



# Certificate



GFA-COC-001905  
Certificate registration code

September 10, 2009      Sept  
Date of issue                      Date

*This is to certify that*

**Hearthstone, Inc.**

1630 E Highway 25-70  
Dandridge, TN 37725  
USA

*with the scope of*

**Production and Trade of Log and Timber Frame  
Homes and Heavy Timber Components**

*according to FSC-standard FSC-STD-40-004 (version 2.0)*

has been assessed by GFA Consulting Group GmbH and is entitled to use the FSC trademark for the above mentioned products and/or services.

Garsten Huljus, Program Director

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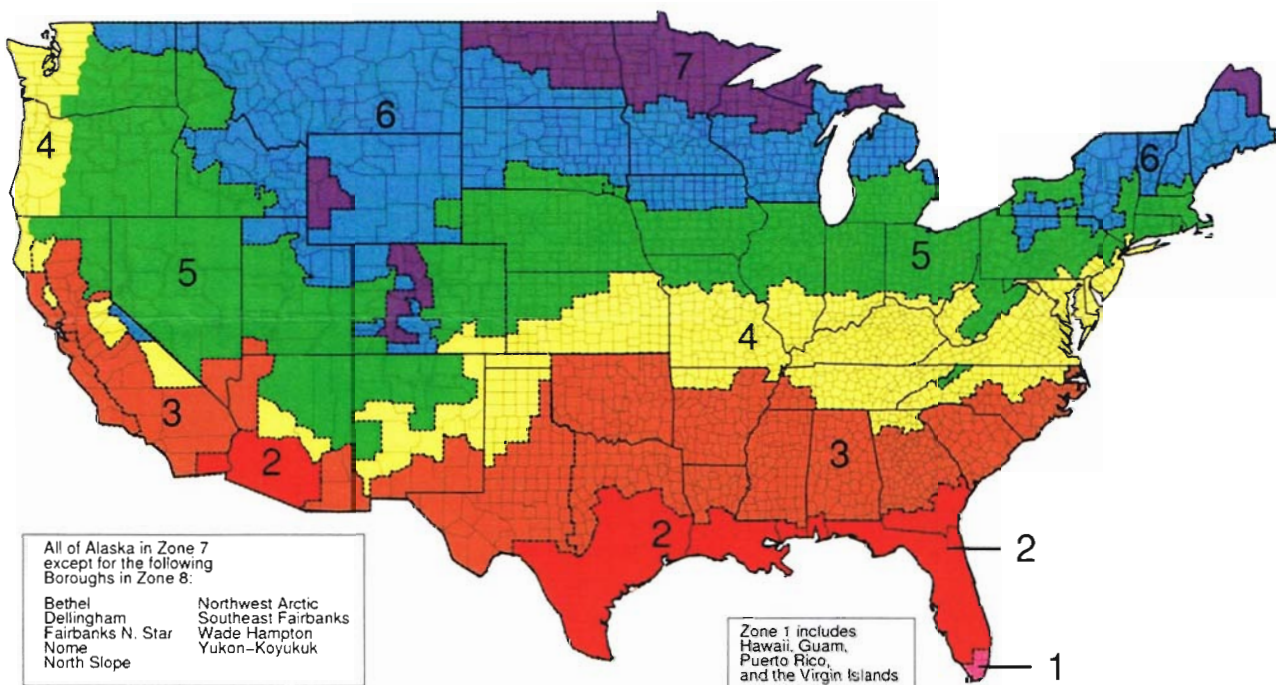
To: Distributors and Staff  
From: Chris Wood  
Re: Fall Happenings  
Date: September 22, 2009

Hello Distributors,

With the coming of fall and the leaves starting to turn, we must reflect on the successes and challenges in 2009 and share some new developments that will lead us into 2010 and beyond.

New residential construction has come to a screeching halt in many markets. Appraisal values, sales of existing, financing, permitting, codes and suppliers stretched thin have all conspired to undermine our industry in a very short period of time. The houses that are being sold and delivered have something in common; special sites and highly qualified buyers with up to 50% cash for a down payment. And each sale is being shopped hard with “bells and whistles” being discounted to earn the business.

**Energy Efficiency:** The push for more energy efficient new home construction has arrived with the adoption of the 2009 IECC compliance code. States that accepted federal stimulus money are required to adopt this new code that in effect eliminates the “tradeoff worksheet” when doing a RESCheck. Climate zones 5, 6 and 7 (see map) require increased wall and roof thickness and insulation to meet this new national standard. Check the local building codes and verify minimum R-value requirements. Some exceptions for log wall, thermal mass and built-up roofs with rigid insulation will be respected. The days of 2x4 and even 2x6 stud framed construction in cold weather climates are numbered. We welcome a return of SIPS (structural insulated panels) as a cost effective alternative to stick framing.





**Commercial Shift:** Clearly the bright spot for Hearthstone this past year has been commercial construction. Some of these have delivered and have been built profitably. Others are in the schedule and the profitability will be determined. All were heavily bid and ultimately required something special to close the sale:

A. Ag Center in Western NC; Hearthstone provided 44000 board feet of HeartDried® and pressure treated EWP 8x12 logs installed on a schedule with deadlines and penalties. The [www.eswoodtreatment.com](http://www.eswoodtreatment.com) process and its .4 retention rate for White Pine is unique because of our ability to dry large timber to the core. We have used this upgrade several times since to close new residential business.

B. Elk Viewing Center in PA; Hearthstone won the bid for a massive timber and steel roof system installed using FSC certified Douglas Fir. We are now FSC (Forest Stewardship Council) certified suppliers of log and timber homes for those Architects with LEED points to spec.

C. Meadowview Conference Center Pool Enclosure; Hearthstone partnered with a SYP glulam supplier to curve and bend these timber trusses. Steel plates, pre-staining and pre-assembly of the trusses was required to close the sale.

D. Hospice Center in Eastern KY; FOHC (free of heart center) Douglas Fir 8x18 timbers specified and supplied.

E. Alexander Library in PA; Contemporary design using FOHC and kiln dried Douglas Fir came as a result of the Elk Center contract.

F. Clarion Hotel Decorative Timber in Sevierville; The exterior timber frame porches needs installed six stories high in the air.

G. JH Ranch in California; After putting us on hold in January, they are back with money in hand to take delivery and start construction in early October.

H. The Carbone Residence in East TN; For this log and timber mountain retreat, we pre assembled and installed timber trusses that were HeartDried®, pressure treated, hand hewn, and WeatherAged™. We also provided a draw knifed kiln dried 12” wide x 10” tall half log profile with full log corners (see picture).



I. Fort Steuben Guardhouse; Repeat hand hewn cabin business on the banks of the Ohio River.

J. Gaillardia Home in Oklahoma City; Massive 12” x 18” White Oak timbers in “decorative” application and multiple phases throughout this beautiful home.

**FSC Certification:** With “Green Building” and LEED points being the rage these days, our new FSC certification is likely to attract the attention of customers, architects and builders alike. FSC timber requires a “chain of custody” and special inventory arrangements. Douglas fir, Western Red Cedar, Southern Yellow Pine and Glulams are FSC available today. We’ll soon have Eastern White Pine and Oak available through our sawmill. *(See document at the end.)*

**Antique Logs:** We have partnered with an antique log supplier who can provide us reclaimed cabins and barns using 150 year-old materials. The cabins are pre-assembled with new dovetail corners notched. The second floor systems and roofs are either conventional, truss, or new heavy timber by Hearthstone. We will have a Lake Haven 800 cabin erected and available to show in Dandridge soon. It is available to the first buyer. Then we’ll build another. We’ll use photography from the “Bob Timberlake Log Home Collection” catalogue and the “Log Cabins Past & Present” book to help launch this offering. Costs for an antique log substitution is in line with our new Bob Timberlake log pricing. Cabin sizes and details are different (max log length is 24’, no splices, no throughbolts, and no shrinkage and settling).





**FullScribed Logs:** We have partnered with a hand-crafter (who has great photos and expertise) and have sent staff to school to learn this method of construction. Massive Eastern White Pine logs (12" to 22" diameter and 40' long) are scribed to fit without chinking. They are pre-assembled in the yard with round timber trusses, second floor joists and purlins in the roof. Our first real client is destined for Northern California and we have a repeat customer interested in one for Maine.



**Long Term Outlook:** Many signs point to the worst being behind us from a banking and consumer confidence standpoint. The stock market has provided a 50% return since it's bottom on March 7<sup>th</sup>, but not many are celebrating this huge "Bull" run. Clearly the "bottom feeders" are busy fueling home sales. The high-end market for resale and jumbo loans is still paralyzed. The banks would prefer to lend (10) loans worth \$100k each vs. (1) loan at \$1.0 million. Until things change, we'll focus on the \$500k (plus land) client and feature more modest designs under 2800 square feet.

For Hearthstone, it has been and will continue to be a cash flow challenge. These commercial jobs have extended payment terms that best work when mixed with standard residential construction. The good news is our overhead is low and the equipment is paid for! Our breakeven point is manageable and we actually have a shot at posting a profit again in 2009. Hats off and congratulations to all of you who've contributed and sacrificed.

**Delivery Incentive:** Now our focus turns to the winter months and those clients who have a legitimate shot at taking delivery before April 2010. What incentive can we offer? What must we do to close the sale, or confirm a delivery date and therefore prioritize resources? There is no better or cheaper time to build than now. Those with the money realize this and just need some re-assurance. Call or visit us today to learn more. And as always, let me know how we can help in 2010.