CB product will be packaged by PM to CB's exacting specifications, to be provided in writing in a separate document.

All parties will coordinate carefully to insure clear understanding of required customer delivery dates for both retail and wholesale. PM will take all reasonable steps to insure timely delivery of the meat, and its arrival in impeccable condition.—fresh or frozen as the order requires.

Rick Carlson	Brian Kahn
Date	Date

JOINT VENTURE AGREEMENT

For consideration received, Conservation Beef, LLC (CB), a Montana Limited Liability Company and PM Holdings, LLC (PM), a _____ Limited Liability Company, agree to pursue a joint venture to develop and expand the marketing of Conservation Beef®, including but not limited to slaughter, aging, fabrication, portion control, sales, marketing, promotion, shipping, retail and wholesale, fresh and frozen product delivery. Conservation Beef® shall mean beef produced pursuant to this Agreement and raised by ranchers who commit to long-term land conservation strategies, in furtherance of the tax-exempt purposes of those holding ownership interests in Conservation Beef, LLC. To implement this joint venture, the parties, on this the ____ day of _____, 2001, recite and agree on the following terms and conditions:

RECITALS

WHEREAS, CB was organized as a landscape conservation strategy, promoting the same by paying a reliable and fair premium price to ranch families who commit to ecologically sound land stewardship and long-term conservation strategies; and whereas this strategy helps keep families committed to such stewardship on the land, protecting land from development, reducing pollution of surface and ground waters, building soil and plant diversity, sustaining local rural economies, and passing down traditional farming and animal husbandry skills;

WHEREAS, PM desires, as a leading food company, through continuous process refinement, to add value, promote growth and deliver profitability, which is mutually beneficial for its shareholders, communities and the company;

WHEREAS, CB desires to engage PM to provide processing, marketing and shipping services for the purposes of accelerating market growth and achieving profitability for CB products, and both parties are interested in developing a long-term equity-based partnership between PM and CB.

AGREEMENT

1. Definitions. For the purposes of this Agreement, the following terms shall have the meanings set forth below.

a. Break Even: generally defined as the Sales Revenue necessary to cover costs so that there is zero profit or loss shall in this context specifically mean the amount of revenue generated from wholesale and retail sales, at which PM and CB are able to cover their direct costs for the purchase, transportation, harvesting, fabrication, and portioning of CB cattle and direct marketing and sales expenses, and indirect costs including but not limited to associated management, without any added profit margin.

b. Cash Out: shall mean (i) the commodity price paid by PM to CB for cattle delivered to the Windom, Minnesota plant, and (ii) the costs associated with shipping cattle to the Windom, Minnesota plant and the additional premium paid to ranchers by CB.

c. CB Overhead: shall mean all its indirect costs including but not limited to general and administrative expenses, rent, utilities, insurance and communication.
d. CB Program Costs: shall mean all CB costs, including but not limited to product development, marketing, sales and design, animal husbandry, supplemental feed development, pasturage issues including nutrition and development of extended seasonality of supply and expansion of CB to new landscapes, quality control of all operational phases from cattle production to product delivery, collaborating with and obtaining from elements of local ranching communities support for the principles of the Conservation Beef program, including but not limited to developing ranch management plans and long-term conservation agreements, annual ranchland use monitoring, and multi-year vegetation monitoring.
e. Commodity Price: shall mean the price paid for fat cattle in the southern Minnesota/northern Iowa market as posted on the United States Department of Agriculture web site on the date of delivery.
f. Conservation Beef Account: shall refer to the two accounts specifically set up for the purpose of allocating revenues and expenses incurred in the execution of the joint venture agreement between CB and PM. One CB account will be established within PM and the second within CB, for tracking revenues and expenses not included in the first.
g. PM Overhead: shall mean PM's indirect costs associated with processing and handling the Conservation Beef line.
h. Slaughter-Ready: see attached CB Beef Handling Protocol.

2. Delivery. CB will be responsible for delivering, at its own cost and risk, slaughter-ready cattle to PM's Windom, Minnesota plant. CB expects to deliver approximately four hundred (400) cattle over a ten (10) week period. CB's goal will be to deliver forty suitable animals per week for ten weeks, with deliveries beginning on approximately September 13, 2001. The parties recognize that, due to the grass-fed nature of the beef, the precise number of cattle that will be suitably finished, and the dates of said finishing, are beyond CB's control. CB will use free-range, chemical-free supplemental feed to the degree it determines necessary to help assure timely and adequate cattle finishing.

Title to cattle which are the subject matter of this agreement shall pass from CB to PM when the cattle are delivered by CB and accepted by PM. Transfer of title will be deemed to have taken place when the cattle are delivered to PM's Windom, Minnesota plant. Risk of loss remains with CB until delivery.

Prior to slaughter the cattle will be weighed so a price can be determined for each animal. The cattle shall be weighed when they arrive at the holding facility and shrinkage shall be calculated at three percent of the live weight when received. Based on these weights PM will pay to CB the commodity price as listed by the United States Department of Agriculture (USDA) for fat cattle on the day of slaughter. The commodity price will be the southern Minnesota /northern Iowa Market price for fat cattle, as posted on the USDA website. Payment is due within ten (10) days of delivery.

If the CB cattle are held at the PM holding facility for more than eight hours prior to harvesting, PM shall use high quality grass/hay feed and shall assure the cattle are properly fed during the entire holding period. Clean water shall be accessible at all times during the animals' stay at the holding facility.

3. Handling and Processing. PM will fully implement the Beef Protocol for handling live cattle and beef. The parties agree that humane handling of CB cattle and processing the beef according to the Beef Protocol is essential for product quality, maintenance, and consumer credibility. Carcasses will be shipped to the PM Hartley facility for sub-primal fabrication. Middle meats will be shipped to Chicago for dry-aging, and from there to Newark/D'Artagnan and to the Richmond, VA, plant respectively. Non-middle meats will be shipped from Hartley to the PM Richmond facility for portioning, as required to service various CB markets.

Immediately after slaughter, PM will inspect the CB carcasses. Any deemed unfit for the CB program by PM shall be removed from the program and sold, obtaining the best price then available. PM will notify CB of the carcass/ear tag number of such animal(s) so that CB can recapture the premium paid to the producer.

4. Marketing. The parties agree that lead responsibility for sales areas is needed to assure efficient marketing efforts. PM will have lead responsibility for marketing to fresh meat markets and Corporate Gifting/Incentive markets. CB will have lead responsibility for marketing to Home List consumers and restaurants. In the sales areas where it is not the lead, PM and CB, respectively, commit to contribute their best efforts to support the organization with lead marketing responsibility.

The parties jointly, and with the active cooperation of The Nature Conservancy, will pursue the development of Corporate Gifting/Incentive clients as a top priority. The parties will make reasonable efforts to begin corporate solicitation in June 2001, and will work to complete this effort by October 1, 2001. The parties recognize that timely implementation of this effort is an essential ingredient to success. In addition, the parties understand that The Nature Conservancy and its Compatible Ventures Group is committed to provide its support in a timely manner to develop the Corporate Gifting/Incentive market. Toward that end, CB has with his concurrence budgeted for eighteen days of W. William Weeks' focused time in support of this element of market development.

PM warrants that: (a) it has insurance policies in force that include commercial general liability coverage and products liability coverage; and that (b) it will continue to maintain coverages throughout the term of the agreement. PM will provide CB with a copy of its certificate of insurance. While ownership of the trademark Conservation Beef® will remain with CB at all times, ownership of the cattle and beef products that are the subject of this agreement will transfer in accordance with section 2 herein.

5. Distribution. PM will be responsible for distribution of CB products to all customers and agrees to carry out its obligations according to the attached CB Order Fulfillment Protocol (Order Protocol) and in such a manner as to assure to the best of its ability timely delivery of CB products in excellent condition. Modifications to this Order Protocol, if mutually agreed upon, will be made in writing with copies retained by both parties. PM agrees to allow CB to review PM's compliance with this Order Protocol.

Before September 15 the parties will establish a fax or e-mail-based system to assure clear

communication regarding order placement and order fulfillment. The parties will take all necessary steps to assure mutual inventory control for all phases of the fabrication, processing, shipping and delivery process.

CB's Helena office will, beginning October 1, solicit by phone and/or mail retail (frozen) orders from its existing Home List. It will in a complete and timely fashion inform PM's Richmond plant of all orders, including corporate orders. The Richmond plant will fill these orders in a timely manner, fully implementing the Order Protocol. The parties agree that excellent presentation of the CB product, in all venues, is of paramount importance.

6. Financial Accounts. The parties will establish within PM a CB account, against which charges will be made for PM's costs of cattle processing and handling. No profit of any kind above costs will be included in these charges. PM will provide CB with detailed itemization of these costs, as well as the basis for their calculations.

PM will receive and retain in the CB account revenues from all wholesale CB product sales.

CB will receive and retain in a distinct joint venture account revenues from all direct mail (frozen) sales and its cash out, program and overhead costs as defined in Section 1.

The revenues in these accounts will be applied exclusively against the costs, and toward profit, if any, of both parties.

Each party will have the right to have conducted a complete and full audit of all records required to be kept pursuant to this agreement.

7. Revenue Allocation. Revenue from the sale of the CB products specified herein will be allocated in the following order: (a) simultaneous return of revenues to PM and CB based on cash out percentages; (b) return of revenues to PM equivalent to PM direct costs, including slaughter, fabrication and portioning, and shipping costs associated with delivery of CB products to the end consumer, and PM's overhead associated with the CB line; (c) return of revenues to CB for its direct sales and marketing costs, and overhead and program costs; and (d) revenue above costs, if any, will be allocated pro-rata based on the percentage of total investment by the parties.

The parties understand that any distribution of revenues above costs, both for this joint venture and a potential equity-based partnership, must meet legal standards avoiding private inurement/inappropriate use of charitable dollars for private gain. The parties agree that attorneys representing CB and The Nature Conservancy will be consulted on this point between the time of signing of this agreement and December 1, 2001, and that if modifications in the above allocation of profit *are* legally required, the parties will agree to so modify this provision.

8. Availability of Information. The parties agree to openly, without cost and in a timely manner provide/share all relevant financial, carcass, and other data/information in order to facilitate full disclosure, open communication, and trust.

9. Joint Control. The joint venture shall be jointly controlled by the parties whose role shall be equivalent to the board of directors of a corporation. The parties (or their duly designated representatives) shall meet or discuss from time to time issues affecting the joint venture. In the event the parties are unable to agree on an issue the matter shall be submitted to arbitration as provided herein.

10. Expiration, Re-Commitment, Withdrawal. It is the intent of the parties that this agreement shall continue in effect from its date of signing to March 1, 2003. At that time the parties, based on an assessment of the experience of the joint venture, intend to consider the formation of an equity-based partnership to further expand CB's market penetration. However, either party may withdraw from this agreement between March 1 and March 31, 2002, with thirty days notice, by notifying the other party by certified mail at the following addresses:

Conservation Beef, LLC
25 South Ewing Street, Suite 415
Helena, Montana 59601

PM Holdings, LLC
2095 Dabney Road
Richmond, Virginia 23230

11. Apportionment of Share of Loss. Should a loss be sustained as a result of the joint venture the parties shall bear such loss. In computing any such loss among the parties, deductions shall first be made to pay expenses in the same order as laid out in Section 7. Other unrecovered expenses are for the respective accounts of the two parties to this joint venture agreement.

11. Disputes. The parties intend to avoid major differences among themselves in the conduct of the joint venture. The parties intend that the contract terms shall control the parties' rights and obligations with respect to operations of the venture. But as matters not specifically controlled by the contract terms, the parties agree to submit their differences for determination and award to a mutually agreeable binding arbitrator, whose conduct and duties shall be governed by the laws of Montana.

12. Entire Instrument/Amendment. The entire agreement of the parties is contained in this instrument, and in the offer and acceptance. This instrument may not be modified or amended without the agreement of all the parties in writing.

13. Not a Partnership. The parties agree that this joint venture is not a partnership and shall not be governed by the partnership laws of any country or state.

14. This agreement shall be governed by the laws of Montana.

15. This agreement shall be binding upon the parties' respective assignees, heirs, successors, administrators, and executors, subject to the provisions of this agreement.

16. Effective Dates. This agreement shall be effective up signature of the parties and continue in effect until March 1, 2003, unless sooner terminated by mutual agreement of all the parties to this

agreement; or the death or incapacity of all the parties; or the impossibility of performance by all the parties.

17. Dissolution. Upon the termination of this contract as provided herein, the joint venture shall be dissolved and wound up in accordance with the law, and its profits distributed among the parties entitled to it or its losses paid by the parties liable for it, as provided for in this agreement.

In witness of the above, the parties have signed this agreement on the dates associated with their names.

_____	_____
Conservation Beef®, LLC	PM Holdings, LLC
By_____	By _____
Its_____	Its_____
_____	_____
Date	Date

Conservation Beef

Andrea -
P/S send
John $8,000.00
as per this agreement
ASAP.
Thks. Bill

Conservation Beef® Option/Purchase Agreement

Conservation Beef®, (buyer) and John Crumley, seller) agree to the following terms and conditions:

I. Buyer will have the option to buy from seller, in the fall of 2000, twenty yearling steers and/or heifers no younger than eighteen months and no older than twenty-six months, said steers/heifers now in possession of seller and having been calved by him from his home herd in 1999;

II. Seller warrants that said cattle:

1) have not as of the date of this agreement received nor will receive any growth hormones, antibiotics of any type, implants or otherwise;
2) will for the summer and fall of 2000 be fed exclusively on natural grass, unless approved in writing by Conservation Beef®;
3) will, at buyer's sole discretion and at seller's expense, be fed grain for a duration specified by buyer, prior to delivery to seller, but in no case fed in a commercial feedlot;
4) will be fed in a winter enclosure only to the extent approved by buyer;

III. Buyer and seller agree that success of Conservation Beef® is ultimately dependent on the delivery of a premium quality beef product to the customer, and further, that since seller's steers will comprise a substantial percentage of the year 2000 Conservation Beef® purchase, the quality of the cattle sold to buyer, and the meat derived from them, is of utmost importance. In view of these factors:

IV. Seller warrants that:

1) he will make consistent best effort to care for said cattle between the date of signing of this agreement and fall delivery;

CONSERVATION BEEF®
25 SOUTH EWING STREET #415
P. O. BOX 749 HELENA, MONTANA 59624
TELEPHONE 406.449.9480 / FAX 406.449.3015
EMAIL: ARTEMIS@MCN.NET WWW.CONSERVATIONBEEF.ORG

2) all cattle will be delivered to buyer in excellent health and excellent physical and high quality merchantable condition;
   a) buyer shall retain the exclusive right to determine, on inspection of said cattle prior to shipping, whether this condition has been met; buyer reserves the right to reject for purchase any steer/heifer which, in his opinion, does not meet these criteria; at buyer's sole discretion he may agree to accept substitute steers/heifers meeting the same management and care criteria specified herein.
   b) any of said steers/heifers receiving preventative antibiotics between date of signing and date of delivery will be appropriately marked and not included among those delivered to buyers; any which receive antibiotics of any type will be marked or otherwise identified, with the dates and nature of treatment recorded, as well as illness or condition treated and buyer supplied with all such records; buyer has sole discretion to accept or reject such animals.

V. In consideration of the above, buyer agrees to:

1) Pay seller the amount of four hundred dollars per steer/heifer, US, as a down payment, payable within 5 working days of the date of this agreement, said total down payment to be applied against the total amount payable if the purchase option is exercised;
2) Notify seller no later than July 1, 2000 whether buyer will exercise his option to purchase any or all of said cattle; if seller elects not to exercise the purchase option on one or more of the twenty cattle, buyer shall within thirty days refund to buyer, for each of the twenty animals on which the purchase option is not exercised, three hundred dollars ($300.00 US) of the initial down payment received from buyer, thus retaining one hundred dollars ($100.00) per animal. For any animals not purchased by buyer due to inadequate health, physical condition or treatment with antibiotics, the one hundred dollar retention shall not apply, and all of the down payment on those animals will be applied to the total balance due seller, if any.
3) Pay seller the balance due for each steer/heifer on which the purchase option has been exercised, the amount due per animal to be as follows:

a) For each steer/heifer which, after slaughter and three weeks dry-aging, meets or exceeds Conservation Beef's® shear-test requirements of 6.5 pounds pressure maximum, fifteen cents, US, above the price per pound for steer yearlings as determined by the Billings Stock Exchange one week prior to the date of delivery; at buyer's sole discretion the period of pre-shear-test dry-aging may be extended to four weeks; for each carcass where a second shear-test is required to meet or exceed the 6.5 pounds pressure maximum, buyer will deduct from the balance due seller the cost of said second shear-test, not to exceed seven dollars per test;

b) For each steer/heifer which, after slaughter and three weeks dry-aging, does not meet the above shear-test requirements, the same price per pound as determined by Billings Stock Exchange one week prior to the date of delivery;

c) Payment will be made as follows: The full then current market price, as described in 2(b), above, will be paid on delivery; the additional fifteen cents per pound due for animals passing the shear-test will be paid within five (5) working days of the shear-test results.

3) Accept as fulfillment of this agreement the maximum number of steer/heifer yearlings, up to twenty, delivered by seller and which meet the above standards;
4) Provide seller with carcass data concerning back fat, slaughter and carcass weight, shear-test results and other relevant information in order that improvements can be made over time in product quality and consistency;
5) Provide seller with notice as to whether said cattle will be required to be grass finished, or grain finished, no later than ninety days prior to the specified date of delivery;
6) Provide seller with notice of required date of delivery, no later than 90 days prior to date of delivery.

The parties agree that:

1) for twelve hours prior to delivery, that said steers shall not be given salt or water; further, that the cattle will not be fed for twenty-four hours prior to delivery; said steers will on the date of delivery be delivered for weighing by nine o'clock in the morning at mutually

Conservation Beef

I sent ~~I sent~~ a ?

Copy to KO 5/5 with ✓

Conservation Beef® Option/Purchase Agreement

Conservation Beef®, (buyer) and Karl Ohs, seller) agree to the following terms and conditions:

Buyer will have the option to buy from seller, in the fall of 2000, twenty yearling steers and/or heifers no younger than eighteen months and no older than twenty-six months, weighing between 1,000 and 1,200 lbs, said steers/heifers now in possession of seller and having been calved by him from his home herd in 1999, or having been purchased with certification as provided in II, below.

II. Seller warrants, and will provide notarized affidavits confirming, that said cattle:

1) have not as of the date of this agreement received nor will receive any growth hormones, preventative antibiotics, implants or otherwise, or fed any genetically-altered foods;
2) will between date of this agreement and delivery in fall, 2000, be fed exclusively on natural grass, unless approved in writing by Conservation Beef®;
3) will, at buyer's sole discretion, be fed grain for a duration and of a nature and in an amount as mutually agreed, prior to delivery to seller, but in no case fed in a commercial feedlot;
4) will be fed in a winter enclosure only to the extent approved by buyer;
5) if cattle have not been in his possession since calving, seller will provide buyer with notarized affidavit from the original seller certifying II, 1), above;

I. Buyer and seller agree that success of Conservation Beef® is ultimately dependent on the delivery of a premium quality beef product to the customer, and further, that since seller's cattle will comprise a substantial percentage of the year 2000 Conservation Beef® purchase, the quality of the cattle sold to buyer, and the meat derived from them, is of utmost importance. In view of these factors:

IV. Seller warrants that:

CONSERVATION BEEF®
25 SOUTH EWING STREET #415
P. O. BOX 748 HELENA, MONTANA 59624
TELEPHONE 406.449.9460 / FAX 406.449.3015
EMAIL: ARTEMIS@MCN.NET WWW.CONSERVATIONBEEF.ORG

1) he will make consistent best effort to care for said cattle between the date of signing of this agreement and delivery;
2) all cattle will be delivered to buyer in excellent health and excellent physical and high quality merchantable condition;
    a) buyer shall retain the exclusive right to determine, on inspection of said cattle prior to shipping, whether this condition has been met; buyer reserves the right to reject for purchase any steer/heifer which, in his opinion, does not meet these criteria; at buyer's sole discretion he may agree to accept substitute steers/heifers meeting the same management and care criteria specified herein.
    b) any of said steers/heifers which, prior to the date of this agreement, have received antibiotics for serious illness which might affect meat quality will be identified to buyer; animals receiving preventative antibiotics between date of signing and date of delivery will be appropriately marked and not included among those delivered to buyers; any cattle which, between the date of signing and date of delivery, receive antibiotics of any type will be marked or otherwise clearly identified, with the dates and nature of treatment recorded, as well as illness or condition treated and buyer supplied with all such records; buyer has sole discretion to accept or reject such animals.

V. In consideration of the above, buyer agrees to:

1) Pay seller the amount of two hundred dollars per steer/heifer, US, as a down payment, payable within 5 working days of the date of this agreement, said total down payment to be applied against the total amount payable if the purchase option is exercised;
2) Notify seller no later than August 1, 2000 whether buyer will exercise his option to purchase any or all of said cattle; if seller elects not to exercise the purchase option on one or more of the optioned cattle, seller shall within thirty days refund to buyer, for each of the animals on which the purchase option is not exercised, one hundred dollars of the initial down payment received from buyer, thus retaining one hundred dollars per animal. For any animals not purchased by buyer due

to inadequate health, physical condition or treatment with antibiotics, the $100 dollar retention shall not apply, and all of the down payment made on such animals will be applied against the total balance due seller, if any.

3) Pay seller the balance due for each steer/heifer on which the purchase option has been exercised, and which meet all buyer's specified criteria, the amount due per animal to be as follows:

   a) For each steer/heifer which, after slaughter and three weeks dry-aging, meets or exceeds Conservation Beef's® shear-test requirements of 6.5 pounds pressure maximum, fifteen cents, US, above the price per pound for steer yearlings or heifers (depending on sex of the animals supplied by Seller) as determined by the Billings Stock Exchange one week prior to the date of delivery; at buyer's sole discretion the period of pre-shear-test dry-aging may be extended to four weeks; for each carcass where a second shear-test is required to meet the 6.5 pounds pressure maximum, buyer will deduct from the balance due seller the cost of said second shear-test, not to exceed seven dollars per test;
   b) For each steer/heifer which, after slaughter and dry-aging, does not meet the above shear-test requirements, the same price per pound as determined by Billings Stock Exchange one week prior to the date of delivery;
   c) Payment will be made as follows: The full then current market price, as described in 2(b), above, will be paid on delivery, subtracting any down payment made; the additional fifteen cents per pound due for animals passing the shear-test will be paid within five (5) working days of the shear-test results.

VI. Accept as fulfillment of this agreement the maximum number of steer/heifer yearlings, up to twenty animals, delivered by seller and which meet the above standards;

VII. Provide seller with carcass data concerning back fat, slaughter and carcass weight, shear-test results and other relevant information in order that improvements can be made over time in product quality and consistency;

VIII. Provide seller with notice as to whether said cattle will be required to be grass finished, or grain finished, no

later than ninety days prior to the specified date of delivery;

IX. Provide seller with notice of required date of delivery, no later than 90 days prior to date of delivery.

The parties agree that:

X. For twelve hours prior to delivery, that said steers shall not be given salt or water; further, that the cattle will not be fed for twenty-four hours prior to delivery; said steers will on the date of delivery be delivered for weighing by nine o'clock in the morning at mutually agreeable livestock scales, seller to bear trucking cost to scales, if any; until delivery to and acceptance by buyer, said cattle shall be the property of seller, who will retain all rights and liability of ownership, limited only by the obligations of this agreement; in the event that the total payment due seller for yearlings delivered is less than the down payment received, seller will refund to buyer within twenty working days of delivery the balance so due.

XI. Security Interest: To secure the payment and performance of the above liabilities and obligations, buyer hereby receives a security interest, subordinate and second to no other, in the cattle deliverable under this agreement, wherever the cattle are or may be located, and all proceeds and products from these cattle. Seller warrants there are no other or prior security interests held by any third party on the cattle which are subject of this agreement.

XII. 1) Introductory Stewardship Plan: Conservation Beef ® requires that for the first year following initial supply of cattle to Conservation Beef®, an introductory Stewardship Plan must be in place and operating on the ranch of the cattle supplier. Therefore, seller will provide to Conservation Beef® a copy of the proposed Stewardship Plan no later than July 1, 2000; if seller desires, Conservation Beef® staff will assist in preparation of said plan. Conservation Beef® will review said Plan and notify seller as to its acceptability within thirty days of receipt. Notwithstanding the payment provisions above, payment due on delivery of cattle will not be made unless seller's introductory Stewardship Plan has been submitted and approved by Conservation Beef®.

2) For second year participation in Conservation Beef®, a full Stewardship Plan is required; if desired by seller, Conservation Beef® staff will assist in development of said plan. To be operative, said Plan must be reviewed and approved by both the local watershed collaborative rancher

group and Conservation Beef's® Stewardship Review Panel. Said Plan must be submitted for review no later than June 1 of the second participating year. Approval of the Plan is required prior to payment (due on delivery) being tendered for cattle. If the plan is not submitted by seller, or not approved as prescribed above, seller's cattle will not be purchased by buyer, and the full down payment made will be refunded to buyer.

Seller _____ Date 5/2/00

Buyer _____ Date 5-5-00

Conservation Beef® Option/Purchase Agreement

Conservation Beef®, (buyer) and Sun Ranch, LLC, (seller) agree to the following terms and conditions:

Buyer will have the option to buy from seller, in the fall of 2000, 160 yearling steers no younger than eighteen months and no older than twenty-six months, weighing between 1,000 and 1,250 lbs, said steers now in possession of seller and purchased with certification as provided in II, below.

II. Seller warrants, and will provide producer affidavits confirming, that said cattle:

1) have not as of the date of this agreement received nor will receive any growth hormones, preventative antibiotics, implants, or fed any genetically-altered foods;
2) will between date of this agreement and delivery in fall, 2000, be fed exclusively on natural grass, unless other feeding methods are approved in writing by Conservation Beef®;
3) may, at buyer's sole discretion, be fed supplemental feed for a duration and of a nature and in an amount as mutually agreed, prior to delivery to seller, but in no case fed in a commercial feedlot; the cost of supplemental feed will be included in the purchase price of the cattle as described in V. 3) a) below;
4) will be fed in a winter enclosure only to the extent mutually agreeable to seller and buyer;
5) if cattle have not been in his possession since calving, seller will provide buyer with a producer affidavit from the original seller, certifying II, 1), above, and in addition, if available, include a history of each/any animal having required medical treatment or which has received any antibiotics of any kind; and each such animal will be visibly and clearly identified.

I. Buyer and seller agree that success of Conservation Beef® is ultimately dependent on the delivery of a premium quality beef product to the customer, and further, that since seller's cattle will comprise a substantial percentage of the year 2000 Conservation Beef® purchase, the quality of the cattle sold to

buyer, and the meat derived from them, is of utmost importance. In view of these factors:

IV. Seller warrants that:

1) he will make consistent best effort to care for said cattle between the date of signing of this agreement and delivery;
2) all cattle will be delivered to buyer in excellent health and physical condition;
    a) buyer shall retain the exclusive right to determine, on inspection of said cattle prior to shipping, whether this condition has been met; buyer reserves the right to reject for purchase any steer which in his opinion, does not meet these criteria; at buyer's sole discretion he may agree to accept substitute steers from seller meeting the same management and care criteria specified herein.
    b) any of said steers in possession of seller which, prior to the date of this agreement, have received antibiotics will be identified to buyer; animals receiving preventative antibiotics between date of signing and date of delivery will be appropriately marked; any cattle which, between the date of signing and date of delivery, receive antibiotics of any type will be marked or otherwise clearly identified, with the dates and nature of treatment recorded, as well as illness or condition treated and buyer supplied with all such records. Buyer has sole discretion to accept or reject any such animals.

V. In consideration of the above, buyer agrees to:

1) Pay seller the amount of $50.00 dollars per steer, US, for 160 steers, as a down payment, payable within 5 working days of the date of this agreement, said total down payment to be applied against the total amount payable if the purchase option is exercised.
2) If buyer elects to reject 1 or more of the contracted cattle, the per head down payment of $50.00 will be retained by seller and applied against the final purchase price at the time of final delivery should delivery be at more than one time.

3) Pay seller the balance due for each steer on which the purchase option has been exercised, and which meet all buyer's specified criteria, the amount due per animal to be as follows:

a) For each steer which, after slaughter and three weeks dry-aging, meets or exceeds Conservation Beef's® shear-test requirements of 6.5 pounds pressure maximum, pay seller six cents, US, above the price per pound for steer yearlings as determined by the seller's average investment price including the cost of the steer, freight to Sun Ranch from ranch of purchase, pasture (at $50 per head for full Sun Ranch grazing season), brand inspection at $2 per head. All costs will be documented and presented to buyer prior to final settlement. Buyer and seller understand that the price to be paid for steers by buyer will vary, based on difference in Seller's cost of purchase and freight for different groups of yearling steers purchased by Seller for Sun Ranch grazing/finishing. Seller's cost calculations will be based on the average per head purchase price of each of three yearling groups purchased, plus the average per head freight costs for each group.

At buyer's sole discretion the period of pre-shear-test dry-aging may be extended to four weeks; for each carcass where a second shear-test is required to meet the 6.5 pounds pressure maximum, buyer will deduct from the balance due seller the cost of said second shear-test, not to exceed seven dollars per test.

b) For each steer which, after slaughter and dry-aging, does not meet the above shear-test requirements, the same price per pound as determined by the sales average in V. 3) a) above closest to the date of delivery.

c) Payment will be made as follows: The full then production cost, as described in V. 3)a), above, will be paid on delivery, subtracting any down payment made; the additional six cents per pound due for animals passing the shear-test will be paid within five (5) working days of the shear-test results.

d) After sale incidental costs:
   1) Seller will pay for the additional incidental costs of pasture and/or hay feeding for any cattle that do not meet buyer's criteria at the

end of the Sun Ranch grazing season and that seller and buyer agree will likely finish adequately with additional time;

2) Buyer will pay seller for any shipping or other mutually agreed upon expenses incurred by seller after sale of said steers to buyer;

VI. Accept as fulfillment of this agreement the maximum number of steer yearlings, up to 160 animals, delivered by seller and which meet the above standards;

VII. Provide seller with carcass data concerning back fat, slaughter and carcass weight, shear-test results and other relevant information in order that improvements can be made over time in product quality and consistency;

VIII. Provide seller with notice as to whether said cattle will be required to be grass finished, or supplement finished, no later than ninety days prior to the specified date of delivery;

The parties agree that:

IX. Ownership of cattle, and all rights, responsibilities and liabilities arising therefrom, will change from seller to buyer at the time the steer's State of Montana brand inspection certificate transfer of ownership has been completed after said steer has been weighed on certified scale and been determined by buyer or buyer's representative to meet all buyer's criteria.

X. For twelve hours prior to delivery, that said steers shall not be given feed, water, or salt; said steers will on the date of delivery be delivered for weighing by seven o'clock in the morning at the Sun Ranch, LLC certified scales on highway 287 N. Cameron, Montana. Until buyer accepts said steers, said cattle shall be the property of seller, who will retain all rights and liability of ownership, limited only by the obligations of this agreement.

XI. 1) Introductory Stewardship Plan: Conservation Beef ® requires that for the first year following initial supply of cattle to Conservation Beef®, an introductory Stewardship Plan must be in place and operating on the ranch of the cattle supplier. Therefore, seller will provide to Conservation Beef® a copy of the proposed Stewardship Plan no later than September 1, 2000; if seller desires, Conservation Beef® staff will assist in preparation of said

plan. Conservation Beef® will review said Plan and notify seller as to its acceptability within thirty days of receipt. Notwithstanding the payment provisions above, payment due on delivery of cattle will not be made unless seller's introductory Stewardship Plan has been submitted and approved by Conservation Beef® unless prior arrangement have been agreed to by buyer and seller.

2) For second year participation in Conservation Beef®, a full Stewardship Plan is required; if desired by seller, Conservation Beef® staff will assist in development of said plan. To be operative, said Plan must be reviewed and approved by both the local watershed collaborative rancher group and Conservation Beef's® Stewardship Review Panel. Said Plan must be submitted for review no later than June 1 of the second participating year. Approval of the Plan is required prior to payment (due on delivery) being tendered for cattle. If the plan is not submitted by seller, or not approved as prescribed above, seller's cattle will not be purchased by buyer, and ~~the~~ full down payment made will be refunded to buyer.

Seller 9-18-00
Date

Buyer 9-18-00
Date

4/01

Conservation Beef® Purchase Agreement

Conservation Beef®, (buyer) and John Crumley, (seller) agree to the following terms and conditions:

Buyer has by the terms of this agreement contracted to buy from seller, in the fall of 2001, ninety (90) steer calves to be delivered at a weight averaging not less than 575 pounds, said steers now in possession of seller and having been calved by him from his home herd in 2000.

Seller warrants, and will provide affidavits confirming, that said cattle:

1) have not as of the date of this agreement received nor will receive any growth hormones, antibiotics, implants or otherwise, or fed any genetically-altered foods;
2) will between date of this agreement and delivery in fall, 2000, be fed exclusively on natural grass, unless approved in writing by Conservation Beef®;
3) may, at buyer's sole discretion, be fed supplemental feed for a duration and of a nature and in an amount as mutually agreed, prior to delivery to seller, but in no case fed in a commercial feedlot;
4) any said animals that require medical treatment between the date of signing and date of delivery will be accurately and visibly marked or the information otherwise recorded, and this information provided to buyer. If any of said animals require treatment with antibiotics, they will become ineligible for Conservation Beef® and will be excluded from delivery to CB.

Buyer and seller agree that success of Conservation Beef® is ultimately dependent on the delivery of a premium quality beef product to the customer, and further, that since seller's cattle will comprise a substantial percentage of the year 2001-2 Conservation Beef® purchase, the quality of the cattle sold to buyer, and the meat derived from them, is of utmost importance. In view of these factors:

Seller warrants that:

1) he will make consistent best effort to care for said cattle between the date of signing of this agreement and delivery; delivery will be oct 25th to nov 5th and
2) all cattle will be delivered to buyer in excellent health and excellent physical and high quality merchantable condition;
    a) buyer shall retain the exclusive right to determine, on inspection of said cattle prior to shipping, whether this condition has been met; buyer reserves the right to reject for purchase any animal which, in his opinion, does not meet these criteria; at buyer's sole discretion he may agree to accept substitute steers/heifers meeting the same management and care criteria specified herein.

In consideration of the above, buyer agrees to:

1) Pay seller the amount of thirty dollars ($30) per steer, as a down payment, payable within 10 working days of the date of this agreement, said total down payment to be applied against the total amount payable on fall delivery;
2) For any animals not purchased by buyer due to inadequate health, physical condition or treatment with antibiotics, all of the down payment made on such animals will be applied against the total balance due seller, if any.
3) Pay seller the balance due for each steer and which meet all buyer's specified criteria, the amount due per animal to be as follows:

    a) For each steer, ten cents per pound above the price obtained at the specified June 26 video auction for comparable cattle, this was $1.055 for a total of $1.155/ lb.

Buyer agrees to accept as fulfillment of this agreement a maximum of ninety steer calves, delivered by seller and which meet the above standards;

Buyer will provide seller with carcass data concerning back fat, slaughter and carcass weight, shear-test results as available and other relevant information in order that improvements can be made over time in product quality and consistency;

The parties agree that:
There will be three family brands On the cattle; seller will select the best 90 head out of 150 head of steer calves. Bill of sale and health certificates will be given to the buyer at time of weighing in exchange for payment.

On the morning of weighing, the calves will be gathered ASAP, sorted, sexed, loaded, and hauled 7 miles to the scales , unloaded and weighed on the ground straight. Cattle will be worked approximately 2 hrs before they reach the scales. The cattle will be taken back and weaned and fed for two weeks at Crumley ranch. CB will take possession at this time yardage and feed costs will be charged after the two week period, until delivery.

Security Interest: To secure the payment and performance of the above liabilities and obligations, buyer hereby receives a security interest, subordinate and second to no other, in the cattle deliverable under this agreement, wherever the cattle are or may be located, and all proceeds and products from these cattle. Seller warrants there are no other or prior security interests held by any third party on the cattle which are subject of this agreement.

Stewardship Plan: Conservation Beef ® requires that for the second year of supply of cattle to Conservation Beef®, a Stewardship Plan, including seller's selection from among the CB long-term conservation alternatives, must be in place and operating on the ranch of the cattle supplier. Therefore, seller will provide to Conservation Beef® a copy of the proposed Stewardship Plan no later than October 1, 2000; if seller desires, Conservation Beef® staff will assist in preparation of said plan. Conservation Beef® will review said Plan and notify seller as to its acceptability within thirty days of receipt. Notwithstanding the payment provisions above, if the plan is not submitted by seller, or not approved as prescribed above, seller's cattle will not be purchased by buyer, and the full down payment made will be refunded to buyer.

Seller — Date: 8-30-01

Buyer — Date: 9-10-01

Conservation Beef Purchase Agreement

Conservation Beef (buyer) and Sun Ranch, LLC (seller) hereby agree to the following terms and conditions:

Buyer agrees to buy from seller, in the fall of 2001, up to 385 yearling cattle no younger than twenty months of age, or more than twenty eight months of age, weighing between 1,125 pounds and 1,425 pounds. Said cattle are now in the possession of seller and are being purchased with certain certifications as provided in I below.

I. Seller warrants and will provide affidavits confirming that the cattle buyer purchases:

1) have not as of the date of this agreement, and while in seller's possession, received nor will receive any growth hormones, implants, preventative antibiotics, or, fed any genetically altered foods.

2) since arrival on the Sun Ranch, all cattle have been fed exclusively on natural grass and supplemented with not more than 6 pounds per head per day of the Wheat Montana, chemical free, wheat/alfalfa pellet and fed under free range conditions. All cattle purchased by buyer will continue to be so fed until the day of shipment.

3) if the cattle buyer purchases have not been in the possession of seller since calving, seller will provide buyer with a producer affidavit from the original owner, certifying that his/her cattle have not received any implants or artificial hormones. Original owner will also certify, if possible, that his/her cattle have not received any antibiotics in any form. Any cattle that have received antibiotic treatment during seller's ownership will not be a part of this contract and will be removed from any cattle presented to buyer for purchase.

II. Seller warrants that he has communicated with the original producer or his/her representative and all cattle purchased by buyer meet free range criteria throughout their lives, said criteria allowing temporary enclosure when cattle are weaned.

III. Buyer and seller mutually agree that the success of Conservation Beef is ultimately dependent on the delivery of a premium quality beef product to the customer. Further, since seller's cattle will comprise a substantial percentage of the year 2001 Conservation Beef purchases, the quality of the cattle sold to buyer and the meat derived from them is of utmost importance.

25 South Ewing Street #414 • P. O. Box 748 • Helena, Montana 59624 • 406.495.6653 • Fax 406.449.3015 • www.conservationbeef.org

IV. In view of the factors described in I above, seller warrants that:

1) he will make consistent best effort to care for said cattle in a consistently humane manner between the date of the animals arriving on the Sun Ranch and delivery to buyer.

2) all cattle will be delivered to buyer in excellent health and physical condition. Each group of cattle sold to buyer and shipped to PM Beef will receive a health inspection performed by a Montana licensed veterinarian.

   a) buyer shall retain the exclusive right to determine, on inspection of said cattle prior to shipping, whether this condition has been met; buyer reserves the right to reject for purchase any animal which in his opinion, does not meet these criteria; at buyer's sole discretion he may agree to accept substitute animals from seller meeting the same management and care criteria specified herein.

   b) buyer shall retain the right to approve or reject animals as meeting CB's quality standards for up to 24 hours after USDA grading. Animals rejected by CB due to inadequate fat cover, and/or grade less than USDA Select grade, will be recorded by carcass ID number and the buyer will be so notified. Such animals will be paid for at a rate described in V., below. If a higher price has already been paid, it will be either refunded by seller or deducted from the next buyer payment to seller.

V. In consideration of the above, and provided seller has met the Conservation Beef® Stewardship Guidelines land management and long-term conservation requirements as summarized below, buyer agrees to:

1) pay seller for each animal that meets all of buyer's specified criteria. Animals rejected for marketing under the CB label due to condemnation or do not meet the above criteria, will be recorded by carcass ID number and the buyer will be so notified. Such animals will not be eligible for the CB price premium, and will be paid for at the price received by CB from PM, based on the commodity value for the day of delivery. For animals grading Standard, and determined by buyer as qualifying for partial use of the carcass for CB marketing, payment will be sixty-nine cents ($0.69) per pound, without any additional premium. If a payment above this amount has already been paid it will be deducted from next buyer payment to seller, and clearly so indicated by invoice.
2) animals that grade Select or above will be paid for at eighty-three and seventy-five hundredths of a cent per pound ($.8375) six cents, US, for two year old cattle, and eighty-five cents for up to twenty two-and-a-half year-old cattle, yearlings that were held over from 2000.

3) payment to seller will be due within five business days of receiving the shipping invoice.
4) in the event that the Sun Ranch has not entered into a legally binding long-term conservation agreement as outlined under the provisions of CB's Stewardship Guidelines, but has submitted in good faith to CB a written letter of intent to do so, CB will make a payment on shipment of seventy cents ($.70) per pound, US, for cattle shipped. Buyer will retain the balance of thirteen and seventy-five hundredths cents ($.1375) for Select and above yearlings and fifteen cents ($.15) per pound for such "two year-olds", minus any unpaid refund due buyer from seller for animals deemed unacceptable after USDA grading, and Standard Grade cattle. Said balance will be placed in a designated, separate and interest-bearing CB account, until such time as a legally binding long-term conservation commitment has been consummated that is acceptable to CB. Buyer will within five business days of receiving written confirmation of such conservation commitment pay to seller the premium withheld, including all interest accrued.

VI. Accept as fulfillment of this agreement the maximum number of cattle, up to 385 delivered by seller, and which meet the above standards.

VII. Provide seller with carcass data concerning back fat, slaughter and carcass weight, and other relevant information in order that improvements can be made over time in product quality and consistency.

The parties agree that:

VIII. Ownership of cattle, and all rights, responsibilities and liabilities arising therefrom, will change from seller to buyer at the time the cattle receive their State of Montana brand inspection certificate transferring ownership and the cattle have been weighed on a certified scale and have been determined by buyer or buyer's representative to meet all buyer's criteria. At this time, seller will include with each shipment his written certification regarding eligibility of each and every animal shipped to meet the artificial hormone, free range, and, grass-fed standards as described above. Seller will further certify animals that meet USDA "no antibiotics used" . Seller will make every reasonable effort to ship animals that are certified antibiotic free in separate trucks from the other animals. Where this is not feasible, antibiotic free animals will be fully segregated within the truck/trailer, and written documentation will describe clearly which cattle are antibiotic free and where they are located in the truck. Driver will be instructed by seller to assist CB's representative at the delivery point to assure continued segregation of the antibiotic free cattle from other cattle.

IX. To minimize stress during shipment, animals will be fed a mixture of hay and pellets within 12 hours of weighing and loading, have water available until time of weighing, and given a 4% pencil shrink. They will be weighed by 7 A.M. at the Sun Ranch, LLC certified scales on highway 287 N, Cameron, Montana. Until buyer accepts said cattle, they will remain the property of seller who will retain all rights and liability of ownership, limited only by the obligations of this agreement.

X. Conservation Beef requires that for the second year following initial supply of cattle to Conservation Beef, an approved Stewardship Plan must be in place and operating on the ranch of the cattle supplier. Therefore, seller will provide to Conservation Beef a copy of the proposed Stewardship Plan no later than November 1, 2001. To be operative, said Plan must be reviewed and approved by both the local watershed collaborative rancher group and Conservation Beef's Stewardship Panel. Approval of the Plan is required prior to the full CB payment being tendered for cattle, on the same terms as in III, above.

Sun Ranch, LLC

Seller — Date: Oct. 15, 2001

Buyer — Date: 10/15/2001

APPENDIX T

DOCUMENTS RELATING TO FOREST BANK, LLC

Delaware

The First State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF CANCELLATION OF "THE FOREST BANK , LLC", FILED IN THIS OFFICE ON THE SIXTH DAY OF NOVEMBER, A.D. 2002, AT 9 O'CLOCK A.M.

Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

3345011 8100

020702264

AUTHENTICATION: 2090432

DATE: 11-14-02

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 09:00 AM 11/06/2002
020702264 - 3345011

Certificate of Cancellation

of

The Forest Bank, LLC

It is hereby certified that:

1. The name of the limited liability company (hereinafter called the "limited liability company") is The Forest Bank, LLC.

2. The date of filing of the certificate of formation of the limited liability company in the Office of the Secretary of State of the State of Delaware was January 17, 2001.

3. The reason for filing this certificate of cancellation is:

The dissolution and the completion of winding up of the limited liability company.

The effective time of the cancellation herein certified shall be the date and time of the filing hereof.

Executed on October 28, 2002.

George W. Barlow, III, Secretary/Authorized Person

DE LLD-CERTIFICATE OF CANCELLATION 01/98-1 (#3049)

State of Delaware

Office of the Secretary of State

I, HARRIET SMITH WINDSOR, SECRETARY OF STATE OF THE STATE OF DELAWARE, DO HEREBY CERTIFY THE ATTACHED IS A TRUE AND CORRECT COPY OF THE CERTIFICATE OF FORMATION OF "THE FOREST BANK, LLC", FILED IN THIS OFFICE ON THE SEVENTEENTH DAY OF JANUARY, A.D. 2001, AT 9 O'CLOCK A.M.

Harriet Smith Windsor

Harriet Smith Windsor, Secretary of State

3345011 8100

010330106

AUTHENTICATION: 1245727

DATE: 07-16-01

CERTIFICATE OF FORMATION

OF

THE FOREST BANK, LLC

1. The name of the limited liability company is The Forest Bank, LLC.

2. The address of its registered office in the State of Delaware is Corporation Service Company, 2711 Centerville Road, Suite 400, County of New Castle, City of Wilmington, Delaware, 19808. The name of its registered agent at such address is Corporation Service Company.

3. This Certificate of formation shall be effective upon filing.

IN WITNESS WHEREOF, the undersigned has executed this Certificate of Formation of The Forest Bank, LLC this 17th day of January, 2001.

By: _____
James S. Seevers, Jr.
Authorized Person
Organizer

STATE OF DELAWARE
SECRETARY OF STATE
DIVISION OF CORPORATIONS
FILED 09:00 AM 01/17/2001
010027694 - 3345011

Exhibit 3.2

AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT

OF

THE FOREST BANK, LLC,
a Delaware limited liability company

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AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT OF THE FOREST BANK, LLC

This AMENDED AND RESTATED LIMITED LIABILITY COMPANY AGREEMENT of The Forest Bank, LLC is entered into this ___ day of _____, 2001, by and among The Nature Conservancy, a District of Columbia non-profit corporation ("TNC"), and the other Members pursuant to the terms hereof. Capitalized terms used herein shall have the meanings assigned to them in Article XIII.

WHEREAS, effective as of January 17, 2001, TNC, as the sole Member of the LLC, executed a limited liability company agreement for the LLC (the "Original Agreement"); and

WHEREAS, the Members now desire to amend and restate the Original Agreement in connection with the LLC's issuance of class A membership units.

NOW THEREFORE, in consideration of the mutual covenants, conditions, agreements, promises and obligations set forth in this Agreement, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Members agree as follows:

ARTICLE I

THE LLC

1.1. Organization. The Members hereby agree to form a limited liability company pursuant to the provisions of the Act and upon the terms and conditions set forth in this Agreement.

1.2. LLC Name. The name of the limited liability company formed hereby shall be "The Forest Bank, LLC" and all business of the LLC shall be conducted in such name or such other name as the Board of Managers shall determine. The LLC shall hold all of its property in the name of the LLC and not in the name of any Manager or any Member.

1.3. Purpose. The purpose and business of the LLC shall be:

(a) to conserve forest land to maintain ecological features and natural processes;

(b) to manage such lands, forests and associated resources to provide economic and financial benefits to the Members;

(c) to allow owners of forest land the opportunity to participate in the purposes set forth in clauses (a) and (b); and

(d) to do any and all acts and things which may be necessary or incidental to the foregoing or the promotion or conduct of the business of the LLC or any of the Property.

It is understood that the foregoing statement of purposes shall not serve as a limitation on the powers or abilities of the LLC, which shall be permitted to engage in any and all lawful business activities; provided, however, that if there is a conflict among Sections 1.3(a), (b), (c) and/or (d), Section 1.3(a) shall control.

1.4. Powers. The LLC shall possess and may exercise all the powers and privileges granted by the Act, all other applicable law or by this Agreement, together with any powers incidental thereto, so far as such powers and privileges are necessary or convenient to the conduct, promotion and attainment of the business, purposes or activities of the LLC; provided, however, that the LLC shall not transfer or otherwise dispose of the Timber Rights contributed to it by the Preferred Members other than in connection with the dissolution and liquidation of the LLC.

1.5. Principal Place of Business. The principal place of business of the LLC shall be 146 East Main Street, Abingdon, Virginia 24210 or such other location as may be designated by the Manager from time to time.

1.6. Term. The term of the LLC shall be perpetual unless and until the LLC is dissolved pursuant to the Act or as set forth herein. The existence of the LLC as a separate legal entity shall continue until cancellation of the Formation Certificate in the manner required by the Act.

1.7. Filings; Agent for Service of Process.

(a) The Formation Certificate has been filed in the office of the Secretary of State of the State of Delaware on January 17, 2001 in accordance with the provisions of the Act. The Board shall take any and all other actions reasonably necessary to perfect and maintain the status of the LLC under the laws of the State of Delaware. The Board shall cause amendments to the Formation Certificate to be filed whenever required by the Act. Such amendments shall be executed by the Board.

(b) The Members hereby ratify and adopt the Formation Certificate filed with the Secretary of State of the State of Delaware and all actions taken by James S. Seevers, Jr. in connection with the preparation and filing of the Formation Certificate.

(c) The registered agent for service of process on the LLC in the State of Delaware, and the address of such agent, shall initially be CT Corporation System, 1209 Orange Street, Wilmington, Delaware 19801. The Board, in its sole and absolute discretion, may change the registered agent and appoint successor registered agents.

(d) Upon the dissolution of the LLC, the Board (or, in the event there are no members of the Board, the Person responsible for winding up and dissolution of the LLC pursuant to Article XI hereof), shall promptly execute and cause to be filed articles of dissolution in

accordance with the Act and the laws of any other states or jurisdictions in which the LLC has registered to transact business or otherwise filed articles.

1.8. Not for Profit - Manager Duties. The LLC shall be operated to advance the purpose stated in Section 1.3 without regard to whether such purpose, or the activities of the LLC to achieve such purpose, earn a profit for the LLC or its Members. The initial Class M Member is a not-for-profit corporation. The Members understand and acknowledge the foregoing and agree that notwithstanding anything herein (express or implied):

(a) the initial Class M Member (and any successor Class M Member which may also be a tax-exempt entity pursuant to Code Section 501(c)) and its designees on the Board shall not be required to manage the LLC or do any other thing inconsistent with its purposes and its status as a tax-exempt, not-for-profit organization; and

(b) the rights and property of the LLC, including without limitation those rights granted to the LLC under the Forest Bank Management and Conservation Easements and the Forest Bank Management Easements, shall be operated, administered and employed in a manner consistent with the purposes set forth in Section 1.3, without regard to whether operation, administration or employment in a different manner might yield a greater monetary return to the LLC or to the Members.

1.9. Reservation of Other Business Opportunities. No business opportunities of any Member or Manager shall be deemed the property of the LLC, and each such Member or Manager may engage in or possess an interest in any other business venture, independently or with others, of any nature or description; and neither any other Member nor the LLC shall have any rights by virtue hereof in and to such other business ventures, or to the income or profits derived therefrom. Each of the Members acknowledges that the Class M Member, in and for itself and as general partner of or otherwise pursuant to other entities, now is and hereafter will be conducting business and otherwise engaged in activities similar or competitive to the business or activities of the LLC, and that no such activity shall be a breach or violation of this agreement or any fiduciary duty of the Class M Member or of the Managers. Each Member further acknowledges and agrees that the Board and the Class M Member have no duty or obligation to present any activity or business opportunity to the LLC and may conduct any activity or business opportunity in its individual capacity or through any other entity.

ARTICLE II

CAPITAL CONTRIBUTIONS; ADDITIONAL FINANCING AND CONTRIBUTIONS

2.1. Initial Capitalization. On January 17, 2001 in consideration for a cash Capital Contribution of $500,000, the provision of certain management services pursuant to the Management Agreement attached hereto as Exhibit G, and the covenants made by TNC herein and therein, the LLC issued and delivered 1,500,000 Class M Units to TNC. The Members agree that the fair market value of TNC's initial Capital Contributions shall be $1,250,000.

2.2. Issuance of Preferred Units. Upon execution and delivery by a Person of (a) a Forest Bank Management Easement or a Forest Bank Management and Conservation Easement (including any and all documents as may be required to file such documents and give such documents effect), (b) a Subscription Agreement and (c) this Agreement, the LLC shall (x) issue Preferred Units of the class and in the number set forth in the Subscription Agreement to such Person, as evidenced by delivery of an appropriate Certificate to such Person, (y) admit such Person as a Member and (z) revise the Unit Record hereto to reflect the admission of such Person as a Member and the issuance of such Preferred Units to such Member.

2.3. Additional Financing.

(a) The sums of money required to finance the business and affairs of the LLC shall be derived from the Capital Contributions made by the Members to the LLC (and the proceeds from the management thereof), funds generated from the operation and the business of the LLC, any loans or other indebtedness which the Class M Member may make pursuant to Section 2.5.

(b) No Preferred Member shall be required to make additional Capital Contributions.

(c) No Preferred Member may make additional Capital Contributions except upon the approval of the Board.

2.4. Mandatory Additional Capital Contributions. If at any time the LLC does not have (i) sufficient funds to fulfill its obligation to redeem Units pursuant to Section 10.3, (ii) Available Cash Flow to fulfill its obligations to pay the Preferred Return pursuant to Section 4.1 or (iii) sufficient funds, in the judgment of the Board, to conduct its operations, then, within ten days of receipt of a written request from the Board, the Class M Member shall make additional Capital Contributions to the LLC; provided, however, that the Class M Member's obligation to make additional Capital Contributions pursuant to this Section 2.4 is limited, in the aggregate, to $250,000.

2.5. Optional Capital Contributions and Loans. If at any time the LLC does not have (i) sufficient funds to fulfill its obligation to redeem Units pursuant to Section 10.3, (ii) Available Cash Flow to fulfill its obligations to pay the Preferred Return pursuant to Section 4.1 or (iii) sufficient funds, in the judgment of the Board, to conduct its operations, then the Class M Member has the option, but is not required, to (i) purchase additional Class M Units for cash equal to $1.00 per unit; (ii) purchase Class A-1 Units for $1.00 per unit, or (iii) loan cash to the LLC pursuant to a Promissory Note.

2.6. Transfer of the Timber Rights. The LLC shall not transfer any Timber Rights contributed as part of a Capital Contribution to any party other than (a) the original contributor of such Timber Rights, or (b) in connection with the dissolution and winding up of the LLC as provided in Article XI hereof.

2.7. Other Matters. Except as otherwise provided in this Agreement, no Member shall demand or receive a return of its Capital Contributions from the LLC without the consent of the

Board. Under circumstances requiring a return of any Capital Contributions, no Member shall have the right to receive property other than cash except as may be specifically provided herein.

(b) No Member shall receive any interest, salary or drawing with respect to its Capital Contributions or its Capital Account or for services rendered on behalf of the LLC or otherwise in its capacity as a Member, except as otherwise provided in this Agreement or with the consent of the Board.

ARTICLE III

ALLOCATIONS

3.1. Profits. After giving effect to the special allocations set forth in Section 3.3 and Section 3.4, Profits for any Allocation Year shall be allocated in the following order and priority:

(a) First, to the Members holding Preferred Units, pro rata, in proportion to the relative amounts to be allocated under this Section 3.1(a), such that each Member holding Preferred Units will have been allocated cumulative items of Profit through the end of such Allocation Year equal to the aggregate amounts to be distributed to such Member pursuant to Section 4.1(a); and

(b) The balance, if any, to the Members, pro rata, in proportion to the relative number of Units held by each such Member.

3.2. Losses. After giving effect to the special allocations set forth in Section 3.3 and Section 3.4, Losses for any Allocation Year shall be allocated as set forth in Section 3.2(a), subject to the limitation in Section 3.2(b).

(a) Losses for any Allocation Year shall be allocated in to the Members, pro rata, in proportion to the relative number of Units held by each such Member.

(b) The Losses allocated pursuant to Section 3.2(a) shall not exceed the maximum amount of Losses that can be so allocated without causing any Member to have an Adjusted Capital Account Deficit at the end of any Allocation Year. In the event some but not all of the Members would have Adjusted Capital Account Deficits as a consequence of an allocation of Losses pursuant to Section 3.2(a), the limitation set forth in this Section 3.2(b) shall be applied on a Member by Member basis so as to allocate the maximum permissible Losses to each Member under Section 1.704-1(b)(2)(ii)(d) of the Regulations. All Losses in excess of the limitations set forth in this Section 3.2(b) shall be allocated to the Class M Member.

3.3. Special Allocations. The following special allocations shall be made in the following order:

(a) Minimum Gain Chargeback. Except as otherwise provided in Section 1.704-2(f) of the Regulations, notwithstanding any other provision of this Article III, if there is a net decrease in Member Minimum Gain during any Allocation Year, each Member shall be specially allocated items of LLC income and gain for such Allocation Year (and, if necessary, subsequent

Allocation Years) in an amount equal to such Person's share of the net decrease in Member Minimum Gain, determined in accordance with Section 1.704-2(g) of the Regulations. Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. The items to be so allocated shall be determined in accordance with Sections 1.704-2(f)(6) and 1.704-2(j)(2) of the Regulations. This Section 3.3(a) is intended to comply with the minimum gain chargeback requirement in Section 1.704-2(f) of the Regulations and shall be interpreted consistently therewith.

(b) Member Minimum Gain Chargeback. Except as otherwise provided in Section 1.704-2(i)(4) of the Regulations, notwithstanding any other provision of this Article III, if there is a net decrease in Member Nonrecourse Debt Minimum Gain attributable to a Member Nonrecourse Debt during any Allocation Year, each Person who has a share of the Member Nonrecourse Debt Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Section 1.704-2(i)(5) of the Regulations, shall be specially allocated items of LLC income and gain for such Allocation Year (and, if necessary, subsequent Allocation Years) in an amount equal to such Person's share of the net decrease in Member Nonrecourse Debt Minimum Gain attributable to such Member Nonrecourse Debt, determined in accordance with Section 1.704-2(i)(4) of the Regulations. Allocations pursuant to the previous sentence shall be made in proportion to the respective amounts required to be allocated to each Member pursuant thereto. The items to be so allocated shall be determined in accordance with Sections 1.704-2(i)(4) and 1.704-2(j)(2) of the Regulations. This Section 3.3(b) is intended to comply with the minimum gain chargeback requirement in Section 1.704-2(i)(4) of the Regulations and shall be interpreted consistently therewith.

(c) Qualified Income Offset. In the event any Member unexpectedly receives any adjustments, allocations, or distributions described in Section 1.704-1(b)(2)(ii)(d)(4), Section 1.704-1(b)(2)(ii)(d)(5) or Section 1.704-1(b)(2)(ii)(d)(6) of the Regulations, items of LLC income and gain shall be specially allocated to each such Member in an amount and manner sufficient to eliminate, to the extent required by the Regulations, the Adjusted Capital Account Deficit of such Member as quickly as possible, provided that an allocation pursuant to this Section 3.3(c) shall be made only if and to the extent that such Member would have an Adjusted Capital Account Deficit after all other allocations provided for in this Article III have been tentatively made as if this Section 3.3(c) were not in the Agreement.

(d) Gross Income Allocation. In the event any Member has a deficit Capital Account at the end of any Allocation Year that is in excess of the sum of (i) the amount such Member is obligated to restore pursuant to any provision of this Agreement, and (ii) the amount such Member is deemed to be obligated to restore pursuant to the penultimate sentences of Sections 1.704-2(g)(1) and 1.704-2(i)(5) of the Regulations, each such Member shall be specially allocated items of LLC income and gain in the amount of such excess as quickly as possible, provided that an allocation pursuant to this Section 3.3(d) shall be made only if and to the extent that such Member would have a deficit Capital Account in excess of such sum after all other allocations provided for in this Article III have been made as if Section 3.3(c) and this Section 3.3(d) were not in the Agreement.

(e) Member Nonrecourse Deductions. Any Member Nonrecourse Deductions for any Allocation Year shall be specially allocated to the Member who bears the economic risk of loss with respect to the Member Nonrecourse Debt to which such Member Nonrecourse Deductions are attributable in accordance with Regulations Section 1.704-2(i)(1).

(f) Nonrecourse Deductions. Nonrecourse Deductions for any Allocation Year shall be specially allocated to the Members, pro rata, in proportion to the relative number of Units held by each such Member.

(g) Section 754 Adjustments. To the extent an adjustment to the adjusted tax basis of any LLC asset pursuant to Code Section 734(b) or Code Section 743(b) is required, pursuant to Section 1.704-l(b)(2)(iv)(m)(2) or Section 1.704-1(b)(2)(iv)(m)(4) of the Regulations, to be taken into account in determining Capital Accounts as the result of a distribution to a Member in complete redemption of his Units, the amount of such adjustment to Capital Accounts shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases such basis) and such gain or loss shall be specially allocated to the Member in accordance with his interests in the LLC in the event that Section 1.704-1(b)(2)(iv)(m)(2) of the Regulations applies, or to the Member to whom such distribution was made in the event that Section 1.704-1(b)(2)(iv)(m)(4) of the Regulations applies.

(h) Allocations Relating to Taxable Issuance of LLC Units. Any income, gain, loss or deduction realized as a direct or indirect result of the issuance of an interest by the LLC to a Member (the "Issuance Items") shall be allocated among the Members so that, to the extent possible, the net amount of such Issuance Items, together with all other allocations under this Agreement to each Member, shall be equal to the net amount that would have been allocated to each such Member if the Issuance Items had not been realized.

3.4. Curative Allocations. The allocations set forth in Section 3.2(b), Section 3.3(a), Section 3.3(b), Section 3.3(c), Section 3.3(d), Section 3.3(e), Section 3.3(f), and Section 3.3(g) (the "Regulatory Allocations") are intended to comply with certain requirements of the Regulations. It is the intent of the Members that, to the extent possible, all Regulatory Allocations shall be offset either with other Regulatory Allocations or with special allocations of other items of LLC income, gain, loss or deduction pursuant to this Section 3.4. Therefore, notwithstanding any other provision of this Article III (other than the Regulatory Allocations), the Board shall make such offsetting special allocations of LLC income, gain, loss or deduction in whatever manner it determines appropriate so that, after such offsetting allocations are made, each Member's Capital Account balance is, to the extent possible, equal to the Capital Account balance such Member would have had if the Regulatory Allocations were not part of the Agreement and all LLC items were allocated pursuant to Section 3.1 and Section 3.2(a). In exercising its discretion under this Section 3.4, the Board shall take into account future Regulatory Allocations under Section 3.3(a) and Section 3.3(b) that, although not yet made, are likely to offset other Regulatory Allocations previously made under Section 3.3(e) and Section 3.3(f).

3.5. Other Allocation Rules. Profits, Losses and any other items of income, gain, loss or deduction shall be allocated to the Members pursuant to this Article III as of the last day of

each Fiscal Year; provided, that Profits, Losses and such other items shall also be allocated at such times as the Gross Asset Values of the Property are adjusted pursuant to subparagraph (ii) of the definition of "Gross Asset Value" in Section 13.1.

(a) For purposes of determining the Profits, Losses, or any other items allocable to any period, Profits, Losses, and any such other items shall be determined on a daily, monthly, or other basis, as determined by the Board using any permissible method under Code Section 706 and the Regulations thereunder.

(b) The Members are aware of the income tax consequences of the allocations made by this Article III and hereby agree to be bound by the provisions of this Article III in reporting their shares of LLC income and loss for income tax purposes, except to the extent otherwise required by law.

(c) Solely for purposes of determining a Member's proportionate share of the "excess nonrecourse liabilities" of the LLC within the meaning of Regulations Section 1.752-3(a)(3), the Members' interests in LLC profits shall be the relative number of Units by each Member.

(d) To the extent permitted by Section 1.704-2(h)(3) of the Regulations, the Board shall endeavor to treat distributions of Available Cash Flow as having been made from the proceeds of a Nonrecourse Liability or a Member Nonrecourse Debt only to the extent that such distributions would cause or increase an Adjusted Capital Account Deficit for any Member.

3.6. Tax Allocations: Code Section 704(c). In accordance with Code Section 704(c) and the Regulations thereunder, income, gain, loss, and deduction with respect to any property contributed to the capital of the LLC shall, solely for tax purposes, be allocated among the Members so as to take account of any variation between the adjusted basis of such property to the LLC for federal income tax purposes and its initial Gross Asset Value (computed in accordance with subparagraph (i) of the definition of "Gross Asset Value" in Section 13.1). In the event the Gross Asset Value of any LLC asset is adjusted pursuant to subparagraph (ii) of the definition of "Gross Asset Value" in Section 13.1, subsequent allocations of income, gain, loss, and deduction with respect to such asset shall take account of any variation between the adjusted basis of such asset for federal income tax purposes and its Gross Asset Value in the same manner as under Code Section 704(c) and the Regulations thereunder. Any elections or other decisions relating to such allocations shall be made by the Board in any manner that reasonably reflects the purpose and intention of this Agreement. Allocations pursuant to this Section 3.6 are solely for purposes of federal, state, and local taxes and shall not affect, or in any way be taken into account in computing, any Person's Capital Account or share of Profits, Losses, other items, or distributions pursuant to any provision of this Agreement. Except as otherwise provided in this Agreement, all items of LLC income, gain, loss, deduction, and any other allocations not otherwise provided for shall be divided among the Members in the same proportions as they share Profits or Losses, as the case may be, for the Allocation Year.

ARTICLE IV

DISTRIBUTIONS

4.1. Distributions of Available Cash Flow. Except as otherwise provided in Article XI, to the extent the LLC has Available Cash Flow at the end of each fiscal year, the Board will distribute Available Cash Flow within 60 days of the end of such fiscal year as follows:

(a) first, to the Members holding Preferred Units, pro rata, in proportion to the relative amounts to be distributed under this clause (a), such that each Member holding Preferred Units will have been distributed cumulative Available Cash Flow in respect of his or her Preferred Units through the end of such quarter equal to the applicable Preferred Return calculated for such Preferred Units;

(b) second, to the Members who requested a Built-In Gain Redemption, pro rata, in proportion to the relative amounts to be distributed under this clause (b), such that each Member requesting a Built-In Gain Redemption will have been distributed cumulative Available Cash Flow in respect of his or her Preferred Units redeemed pursuant to a Built-In Gain Redemption through the end of such quarter equal to the aggregate applicable Redemption Price for such Preferred Units;

(c) third, to the Members who requested a redemption pursuant to Section 10.3 hereof other than a Built-In Gain Redemption, pro rata, in proportion to the relative amounts to be distributed under this clause (c), such that each such redeeming Member will have been distributed cumulative Available Cash Flow in respect of his or her Preferred Units redeemed through the end of such quarter equal to the aggregate applicable Redemption Price for such Preferred Units; and

(d) fourth, in the sole discretion of the Board, an additional amount to the Members, pro rata, in proportion to the relative number of Units held by each such Member.

4.2. Transfer of Timber Rights in Liquidation. The Preferred Return for each class of Preferred Units shall be as follows:

Class of Preferred Units	Preferred Return
Class A-1 Units	$0.04 per Unit per annum
Class A-2 Units	$0.045 per Unit per annum
Class A-3 Units	$0.045 per Unit per annum

4.3. Withholding. All amounts withheld or required to be withheld pursuant to the Code or any provision of any state, local or foreign tax law with respect to any payment, distribution or allocation to the LLC or the Members and treated by the Code (whether or not withheld pursuant to the Code) or any such tax law as amounts payable by or in respect of any Member or any Person owning an interest, directly or indirectly, in such Member shall be treated as amounts distributed to the Member with respect to which such amount was withheld pursuant

to this Section 4.3 for all purposes of this Agreement. The Board is authorized to withhold from distributions, or with respect to allocations, to the Members and to pay over to any federal, state, local or foreign government any amounts required to be so withheld pursuant to the Code or any provisions of any other federal, state, local or foreign law and shall allocate any such amounts to the Members with respect to which such amount was withheld.

4.4. First-Year Proration. If a new or existing Member acquires additional Units in exchange for a Capital Contribution on any date other than a record date for the distribution of Available Cash Flow, the Available Cash Flow attributable to such additional Units relating to the record date next following the issuance of such additional Units shall be reduced in the proportion to (i) the number of days that such additional Units are held by such Member bears to (ii) the number of days between such record date and the immediately preceding record date.

ARTICLE V

MEMBERSHIP; MEETINGS

5.1. Classes of Membership. The LLC shall have four classes of Units: Class A-1 Units, Class A-2 Units, Class A-3 Units and Class M Units. Each such class shall have the rights and obligations set forth for such class herein. Except as otherwise provided herein, any Member may own Class A-1 Units, Class A-2 Units, Class A-3 Units, and Class M Units or any combination thereof.

5.2. Membership List. The Board shall maintain a list of the Members of the LLC setting forth each Member's name, address, class of membership and the Member's Capital Contribution (the "Unit Record"). The Board shall from time to time cause the Unit Record to be revised to reflect any additions or deletions to the list of Members or changes to any information reflected thereon.

5.3. Limited Liability. Except as otherwise provided by the Act or in this Agreement, the debts, obligations and liabilities of the LLC, whether arising in contract, tort or otherwise, shall be solely the debts, obligations and liabilities of the LLC, and none of the Managers or the Members shall be obligated personally for any such debt, obligation or liability of the LLC solely by reason of being a Manager or member of the LLC.

(a) To the extent that at law or in equity, a party shall have duties (including fiduciary duties) and liabilities to the LLC or the Members, such duties and liabilities may be restricted by provisions of this Agreement. None of the Managers or the Members shall be liable to the LLC for any loss, damage or claim incurred by reason of any act or omission performed or omitted by such Manager or Member in good faith on behalf of the LLC and in a manner reasonably believed to be within the scope of authority conferred on such Manager or Member by this Agreement.

(b) The Managers shall be fully protected in relying in good faith upon the records of the LLC and upon such information, opinions, reports or statements presented to the LLC by any person as to the matters such Manager reasonably believes are within such other person's

professional or expert competence and who has been selected with reasonable care by or on behalf of the LLC, including information, opinions, reports or statements as to the value and amount of the assets, liabilities, profits, losses or net cash flow or any other facts pertinent to the existence and amount of assets from which distributions to the Member might properly be paid.

5.4. Authority of and Action by Members. Except for a Person who is a Preferred Member and also a Manager or an Officer, no Preferred Member shall be entitled to participate in or vote in matters involving the management or the business of the LLC other than those expressly set forth in Section 5.4(b), all other such authority being vested in the Board of Managers. The Members shall be entitled only to exercise rights specifically granted to them in this Agreement or on such other matters as may be submitted to them by the Board of Managers in its sole and absolute discretion. Such Preferred Members who are not a Manager or an Officer shall have no authority, either express or implied, to bind the LLC.

(a) Notwithstanding anything else herein, approval of the Class M Member and holders of two-thirds of the Preferred Units, each voting as a separate class and in accordance with Section 5.5 below, shall be required to sell, merge, or consolidate the LLC to or with any other Person.

5.5. Required Vote or Approval of Members. Approval by or authorization of any action by or on behalf of the LLC that requires or is submitted to the Members for approval (a) pursuant to Section 5.4(b) shall require the consent of (1) the Class M Member and (2) the Preferred Members holding at least two-thirds of the Preferred Units and (b) pursuant to Section 5.4(c) shall require the consent of the Preferred Members holding at least two-thirds of the Preferred Units. Such vote may be taken at an annual or special meeting of the Members in accordance with the provisions of this Article V or by written consent in accordance with the provisions of Section 5.12.

5.6. Meetings. Meetings of the Members, for any purposes described in a meeting notice, may be called by the Board of Managers.

5.7. Notice of Meeting. Written or telephonic notice stating the place, day and hour of the meeting and, in case of a special meeting, the purposes for which the meeting is called, shall be delivered not less than 10 days before the date of the meeting, either personally, by mail, or by facsimile transmission, by or at the direction of the Board, to each Member of record entitled to vote at such meeting. If mailed, such notice shall be deemed to be delivered when deposited in the United States mail, addressed to the Member at his address as it appears on the Unit Record, with postage thereon prepaid. When all the Members of the LLC are present at any meeting, or if those not present sign in writing a waiver of notice of such meeting, or subsequently ratify all the proceedings thereof, the transactions of such meeting are as valid as if a meeting were formally called and all requisite notice had been given.

5.8. Proxies. At all meetings of Members, a Member may vote by proxy executed in writing by the Member or by his duly authorized attorney-in-fact. Such proxy shall be filed with the Board (or such other individual as the Board shall designate to be the chairman of the

meeting) before or at the time of the meeting. No proxy shall be valid after three months from date of execution, unless otherwise provided in the proxy.

5.9. Quorum. Members holding at least 50% of the outstanding Units, represented in person or by proxy, shall constitute a quorum at a meeting of Members. If a quorum cannot be achieved, Members holding at least 50% of the Units so represented may adjourn the meeting from time to time without further notice.

5.10. Order of Business. The order of business at all meetings of the Members shall be as follows:

(i) Roll Call.

(ii) Proof of notice of meeting or waiver of notice.

(iii) Reading of minutes of preceding meeting.

(iv) Report of the Board of Managers.

(v) Unfinished Business.

(vi) New Business.

5.11. Telephonic Meeting. Members of the LLC may participate in any meeting of the Members by means of conference telephone or similar communications equipment if all Persons participating in such meeting can hear one another for the entire discussion of the matter(s) to be voted upon. Participation in a meeting pursuant to this Section 5.11 shall constitute presence in person at such meeting.

5.12. Written Consent. Any action requiring the vote, consent, approval or action of or an election by the Members or required to be taken at a meeting of the Members may be taken without a meeting if a consent in writing, setting forth the action so taken, will be signed by Members holding at least the percentage of the outstanding Units required for such approval, consent or action.

ARTICLE VI

MANAGEMENT

6.1. Management. The business and affairs of the LLC shall be managed under the direction of the Board of Managers. The Board shall have all power and authority to manage, to direct the management, business and affairs of and to make all decisions to be made by or on behalf of the LLC. The powers of the Board shall include all powers, statutory or otherwise, possessed by or permitted to managers of a limited liability company under the laws of the State of Delaware. The Board shall have full power and authority to do all things deemed necessary or desirable to conduct the business of the LLC. Approval by, consent of or action taken by the

Board in accordance with authority granted by or under this Agreement shall constitute approval or action by the LLC and shall be binding on the LLC.

6.2. Designation of Board of Managers. Except as provided in Section 6.2(d) below, the Members hereby agree that the Class M Member shall have the sole and exclusive right to designate all members of the Board of Managers and that the Board shall have as many members as the Class M Member, in its sole discretion, deems advisable.

(b) The Managers comprising the Board of Managers initially designated by the Class M Member are as follows: Tamar Datan, Kent W. Gilges, Stephen C. Howell, Michael L. Lipford, and W. William Weeks.

(c) The LLC shall notify the Members of the persons designated by the Class M Member and Members of the Board upon the appointment to the Board.

(d) Notwithstanding anything else herein, if the Preferred Return is not paid in full for two consecutive calendar years, the Managers shall be elected, removed or replaced by a vote of holders of a majority of the outstanding Preferred Units.

6.3. Quorum. A majority of the Managers shall constitute a quorum for the transaction of business. The act of a majority of Managers present at a meeting at which a quorum is present or action taken by written consent of a majority of all Managers shall be the act of the Board. Less than a quorum may adjourn any meeting.

6.4. Meetings of Board. The Board shall have an annual meeting and any other meetings at such place as the Board may designate. Meetings of the Board shall be at times fixed by resolution of the Board, or upon the call of the chairman of the Board, the President, or any two Managers. The Secretary or officer performing the Secretary's duties shall give not less than 24 hours' notice by letter, telegraph, telephone or facsimile (or in person) of all meetings of the Board, provided that notice need not be given of the annual meeting or of regular meetings held at times and places fixed by resolution of the Board. Meeting may be held at any time without notice if all of the Managers are present, or if those not present waive notice in writing either before or after the meeting. The notice of the Managers need not state the purpose of the meeting.

6.5. Officers. The Board may from time to time designate specific individuals as officers, with such title, power and authority and for such time as the Board may from time to time determine. The Board may remove any Officer at any time with or without cause. The Board shall appoint a President who shall be the chief executive officer of the LLC and shall be primarily responsible for the implementation of the policies of the Board. The Board shall also appoint a Secretary who shall act as secretary of all meetings of the Board and of the Members of the LLC.

6.6. Term of Office. A Manager shall hold office until a successor shall have been duly elected or appointed by the Class M Member or by a vote of the Preferred Members, as the case may be.

6.7. Vacancies. The Class M Member may, upon the resignation of a Manager, designate a successor, which successor shall serve as Manager from and after the effectiveness of the resignation. Any successor Managers shall operate the LLC in accordance with the purposes set forth in Section 1.3.

6.8. Limitation of Liability of the Managers. To the fullest extent permitted under the Act, the Delaware General Corporation Law or any other applicable law as currently or hereafter in effect, none of the Managers, any Affiliate of the Managers or any Officer shall be personally liable, responsible or accountable in damages or otherwise to the LLC or any of its Members for or with respect to any action taken or failure to act on behalf of the LLC within the scope of the authority conferred on the Managers by this Agreement or by law. In addition to, and not by way of limitation of, the preceding sentence, the Managers shall not be liable to the LLC or its Members for monetary damages for any breach of any fiduciary duty as a Manager, except for liability for acts or omissions not in good faith or which involve gross negligence, intentional misconduct or a knowing violation of law. Any repeal or modification of this Section 6.8 shall not adversely affect any right or protection of a Manager existing prior to such repeal or modification.

6.9. Indemnification. The LLC shall indemnify and hold harmless the Managers, each of their Affiliates and each Officer (the "Indemnified Parties," and each an "Indemnified Party") from and against any loss, expense, damage or injury suffered or sustained by the Indemnified Parties (or any of them) by reason of any acts, omissions or alleged acts or omissions arising out of its or their activities on behalf of the LLC or in furtherance of the interests of the LLC, including, but not limited to, any judgment, award, settlement, reasonable attorney's fees and other costs or expenses incurred in connection with the defense of any actual or threatened action, proceeding or claim; provided that the acts, omissions or alleged acts or omissions upon which such actual or threatened action, proceeding or claim is based were not performed or omitted fraudulently or in bad faith or as a result of gross negligence or willful misconduct by any such Indemnified Party; and provided further that such Indemnified Party reasonably believed that the acts, omissions, or alleged acts or omissions upon which such actual or threatened action, proceeding or claim is based were in the best interests of the LLC. Such indemnification shall be made only to the extent of the assets of the LLC.

6.10. Compensation. The Managers and each of the Officers may be compensated by the LLC for the performance of their duties hereunder as provided for in the Management Agreement attached hereto as Exhibit G, as amended from time to time.

ARTICLE VII

BOOKS AND RECORDS

7.1. Books and Records; Financial Statements to Members. The Board shall keep proper and usual books and records pertaining to the business of the LLC. The books and records of the LLC shall be kept at the principal office of the LLC or at such other places, within or without the State of Delaware, as the Board shall from time to time determine.

7.2. Tax Matters. All elections and decisions required or permitted to be made by the LLC under any applicable tax law shall be made by the Board. If requested by a Transferee, the Board shall file an election on behalf of the LLC pursuant to Code Section 754 (and applicable state law) to adjust the basis of the Property in the case of a Transfer of Units made in accordance with the provisions of this Agreement. The Board shall cause to be prepared and filed all income tax returns on a timely basis. Any balance sheet and Capital Account included in the preparation of the LLC's federal income tax return (and to the extent applicable, any state income tax return) will be based upon the LLC's method of accounting and principles under federal income tax law, rather than GAAP or other principles.

(b) The Class M Member is hereby designated as the initial tax matters partner for the LLC within the meaning of Section 6231(a)(7) of the Code (the "Tax Matters Partner").

(c) Each Member acknowledges that this Agreement creates a partnership for federal and state income tax purposes, and hereby agrees not to elect under Code Section 761 or applicable state law to be excluded from the application of Subchapter K of Chapter 1 of Subtitle A of the Code or any similar state statute of the LLC.

(d) No Manager, Member, officer, agent or employee of the LLC may file Internal Revenue Service Form 8832 (or such alternative or successor form) to elect to be classified as a corporation for federal income tax purposes, in accordance with Regulations Section 301.7701-3.

7.3. Right of Inspection. Any Member of record shall have the right to examine, at any reasonable time or times for all purposes, the books and records of account, minutes and records of the LLC and to make copies thereof. Such inspection may be made by any agent or attorney of the Member. Upon the written request of any Member, the Board shall cause to be mailed to such Member the LLC's most recent financial statements, showing in reasonable detail the LLC's assets and liabilities and the results of its operations, and a copy of its federal, state and local income tax returns.

7.4. Financial Records. All financial records shall be maintained and reported using GAAP, except as set forth in Section 7.2(a).

ARTICLE VIII

FISCAL MATTERS

8.1. Fiscal Year. The fiscal year of the LLC shall begin on the first day of January and end on the last day of December each year, unless otherwise determined by the Board (the "Fiscal Year").

8.2. Deposits. All funds of the LLC shall be deposited in an account or accounts in such banks, trust companies or other depositories as the Board may select.

8.3. Agreements, Consents, Checks, Etc. All agreements, consents, checks, drafts or other orders for the payment of money, and all notes or other evidences of indebtedness issued in

the name of the LLC shall be signed by (i) the Board or (ii) those Persons specifically authorized from time to time by the Board.

8.4. Accountant. An accountant(s) may be selected from time to time by the Board to perform such tax and accounting services as may from time to time be required. The accountant may be removed by the Board without assigning any cause.

8.5. Legal Counsel. One or more attorney(s) at law may be selected from time to time by the Board to review the legal affairs of the LLC and to perform such other services as may be required and to report to the Board with respect thereto. The legal counsel may be removed by the Board without assigning any cause.

ARTICLE IX

UNITS

9.1. Membership Units. All interests in the LLC shall be denominated in Units, consisting initially of Class A-1 Units, Class A-2 Units, Class A-3 Units and Class M Units. No Units shall be registered upon any national securities exchange, foreign securities exchange, regional or local exchange or interdealer quotation system that regularly disseminates firm buy or sell quotations by identified brokers or dealers.

9.2. Unit Certificates. Units shall be represented by certificates substantially in the form attached hereto as Exhibit A-1 through B, as follows (each a "Certificate"). Certificates representing Class A-1 Units shall be substantially in the form attached hereto as Exhibit A-1; Certificates representing Class A-2 Units shall be substantially in the form attached hereto as Exhibit A-2; Certificates representing Class A-3 Units shall be substantially in the form attached hereto as Exhibit A-3; and Certificates representing Class M Units shall be substantially in the form attached hereto as Exhibit B. Such Certificates shall be signed by such Officers as the Board may designate from time to time. All Certificates shall be consecutively numbered or otherwise identified. The name and address of the person to whom the Units represented by each Certificate are issued, with the number of Units, the class of membership represented by the Units and the date of issue, shall be entered on the Unit transfer book of the LLC. All Certificates surrendered to the LLC for transfer shall be canceled and no new Certificate shall be issued until the former Certificate for a like number of Units shall have been surrendered and canceled, except that in case of a lost, destroyed or mutilated Certificate, a new one may be issued therefor upon such terms and indemnity to the LLC as the Board (or an Officer or Officers designated by the Board for such purpose) may prescribe.

9.3. Authorization and Issuance of Additional Units. .The Board is hereby authorized to cause the LLC to issue such additional Units for any LLC purpose at any time or from time to time, to the Members or to other Persons for such consideration and on such terms and conditions as shall be established by the Board in its sole and absolute discretion, all without the approval of any Members. Any additional Units issued thereby may be issued in one or more classes, or one or more series of any of such classes, with such designations, preferences and relative, participating, optional or other special rights, powers and duties, including rights,

powers and duties senior to Class A-1 Units, Class A-2 Units, Class A-3 Units or Class M Units, all as shall be determined by the Board in its sole and absolute discretion and without the approval of any Member, subject to Delaware law, including, without limitation, (i) the allocations of items of LLC income, gain, loss, deduction and credit to each such class or series of Units; (ii) the right of each such class or series of Units to share in LLC distributions; and (iii) the rights of each such class or series of Units upon dissolution and liquidation of the LLC. Without limiting the foregoing, the Board is expressly authorized to cause the LLC to issue Units for less than fair market value, so long as the Board concludes in good faith that such issuance is in the best interests of the LLC. No Member shall have any right to purchase a portion of any newly authorized and issued Units or shall have any rights whatsoever arising from any resulting dilution.

9.4. Authorization and Issuance of Additional Units upon a Revaluation. Upon each tenth anniversary of the Original Issue Date, the Board shall ascertain the fair market value of the Timber Rights contributed by such Preferred Member (the "Revalued Fair Market Value"). If the Revalued Fair Market Value of the Timber Rights contributed by a Preferred Member exceeds the initial Gross Assets Value of such Timber Rights plus the Revaluation Threshold, then the Preferred Member will be issued additional Preferred Units, valued a $1.00 per Unit, in an amount equal to the excess of the Revalued Fair Market Value over the initial Gross Asset Value and the Revaluation Threshold; provided, however, that the amount of Preferred Units issued to the Preferred Member shall be reduced proportionally to account for any of the Preferred Member's Preferred Units that were redeemed by the LLC since the Original Issue Date.

ARTICLE X

TRANSFER AND REDEMPTION

10.1. Transfer Generally. (a) Any Member other than the Class M Member may Transfer all or 10,000 or more of his or her Preferred Units to any Person subject to the restrictions in Section 10.2.

(b) The Class M Member or any permitted Transferee of the Class M Member pursuant to this clause (b) may Transfer all, but not less than all, of its Units to a corporation, partnership or other entity controlled by the Class M Member, provided that the Class M Member guarantees that such transferee will perform its obligations under Section 2.4 and Section 2.5.

(c) Until any permitted Transferee has executed documentation reasonably satisfactory to the Board (or an Officer designated by the Board for such purpose) evidencing the Transfer to such Transferees of Units, such Transferee will not be admitted to the LLC or otherwise be recognized by the LLC as having any rights as a Member, including any right to receive distributions from the LLC (directly or indirectly) or to have Units redeemed. No Member may Transfer all or any portion of his rights or interests in the LLC or resign from the LLC other than in accordance with this Section 10.1 without the prior written consent of the Board (or an Officer designated by the Board for such purpose).

10.2. Restriction on Transfer. Notwithstanding Section 10.1, no Transfer by a Member will be permitted if, as determined by the Board, such Transfer will (a) adversely affect the LLC's classification as a partnership for federal income tax purposes (including as a "publicly traded partnership" for purposes of Code Section 7704) or (b) materially adversely affect the LLC, the other Members or the value of other Members' Units. Further, no Transfer (including a Transfer pursuant to Section 10.1) will be permitted until the Transferee (x) delivers to the LLC a written instrument evidencing such Transfer in form and substance satisfactory to the Board; (y) executes a copy of this Agreement accepting and agreeing to all of the terms, conditions and provisions of this Agreement; and (z) pays to the LLC its reasonable out-of-pocket costs and expenses incurred in connection with such Transfer and the admission of the Transferee as a Member.

10.3. Redemption of Preferred Units. Generally. As provided in this Section 10.3, a Preferred Member may redeem all or a portion of such Member's Preferred Units upon delivery to the LLC of the Certificate representing such redeemed Preferred Units with the properly completed Notice of Redemption on the reverse side thereof (the "Redemption Notice") and the mailing of notification from the LLC that such Units have been redeemed. No Preferred Member may deliver a Redemption Notice requesting a Redemption with respect to any Units, and the LLC shall have no obligation to redeem any Preferred Units, prior to the second anniversary of the Original Issue Date with respect to such Units.

(b) Class A-1 Units. At any time after the second anniversary of the Original Issue Date with respect to Class A-1 Units, a Class A-1 Member shall be entitled to redeem any number of such Class A-1 Units at the Redemption Price set forth on the following table:

Year Following the Original Issue Date	Redemption Price per Class A-1 Unit
Third	$.80
Fourth	$.85
Fifth	$.90
Sixth	$.95
After the sixth anniversary of the Original Issue Date	$1.00

(c) Class A-2 Units. At any time after the third anniversary of the Original Issue Date with respect to Class A-2 Units, a Class A-2 Member shall be entitled to redeem any number of such Class A-2 Units at the Redemption Price set forth on the following table:

Year Following the Original Issue Date	Redemption Price per Class A-2 Unit
Fourth, Fifth and Sixth	$.20
Seventh, Eighth and Ninth	$.40
Tenth, Eleventh and Twelfth	$.60
Thirteenth, Fourteenth and Fifteenth	$.80
After the fifteenth anniversary of the Original Issue Date	$1.00

(d) Class A-3 Units. At any time after the second anniversary of the Original Issue Date with respect to Class A-3 Units, a Class A-3 Member shall be entitled to redeem the following percentage of such Class A-3 Units at the following Redemption Price:

Year Following the Original Issue Date	Maximum Number of Units That May be Redeemed	Redemption Price per Class A-3 Unit
Second	5%	
Third	10%	$1.00
Fourth	15%	$1.00
Fifth	20%	$1.00
Sixth	25%	$1.00
Seventh	30%	$1.00
Eighth	35%	$1.00
Ninth	40%	$1.00
Tenth	45%	$1.00
Eleventh	50%	$1.00
Twelfth	55%	$1.00
Thirteenth	60%	$1.00
Fourteenth	65%	$1.00
Fifteenth	70%	$1.00
Sixteenth	75%	$1.00
Seventeenth	80%	$1.00
Eighteenth	85%	$1.00
Nineteenth	90%	$1.00
Twentieth	95%	$1.00
After the twentieth anniversary of the Original Issue Date	100%	$1.00

(e) Built-In Gain Redemption. At any time a Preferred Member is allocated income or gain pursuant to Code Section 704(c), such Preferred Member shall receive a notice of such allocation (a "Built-In Gain Notice") within 30 days after the end of the Allocation Year to which the income or gain allocation relates. Upon receipt of a Built-In Gain Notice, a Preferred Member may request the LLC to redeem an amount of Preferred Units that, when combined with

the amount of Available Cash Flow distributed to such Preferred Member pursuant to Section 4.1(a) for the Fiscal Year in which such allocation was made, equals the product of the aggregate profit allocated to such Preferred Member (including any income or gain allocated pursuant to Code Section 704(c)) for such Fiscal Year and the Member's Assumed Tax Rate (a "Built-In Gain Redemption"). Pursuant to a Built-In Gain Redemption, the Preferred Member shall withdraw from the LLC with respect to that portion of such Member's interest in the LLC represented by such Preferred Units upon delivery to the LLC of the Certificate representing such Preferred Member's Preferred Units with the properly completed Redemption Notice and the mailing of notification from the LLC that such Preferred Units have been redeemed.

(f) Foreclosure Redemption. At any time a Bona Fide Lender forecloses on Preferred Units pledged by a Preferred Member as security for any indebtedness, the Bona Fide Lender may request the LLC to redeem all or part of such Preferred Member's Units (a "Foreclosure Redemption"). Pursuant to a Foreclosure Redemption, the Preferred Member or a Bona Fide Lender, as the case may be, shall be withdrawn from the LLC with respect to that portion of such Preferred Member's interest in the LLC represented by such Preferred Units upon the delivery to the LLC by the Bona Fide Lender of the Certificate representing such Preferred Units with the properly completed Redemption Notice and the mailing of notification from the LLC that such Preferred Units have been redeemed.

(g) Emergency Redemption. At any time after the second anniversary of the Original Issue Date, a Preferred Member may request the LLC to redeem 25% or more of such Preferred Member's Preferred Units (an "Emergency Redemption"). Pursuant to an Emergency Redemption, the Preferred Member shall withdraw from the LLC with respect to that portion of such Member's interest in the LLC represented by such Preferred Units upon delivery to the LLC of the Certificate representing such Preferred Member's Preferred Units with the properly completed Redemption Notice and the mailing of notification from the LLC that such Preferred Units have been redeemed.

(h) Forced Redemption. At any time that a Preferred Member's holds less than 25% of the Units issued to the Preferred Member on the Original Issue Date, the LLC has the option of redeeming all of the Preferred Member's outstanding Units (an "LLC Redemption").

(i) Mechanics of Redemption. Upon the receipt of a properly completed Redemption Notice, the LLC shall calculate the amount to be paid by the LLC to redeem the Units by multiplying (x) the number of Units submitted for redemption by (y) the Redemption Price of such Units. Unless otherwise provided herein, the Redemption Price per Preferred Unit shall be $1.00. On the last day of each calendar quarter, the Board (or an Officer designated by the Board for such purposes) shall pay such amounts to the Members or Bona Fide Lenders who delivered the properly completed Redemption Notice at least 30 days prior to the applicable redemption date. The Board or its designee shall pay such amounts at the Member's address as its appear on the Unit Record or a different address specified in the Redemption Notice.

(j) Rights; Records. Upon any redemption of Units pursuant to this Section 10.3, the holder of the redeemed Preferred Units shall have no rights under this Agreement with respect to

the redeemed Preferred Units other than the right to receive payment of the amount due upon such redemption, and the Board (or an Officer designated by the Board for such purpose) shall revise the Unit Record to reflect the redemption of such Units, including if applicable the removal of the Person as a Member.

ARTICLE XI

DISSOLUTION AND WINDING UP

11.1. Liquidating Events. The LLC shall dissolve and commence winding up and liquidating only upon the first to occur of any of the following ("Liquidating Events"):

(a) The bankruptcy or dissolution of the Class M Member;

(b) The agreement the Class M Member and holders of two-thirds of the Preferred Units;

(c) The happening of any other event that makes it unlawful, impossible or impractical to carry on the business of the LLC;

(d) Any time there are no Members, unless the personal representative of the last remaining Member, or any designee or nominee of the personal representative of the last remaining Member, agrees in writing to continue the business of the LLC, at which time such personal representative or such designee or nominee of the personal representative, as the case may be, shall be admitted as a Member hereunder, notwithstanding any provision of Article X; and

(e) The entry of a decree of judicial dissolution under the Act or any other event or circumstance requiring dissolution under the Act, subject however to any cure for such event or circumstance as may be set forth in the Act.

No Member or group of Members shall have any right or obligation to continue the business of the LLC upon the occurrence of a Liquidating Event. The Members hereby agree that, notwithstanding any provision of the Act, the LLC shall not dissolve prior to the occurrence of a Liquidating Event. The Members further agree that in the event the LLC is dissolved prior to a Liquidating Event, the LLC may be continued upon the election of the Board of Managers at such time to so continue the LLC; provided such election occurs within 30 days of the event triggering such dissolution.

11.2. Winding Up. Upon the occurrence of a Liquidating Event, the LLC shall continue solely for the purpose of winding up its affairs in an orderly manner, liquidating its assets and satisfying the claims of its creditors and Members. Neither the Managers nor any Member shall take any action that is inconsistent with, or not necessary to or appropriate for, the winding up of the LLC's business and affairs. If the Board remains after the occurrence of a Liquidating Event, it shall continue to have the same duties and authority as existed prior to the occurrence of a Liquidating Event, subject to the requirements of the previous sentence. The Board (or, in the

event there are no Managers remaining, any Person selected by the Class M Member or, if there is no Class M Member, the remaining Members holding a majority of the outstanding Units) shall be responsible for overseeing the winding up and dissolution of the LLC and shall take full account of the LLC's liabilities and the Property of the LLC shall be liquidated as promptly as is consistent with obtaining the fair value thereof but in any case by the later of (x) the end of the Fiscal Year in which such Liquidating Event occurred or (y) the date ninety (90) days after such Liquidating Event occurred, and the proceeds therefrom, to the extent sufficient, shall be applied and distributed, subject to any reasonable reserves maintained for contingent or other obligations of the LLC, in the following order:

(a) first, to the satisfaction (whether by payment or the making of reasonable provision for payment thereof) of all of the LLC's debts and liabilities to creditors other than Members;

(b) second, to the satisfaction (whether by payment or the making of reasonable provision for payment thereof) of all of the LLC's debts and liabilities to Members, including satisfaction of the Preferred Members' accrued applicable Preferred Return; and

(c) the balance, if any, to the Members in accordance with their respective Capital Accounts, after giving effect to all contributions, distributions and allocations for all periods.

11.3. Capital Account Deficit Restoration. No Member will be obligated to restore after a Liquidating Event any deficit in its Capital Account, and no creditor of the LLC will have any right to enforce any obligation to restore any deficit Capital Account of any Member.

11.4. Transfer of Timber Rights in Liquidation. The LLC, the Class M Member and the Board of Managers shall use their reasonable best efforts to provide that, in a dissolution, liquidation or winding up of the LLC, (a) Timber Rights shall be transferred to the Preferred Member who owns the Preferred Units originally issued in exchange for such Timber Rights in full redemption of the Preferred Units originally issued in exchange for such Timber Rights, or (b) the Timber Rights shall be transferred to the Class M Member in exchange for a cash payment and such cash shall be used to redeem the Preferred Units originally issued by the LLC in exchange for such Timber Rights.

ARTICLE XII

AMENDMENTS

12.1. Amendments. This Agreement may be altered, amended or repealed, or a new Agreement may be adopted, upon the prior written consent of the Class M Member or the Board; provided, however, that distributions payable to a Member pursuant to Section 4.1(a) and amounts payable to a Member to redeem Units pursuant to Section 10.3 shall not be reduced without the prior written consent of each Member affected by such reduction.

12.2. Merger. Subject to Section 5.4, the LLC may merge or consolidate, regardless of whether the LLC is the survivor of such merger or consolidation.

ARTICLE XIII

DEFINITIONS; CONSTRUCTION

13.1. Definitions. For purposes of this Agreement, the following terms shall have the meanings set forth in this Article XIII (such meanings to be equally applicable in both the singular and plural forms of the term defined).

"Act" means the Delaware Limited Liability Company Act (6 Del.C. § 18-101, *et seq.*), as amended from time to time (or any corresponding provisions of succeeding law).

"Adjusted Capital Account Deficit" means, with respect to any Member, the deficit balance, if any, in such Member's Capital Account as of the end of the relevant Allocation Year after giving effect to the following adjustments:

(i) Credit to such Capital Account any amounts which such Member is obligated to restore pursuant to any provision of this Agreement or is deemed to be obligated to restore pursuant to the penultimate sentences of Sections 1.704-2(g)(1) and 1.704-2(i)(5) of the Regulations; and

(ii) Debit to such Capital Account the items described in Sections 1.704-1(b)(2)(ii)(d)(4), 1.704-1(b)(2)(ii)(d)(5) and 1.704-1(b)(2)(ii)(d)(6) of the Regulations.

The foregoing definition of Adjusted Capital Account Deficit is intended to comply with the provisions of Section 1.704-1(b)(2)(ii)(d) of the Regulations and shall be interpreted consistently therewith.

"Affiliate" means any (i) corporation, partnership, trust, limited liability company or other entity controlled by or under common control with any Member or in which a Member is or may be an officer, director, shareholder, partner (general or limited), trustee, member, manager, owner or employee; (ii) officer, director, shareholder, partner (general or limited), trustee, member, manager, owner or employee of any corporation, partnerships, trust, limited liability company or other entity controlled by or under common control with a Member; and (iii) corporation, partnership, trust, limited liability company or other entity or business in which a Member has any interest whatsoever.

"Agreement" means this First Amended and Restated Limited Liability Company Agreement, as amended, restated, supplemented or otherwise modified from time to time. Words such as "herein," "hereinafter," "hereof," and "hereunder" refer to this Agreement as a whole, unless the context otherwise requires.

"Allocation Year" means (i) the period commencing on the Effective Date and ending on December 31, 2001, (ii) any subsequent period commencing on January 1 and ending on the following December, or (iii) any portion of the period described in clause (ii) for which the LLC is required to allocate Profits, Losses and other items of LLC income, gain, loss or deduction pursuant to Article III.

"Assumed Tax Rate" means the maximum federal income tax rate on long-term capital gains plus 5%.

"Available Cash Flow" means, with respect to the applicable period of measurement (i.e., any period beginning on the first day of the LLC Fiscal Year or other period commencing immediately after the last day of the prior calculation of Available Cash Flow, and ending on the last day of the month, quarter or other applicable period immediately preceding the date of calculation), the excess, if any, of the gross cash receipts of the LLC for such period from all sources whatsoever, including, without limitation, the following:

(a) (i) all rents, revenues, income and proceeds derived by the LLC from its operations, including, without limitation, distributions received by the LLC from any entity in which the LLC has an interest, any payments of principal, interest, costs, fees, penalties or otherwise on account of any loans made by the LLC and any financings or refinancings of any Property; (ii) the amount of any insurance proceeds and condemnation awards of Property; (iii) any cash Capital Contributions received by the LLC from its Members (including contributions described in Section 2.5); (iv) all cash amounts previously reserved by the LLC, if the specific purposes for which such amounts were reserved are no longer applicable; and (v) the proceeds of liquidation of Property in accordance with this Agreement,

over the sum of:

(b) (i) all operating costs and expenses of the LLC and capital expenditures made during such period (without deduction, however, for any capital expenditures, charges for depreciation or other expenses not paid in cash or expenditures from reserves described in (vii) below); (ii) all costs and expenses expended or payable during such period in connection with the sale or other disposition or financing or refinancing, of Property or the recovery of insurance or condemnation proceeds; (iii) all fees provided for under this Agreement; (iv) all debt service, including principal and interest, paid during such period on all indebtedness of the LLC; (v) all Capital Contributions, advances, reimbursements or similar payments made to any Person (whether a partnership, corporation, trust, limited liability company or other entity) in which the LLC has an interest; (vi) all loans made by the LLC to any Person in which the LLC has an interest (whether a partnership, corporation, trust, limited liability company or other entity); and (vii) any reserves reasonably determined by the Board for working capital, capital improvements, payments of periodic expenditures, debt service or other purposes.

"Board" or "Board of Managers" means the managing body of the LLC, as provided for in Section 6.1.

"Bona Fide Lender" means any person who has lent money to a Member and who is not related to or affiliated with such Member or the Class M Member and whose loan is secured by a perfected security interest in such Member's property and such Member's Preferred Units.

"Built-In Gain Notice" has the meaning set forth in Section 10.3(e).

"Built-In Gain Redemption" has the meaning set forth in Section 10.3(e).

"Capital Account" means, with respect to any Member, the Capital Account maintained for such Member in accordance with the following provisions:

(i) To each Member's Capital Account there shall be credited such Person's Capital Contributions, such Person's distributive share of Profits and any items in the nature of income or gain which are specially allocated pursuant to Section 3.3 or Section 3.4, and the amount of any LLC liabilities assumed by such Person or which are secured by any Property distributed to such Person.

(ii) To each Person's Capital Account there shall be debited the amount of cash and the Gross Asset Value of any Property distributed to such Person pursuant to any provision of this Agreement, such Person's distributive share of Losses and any items in the nature of expenses or losses which are specially allocated pursuant to Section 3.3 or Section 3.4, and the amount of any liabilities of such Person assumed by the LLC or which are secured by any property contributed by such Person to the LLC.

(iii) In the event all or a portion of an interest in the LLC is transferred in accordance with the terms of this Agreement, the Transferee shall succeed to the Capital Account of the Transferor to the extent it relates to the transferred interest.

(iv) In determining the amount of any liability for purposes of subparagraphs (i) and (ii), there shall be taken into account Code Section 752(c) and any other applicable provisions of the Code and Regulations.

In the event all or a portion of an Interest is Transferred in accordance with the terms of this Agreement to a Transferee who becomes a Member, such Transferee shall succeed to the Capital Account of the Transferor to the extent that it relates to the transferred Interest. The foregoing provisions and the other provisions of this Agreement relating to the maintenance of Capital Accounts are intended to comply with Regulations Section 1.704-1(b), and shall be interpreted and applied in a manner consistent with such Regulations. In the event the Board Managing Member shall determine that it is prudent to modify the manner in which the Capital Accounts, or any debits or credits thereto (including, without limitation, debits or credits relating to liabilities which are secured by contributions or distributed property or which are assumed by the LLC or the Members, Managing Member, or a Preferred Member), are computed in order to comply with such Regulations, the Board may make such modification, provided that it is not likely to have a material adverse effect on the amounts distributed to any Person pursuant to Article XI upon the dissolution of the LLC. The Board also shall (i) make any adjustments that are necessary or appropriate to maintain equality between the Capital Accounts of the Members and the amount of LLC capital reflected on the LLC's balance sheet, as computed for book purposes, in accordance with Section 1.704-1(b)(2)(iv)(q) of the Regulations, and (ii) make any appropriate modifications in the event unanticipated events might otherwise cause this Agreement not to comply with Section 1.704-1(b) of the Regulations, provided that, to the extent that any such adjustment is inconsistent with other provisions of this Agreement and would have a material adverse effect on any Preferred Member, such adjustment shall require the consent of such Preferred Member.

"Capital Contributions" means, with respect to any Member, the amount of money and the initial Gross Asset Value of any property (other than money) contributed to the LLC by such Person (or its predecessors in interest) with respect to the interest in the LLC held by such Person. The principal amount of a promissory note that is not readily traded on an established securities market and that is contributed to the LLC by the maker of the note (or a Person related to the maker of the note within the meaning of Section 1.704-1(b)(2)(ii)(c) of the Regulations) shall not be included in the Capital Account of any Person until the LLC makes a taxable disposition of the note or until (and to the extent) principal payments are made on the note, all in accordance with Regulations Section 1.704-1(b)(2)(iv)(d)(2) of the Regulations.

"Certificate" has the meaning set forth in Section 9.2.

"Class A-1 Member" means at any time, any Member with Class A-1 Units in the LLC, as specified in the Interest Record; collectively, the "Class A-1 Members."

"Class A-1 Units" are those Units of ownership interest in the LLC designated as Class A-1 Units pursuant to Section 5.1, which Units entail the specific rights, privileges and obligations of Class A-1 Units set forth herein.

"Class A-2 Member" means at any time, any Member with Class A-2 Units in the LLC, as specified in the Unit Record; collectively, the "Class A-2 Members."

"Class A-2 Units" are those Units of ownership interest in the LLC designated as Class A-2 Units pursuant to Section 5.1, which Units entail the specific rights, privileges and obligations of Class A-2 Units set forth herein.

"Class A-3 Member" means at any time, any Member with Class A-3 Units in the LLC, as specified in the Unit Record; collectively, the "Class A-3 Members."

"Class A-3 Units" are those Units of ownership interest in the LLC designated as Class A-3 Units pursuant to Section 5.1, which Units entail the specific rights, privileges and obligations of Class A-3 Units set forth herein.

"Class M Member" means at any time, the Member with Class M Units in the LLC, as specified in the Unit Record.

"Class M Units" are those Units of ownership interest in the LLC designated as Class M Units pursuant to Section 5.1, which Units entail the specific rights, privileges and obligations of Class M Units set forth herein.

"Code" means the Internal Revenue Code of 1986, as amended from time to time (or any corresponding provisions of succeeding law).

"Depreciation" means, for each LLC taxable year, an amount equal to the depreciation, amortization, or other cost recovery deduction allowable for federal income tax purposes with respect to an asset for such Allocation Year, except that if the Gross Asset Value of an asset differs from its adjusted basis for federal income tax purposes at the beginning of such

(iii) The Gross Asset Value of any LLC asset distributed to any Member shall be adjusted to equal the gross fair market value of such asset on the date of distribution as determined by the Board; and

(iv) The Gross Asset Values of LLC assets shall be increased (or decreased) to reflect any adjustments to the adjusted basis of such assets pursuant to Code Section 734(b) or Code Section 743(b), but only to the extent that such adjustments are taken into account in determining Capital Accounts pursuant to Section 1.704-1(b)(2)(iv)(m) of the Regulations and subparagraph (vi) of the definition of "Profits" and "Losses" in this Section 13.1; provided, however, that Gross Asset Values shall not be adjusted pursuant to this subparagraph (iv) to the extent the Board determines that an adjustment pursuant to subparagraph (ii) is necessary or appropriate in connection with a transaction that would otherwise result in an adjustment pursuant to this subparagraph (iv).

If the Gross Asset Value of an asset has been determined or adjusted pursuant to subparagraphs (i), (ii), or (iv), such Gross Asset Value shall thereafter be adjusted by the Depreciation taken into account with respect to such asset for purposes of computing Profits and Losses.

"Indemnified Party" has the meaning given such term in Section 6.9.

"Issuance Items" has the meaning given such term in Section 3.3(h).

"LLC" means the company formed pursuant to this Agreement and the company continuing the business of this company in the event of dissolution as herein provided.

"LLC Minimum Gain" shall have the same meaning given the term "partnership minimum gain" in Section 1.704-2(b)(2) of the Regulations, and will be computed as provided in Section 1.704-2(d) in the Regulations.

"LLC Redemption" has the meaning provided for in Section 10.3(h).

"Liquidating Event" has the meaning given such term in Section 11.1.

"Losses" has the meaning set forth in the definition of "Profits" and "Losses" in this Section 13.1.

"Management Agreement" means the Management Agreement entered into between TNC and the LLC and attached hereto as Exhibit G, as amended from time to time.

"Manager" or "Managers" means any member of the Board of Managers.

"Member" means any Person who is a record owner of a Unit; collectively, the "Members."

"Member Nonrecourse Debt" has the same meaning given the term "partner nonrecourse debt" in Regulations Section 1.704-2(b)(4) of the Regulations.

"Member Nonrecourse Debt Minimum Gain" means an amount, with respect to each Member Nonrecourse Debt, equal to the LLC Minimum Gain that would result if such Member Nonrecourse Debt were treated as a Nonrecourse Liability, determined in accordance with Section 1.704-2(i)(3) of the Regulations.

"Member Nonrecourse Deductions" has the same meaning given the term "partner nonrecourse deductions" in Section 1.704-2(i) of the Regulations.

"Nature Conservancy Conservation Easement" means an easement substantially in the form attached hereto as Exhibit D, with such amendments and modifications as the Board may deem necessary or appropriate.

"Nonrecourse Deductions" has the same meaning as set forth in Section 1.704-2(b)(1) and Section 1.704-2(c) of the Regulations.

"Nonrecourse Liability" has the same meaning given such term in Section 1.704-2(b)(3) of the Regulations.

"Officer" means any individual appointed by the Board pursuant to Section 6.5, unless such individual has subsequently resigned, died or been removed.

"Original Agreement" has the meaning given such term in the preamble.

"Original Issue Date" means the date of the original issuance of a Preferred Member's Preferred Units.

"Person" means any individual, general partnership, limited partnership, corporation, trust, limited liability company or other association or entity.

"Preferred Member" means at any time, any Member holding Class A-1 Units, Class A-2 Units or Class A-3 Units.

"Preferred Return" for any class of Preferred Units means the annual preferred return per Unit of such class of Preferred Units as specified in Section 4.2 hereof.

"Preferred Units" are Class A-1 Units, Class A-2 Units and Class A-3 Units, collectively.

"President" means the chief executive officer of the LLC appointed by the Board pursuant to Section 6.5, unless such individual has subsequently resigned, died or been removed.

"Profits" and "Losses" means, for each Allocation Year, an amount equal to the LLC's taxable income or loss for such Allocation Year, determined in accordance with Code Section 703(a) (for this purpose, all items of income, gain, loss, or deduction required to be stated separately pursuant to Code Section 703(a)(1) shall be included in taxable income or loss), with the following adjustments:

(i) Any income of the LLC that is exempt from federal income tax and not otherwise taken into account in computing Profits or Losses pursuant to this definition of "Profits" and "Losses" shall be added to such taxable income or loss;

(ii) Any expenditures of the LLC described in Code Section 705(a)(2)(B) or treated as Code Section 705(a)(2)(B) expenditures pursuant to Section 1.704-1(b)(2)(iv)(i) of the Regulations, and not otherwise taken into account in computing Profits or Losses pursuant to this definition of "Profits" and "Losses" shall be subtracted from such taxable income or loss;

(iii) In the event the Gross Asset Value of any LLC asset is adjusted pursuant to subparagraphs (ii) or (iii) of the definition of "Gross Asset Value," the amount of such adjustment shall be taken into account as gain or loss from the disposition of such asset for purposes of computing Profits or Losses;

(iv) Gain or loss resulting from any disposition of Property with respect to which gain or loss is recognized for federal income tax purposes shall be computed by reference to the Gross Asset Value of the property disposed of, notwithstanding that the adjusted tax basis of such property differs from its Gross Asset Value;

(v) In lieu of the depreciation, amortization, and other cost recovery deductions taken into account in computing such taxable income or loss, there shall be taken into account Depreciation for such Allocation Year, computed in accordance with the definition of "Depreciation;"

(vi) To the extent an adjustment to the adjusted tax basis of any LLC asset pursuant to Code Section 734(b) or Code Section 743(b) is required pursuant to Section 1.704-1(b)(2)(iv)(m)(4) of the Regulations to be taken into account in determining Capital Accounts as a result of a distribution other than in complete redemption of a Member's Units, the amount of such adjustment shall be treated as an item of gain (if the adjustment increases the basis of the asset) or loss (if the adjustment decreases the basis of the asset) from the disposition of the asset and shall be taken into account for purposes of computing Profits or Losses; and

(vii) Any items which are specially allocated pursuant to Section 3.3 or Section 3.4 shall not be taken into account in computing Profits or Losses.

The amounts of the items of LLC income, gain, loss or deduction available to be specially allocated pursuant to Section 3.3 and Section 3.4 shall be determined by applying rules analogous to those set forth in subparagraphs (i) through (vi) above.

"Promissory Note" means a note issued by the LLC to the Class M Member pursuant to Section 2.5, which shall be a two year note with interest payable quarterly and principal due on maturity and which shall be on terms no more favorable to the Class M Member than terms that the LLC could obtain from a disinterested third party lender at the time of the loan.

"Property" means all real and personal property acquired and held by the LLC and any improvements thereto and shall include Timber Rights and both tangible and intangible property.

"Redemption Notice" has the meaning set forth in Section 10.3(a).

"Redemption Price" means the amount payable per Unit upon redemption of such Unit as permitted hereunder, which amount is set forth in Section 10.3 hereof. Unless otherwise specified in Section 10.3 hereof, the Redemption Price shall be $1.00 per Preferred Unit.

"Regulations" means the final or temporary regulations promulgated under the Code, as such regulations may be amended from time to time (including corresponding provisions of succeeding regulations).

"Regulatory Allocations" has the meaning set forth in Section 3.4.

"Revaluation Threshold" for a Preferred Member's Timber Rights is the initial Gross Asset Value of such Timber Rights on the Original Issue Date increased by 9.5% per annum (compounded annually) from the Original Issue Date with respect to the Preferred Units associated with such Timber Rights.

"Revalued Fair Market Value" has the meaning provided for in Section 9.4.

"Secretary" means the officer appointed by the Board to serve as secretary for all meetings of the Board and the Members pursuant to Section 6.5, unless such individual has subsequently resigned, died or been removed.

"Service" means the Internal Revenue Service of the United States of America or any successor federal government agency or agencies with similar regulatory and enforcement authority.

"Subscription Agreement" means an agreement between a new Member and the LLC in the form attached hereto as Exhibit F and in form and substance reasonably satisfactory to the Class M Member.

"Tax Matters Partner" has the meaning given such term in Section 7.2(b).

"Timber Rights" means the rights evidenced by the Forest Bank Management and Conservation Easements and the Forest Bank Management Easements contributed by Members to the LLC.

"TNC" has the meaning given such term in the preamble.

"Transfer" means, as a noun, any voluntary or involuntary transfer, sale, pledge, hypothecation or other disposition or encumbrance and, as a verb, voluntarily or involuntarily to transfer, sell, pledge, hypothecate or otherwise dispose of or encumber.

"Transferee" means any Person who has acquired a beneficial interest in the Units of a Member of the LLC.

"Transferor" means any Member who has Transferred or who is Transferring all or any part or interest in its Units.

"Unit" means a portion of the ownership interest in the LLC (including Class A-1 Units, Class A-2 Units, Class A-3 Units and Class M Units), including any and all benefits to which the holder of such Unit may be entitled as provided in this Agreement, together with all obligations of such Member to comply with the terms and provisions of this Agreement.

"Unit Record" has the meaning given such term in Section 5.2.

13.2. Construction. Every covenant, term and provision of this Agreement shall be construed according to its fair meaning and not for or against any Member. For the purpose of this Agreement, any definition incorporating, by reference to the Code or the Regulations, the term "partner" or "partnership" shall mean "Member" or "LLC," respectively. Words such as "herein," "hereinafter," "hereof," and "hereunder" refer to this Agreement as a whole, unless the context otherwise requires.

13.3. Headings. Article and Section headings contained in this Agreement are for reference purposes only and are not intended to describe, interpret, define or limit the scope, extent or intent of this Agreement or any provision hereof.

13.4. Variation of Pronouns. All pronouns and any variations thereof shall be deemed to refer to masculine, feminine or neuter, singular or plural, as the identity of the Person or Persons may require.

13.5. Incorporation by Reference. Every exhibit, schedule and other appendix attached to this Agreement and referred to herein is hereby incorporated in this Agreement by reference.

ARTICLE XIV

MISCELLANEOUS

14.1. Notices. Any notice or other communication required or permitted hereunder shall be in writing and shall be deemed to have been duly given on the date of service if served personally; 3 business days after the date of mailing, if mailed, by first class mail, registered or certified, postage prepaid; 1 business day after delivery to the courier if sent by private receipt courier guaranteeing next day delivery, delivery charges prepaid, and in each case, addressed to such Member at the address shown for such Member in the Unit Record or at such other place as the respective Member may, from time to time, designate in a written notice to the other Members. All communications among Members in the normal course of the business of the LLC shall be deemed sufficiently given if sent by regular mail, postage prepaid.

14.2. Binding Effect. Except as otherwise provided in this Agreement, every covenant, term and provision of this Agreement shall be binding upon and inure to the benefit of the Members and their respective heirs, legatees, legal representatives, successors, transferees and assigns.

14.3. Creditors. None of the provisions of this Agreement shall be for the benefit of or enforced by any creditor of the LLC or any Member.

14.4. Remedies Cumulative. No remedy herein conferred upon any party is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute or otherwise. No single or partial exercise by any party of any right, power or remedy hereunder shall preclude any other or further exercise thereof.

14.5. Severability. Every provision of this Agreement is intended to be severable. If any term or provision hereof is illegal or invalid for any reason whatsoever, such illegality or invalidity shall not affect the validity or legality of the remainder of this Agreement.

14.6. Further Action. Each Member agrees to perform all further acts and execute, acknowledge and deliver any documents which may be reasonably necessary, appropriate or desirable to carry out the provisions of this Agreement.

14.7. Governing Law. The laws of the State of Delaware shall govern the validity of this Agreement, the construction of its terms, and the interpretation of the rights and duties of the Members, without regard to the principles of conflicts of laws.

14.8. Waiver of Action for Partition. Each of the Members irrevocably waives any right that it may have to maintain any action for partition with respect to any of the Property of the LLC.

14.9. Counterpart Execution. This Agreement may be executed in any number of counterparts with the same effect as if all of the Members had signed the same document. All counterparts shall be construed together and shall constitute one agreement.

IN WITNESS WHEREOF, the parties have entered into this Agreement as of the day first above set forth.

CLASS M MEMBER:

THE NATURE CONSERVANCY

By:_____
Name:
Title:

SIGNATURE PAGE FOR
CLASS A MEMBERS
OF
THE FOREST BANK, LLC

The undersigned, as a Class A Member of The Forest Bank, LLC, ("Forest Bank") a Delaware limited liability company, hereby agrees to all of the terms of the Amended and Restated Limiting Liability Company Agreement for Forest Bank, dated as of May __, 2001, and agrees to be bound by the terms and provisions thereof.

_____

Print Name:_____

Date:_____

Exhibit 4.5

[INSERT FOREST BANK LOGO]

THE FOREST BANK, LLC

Subscription and Contribution Agreement

THE FOREST BANK, LLC
(a Delaware limited liability company)

SUBSCRIPTION AND CONTRIBUTION AGREEMENT
To be Fully Completed by Contributor

When countersigned by The Forest Bank, LLC, a Delaware limited liability company (the "Forest Bank"), this Subscription and Contribution Agreement (this "Agreement") shall constitute a subscription by the undersigned contributor (the "Contributor") for the designated series of class A membership units in the Forest Bank (the "Class A Units") to be issued by the Forest Bank, in exchange for the contribution of certain Timber Rights, as defined herein.

Each signatory hereto, if more than one is required because of type of ownership, must fully complete this Agreement.

Your answers will, at all times, be kept strictly confidential. However, you hereby agree that the Forest Bank may present this Agreement to such persons as it deems appropriate in order to assure itself that the offer and sale of Class A Units will not result in violation of law or regulations.

The parties hereto intend that the contribution of Timber Rights in exchange for the Class A Units evidenced by this Agreement will be treated as a tax free contribution of property in exchange for an interest in a partnership under Section 721 of the Internal Revenue Code of 1986, as amended (the "Code"), but the failure of the contribution to qualify as such a tax free exchange shall not impair the validity or binding effect of this Agreement.

1. Miscellaneous Definitions. Capitalized terms used herein and not otherwise defined in the context in which they are used shall have the meanings ascribed to them below.

(a) "Environmental Laws" shall mean local, state and federal environmental laws, regulations, ordinances and administrative and judicial orders relating to the generation, recycling, reuse, sale, storage, handling, transport and disposal of any Hazardous Substances.

(b) "FIRPTA Certificate" shall mean the affidavit of the Contributor under Code Section 1445, certifying that the Contributor is not a foreign corporation, foreign partnership, foreign trust, foreign estate or foreign person (as those terms are defined in the Code and the regulations thereunder).

(c) "Hazardous Substances" shall mean any substance or material whose presence, nature, quantity or intensity of existence, use, manufacture, disposal, transportation, spill, release or effect, either by itself or in combination with other materials is either: (1) potentially injurious to the public health, safety or welfare, the environment or the Properties, or (2) regulated, monitored or defined as a hazardous or toxic substance or waste by any governmental agency, and Hazardous Substances shall include, but not be limited to, hydrocarbons, petroleum, gasoline, crude oil, or any products, by-products or components thereof, and asbestos.

(d) "Property" shall mean the parcel of real property on which the Timber Rights are located and further described in the Contributor's Easement and Management Agreement.

(e) "Timber Rights" shall mean the rights to manage, harvest and replant the present and any future standing timber on the Property and all rights ancillary to such rights, as evidenced by the Easement and Management Agreement.

2. Contribution and Subscription. The Contributor hereby subscribes for and agrees to acquire the Class A Units designated below in exchange for a contribution of the Timber Rights, all as evidenced by the Contributor's execution of this Agreement, the Easement and Management Agreement and the LLC Agreement (as defined below). The Contributor understands that before this subscription will be accepted, the Contributor must have properly completed, executed and returned to the Forest Bank the following:

(a) this Agreement, including two signed signature pages;

(b) the FIRPTA Certificate;

(c) the First Amended and Restated Limited Liability Company Agreement of the Forest Bank, LLC (the "LLC Agreement"); and

(d) either (1) A Forest Bank Forest Management and Conservation Easement,
or
(2) A Forest Bank Forest Management Easement, if the Contributor has previously executed a Nature Conservancy Conservation Easement with The Nature Conservancy.

either (1) or (2) above, as applicable, is referred to herein as the "Easement and Management Agreement". A copy of Contributor's fully executed Easement and Management Agreement is attached as Exhibit A.

3. Appraisal of Timber Rights. The Contributor acknowledges that (a) the Forest Bank has undertaken a timber appraisal of the Timber Rights to be contributed by the Contributor, a copy of which shall be attached hereto as Exhibit B and incorporated herein (the "Appraisal"), and (b) the appraised value of the Timber Rights determines the number of Class A Units to be issued to the Contributor in exchange for its contribution of the Timber Rights.

The appraised value of the Timber Rights is $_____ (the "Appraised Value").

The Contributor understands the Appraisal and agrees with and accepts the Appraised Value.

4. Contributions of Timber Rights; Issuance of Class A Units. The Contributor has carefully reviewed and understands the descriptions of the different types of Class A Units in the Prospectus.

The Contributor hereby subscribes to acquire _____[number] Class A-____ [type] Units in exchange for a contribution of the Timber Rights to the Forest Bank.

5. Receipt and Review of the Prospectus. The Contributor acknowledges that he, she or it has been furnished and warrants that he or it has carefully reviewed the Forest Bank's prospectus, dated _____, 2001 and the materials delivered therewith (collectively, the "Prospectus") and has had the opportunity to ask questions of the Forest Bank's officers and employees concerning the Prospectus. In addition, the Contributor acknowledges that he, she or it understands, either alone or with the help of a tax advisor that is not affiliated with the Forest Bank, the complicated tax consequences of a contribution of Timber Rights (as defined below) in exchange for Class A Units and with respect to distributions and withdraws with respect to the Class A Units.

6. Representations and Warranties of the Contributor. In order to induce the Forest Bank to accept this contribution in exchange for Class A Units, the Contributor represents and warrants to the Forest Bank as provided below:

(a) Representations Regarding the Offering of Units.

(1) Review of the Prospectus. The Contributor has carefully reviewed and evaluated the Prospectus and understands the risks of, and other considerations relating to, a contribution of timber rights in exchange for Class A Units.

(2) Response to Questions. The Forest Bank has answered all inquiries that the Contributor and his or its advisers or agents, if any, have made concerning the Forest Bank and its activities, and all other matters relating to the operations of the Forest Bank and contributions in exchange for the Class A Units.

(3) Accurate Information. All of the information set forth herein or in the Easement and Management Agreement is correct and complete as of the date of such documents, and if there should be any material change in such information prior to the acceptance of this Agreement by the Forest Bank, the Contributor will immediately furnish the revised or corrected information to the Forest Bank.

(4) Tax Advice. The Contributor has had the opportunity to obtain advice regarding the tax consequences of contributing Timber Rights to the Forest Bank and becoming a Member of the Forest Bank from a tax advisor, accountant or attorney who is not affiliated with the Forest Bank, and has either received such advice or declined to take the opportunity to receive such advice.

(b) Representations Regarding the Contributor and the Property.

(1) Age. If the Contributor is an individual, he or she is at least 21 years of age.

(2) Good Standing; Power to Act. If the Contributor is a corporation, partnership, limited liability company, trust or other form of business entity (a "Business Entity"), such entity has been duly formed, is validly existing and is in good standing under the laws of the jurisdiction in which it was organized and has all

requisite powers and authority and all governmental licenses, authorizations, consents and approvals necessary to own the Property, contribute the Timber Rights, execute this Agreement, the Easement and Management Agreement and the LLC Agreement and to perform the obligations contemplated herein and therein.

(3) Due Authorization. If the Contributor is a Business Entity, the execution, delivery and performance of this Agreement, the Easement and Management Agreement and the LLC Agreement and the consummation of the transactions contemplated herein and therein have been duly authorized, adopted and approved by the requisite authorities for such action, to the extent required by its organizational documents and applicable law. No other proceedings on the part of the Contributor are necessary to authorize this Agreement, the Easement and Management Agreement or the LLC Agreement or the transactions contemplated hereby and thereby. This Agreement has been duly executed by the Contributor and is a valid and binding obligation of the Contributor, enforceable against it in accordance with its terms.

(4) Title to the Property. Except as disclosed below, the Contributor has good and marketable title to the Property and Timber Rights, free and clear of all liens and encumbrances of any kind and the right to convey the Timber Rights related to the Property in accordance with the terms of this Agreement, the Easement and Management Agreement and the LLC Agreement.

Exceptions: _____

_____

_____

Note: If there are exceptions to good and marketable title, Contributor may need to obtain subordination of any other liens affecting the Timber Rights before this Agreement will be accepted by the Forest Bank.

(5) Term and Character of Ownership. Contributor acquired title to the Property in _____ [month and year] and has owned the property continuously for at least one full year prior to the date of this Agreement. The Contribution has not held the Property or the Timber Rights as inventory primarily for sale to customers in the ordinary course of a trade or business of the Contributor.

(6) Taxes. To Contributor's best knowledge, all taxes which are due and payable with respect to the Property have been timely paid and no examination, investigation, claim, assessment, deficiency or other proceeding is pending or, threatened with respect to the Property or Timber Rights.

(7) Environmental Matters. To Contributor's best knowledge, there are no (a) Hazardous Substances on the Property or any portion thereof in violation of any Environmental Laws, or (b) spills, releases, discharges, or disposal of Hazardous Substances that have occurred or are presently occurring on, onto or from the

Property, or any portion thereof, or (c) PCB transformers serving, or stored on, the Property, or any portion thereof. To Contributor's best knowledge, the Property is in compliance with all applicable Environmental Laws.

(8) Condemnation and Eminent Domain. There are no condemnation or eminent domain proceedings pending with respect to the Property nor has the Contributor received any written notice from a governmental authority of any such proceedings threatened against the Property or any part thereof. To Contributor's best knowledge, there is no proposed material change in the route, grade or width of, or otherwise affecting, any street or road on, adjacent to or serving the Property.

(9) Bankruptcy. No Act of Bankruptcy has occurred with respect to the Contributor. For the purposes of this Agreement, an "Act of Bankruptcy" shall occur if Contributor (a) applies for, consents to or fails to oppose the appointment of a receiver, custodian, trustee or liquidator of itself or of all or a substantial part of its Property, (b) makes a general assignment for the benefit of its creditors, (c) is adjudicated to be bankrupt or insolvent, (d) files a petition seeking to take advantage of any state or federal bankruptcy or insolvency laws, (e) fails to oppose any petition or claim filed against it in any case or proceeding under any state or federal bankruptcy or insolvency laws, or (f) takes any corporate action for the purpose of effecting any of the foregoing.

(10) Broker. The Contributor has not engaged the service of, nor is it or will it or will the Forest Bank become liable to, any real estate agent, broker, finder or any other person or entity for any brokerage or finder's fee, commissioner or other amount with respect to the transactions described herein on account of any action by the Contributor.

7. Agreement to Indemnify the Forest Bank. The Contributor hereby agrees to indemnify and hold harmless the Forest Bank and its affiliates from any and all damages, losses, costs and expenses (including reasonable attorneys' fees) which they may incur (a) by reason of the Contributor's failure to fulfill any of the terms and conditions of this Agreement, or (b) by reason of any breach by the Contributor of any of the representations, warranties or agreements contained herein or in the Easement and Management Agreement. The Contributor further agrees and acknowledges that these indemnifications shall survive any sale or transfer, or attempted sale or transfer, of any of the Contributor's Class A Units or the Contributor's death.

8. Exculpation of Members. The Contributor acknowledges that he or it is not relying upon any Member of the Forest Bank other than the Manager in making his or its decision to contribute Timber Rights to the Forest Bank. The Contributor agrees that no Member of the Forest Bank other than the Manager shall be liable for any action heretofore or hereafter taken or omitted to be taken by any of them relating to or in connection with the Forest Bank or the Class A Units. Without limiting the generality of the foregoing, no Member other than the Manager shall have any obligation, liability or responsibility whatsoever for the accuracy, completeness or fairness of any or all information about the Forest Bank.

9. Signature by the Forest Bank. The Contributor agrees that this Agreement is and shall be irrevocable, but the obligations hereunder will terminate if this Agreement is not counter-signed by the Forest Bank. The Forest Bank will notify when this Agreement is counter-signed by the Forest Bank and shall return a fully executed copy of this Agreement to the Contributor at such time.

10. Miscellaneous. The Contributor further understands, agrees and acknowledges the following:

(a) At no time has there been any representation, guarantee or warranty to the Contributor by the Forest Bank or any of its agents or employees or any other person, expressly or by implication, at variance with the Prospectus, this Agreement or the Easement and Management Agreement.

(b) This subscription is not transferable or assignable by the Contributor.

(c) If the Contributor is more than one person, the obligations of the Contributor shall be joint and several and the representations and warranties herein contained shall be deemed to be made by and be binding upon each such person and his heirs, executors, administrators, successors and assigns.

(d) This subscription, upon acceptance by the Forest Bank, shall be binding upon the heirs, executors, administrators, successors and assigns of the Contributor.

(e) This Agreement shall be construed in accordance with and governed by the laws of the state in which the Property is located.

(f) This Agreement and the documents referred to herein constitute the entire agreement between the parties respecting the subject matter hereof and may be amended only by a writing executed by the Forest Bank and the Contributor.

(g) Captions in this Agreement are for convenience of reference only and shall not limit or otherwise affect the interpretations or effect of any term or provision hereof.

(h) The representations, warranties and agreements contained herein and in the Easement and Management Agreement shall survive the delivery and payment for the Class A Units.

(i) The Contributor and the Forest Bank shall each pay their own legal fees and other expenses incurred in connection with this Agreement and the performance of the transactions contemplated by this Agreement.

(j) The Contributor shall be responsible for the Virginia Recordation Tax imposed by Virginia Code Section 58.1-302 with respect to any Timber Rights located in Virginia.

11. Contributor Data:

Full Legal Name: _____

Social Security No.:
(or Tax I.D.#) _____

Short Property
Description: _____

Appraised Value of
Timber Rights: _____

Number and Type of
Class A Units: _____

Residence Address:
(including Zip Code) _____

Home Phone: _____

Where Employed: _____

Address of Employer: _____

Business Phone: _____

Address of record
(for all Member notices): _____

IN WITNESS WHEREOF, subject to acceptance by the Forest Bank, the Contributor has executed this Agreement to evidence his, her or its contribution of the Timber Rights to subscribe to purchase the Class A Units issued by The Forest Bank, LLC, this ____ day of _____, 20___.

_____
Contributor #1 (Print or Type Name)

_____
Signature

_____
Contributor #2 (Print or Type Name)

_____
Signature

The Forest Bank, LLC has accepted this Agreement this ___ day of _____, 20___.

THE FOREST BANK, LLC

By: _____
Name:
Title:

IN WITNESS WHEREOF, subject to acceptance by the Forest Bank, the Contributor has executed this Agreement to evidence his, her or its contribution of the Timber Rights to subscribe to purchase the Class A Units issued by The Forest Bank, LLC, this ____ day of _____, 20___.

_____
Contributor #1 (Print or Type Name)

_____
Signature

_____
Contributor #2 (Print or Type Name)

_____
Signature

The Forest Bank, LLC has accepted this Agreement this ___ day of _____, 20___.

THE FOREST BANK, LLC

By: _____
Name:
Title:

EXHIBIT A

Copy of Contributor's Easement and Management Agreement

EXHIBIT A

EXHIBIT B

Copy of Contributor's Timber Rights Appraisal

EXHIBIT B

5. the Management Agreement; and

6. the Prospectus.

We also have reviewed such other records, documents and matters of fact and law as we have deemed necessary or relevant for purposes of rendering the opinions expressed below. In addition, we have assumed, with your permission, the authenticity of all documents submitted to us as originals, the conformity to the originals of all documents submitted to us as certified or photostatic copies and the authenticity of the originals of such copies, the genuineness of signatures not witnessed by us, the legal capacity of natural persons, and the due authorization, execution, and delivery of all documents by all parties thereto and the validity, binding effect, and enforceability thereof.

Furthermore, we have assumed, with your permission, the following:

1. the transactions contemplated by the Prospectus will be consummated in accordance with the descriptions in the Prospectus;

2. all of the terms and conditions of the LLC Agreement and other governing documents will be satisfied;

3. no Preferred Member will exercise his or her redemption rights within two years of the contribution of the Timber Rights to the Company;

4. the Company will not assume the liabilities of any Member or take Timber Rights subject to any indebtedness;

5. prior to the contribution of Timber Rights to the Company, each Preferred Member will have held his or her Timber Rights for at least one year and no Preferred Member will have held his or her Timber Rights as inventory primarily for sale to customers in the ordinary course of his or her trade or business; and

6. except for the LLC Agreement, the Nature Conservancy Conservation Easement, the Forest Bank Management Easement, the Forest Bank Management and Conservation

Easement, the Subscription Agreement, and the certificates attached as exhibits to or otherwise described in the Prospectus, there are no agreements or understandings, express or implied, between the Company or TNC, on the one hand, and any of the Members, on the other hand.

Finally, we are relying upon the conclusions of the Internal Revenue Service set forth in the Private Letter Ruling.

Our opinions are based upon the current provisions of the Internal Revenue Code of 1986, as amended (the "Code"), the Treasury regulations promulgated thereunder, current administrative rulings, judicial decisions, and other applicable authorities, all as in effect on the date hereof. All of the foregoing authorities are subject to change or new interpretation, both prospectively and retroactively, and such changes or interpretation, as well as any changes in the facts as they have been represented to us or assumed by us, could support a position contrary to our opinions expressed below or could otherwise affect our conclusions. Our opinion does not foreclose the possibility of a contrary determination by the Internal Revenue Service or by a court of competent jurisdiction, or of a contrary position by the Internal Revenue Service or the Treasury Department in regulations or rulings issued in the future.

Based upon all of the foregoing and subject to the qualifications stated herein, we are of the opinion that:

(a) the Company will be classified as a partnership for federal income tax purposes;

(b) each Member will be treated as a partner of the Company for federal income tax purposes;

(c) no gain or loss will be recognized by a Preferred Member upon the contribution of his or her Timber Rights to the Company in exchange for Preferred Units;

(d) any gain recognized by the Company for federal income tax purposes from the Company's harvesting activities pursuant to the Forest Bank Management Easements

and the Forest Bank Management and Conservation Easements will be treated as long-term capital gain;

(e) for federal income tax purposes, the allocations of income, gain, loss, deduction, and credit in the LLC Agreement should have substantial economic effect or otherwise be respected under Code sections 704(b) and 704(c) and the Treasury regulations thereunder; and

(f) the descriptions of the law contained in the Prospectus under the caption "Federal Income Tax Considerations" are correct in all material respects, and the discussions thereunder fairly summarize the U.S. federal income tax considerations that are likely to be material to a Preferred Member.

We hereby consent to the filing of this opinion as an exhibit to the Registration Statement. In giving this consent, we do not admit that we are in the category of persons whose consent is required by Section 7 of the Securities Act of 1933, as amended, or the rules and regulations promulgated thereunder by the Securities and Exchange Commission.

The foregoing opinions are limited to the U.S. federal income tax matters addressed herein, and no other opinions are rendered with respect to other federal tax matters or to any issues arising under the tax laws of any other country, or any state or locality. We undertake no obligation to update the opinions expressed herein after the date of this letter. This opinion letter is solely for the information and use of the addressee and the holders of Preferred Units, and it may not be distributed, relied upon for any purpose by any other person, quoted in whole or in part or otherwise reproduced in any document, or filed with any governmental agency without our express written consent.

Very truly yours,

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