UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

(**X**) QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2017

OR

( ) TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission File Number **1-9035**

POPE RESOURCES, A DELAWARE
LIMITED PARTNERSHIP
(Exact name of registrant as specified in its charter)

Delaware	**91-1313292**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)

19950 7th Avenue NE, Suite 200, Poulsbo, WA 98370
Telephone: **(360) 697-6626**
(Address of principal executive offices including zip code)
(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large Accelerated Filer o	Accelerated Filer x	Emerging growth company o
Non-accelerated Filer o	Smaller Reporting Company o	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)
Yes o No x

Partnership units outstanding at July 31, 2017: 4,365,919

Pope Resources
Index to Form 10-Q Filing
For the Six Months Ended June 30, 2017

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
Pope Resources, a Delaware Limited Partnership
June 30, 2017 and December 31, 2016
(in thousands)

	2017	2016
ASSETS		
Current assets		
Partnership cash	**$ 1,627**	$ 1,871
ORM Timber Funds cash	**3,245**	1,066
Cash	**4,872**	2,937
Accounts receivable, net	**3,445**	4,381
Land and timber held for sale	**9,416**	20,503
Prepaid expenses and other current assets	**707**	4,385
Total current assets	**18,440**	32,206
Properties and equipment, at cost		
Timber and roads, net of accumulated depletion (2017 - $118,987; 2016 - $110,533)	**276,604**	279,793
Timberland	**55,152**	54,369
Land held for development	**25,530**	24,390
Buildings and equipment, net of accumulated depreciation (2017 - $7,913; 2016 - $7,713)	**5,452**	5,628
Total property and equipment, at cost	**362,738**	364,180
Other assets		
Deferred tax and other assets	**943**	2,664
Total assets	**$ 382,121**	$ 399,050
LIABILITIES, PARTNERS' CAPITAL AND NONCONTROLLING INTERESTS		
Current liabilities		
Accounts payable	**$ 1,403**	$ 2,620
Accrued liabilities	**4,031**	3,843
Current portion of long-term debt	**121**	5,119
Deferred revenue	**372**	418
Current portion of environmental remediation liability	**4,569**	8,650
Other current liabilities	**536**	398
Total current liabilities	**11,032**	21,048
Long-term debt, net of unamortized debt issuance costs and current portion	**135,690**	125,291
Environmental remediation and other long-term liabilities	**4,038**	4,247
Partners' capital and noncontrolling interests		
General partners' capital (units issued and outstanding 2017 - 60; 2016 - 60)	**908**	934
Limited partners' capital (units issued and outstanding 2017 - 4,267; 2016 - 4,255)	**56,271**	58,199
Noncontrolling interests	**174,182**	189,331
Total partners' capital and noncontrolling interests	**231,361**	248,464
Total liabilities, partners' capital and noncontrolling interests	**$ 382,121**	$ 399,050

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)
Pope Resources, a Delaware Limited Partnership
For the Three and Six Months Ended June 30, 2017 and 2016
(in thousands, except per unit data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	**2017**	2016
Revenue	**$ 15,891**	$ 12,713	**$ 33,236**	$ 23,782
Cost of sales	**(8,979)**	(7,471)	**(20,180)**	(14,611)
Operating expenses	**(4,514)**	(4,041)	**(8,776)**	(7,414)
General and administrative expenses	**(1,405)**	(1,059)	**(3,106)**	(2,663)
Gain on sale of timberland	**—**	—	**12,503**	226
Income (loss) from operations	**993**	142	**13,677**	(680)
Interest expense, net	**(1,117)**	(747)	**(2,127)**	(1,405)
Income (loss) before income taxes	**(124)**	(605)	**11,550**	(2,085)
Income tax expense	**(3)**	—	**(59)**	(50)
Net income (loss)	**(127)**	(605)	**11,491**	(2,135)
Net and comprehensive (income) loss attributable to noncontrolling interests - ORM Timber Funds	**285**	1,041	**(7,963)**	1,536
Net and comprehensive income (loss) attributable to unitholders	**$ 158**	$ 436	**$ 3,528**	$ (599)
Allocable to general partners	**$ 2**	$ 6	**$ 49**	$ (8)
Allocable to limited partners	**156**	430	**3,479**	(591)
Net and comprehensive income (loss) attributable to unitholders	**$ 158**	$ 436	**$ 3,528**	$ (599)
Basic and diluted earnings (loss) per unit attributable to unitholders	**$ 0.03**	$ 0.09	**$ 0.80**	$ (0.15)
Basic and diluted weighted average units outstanding	**4,327**	4,313	**4,326**	4,312
Distributions per unit	**$ 0.70**	$ 0.70	**$ 1.40**	$ 1.40

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL (Unaudited)
Pope Resources, a Delaware Limited Partnership
Six Months Ended June 30, 2017
(in thousands)

	Attributable to Pope Resources		Noncontrolling Interests	Total
	General Partners	Limited Partners		
December 31, 2016	$ 934	$ 58,199	$ 189,331	$ 248,464
Net income	49	3,479	7,963	11,491
Cash distributions	(85)	(6,030)	(23,937)	(30,052)
Capital call	—	—	825	825
Equity-based compensation	11	773	—	784
Unit repurchases	—	(57)	—	(57)
Payroll taxes paid on unit net settlements	(1)	(93)	—	(94)
June 30, 2017	$ 908	$ 56,271	$ 174,182	$ 231,361

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
Pope Resources, a Delaware Limited Partnership
Six Months Ended June 30, 2017 and 2016

(in thousands)

	2017	2016
Net income (loss)	**$ 11,491**	$ (2,135)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depletion	**8,485**	4,193
Equity-based compensation	**784**	594
Depreciation and amortization	**252**	371
Deferred taxes	**44**	—
Cost of land sold	**301**	1,037
Gain on sale of timberland	**(12,503)**	(226)
Gain on disposal of property and equipment	**(3)**	(24)
Cash flows from changes in operating accounts		
Accounts receivable, net	**936**	638
Prepaid expenses and other assets	**5,356**	188
Real estate project expenditures	**(4,294)**	(5,225)
Accounts payable and accrued liabilities	**(1,031)**	447
Deferred revenue	**(47)**	40
Environmental remediation	**(4,280)**	(4,175)
Other current and long-term liabilities	**129**	(20)
Net cash provided by (used in) operating activities	**5,620**	(4,297)
Cash flows from investing activities		
Reforestation and roads	**(1,109)**	(918)
Capital expenditures	**(92)**	(140)
Proceeds from sale of property and equipment	**30**	—
Deposit for acquisition of timberland - Partnership	**—**	(1,581)
Acquisition of timberland - Partnership	**(4,951)**	(1,069)
Proceeds from sale of timberland - Funds	**26,444**	723
Net cash provided by (used in) investing activities	**20,322**	(2,985)
Cash flows from financing activities		
Line of credit borrowings	**18,507**	9,250
Line of credit repayments	**(8,000)**	—
Repayment of long-term debt	**(5,059)**	(57)
Debt issuance costs	**(77)**	—
Unit repurchases	**(57)**	—
Payroll taxes paid on unit net settlements	**(94)**	(152)
Cash distributions to unitholders	**(6,115)**	(6,088)
Cash distributions - ORM Timber Funds, net of distributions to Partnership	**(23,937)**	(2,573)
Capital call - ORM Timber Funds, net of Partnership contribution	**825**	—
Net cash provided by (used in) financing activities	**(24,007)**	380
Net increase (decrease) in cash	**1,935**	(6,902)
Cash at beginning of period	**2,937**	9,706
Cash at end of period	**$ 4,872**	$ 2,804

See accompanying notes to condensed consolidated financial statements.

1. The condensed consolidated balance sheets as of June 30, 2017 and December 31, 2016 and the related condensed consolidated statements of comprehensive income (loss) for the three- and six-month periods and partners' capital and cash flows for six-month periods ended June 30, 2017 and 2016, have been prepared by Pope Resources, A Delaware Limited Partnership (the "Partnership"), pursuant to the rules and regulations of the Securities and Exchange Commission. The condensed consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments and accruals) necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. The financial information as of December 31, 2016 is derived from the Partnership's audited consolidated financial statements and notes thereto for the year ended December 31, 2016, and should be read in conjunction with such financial statements and notes. The results of operations for the interim periods are not indicative of the results of operations that may be achieved for the entire fiscal year ending December 31, 2017.

2. The financial statements in the Partnership's 2016 annual report on Form 10-K include a summary of significant accounting policies of the Partnership and should be read in conjunction with this Quarterly Report on Form 10-Q.

   On May 28, 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective on January 1, 2018. Early application is not permitted. The Partnership will adopt this standard using the cumulative effect transition method applied to uncompleted contracts as of the date of adoption. Under this method, the cumulative effect of initially applying the standard is recorded as an adjustment to partners' capital. This new standard may result in accelerating the recognition of revenue in the Real Estate segment for performance obligations that are satisfied over time, which generally consist of construction and landscaping activity in common areas completed after transaction closing. Management does not expect, however, that the impact will be material to the Partnership's financial reporting.

   In February 2016, the FASB issued ASU 2016-02, *Leases*, which requires substantially all leases to be reflected on the balance sheet as a liability and a right-of-use asset. The ASU will replace existing lease accounting guidance in U.S. GAAP when it becomes effective on January 1, 2019 and the Partnership will adopt it at that time. The standard will be applied on a modified retrospective basis in which certain optional practical expedients may be applied. Due to the Partnership's limited leasing activity, management does not expect the effect of this standard to be material to its ongoing financial reporting.

   Effective January 1, 2017, the Partnership adopted ASU 2016-09, which simplifies several aspects of accounting for share-based payment transactions, including income tax consequences, award classification, cash flows reporting, and forfeiture rate application. The adoption of this standard did not have a material impact on the Partnership's consolidated financial statements.

3. Prepaid expenses and other current assets included $850,000 held by Internal Revenue Code Section 1031 like-kind exchange intermediaries at December 31, 2016. Deferred tax and other assets included $1.9 million held by like-kind exchange intermediaries at December 31, 2016. There were no amounts held by like-kind exchange intermediaries at June 30, 2017.

4. The Partnership has two general partners: Pope MGP, Inc. and Pope EGP, Inc. In total, these two entities own 60,000 partnership units. The allocation of distributions, profits and losses among the general and limited partners is pro rata across all units outstanding.

5. ORM Timber Fund II, Inc. (Fund II), ORM Timber Fund III (REIT) Inc. (Fund III) and ORM Timber Fund IV LLC (Fund IV), collectively "the Funds", were formed by Olympic Resource Management LLC (ORMLLC), a wholly owned subsidiary of the Partnership, for the purpose of attracting capital to purchase timberlands. The objective of these Funds is to generate a return on investments through the acquisition, management, value enhancement and sale of timberland properties. Each fund is organized to operate for a specific term from the end of its respective investment period; ten years for each of Fund II and Fund III and fifteen years for Fund IV. Fund II and Fund III are scheduled to terminate in March 2021 and December 2025, respectively. Fund IV will terminate on the fifteenth anniversary of its investment period. Fund

IV's investment period will end on the earlier of placement of all committed capital or December 31, 2019, subject to certain extension provisions.

Pope Resources and ORMLLC together own 20% of Fund II, 5% of Fund III and 15% of Fund IV. The Funds are considered variable interest entities because their organizational and governance structures are the functional equivalent of a limited partnership. As the managing member of the Funds, the Partnership is the primary beneficiary of each of the Funds as it has the authority to direct the activities that most significantly impact their economic performance, as well as the right to receive benefits and obligation to absorb losses that could potentially be significant to the Funds. Accordingly, the Funds are consolidated into the Partnership's financial statements. Additionally, the obligations of each of the Funds do not have any recourse to the Partnership.

In January 2017, Fund II closed on the sale of one of its tree farms, located on the Oregon coast, for $26.5 million. The carrying value of this tree farm, consisting of $11.1 million for timber and roads and $2.8 million for land, is reflected in land and timber held for sale on the consolidated balance sheets as of December 31, 2016. The consolidated pretax results generated by this tree farm were losses of $51,000 and 65,000 for the quarter and six months ended June 30, 2016, respectively, and a gain of $12.5 million for the six months ended June 30, 2017. The Partnership's share of these pretax results were losses of $10,000 and $13,000 for the quarter and six months ended June 30, 2016, respectively, and a gain of $2.5 million for the six months ended June 30, 2017.

The Partnership's condensed consolidated balance sheets included assets and liabilities of the Funds as of June 30, 2017 and December 31, 2016, which were as follows:

(in thousands)	**June 30, 2017**	December 31, 2016
Assets:		
Cash	**$ 3,245**	$ 1,066
Land and timber held for sale	**—**	13,941
Other current assets	**1,569**	2,195
Total current assets	**4,814**	17,202
Properties and equipment, net of accumulated depletion and depreciation (2017 - $44,862; 2016 - $38,306)	**243,130**	249,197
Total assets	**$ 247,944**	$ 266,399
Liabilities and equity:		
Current liabilities	**$ 2,248**	$ 2,256
Long-term debt, net of unamortized debt issuance costs	**57,279**	57,268
Total liabilities	**59,527**	59,524
Funds' equity	**188,417**	206,875
Total liabilities and equity	**$ 247,944**	$ 266,399

6. In the presentation of the Partnership's revenue and operating income (loss) by segment, all intersegment revenue and expense is eliminated to determine operating income (loss) reported externally. The following tables reconcile internally reported income (loss) from operations to externally reported income (loss) from operations by business segment, for the three and six months ended June 30, 2017 and 2016:

Three Months Ended June 30, (in thousands)	Fee Timber			Timberland Investment Management	Real Estate	Other	Consolidated
	Pope Resources	ORM Timber Funds	Total Fee Timber				
2017							
Revenue - internal	**$ 8,253**	**$ 7,273**	**$ 15,526**	**$ 817**	**$ 549**	**$ —**	**$ 16,892**
Eliminations	**(84)**	**—**	**(84)**	**(817)**	**(100)**	**—**	**(1,001)**
Revenue - external	**8,169**	**7,273**	**15,442**	**—**	**449**	**—**	**15,891**
Cost of sales	**(3,336)**	**(5,190)**	**(8,526)**	**—**	**(453)**	**—**	**(8,979)**
Operating, general and administrative expenses - internal	**(1,466)**	**(1,662)**	**(3,128)**	**(852)**	**(1,511)**	**(1,429)**	**(6,920)**
Eliminations	**40**	**817**	**857**	**101**	**19**	**24**	**1,001**
Operating, general and administrative expenses - external	**(1,426)**	**(845)**	**(2,271)**	**(751)**	**(1,492)**	**(1,405)**	**(5,919)**
Income (loss) from operations - internal	**3,451**	**421**	**3,872**	**(35)**	**(1,415)**	**(1,429)**	**993**
Eliminations	**(44)**	**817**	**773**	**(716)**	**(81)**	**24**	**—**
Income (loss) from operations - external	**$ 3,407**	**$ 1,238**	**$ 4,645**	**$ (751)**	**$ (1,496)**	**$ (1,405)**	**$ 993**
2016							
Revenue - internal	$ 8,186	$ 4,136	$ 12,322	$ 788	$ 516	$ —	$ 13,626
Eliminations	(52)	—	(52)	(788)	(73)	—	(913)
Revenue - external	8,134	4,136	12,270	—	443	—	12,713
Cost of sales	(3,789)	(3,197)	(6,986)	—	(485)	—	(7,471)
Operating, general and administrative expenses - internal	(1,597)	(1,544)	(3,141)	(665)	(1,133)	(1,074)	(6,013)
Eliminations	32	794	826	62	10	15	913
Operating, general and administrative expenses -external	(1,565)	(750)	(2,315)	(603)	(1,123)	(1,059)	(5,100)
Income (loss) from operations - internal	2,800	(605)	2,195	123	(1,102)	(1,074)	142
Eliminations	(20)	794	774	(726)	(63)	15	—
Income (loss) from operations - external	$ 2,780	$ 189	$ 2,969	$ (603)	$ (1,165)	$ (1,059)	$ 142

Six Months Ended June 30, (in thousands)	Fee Timber			Timberland Investment Management	Real Estate	Other	Consolidated
	Pope Resources	ORM Timber Funds	Total Fee Timber				
2017							
Revenue - internal	**$ 17,444**	**$ 14,979**	**$ 32,423**	**$ 1,665**	**$ 1,216**	$ —	**$ 35,304**
Eliminations	**(169)**	**—**	**(169)**	**(1,665)**	**(234)**	**—**	**(2,068)**
Revenue - external	**17,275**	**14,979**	**32,254**	**—**	**982**	**—**	**33,236**
Cost of sales	**(6,878)**	**(12,283)**	**(19,161)**	—	**(1,019)**	—	**(20,180)**
Operating, general and administrative expenses - internal	**(2,710)**	**(3,435)**	**(6,145)**	**(1,925)**	**(2,716)**	**(3,164)**	**(13,950)**
Eliminations	97	**1,665**	**1,762**	**208**	**40**	**58**	**2,068**
Operating, general and administrative expenses - external	**(2,613)**	**(1,770)**	**(4,383)**	**(1,717)**	**(2,676)**	**(3,106)**	**(11,882)**
Gain on sale of timberland	**—**	**12,503**	**12,503**	**—**	**—**	**—**	**12,503**
Income (loss) from operations - internal	**7,856**	**11,764**	**19,620**	**(260)**	**(2,519)**	**(3,164)**	**13,677**
Eliminations	**(72)**	**1,665**	**1,593**	**(1,457)**	**(194)**	**58**	**—**
Income (loss) from operations - external	**$ 7,784**	**$ 13,429**	**$ 21,213**	**$ (1,717)**	**$ (2,713)**	**$ (3,106)**	**$ 13,677**
2016							
Revenue - internal	$ 12,624	$ 9,498	$ 22,122	$ 1,611	$ 1,900	$ —	$ 25,633
Eliminations	(100)	—	(100)	(1,603)	(148)	—	(1,851)
Revenue - external	12,524	9,498	22,022	8	1,752	—	23,782
Cost of sales	(5,397)	(7,482)	(12,879)	—	(1,732)	—	(14,611)
Operating, general and administrative expenses - internal	(2,797)	(2,787)	(5,584)	(1,406)	(2,241)	(2,697)	(11,928)
Eliminations	59	1,609	1,668	129	20	34	1,851
Operating, general and administrative expenses - external	(2,738)	(1,178)	(3,916)	(1,277)	(2,221)	(2,663)	(10,077)
Gain on sale of timberland	—	226	226	—	—	—	226
Income (loss) from operations - internal	4,430	(545)	3,885	205	(2,073)	(2,697)	(680)
Eliminations	(41)	1,609	1,568	(1,474)	(128)	34	—
Income (loss) from operations - external	$ 4,389	$ 1,064	$ 5,453	$ (1,269)	$ (2,201)	$ (2,663)	$ (680)

7. Basic and diluted earnings per unit are calculated by dividing net income (loss) attributable to unitholders, adjusted for non-forfeitable distributions paid out to unvested restricted unitholders and preferred shareholders of Fund II and Fund III, by the weighted average units outstanding during the period. There were no dilutive securities outstanding during the periods presented. The following table shows the calculation of basic and diluted earnings per unit:

	Quarter Ended June 30,		Six Months Ended June 30,	
(in thousands, except per unit amounts)	**2017**	2016	**2017**	2016
Net and comprehensive income (loss) attributable to Pope Resources' unitholders	**$ 158**	$ 436	**$ 3,528**	$ (599)
Less:				
Net and comprehensive income attributable to unvested restricted unitholders	**(25)**	(25)	**(56)**	(50)
Preferred share dividends - ORM Timber Funds	**(8)**	(8)	**(16)**	(16)
Net and comprehensive income (loss) for calculation of earnings per unit	**$ 125**	$ 403	**$ 3,456**	$ (665)
Basic and diluted weighted average units outstanding	**4,327**	4,313	**4,326**	4,312
Basic and diluted earnings (loss) per unit	**$ 0.03**	$ 0.09	**$ 0.80**	$ (0.15)

8. In the first quarter of 2017, the Partnership issued 14,860 restricted units pursuant to the management incentive compensation program and 3,820 restricted units to members of the Board of Directors. These restricted units vest ratably over four years with the grant date fair value equal to the market price on the date of grant. During the six months ended June 30, 2017, 1,088 units were granted with no restrictions to certain board members who elected to receive their quarterly board compensation in the form of units rather than cash. Units granted to directors are included in the calculation of total equity compensation expense which is recognized over the vesting period, for restricted units, or immediately for unrestricted units. Grants to retirement-eligible individuals on the date of grant are expensed immediately. The Partnership recognized $180,000 and $178,000 of equity compensation expense in the second quarter of 2017 and 2016, respectively, related to these compensation programs and $784,000 and $594,000 for the six months ended June 30, 2017 and 2016, respectively,

9. In May 2017, the Partnership adopted a unit repurchase plan under Rule 10b5-1 of the Securities Exchange Act of 1934. The plan allows for the repurchase of units with an aggregate value of up to $1.2 million through June 1, 2018. The Partnership repurchased units with an aggregate value of $57,000 in the second quarter of 2017.

   In June 2017, the Partnership adopted a Distribution Reinvestment Plan (DRP) under which unitholders may elect to reinvest their cash distributions to acquire newly issued units. The Partnership has registered 225,000 units for issuance under the DRP. No units had been issued under the DRP as of June 30, 2017.

10. Supplemental disclosure of cash flow information: interest paid, net of amounts capitalized, totaled $1.9 million and $1.2 million during the first six months of 2017 and 2016, respectively. Income taxes paid totaled $24,000 and $146,000 during the first six months of 2017 and 2016, respectively.

11. During the first quarter of 2017, the Partnership closed on acquisitions of timberland in western Washington totaling 1,648 acres for $5.0 million. The aggregate purchase price was allocated $783,000 to land and $4.2 million to timber and roads.

12. In June 2017, the Partnership amended its $21.0 million credit facility with Northwest Farm Credit Services to increase the borrowing capacity to $31.0 million and restructure the facility to a revolving line of credit through December 31, 2019, at which time it may be repaid or converted to a term loan facility with multiple tranches that have an ultimate maturity in July 2027. Advances under the loan require quarterly interest-only payments with principal due at maturity. These advances may bear interest at a variable rate based on the one-month LIBOR plus a margin of 1.85% (base rate loan segment) or at fixed rates based on the lender's rate pricing index, for terms of one through ten years, plus a margin of 1.95% (fixed rate loan segment). In addition, base rate loan segments may be converted to fixed rate loan segments, though no more than six fixed rate loan segments may be outstanding at any time. The Partnership had $6.0 million outstanding under this facility as a base rate loan segment at June 30, 2017 and December 31, 2016.

13. The Partnership's financial instruments include cash and accounts receivable, for which the carrying amount of each represents fair value based on current market interest rates or their short-term nature.

    The Partnership's and the Funds' fixed-rate debt collectively have a carrying value of $101.7 million as of June 30, 2017 and December 31, 2016. The estimated fair value of this debt, based on current interest rates for similar instruments (Level 2 inputs in the Fair Value Hierarchy), is approximately $106.1 million and $111.0 million as of June 30, 2017 and December 31, 2016, respectively.

14. The Partnership had an accrual for estimated environmental remediation costs of $8.5 million and $12.8 million as of June 30, 2017 and December 31, 2016, respectively. The environmental remediation liability represents management's estimate of payments to be made to remediate and monitor certain areas in and around Port Gamble Bay, Washington.

    In December of 2013, a consent decree and Clean-up Action Plan (CAP) related to Port Gamble were finalized with the Washington State Department of Ecology (DOE) and filed with Kitsap County Superior Court. In the third quarter of 2015, the Partnership selected a contractor to complete the remediation work. Remediation activity began in late September of 2015 and the required in-water portion of the cleanup was completed in January 2017 and will be followed by cleanup activity on the millsite and by a monitoring period. Management's cost estimates for the remainder of the project are based on amounts included in construction contracts, bids from contractors, and estimates for project management and other professional fees.

    The environmental liability at June 30, 2017 is comprised of $4.6 million that management expects to expend in the next 12 months and $3.9 million thereafter.

    Activity in the environmental liability is as follows:

(in thousands)	Balance at Beginning of the Period	Additions to Accrual	Expenditures for Remediation	Balance at Period-end
Year ended December 31, 2015	$ 21,651	$ —	$ 4,890	$ 16,761
Year ended December 31, 2016	16,761	7,700	11,691	12,770
Quarter ended March 31, 2017	12,770	—	3,329	9,441
Quarter ended June 30, 2017	**$ 9,441**	**$ —**	**$ 951**	**$ 8,490**

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains a number of projections and statements about our expected financial condition, operating results, and business plans and objectives. These statements reflect management's estimates based upon our current expectations, in light of management's knowledge of existing circumstances and expectations about future developments. Statements about expectations and future performance are "forward looking statements" within the meaning of applicable securities laws, which describe our goals, objectives and anticipated performance. These statements can be identified by words such as "anticipate," "believe," "expect," "intend" and similar expressions. These statements are inherently uncertain, and some or all of these statements may not come to pass. Accordingly, you should not interpret these statements as promises that we will perform at a given level or that we will take any or all of the actions we currently expect to take. Our future actions, as well as our actual performance, will vary from our current expectations, and under various circumstances these variations may be material and adverse. Some of the factors that may cause our actual operating results and financial condition to fall short of our expectations are set forth in the part of this report entitled "Risk Factors" in Part II, Item 1A below. From time to time we identify other risks and uncertainties in our other filings with the Securities and Exchange Commission. The forward-looking statements in this report reflect our estimates and expectations as of the date of the report, and unless required by law, we do not undertake to update these statements as our business operations and environment change.

This discussion should be read in conjunction with the condensed consolidated financial statements and related notes included with this report.

EXECUTIVE OVERVIEW

Pope Resources, A Delaware Limited Partnership ("we" or the "Partnership"), is engaged in three primary businesses. The first, and by far most significant segment in terms of owned assets and operations, is the Fee Timber segment. This segment includes timberlands owned directly by the Partnership and three private equity funds ("Fund II", "Fund III" and "Fund IV", collectively, the "Funds"). When we refer to the timberland owned by the Partnership, we describe it as the Partnership's tree farms. We refer to timberland owned by the Funds as the Funds' tree farms. When referring collectively to the Partnership's and Funds' timberland we will refer to them as the Combined tree farms. Operations in this segment consist of growing timber and manufacturing logs for sale to domestic wood products manufacturers and log export brokers. The second most significant business segment in terms of total assets owned is the development and sale of real estate. Real Estate activities primarily include securing permits and entitlements, and in some cases, installing infrastructure for raw land development and then realizing that land's value by selling larger parcels to developers who, in turn, seek to take the land further up the value chain by either selling homes to retail buyers or lots to developers of commercial property. Since these projects often span multiple years, the Real Estate segment may incur losses for multiple years while a project is developed, and will not recognize operating income until that project is sold. In addition, within this segment we sometimes negotiate and sell development rights in the form of conservation easements (CE's) on Fee Timber properties which preclude future development, but allow continued forestry operations. Our third business segment, which we refer to as Timberland Investment Management, is engaged in organizing and managing private equity timber funds using capital invested by third parties and the Partnership.

Our current strategy for adding timberland acreage is centered primarily on our private equity timber fund business model. However, we acquire smaller timberland parcels from time to time to add on to the Partnership's existing tree farms. In addition, during periods when the Funds' committed capital is fully invested, we may look to acquire larger timberland properties for the Partnership. Our three active timber funds have assets under management totaling approximately $357 million as of June 30, 2017 based on the most recent appraisals. Through our 20% co-investment in Fund II, our 5% co-investment in Fund III and our 15% co-investment in Fund IV, we have deployed $26 million of Partnership capital. Fund IV, launched in December 2016, has not yet deployed any capital to acquire timberland properties. Our co-investment affords us a share of the Funds' operating cash flows while also allowing us to earn asset management and timberland management fees, as well as potential future incentive fees, based upon the overall success of each fund. We also believe that this strategy allows us to maintain more sophisticated expertise in timberland acquisition, valuation, and management on a more cost-effective basis than we could for the Partnership's timberlands alone. We believe our co-investment strategy also enhances our credibility with existing and prospective Fund investors by demonstrating that we have both an operational and a financial commitment to the Funds' success.

The Funds are consolidated into our financial statements, but then income or loss attributable to equity owned by third parties is subtracted from consolidated results in our Condensed Consolidated Statements of Comprehensive Income under the caption "Net and comprehensive (income) loss attributable to non-controlling interests-ORM Timber Funds" to arrive at 'Net and comprehensive income (loss) attributable to unitholders".

The strategy for our Real Estate segment centers around how and when to "harvest" or sell a parcel of land to realize its optimal value. In doing so, we seek to balance the long-term risks and costs of carrying and developing a property against the potential for income and cash flows upon sale. Land held for development by our Real Estate segment represents property in western Washington that has been deemed suitable for residential and commercial building sites. Land and timber held for sale represents those properties in the development portfolio that we expect to sell in the next year.

Second quarter highlights

- Harvest volume was 23.3 million board feet (MMBF) in Q2 2017 compared to 20.9 MMBF in Q2 2016, an 11% increase. Harvest volume for the first six months of 2017 was 50.6 MMBF compared to 36.6 MMBF for the corresponding period of 2016, a 38% increase. These harvest volume figures do not include timber deed sales, sold by Fund III, of 2.1 MMBF and 2.4 MMBF for the quarter and six months ended June 30, 2017, respectively. The harvest volume and log price realization metrics cited below also exclude these timber deed sales, except as noted otherwise.
- The average realized log price was $616 per thousand board feet (MBF) in Q2 2017, a 9% increase compared to $563 per MBF in Q2 2016. For the first six months of 2017, the average realized log price was $605 per MBF compared to $575 per MBF for the corresponding period of 2016, a 5% increase.
- As a percentage of total harvest, volume sold to domestic markets in Q2 2017 decreased to 59% from 66% in Q2 2016, while the mix of volume sold to export markets increased to 21% in Q2 2017 from 15% in Q2 2016. For the first six months of 2017, the relative percentages of volume sold to domestic and export markets were 59% and 22%, respectively,

compared to 63% and 17%, respectively, in the corresponding period of 2016. Hardwood and pulpwood log sales make up the balance of harvest volume.

- In June 2017, we modified a credit facility to increase the Partnership's borrowing capacity under that particular facility from $21.0 million to $31.0 million. We also worked with the lender to amend this facility's structure. Between now and December 31, 2019, it will operate as a revolving line of credit and thereafter it will convert to a term loan with multiple tranches that have an ultimate maturity in July 2027.
- During the quarter, the Partnership repurchased 744 units at an average price of $76.52 per unit under a unit repurchase plan, leaving $1.1 million remaining under the plan through June 2018.

Outlook

We expect our total 2017 harvest volume to be between 112 and 116 MMBF, including timber deed sales. In our Real Estate segment, we expect to close on the sale of up to 93 single-family lots from our Harbor Hill project, the majority of which we expect to occur in the fourth quarter, as well as a number of other potential land and conservation easement sales.

RESULTS OF OPERATIONS

The following table reconciles and compares key revenue and cost elements that impacted our net income (loss) attributable to unitholders for the respective quarters and six months ended June 30, 2017 and 2016. The explanatory text that follows the table describes in detail certain of these changes by business segment.

(in thousands)	Quarter Ended June 30,	Six Months Ended June 30,
Net income (loss) attributable to Pope Resources' unitholders:		
2017 period	$ 158	$ 3,528
2016 period	436	(599)
Variance	$ (278)	$ 4,127
Detail of variance:		
Fee Timber		
Log volumes (A)	$ 1,351	$ 8,050
Log price realizations (B)	1,235	1,518
Gain on sale of timberland	—	12,277
Timber deed sales	638	710
Production costs	160	(1,990)
Depletion	(1,700)	(4,292)
Other Fee Timber	(8)	(513)
Timberland Investment Management	(148)	(448)
Real Estate		
Land sales	62	(23)
Other Real Estate	(393)	(489)
General and administrative costs	(346)	(443)
Net interest expense	(370)	(722)
Income taxes	(3)	(9)
Noncontrolling interests	(756)	(9,499)
Total variances	$ (278)	$ 4,127

(A) Volume variance calculated by multiplying the change in sales volume by the average log sales price for the comparison period.
(B) Price variance calculated by multiplying the change in average realized price by current period sales volume.

Fee Timber

Fee Timber results include operations on 120,000 acres of timberland owned by the Partnership and 88,000 acres of timberland owned by the Funds. Fee Timber revenue is earned primarily from the harvest and sale of logs from these timberlands which are located in western Washington, northwestern Oregon, and northern California. Revenue is driven primarily by the volume of timber harvested and the average log price realized on the sale of that timber. Our harvest volume is based typically on manufactured log sales to domestic mills and log export brokers. We also occasionally sell rights to harvest timber (timber deed sale) from the Combined tree farms. The metrics used to calculate volumes sold and average price realized during the reporting periods exclude timber deed sales, except where stated otherwise. Harvest volumes are generally expressed in million board feet (MMBF) increments while harvest revenue and related costs are generally expressed in terms of revenue or cost per thousand board feet (MBF).

Fee Timber revenue is also derived from commercial thinning operations, ground leases for cellular communication towers, and royalties from gravel mines and quarries, all of which, along with timber deed sales, are included in other revenue below. Commercial thinning consists of the selective cutting of timber stands not yet of optimal harvest age. They do, however, have some commercial value, thus allowing us to earn revenue while at the same time improving the projected value at harvest of the remaining timber in the stand.

Revenue and operating income for the Fee Timber segment for the quarters ended June 30, 2017, March 31, 2017, and June 30, 2016 were as follows:

(in millions) Quarter ended	Log Sale Revenue	Other Revenue	Total Fee Timber Revenue	Gain on Sale of Timberland	Operating Income	Harvest Volume (MMBF)	Timber Deed Sale Volume (MMBF)
Partnership	**$ 7.7**	**$ 0.5**	**$ 8.2**	**$ —**	**$ 3.4**	**12.5**	**—**
Funds	**6.6**	**0.6**	**7.2**	**—**	**1.2**	**10.8**	**2.1**
Total June 2017	**$ 14.3**	**$ 1.1**	**$ 15.4**	**$ —**	**$ 4.6**	**23.3**	**2.1**
Partnership	$ 8.7	$ 0.4	$ 9.1	$ —	$ 4.4	14.1	—
Funds	7.6	0.1	7.7	12.5	12.2	13.2	0.3
Total March 2017	$ 16.3	$ 0.5	$ 16.8	$ 12.5	$ 16.6	27.3	0.3
Partnership	$ 7.7	$ 0.5	$ 8.2	$ —	$ 2.8	13.7	—
Funds	4.1	—	4.1	—	0.2	7.2	—
Total June 2016	$ 11.8	$ 0.5	$ 12.3	$ —	$ 3.0	20.9	—

Operating Income

Comparing Q2 2017 to Q1 2017. Operating income decreased $12.0 million from Q1 2017. Our Q1 2017 results reflect a $12.5 million gain on the January 2017 sale of a 6,500-acre tree farm on the Oregon coast by Fund II. Excluding this gain, operating income increased by $580,000, or 14%, driven by a $569,000 rise in other revenue related to higher timber deed sales on Fund tree farms. Also contributing to the increase in operating income was a 3% rise in average realized log prices and a 20% decrease in cost of sales. Offsetting these positive factors were a 15% decrease in delivered log volume and a $159,000 increase in operating expenses.

Comparing Q2 2017 to Q2 2016. Operating income increased $1.6 million, or 53%, from Q2 2016, driven by an 11% increase in delivered log volume and a 9% increase in average realized log prices. Contributing further to the increase in operating income were timber deed sales on 2.1 MMBF of Fund volume that had no counterpart in Q2 2016. The higher volume in 2017 resulted in a 22% rise in cost of sales.

Revenue

Comparing Q2 2017 to Q1 2017. Log sale revenue in Q2 2017 decreased $2.0 million, or 12%, from Q1 2017 due primarily to a 15% decrease in harvest volume, offset partially by a 3% increase in average realized log prices. We deferred harvest volume during Q2 2017 to later in the year on the expectation of stronger log markets. The $569,000 increase in other revenue is attributable to timber deed sales from Fund timberlands on volume of 2.1 MMBF during Q2 2017 compared to 0.3 MMBF in Q1 2017.

Comparing Q2 2017 to Q2 2016. Log sale revenue in Q2 2017 increased $2.5 million, or 21%, from Q2 2016, primarily as a result of an 11% increase in harvest volume and a 9% increase in average realized log prices. In 2016, we deferred a large portion of our annual harvest volume to the second half of the year, which suppressed volume during Q2 2016. Log markets were stronger in Q2 2017 relative to Q2 2016 due to increased demand in both domestic and export markets and a reduced supply of logs. On the demand side, we are benefiting from a second production line that came on-line at Sierra Pacific's new mill in Shelton. On the supply side, reduced harvest volumes from our competitors and lower Canadian production are creating pricing tension in the market.

Revenue and operating income for the Fee Timber segment for the six months ended June 30, 2017 and 2016 were as follows:

(in millions) Six Months Ended	Log Sale Revenue	Other Revenue	Total Fee Timber Revenue	Gain (loss) on Sale of Timberland	Operating Income	Harvest Volume (MMBF)	Timber Deed Sale Volume (MMBF)
Partnership	**$ 16.4**	**$ 0.9**	**$ 17.3**	**$ —**	**$ 7.8**	**26.6**	**—**
Funds	**14.2**	**0.7**	**14.9**	**12.5**	**13.4**	**24.0**	**2.4**
Total June 2017	**$ 30.6**	**$ 1.6**	**$ 32.2**	**$ 12.5**	**$ 21.2**	**50.6**	**2.4**
Partnership	$ 11.6	$ 0.9	$ 12.5	$ —	$ 4.4	20.0	—
Funds	9.4	0.1	9.5	**0.2**	1.1	16.6	—
Total June 2016	$ 21.0	$ 1.0	$ 22.0	$ 0.2	$ 5.5	36.6	—

Operating Income

Comparing YTD 2017 to YTD 2016. Operating income in the first six months of 2017 increased by $15.7 million, from the corresponding period of 2016. Our 2017 results reflect a $12.5 million gain on the January 2017 sale by Fund II of a 6,500-acre tree farm on the Oregon coast, whereas our 2016 results include a $226,000 gain on the sale of 205 acres of Fund timberland. Excluding the gains from these timberland sales, Fee Timber operating income increased $3.5 million, or 64%, to $8.7 million in 2017 from $5.3 million in 2016. This improvement resulted from a 38% rise in delivered log volume, a 5% increase in average realized log prices, and a $640,000 increase in other revenue from 2.4 MMBF of timber deed sales in 2017 that had no counterpart in 2016. These factors were offset partially by a 49% increase in cost of sales (including timber deed sales), tied to the volume increase, and a $468,000 rise in operating expenses.

Revenue

Comparing YTD 2017 to YTD 2016. Log sale revenue in the first six months of 2017 increased $9.6 million, or 46%, from the corresponding period of 2016. The higher revenue was the result of a 38% increase in delivered log volume and a 5% increase in average realized log prices. In 2016, we deferred a large portion of our annual harvest volume to the second half of the year, which resulted in lower volume during the first half of the year. Conversely, we have planned to spread our 2017 harvest more evenly across the quarters. Other revenue increased $640,000 due to timber deed sales on 2.4 MMBF of volume that had no counterpart in 2016.

Log Volume

We harvested the following log volumes by species from the Combined tree farms, exclusive of timber deed sales, for the quarters ended June 30, 2017, March 31, 2017, and June 30, 2016:

Volume (in MMBF)		Quarter Ended					
		Jun-17	**% Total**	Mar-17	% Total	Jun-16	% Total
Sawlogs	Douglas-fir	**13.7**	**59%**	16.0	59%	9.4	45%
	Whitewood	**3.3**	**14%**	5.5	20%	5.4	26%
	Pine	**1.3**	**5%**	—	—%	1.2	6%
	Cedar	**0.4**	**2%**	0.7	2%	1.0	5%
	Hardwood	**0.9**	**4%**	0.5	2%	0.7	3%
Pulpwood	All Species	**3.7**	**16%**	4.6	17%	3.2	15%
Total		**23.3**	**100%**	27.3	100%	20.9	100%

Comparing Q2 2017 to Q1 2017. Harvest volume decreased 4.0 MMBF, or 15%, in Q2 2017 from Q1 2017. We deferred harvest volume during Q2 2017 to later in the year on the expectation of stronger log markets. The 6% decrease in whitewood's relative share of harvest volume and corresponding 5% increase in pine's share is the result of increased harvest operations in Q2 2017 on Fund III's McCloud tree farm in northern California as melting snow allowed us to access that tree farm.

Comparing Q2 2017 to Q2 2016. Harvest volume increased 2.4 MMBF, or 11%, in Q2 2017 from Q2 2016. Both domestic and export log markets were stronger in Q2 2017 than in Q2 2016. Our species mix shifted from whitewood in Q2 2016 towards Douglas-fir in Q2 2017 due to improved Douglas-fir log markets relative to whitewood markets compared to a year ago.

We harvested the following log volumes by species from the Combined tree farms, exclusive of timber deed sales, for the six months ended June 30, 2017 and 2016:

Volume (in MMBF)		Six Months Ended			
		Jun-17	**% Total**	Jun-16	% Total
Sawlogs:	Douglas-fir	**29.7**	**59%**	18.2	50%
	Whitewood	**8.8**	**17%**	8.0	22%
	Pine	**1.3**	**3%**	1.2	3%
	Cedar	**1.1**	**2%**	1.9	5%
	Hardwood	**1.4**	**3%**	1.3	4%
Pulpwood:	All Species	**8.3**	**16%**	6.0	16%
Total		**50.6**	**100%**	36.6	100%

Comparing YTD 2017 to YTD 2016. Harvest volume increased 14.0 MMBF, or 38%, in the first six months of 2017 compared to the corresponding period of 2016. In the first half of 2016 we planned our harvest to defer significant volume until later in the year in anticipation of better log prices. In 2017, we have benefited from increased demand from both the domestic and export markets, as well as reduced supply from our competitors. In addition, we sold 2.4 MMBF of volume via timber deed sales from Fund properties in the current year whereas in 2016 there were no timber deed sales. Our species mix shifted from whitewood in 2016 towards Douglas-fir in 2017 due to improved Douglas-fir log markets relative to whitewood markets compared to a year ago.

Log Prices

Logs from the Combined tree farms serve a number of different domestic and export markets, with domestic mills historically representing our largest market destination. Export customers consist of log brokers who sell the logs primarily to Japan, China and, to a lesser degree, Korea.

We realized the following log prices by species for the quarters ended June 30, 2017, March 31, 2017, and June 30, 2016:

		Quarter Ended		
		Jun-17	Mar-17	Jun-16
Average price realizations (per MBF):				
Sawlogs:	Douglas-fir	**$ 694**	$ 663	$ 596
	Whitewood	**602**	548	550
	Pine	**486**	—	500
	Cedar	**1,414**	1,369	1,271
	Hardwood	**685**	615	521
Pulpwood:	All Species	**297**	290	290
Overall		**616**	596	563

The following table compares the dollar and percentage change in log prices from each of Q1 2017 and Q2 2016 to Q2 2017:

		Change to Q2 2017 from Quarter Ended			
		Mar-17		Jun-16	
		$/MBF	%	$/MBF	%
Sawlogs:	Douglas-fir	$ 31	5%	$ 98	16%
	Whitewood	54	10%	52	9%
	Pine	486	NA	(14)	(3%)
	Cedar	45	3%	143	11%
	Hardwood	70	11%	164	31%
Pulpwood:	All Species	7	2%	7	2%
Overall		20	3%	53	9%

Overall realized log prices in Q2 2017 were 3% higher than Q1 2017. Our overall average realized log price is influenced heavily by price movements for our two most prevalent species, Douglas-fir and whitewood, and the relative mix of harvest volume of those two species. From Q1 2017 to Q2 2017, realized log prices for Douglas-fir and whitewood increased 5% and 10%, respectively. Prices for both species rose due to increased demand in the domestic and export markets as well as reduced supply of logs from competitors. The 11% rise in hardwood prices is the result of increased competition among our customers.

From Q2 2016 to Q2 2017, average realized log prices increased 9%. The favorable change was attributable to increases in Douglas-fir and whitewood realized log prices of 16% and 9%, respectively. In addition, our average realized price benefited from a favorable shift in species mix away from whitewood in Q2 2016 and towards Douglas-fir in Q2 2017. Cedar prices improved 11% due to a reduction in the relative share of lower-value incense cedar from the Fund III's McCloud tree farm. In Q2 2016, incense cedar comprised 20% of cedar volume, whereas in Q2 2017 it was only 9%. The 31% rise in hardwood prices is the result of increased competition among our customers.

The following table compares realized log prices by species for the first six months of 2017 and 2016, as well as the dollar and percentage change in log prices between the two periods:

		Six Months Ended			
		Jun-17			Jun-16
			Δ from Jun -17 to Jun -16		
			$/MBF	%	
Sawlogs:	Douglas-fir	**$ 677**	$ 69	11%	$ 608
	Whitewood	**568**	38	7%	530
	Pine	**501**	1	—%	500
	Cedar	**1,384**	—	—%	1,384
	Hardwood	**660**	131	25%	529
Pulpwood:	All species	**293**	(7)	(2%)	300
Overall		**605**	30	5%	575

Overall realized log prices increased 5% in the first six months of 2017 compared to the corresponding period of 2016. The overall average is influenced heavily by Douglas-fir and whitewood prices, which were up 11% and 7%, respectively, on increased demand in the domestic and export markets and reduced log supply from our competitors. Hardwood prices rose 25% on increased competition among our customers.

Customers

The ultimate decision of whether to sell our logs to the domestic or export market is based on the net proceeds we receive after taking into account both the delivered log prices and the cost to deliver logs to the customer. As such, our reported log price realizations will reflect our properties' proximity to customers as well as the broader log market.

The table below categorizes logs sold by customer type for the quarters ended June 30, 2017, March 31, 2017, and June 30, 2016:

	Q2 2017			Q1 2017			Q2 2016		
	Volume			Volume			Volume		
Destination	**MMBF**	**%**	**Price**	MMBF	%	Price	MMBF	%	Price
Domestic mills	**13.7**	**59%**	**$ 657**	16.1	59%	$ 653	13.8	66%	$ 618
Export brokers	**5.0**	**21%**	**731**	6.1	22%	670	3.2	15%	607
Hardwood	**0.9**	**4%**	**685**	0.5	2%	615	0.7	4%	521
Pulpwood	**3.7**	**16%**	**297**	4.6	17%	290	3.2	15%	290
Total	**23.3**	**100%**	**616**	27.3	100%	596	20.9	100%	563
Timber deed sale	**2.1**		**301**	0.3		229	—		—
Total	**25.4**			27.6			20.9		

Comparing Q2 2017 to Q1 2017. The relative volume sold to our various customer types and as pulpwood changed little during Q2 2017 compared to Q1 2017. Timber deed sales in both quarters came from one of Fund III's tree farms.

Comparing Q2 2017 to Q2 2016. Volume sold to the export market increased to 21% of Q2 2017 volume from 15% of Q2 2016 volume, while volume sold to the domestic market decreased to 59% of Q2 2017 volume from 66% of Q2 2016 volume. Average realized export prices were at a premium to prices from domestic mills during Q2 2017, whereas the relationship was the reverse during Q2 2016.

The table below categorizes logs sold by customer type for the six-month periods ended June 30, 2017 and 2016:

	Six Months Ended					
	June 2017			June 2016		
	Volume			Volume		
Destination	**MMBF**	**%**	**Price**	MMBF	%	Price
Domestic mills	**29.8**	**59%**	**$ 655**	23.2	63%	$ 632
Export brokers	**11.1**	**22%**	**698**	6.1	17%	636
Hardwood	**1.4**	**3%**	**660**	1.3	4%	529
Pulpwood	**8.3**	**16%**	**293**	6.0	16%	300
Subtotal	**50.6**	**100%**	**605**	36.6	100%	575
Timber deed sale	**2.4**		**292**	—		—
Total	**53.0**			36.6		

Comparing YTD 2017 to YTD 2016. In the first six months of 2017, the relative amounts of volume sold to our domestic customers decreased to 59% from 63% during the corresponding period of 2016, while volume sold to export customers increased to 22% in the current year versus 17% last year. This shift in customer mix reflects the premium prices paid by export log markets compared to domestic log markets. Timber deed sales volume of 2.4 MMBF during the first six months of 2017 came from one of Fund III's tree farms.

Cost of Sales

Fee Timber cost of sales, which consists predominantly of harvest, haul and depletion costs, vary with harvest volume.

Fee Timber cost of sales for the quarters ended June 30, 2017, March 31, 2017, and June 30, 2016, was as follows, with the first table expressing these costs in total dollars and the second table expressing those costs that are driven by volume on a per MBF basis:

(in thousands) Quarter Ended	**Harvest, Haul and Tax**	**Depletion**	**Other**	**Total Fee Timber Cost of Sales**	**Harvest Volume (MMBF)**	**Timber Deed Sale Volume (MMBF)**
Partnership	**$ 2,428**	**$ 908**	**$ —**	**$ 3,336**	**12.5**	**—**
Funds	**2,535**	**2,655**	**—**	**5,190**	**10.8**	**2.1**
Total June 2017	**$ 4,963**	**$ 3,563**	**$ —**	**$ 8,526**	**23.3**	**2.1**
Partnership	$ 2,520	$ 1,022	$ —	$ 3,542	14.1	—
Funds	3,193	3,900	—	7,093	13.2	0.3
Total March 2017	$ 5,713	$ 4,922	$ —	$ 10,635	27.3	0.3
Partnership	$ 3,188	$ 586	$ 15	$ 3,789	13.7	—
Funds	1,921	1,277	—	3,198	7.2	—
Total June 2016	$ 5,109	$ 1,863	$ 15	$ 6,987	20.9	—

(Amounts per MBF) Quarter Ended	Harvest, Haul and Tax *	Depletion *
Partnership	**$ 194**	**$ 72**
Funds	**235**	**206**
Total June 2017	**$ 213**	**$ 140**
Partnership	$ 179	$ 72
Funds	242	289
Total March 2017	$ 209	$ 178
Partnership	$ 233	$ 43
Funds	267	177
Total June 2016	$ 244	$ 89

* Timber deed sale volumes are excluded in the per MBF computation for harvest, haul and tax costs but included in the per MBF computation for depletion.

Comparing Q2 2017 to Q1 2017. Cost of sales decreased $2.1 million, or 20%, in Q2 2017 from Q1 2017. The decrease was primarily attributable to a 21% decline in the Combined depletion rate. While the relative mix of harvest volume (including timber deed sales) coming from Partnership and Fund tree farms was fairly stable between the two comparable quarters, the mix of harvest volume from the Funds' tree farms shifted to tree farms with lower depletion rates. The 8% decrease in harvest volume (including timber deed sales) also contributed to the reduction in cost of sales.

Comparing Q2 2017 to Q2 2016. Cost of sales increased $1.5 million, or 22%, in Q2 2017 from Q2 2016, as a result of a 22% increase in harvest volume (including timber deed sales). Two other factors had large, but offsetting, impacts on cost of sales. First, harvest, haul, and tax costs decreased 13% on a per MBF basis in Q2 2017 from Q2 2016 as a result of more competitive bidding for our business by logging contractors, a higher proportion of volume from harvest units utilizing lower-cost, ground-based logging systems, and shorter haul distances. Second, the Combined depletion rate increased 57% in Q2 2017 from Q2 2016, which was the product of three separate factors:

- The Funds' share of relative harvest volume (including timber deed sales) increased to 51% in Q2 2017 from 34% in Q2 2016. Depletion rates are higher for the Funds' tree farms because they were purchased more recently than the Partnership's tree farms and thus have a higher cost basis.
- The mix of harvest volume from the Funds' tree farms shifted to tree farms with higher depletion rates.
- The Partnership's pooled depletion rate increased 70% due to the Q3 2016 purchase of the Carbon River tree farm. Prior to that acquisition, the Partnership's pooled depletion rate was based on tree farms that were acquired many years ago at much lower costs relative to current timberland values.

Fee Timber cost of sales for the six months ended June 30, 2017 and 2016 was as follows, with the first table expressing these costs in total dollars and the second table expressing those costs that are driven by volume on a per MBF basis:

(in thousands) Six Months Ended	Harvest, Haul and Tax	Depletion	Other	Total Fee Timber Cost of Sales	Harvest Volume (MMBF)	Timber Deed Sale Volume (MMBF)
Partnership	**$ 4,948**	**$ 1,930**	**$ —**	**$ 6,878**	**26.6**	**—**
Funds	**5,728**	**6,555**	**—**	**12,283**	**24.0**	**2.4**
Total June 2017	**$ 10,676**	**$ 8,485**	**$ —**	**$ 19,161**	**50.6**	**2.4**
Partnership	$ 4,511	$ 857	$ 29	$ 5,397	20	—
Funds	4,147	3,336	—	7,483	16.6	—
Total June 2016	$ 8,658	$ 4,193	$ 29	$ 12,880	36.6	—

(Amounts per MBF) Six Months Ended	Harvest, Haul and Tax *	Depletion *
Partnership	**$ 186**	**$ 73**
Funds	**239**	**248**
Total June 2017	**$ 211**	**$ 160**
Partnership	$ 226	$ 43
Funds	250	201
Total June 2016	$ 237	$ 115

* Timber deed sale volumes are excluded in the per MBF computation for harvest, haul and tax costs but included in the per MBF computation for depletion.

Comparing YTD 2017 to YTD 2016. Cost of sales increased $6.3 million, or 49%, in the first six months of 2017 compared to the corresponding period in 2016 primarily due to a 45% increase in harvest volume (including timber deed sales). As with the quarterly results, two other factors had large, but offsetting, impacts on cost of sales. First, harvest, haul, and tax costs decreased 11% on a per MBF basis in 2017 from 2016 as a result of more competitive bidding for our business by logging contractors, a higher proportion of volume from harvest units utilizing lower-cost, ground-based logging systems, and shorter haul distances. Second, the Combined depletion rate increased 40% in 2017 from 2016, which was the product of three separate factors:

- The Fund's share of relative harvest volume (including timber deed sales) increased to 50% in 2017 from 45% in 2016.
- The mix of harvest volume among the Funds' tree farms shifted to tree farms with higher depletion rates.
- The Partnership's pooled depletion rate increased 69% due to the Q3 2016 purchase of the Carbon River tree farm.

Operating Expenses

Fee Timber operating expenses include the cost of maintaining existing roads and building temporary roads for harvesting, silviculture costs, and other management expenses. For the quarters ended June 30, 2017, March 31, 2017, and June 30, 2016, operating expenses were $2.3 million, $2.1 million, and $2.3 million, respectively. The $159,000 increase in operating expenses in Q2 2017 from Q1 2017 is attributable to a rise in silviculture expenses which was partially offset by decreases in management expenses and road maintenance. Operating expenses were flat between Q2 2017 and Q2 2016.

Fee Timber operating expenses for the six months ended June 30, 2017 and 2016 were $4.4 million and $3.9 million, respectively. The $468,000 increase is primarily attributable to professional fees paid in 2017 associated with the start-up of Fund IV.

Gain on Sale of Timberland

The $12.5 million gain on sale of timberland in the first six months of 2017 resulted from the Q1 2017 sale of a 6,500-acre tree farm by Fund II for $26.5 million. The $226,000 gain on sale of timberland in the first six months of 2016 resulted from sales of two parcels owned by the Funds during Q1 2016.

Timberland Investment Management

The Timberland Investment Management (TIM) segment manages timberland portfolios on behalf of three private equity timber funds that currently own a combined 88,000 acres of commercial timberland in western Washington, northwestern Oregon, and northern California. Total assets under management are $357 million based on the most recent appraisals.

Fund Distributions and Fees Paid to the Partnership

Fund distributions are paid from available Fund cash, generated primarily from the harvest and sale of timber after paying all Fund expenses, management fees, and recurring capital costs. The Partnership received combined distributions from the Funds of $6.0 million and $211,000 during the six months ended June 30, 2017 and 2016, respectively, which are eliminated in consolidation. The 2017 distributions included $5.5 million from Fund II's sale of a 6,500-acre tree farm. The Partnership earned asset, investment, and timberland management fees from the Funds of $1.7 million and $1.6 million for the six months ended June 30, 2017 and 2016, respectively. These fees are eliminated as the Funds are consolidated in our financial statements, as shown in the table below.

Revenue and Operating Loss

The fees earned from managing the Funds include a fixed component related to invested capital and acres owned, and a variable component related to harvest volume from the Funds' tree farms.

Revenue and operating loss for the TIM segment for the quarters ended June 30, 2017 and 2016 were as follows:

(in thousands, except invested capital, volume and acre data)	Quarter Ended	
	Jun-17	Jun-16
Revenue internal	**$ 817**	$ 788
Intersegment eliminations	**(817)**	(788)
Revenue external	**$ —**	$ —
Operating income (loss) internal	**$ (35)**	$ 123
Intersegment eliminations	**(716)**	(726)
Operating loss external	**$ (751)**	$ (603)
Invested capital (in millions)	**$ 240**	$ 258
Acres owned by Funds	**88,000**	94,000
Harvest volume - Funds (MMBF), including timber deed sales	**12.9**	7.2

Comparing Q2 2017 to Q2 2016. TIM generated management fee revenue of $817,000 and $788,000 from managing the Funds during Q2 2017 and Q2 2016, respectively. The increased harvest volume during Q2 2017 served to boost revenue generated from fees based on harvest volume, though this was offset partially by a decline in revenue generated from fees based on invested capital and acres owned resulting from Fund II's tree farm sale in Q1 2017.

Operating expenses incurred for the quarters ended June 30, 2017, and 2016 totaled $751,000 and $603,000, respectively. The increase in operating expenses is attributable to costs associated with the launch of our fourth timber fund, which occurred at the tail end of 2016, as well as additional personnel costs to manage our expanding timber fund portfolio.

Revenue and operating loss for the TIM segment for the six months ended June 30, 2017 and 2016 were as follows:

(in thousands, except invested capital, volume and acre data)	Six Months Ended	
	Jun-17	Jun-16
Revenue internal	**$ 1,665**	$ 1,611
Intersegment eliminations	**(1,665)**	(1,603)
Revenue external	**$ —**	$ 8
Operating income internal	**$ (260)**	$ 205
Intersegment eliminations	**(1,457)**	(1,474)
Operating loss external	**$ (1,717)**	$ (1,269)
Invested capital (in millions)	**$ 240**	$ 258
Acres owned by Funds	**88,000**	94,000
Harvest volume - Funds (MMBF), including timber deed sales	**26.4**	16.6

Comparing YTD 2017 to YTD 2016. TIM generated management fee revenue of $1.7 million and $1.6 million from managing the Funds for the six months ended June 30, 2017 and 2016, respectively. The increased harvest volume during 2017 served to boost revenue generated from fees based on harvest volume, though this was offset partially by a decline in revenue generated from fees based on invested capital and acres owned resulting from Fund II's tree farm sale in Q1 2017, as well as the sale of two smaller parcels owned by the Funds in Q1 2016.

Operating expenses incurred by the TIM segment for the six months ended June 30, 2017 and 2016 totaled $1.7 million and $1.3 million, respectively. The increase in operating expenses is attributable to costs associated with the launch of our fourth timber fund, which occurred at the tail end of 2016, as well as additional personnel costs to manage our expanding timber fund portfolio.

Real Estate

The Partnership's Real Estate segment produces its revenue primarily from the sale of land within its 2,200-acre portfolio. Additional sources of revenue include sales of development rights and tracts of land from the Partnership's timberland portfolio, together with residential and commercial property rents earned from our Port Gamble and Poulsbo properties. Real Estate holdings are located in the Washington counties of Pierce, Kitsap, and Jefferson with sales of land for this segment typically falling into one of three general types:

- Residential, commercial, and business park plat land sales represent land sold after development rights have been obtained and are generally sold with prescribed infrastructure improvements.
- Rural residential lot sales that generally require some capital improvements such as zoning, road building, or utility access improvements prior to completing the sale.
- The sale of unimproved land, which generally consists of larger acreage sales rather than single lot sales, is normally completed with very little capital investment prior to sale.

In addition to outright sales of fee simple interests in land, we also enter into conservation easement (CE) sales that allow us to retain the right to harvest and manage timberland, but bar any future subdivision of or real estate development on, the property.

"Land Held for Development" on our Condensed Consolidated Balance Sheets represents the Partnership's cost basis in land that has been identified as having greater value as development property than timberland. Our Real Estate segment personnel work with local officials to obtain entitlements for further development of these parcels.

Those properties that are for sale, under contract, and management expects to sell within the next 12 months, are classified on our balance sheet as a current asset under "Land and Timber Held for Sale". The $9.4 million amount currently in Land and Timber Held for Sale reflects properties that are under contract and expected to close between now and the end of the second quarter of 2018, comprising 93 single-family residential lots from our Harbor Hill project and four single-family lot sales from a separate project.

Project costs that are associated directly with the development and construction of a real estate project are capitalized and then included in cost of sales when the property is sold, along with our original basis in the underlying land and the closing costs associated with the sale transaction.

Results from Real Estate operations often vary significantly from period-to-period as we make multi-year investments in entitlements and infrastructure prior to selling entitled or developed land.

Comparing Q2 2017 to Q2 2016. We closed on the sale of a 10-acre rural residential lot for $170,000 during Q2 2017. There were no land sales in Q2 2016, though we recognized $157,000 of revenue on a percentage-of-completion basis from parcels sold in previous quarters. Real Estate operating expenses were $1.5 million and $1.1 million during Q2 2017 and Q2 2016, respectively. The increase in operating expenses is due primarily to legal and professional fees in connection with planning and development for a number of properties, as well as for pursuing potential insurance recoveries for our Port Gamble environmental remediation. These factors resulted in operating losses of $1.5 million and $1.2 million for the second quarter of 2017 and 2016, respectively.

Comparing YTD 2017 to YTD 2016. In the first six months of 2017, we closed on the sale of a 10-acre rural residential lot for $170,000, as noted above, and recognized the remaining revenue on a percentage-of-completion basis on parcels sold in Q4 2016 from our Harbor Hill development for $285,000. In the first six months of 2016, we closed on the sale of 9 residential lots from Harbor Hill and recognized the remaining revenue on a percentage-of-completion basis on parcels sold in previous periods for a combined total of $1.2 million. Rentals and other activities in our Real Estate segment have decreased in 2017 due to the loss of commercial tenants at Port Gamble due to the environmental remediation project. Real Estate operating expenses increased from $2.2 million to $2.7 million for the first six months of 2016 and 2017, respectively, due primarily to legal and professional fees in connection with planning and development for a number of properties as well as for pursuing potential insurance recoveries for our Port Gamble environmental remediation. These factors resulted in an operating loss of $2.7 million for the first six months of 2017 compared to an operating loss of $2.2 million for the corresponding period of 2016.

Real Estate revenue, gross margin and operating income are summarized in the table below for the six months ended June 30, 2017 and 2016:

(in thousands, except units sold and per unit amounts)
For the three months ended:

Description	Revenue	Gross Margin	Units Sold		Revenue per unit	Gross Margin per unit
Residential	**$ 285**	**$ 131** *				
Residential	**170**	**82**	**Acres:**	**10**	**17,000**	**8,200**
Total land	**455**	**213**				
Rentals and other	**248**	**(82)**				
June 30, 2017 total	**$ 703**	**$ 131**				
Residential	1,220	154	Lots:	9	135,556	17,111
Total land	1,220	154				
Rentals and other	532	(134)				
June 30, 2016 total	$ 1,752	$ 20				

* Represents revenue recognized on a percentage-of-completion basis on lots sold in previous periods.

Environmental Remediation

As disclosed previously, we have a liability for environmental remediation at Port Gamble, Washington, due to contamination that occurred in Port Gamble Bay prior to our 1985 acquisition of the property from Pope & Talbot, Inc. We have adjusted that liability from time to time based on evolving circumstances. The required in-water remediation activity was completed in January 2017. The sediments now stockpiled on the millsite must remain there for several months to allow the saltwater in the sediments to rinse out, which we expect will be completed in the third quarter of 2017. The stockpiles were

tested to determine their level of contamination, with the result that less than 2% of the material will need to be relocated to a commercial landfill. The bulk of the sediments will be relocated to property we own a short distance from the town of Port Gamble. We expect this to be completed by the end of the year.

In addition to the handling of the sediments, there will be some cleanup activity on the millsite itself in 2018. The scope of this activity will be influenced by the results of testing to be conducted on the millsite following the removal of the dredged material and our liability includes an estimate of the costs for this activity.

Project costs may still vary due to a number of factors, including but not limited to:

Handling of dredged material: We have not yet finalized arrangements with our contractor to relocate the dredged material to our property near Port Gamble or to relocate the portion that must be taken to a commercial landfill and the actual per unit cost for this work may differ from our current estimates.

Natural Resource Damages (NRD): Certain environmental laws allow state, federal, and tribal trustees (collectively, the Trustees) to bring suit against property owners to recover damages for injuries to natural resources. Like the liability that attaches to current property owners in the cleanup context, liability for natural resource damages can attach to a property owner simply because an injury to natural resources resulted from releases of hazardous substances on that owner's property, regardless of culpability for the release. The Trustees are alleging that Pope Resources has NRD liability because of releases that occurred on its property. We have been in discussions with the Trustees regarding their claims and the alleged conditions in Port Gamble Bay. We have also been discussing restoration alternatives that might address the damages the Trustees allege. Discussions with the Trustees may result in an obligation for us to fund NRD restoration activities and past assessment costs that are greater than we have estimated.

Unforeseen conditions: While the required in-water construction activity has been completed, there may be uncertainties with respect to the remaining cleanup on the millsite as the scope of this portion of the cleanup will be influenced by the results of testing to be conducted there following the removal of the sediments. Moreover, as we transition to the monitoring phase of the project, conditions may arise in the future that require us to incur costs to conduct additional cleanup activity. Likewise, we cannot accurately predict the impacts, if any, of potential NRD actions.

Should any future circumstances result in a change to the estimated cost of the project, we will record an appropriate adjustment to the liability in the period it becomes known and we can reasonably estimate the amount.

General and Administrative (G&A)

G&A expenses were $1.4 million and $1.1 million in the second quarters of 2017 and 2016, respectively. G&A expenses increased to $3.1 million for the first six months of 2017 from $2.7 million for the first six months of 2016. For both the quarter and year-to-date periods, the increase is primarily due to higher incentive compensation accruals. The value of certain elements of our incentive compensation program, though paid in cash, are driven by our unit trading price, which has increased this year compared to 2016.

Interest Expense, Net

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	**2017**	2016	**2017**	2016
Interest income	**$ 1**	$ 3	**$ 3**	$ 6
Interest expense	**(1,252)**	(933)	**(2,380)**	(1,744)
Capitalized interest	**134**	183	**250**	333
Interest expense, net	**$ (1,117)**	$ (747)	**$ (2,127)**	$ (1,405)

The Partnership's and Fund III's debt arrangements with Northwest Farm Credit Services (NWFCS) are included in the latter's patronage program, which rebates a portion of interest paid in the prior year back to the borrower. This NWFCS patronage program is a feature common to most of this lender's loan agreements. The patronage program reduced interest expense by $234,000 and $143,000 for Q2 2017 and Q2 2016, respectively, and by $548,000 and $394,000 for the first six months of 2017 and 2016, respectively. The increases in interest expense and the patronage rebate are due to higher debt balances in 2017.

Capitalized interest decreased from 2016 to 2017 due to the reduction in basis from 2016 due to completed construction activity at Harbor Hill.

Income Tax

The Partnership recorded income tax expense of $3,000 and $0 for Q2 2017 and Q2 2016, respectively, and $59,000 and $50,000 for the first six months of 2017 and 2016, respectively.

Pope Resources is a limited partnership and is therefore not subject to federal income tax. Taxable income/loss is instead reported to unitholders each year on a Form K-1 for inclusion in each unitholder's income tax return. However, Pope Resources does have corporate subsidiaries that are subject to income tax, giving rise to the line item for such tax in the Condensed Consolidated Statement of Comprehensive Income (Loss).

Noncontrolling interests-ORM Timber Funds

The line item "Net and comprehensive (income) loss attributable to noncontrolling interests-ORM Timber Funds" represents the combination of the portions of the net income or loss for the Funds which are attributable to third-party owners; 80% for Fund II, 95% for Fund III, and 85% for Fund IV.

Off-Balance Sheet Arrangements

We do not have any material off-balance sheet arrangements.

Liquidity and Capital Resources

We ordinarily finance our business activities using operating cash flows and, where appropriate in our assessment, commercial credit arrangements with banks or other financial institutions. During periods of reduced operating cash flows, we have available to us a line of credit that can be accessed in order to provide for liquidity needs. We expect that funds generated internally from operations and externally through financing will provide the required resources for the Partnership's operations and capital expenditures for at least the next twelve months.

The Partnership's debt consists of mortgage debt with fixed and variable interest rate tranches and an operating line of credit with Northwest Farm Credit Services (NWFCS). The mortgage debt at June 30, 2017 includes $51.8 million in term loans with NWFCS structured in five tranches that mature from 2019 through 2028 and is collateralized by portions of the Partnership's timberland. In addition, our commercial office building in Poulsbo, Washington is collateral for a $2.5 million loan from NWFCS that matures in 2023. We also have available a $31.0 million facility with NWFCS structured as a line of credit through December 31, 2019, after which it converts to a term loan with multiple tranches that have an ultimate maturity in July 2027. At June 30, 2017, $6.0 million was outstanding under this facility at a variable rate based on the one-month LIBOR rate plus 1.85%. Our $20.0 million operating line of credit matures April 1, 2020 and we had $18.5 million drawn as of June 30, 2017. The line of credit carries a variable interest rate that is based on the one-month LIBOR rate plus 1.50%.

These debt agreements contain covenants that are measured quarterly. Among the covenants measured is a requirement that the Partnership maintain an interest coverage ratio of 3:1 and not exceed a maximum debt-to-total-capitalization ratio of 30%, with total capitalization calculated using fair market (vs. carrying) value of timberland, roads and timber. The Partnership is in compliance with these covenants as of June 30, 2017, and expects to remain in compliance for at least the next twelve months.

Mortgage debt within the Funds is collateralized by Fund properties only, and the Partnership and its subsidiaries do not guaranty that debt. Fund II has a timberland mortgage comprised of two fixed rate tranches totaling $25.0 million with MetLife Insurance Company. The tranches are non-amortizing and both mature in September 2020. The loans allow for, but do not require, annual principal payments of up to 10% of outstanding principal without incurring a make-whole premium. This mortgage is collateralized by a portion of Fund II's timberland portfolio. Fund III has a timberland mortgage comprised of two fixed rate tranches totaling $32.4 million with NWFCS. The mortgage is non-amortizing and collateralized by a portion of Fund III's timberland, with an $18.0 million tranche maturing in December 2023 and a $14.4 million tranche maturing in October 2024.

The $8.8 million increase in cash generated for the six months ended June 30, 2017 compared to June 30, 2016 is explained in the following table:

	Six Months Ended June 30,		
(in thousands)	**2017**	Change	2016
Cash provided by (used in) operating activities	**$ 5,620**	$ 9,917	$ (4,297)
Investing activities			
Reforestation and roads	**(1,109)**	(191)	(918)
Capital expenditures	**(92)**	48	(140)
Proceeds from sale of property and equipment	**30**	30	—
Deposit for acquisition of timberland - Partnership	**—**	1,581	(1,581)
Acquisition of timberland - Partnership	**(4,951)**	(3,882)	(1,069)
Proceeds from sale of timberland - Funds	**26,444**	25,721	723
Cash provided by (used in) investing activities	**20,322**	23,307	(2,985)
Financing activities			
Line of credit borrowings	**18,507**	9,257	9,250
Line of credit repayments	**(8,000)**	(8,000)	—
Repayment of long-term debt	**(5,059)**	(5,002)	(57)
Debt issuances costs	**(77)**	(77)	—
Unit repurchase	**(57)**	(57)	—
Payroll taxes paid upon unit net settlements	**(94)**	58	(152)
Cash distributions to unitholders	**(6,115)**	(27)	(6,088)
Cash distributions to fund investors, net of distributions to Partnership	**(23,937)**	(21,364)	(2,573)
Capital call - ORM Timber Funds, net of Partnership contribution	**825**	825	—
Cash provided by (used in) financing activities	**(24,007)**	(24,387)	380
Net increase (decrease) in cash and cash equivalents	**$ 1,935**	$ 8,837	$ (6,902)

The increase in cash from operating activities of $9.9 million resulted primarily from a 38% increase in timber harvest volume, offset partially by fewer Real Estate sales and an increase in Real Estate project expenditures in 2017.

Cash from investing activities during 2017 increased by $23.3 million compared to 2016 due primarily to the sale of one of Fund II's tree farms in January 2017, offset partially by Partnership timberland acquisitions in Q1 2017.

Cash from financing activities decreased in the current year by $24.4 million due primarily to the distribution of the net proceeds from the sale of one of Fund II's tree farms to that fund's investors and net repayments of debt, offset partially by proceeds from Fund IV's first capital call.

Seasonality

Fee Timber. The elevation and terrain characteristics of our timberlands are such that we can conduct harvest operations virtually year-round on a significant portion of our tree farms. Generally, we concentrate our harvests from these areas in those months when weather limits operations on other properties, thus taking advantage of reduced competition for log supply to our customers and improving prices realized. As such, on a combined basis the pattern of quarterly volumes harvested is flatter than would be the case if looking at one tree farm in isolation. However, this pattern may not hold true during periods of comparatively soft log prices, when we may defer harvest volume to capture greater value when log prices strengthen. In addition, our quarterly harvest patterns may be impacted by severe weather or fire conditions.

Timberland Investment Management. Management revenue generated by this segment consists of asset and timberland management fees. These fees, which relate primarily to our activities on behalf of the Funds and are eliminated in consolidation, vary based upon the amount of invested capital, the number of acres owned by the Funds, and the volume of timber harvested from properties owned by the Funds and are not expected to be significantly seasonal.

Real Estate. While Real Estate results are not expected to be seasonal, the nature of the activities in this segment will likely result in periodic large transactions that will have significant positive impacts on both revenue and operating income of the Partnership in periods in which these transactions close, and relatively limited revenue and income in other periods. While the variability of these results is not primarily a function of seasonal weather patterns, we do expect to see some seasonal fluctuations in this segment because of the general effects of weather on Pacific Northwest development activities.

Capital Expenditures and Commitments

Capital expenditures, excluding timberland acquisitions, for the full year 2017 are projected to be approximately $11.2 million. The most significant expenditures relate to finishing residential lots for sale to merchant homebuilders in our Harbor Hill project in the third and fourth quarters and the installation of a new wastewater treatment plant for the town of Port Gamble. The following table presents our capital expenditures by major category on a year-to-date basis and what we expect for the remainder of the year:

	YTD	Remainder of Year	Total
in millions			
Harbor Hill project development	$ 2.7	$ 2.9	$ 5.6
Port Gamble wastewater treatment plant	1.4	0.2	1.6
Reforestation and roads	1.1	1.4	2.5
Other	0.3	1.2	1.5
	$ 5.5	$ 5.7	$ 11.2

ACCOUNTING MATTERS

Critical Accounting Policies and Estimates

An accounting policy is deemed to be "critical" if it is important to a company's results of operations and financial condition, and requires significant judgment and estimates on the part of management in its application. The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts reported in the financial statements and related disclosures. Actual results could differ from these estimates and assumptions. Management believes its most critical accounting policies and estimates relate to the calculation of timber depletion, cost allocations for purchased timberland, and environmental remediation liabilities.

For a further discussion of our critical accounting policies and estimates see Accounting Matters in the Management Discussion and Analysis section of our Annual Report on Form 10-K for the year ended December 31, 2016. See also note 2 to the condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The consolidated fixed-rate debt outstanding had a fair value of approximately $106.1 million and $111.0 million at June 30, 2017 and December 31, 2016, respectively, based on the prevailing interest rates for similar financial instruments. A change in interest rate on fixed-rate debt will affect the fair value of debt, whereas a change in the interest rate on variable-rate debt will affect interest expense and cash flows payable by the Partnership. A hypothetical 1% change in prevailing interest rates would change the fair value of fixed-rate long-term debt obligations by $3.3 million and result in a $345,000 change in interest expense from our variable-rate debt. We are not subject to material foreign currency risk, derivative risk, or similar uncertainties.

ITEM 4. CONTROLS AND PROCEDURES

The Partnership's management maintains a system of internal controls over financial reporting, which management views as adequate to promote the timely identification and reporting of material, relevant information. Those controls include (1) requiring executive management and all managers in accounting roles to sign and adhere to a Code of Conduct and (2)

implementation of a confidential hotline for employees to contact the Audit Committee directly with financial reporting concerns. Additionally, the Partnership's senior management team meets regularly to discuss significant transactions and events affecting the Partnership's operations and to assess the effectiveness of the Partnership's internal control over financial reporting. The Partnership's principal executive and principal financial officers lead these meetings and consider whether topics discussed represent information that should be disclosed under generally accepted accounting principles and the rules of the SEC. The Board of Directors of the Partnership's general partner includes an Audit Committee. The Audit Committee reviews the earnings release and all reports on Form 10-Q and 10-K prior to their filing. The Audit Committee is responsible for hiring the Partnership's external auditors and meets with those auditors at least eight times each year, including regularly scheduled executive sessions outside the presence of management.

Our executive officers are responsible for establishing and maintaining disclosure controls and procedures. They have designed such controls to ensure that others make all material information known to them within the organization. Management regularly evaluates ways to improve internal controls.

As of the end of the period covered by this quarterly report on Form 10-Q our principal executive and principal financial officers completed an evaluation of the disclosure controls and procedures and have determined them to be effective. There have been no changes to internal control over financial reporting that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Partnership may be subject to legal proceedings and claims that may have a material adverse impact on its business. Management is not aware of any current legal proceedings or claims that are expected to have, individually or in the aggregate, a material adverse impact on its business, prospects, financial condition or results of operations.

As we have disclosed previously, we have filed suit against the Washington State Department of Natural Resources (DNR) seeking contribution to cleanup costs for the environmental remediation of the Port Gamble site. On May 2, 2017, the Washington State Supreme Court granted review of the Court of Appeals' December 2016 ruling in our favor that holds DNR liable under Washington's Model Toxics Control Act as an owner or operator of the site. Oral arguments are currently scheduled for September 26, 2017.

ITEM 1A. RISK FACTORS

Risks Related to Our Industry and Our Markets

We are sensitive to demand and price issues relating to our sales of logs in both domestic and foreign markets. We generate Fee Timber revenue primarily by selling softwood logs to domestic mills and to third-party intermediaries who resell them to the export market. The domestic market for logs in our operating area depends heavily on U.S. housing starts. Recently, the U.S. housing market has started to improve but, to the extent the recovery in the housing market should stall, such a turn of events could have a negative impact on our operating results. For example, interest rates are widely expected to rise in the coming periods. Should this occur, it could have a negative impact on the U.S. housing market. Demand from export markets for Pacific Northwest logs are affected by fluctuations in United States, Japanese and, increasingly, Chinese and Korean economies, the foreign currency exchange rate between these Asian currencies and the U.S. dollar, as well as by ocean transportation costs. Further, the prices we realize for our logs depend in part upon competition, including the supply of logs from Canada that can be impacted by fluctuations in currency exchange rates and trade relations between the U.S. and Canada. The U.S. presidential administration recently announced an intention to levy tariffs on Canadian logs and wood products, which in addition to the intended effects of improving demand for U.S. logs, may ultimately prove to increase competition for export sales and also may create volatility in log markets and may ultimately have an adverse impact on domestic housing starts and, therefore, on domestic demand.

Our Fee Timber and Timberland Investment Management segments are highly dependent upon sales of commodity products. Revenue from our forestry businesses, which comprise our Fee Timber and our Timberland Investment Management segments, are widely available from producers in other regions of the United States, as well as Canada and a number of other countries. We do not normally hedge against the financial risks associated with this condition. We are therefore subject to risks associated with the production of commonly available products, such that an increase in supply from abroad as a result of overproduction by competitors in other nations or as a result of changes in currency exchange rates, may reduce the demand for our products in some or all of the markets in which we do business. A bilateral agreement between the United States and Canada, called the Softwood Lumber agreement, had been intended to help manage potentially harmful effects of international competition between our countries, but that agreement expired in October 2015 and has not yet been renewed. The competitive effects of this expiration are likely to impact our business in the future, although management cannot predict accurately the precise effects. Similarly, we have seen or may experience an increase in supply or a reduction in demand as a result of international tensions or competition that are beyond our control and that may not be predictable.

We are subject to statutory and regulatory restrictions that currently limit, and may increasingly limit, our ability to generate income. Our ability to grow and harvest timber can be impacted significantly by legislation, regulations or court rulings that restrict or stop forest practices. For example, events that focus media attention upon natural disasters and damage to timberlands have at various times brought increasing public attention to forestry practices. Similarly, certain activist groups in Oregon are likely to continue to register ballot initiatives that would eliminate clearcutting, which is the predominant harvest practice across our geographic region, propose bans on pesticides and various methods of applying pesticides, and other practices that are commonly used to promote efficient, sustainable forestry practices. While these initiatives have thus far failed to gain traction, such initiatives, alone or in combination, may limit the portion of our timberlands that is eligible for harvest, may make it more expensive or less efficient to harvest all or certain portions of our timberlands, or may restrict other aspects of our operations. Additional regulations, whether or not adopted in response to such events, may make it more difficult or expensive for us to harvest timber and may reduce the amount of harvestable timber on our properties. These and other restrictions on logging, planting, road building, fertilizing, managing competing vegetation, and other activities can increase the cost or reduce available inventory thereby reducing income. Any such additional restrictions would likely have a similar effect

on our Timberland Investment Management operations. We cannot offer assurances that we will not be alleged to have failed to comply with these regulations, or we may face a reduction in revenues or an increase in costs as a result of complying with newly adopted statutes, regulations and court or administrative decisions. These claims may take the form of individual or class action litigation, regulatory or enforcement proceedings, or both. Any such claims could result in substantial defense costs and divert management's attention from the ongoing operation of our business, and if any such claims were successful, may result in substantial damage awards, fines or civil penalties.

Environmental and other activist groups may have an adverse impact on the value of our assets or on our ability to generate revenues from our timberlands. In recent years we have seen an increase in activities by environmental groups, Native American tribes, and other activists in the legislative, administrative and judicial processes that govern all aspects of our operations. For example, on more than one occasion the Washington Department of Ecology applied more stringent regulatory standards to our existing environmental remediation operations at Port Gamble, Washington, after soliciting or receiving input from tribal representatives. These revisions substantially increased the cost associated with our pre-existing remediation plans, and we cannot offer assurances that similar actions will not further protract the process or increase remediation costs. Similarly, citizens' and environmental groups have significant influence in the entitlement and zoning processes that affect our Real Estate operations. These activities are not likely to diminish in the foreseeable future, and in some instances may have a material impact upon the revenues we can generate from our properties or upon the costs of generating those revenues.

Our businesses are highly dependent upon domestic and international macroeconomic factors. Both our timberland operations and our real estate operations are highly influenced by housing markets. Our Fee Timber and Timberland Investment Management segments depend upon housing and construction markets in the United States and in other Pacific Rim countries, and our geographic concentration in the Pacific Northwest increases our exposure to economic, labor and shipping risks that are tied to this particular area. Similarly, our Real Estate segment depends upon a highly localized demand in the Puget Sound region of western Washington. Factors that affect these markets will have a disproportionate impact on our business, and may be difficult or impossible to predict or estimate accurately.

We face increasing competition from engineered and recycled products. Our Fee Timber and Timberland Investment Management segments derive substantially all their revenues from the market for softwood logs and wood products derived from them. Recent years have witnessed the emergence of plastic, fiberglass, wood composite and recycled products, as well as metal products in certain industries, that may have the effect of reducing demand for our products. As these products evolve, and as other competitive products may be developed, we may face a decline in log price realizations that would have an adverse impact on our revenues, our earnings and the value of our assets.

As a property owner and seller, we face environmental risks associated with events that occur or that may be alleged to have occurred on our properties. Various federal and state environmental laws in the states in which we operate place liability for environmental contamination on the current and former owners of real estate on which contamination is discovered. These laws are often a source of "strict liability," meaning that an owner or operator need not necessarily have caused, or even been aware of, the release of hazardous substances. Such a circumstance applies to our operations at Port Gamble, Washington, for example, where contamination occurred prior to the formation of the Partnership. If hazardous substances are discovered or are alleged to have been released on property that we currently own or operate, that we have owned or operated in the past, or that we acquire or operate in the future, we may be subject to liability for the cost of remediating these properties without regard for our conduct or our knowledge of the events that led to the contamination or alleged contamination. These events would likely increase our expenses and might, in some cases, make it more difficult or impossible for us to continue operating our timberlands or to sell parcels of real estate for a price we would deem reasonable.

Risks Relating to Our Operations

We have certain environmental remediation liabilities associated with our Port Gamble property, and that liability may increase. We currently own certain real estate at Port Gamble on the Kitsap Peninsula in western Washington. Sediments adjacent to these properties were alleged to have been impacted by operations of the former owner of the property, Pope & Talbot, Inc. However, as current owner of Port Gamble, we have environmental liability for these properties under Washington State's Model Toxics Control Act (MTCA). In December 2013, we reached an agreement with the Washington State Department of Ecology ("DOE") in the form of a consent decree ("CD") and clean-up action plan ("CAP") that provides for the cleanup of Port Gamble Bay. Together, these documents outline the terms under which the Partnership will conduct environmental remediation as well as the specific clean-up activities to be performed. The CD and CAP were filed with the Kitsap County Superior Court in December 2013. On June 8, 2015, Kitsap County Superior Court ruled on summary judgment that Washington's Department of Natural Resources (DNR) did not qualify as an owner or operator of the site and therefore did not have liability under the MTCA. We appealed the Superior Court's ruling and ten public and/or private entities, including

DOE, filed or joined in amicus briefs in support of our position, arguing that DNR is liable as an owner or operator of the site. On December 28, 2016, The Washington State Court of Appeals (Division II) reversed the superior court's summary judgment order, ruling that DNR is liable under MTCA as an owner or operator of the site. DNR has appealed this ruling to the Washington State Supreme Court. Oral arguments in this case are scheduled for September 26, 2017. There can be no assurance that we will prevail in this matter or that we can reach an acceptable settlement with DNR. The recorded liability reflects the estimated cost of the entire project, without any contribution by DNR. Additionally, certain environmental laws allow state, federal, and tribal trustees (collectively, the Trustees) to bring suit against property owners to recover damages for injuries to natural resources (NRD). Like the liability that attaches to current property owners in the cleanup context, liability for natural resource damages can attach to a property owner simply because an injury to natural resources resulted from releases of hazardous substances on that owner's property, regardless of culpability for the release. The Trustees are alleging that Pope Resources has NRD liability because of releases that occurred on its property. We have been in discussions with the Trustees regarding their claims, and the alleged conditions in Port Gamble Bay. We have also been discussing restoration alternatives that might address the damages the Trustees allege. Discussions with the Trustees may result in an obligation for us to fund NRD assessment and restoration activities that are greater than we have estimated. The outcome of this matter is too uncertain for us to determine the likelihood or potential amount of any such obligation at this time.

Management continues to monitor the Port Gamble cleanup processes closely. The $8.5 million remediation accrual as of June 30, 2017 represents our current estimate of the remaining cleanup cost and most likely outcome to various contingencies. These estimates are predicated upon a variety of factors, including the actual amount of the ultimate cleanup costs. The liability is based upon a number of estimates and judgments that are subject to change as the project progresses. There may be additional litigation costs if we cannot reach a settlement with DNR, and the outcome of any such litigation is uncertain. The filing of the CD limits our legal exposure for matters covered by the decree, but does not eliminate it entirely. DOE reserves the right to reopen the CD if new information regarding factors previously unknown to the agency requires further remedial action. While unlikely, a reopening of the CD may result in adverse financial impacts and may have the effect of distracting management and other key personnel from the day to day operation of our business. These factors, alone or in combination with other challenges, may have a material adverse effect upon our assets, income and operations.

We have increased our leverage in recent periods, which may give rise to additional risks that have not historically accompanied our operations. As discussed in the notes to the financial statements, we have recently increased the Partnership's leverage and its borrowing capacity to expand our timberland holdings and invest in our Real Estate operations. The Partnership's total outstanding debt was $78.8 million at June 30, 2017, of which $34.5 million bears interest at variable rates, with the balance at fixed rates. This debt, particularly that portion that carries variable interest rates, exposes us to certain additional risks, including the possibility that we may face additional interest expense, particularly in an economic environment that includes rising interest rates, as are expected in the United States in coming periods. In addition, generally speaking, an increase in our indebtedness may limit our ability to defer timber harvests and potentially restricts our flexibility to take advantage of other investment opportunities that might otherwise benefit our business. In extreme cases, we could be placed in a position in which we default under one or more of our credit arrangements, which could require us to pledge additional portions of our timberland as collateral for our indebtedness or which might require us to take other actions or expose us to other remedies that could have a material adverse effect upon our assets, operations or business.

Our real estate holdings are highly illiquid, and changes in economic and regulatory factors may affect the value of our properties or the timing of the proceeds, if any, that we expect to receive on the sale of such properties. The value of our real estate investments, and our income from Real Estate operations, is sensitive to changes in the economic and regulatory environment, as well as various land-use regulations and development risks, including the ability to obtain the necessary permits and land entitlements that would allow us to maximize the revenue from our real estate investments. Our real estate investments are long-term in nature, which raises the risk that unforeseen changes in the economy or laws surrounding development activities may have an adverse effect on our investments. These investments often are highly illiquid and thus may not generate cash flow if and when needed to support our other operations. Further, we occasionally announce contracts relating to the sale of our real estate holdings, but those agreements may contain contingencies and conditions that may delay or prevent the consummation of transactions even after we have agreed to sale terms.

Our operations are geographically concentrated, and we may face greater impacts from localized events than would more geographically diverse timber companies. Because our operations are conducted exclusively west of the Cascade Mountains of the Pacific Northwest, between northern California and the Canadian border, regionalized events and conditions may have a more pronounced impact upon our operations than they might upon a more geographically diverse timber company. For example, disease and insect infestations tend to be local or regional in scope, and because our Fee Timber and Timberland Investment Management businesses are geographically concentrated, events of this nature may affect our operations more significantly than they might a similarly situated company whose operations are more widely dispersed. Similarly, because the vast majority of our Real Estate operations are limited to the Puget Sound region of Western Washington,

regional impacts such as growth patterns, weather patterns and natural disasters, as well as socio-political events such as environmental and land use initiatives, may disproportionately affect that segment more significantly than a company whose operations are less concentrated.

Consolidation of sawmills in our geographic operating area may reduce competition among our customers, which could adversely affect our log prices. In the past we have experienced, and may continue to experience, consolidation of sawmills and other wood products manufacturing facilities in the Pacific Northwest. Because a portion of our cost of sales in our Fee Timber segment, which encompasses the Combined tree farms, consists of transportation costs for delivery of logs to domestic sawmills, it becomes increasingly expensive to transport logs over longer distances for sales in domestic markets. As a result, a reduction in the number of sawmills, or in the number of sawmill operators, may reduce competition for our logs, increase transportation costs, or both. These consolidations thus may have a material adverse impact upon our Fee Timber revenue or income and, as that segment has traditionally represented our largest business unit, upon our results of operation and financial condition as a whole. Any such material adverse impact on timber revenue and income as a result of regional mill consolidations will also indirectly affect our Timberland Investment Management segment in the context of raising capital for investment in Pacific Northwest-based timber funds.

Our timber investment fund business depends upon establishing and maintaining a strong reputation among investors, and on our ability to maintain strong relationships with existing and prospective investors in our Funds. Our ability to expand our operations using our private equity timber fund strategy depends to a significant degree upon our ability to maintain and develop our expertise in managing timberlands in a manner that generates investment returns for prospective Fund investors. Events or conditions that adversely impact this capacity, including events that damage our reputation or our relationship with Fund investors, may make it more difficult to grow our operations using this strategy, and in some instances may result in actual or alleged liability to our investors. Any such events may cause a reduction in our revenues or may cause us to realize less than the optimum potential of our assets.

We compete with a number of larger competitors that may be better able than we to absorb price fluctuations, may be able to expend greater resources on production, may have greater access to capital, and may operate more efficiently than we can. We compete against much larger companies in each of our business segments. We compete with these companies for management and line personnel, as well as for purchases of relatively scarce capital assets such as land and standing timber and for sales of our products. These larger competitors may have access to larger amounts of capital and significantly greater economies of scale, and they may be better able to absorb the risks inherent in our line of business. Moreover, the timber industry has experienced consolidation in recent years and, as that consolidation occurs, our relative market share decreases and the relative financial capacity of our competitors increases. While management believes the Partnership is at a competitive advantage over some of these companies because of our lack of vertical integration into forest products manufacturing, our advantageous tax structure, and management's attempts to diversify our asset base, we cannot assure investors that competition will not have a material and adverse effect on our results of operations or our financial condition.

We and our customers are dependent upon active credit markets to fund operations. We sell logs from our Fee Timber segment to mills and log brokers that in most circumstances rely upon an active credit market to fund their operations. Our Real Estate sales are also often dependent upon credit markets in order to fund acquisitions. To the extent borrowing restrictions impinge on customers' access to debt, we expect those customers to respond by reducing their expenditures, and those reductions may have the effect of directly reducing our revenues and of indirectly reducing the demand for our products. Any such outcomes could materially and adversely impact our results of operations, cash flows, and financial condition.

We may incur losses as a result of natural disasters that may occur, or that may be alleged to have occurred, on our properties. Forests are subject to a number of natural hazards, including damage by fire, severe windstorms, insects and disease, flooding and landslides. Changes in global climate conditions may intensify these natural hazards. Severe weather conditions and other natural disasters can also reduce the productivity of timberlands and disrupt the harvesting and delivery of forest products. While damage from natural causes is typically localized and would normally affect only a small portion of our timberlands at any one time, these hazards are unpredictable and losses might not be so limited. Consistent with the practices of other large timber companies, we do not maintain insurance against loss of standing timber on our timberlands due to natural disasters. However, we do carry fire insurance on a portion of our timberland portfolio.

We rely on experienced contract loggers and truckers who are at times in short supply and who may seek consistent work. We rely on contract loggers and truckers for the production and transportation, respectively, of our products to customers. The pool of available contractors is limited and can result in an increase in harvest and haul costs as harvest volumes increase regionally. In addition, contractors may value continuity of work which influences contractor availability and

the selection of contract bidders. A commitment to more continuous work could reduce our flexibility to time markets, affecting total returns.

Risks Relating to Ownership of Our Securities

We are controlled by our managing general partner. As a master limited partnership, substantially all of our day-to-day affairs are controlled by our managing general partner, Pope MGP, Inc. The board of directors of Pope MGP, Inc. serves as our board of directors, and by virtue of a stockholder agreement, each of the two controlling shareholders of Pope MGP, Inc. have the ability to designate one of our directors and jointly appoint two others, with the fifth board position taken by our chief executive officer, who serves as a director by virtue of his executive position. Unitholders may remove the managing general partner only in limited circumstances, including, among other things, a vote by the holders of a two-thirds majority of the "qualifying units," which generally means the units that have been owned by their respective holders for at least five years prior to such vote. By virtue of the terms of our agreement of limited partnership, as amended, or "partnership agreement", our managing general partner directly, and the general partner shareholders indirectly, have the ability to do the following: prevent or impede transactions that would result in a change of control of the Partnership; to prevent or, upon the approval of limited partners holding a majority of the units, to cause, the sale of the assets of the Partnership; and to cause the Partnership to take or refrain from taking certain other actions that one might otherwise perceive to be in the Partnership's best interest. Under our partnership agreement, we are required to pay to Pope MGP, Inc. an annual management fee of $150,000, and to reimburse Pope MGP, Inc. for certain expenses incurred in managing our business.

We have a limited market capitalization and a relatively low historic trading volume, as a result of which the trading prices of our units may be more volatile than would an investment in a more liquid security. Our relatively small public float and our limited trading volume may, in some instances, make trading in our units more volatile, as a result of which our price may deviate more significantly, and opportunities to buy or sell our units may be more limited, than investors might experience with a more liquid market. This circumstance may be magnified during times of significant or prolonged selling pressure on our securities. Further, we are simultaneously maintaining both a distribution reinvestment plan, which may have the effect of increasing the number of outstanding units, and a unit repurchase plan, which has had and may continue to have the effect of reducing the number of outstanding units. These factors together make it difficult to predict the effect, if any, on our liquidity or our market capitalization.

We benefit from certain tax treatment accorded to master limited partnerships, and if that status changes the holders of our units may realize less advantageous tax consequences. The Partnership is a Master Limited Partnership and is therefore not generally subject to U.S. federal income taxes. If a change in tax law (or interpretation of current tax law) caused the Partnership to become subject to income taxes, operating results would be adversely affected. We also have a handful of taxable subsidiaries. The estimation of income tax expense and preparation of income tax returns requires complex calculations and judgments. We believe the estimates and calculations used in this process are proper and reasonable and more likely than not would be sustained under examination by federal or state tax authorities; however if a federal or state taxing authority disagreed with the positions we have taken, a material change in provision for income taxes, net income, or cash flows could result.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) - (e) None

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Period	*(a) Total Number of Units Purchased*	*(b) Average Price Paid per Unit*	*(c) Total Number of Units Purchased as Part of Publicly Announced Plans or Programs (1)*	*(d) Maximum Approximate Dollar Value of Units that May Yet Be Purchased Under the Plans or Programs*
June 2017	744	$76.52	744	$1,143,595

(1) Units purchased pursuant to plan adopted under Rule 10b5-1 of the Securities Exchange Act of 1934 and announced publicly on May 30, 2017. The plan allows for the repurchase of units with an aggregate value of up to $1.2 million through July 1, 2018.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

ITEM 5. OTHER INFORMATION

(a) There have been no material changes in the procedures for shareholders of the Partnership's general partner to nominate directors to the board.

(b) On August 3, 2017, the board of directors of the registrant's managing general partner adopted an Amended and Restated Agreement of Limited Partnership, the form of which is filed herewith as Exhibit 3.1. This agreement is intended to subsume into a single document the various amendments that have been adopted from time to time since the Partnership's formation in 1985. The sole purpose of this action was to provide for a more convenient and comprehensive form of agreement to govern the Partnership's operations, management and corporate structure. Management does not believe the Amended and Restated Agreement of Limited Partnership effects any material change to the registrant's operations, corporate structure or management, and the revisions were completed by the managing general partner without a vote of the limited partners as permitted under the existing partnership agreement.

ITEM 6. Exhibits

Exhibits.

3.1	Amended and Restated Limited Partnership Agreement of Pope Resources, A Delaware Limited Partnership dated August 3, 2017.
10.1	Amended and Restated Note between Pope Resources and Northwest Farm Credit Services, FLCA dated June 27, 2017.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350 (furnished with this report in accordance with SEC Rel. No. 33-8238).
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350 (furnished with this report in accordance with SEC Rel. No. 33-8238).

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on August 7, 2017.

POPE RESOURCES,
A Delaware Limited Partnership

By: POPE MGP, Inc.
Managing General Partner

By: /s/ Thomas M. Ringo
Thomas M. Ringo
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ John D. Lamb
John D. Lamb
Vice President and Chief Financial Officer
(Principal Financial Officer)

By: /s/ Sean M. Tallarico
Sean M. Tallarico
Controller
(Principal Accounting Officer)

AMENDED AND RESTATED

LIMITED PARTNERSHIP AGREEMENT

OF

POPE RESOURCES,
A Delaware Limited Partnership

Dated
As of November 7, 1985

Including Amendments Approved:

December 16, 1986
February 13, 1997
October 30, 2007
April 12, 2011

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AMENDED AND RESTATED
LIMITED PARTNERSHIP AGREEMENT OF POPE RESOURCES,
A Delaware Limited Partnership

This Limited Partnership Agreement (the "Agreement"), dated as of November 7, 1985, is made and entered into by and between Pope MGP, Inc., a Delaware corporation, as Managing General Partner and as Original Limited Partner, and Pope EGP, Inc., a Delaware corporation, as Equity General Partner, and all other parties who shall become Partners of this Limited. Partnership as hereinafter provided.

In consideration of the mutual covenants and promises herein, the parties hereby form a Limited Partnership under The Delaware Revised Uniform Limited Partnership Act upon the following terms and conditions:

ARTICLE 1

DEFINITIONS

When used in this Agreement the following terms shall have the meanings set forth below except as otherwise specifically modified:

1.1 "Additional Limited Partner" means a Person admitted to the Partnership as an additional Limited Partner pursuant to Article 15 hereof.

1.2 "Affiliate" means any Person that directly or indirectly controls, is controlled by, or is under common control with the Person in question.

1.3 "Agreement" means this limited partnership agreement as the same may be amended from time to time.

1.4 "Allocable Share" of a Partner or Assignee, at any particular time, means the percentage which the number of Units owned by such Partner or Assignee is of the total Units of all Partners and Assignees at such time.

1.5 "Assignee" means a Person to whom one or more Limited Partners' Units have been transferred as provided in Article 7.1 hereof, or to whom one or more Units have been transferred by a Substituted or Additional Limited Partner and who has applied to become a Substituted Limited Partner as set forth in Articles 14 and 15 or to whom a Depositary Receipt has been transferred on the books of the Depositary as provided in Section 14.3 hereof, and who has not become a Substituted Limited Partner.

1.6 "Capital Contribution" or "Partnership Capital" means the total amount contributed to the capital of the Partnership by the General Partners, the Original Limited Partner, Substituted Limited Partners or Assignees or by Additional Limited Partners.

1.7 "Certificate" means a non-transferable certificate, substantially in the form of Exhibit A attached hereto, evidencing ownership of one or more Units.

1.8 "Certificate of Limited Partnership" means the certificate of limited partnership filed pursuant to the Delaware Act or any successor statute, as the same may be amended from time to time.

1.9 "Code" means the Internal Revenue Code of 1954, as amended from time to time.

1.10 "Company" means Pope & Talbot, Inc., a Delaware corporation.

1.11 "Delaware Act" means The Delaware Revised Uniform Limited Partnership Act, as amended and in effect from time to time.

1.12 "Depositary" means Newhall Depositary Company in its capacity as depositary or any other Person appointed to serve as depositary, or any successor as Depositary under the Depositary Agreement.

1.13 "Depositary Account" means the account established by the Depositary to hold the Depositary Units.

1.14 "Depositary Agreement" means the agreement so designated, which may be entered into between the Partnership and the Depositary, as it may be amended or supplemented from time to time. If there is no Depositary Agreement, the provision governing deposit, transfer and withdrawal of Units, Depositary Receipts and any other matters as to which this Agreement refers to the Depositary Agreement shall be as determined by the Managing General Partner.

1.15 "Depositary Receipt" means a depositary receipt issued by the Depositary evidencing ownership of one or more Depositary Units.

1.16 "Depositary Unit" means a unit of ownership representing a Limited Partners' Unit evidenced by a Certificate on deposit with the Depositary.

1.17 "Effective Date" means the effective date of the Plan (as defined in the Plan).

1.18 "EGP" means Pope EGP, Inc., a Delaware corporation.

1.19 "Equity General Partner" means the Person so designated pursuant to Section 3.2.

1.20 “General Partners" means the Persons named above as general partners in their capacity as general partners of the Partnership, and any successor or additional general partners. "General Partner" means one of the General Partners.

1.21 “IPMB Cumulative Commitment” means the cumulative sum of
(1) Portfolio Management Costs expended; and
(2) Portfolio Financial Commitments made

1.22 “IPMB Net Income” means by the Partnership directly or through the Portfolio Business Affiliate, in the conduct, management and administration of the Investor Portfolio Management Business, net of cumulative IPMB Net Income not allocated to MGP.“IPMB Net Income” means net income of the Portfolio Business Affiliate conducting the Investor Portfolio Management Business derived from the conduct of such business, as determined annually by deducting Portfolio Management Costs from Portfolio Management Revenue.

1.23 “Investment Entities” means new general or limited partnership, joint ventures, limited liability companies, or other new entities to be formed with Investors to acquire, hold, and manage land, land-holding entities, and related resources.

1.24 “Investor Portfolio Management Business” means the business of the Partnership, its Affiliates, and/or related businesses, involving the location, acquisition, management and/or development of land and related resources directly or through acquisition of land-holding entities, including, but not limited to, timberlands and lands with development potential for residential or commercial use, within and without the United States, primarily or exclusively for the account of Investors.

1.25 “Investors” means one or more individuals and/or entities who are not otherwise Affiliates of the Partnership who shall provide funds for the location, acquisition, management and/or development of land and related resources directly or through acquisition of land-holding entities, including, but not limited to, timberlands and lands with development potential for residential or commercial use, within and without the United States.

1.26 "Limited Partners" means the Original Limited Partner, the Substituted Limited Partners and the Additional Limited Partners for so long as they are limited partners hereunder. "Limited Partner" means one of the Limited Partners. No Assignee who has not been admitted as a Substituted Limited Partner shall be considered a Limited Partner for the purposes of this Agreement.

1.27 "Limited Partners' Units" means Units held or owned by any Person, whether as a Limited Partner or Assignee, other than the General Partners as general partners of the Partnership.

1.28 "Majority Interest" means the Partners of record holding more than fifty percent (50%) of the Units held by all Partners of record.

1.29 "Managing General Partner" means the Person so designated pursuant to Section 3.2.

1.30 “Maximum Commitment Level” means Five Million Dollars ($5,000,000).

1.31 "MGP" means Pope MGP, Inc., a Delaware corporation.

1.32 "Net Income" means the net income of the Partnership as determined on the accrual method in accordance with generally accepted accounting principles.

1.33 "Net Loss" means the net loss of the Partnership as determined on the accrual method in accordance with generally accepted accounting principles.

1.34 "Original Limited Partner" means Pope MGP, Inc., a Delaware corporation.

1.35 "Original Property" means the assets and liabilities of the Company transferred to the Partnership pursuant to the Plan.

1.36 "Partner" means a General Partner or a Limited Partner; and "Partners" means the General Partners and all Limited Partners.

1.37 "Partnership" means the limited partnership created by this Agreement and any successor partnership thereto continuing the business of the Partnership which is a reformation or reconstitution of a partnership governed by this Agreement.

1.38 "Partnership Property" means the Original Property and any and all property, real or personal, now or hereafter owned by the Partnership or in or to which the Partnership has any interest, right or claim.

1.39 "Person" means an individual, partnership, joint venture, estate, association, corporation, trust company, trust or other legal entity.

1.40 "Plan" means the Plan of Distribution of Pope & Talbot, Inc., a Delaware corporation, as described in the proxy statement sent to holders of the Common Stock of the Company for the meeting of Stockholders held for their approval of said Plan, as it may be amended or supplemented from time to time.

1.41 "Plan Distribution Record Date" means the Record Date established pursuant to the Plan for determining the identity of Stockholders entitled to receive a portion of the distribution under the Plan.

1.42 “Portfolio Business Affiliate” means one or more entities wholly-owned and controlled, directly or indirectly, by the Partnership or by the Partnership and the Managing General Partner.

1.43 “Portfolio Financial Commitments” means capital contributions, loans, guarantees, negative pledges, and other financial commitments made or incurred by the Partnership directly or through the Portfolio Business Affiliate in the conduct, management, and administration of the Investor Portfolio Management Business.

1.44 “Portfolio Management Costs” means all of the costs and expenses incurred in the conduct, management, and administration of the Investor Portfolio Management Business, including the portions of shared or prorated expenses allocated thereto, all of which shall include but not be limited to salaries, benefits and other compensation costs; professional fees (including accounting, legal, and consulting fees); and travel, public relations, marketing, facilities, and equipment expenses incurred by the Partnership or the Portfolio Business Affiliate in the conduct, management, and administration of the Investor Portfolio Management Business.

1.45 “Portfolio Management Revenue” means the fees payable by the Investment Entities and Investors to the Portfolio Business Affiliate.

1.46 "Proxy Statement" means the proxy statement sent to the holders of Common Stock of the Company for the meeting of Stockholders held for their approval of the Plan.

1.47 "Record Date" means the date established by the Partnership for determining (i) the identity of Persons entitled to notice of or to vote at any meeting of Partners or entitled to vote by ballot or entitled to exercise rights in respect of any other lawful action, or (ii) the identity of Partners and Assignees entitled to receive any report or distribution.

1.48 "Related Person" means the Company; a General Partner; any general partner,

officer, director or Affiliate of any of the foregoing or the Partnership; any stockholder of a General Partner; or any Person in which any of the foregoing has a material financial interest.

1.49 "Request and Power" means a request for admission as a Substituted or Additional Limited Partner, an agreement to be bound by the terms of this Agreement, a power of attorney (whether appearing on a stockholder proxy card of the Company, the reverse side of a Depositary Receipt, or in a separate instrument) and the provision of such other information as the Partnership shall request in such forms as are approved by the Partnership.

1.50 "Shareholders Agreement" is defined in Section 6.8(A) (8) hereof.

1.51 "Stockholders" is defined in Section 7.1 hereof.

1.52 "Substituted Limited Partner" means a Person admitted to the Partnership as a substituted limited partner pursuant to Article 15 hereof.

1.53 "Tax Credits" means all credits allowed under the Code, including, without limitation, investment tax credits, and credits allowable to Partners or Assignees under state or other taxing statutes.

1.54 "Unit" and Partnership Unit" means a unit of interest in the Partnership acquired or issue pursuant to this Agreement. "Units" and "Partnership Units" means all of such units of interest.

ARTICLE 2

THE LIMITED PARTNERSHIP

2.1 Formation of the Partnership. The General Partners and the Original Limited Partner hereby agree to form and by execution of this Agreement do hereby enter into a limited partnership under the Delaware Act, which Act, as amended, and any successor statutes thereto, shall govern the rights and liabilities of the parties hereto.

2.2 Partnership Name. The name of the Partnership is "Pope Resources, A Delaware Limited Partnership" and the Partnership shall conduct business under such name, "Pope Resources", or such other names as the Managing General Partner may from time to time deem necessary, appropriate or advisable. The Managing General Partner in its sole discretion may change the name of the Partnership at any time and from time to time. The General Partners and the Limited Partners hereto shall promptly execute, and the Managing General Partner shall file and record with proper offices in each jurisdiction in which the Partnership does, or elects to do, business, and publish such certificates or other statements or other statements or instruments as are required by the limited partnership act, fictitious name act, assumed name act or any other similar statute in effect in such jurisdiction in order to conduct validly the Partnership business therein as a limited partnership.

2.3 Purpose of the Partnership. The Partnership will engage generally in any and all phases of the businesses of conducting traditional forestry operations and selling timber or logs under cutting contracts or other arrangements, selling undeveloped acreage, developing acreage for sale as improved property, selling developed and undeveloped lots at the Port Ludlow Community, and maintaining and operating reforestation and transplant nurseries, participating

in the Investor Portfolio Management Business through the Portfolio Business Affiliate (but only to the extent that the Partnership's IPMB Cumulative Commitment does not exceed the Maximum Commitment Level unless the Partnership shall have approved the continuation of the Investment Portfolio Management Business, and the commitment of the funds in excess of the Maximum Commitment Level, in the manner provided in Section 6.8(A)), and in any other business with the exception of the business of granting policies of insurance, or assuming insurance risks or banking as defined in Section 126, Title 8 of the Delaware Code. Without limiting the generality of the foregoing, the Partnership may perform such other acts incidental and supplementary to the foregoing as the Managing General Partner determines to be necessary or appropriate.

2.4 Principal Place of Business. The principal place of business of the Partnership shall be 19950 7th Avenue NE, Suite 200, Poulsbo, Washington, 98370, but the Managing General Partner may substitute or establish such other place or places of business for the Partnership (within or without the State of Washington) as it may, from time to time, deem necessary or appropriate; provided, however, that the Managing General Partner shall give the Limited Partners and Assignees notice in writing of any change of address of the principal place of business of the Partnership and, in connection therewith, shall amend the Certificate of Limited Partnership in accordance with applicable requirements of law. The Managing General Partner may select one or more Persons to act as agent for service of process on the Partnership, including, without limitation, a General Partner or a Related Person, if the Managing General Partner so elects, in accordance with applicable requirements of law.

2.5 Term of the Partnership. The Partnership shall commence on the date that the Certificate of Limited Partnership is recorded or filed and shall continue until December 31, 2060, unless extended by amendment of this Agreement or unless the Partnership is dissolved prior to that date pursuant to Section 17.1.

2.6 Execution of Documents. The General Partners shall execute, acknowledge and file or deliver all certificates of limited partnership, amended certificates, instruments or other documents and counterparts thereof and make all filings and recordings and perform all other acts as shall be necessary to comply with the laws of the State of Delaware for the formation of the Partnership, thereafter for the continued good standing of the Partnership, and, when appropriate, for the termination of the Partnership. The General Partners shall also execute such certificates, amended certificates and other documents conforming hereto and do such filing, recording, publishing and other acts as may be appropriate to comply with the requirements of law for the formation, reformation, qualification and/or operation of a limited partnership in all jurisdictions where the Partnership may wish to do business, which shall be accomplished prior to doing business in any such jurisdiction if deemed necessary by the Managing General Partner. Such certificates, instruments, documents and counterparts may be signed by the Managing General Partner on behalf of any or all of the Limited Partners acting pursuant to powers of attorney from the Limited Partners.

ARTICLE 3

THE GENERAL PARTNERS

3.1 General. The General Partners shall devote such time and attention to the business of the Partnership as may be reasonably necessary to carry out its duties hereunder in the conduct of such business, but, subject to any policies adopted by the Partnership or the

Managing General Partner, neither this Agreement nor the relationship of the parties as partners shall remove or impair the right of the officers, directors and stockholders of the General Partners to be otherwise employed by an entity or entities other than the Partnership on a part-time or full- time basis. The General Partners shall have the power and authority to appoint Partnership officers and employees as the General Partners deem necessary or appropriate. Nothing herein shall prevent any officer, director, stockholder or employee of a General Partner or of the Partnership from becoming an Assignee or a Limited Partner, whereupon that Person shall be entitled to all rights and shall be subject to all obligations relating to such Units and shall as to such Units be deemed as Assignee or a Limited Partner, as applicable.

3.2 Management Power. The Managing General Partner shall have exclusive discretion in the management and control of the business of the Partnership, shall make all decisions affecting the business of the Partnership, shall act as tax matters partners for the Partnership and may take such actions as it deems necessary or appropriate to accomplish the purposes of the Partnership as set forth herein. The Managing General Partner shall be Pope MGP, Inc. ("MGP"), a Delaware corporation and any successor to MGP which becomes Managing General Partner of the Partnership pursuant to this Agreement. If there is no successor to MGP which becomes Managing General Partner pursuant to this Agreement, then the Equity General Partner shall be Managing General Partner until a meeting of the Partners can be convened to elect a Person to serve as Managing General Partner hereunder. When such election takes effect, the Equity General Partner shall cease to serve as Managing General Partner. The Equity General Partner shall be Pope EGP, Inc. ("EGP"), a Delaware corporation, and any successor to EGP which becomes Equity General Partner pursuant to this Agreement. The purposes of the Equity General Partner as a General Partner hereunder shall be solely to continue the business of the Partnership and to serve as Managing General Partner until an election is held in the event there is no successor Managing General Partner pursuant to this Agreement and, together with the Managing General Partner, to initially have and to maintain sufficient assets in order to ensure, to the extent possible, that the Partnership will be treated as a partnership, rather than an association taxable as a corporation for federal income tax purposes.

3.3 Powers of the Managing General Partner. Subject to Sections 6.8 and 6.9, in connection with such management and control, the Managing General Partner shall have the power and authority to do or cause to be done any and all acts deemed by the Managing General Partner to be necessary or appropriate to carry out the purposes of the Partnership including, but not limited to, causing the Partnership to contribute some or all of the properties of the Partnership to an operating partnership in order to minimize state recording problems. The power and authority of the Managing General Partner shall be liberally construed to encompass all acts and activities in which a partnership may engage. Any Person dealing with the Managing General Partner shall not be required to determine or inquire into the authority and power of the Managing General Partner to bind the Partnership and to execute, acknowledge and deliver any and all documents. The expression of any power or right of the Managing General Partner in this Agreement shall not limit or exclude any other power or right which is not specifically or expressly set forth in this Agreement.

3.4 Liability of General Partners. The General Partners shall be liable to the Partnership for gross negligence or willful misconduct but neither the General Partners nor their directors, officers, or stockholders nor the officers of the Partnership shall be liable to the Partnership or to Persons who have acquired interest in the Units, whether as Assignees or otherwise, for errors in judgment or omissions that do not constitute gross negligence or willful

misconduct. In all transactions for or with the Partnership the General Partners shall act in good faith and in a manner which the General Partners believes to be in, or not opposed to, the best interests of the Partnership.

3.5 Similar Activities of General Partners. Subject to any policies adopted by the Partnership or the General Partners, the directors, officers and stockholders of the General Partners and the Partnership officers may, directly or indirectly (including, without limitation, through a Related Person or other entity in which any such Person holds an ownership interest), engage in any and all aspects of any business in which the Partnership is engaged or plans to engage, or any other businesses and activities, whether competitive with the Partnership or otherwise, for their own account and for the account of others, without having or incurring any obligation to offer any interest in such properties, businesses or activities to the Partnership or any Partner or Assignee, and nothing herein contained shall be deemed to prevent any such Person from conducting such other businesses and activities. Neither the Partnership nor any of the Partners or Assignees shall have any rights by virtue of this Agreement in any independent business ventures of such Person. However, all records kept and maintained by the Managing General Partner for the Partnership pursuant to this Agreement shall be maintained separately from those for other operations of such Persons.

3.6 Indemnification.

(A) Subject to the limitations set forth in paragraph (B) of this Section 3.6, the General Partners, the stockholders, directors and officers of the General Partners and the Partnership officers (individually, an "Indemnitee"), shall each, to the maximum extent permitted by law, be indemnified and held harmless by the Partnership from and against any and all losses, claims, damages, liabilities, joint and several, expenses (including legal fees and expenses), judgments, fines, settlements, and other amounts arising from any and all claims, costs, demands, actions, suits or proceedings, civil, criminal, administrative or investigative, (1) in which the Indemnitee may be involved, or threatened to be involved, as a party or otherwise (a) by reason of its present or former status as a General Partner or a stockholder, director, officer or employee of a General Partner, the Partnership or the Company, (b) by reason of its present or former status in serving, at the request of the Partnership, a General Partner or the Company, as a partner, director, officer, stockholder, employee or agent of another corporation, partnership, joint venture, trust or other enterprise or as a I member of a committee or similar body, or (c) by reason of its management of the affairs of a General Partner, the Partnership or the Company, or (2) which relate to the property, business or affairs of a General Partner or the Partnership, whether or not the Indemnitee continues to be a General Partner or a stockholder, director or officer of a General Partner, the Partnership or the Company at the time any such liability or expense is paid or incurred, and whether or not the liability or expense accrued or relates to, in whole or in part, any time on, before or after the date of this Agreement. The Managing General Partner shall have the right and power, but not the obligation unless otherwise agreed, to indemnify and hold harmless present or former employees, agents, advisers, consultants and counsel of or to the General Partners, the Partnership or the Company (including any custodian, investment adviser, accountant, attorney, corporate fiduciary, trustee, bank, other financial institution, or other agent or Person who serves or served in such capacity for the Partnership, a General Partner or a Related Person) against liabilities incurred by them in acting in any such capacity.

(B) An Indemnitee shall not be entitled to indemnification under this Section 3.6

with respect to any Claim, Issue or Matter in which it has been adjudged to have engaged in (1) a breach of the Indemnitee's duty of loyalty to the Partnership or its General Partners; (2) an act or omission not in good faith or which involved intentional misconduct or a known violation of law; (3) an act pertaining to a distribution of Partnership Assets in violation of the terms of the Partnership Agreement or applicable law; or (4) a transaction from which the Indemnitee derived an improper personal benefit; unless and only to the extent that the court in which such action was brought, or another court of competent jurisdiction, should determine upon application that, despite the adjudication of liability, but in view of all circumstances of the case, the Indemnitee is fairly and reasonably entitled to indemnification for liabilities and expenses as the court shall deem proper. The termination of a proceeding by judgment, order, settlement, conviction or upon a plea of nolo contendere, or its equivalent, shall not, of itself, create a presumption that the Indemnitee did not act in good faith or a presumption that the Indemnitee had reasonable cause to believe or did believe that its conduct was unlawful.

(C) An Indemnitee's expenses (including legal fees and expenses) incurred in defending any Proceeding shall be paid by the Partnership in advance of the final disposition of the Proceeding upon receipt of an undertaking by or on behalf of the Indemnitee to repay such amount if it shall ultimately be determined by a court of competent jurisdiction that the Indemnitee is not entitled to be indemnified by the Partnership as authorized hereunder.

(D) The indemnification provided by this Section 3.6 shall be in addition to any other rights to which the Indemnitee may be entitled under any agreement, by-law provision, vote of the Partners, as a matter of law or otherwise, both as to action in the Indemnitee's capacity as a General Partner or as a present or former stockholder, director or officer of a General Partner, the Partnership or the Company and to action in any other capacity, and shall continue as to an Indemnitee who has ceased to serve in such capacity and shall inure to the benefit of the heirs, successors, assigns and administrators of the Indemnitee. The parties intend for this Section 3.6 to be liberally construed.

(E) The Managing General Partner and the Partnership may, but shall not be required to, purchase and maintain insurance on behalf of Indemnitees and such other Persons as the Managing General Partner shall determine against any liability which may be asserted against or expense which may be incurred by such Person in connection with the activities of a General Partner, the Partnership or the Company whether or not the Managing General Partner or the Partnership would have the power to indemnify such Person against such liability under the provisions of this Agreement.

(F) For purposes of this Section 3.6, the Partnership, the Company and the General Partners shall be deemed to have requested an Indemnitee to serve as fiduciary of an employee benefit plan whenever the performance by the Indemnitee of its duties to the Partnership, a General Partner or the Company also imposed duties on, or otherwise involved services by, the Indemnitee to the plan or participants or beneficiaries of the plan; excise taxes assessed on an Indemnitee with respect to an employee benefit plan pursuant to applicable law shall be deemed "fines" within the meaning of Section 3.6(A); and action taken or omitted by it with respect to an employee benefit plan in the performance of its duties for a purpose reasonably believed by it to be in the interest of the participants and beneficiaries of the plan shall be deemed to be for a purpose which is in, or not opposed to, the best interests of the Partnership, the General Partners or the Company, as the case may be.

(G) An Indemnitee shall not be denied indemnification in whole or in part under

this Section 3.6 because the Indemnitee had an interest in the transaction with respect to which the indemnification applies if the transaction was approved pursuant to Section 3.8 or meets the standards of Section 3.8.

3.7 Other Matters Concerning General Partners.

(A) Each of the General Partners may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, consent, order, bond, debenture, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties.

(B) Each of the General Partners may execute any of the powers hereunder or perform any duties hereunder either directly or by or through agents, including, without limitation, any Related Person. Each of the General Partners may consult with counsel, accountants, appraisers, management consultants, investment bankers, and other consultants and advisers selected by it (who may serve as such for the Partnership or any Related Person) and any opinion of such Person as to matters which the General Partner believes to be within its professional or expert competence shall be full and complete authorization and protection in respect to any action taken or suffered or omitted by the General Partner hereunder in good faith and in accordance with such opinion. Neither of the General Partners shall be responsible for the misconduct, negligence, acts or omissions of any such Person or of any agent or employee of the Partnership, a General Partner or a Related Person, and shall assume no obligations in connection therewith other than the obligation to use due care in the selection of such Persons.

(C) Any and all fees, commissions, compensation and other consideration received by a General Partner or a director, officer or stockholder of the General Partner or of the Partnership permitted hereunder shall be the exclusive property of the recipient, in which the Partnership shall have no right or claim, and the participation by any such Person in any agreement permitted hereunder shall not constitute a breach by such Person of any duty that it may owe the Partnership or the Limited Partners or Assignees under this Agreement or by operation of law.

3.8 Agreements with a General Partner or a Related Person.

(A) Subject to the provisions of this Section 3.8, the General Partners and any Related Person may, directly or indirectly, deal with the Partnership in connection with carrying out the business of the Partnership or otherwise, as an independent contractor or as an agent for others, and may receive from such others or the Partnership profits, compensation, commissions or other amounts which the Managing General Partner in good faith believes to be reasonable without having to account to the Partnership therefore.

(B) The satisfaction of anyone of the following conditions shall be a complete defense to any claim of invalidity or for damages or other relief with respect to any agreement or transaction between the Partnership and any General Partner(s) or a Related Person based upon the fact that the General Partner(s) or Related Person is a party thereto:

(1) The material facts as to the agreement or transaction and as to the relationship or interest of the General Partner(s) or Related Person are fully disclosed or known to members of the board of directors of the Managing General Partner who are not interested in the agreement or transaction, and a majority of such disinterested members of

the board of directors of the Managing General Partner affirmatively vote in good faith to authorize, approve or ratify the agreement or transaction, or, in the event that the Managing General Partner is a partnership, after disclosure of the material facts as to the relationship or interest of the General Partner(s) or Related Person, the agreement or transaction is approved, authorized or ratified by the general partner(s) or partners of the Managing General Partner not interested in the transaction by a majority vote; or

(2) The material facts as to the agreement or transaction and as to the relationship or interest of the General Partner(s) or Related Person are fully disclosed or known to the Partners and the agreement or transaction is specifically authorized, approved or ratified in good faith by a Majority Interest; or

(3) The agreement or transaction is fair as to the Partnership at the time it is authorized, approved or ratified by the Managing General Partner.

(C) Each of the Persons who is or becomes a Partner or Assignee hereby approves, ratifies and confirms any agreements, acts, transactions or matters described in the Proxy Statement and authorizes, ratifies and confirms the execution of such agreements by the Managing General Partner or the taking of such action on behalf of the Partnership without any further act, approval or vote of the Partners or the Partnership.

3.9 Conveyances. The Managing General Partner has the express authority to convey title to any Partnership Property by a conveyance executed by the Managing General Partner alone on behalf of the Partnership.

3.10 Borrowings. The Managing General Partner is hereby expressly authorized to cause the Partnership to borrow money and to execute all agreements, documents, certificates or instruments in connection with or related to the borrowing for the purposes of obtaining a commitment or incurring indebtedness in the name of the Partnership. As between the Partnership and any lender it shall be conclusively presumed that the proceeds of such loans are to be and will be used for the purposes authorized herein and that the Managing General Partner has the full power and authority to borrow such money and to obtain such credit on behalf of the Partnership.

3.11 Shareholders Agreement. MGP and EGP hereby agree with the Partnership to execute and be bound by the Shareholders Agreement referred to in Section 6.8(A)(8) below, which contains, among other things, certain provisions relating to the corporate governance of MGP and EGP.

ARTICLE 4

COMPENSATION OF THE GENERAL PARTNERS

4.1 Reimbursement and Compensation of General Partners

(A) The Partnership shall pay all of the costs and expenses incurred or accrued by the General Partners in connection with the business and affairs of the Partnership, including, without limitation, all overhead and operating expenses, employee compensation, benefits and other expenses (including, without limitation, fees and other compensation and expenses of officers, directors, agents and employees of the General Partners), indemnification expenses and

amounts paid to any Person to acquire or dispose of interests in any property, to settle claims or to perform services for the Partnership, in each case as the Managing General Partner in its sole discretion shall authorize or approve. The General Partners shall be promptly reimbursed by the Partnership for any such items paid by the General Partners and the Partnership shall from time to time advance amounts to the General Partners for the payment of such items.

(B) Compensation of the officers and employees of the General Partners and the Partnership shall be as determined by, or pursuant to the direction of, the board of directors of the Managing General Partner or a committee of that board.

(C) The Partnership shall pay an annual fee to the General Partners of $150,000 to be allocated between the General Partners as the General Partners shall agree.

(D) Members of the Board of Directors of the Managing General Partner shall initially receive an annual fee of $9,000 and a fee for each board or committee meeting attended. The Managing General Partner, in its sole discretion, may increase the annual fee and/or authorize payment of director's fees to the directors of the Equity General Partner; provided however, that such director's fees shall, in the opinion of the Managing General Partner, be reasonably competitive with the director's fees of comparable entities. Members of the Board of Directors of the Managing General Partner will also receive reimbursement for travel and other expenses related to attendance at meetings of the board of directors and of committees.

4.2 Change in Compensation. From time to time, the Managing General Partner may propose and effect any additional or substitute compensation plans or arrangements without the need for any vote or approval of Partners, except that the approval of a Majority Interest shall be required to increase the fee of the General Partners set forth in Section 4.1(C).

ARTICLE 5

THE LIMITED PARTNERS AND ASSIGNEES

5.1 Limited Liability. No Limited Partner or Assignee (except for a General Partner in its capacity as a General Partner as provided in this Agreement) shall be personally liable for any of the debts or liabilities of the Partnership or for any Net Losses beyond the amount of the Allocable Share of the Capital Contribution made or agreed to be made to the Partnership by the Limited Partner or Assignee and any undistributed Net Income allocated to the Limited Partner or Assignee. However, to the extent required by law, each Limited Partner or Assignee receiving actual or constructive distributions will be liable to return distributions, with interest. The General Partners may not seek to recover any such distribution unless the Managing General Partner has applied all other Partnership assets to the payment of liabilities of the Partnership and the liabilities of the Partnership, other than to Partners and Assignees as such, have not been fully paid, satisfied, assumed or discharged. Any Limited Partner returning all or any part of a distribution actually received by an Assignee or successor of the Limited Partner shall be subrogated to the Partnership's right to seek a return of that distribution. In no event shall any Limited Partner or Assignee be obligated under any circumstances to make any additional Capital Contribution to the Partnership for any purpose whatsoever.

The obligation of a Partner to make a contribution or return money or property to the Partnership may be compromised either by the written consent or agreement of the Managing General Partner or with the approval of a Majority Interest.

5.2 Restrictions on Limited Partners.

(A) No Limited Partner or Assignee shall participate as such in the management and control of the business of the Partnership, transact any business for the Partnership, or attempt to do so, unless such Limited Partner or Assignee is also the General Partner or other Person employed or engaged to transact any such business by or on behalf of the General Partner or the Partnership. The transaction of any such business by a Limited Partner or Assignee employed or engaged to do so by or on behalf of the General Partner or the Partnership shall not affect, impair or eliminate the limitations on the liability of the Limited Partner or Assignee under this Agreement.

(B) No Limited Partner or Assignee shall have the power to represent, sign for or bind a General Partner or the Partnership, unless the Limited Partner or Assignee is also the General Partner or other Person given such power by a General Partner or the Partnership, including, without limitation, a Limited Partner or Assignee given power to act as the Depositary, transfer agent or registrar for the Partnership.

5.3 Outside Activities. Limited Partners and Assignees shall be entitled to and may have business interests and engage in business activities in addition to those relating to the Partnership, including business interests and activities in direct competition with the Partnership. Neither the Partnership nor any of the Partners shall have any rights by virtue of this Agreement in any independent business ventures of any other Limited Partner or Assignee.

5.4 No withdrawal or Dissolution. No Limited Partner shall at any time withdraw from the Partnership. No Limited Partner shall have the right to have the Partnership dissolved or the right to a return of its capital contribution from or payment of its capital account by the Partnership, except as expressly provided in this Agreement. The legal incompetency, bankruptcy, termination, dissolution, withdrawal, or death of a Limited Partner shall not cause dissolution of the Partnership.

5.5 Pope as Partnership Name. The use of "Pope" in the name of the Partnership refers to the corporate names of the General Partners, Pope MGP, Inc. and Pope EGP, Inc. The fact that the name Pope may also be the name of a Limited Partner or Assignee or a director, officer or stockholder of a General Partner is not intended to suggest the appearance of the participating of any such person in the management and control of the business of the Partnership, and the use of the name Pope in the name of this Partnership is not intended to refer to any Limited Partner or Assignee. The Managing General Partner shall cause the name of the Partnership to be changed to delete the use of "Pope" in the event that the Pope MGP, Inc. and Pope EGP, Inc. cease to serve as General Partners of the Partnership and no successor General Partner uses the name "Pope”.

5.6 Assignees. An assignment of Limited Partners' Units does not dissolve the Partnership or entitle the transferee to become or to exercise any rights of a Limited Partner except as provided in Articles 14 and 15 hereof. An assignment entitles the transferee merely to become an Assignee or Substituted Limited Partner as provided in Articles 14 and 15 upon application therefore. A Limited Partner remains a Limited Partner upon transfer of all or part of the Limited Partners' Units, subject to the Assignee becoming a Substituted Limited Partner pursuant to Article 15 of this Agreement. An Assignee who does not become a Substituted Limited Partner has no right to require any information or account of Partnership transactions, to

inspect the Partnership books, or to vote and is otherwise subject to the limitations under the Delaware Act on the rights of an Assignee who has not become a Substituted Limited Partner. In the absence of written application to the Partnership in accordance with Article 14, any payment in respect thereto by the Partnership to the assigning Limited Partner or Assignee or the personal representative of the assigning Limited Partner or Assignee shall acquit the Partnership of liability to the extent of such payment to any Person who may have an interest in such payment by reason of an assignment by the Limited Partner or Assignee or the successors or Assignees of the Partner or Assignee, or by reason of the death of such Partner or Assignee or otherwise.

ARTICLE 6

MEETINGS AND VOTING: AMENDMENTS

6.1 Meetings. Meetings of the Partners may be called by the Managing General Partner or by Limited Partners owning at least ten percent (10%) of the Units as to a matter on which Partners have the right to vote. Any Partner calling a meeting shall specify the number of Units as to which the Partner is exercising the right to call a meeting, and only those specified Units shall be counted for the purpose of determining whether the required ten percent (10%) standard of the preceding sentence has been met. Partners shall call a meeting by delivering the Managing General Partner one or more calls in writing stating that the signing Persons wish to call a meeting and indicating the general or specific purposes for which the meeting is to be called. Within twenty (20) days after receipt of such a call from Partners or within such a greater time as may be reasonably necessary for the Partnership to comply with any statutes, rules, regulations, listing agreements or similar requirements governing the holding of a meeting or the solicitation of proxies by the General Partners for use at such a meeting, the Managing General Partner shall send a notice of the meeting to the Partners, either directly or indirectly through the Depositary. A meeting shall be held at a time and place determined by the Managing General Partner on a date not less than ten (10) nor more than sixty (60) days after the mailing of notice of the meeting. Partners may vote either in person or by proxy at any meeting. Either of the General Partners may solicit proxies with respect to any matter proposed to be considered at a meeting of Partners. No matter shall be voted upon by Partners at any meeting of the Partners unless the requirements of Section 6.9 shall be satisfied as to such matter. Any Partner approval at a meeting, other than unanimous approval by those entitled to vote shall be valid only if the general nature of the proposal was stated in the notice of meeting or in any written waiver of notice.

6.2 Notice of a Meeting. Reports. Notice of a meeting called pursuant to Section 6.1 and any report shall be given either personally or by mail or other means of written communication, addressed to the Partner at the address of the Partner appearing on the books of the Partnership or, if no address appears or is given at the place where the principal executive office of the Partnership is located or by publication at least once in a newspaper of general circulation in the county in which the principal executive office is located. The notice or report shall be deemed to have been given at the time when delivered personally or deposited in the mail or sent by other means of written communication. An affidavit or certificate of mailing of any notice or report in accordance with the provisions of this Article 6, executed by the Managing General Partner, Depositary, transfer agent, registrar of Units or mailing organization shall be prima facie evidence of the giving of the notice or report. If any notice or report addressed to the Partner at the address of the Partner appearing on the books of the Partnership is returned to the Partnership by the United States Postal Service marked to indicate that the United

States Postal Service is unable to deliver it, said notice or report and any subsequent notices or reports shall be deemed to have been duly given without further mailing if they are available for the Partner at the principal executive office of the Partnership for a period of one year from the date of the giving of the notice or report to all other Partners.

6.3 Record Date. For purposes of determining the Partners entitled to notice of or to vote at a meeting of the Partners, the Managing General Partner may set a Record Date which shall be not less than ten (10) days nor more than sixty (60) days before the date of the meeting. If no Record Date is fixed:

(A) The Record Date for determining Partners entitled to notice of or to vote at a meeting of Partners shall be at the close of business on the business day next preceding the day on which notice is given or, if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held.

(B) The Record Date for determining Partners for any other purpose shall be at the close of business on the day on which the Managing General Partner adopts it, or the sixtieth (60th) day prior to the date of the other action, whichever is later.

6.4 Adjournment. When a meeting is adjourned to another time or place, notice need not be given of the adjourned meeting, and a new Record Date need not be fixed, if the time and place thereof are announced at the meeting at which the adjournment is taken unless such adjournment shall be for more than forty-five (45) days. At the adjourned meeting the Partnership may transact any business which might have been transacted at the original meeting. If the adjournment is for more than forty-five (45) days or if a new Record Date is fixed for the adjourned meeting, a notice of the adjourned meeting shall be given in accordance with this Article 6.

6.5 Waiver of Notice. Consent to Meeting: Approval of Minutes. The transactions of any meeting of Partners, however called and noticed, and whenever held, are as valid as though had at a meeting duly held after regular call and notice, if a quorum is present either in person or by proxy, and if, either before or after the meeting, each of the Persons entitled to vote, not present in person or by proxy, signs a written waiver of notice or a consent to the holding of the meeting or an approval of the minutes thereof. All waivers, consents, and approvals shall be filed with the Partnership records or made a part of the minutes of the meeting. Attendance of a Person at a meeting shall constitute a waiver of notice of the meeting, except when the Person objects, at the beginning of the meeting, to the transaction of any business because the meeting is not lawfully called or convened; and except that attendance at a meeting is not a waiver of any right to object to the consideration of matters required to be included in the notice of the meeting but not so included, if the objection is expressly made at the meeting.

6.6 Quorum. A Majority Interest represented in person or by proxy shall constitute a quorum at a meeting of Partners. The Partners present at a duly called or held meeting at which a quorum is present may continue to transact business until adjournment notwithstanding the withdrawal of enough Partners to leave less than a quorum, if any action taken (other than adjournment) is approved by the requisite percentage of interests of Partners specified in this Agreement. In the absence of a quorum, any meeting of Partners may be adjourned from time to time by the vote of a majority of the Units represented either in person or by proxy, but no other business may be transacted, except as provided in Section 6.1.

6.7 Conduct of Meeting. The Managing General Partner shall have full power and authority concerning the manner of conducting any meeting of Partners, including, without limitation, the determination of Person entitled to vote at the meeting, the existence of a quorum, the satisfaction of the requirements of Section 6.9, the conduct of voting, the validity and effect of any proxies, and the determination of any controversies, votes, or challenges arising in connection with or during the meeting. The Managing General Partner shall designate a Person to serve as chairman of the meeting and shall further designate a Person to take the minutes of the meeting, and in either case such Person may be, without limitation, a partner, director or officer of the Managing General Partner. All minutes shall be kept with the records of the Partnership maintained by the Managing General Partner.

6.8 Voting Rights.

(A) Subject to Section 6.9, the Partners shall have the right to vote on all matters specified below and the actions specified therein may be taken by the Managing General Partner only with the affirmative vote of a Majority Interest and with the separate concurrence of the Managing General Partner:

(1) Amendment of this Agreement, including without limitation an amendment changing the term of the Partnership, except as permitted pursuant to Section 6.10 or as provided in Section 6.11;

(2) Dissolution of the Partnership, other than pursuant to Section 17.1(A}, (B), (C) or (E);

(3) Approval or disapproval of any merger, consolidation or combination of the business or assets of the Partnership with any other Person, or a reformation or reorganization of the Partnership under the law of another state; provided, however, that no vote or approval shall be required with respect to any such transaction which, in the sole discretion of the Managing General Partner, (a) is primarily for the purpose of acquiring properties or assets, or (b) combines the ongoing business operations of the entities with the Partnership as the surviving entity.

(4) Approval or disapproval of a sale of all or substantially all of the assets of the Partnership if the aggregate fair market value of the assets of the Partnership prior to the sale exceeds Ten Million Dollars ($10,000,000);

(5) When the Partnership would otherwise dissolve and its business would not otherwise be continued pursuant to the terms of this Agreement and except as provided in Section 6.8(D} below, election to continue the business of the Partnership or election of a new General Partner or Managing General Partner to continue the business of the Partnership (except that if there is no Managing General Partner at the time, the separate concurrence of the Managing General Partner will not be required);

(6) Approval or disapproval of any matter actually submitted for a vote pursuant to Section 3.8 (except that the separate concurrence of the Managing General Partner will not be required);

(7) Approval or disapproval of an increase in the annual fee of the General Partners set forth in Section 4.1(C);

(8) Pursuant to that certain shareholders agreement entered into by and among MGP, EGP, Peter T. Pope, Emily T. Andrews, the directors of MGP, Pope & Talbot, Inc. and the Partnership, dated as of November 7, 1985 (the "Shareholders Agreement"), approval or disapproval of the following matters:

(i) waiver of mandatory retirement at age 75 for any director of MGP;

(ii) amendment of certain provisions or termination of the Shareholders Agreement; and

(iii) amendment of any provision of MGP's bylaws relating to the size of, and qualifications for, the Board of Directors of MGP.

(9) Approval or disapproval of the continuation of the Investor Portfolio Management Business and the commitment of additional funds to enable the Portfolio Business Affiliate to continue to conduct the Investment Portfolio Management Business after the IPMB Cumulative Commitment shall have reached the Maximum Commitment Level.

(B) Except as provided in (C) below and subject to the requirements of Section 16.2(D) regarding successor Managing General Partners, the Partners shall have the right to vote on removal of and remove a General Partner and elect a successor General Partner by the affirmative vote of Partners of record holding at least sixty-six and two-thirds percent (66 2/3%) of the outstanding Qualifying Units or by the affirmative vote of Partners of record holding at least ninety percent (90%) of the Units held of record by all Partners (not including votes with respect to any Units held by the General Partner to be removed as such and not considering any such Units as outstanding for purposes of determining the applicable percentage of outstanding Units). The Partners shall call a meeting as provided in Section 6.1 for the purpose of considering removal of a General Partner. Such removal shall be effective in the manner provided in Section 16.1.

"Qualifying Units" means (i) Units issued upon initial formation of the Partnership which have been continuously held by a Unitholder or by a member of the Unitholder's Family at least until the record date for the removal vote and (ii) Units which have been held by a Unitho1der or by a member of the Unitholder's Family for a period of not less than five (5) years as of the record date for the removal vote.

"Unitholder's Family" means the lineal descendants and present and former spouses of the Unitholder, any present or former spouse of such persons, any lineal descendants of such spouses or former spouses, any estate of any of the foregoing persons, any trust in which any of the foregoing persons has not less than a fifty percent (50%) beneficial interest as an income beneficiary or remainder man, and any corporation, partnership or other entity in which anyone or more of such persons or entities owns not less than a fifty percent (50%) interest.

Units held by the Unitholder's Family shall include any Units held for the benefit

of the Unitholder's Family by a broker, nominee, pledgee, custodian, receiver, or the like. In no event shall any Units be counted more than once if more than one member of the Unitholder's Family has the requisite interest in such Units.

(C) In the event that there is a change in the beneficial ownership of MGP such that all of the directors of MGP become shareholders of MGP pursuant to the Shareholders Agreement, then commencing one year from the date of such event, and at any time thereafter, the Partners shall have the right to vote on removal of and remove a General Partner and elect a successor General Partner by the affirmative vote of a Majority Interest (not including the votes with respect to any Units held by the General Partner to be removed as such and not considering any such Units as outstanding for purposes of determining a Majority Interest). The Partners shall call a meeting as provided in Section 6.1 for the purpose of considering removal of a General Partner. Such removal shall be effective in the manner provided in Section 16.1.

(D) The Partners shall have the right only by the written consent of all Partners to elect a General Partner or to elect to continue the business of the Partnership after a General Partner ceases to be a General Partner where there is no remaining or surviving General Partner.

(E) Except as expressly provided in this Agreement, Partners shall have no voting rights.

6.9 Voting Rights Conditional. The voting rights set forth in Section 6.8 shall not be exercised unless the Partnership shall have received a favorable written opinion of counsel for the Partnership to the effect that the exercise of such right and the action proposed to be taken with respect to any particular matter (l) shall not cause the Limited Partners to be deemed to be taking part in the management and control of the business and affairs of the Partnership so as to subject the Limited Partners to unlimited liability therefore, (2) will not jeopardize the status of the Partnership as a partnership under applicable tax laws and regulations, and (3) is otherwise permissible under the state statutes then governing the rights, duties and liabilities of the Partnership and the Partners. If counsel for the Partnership has indicated that it is unable or unwilling to deliver such an opinion, the Managing General Partner may take any action described in Section 6.8(A), other than the actions set forth in Sections 6.8(A)(7) and 6.8{A)(8), without the need for a vote of Partners.

6.10 Amendments by the Managing General Partner; Procedure on Amendment. Subject to Section 6.11, the Managing General Partner may without prior notice or consent of any Partner amend any provision of this Agreement (1) to elect to be bound by any successor Delaware statute governing limited partnerships, (2) if in its opinion such amendment does not have a materially adverse effect upon the Limited Partners or the Partnership, as the case may be, other than Limited Partners who consent to amendment, (3) the amendment is necessary, in the opinion of counsel to the Partnership, to prevent the Partnership, the officers of the Partnership, or the general Partners or the directors, officers or shareholders of a General Partner from being in any manner subject to the provisions of the Investment Company Act of 1940, as amended, the Investment Advisers Act of 1940, as amended, or "plan asset" regulations adopted under the Employee Retirement Income Security Act of 1974, as amended, whether or not substantially similar to plan asset regulations currently applied or proposed by the Department of Labor, (4) to reflect the exercise of any power granted to the Managing General Partner under this Agreement, (5) to make any change which, in the sole discretion of the Managing General Partner, is advisable to qualify or to continue the qualification of the

Partnership, as a limited partnership or a partnership in which the Limited Partners have limited liability under the laws of any state or that is necessary or advisable in the sole discretion of the Managing General Partner to ensure that the Partnership will not be treated as an association taxable as a corporation for federal income tax purposes, (6) to make any change is necessary or advisable, in the sole discretion of the Managing General Partner, to satisfy any requirements, conditions or guidelines contained in any opinion, directive, order, ruling or regulation of any federal or state agency or contained in any federal or state statute or that is necessary or desirable in order to implement the provisions of Section 9.l(D), or that is necessary or desirable to facilitate the trading of the Depositary Receipts or comply with any rule, regulation, guidelines or requirement of any securities exchange or market system on which the Depositary Receipts are or will be listed for trading, compliance with any of which the Managing General Partner deems to be in the best interests of the Partnership and the Limited Partners, and (7) any other amendment similar to the foregoing. Such amendment shall thereafter be disclosed to the Limited Partners within a reasonable time. The Managing General Partner shall promptly furnish to Limited Partners a copy of any amendment to this Agreement executed by a General Partner pursuant to a power of attorney from the Limited Partners. If an amendment shall have been approved pursuant to this Article 6, the Managing General Partner shall execute such amendment, certificate and other documents as may be reasonably required for the purpose of effectuating the amendment; provided, however, that nothing in this Article 6 shall affect the authority of the Managing General Partner to admit Additional Limited Partners or Substituted Limited Partners.

6.11 Prohibited Amendments.

(A) Except with the affirmative vote of the Managing General Partner and Partners of record holding at least ninety-five percent (95%) of the Units held of record by all Partners, no amendment shall (i) modify the provision regarding the liabilities of the Partners; (ii) reduce the percentage of votes required herein of the Partners; (iii) result in the loss of limited liability of any Limited Partner or Assignee who does not consent thereto or result in the Partnership being treated as an association taxable as a corporation for federal income tax purposes (unless the Partnership is already treated as an association taxable as a corporation due to changes in federal income tax laws); or (iv) change the form of the Partnership to a general partnership.

(B) Notwithstanding the provisions of Section 6.10, the consent of the Equity General Partner shall be required for any amendment, if such amendment would increase the Equity General Partner's duties or liabilities or if the Partnership has received an opinion of counsel that such amendment would have materially adverse consequences to the Equity General Partner.

ARTICLE 7

CAPITAL CONTRIBUTIONS

7.1 Transfer of Original Property to the Partnership. Pursuant to the Plan, the Company shall transfer to the Partnership its interest in the Original Property. MGP, as Original Limited Partner, shall, upon receipt of the Original Property, issue on a pro rata basis a number of Units equal to one-fifth (1/5) the number of shares of the Company's Common Stock outstanding on the Plan Distribution Record Date to the holders of the Common Stock

on the Plan Distribution Record Date (the "Stockholders") in accordance with the procedure described in Section 12.2. Partners shall be deemed to have made capital contributions of the Original Property to the Partnership.

7.2 General Partners. Units shall be assigned or contributed to the Managing General Partner and the Equity General Partner by their respective stockholders so that upon the assignment of Units pursuant to Section 12.2 the General Partners shall own not less than one percent (1%) of the total number of outstanding Units. The General Partners shall make additional Capital Contributions after the transfer of the Original Property as provided in Article 8.

7.3 Amount of Capital Contributions. The amount of the Capital Contribution by the Partners pursuant to Section 7.1 and Section 7.2 shall be determined by the Managing General Partner by reference to the market value of the Units or another reasonable basis, in the Managing General Partner's discretion.

7.4 Units Not Assessable. Units shall not be assessable, and no Limited Partner agrees to make any additional Capital Contribution. Capital Contributions made after the Closing shall be made as provided in Article 8.

7.5 No Interest on Capital Contribution. Partners and Assignees shall not receive interest on or with respect to all or any part of the Capital Contribution.

7.6 Creditor's Interest in the Partnership. No creditor who makes a loan to the Partnership shall have or acquire at any time as a result of making the loan, any direct or indirect interest in the profits, capital or property of the Partnership other than as a creditor.

7.7 Nature of Interests. All property owned by the Partnership, whether real or personal, tangible or intangible, shall be deemed to be owned by the Partnership as an entity, and none of the Partners shall have any direct ownership of such property.

ARTICLE 8

ISSUANCE OF ADDITIONAL SECURITIES: PLANS

8.1 Sale of Additional Securities. In order to raise additional capital or for any other proper Partnership purpose, the Managing General Partner is authorized to cause additional Units to be issued from time to time to the General Partners, Limited Partners or to other Persons and to admit such Persons, other than General Partners, as Additional Limited Partners in the Partnership. In addition, the Managing General Partner is authorized to cause to be issued, purchased, redeemed, exchanged, traded or granted calls, options, appreciation rights, shares, bonds, debentures and other securities from time to time. The Managing General Partner shall have sole and complete discretion in determining the consideration and terms and conditions with respect thereto and without the need for any vote or approval of Partners and Assignees. The Managing General Partner shall do all things necessary to comply with the Delaware Act or other applicable law and is authorized and directed to do all things it deems necessary or advisable in connection with any such future issuance. The General Partners shall together own at least one percent (1%) of the outstanding Units and other equity securities at all times, and may acquire Units in connection with any such issuance to maintain at least the one percent (1%) required to be owned.

8.2 Changes in Outstanding Units. The Managing General Partner is authorized to effect any recapitalization, reclassification, Unit split, reverse Unit split or other adjustment in outstanding Units, including, without limitation, any such transaction to eliminate the holding of small numbers of Units or to reduce the number of holders of Units, without the need for any vote or approval of partners. The Managing General Partner may determine the terms of any such transaction including, without limitation, the method of treating or eliminating fractional Units.

8.3 Plans. The Managing General Partner may, without the need for any vote or approval of Partners and the Partnership adopt for itself, the Partnership, or the directors, officers, stockholders or employees of any of them, any Unit Option, bonus, purchase, appreciation right or other compensation plan. The terms of any such plan may be modified, the plan may be abandoned or additional plans may be adopted at any time as determined by the Managing General Partner.

ARTICLE 9

ALLOCATION OF NET INCOME, NET LOSS AND TAX CREDITS

9.1 General Allocation.

(A) Net Income and Net Loss for each month shall be determined by the Partnership and shall be allocated among the Partners and Assignees in accordance with their Allocable Shares.

(B) For federal, state or other tax purposes, all items of income, gain, loss or deduction and all Tax Credits shall be allocated to the Partners and Assignees in accordance with their Allocable Shares provided that:

(1) In the case of the transfer of Units during any year in which an election under Section 754 of the Code is in effect, items of income, gain, loss or deduction allocable to the holder of the Unit so transferred shall be adjusted in accordance with Section 754, related sections of the Code and applicable Treasury Regulations promulgated thereunder;

(2) With respect to property contributed to the Partnership by a Partner or Assignee (including any deemed contribution by virtue of a deemed termination and later reformation of the Partnership pursuant to Section 708 of the Code), depreciation, depletion, gain or loss shall be allocated among the Partners and Assignees so as to take account of the variation between the basis of property contributed (or deemed contributed) to the Partnership by each contributing Partner or Assignee at the time of such contribution (or deemed contribution) and the fair market value of such property at the time of such contribution (or deemed contribution) pursuant to Section 704(c) of the Code;

(3) In the case of cash contributions to the Partnership, subsequent allocations of depreciation, depletion, gain or loss shall, in the Managing General Partner's discretion, be adjusted in accordance with the principles of Section 704(c) to take into account the difference between the basis and the fair market value of the

Partnership assets at the time of the contribution; and

(4) Notwithstanding anything to the contrary herein, if any Partner or Assignee makes, and provides substantiation of a claim for an initial value for his Units which is less than the value otherwise established by the Partnership, that Partner's or Assignee's share of items of income, gain, loss and deduction and Tax Credits shall be adjusted appropriately to take into account the Partner's or Assignee's resulting reduced proportionate share of the aggregate tax basis of Partnership assets. Any subsequent liability to the Internal Revenue Service or other taxing authority resulting from such claim or lesser value by the Partner or Assignee shall be borne by the Partners or Assignees making the claim.

(C) At the request of the Managing General Partner, the Partners and Assignees agree to furnish such information as may be reasonably necessary in the opinion of the Managing General Partner to effect the aforementioned Section 754 and Section 704(c) adjustments.

(D) The Managing General Partner shall have the authority and discretion, without the consent of the Limited Partners, to adopt such conventions as it deems appropriate in making the allocations pursuant to Section 9.1(B).

(E) Notwithstanding anything to the contrary that may be expressed or implied in this Agreement, the interest of the General Partners, taken together, in each item of Partnership income, gain, loss, deduction or credit will be equal to at least one percent (1%) of each of those items at all times during the existence of the Partnership. In determining the interest of the General Partners in those items, any interest owned by the General Partners as Limited Partners or Assignees shall not be taken into account.

9.2 Allocation on Transfer.

(A) If a Unit is transferred during a month, all items referred to in Section 9.1 with respect to the Unit so transferred shall be allocated to the holder of record of such Unit at the close of business on the last day of the month or in any other manner deemed reasonable by the Managing General Partner or required by the Code and regulations or rulings promulgated thereunder. The Partnership and the General Partners shall be entitled to rely exclusively on the records of the Partnership and on information submitted by an Assignee or in the application of a transferee to become a Limited Partner, and may adopt such conventions as the Managing General Partner deems reasonable for determining the date of change in ownership and for making such allocation if the necessary information is not provided in the application.

(B) If the Allocable Share of a General Partner is changed during a month for any reason, the General Partner's share of the items referred to in Section 9.1 shall be its Allocable Share determined in a manner consistent with the method provided or adopted under Section 9.2(A).

ARTICLE 10

CASH DISTRIBUTIONS

10.1 Time and Amount of Cash Distributions.

(A) Distributions shall be made at such times and in such amounts as the Managing General Partner shall determine in its sole discretion to the Partners and Assignees or record on the Record Date set for the distribution, and each Partner and Assignee shall receive his Allocable Share thereof.

(B) Nothing in this Partnership Agreement or this Section shall serve as a limitation on the Managing General Partner's right to retain or use the Partnership's assets or its revenues as, in the opinion of the Managing General Partner, may be required to satisfy the anticipated present and future cash needs of the Partnership, whether for operations, liabilities, expansion, improvements, acquisition or otherwise.

10.2 Distribution of Partnership Property. In its sole discretion, the Managing General Partner may distribute to Partners and Assignees Partnership Property other than cash. In its sole discretion, the Managing General Partner may distribute to Partners and Assignees additional Units or securities of the Partnership which have been authorized and issued pursuant to the terms of this Agreement.

ARTICLE 11

ACCOUNTING AND REPORTS

11.1 Fiscal Year and Method of Accounting. The fiscal year of the Partnership shall be the calendar year or such other fiscal year as the Managing General Partner selects. Each fiscal month of the Partnership shall end on the last day of the calendar month or such other day as the Managing General Partner selects. All amounts computed of the purposes of this Agreement other than for tax purposes and all applicable questions concerning the rights of Partners and Assignees shall be determined using the accrual method of accounting and generally accepted accounting principles as in effect from time to time.

11.2 Reports.

(A) The Managing General Partner shall use its best efforts to prepare and furnish within seventy-five (75) days after the close of the calendar year to each Person to whom any allocation will be made pursuant to Article 9 for all or part of that year (and to any Person described in Section 12.5) the information necessary for the preparation of that Person's United States federal and state income tax returns or the tax returns of any other jurisdiction required of such Person as a result of the operations of the Partnership. The Partners and Assignees agree to furnish the Managing General Partner with such information as may be necessary or helpful in preparing tax returns or other filings of the Partnership.

(B) As soon as practicable, but in no event later than one hundred twenty (120) days after the close of each fiscal year, the Managing General Partner shall mail or deliver to each Limited Partner and each Assignee of record reports containing financial statements of the Partnership for the fiscal year, including a balance sheet, statements of operations, changes in Partners' equity and changes in financial position. Such statements are to be prepared in accordance with generally accepted accounting principles and audited and certified by a nationally recognized firm of independent public accountants selected by the Managing General Partner. There shall also be a supplementary summary (which need not be audited), by classification of the total fees and compensation, including any overhead

reimbursement and indemnification, paid by the Partnership, directly or indirectly, to the General Partners.

(C) As soon as practicable, but in no event later than sixty (60) days, after the close of each fiscal quarter, except the last fiscal quarter of each fiscal year, the Managing General Partner shall mail or otherwise furnish to each Limited Partner and each Assignee of record a quarterly report for the fiscal quarter containing such financial and other information as the Managing General Partner deems appropriate.

11.3 Tax Elections. The Managing General Partner shall, in its sole discretion, and as it deems in the best interests of the Partnership or the Partners, determine whether to make any available election and how to make any necessary allocation for federal, state, local, foreign or other tax purposes.

11.4 Books and Records. The Managing General Partner shall maintain all records necessary for documenting and reporting the business and affairs of the Partnership. Except as restricted by law, books and records of the Partnership may be maintained by the Managing General Partner at any location selected by it. Any records maintained by the Partnership in the regular course of its business, including the record of the holders and Assignees of Units, books of account, and records of Partnership proceedings may be kept on, or be in the form of punch cards, magnetic tape, photographs, micrographics, or any other information storage device, provided that the records so kept can be converted into clearly legible written form within a reasonable period of time. The Managing General Partner may keep any information confidential as it deems appropriate in its sole discretion and, except for such information, all books, records, reports and accounts shall be open to inspection by any Partner or duly authorized representatives of the Partner on reasonable notice at any reasonable time during business hours, for any purpose reasonably related to the Partner's interest as a Partner, and the Partner or the representatives at the expense of the Partner shall have the further right to make copies or excerpts therefrom. The Partner and the Partner's representatives shall not divulge to any other Person any confidential or proprietary data, information or property or any trade secrets of the Partnership. A copy of the list of the names and addresses of all Partners shall be furnished to any Partner or the representatives upon request in Person or by mail to the
Managing General Partner.

11.5 Bank Accounts; Investment of Funds. The Partnership shall establish and maintain accounts in financial institutions (including, without limitation, national or state banks, trust companies, or savings and loan institutions) or elsewhere in such amounts as the Managing General Partner may deem necessary or appropriate from time to time. Checks shall be drawn on and withdrawals of funds shall be made from any such accounts for Partnership purposes and shall be signed by the Person or Persons designated by the Managing General Partner. Temporary surplus funds of the Partnership may be invested as shall be determined by the Managing General Partner in its sole discretion. However, the Managing General Partner shall not invest Partnership funds in such a manner that the Partnership will be considered to be holding itself out as being engaged primarily in the business of investing, reinvesting or trading in securities or will otherwise be deemed to be an investment company under the Investment Company Act of 1940, as amended.

ARTICLE 12

ISSUANCE, DEPOSIT AND WITHDRAWAL OF UNITS

12.1 Issuance of Original Certificate. On the Effective Date, MGP, as Original Limited Partner, will cause to be issued, in consideration of the transfer of the Original Property by the Company, a number of Units equal to one-fifth the number of shares of Common Stock of the Company held of record by the Stockholders on the Plan Distribution Record Date. The Managing General Partner will cause to be issued one or more Certificates evidencing ownership of the Units.

12.2 Deposit of Original Certificate.

(A) In accordance with the Plan, the Original Limited Partner will assign to the Stockholders the Units represented by the original Certificate or Certificates issued pursuant to Section 12.1 and will deposit that Certificate or those Certificates (other than with respect to Units assigned or contributed to a General Partner) with the Depositary, to be held in accordance with the Depositary Agreement, together with a list containing the name, address and, if available, tax identification number of each Stockholder as recorded on the books of the Company, and the number of Units represented by Depositary Units being assigned to such Stockholder, which shall equal one-fifth the number of shares of Common Stock of the Company held of record by such Stockholder on the Plan Distribution Record Date and shall represent such Stockholders' respective indirect interests in the Original Property (as reflected by their capital accounts on the Partnership's books). The Depositary shall then issue to each Stockholder (other than the General Partners) in accordance with the Plan one or more Depositary Receipts evidencing ownership of Depositary Units in accordance with Section 13.1.

(B) Notwithstanding Section 12.2(A), the Depositary shall not issue any Depositary Receipt with respect to Units assigned or contributed to a General Partner. Units assigned or contributed to a General Partner shall be represented by one or more Certificates issued in the name of the General Partner which owns or holds the Units.

12.3 Issuance and Deposit of Additional Certificates. Upon the issuance of any additional Limited Partners' Units, the Partnership shall either (i) deposit a Certificate representing the additional Limited Partners' units with the Depositary, to be held in accordance with the Depositary Agreement, or (ii) present to the Depositary written notice stating the total number of additional Units to be issued, in either case together with a list or other form of information containing the name, address and, if available, the Tax identification number of each Person to whom the Depositary Receipts are to be issued or registered in accordance with Section 13.2. The list shall also contain the number of Depositary Units to be evidenced by the Depositary Receipt to be issued to each Person listed or registered on the books and records of the Depositary.

12.4 Units Owned by a General Partner. Notwithstanding any other provision in this Agreement, Units held or owned by a General Partner and any Certificates evidencing those Units may not be deposited with the Depositary except as provided in this Section 12.4. The Depositary shall not accept for deposit any Depositary Units or issue any Depositary Receipts with respect to any Units or Certificates held or owned by a General Partner. If a General Partner acquires or holds any Depositary Receipt, the General Partner shall immediately surrender the Depositary Receipt to the Depositary. The Partnership will then direct the Depositary to record the withdrawal from deposit of the number of Depositary Units evidenced by the Depositary Receipt and will cause to be issued to the General Partner one or more Certificates in the name of the General Partner evidencing the same number of Units. Except as to the General Partners,

nothing in this Section 12.4 shall restrict or prohibit any Person, including, without limitation, any stockholder, officer or director of a General Partner acting other than on behalf of the General Partner, from acquiring, owning or holding any Depositary Receipt or Depositary Unit. Units held or owned by a General Partner and any Certificates evidencing those Units may be deposited with the Depositary in connection with the transfer of such Units to a Person who is not a General Partner, and Depositary Receipts may be issued for the Units transferred to such Person; provided that, immediately after such transfer, the number of Units held or owned by the General Partners shall be at least equal to one percent (1%) of the number of Units outstanding. The Person to whom the Units are transferred shall become a Limited Partner in accordance with Article 14.

12.5 Maintenance of Transfer Records. In accordance with the Depositary Agreement, the Depositary and the Partnership's registrar and transfer agent (all of whom may be the same Person) will maintain records reflecting the Depositary Receipts registered in the name of each Assignee and Limited Partner and any subsequent transfers of Depositary Units to Assignees and Substituted Limited Partners pursuant to Articles 14 and 15 and withdrawals of Depositary Units by Limited Partners pursuant to Section 12.6 and records reflecting the admission of Substituted and Additional Limited Partners.

12.6 Withdrawal of Certificates by Limited Partners. Upon the written request of any Limited Partner, accompanied by a surrendered Depositary Receipt if such Receipt was previously validly issued and remains outstanding, the Partnership will direct the Depositary to record the withdrawal from deposit of the number of Depositary Units evidenced by the Depositary Receipt and will either (i) cause to be issued to such Limited Partner a Certificate or Certificates in the name of the Limited Partner evidencing the same number of Units or (ii) register on its books and records such Limited Partner’s ownership of such Units, whichever the Limited Partner shall request. A Limited Partner may redeposit any such Certificate and the Units evidenced thereby with the Depositary upon sixty (60) days' prior written notice to the Depositary, whereupon the Depositary will either (i) issue to such Limited Partner a Depositary Receipt or Receipts evidencing the same number of Depositary Units and Units so deposited or (ii) register on its books and records such Limited Partner’s ownership of such Units, adjusting, in the case of such registration the number of Depositary Units correspondingly.

12.7 Limited Partner of Record. The Limited Partner of record or any Assignee shall not be obligated to exercise any rights it may have as the Limited Partner of record with respect to Units held by Assignees who have not become Substituted Limited Partners. Notwithstanding anything else in this Agreement to the contrary, the Managing General Partner or any Person selected by the Managing General Partner may serve as the Limited Partner of record for any or all Units held by Assignees.

ARTICLE 13

ISSUANCE OF DEPOSITARY RECEIPTS

13.1 Original Issuance. Except as provided in Section 12.2{B), upon the assignment of Units to the Stockholders and the deposit of the Certificate evidencing the Units in accordance with Section 12.2 hereof, the Depositary shall, in accordance with the Plan and the Depositary Agreement, issue to each Assignee one or more Depositary Receipts evidencing the ownership

of a number of Depositary Units equal to the number of Units assigned to such Assignee and shall mail or deliver such Depositary Receipt or Receipts to such Stockholder at his address as shown on the above list. Any such Assignee may become a Substituted Limited Partner in the manner provided in Section 15.1.

13.2 Issuance upon the Deposit of Additional Units. Upon the Partnership's issuance of additional Units and deposit of the Certificate or presentation of written notice evidencing the same in accordance with Section 12.3 hereof, the Depositary shall, in accordance with this Agreement and the Depositary Agreement, either (i) issue to each Person entitled thereto one or more Depositary Receipts evidencing the ownership of the number of Depositary Units issuable to such Person and shall mail or deliver such Depositary Receipt or Receipts to such Person or (ii) register on its books and records such Person's ownership of the number of such Depositary Units, which shall serve to increase the number of Depositary Receipts outstanding.

13.3 Legends. The Partnership may cause to be imposed, imprinted or stamped on any Depositary Receipt one or more legends or restrictions on transfer which the Managing General Partner in its sole discretion believes may be necessary or advisable to comply with federal or state securities laws or other applicable laws, rules, regulations or agreements restricting the transferability of the Depositary Receipts.

ARTICLE 14

TRANSFERS OF INTERESTS

14.1 Transfer.

(A) The term "transfer" when used in this Article with respect to a Partnership Unit includes a sale, assignment, gift, exchange, or any other disposition.

(B) Units owned by a General Partner are non-transferable except as provided in Sections 12.4 and 16.4. All Limited Partners hereby consent to any such transfer of the Units owned by a General Partner. No Units owned by any Limited Partner or Assignee shall be transferred, in whole or in part, except in accordance with the terms and conditions set forth in this Article and Article 12 hereof. Any transfer or purported transfer of any Unit not made in accordance with this Article or Article 12 hereof may not be recognized by the Partnership.

14.2 Non-transferability of Limited Partners' Units. If a Limited Partner has withdrawn a Certificate representing Units from deposit and has not redeposited such Certificate as provided in the Depositary Agreement and Section 12.6 of this Agreement, no transfer of Limited Partners' Units by such partner shall be recognized by the Partnership except a transfer by reason of death, bequest or inheritance, or operation of law.

14.3 Transfer of Depositary Units.

(A) Except for the assignment of Units by the Original Limited Partner described in Section 7.1 and as provided in Section 14.2, the Partnership shall not recognize transfers of Limited Partners' Units or interests therein except by a transfer of Depositary Receipts representing Depositary Units. Depositary Units may be transferred on the books of the Depositary only by assignment, satisfactory in form and substance to the Depositary

("Assignment"), of the Depositary Receipt or Receipts evidencing such Depositary Units and by the transferee's completing and delivering a Request and Power. No transfer of Depositary Receipts evidencing such Depositary Units will be recognized by the Partnership, and no new Depositary Receipt will be issued to the proposed transferee unless the transferee has signed and delivered a Request and Power. Until admitted as a substituted Limited Partner in respect of such Depositary Units pursuant to Article 15, the transferee shall be an Assignee in respect of the Units represented by such Depositary Units.

(B) Each distribution of cash or other Partnership Property or securities of the Partnership in respect of Units evidenced by Depositary Receipts (or Certificates withdrawn from the Depositary) shall be paid by the Partnership, directly or through the Depositary or through any other Person or agent, only to the holders of record of such Depositary Receipts or Certificates for Units not deposited with the Depositary as of the Record Date set for the distribution. Such payment shall constitute full payment and satisfaction of the Partnership's liability in respect of such payment, regardless of any claims of any Person who may have an interest in such payment by reason of an assignment or otherwise.

(C) A transferee who has completed and delivered a Request and Power shall be deemed (1) to have agreed to comply with be bound by this Agreement and to execute any document that the Managing General Partner may reasonably require to be executed in connection with the Assignment and admission as a Substituted Limited Partner pursuant to Article 15 and (2) to have appointed the Managing General Partner attorney-in-fact on the terms and conditions set forth in Article 18.

(D) Upon receipt of notice from the Depositary of delivery to it of an Assignment and Request and Power with respect to a transfer by a Limited Partner or Assignee of a Depositary Unit or Units in accordance with this Section 14.3 and the Depositary Agreement, the Managing General Partner shall take all appropriate steps to reflect the termination of the transferor's interest in the Partnership as a Limited Partner or Assignee, and, if applicable, the admission of the transferee as a Substituted Limited Partner, with respect to the Units represented by the transferred Depositary Units.

14.4 New Certificates and Depositary Receipts. The Partnership may issue or cause to be issued a new Certificate or Depositary Receipt or a new certificate for any other security in the place of any such Certificate or Depositary Receipt if the Certificate or Depositary Receipt is alleged to have been lost, stolen or destroyed. The Partnership may require the owner or holder of the lost, stolen or destroyed Certificate or Depositary Receipt, or the owner's or holder's legal representative, to give the Partnership a bond or other adequate security sufficient to indemnify it and its successors against any claim that may be made against it or its successors, including any expense or liability, on account of the alleged loss, theft or destruction or the issuance of a new Certificate, Depositary Receipt or other security.

ARTICLE 15

ADMISSION OF SUBSTITUTED AND ADDITIONAL LIMITED PARTNERS

15.1 Admission of Substituted Limited Partners.

(A) A Stockholder (other than a General Partner) who becomes an Assignee

of a Unit in accordance with Section 12.2 hereof may apply to become a Substituted Limited Partner by executing and delivering to the Depositary a Request and Power. Each other Assignee shall apply to become a Substituted Limited Partner as provided in Section 14.3. Such other transferee shall be an Assignee with respect to Units transferred to the transferee at and from the close of business on the later of the business day on which a Request and Power is received by the transfer agent or the transfer takes place, and until the Assignee is admitted as a Substituted Limited Partner as to those Units. It is expressly intended that once a Person delivers a proper Request and Power, the Request and Power shall be effective as to all Units owned or acquired by the Person, and the Managing General Partner may elect not to require the delivery of a further Request and Power if the Person acquires additional Units.

(B) Under the terms of the Depositary Agreement, the Depositary may be obligated to prepare as of the close of business on the last business day of each month a list or other appropriate evidence of transfers of Depositary Receipts registered by the Depositary and transfers of Units from a General Partner to a Person who is not a General Partner as described in Section 12.4 since the last business day of the preceding month (hereinafter called "Transfer Record") and, as promptly as possible after the last business day of each month, to submit the Transfer Record to the Partnership.

(C) The admission of an Assignee as a Substituted Limited Partner shall occur at such time as the Managing General Partner shall determine. The admission of an Assignee as a Substituted Limited Partner may be effected without the consent of any of the Limited Partners.

15.2 Admission of Additional Limited Partners. A Person other than a General Partner, the Original Limited Partner or a Substituted Limited Partner who makes a contribution to the capital of the Partnership may be admitted to the Partnership as an Additional Limited Partner upon furnishing to the Managing General Partner (a) an acceptance in form satisfactory to the Managing General Partner of all the terms and conditions of this Agreement, including, without limitation, the power of attorney granted in Article 18 and (b) such other documents or instruments as may be required in order to effect his admission as a Limited Partner.

15.3 Effecting Admission of Limited Partners. The Managing General Partner shall take all steps necessary and appropriate for the admission to the Partnership of a Substituted Limited Partner or an Additional Limited Partner.

ARTICLE 16

REMOVAL, RESIGNATION OR WITHDRAWAL OF GENERAL PARTNER: SUCCESSOR GENERAL PARTNERS

16.1 Removal of General Partner. A General Partner may be removed from office only as provided in Sections 6.8(B) and (C). Any such removal shall be upon the following terms and conditions:

Such removal shall take effect sixty (60) days from the date of the vote of the Partners entitled to vote, or at such time as a successor General Partner is selected, whichever is later. At such time, the assets, books and records of the Partnership shall be surrendered to the successor General Partner, provided that the successor General Partner shall have first (1) agreed to accept the responsibilities of a General Partner and be bound by this Agreement, (2) acquired sufficient

Units so that it and any General Partner who will continue to serve as a General Partner hold or own, in the aggregate, at least one percent (1%) of the number of Units outstanding, (3) made arrangements satisfactory to the removed General Partner to remove such General Partner from Personal liability pursuant to Section 16.3 and (4) if such successor General Partner is a Successor Managing General Partner as defined in Section 16.2(D), agreed to be bound by the provisions of Section 16.2(D). On the effective date of removal, the removed General Partner may deposit any Units or Certificates held or owned by it with the Depositary and receive Depositary Receipts therefor pursuant to Art1cle 12 and 14. If such removal dissolves the Partnership, then the Partnership shall be reconstituted and its business shall be continued with any remaining and successor General Partners as the General Partners thereof, and they shall have the exclusive right to possess Partnership Property to continue the business of the Partnership. Removal of a General Partner shall not prejudice the rights of the removed General Partner or its directors, officers, agents or employees to compensation pursuant to Article 4 accrued as of the date the removal takes effect.

16.2 General Partner Ceasing to be a General Partner; Withdrawal.

(A) A General Partner shall cease to be a General Partner of the Partnership only upon the occurrence of anyone or more of the following events;

(1) The General Partner's withdrawal, resignation or retirement from the Partnership;

(2) The General Partner's removal as a General Partner;

(3) The General Partner's assignment of all of its Partnership interest;

(4) Effective as provided in (B) below, an order for relief against the General Partner is entered under Chapter 7 of the federal bankruptcy law, or the General Partner: (a) makes a general assignment for the benefit of creditors, (b) files a voluntary petition under the federal bankruptcy law, (c) files a petition or answer seeking for that General Partner any bankruptcy, reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any statute, law, or regulation, (d) files an answer or other pleading admitting or failing to contest the material allegations of a petition filed against that General Partner in any proceeding of this nature, or (e) seeks, consents to, or acquiesces in the appointment of a trustee, receiver, or liquidator of the General Partner or of all or any substantial part of that General Partner's properties;

(5) The death of an individual General Partner;

(6) The entry by a court of competent jurisdiction of an order adjudicating an individual General Partner incompetent to manage the General Partner's person or estate;

(7) In the case of a General Partner who is acting as a general partner by virtue of being a trustee of a trust, the termination of the trust (but not merely the substitution of a new trustee);

(8) In the case of a General Partner that is a separate partnership,

the dissolution and commencement of winding up of the separate partnership;

(9) In the case of a General Partner that is a corporation, the filing of a certificate of dissolution, or its equivalent, for the corporation; or

(10) In the case of a General Partner that is an estate, the distribution by the fiduciary of the estate's entire interest in the Partnership.

(B) Any event described in Section 16.2(A) (3) shall cause a General Partner to cease to be a General Partner only as provided in this Section 16.2(B). Immediately upon the, later of (a) the entering of the order for relief under Chapter 7 of the federal bankruptcy law or (b) the final disposition of any appeal by the General Partner from the entering of such an order, and immediately upon the occurrence of any of the other events described in Section 16.2(A)(3), the General Partner shall give notice of the event to the Partners and Assignees. The General Partner shall cease to be a General Partner ninety (90) days after such notice is given.

(C) The Managing General Partner may withdraw, resign or retire on ninety (90) days' written notice to the Partners if a Majority Interest consent to the withdrawal and have elected a successor to serve as Managing General Partner effective on or before such withdrawal, resignation or retirement. Except as provided in Section 16.2(D), the Equity General Partner may withdraw, resign or retire as Equity General Partner upon ninety (90) days' written notice to the Partners if (i) a Majority Interest consent to the withdrawal, and have elected a successor to serve as Equity General Partner effective on or before such withdrawal, resignation or retirement and (ii) The Partners have elected a successor to MGP as Managing General Partner pursuant to this Agreement.

(D) In the event that MGP is removed as Managing General Partner pursuant to Section 6.8(B), then upon the election of any Person as Managing General Partner to succeed MGP, or any successor of MGP, ("Successor Managing General Partner"), such Successor General Partner shall covenant that it shall initially have and will maintain sufficient assets to ensure, to the extent possible, that the Partnership will be treated as a partnership rather than as an association taxable as a corporation for federal income tax purposes. In addition, notwithstanding any provision in this Agreement to the contrary, upon the election of a Successor Managing General Partner and thereafter. EGP shall have the right to withdraw, resign or retire as Equity General Partner upon 10 days' written notice to the Partners and to require the Successor Managing General Partner to assume the obligation to initially have and to maintain sufficient assets, together with a successor Equity General Partner, if any, to ensure, to the extent possible, that the Partnership will be treated as a partnership, rather than as an association taxable as a corporation for federal income tax purposes.

(E) A General Partner which has ceased to be a General Partner shall have the same rights to inspect and make copies or excerpts of the books and records of the Partnership as is provided to Limited Partners pursuant to Section 11.4 until all amounts due the General Partner as of the date the General Partner ceased to be a General Partner pursuant to Section 3.6 and Article 4 have been paid. The General Partner shall be a creditor of the Partnership as to all such amounts owed to it by the Partnership, and shall not have any portion of its interest as General Partner become an interest as a Limited Partner or Assignee except with respect to Units held or received by the General Partner or to which it is entitled. As to any Units so held or received, the General Partner shall be entitled to exercise all of the voting rights provided under

this Agreement as a Partner.

16.3 Liability on Removal or Withdrawal. A General Partner shall be discharged from, and the Partnership or any Person or Persons continuing the business of the Partnership in the event it has dissolved, shall assume and pay, as they mature, all Partnership obligations and liabilities that exist on the date of the General Partner's removal or withdrawal from the Partnership and shall hold the General Partner harmless from any action or claim arising or alleged to arise from those obligations and liabilities accruing after such date. The Partnership or any such Person or Persons continuing the business of the Partnership shall promptly pay all creditors of the Partnership as of such date or notify such creditors (1) of the removal of such General Partner and the resulting dissolution of the Partnership or of the withdrawal of such General Partner, as the case may be, (2) of the discharge of such General Partner from all of the Partnership's obligations and liabilities, and (3) of the assumption thereof by the Partnership or such Person or Persons continuing the business of the Partnership. The Partnership or such Person or Persons continuing the business of the Partnership if the Partnership has dissolved shall use its or their best efforts to procure and execute an agreement from creditors of the Partnership discharging the removed or withdrawing General Partner from liability to such creditors as of the date of such removal or withdrawal of such General Partner.

16.4 Successor and Predecessor General Partners. Unless the General Partner has been dissolved because of its bankruptcy, insolvency, liquidation or incompetency or unless the General Partner has been removed as a General Partner, upon dissolution of a General Partner, any Persons continuing the business of the General Partner so affected shall immediately become a General Partner of this Partnership (and shall become Managing General Partner if the General Partner so affected was the Managing General Partner), and any successor or reconstituted partnership and shall have the exclusive right to possess Partnership Property to continue the Partnership and shall continue the business of the Partnership pursuant to the terms and provisions of this Agreement without any action or vote of any Person. If any dissolution of a General Partner causes a dissolution of this Partnership, then this Partnership shall be reformed and reconstituted and its business continued as provided in this Section, Section 13.5 and Article 17. If it is necessary or advisable to reform and reconstitute this Partnership and to continue its business, the remaining and successor General Partners shall elect to reform and reconstitute the Partnership and to continue its business. When any Person ceases to be a General Partner under this Agreement or a partner, director, officer or stockholder of a General Partner, the Partnership or the Company, that Person shall continue to have the benefit of any provisions of this Agreement providing for indemnity, exculpation or insurance which protected such Person as a General Partner or a partner, director, officer or stockholder of a General Partner, the Partnership or the Company, or which limited or defined the liability of such Person.

16.5 Continuation of Partnership. If a General Partner ceases to be a General Partner, the Partnership shall not be dissolved and its business shall be continued by the remaining General Partner or Partners, if any. The remaining General Partner or Partners agree to take any and all reasonable steps to continue the business of the Partnership.

ARTICLE 17

DISSOLUTION WINDING UP AND LIOUIDATION

17.1 Dissolution. The Partnership shall be dissolved at the expiration of the term of the Partnership set forth in Section 2.5, as it may be amended; provided, however, that the

Partnership shall be dissolved prior thereto without breach of this Agreement upon the occurrence of one of the following:

(A) A General Partner ceases to be a General Partner unless (1) at the time there is at least one other General Partner or (2) all Partners agree in writing to continue the business of the Partnership and to admit one or more General Partners;

(B) The Partnership becomes insolvent or bankrupt;

(C) The sale or other disposition of substantially all assets of the Partnership, including the cessation of active business, the distribution of all cash and the termination of reserves for liabilities;

(D) The passage of ninety (90) days after the affirmative vote pursuant to Section 6.8 of a Majority Interest, with the separate concurrence of the Managing General Partner, to dissolve the Partnership;

(E) The occurrence of any event which makes it unlawful for the business of the Partnership to be continued.

17.2 Authority to Wind Up. If dissolution occurs for any reason other than the removal, resignation, retirement, withdrawal, bankruptcy, insolvency, dissolution, liquidation, death, disability, incapacity, or incompetency of the Managing General Partner, the Managing General Partner shall have the authority to wind up the business and affairs of the Partnership. If dissolution occurs by reason of the resignation, retirement, withdrawal, bankruptcy, insolvency, dissolution, liquidation, death disability, incapacity or incompetency of the Managing General Partner, and if the business of the Partnership is not continued pursuant to Section 16.4 or 16.5, the legal representative of the Managing General Partner shall have the authority to wind up the business and affairs of the Partnership. The Managing General Partner shall name upon its retirement, withdrawal, dissolution, liquidation, disability, or resignation a legal representative who will have such authority upon such event. If the Partnership is dissolved by an event set forth in Section 17.1(E) or by the removal, bankruptcy or insolvency of the Managing General Partner, any Person designated by a decree of court or designated by vote of a Majority Interest shall wind up the affairs of the Partnership and shall be entitled to compensation therefor as approved by the court or by vote of a Majority Interest.

17.3 Accounting. Upon dissolution (if the business of the Partnership is not continued), and again upon the termination of the Partnership after the winding up of the affairs of the Partnership is complete, an accounting of the Partnership shall be made and it shall be audited or reviewed by the independent public accountants of the Partnership, and a report thereof as audited or reviewed shall be furnished to the General Partners or legal representatives thereof and to all Limited Partners and Assignees.

17.4 Winding Up and Liquidation. Upon dissolution of the Partnership, it shall be wound up and liquidated as rapidly as business circumstances permit. The liabilities of the Partnership shall be entitled to payment in the following order:

(A) Those to creditors, in the order of priority as provided by law, except those to secured creditors the obligations owed to whom will be assumed or otherwise transferred on liquidation of Partnership assets;

(B) Those amounts deemed necessary by the Managing General Partner or the Persons winding up the affairs of the Partnership for any contingent liabilities or obligations of the Partnership shall be set aside as a reserve for contingent liabilities to be distributed at such time and in such manner hereunder as the Persons winding up the affairs of the Partnership shall determine in their sole discretion;

(C) Those to the General Partners with respect to payments due to them pursuant to Section 3.6 and Article 4; and

(D) To each Partner and Assignee, the Allocable Share of such Partner or Assignee of the assets remaining after payment of the amounts described in (A), (B) and (C) above.

17.5 No Recourse against General Partner. The Limited Partners and Assignees shall look solely to the assets of the Partnership for the payment of any income allocated to the Limited Partners or Assignees and the return of the Capital Contribution, and if the assets of the Partnership remaining after payment or discharge of the debts and liabilities of the Partnership are insufficient to pay all or any part of such amounts, they shall have no recourse against any General Partner, any director, officer, stockholder, employee or agent of a General Partner, the Partnership or the Company or any Limited Partner or Assignee for such purpose.

17.6 Claim of Limited Partners and Assignees. No Limited Partner or Assignee shall have the right or power to demand or receive property other than cash, whether as a distribution, a payment on liquidation or otherwise.

17.7 Restoration of Negative Capital Account Balance. Upon the dissolution and termination of the Partnership, the General Partners will contribute to the Partnership any deficit balance in their capital accounts.

ARTICLE 18

POWERS OF ATTORNEY

EGP and any General Partner which is not the Managing General Partner by executing or becoming bound by this Agreement and each Person who executes a Request and Power shall by such signature or execution irrevocably constitute and appoint the Managing General Partner of the Partnership, and its successors as Managing General Partner, the true and lawful attorneys for such Person and in such Person's name, place, and stead for such Person's use and benefit to:

(A) Sign, certify and acknowledge, swear to, and, to the extent necessary, to file and record (1) this Agreement, the Certificate of Limited Partnership of the Partnership and all amendments thereof, including, without limitation, all amendments to substitute or add Limited Partners; (2) any other instrument which may be required to be filed by the Partnership under the laws of any state or by any government agency which the Managing General Partner deems advisable to file, including, but not limited to, certificates of fictitious name statements, certificates or applications with respect to leases from the federal government or a state government, and amendments to or cancellation of the Certificate of Limited Partnership; (3) all certificates and other instruments (including, at the option of the Managing General Partner, this Agreement) and all amendments thereof which the Managing General Partner deems

appropriate or necessary to qualify, or continue the qualification of, the Partnership as a limited partnership (or a partnership in which the Limited Partners have limited liability) in all jurisdictions in which the Partnership may conduct business or own any property; and (4) instruments relating to the admission of Additional or Substituted Limited Partners.

(B) Deposit all Certificate of such Person in a Depositary Account established pursuant to the Depositary Agreement.

Each such Person by such signature shall also authorize said Managing General Partner to take any further action which it shall consider necessary or appropriate in connection with any of the foregoing, thereby giving said Managing General Partner full power and authority to do and perform each and every act and thing whatsoever requisite, necessary or appropriate to be done in connection with the foregoing as fully as such Person might or could do if personally present, and thereby ratifying and confirming all that said Managing General Partner shall lawfully do or cause to be done by virtue thereof.

The foregoing grant of authority:

(a) shall be a Power of Attorney coupled with an interest, is irrevocable, and shall survive the signing Person's death or incapacity; and

(b) shall survive the delivery of an assignment by the signing Person of the whole or a portion of his interest in the Partnership.

Each Person who has given the Managing General Partner a power of attorney pursuant to this Article 18 hereby agrees to execute and deliver to the Managing General Partner within five (5) days after receipt of the Managing General Partner's written request therefor, such other and further statements of interest and holdings, designations, powers of attorney and other instruments that the Managing General Partner deems necessary to comply with any laws, rules or regulations relating to the business or proposed business of the Partnership.

Such power of attorney shall not supersede any other part of this Agreement, nor shall it be used to deprive such Person of any of such Person's rights under this Agreement or to deprive a Limited Partner of his rights as a Limited Partner. It is intended only to provide a simplified system for execution of documents and the conduct of the business of the Partnership.

ARTICLE 19

MISCELLANEOUS PROVISIONS

19.1 Notices. All notices or other communications required or permitted to be given pursuant to this Agreement shall, in the case of notices or communications required or permitted to be given to Limited Partners or Assignees, be in writing and shall be considered as properly given or made if personally delivered or if mailed by United States first class mail, postage prepaid, or if sent by prepaid telegram, and addressed to such Limited Partner's or Assignee's address for notices as it appears on the records of the Partnership, and, in the case of notices or communications required or permitted to be given to the General Partners, shall be in writing and shall be considered as properly given or made if personally delivered, or if sent by prepaid

telegram, or if mailed by United States certified or registered mail return receipt requested, postage prepaid, and addressed to the Managing General Partner, Pope MGP, Inc. at 19950 7th Avenue NE, Suite 200, Poulsbo, Washington, 98370. Any Limited Partner or Assignee may change the address for notices, by giving notice of such change to the Partnership, and a General Partner may change its address for notices by giving notice of such change to all Limited Partners and all Assignees. Commencing on the tenth (l0th) day after the giving of such notice, such newly designated address shall be such Partner's or Assignee's address for the purpose of all notices or other communications required or permitted to be given pursuant to this Agreement. Any notice or other communication shall be deemed to have been given as of the date on which it is personally delivered or, if mailed or telegraphed, the date on which it is deposited in the United States mails or transmitted, in each case in compliance with the terms of this Section 19.1, except that any notice or other communication mailed or telegraphed to the General Partner which is not received by a General Partner within ten (10) days after the date of its mailing or transmission shall be deemed to have been given as of the date actually received by the General Partner.

19.2 Choice of Law. This Agreement and all rights and liabilities of the parties hereto with reference to the Partnership shall be subject to and governed by the laws of the State of Delaware as applied to agreements solely among Delaware residents to be entered into and performed entirely within Delaware.

19.3 Article and Section Headings. The headings of this Agreement are inserted for convenience and identification only and are in no way intended to describe, interpret, define or limit the scope, extent or intent of this Agreement or any provision hereof.

19.4 Sole Agreement. This Agreement and the exhibits hereto constitute the entire understanding of the parties hereto with respect to the subject matter hereof and supersede all prior agreements and understandings pertaining thereto.

19.5 Execution in Counterparts. This Agreement may be executed in any number of counterparts with the same effect as if all parties had all signed the same document. All counterparts shall be construed together and shall constitute one agreement. Each party shall become bound by the Agreement immediately upon affixing his or her signature hereto, independently of the signature of any other party.

19.6 Remedies Cumulative. The remedies of the parties under this Agreement are cumulative and shall not exclude any other remedies to which any Person may be lawfully entitled.

19.7 Waiver. No failure by any party to insist upon the strict performance of any covenant, duty, agreement, or condition of this Agreement or to exercise any right or remedy consequent upon a breach thereof shall constitute a waiver of any such breach or any other covenant, duty, agreement, or condition.

19.8 Waiver of Action for Partition. Each of the parties hereto irrevocably waives during the term of the Partnership any right that he may have to maintain any action for partition with respect to the Partnership Property.

19.9 Assignability. Subject to the restrictions on transferability contained herein, each and all of the covenants, terms, provisions and agreements herein contained shall be binding

upon and inure to the benefit of the successors and assigns of the respective parties hereto.

19.10 Gender and Number. Whenever the context requires, the gender of all words used hereby shall include the masculine, feminine and neuter, the singular of all words shall include the singular and plural, and the plural of all words shall include the singular and plural. Unless the context requires otherwise, any reference to a General Partner shall include all General Partners, and any reference to the General Partners shall mean any General Partner.

19.11 Severability. If any provision of this Agreement or the application thereof, shall, for any reason and to any extent, be invalid or unenforceable, the remainder of this Agreement and the application of such provision to other Persons or circumstances shall not be affected thereby, but rather shall be enforced to the maximum extent permissible under applicable law.

This Amended and Restated Limited Partnership Agreement is effective as of August 3, 2017, the date on which the Board of Directors of Pope MGP, Inc. approved the amendment and restatement pursuant to Section 6.10. This version of the Agreement incorporates into a single, unified document all of the amendments that have previously been adopted. It is executed by the Partnership and its General Partners on behalf of all of the Partners.

MANAGING GENERAL PARTNER: POPE MGP, INC.

By: _____
Thomas M. Ringo
President/CEO

EQUITY GENERAL PARTNER: POPE EGP, INC.

By: _____
Thomas M. Ringo
President/CEO

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
(on behalf of the Partnership and all of the Limited Partners)

By: _____
Thomas M. Ringo
President/CEO

AMENDED AND RESTATED NOTE

(Fund Co-Investment Loan)

Date: June 27, 2017

For Value Received, on July 1, 2027 (the "Loan Maturity Date"), Borrower, as defined below, promises to pay NORTHWEST FARM CREDIT SERVICES, FLCA ("Lender") or order, at its office in Spokane, Washington, or such other place as the holder of this Note (this "Note") may designate in writing, the principal balance of **Thirty-one Million and no/100's Dollars ($31,000,000.00)** (the "Total Commitment Amount"), or so much thereof as may be outstanding, plus interest thereon from and after any Disbursement Date, at interest rates as provided for hereafter. For all intents and purposes, all Loan Segments are treated as one obligation under this Note and the other Loan Documents.

1. Definitions. For purposes of this Note, the following definitions apply. Capitalized terms not otherwise defined herein shall have the meanings given in the Loan Agreement.

"Applicable Margin" means, for purposes of calculating the applicable interest rate for any day for a Loan Segment, the percentage set forth below which corresponds to the elected Rate Option:

Rate Options	Applicable Margin
Base Rate	1.85%
Fixed Rate Option	1.95%

The Applicable Margin used to determine the Base Rate on the Applicable Margin Reset Date, shall be determined by Lender in its sole discretion using its then applicable standards, of general application, for establishing an interest rate spread. Lender will endeavor to notify Borrower of the Applicable Margin that will be effective on the Applicable Margin Reset Date within thirty (30) days of each Applicable Margin Reset Date, but the Applicable Margin shall apply as of such Applicable Margin Reset Date whether such notice is given by Lender or received by Borrower.

"Applicable Margin Reset Date" means July 1 in 2019, 2022 and 2025.

"Base Rate Loan Segment" means the principal portion of the Loan plus accrued interest priced using the Base Rate.

"Borrower" means Pope Resources, A Delaware Limited Partnership.

"Commitment Expiration Date" means December 31, 2019.

"Commitment Period" means the period from the date of this Note through the Commitment Expiration Date.

"Disbursement Date" means any Business Day when the Loan principal is advanced under this Note to or on the account of Borrower.

"Fixed Rate Loan Segment" means each principal portion of the Loan, plus interest accrued thereon, with all the following attributes that distinguish such Fixed Rate Loan Segment from other Fixed Rate Loan Segments: a different Fixed Rate Maturity Date and or a different date to which a given Fixed Rate Option was assigned to the Fixed Rate Loan Segment, except as otherwise provided herein.

"Fixed Rate Maturity Date" shall have the meaning for the Fixed Rate Options given in Paragraph 3.02 hereof; provided however, if a Fixed Rate Maturity Date falls on a date that is not a Business Day, then the Fixed Rate Maturity Date shall be deemed to be the preceding Business Day, unless such Business Day falls in another calendar month in which case the Fixed Rate Maturity Date shall be deemed to be the succeeding Business Day.

"Fixed Rate Option" means any of the Fixed Rate Options defined in Paragraph 3.02 hereof.

"Index Source" means the Index Source identified for a given pricing option described herein.

"LIBOR" means the rate per annum as of 11:00 a.m. (London time) on the day that is two (2) Business Days prior to the first day of such interest period (the "Index"), at which deposits in Dollars for the relevant interest period are offered as determined by the ICE Benchmark Administration (or any successor thereto or any other readily available service selected by Lender that has been approved by the ICE Benchmark Administration as an authorized information vendor for purposes of displaying rates) (the "LIBOR Index Source") provided, that in the event the ICE Benchmark Administration ceases to provide such quotations, the foregoing rate of interest shall mean any similar successor rate designated by Lender in its reasonable discretion. If such rate is less than zero, such rate shall be deemed to be zero.

"Loan Agreement" means the Second Amended and Restated Master Loan Agreement between Borrower and Lender dated July 20, 2016, as the same may be amended, modified, extended, restated or replaced from time to time.

"Loan Purpose" means, (a) to fund the costs associated with Borrower's obligations to perform environmental remediation at the Port Gamble site, (b) to provide financing for co-investments in ORM Timber Fund IV, (c) to pay Loan fees and all Lender's Expenses and (d) for other corporate and working capital purposes of Borrower.

"Loan Segment" means the Base Rate Loan Segment or a Fixed Rate Loan Segment.

"Notice" shall have the meaning given in Paragraph 2.03 hereof.

"Pricing Date" means the date a given Loan Segment begins to accrue interest under a given Rate Option or a day when there is a change in the Base Rate.

"Quarter" means the three-month periods beginning on July 1, October 1, January 1 and April 1 of each year.

"Rate Option" means the Base Rate or one of the Fixed Rate Options.

"Rate Pricing Index" means Lender's cost of funds as determined by Lender in its reasonable discretion for obligations with comparable length maturities, adjusted to take into consideration the terms of the loan, the prepayment options and other factors relating to the structure of the loan normally used in Lender's determination of appropriate loan pricing.

2. Advances, Fees and Notice.

2.01 Advances. So long as no Default or Event of Default has occurred and is continuing, Borrower may borrow, repay and reborrow Loan proceeds for an approved Loan Purpose on any Business Day during the Commitment Period, in an amount not to exceed the Available Principal Commitment on such date. The "Available Principal Commitment" in effect is the Total Commitment Amount as of the date of this Note,

and on any given date thereafter equals the difference between (a) the Total Commitment Amount on such date, and (b) the unpaid principal balances of all Loan Segments on such date.

2.02 Loan Fees. Borrower shall pay Lender an unused commitment fee during the Commitment Period to be calculated as follows: 25 basis points multiplied by the average daily Available Principal Commitment calculated quarterly in arrears on the basis of the actual number of days elapsed for the actual number of days in the year until the Commitment Expiration Date. The unused commitment fee shall be due on the first day of the next quarter and on the first day of each quarter thereafter. Borrower shall also pay loan fees as set forth in a separate fee letter agreement.

2.03 Notice of Prepayment and Pricing.

a. Prepayment of Principal. Borrower shall provide Lender with Notice of the amount of any prepayment of a Fixed Rate Loan Segment no later than 10:00 a.m. Spokane time one Business Day prior to the Business Day the prepayment will be made.

b. Pricing. Borrower shall provide Lender irrevocable Notice of pricing of a Loan Segment using a Fixed Rate Option by 10:00 a.m. Spokane time on the Pricing Date.

c. Form of Notice. Borrower may provide Lender any Notice required under this Note by use of the notice in form substantially as set forth on Exhibit A hereto or other documentation as may be prescribed by Lender. Alternatively, Borrower may telephone Lender at the numbers designated on Exhibit A or as may be provided by Lender from time to time. If Notice is by telephone, Lender will confirm to Borrower the elected prepayment or pricing in writing. All such Notices are deemed irrevocable when given and are subject to Breakage Fees.

3. Interest Rate and Pricing Elections.

3.01 LIBOR Variable Base. The "Base Rate" is the LIBOR Variable Base. The "LIBOR Variable Base" for any day during a given month means the one-month LIBOR rate, as made available by the LIBOR Index Source, rounded up to the nearest .05 percent, plus the Applicable Margin. The LIBOR Variable Base shall be effective on the first day of the month and remain constant for such month.

3.02 1-, 2-, 3-, 4-, 5-, 6-, 7-, 8-, 9- or 10-Year Fixed Rate Options. Borrower understands and agrees that the availability of any Fixed Rate Option will be determined at Lender's (and participant's, if applicable) sole discretion. Subject to the preceding sentence, a Fixed Rate Loan Segment may be priced with a fixed rate equal to the 1-, 2-, 3-, 4-, 5-, 6-, 7-, 8-, 9- or 10-year Fixed Rate Options, as defined herein, plus the Applicable Margin. With these Fixed Rate Options, (a) rates may be fixed for Interest Periods, as defined herein, of 1, 2, 3, 4, 5, 6, 7, 8, 9 and 10; and (b) rates may only be fixed on a Pricing Date to take effect on such Pricing Date. For purposes hereof: (i) the "1-, 2-, 3-, 4-, 5-, 6-, 7-, 8-, 9- and 10-year Fixed Rate Options" shall mean the rate equal to the Rate Pricing Index for such period, rounded to the nearest .01 percent, as made available by the Lender on the Pricing Date; and (ii) "Interest Period" shall mean a period commencing on the Pricing Date and ending on the Fixed Rate Maturity Date. The Fixed Rate Maturity Date for a given Fixed Rate Option shall be the corresponding 1-, 2-, 3-, 4-, 5-, 6-, 7-, 8-, 9- or 10-year anniversary of the first day of the month following the Pricing Date if the Pricing Date is not the first day of a month or the corresponding anniversary of the Pricing Date if such Pricing Date is the first day of a month.

3.03 Pricing Elections. Upon irrevocable Notice to Lender in accordance with Paragraph 2.03 above, as to principal (i) in the amount of an advance, (ii) in the Base Rate Loan Segment, or (iii) in a Fixed Rate Loan Segment on a Fixed Rate Maturity Date, Borrower may elect to designate all or any part of the advance

or of the principal amount of such Loan Segment on such Pricing Date to bear interest at any Rate Option described herein; provided however, that (1) there is no Event of Default, (2) Borrower shall price Loan principal in Fixed Rate Loan Segments in initial minimum principal amounts of $5,000,000, (3) no Fixed Rate Option may be selected which would have for its Fixed Rate Maturity Date a date later than the Loan Maturity Date and (4) there are no more than six Fixed Rate Loan Segments at any one time. If Borrower does not provide Lender irrevocable Notice of election of a Rate Option on a Fixed Rate Maturity Date for a Fixed Rate Loan Segment, the principal amount of such Loan Segment will be priced at the Base Rate effective on such Pricing Date.

3.04 Single Base Rate Loan Segment. If on a Pricing Date, any Loan Segment is priced under the Base Rate resulting in more than one Loan Segment priced under the Base Rate, all Loan principal priced under the Base Rate will be treated as a single Base Rate Loan Segment by combining the principal amount of such Loan Segments on such Pricing Date.

3.05 Interest Rates. The interest rate used herein does not necessarily represent the lowest rates charged by Lender on its loans. The interest rates described herein are per annum rates. Interest rates using the LIBOR Index Source are calculated on the basis of the actual number of days elapsed for a 360 day year. Interest rates using any other Index are calculated on the basis of the actual number of days elapsed during the year for the actual number of days in the year.

3.06 Index or Index Source. If any Index or Index Source provided for herein cannot be ascertained during the Note term, Lender will choose a new Index or Index Source which it determines, in its sole discretion, is comparable to be effective upon notification thereof to Borrower.

3.07 Additional Pricing Options. In the event Borrower should desire to price a Loan Segment using an Index, Pricing Date and margin other than as provided for herein, Borrower may request Lender to quote a rate and lock-in fee for an identified principal amount and desired pricing option. Lender will provide Borrower such a quote if available under Lender's then existing policies and procedures, and shall provide Borrower the option to elect such a rate upon payment of the lock-in fee, if required, which rate shall be effective on the Pricing Date for the Loan Segment, upon terms and conditions and within timeframes as Lender may prescribe at the time of the quote.

4. Payment.

4.01 Interest Payments. Borrower shall make quarterly interest only payments on the first day of each Quarter beginning July 1, 2017, or the first day of the next Quarter as Lender shall determine, which payments shall consist of interest that accrued during such prior period on the unpaid principal balance of each Loan Segment.

4.02 Payment in Full on Loan Maturity Date. The unpaid principal balance, unpaid interest thereon, and other amounts due under this Note and the other Loan Documents shall be paid in full on the Loan Maturity Date.

4.03 Application of Payments. Lender may apply any payment received from or on behalf of Borrower to principal, interest, or any part of the indebtedness, including any fees and expenses due under this Note or any other Loan Document, as Lender, in its sole discretion, may choose. Subject to the preceding sentence, Borrower may at any time pay any amount of principal in advance of its maturity subject to the Prepayment Fee described herein.

5. Default Interest Rate. The "Default Interest Rate" applicable to a delinquent payment for a Loan Segment shall equal four percent (4%) per annum above the interest rate in effect on such Loan Segment at the time such payment was due, which rate shall accrue on the total amount of the payment due until paid, accelerated or upon maturity. Provided however, upon acceleration and or maturity, the Default Interest Rate shall be equal to and remain at four percent (4%) per annum above the interest rate in effect for each Loan Segment at the time of acceleration or maturity and shall accrue on the entire unpaid balance of the Loan Segment until paid in full.

6. Loan Terms, Provisions and Covenants. This Note is subject to the terms, provisions and covenants of the Loan Agreement.

7. Miscellaneous.

7.01 Funds Management Services. Lender may provide funds management services to Borrower. Borrower shall comply with all funds management service agreements during the term of this Note. All fees incurred shall be considered a request for an advance under this Note. The funds management services and fees may be adjusted upon reasonable notice.

7.02 Governing Law. The substantive laws of the State of Washington shall apply to govern the construction of the Loan Documents and the rights and remedies of the parties except where the location of the Collateral for the Loan may require the application of the laws of another state or where federal laws, including the Farm Credit Act of 1971, as amended, may be applicable.

7.03 General Provisions. Borrower waives presentment for payment, demand, notice of nonpayment, protest, notice of protest and diligence in enforcing payment of this Note. This Note and the other Loan Documents constitute the entire agreement between Borrower and Lender and supersede all prior oral negotiations and promises which are merged into such writings. Upon written agreement of the parties, the interest rate, payment terms or balances due under this Note may be indexed, adjusted, renewed or renegotiated. Lender shall not be obligated to renew the Note or any part thereof or to make additional or future loans to Borrower. All Exhibits hereto are incorporated herein and made a part of this Note. This Note may be executed in any number of counterparts, each of which shall be deemed to be an original, but all of which together, shall constitute but one and the same instrument.

Borrower agrees that the Note described herein shall be in default should any proceeds be used for a purpose that will contribute to excessive erosion of highly erodible land or to the conversion of wetlands to produce or to make possible the production of an agricultural commodity, as further explained in 7 CFR Part 12.

7.04 Waiver of Jury Trial. BORROWER AND LENDER HEREBY IRREVOCABLY WAIVE ANY RIGHT THEY MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS LOAN DOCUMENT AND ANY FUTURE MODIFICATIONS, AMENDMENTS, EXTENSIONS, RESTATEMENTS AND SERVICING ACTIONS RELATING TO THIS LOAN DOCUMENT. THE PARTIES INTEND THAT THIS JURY WAIVER WILL BE ENFORCED TO THE MAXIMUM EXTENT ALLOWED BY LAW.

7.05 No Novation. This Note amends and restates, and evidences indebtedness previously evidenced by, that certain Note made by Borrower to Lender dated August 4, 2016 in the face principal amount of $21,000,000 (the "Prior Note"), and does not constitute a novation of such indebtedness. Loan Segments previously outstanding under and evidenced by the Prior Note are evidenced by and outstanding under this Note.

ORAL AGREEMENTS OR ORAL COMMITMENTS TO LOAN MONEY, EXTEND CREDIT, OR TO FORBEAR FROM ENFORCING REPAYMENT OF A DEBT ARE NOT ENFORCEABLE UNDER WASHINGTON LAW.

BORROWER:
POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By:
Thomas M. Ringo, President and CEO

EXHIBIT A
NOTICE/CONFIRMATION

NOTICE TO:

Loan Accounting and Operations
Northwest Farm Credit Services, FLCA
2001 South Flint Road **P. O. Box 2515** **Fax: 509-340-5508**
Spokane, WA 99224-9198 **Spokane, WA 99220-2515** **Tel: 1-800-216-4535**

This Notice is provided pursuant to the Note dated June __, 2017 as extended, renewed, amended or restated.

SELECT ONE: Loan Segment
Pricing
Prepayment of Principal
Initial Disbursement Amount

Loan Segment Currently Priced Under Option
Principal Amount
To New Pricing Option
Date to be Effective

Date:

BORROWER
POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
By: Pope MGP Inc., a Delaware corporation, its Managing General Partner

By:
Authorized Agent

CONFIRMATION
Lender confirms that the above actions were taken or modified as provided for below:

NORTHWEST FARM CREDIT SERVICES, FLCA

Date: By:
Authorized Agent

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Thomas M. Ringo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pope Resources;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2017

/s/Thomas M. Ringo
Thomas M. Ringo
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, John D. Lamb, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pope Resources;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a–15(f) and 15d–15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 7, 2017

/s/ John D. Lamb
John D. Lamb
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Pope Resources (the "Company") on Form 10-Q for the period ended June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas M. Ringo, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company as of, and for, the periods presented in the Report.

This certification is being furnished solely to comply with the requirements of 18 U.S.C. Section 1350, and shall not be incorporated by reference into any of the Company's filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, or otherwise be deemed to be filed as part of the Report or under such Acts.

/s/ Thomas M. Ringo
Thomas M. Ringo
Chief Executive Officer

August 7, 2017

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Pope Resources (the "Company") on Form 10-Q for the period ended June 30, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John D. Lamb, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company as of, and for, the periods presented in the Report.

This certification is being furnished solely to comply with the requirements of 18 U.S.C. Section 1350, and shall not be incorporated by reference into any of the Company's filings under the Securities Act of 1933 or the Securities Exchange Act of 1934, or otherwise be deemed to be filed as part of the Report or under such Acts.

/s/ John D. Lamb
John D. Lamb
Chief Financial Officer

August 7, 2017