

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, 2008

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
(State or other jurisdiction of
incorporation or organization)

91-1313292
(IRS Employer
Identification Number)

19245 10th Avenue NE, 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 No

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

Large Accelerated Filer Accelerated Filer Non-accelerated Filer
Smaller Reporting Company

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

Partnership units outstanding at August 1, 2008: 4,633,122

Description	Page Number
Part I. Financial Information	
Item 1. Financial Statements (unaudited)	
Condensed Consolidated Balance Sheets	4
Condensed Consolidated Statements of Earnings	5
Condensed Consolidated Statements of Cash Flows	6
Notes to Condensed Consolidated Financial Statements	7
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	13
Item 3. Quantitative and Qualitative Disclosures about Risk	36
Item 4. Controls and Procedures	36
Part II. Other Information	
Item 1. Legal Proceedings	37
Item 1A. Risk Factors	37
Item 2. Unregistered Sales of Equity Securities and Use of Proceeds	39
Item 3. Defaults Upon Senior Securities	39
Item 4. Submission of Matters to a Vote of Security Holders	39
Item 5. Other Information	39
Item 6. Exhibits	40
Signatures	41

PART I – FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS (Unaudited)

Pope Resources
June 30, 2008 and December 31, 2007

(Thousands)

	2008	2007
Assets		
Current assets:		
Cash and cash equivalents	\$ 11,553	\$ 2,174
Auction rate securities, current	1,050	30,775
Accounts receivable	1,949	442
Land held for sale	800	780
Current portion of contracts receivable	565	622
Prepaid expenses and other	166	252
Total current assets	16,083	35,045
Properties and equipment at cost:		
Land held for development	21,786	21,159
Land and land improvements	20,100	22,318
Roads and timber (net of accumulated depletion of \$50,390 and \$48,418)	93,446	94,635
Buildings and equipment (net of accumulated depreciation of \$7,179 and \$7,017)	3,640	3,577
	138,972	141,689
Other assets:		
Contracts receivable, net of current portion	1,239	1,420
Auction rate securities, non-current	13,496	-
Other	158	1,171
	14,893	2,591
Total assets	\$ 169,948	\$ 179,325
Liabilities and Partners' Capital		
Current liabilities:		
Accounts payable	\$ 1,200	\$ 1,371
Accrued liabilities	738	2,112
Environmental remediation	90	250
Current portion of long-term debt	1,342	1,342
Deferred revenue	406	268
Deposits	146	108
Total current liabilities	3,922	5,451
Long-term debt, net of current portion	28,094	29,385
Environmental remediation, net of current portion	1,744	1,744
Other long term liabilities	236	298
Minority interest - ORM Timber Fund I, LP	44,634	45,803
Partners' capital (units outstanding 4,583 and 4,663)	92,472	96,644
Accumulated other comprehensive loss	(1,154)	-
Total partners' capital	91,318	96,644
Total liabilities and partners' capital	\$ 169,948	\$ 179,325

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS (Unaudited)

For the Three Months and Six Months Ended June 30, 2008 and 2007

(Thousands, except per unit data)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Revenues	\$ 11,252	\$ 15,326	\$ 17,592	\$ 22,113
Cost of timber and land sold	(6,289)	(6,294)	(8,968)	(9,131)
Operating expenses	(2,332)	(2,374)	(4,410)	(4,611)
General and administrative expenses	(1,016)	(1,706)	(1,894)	(2,731)
Income from operations	<u>1,615</u>	<u>4,952</u>	<u>2,320</u>	<u>5,640</u>
Other income (expense):				
Interest expense	(606)	(637)	(1,240)	(1,302)
Capitalized interest	311	264	619	518
Interest income	218	391	613	811
Total other income (expense)	<u>(77)</u>	<u>18</u>	<u>(8)</u>	<u>27</u>
Income before income taxes and minority interest	1,538	4,970	2,312	5,667
Income tax expense	-	(10)	(57)	(17)
Income before minority interest	1,538	4,960	2,255	5,650
Minority interest-ORM Timber Fund I, LP	145	(145)	369	19
Net income	<u>\$ 1,683</u>	<u>\$ 4,815</u>	<u>\$ 2,624</u>	<u>\$ 5,669</u>
Allocable to general partners	\$ 22	\$ 62	\$ 34	\$ 74
Allocable to limited partners	1,661	4,753	2,590	5,595
	<u>\$ 1,683</u>	<u>\$ 4,815</u>	<u>\$ 2,624</u>	<u>\$ 5,669</u>
Earnings per unit:				
Basic	\$ 0.37	\$ 1.03	\$ 0.57	\$ 1.21
Diluted	<u>\$ 0.36</u>	<u>\$ 1.00</u>	<u>\$ 0.55</u>	<u>\$ 1.18</u>
Weighted average units outstanding:				
Basic	4,583	4,685	4,601	4,675
Diluted	<u>4,707</u>	<u>4,829</u>	<u>4,728</u>	<u>4,817</u>
Distributions per unit	<u>\$ 0.40</u>	<u>\$ 0.28</u>	<u>\$ 0.80</u>	<u>\$ 0.56</u>

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

Pope Resources
Six Months Ended June 30, 2008 and 2007

(Thousands)	2008	2007
Net income	\$ 2,624	\$ 5,669
Add back non-cash charges (credits):		
Deferred revenue	138	77
Depletion	1,864	2,749
Equity based compensation	206	361
Depreciation and amortization	385	399
Deferred taxes	-	(47)
Minority interest	(369)	(19)
Cost of land sold	2,517	46
Change in working capital accounts:		
Accounts receivable	(1,065)	(1,808)
Contracts receivable	238	(63)
Prepaid expenses and other current assets	86	113
Accounts payable	(171)	381
Accrued liabilities	(1,014)	(1,477)
Deposits	38	13
Environmental remediation	(160)	(47)
Other long term liabilities	(72)	(70)
Other long term assets	400	633
Other	(6)	(5)
Net cash provided by operating activities	<u>5,639</u>	<u>6,905</u>
Cash provided by (used in) investing activities:		
Redemption of short-term investments	15,075	-
Reforestation and roads	(382)	(539)
Proceeds from fixed asset sale	34	-
Capitalized development activities	(1,548)	(3,311)
Other capital expenditures	(356)	(602)
Net cash provided by (used in) investing activities	<u>12,823</u>	<u>(4,452)</u>
Cash used in financing activities:		
Minority interest distribution	(800)	(155)
Unit repurchase	(3,643)	-
Repayment of long-term debt	(1,290)	(1,323)
Proceeds from option exercises	352	630
Other	10	-
Unitholder distributions	(3,712)	(2,654)
Net cash used in financing activities	<u>(9,083)</u>	<u>(3,502)</u>
Net increase (decrease) in cash and cash equivalents	9,379	(1,049)
Cash and cash equivalents at beginning of period	2,174	7,194
Cash and cash equivalents	<u>\$ 11,553</u>	<u>\$ 6,145</u>

See accompanying notes to condensed consolidated financial statements.

POPE RESOURCES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
June 30, 2008

1. The condensed consolidated financial statements as of June 30, 2008 and December 31, 2007 and for the three-months (quarter) and six-month periods ended June 30, 2008 and June 30, 2007 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 "SEC"). 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, 2007, is derived from the Partnership's audited consolidated financial statements and notes thereto for the year ended December 31, 2007, and should be read in conjunction with such financial statements. 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, 2008.
2. The financial statements in the Partnership's 2007 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.
3. Basic net earnings per unit are based on the weighted average number of units outstanding during the period. Diluted net earnings per unit are based on the weighted average number of units and dilutive unit options outstanding during the period.

	Quarter Ended		Six Months Ended	
	2008	June 30, 2007	2008	June 30, 2007
Weighted average units outstanding (in thousands):				
Basic	4,583	4,685	4,601	4,675
Dilutive effect of unit options	124	144	127	142
Diluted	<u>4,707</u>	<u>4,829</u>	<u>4,728</u>	<u>4,817</u>

Options to purchase 190,000 units at prices ranging from \$9.30 to \$37.73 per unit were outstanding as of June 30, 2008. For computing the dilutive effect of unit options for the quarter and six months ended June 30, 2008, options to purchase 927 and 602 units, respectively, at prices ranging from \$35.00 to \$37.73 were not included in the calculation as they were anti-dilutive.

Options to purchase 214,000 units at prices ranging from \$9.30 to \$37.73 per unit were outstanding as of June 30, 2007. For computing the dilutive effect of unit options for the quarter and six months ended June 30, 2007, no options were excluded from the calculation.

In 2005, we adopted the 2005 Unit Incentive Plan. Following adoption of this new plan the Human Resources Committee of the Board of Directors began issuing restricted units instead of unit options as its primary method of granting equity based compensation. However, that plan permits the issuances of unit options, unit appreciation rights and other equity compensation at the discretion of the Human Resources Committee.

Restricted Units

Units issued as a result of option exercises and restricted unit grants are funded through the issuance of new units. As of June 30, 2008, total compensation expense related to non-vested restricted unit awards not yet recognized was \$737,000 with a weighted average 33 months remaining to vest.

Restricted units	Outstanding
Number outstanding	50,250
Aggregate intrinsic value	\$ 1,625,588

Unit Options

Unit options have not been granted since December 2005. Units options granted prior to January 1, 2006 were non-qualified options granted at an exercise price not less than 100% of the fair value on the grant date. Unit options granted to employees vested over four or five years. Board members had the option of receiving their annual retainer in the form of unit options and those options vested immediately as they were granted monthly for services rendered during the month. Options granted have a life of ten years. As of June 30, 2008 all compensation cost related to unit options granted has been recognized as all options are fully vested.

Options Outstanding and Exercisable	Outstanding
Number outstanding and exercisable	189,973
Weighted average exercise price	\$ 15.59
Aggregate intrinsic value	\$ 3,187,714
Weighted average remaining contractual term	3.82

4. Supplemental disclosure of cash flow information: interest paid, net of amounts capitalized, totaled \$824,000 and \$994,000 for the six months ended June 30, 2008 and 2007, respectively. No income tax was paid for the six months ended June 30, 2008 compared to \$9,000 of income taxes paid for the six-month period ended June 30, 2007.

5. The fair value of cash and cash equivalents and investments held at June 30, 2008 and December 31, 2007 are as follows:

	June 30, 2008		
	Amortized Cost	Gross Unrealized Loss	Estimated Fair Value
Cash and cash equivalents	\$ 11,553	\$ -	\$ 11,553
Securities expected to be refinanced within one year:			
Auction rate securities, current	1,050	-	1,050
Securities maturing after ten years:			
Auction rate securities, non-current	14,650	(1,154)	13,496

There were no realized gains or losses for the quarters and six-month periods ended June 30, 2008.

At June 30, 2008, Pope Resources held AAA-rated Student Loan Auction Rate Securities ("SLARS") with a par value of \$15.7 million but an estimated fair value, based on the methodology described below, of \$14.5 million. SLARS are collateralized long-term debt instruments that historically provided liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined intervals, typically every 35 days. Beginning in February 2008, auctions failed for approximately \$17 million in par value of SLARS we held because sell orders exceeded buy orders. When these auctions failed to clear, higher interest rates for those securities went into effect. However, the principal amount of these securities associated with these failed auctions will not be accessible until the issuer calls the security, a successful auction occurs, a buyer is found outside of the auction process, or the security matures.

The underlying assets of the SLARS we hold, including the securities for which auctions have failed, are student loans which are guaranteed by the U.S. Department of Education for 97% of the loan and interest due. With the exception of \$1,050,000 of SLARS that were redeemed at par in July 2008, we are reporting these investments as non-current assets. We have performed an estimate of fair value for these securities and determined that the estimated fair value is \$1.2 million below par and as a result we have recorded an asset impairment. The asset impairment was estimated using a discounted cash flow model incorporating assumptions that management believes market participants would use in their estimates of fair value, including comparison of the yield on the SLARS we own to corporate instruments with similar maturities and variable interest rates. If the current market conditions deteriorate further or a recovery in market values does not occur, we may be required to record additional unrealized or realized losses in future quarters. Management believes that the working capital and borrowing capacity available to the Partnership excluding the funds invested in SLARS will be sufficient to meet cash requirements for at least the next 12 months.

6. FASB Statement No. 157 Fair Value Measurement (SFAS No. 157) was followed to determine the fair value of the Partnership's investments. SFAS No. 157 defines a hierarchy of three levels of evidence used to determine fair value:

- Level 1 - quoted prices for identical assets/liabilities in active markets
- Level 2 - quoted prices in a less active market, quoted prices for similar but not identical assets/liabilities, inputs other than quoted prices
- Level 3 - significant unobservable inputs including the Partnership's own assumptions in determining the fair value of investments

Those SLARS where we have not received notice from the issuer of plans to refinance the security are accounted for as long term investments. Under current credit market conditions there is no active market for SLARS, thus eliminating any available Level 1 inputs for use in determining a market value. Additionally there are no markets for similar equity instruments, as such, Level 2 data is also unavailable. SLARS are unique and there are no actively traded markets that one can observe to determine a value for the SLARS. Accordingly, the SLARS were changed from Level 1 to Level 3 within SFAS 157's valuation levels since the Partnership's adoption of SFAS No. 157 on January 1, 2008. The following table provides the fair value measurements of applicable Partnership financial assets according to the levels defined in SFAS No. 157 as of June 30, 2008 and December 31, 2007:

	June 30, 2008			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 11,553	\$ -	\$ -	\$ 11,553
Auction rate securities, current	1,050	-	-	1,050
Auction rate securities, non-current	-	-	13,496	13,496
Total financial assets at fair value	\$ 12,603	\$ -	\$ 13,496	\$ 26,099

	December 31, 2007			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 2,174	\$ -	\$ -	\$ 2,174
Auction rate securities, current	30,775	-	-	30,775
Total financial assets at fair value	\$ 32,949	\$ -	\$ -	\$ 32,949

We identified market interest rates for similar securities and performed a discounted cash flow calculation using these alternative interest rates. This method represents a Level 3 input, and represents the best evidence we have to indicate value under current market conditions. The table below summarizes the change in the consolidated balance sheet carrying value associated with Level 3 financial assets for the six months ended June 30, 2008:

	Non-current Investments
Balance at December 31, 2007	\$ -
Net sales, settlements and transfers into Level 3	14,650
Total unrealized losses included in other comprehensive loss	(1,154)
Balance at June 30, 2008	\$ 13,496

Management believes the impairment to the SLARS portfolio is temporary and plans to hold these securities until they can be sold or otherwise redeemed for their par value or materially close to par value. The Partnership has had \$1.2 million of its SLARS portfolio redeemed at par since the auction failures began and as of June 30, 2008 reported \$1,050,000 of these securities as current assets that were subsequently redeemed at par in July 2008. The impairment noted above has been recorded as other comprehensive loss. As a result, comprehensive income for the three month period ended June 30, 2008 is \$1.7 million and comprehensive income for the six month period ended June 30, 2008 is \$1.5 million and includes the unrealized loss of \$1.2 million on SLARS.

7. The Partnership's general partners hold 60,000 units. The allocation of distributions and income between the general and limited partners is pro rata among all units outstanding.
8. Non-cash investing activities include \$596,000 held in trust by a IRC Section 1031 exchange facilitator as of December 31, 2007 used to acquire timberlands as of March 31, 2008.

9. In the presentation of the Partnership's revenue and operating income by segment all intersegment revenue and expense is eliminated to determine externally reported operating income by business segment. The table that follows reconciles internally reported income from operations to externally reported income from operations by business segment, for the quarters and six-month periods ended June 30, 2008 and 2007:

Three Months Ended June 30, (Thousands)	Fee Timber			Total Fee Timber	Timberland Management & Consulting	Real Estate	Other	Consolidated
	Pope Resources Timber	Timberfund						
2008								
Revenue internal	\$ 7,414	\$ 2,747	\$ 10,161	\$ 468	\$ 920	\$ -	\$ 11,549	
Eliminations	(73)	-	(73)	(214)	(10)	-	(297)	
Revenue external	7,341	2,747	10,088	254	910	-	11,252	
Cost of timber and land sold	(3,568)	(2,563)	(6,131)	-	(158)	-	(6,289)	
Operating expenses internal	(853)	(369)	(1,222)	(454)	(953)	(1,016)	(3,645)	
Eliminations	13	200	213	89	(5)	-	297	
Operating expenses external	(840)	(169)	(1,009)	(365)	(958)	(1,016)	(3,348)	
Income (loss) from operations internal	2,993	(185)	2,808	14	(191)	(1,016)	1,615	
Eliminations	(60)	200	140	(125)	(15)	-	-	
Income (loss) from operations external	\$ 2,933	\$ 15	\$ 2,948	\$ (111)	\$ (206)	\$ (1,016)	\$ 1,615	
2007								
Revenue internal	\$ 13,123	\$ 1,530	\$ 14,653	\$ 607	\$ 366	\$ -	\$ 15,626	
Eliminations	(39)	-	(39)	(251)	(10)	-	(300)	
Revenue external	13,084	1,530	14,614	356	356	-	15,326	
Cost of timber and land sold	(5,246)	(1,028)	(6,274)	-	(20)	-	(6,294)	
Operating expenses internal	(996)	(321)	(1,317)	(564)	(793)	(1,706)	(4,380)	
Eliminations	12	254	266	39	(5)	-	300	
Operating expenses external	(984)	(67)	(1,051)	(525)	(798)	(1,706)	(4,080)	
Income (loss) from operations internal	6,881	181	7,062	43	(447)	(1,706)	4,952	
Eliminations	(27)	254	227	(212)	(15)	-	-	
Income (loss) from operations external	\$ 6,854	\$ 435	\$ 7,289	\$ (169)	\$ (462)	\$ (1,706)	\$ 4,952	

Six Months Ended June 30, (Thousands)	Fee Timber			Timberland Management & Consulting	Real Estate	Other	Consolidated
	Pope Resources Timber	Timberfund	Total Fee Timber				
2008							
Revenue internal	\$ 12,902	\$ 2,855	\$ 15,757	\$ 901	\$ 1,486	\$ -	\$ 18,144
Eliminations	(109)	-	(109)	(423)	(20)	-	(552)
Revenue external	12,793	2,855	15,648	478	1,466	-	17,592
Cost of timber and land sold	(5,836)	(2,659)	(8,495)	-	(473)	-	(8,968)
Operating expenses internal	(1,692)	(661)	(2,353)	(913)	(1,696)	(1,894)	(6,856)
Eliminations	20	409	429	126	(3)	-	552
Operating expenses external	(1,672)	(252)	(1,924)	(787)	(1,699)	(1,894)	(6,304)
Income (loss) from operations internal	5,374	(465)	4,909	(12)	(683)	(1,894)	2,320
Eliminations	(89)	409	320	(297)	(23)	-	-
Income (loss) from operations external	\$ 5,285	\$ (56)	\$ 5,229	\$ (309)	\$ (706)	\$ (1,894)	\$ 2,320
2007							
Revenue internal	\$ 19,341	\$ 1,547	\$ 20,888	\$ 1,151	\$ 619	\$ -	\$ 22,658
Eliminations	(82)	-	(82)	(443)	(20)	-	(545)
Revenue external	19,259	1,547	20,806	708	599	-	22,113
Cost of timber and land sold	(8,036)	(1,042)	(9,078)	-	(53)	-	(9,131)
Operating expenses internal	(1,973)	(528)	(2,501)	(1,090)	(1,565)	(2,731)	(7,887)
Eliminations	22	445	467	82	(4)	-	545
Operating expenses external	(1,951)	(83)	(2,034)	(1,008)	(1,569)	(2,731)	(7,342)
Income (loss) from operations internal	9,332	(23)	9,309	61	(999)	(2,731)	5,640
Eliminations	(60)	445	385	(361)	(24)	-	-
Income (loss) from operations external	\$ 9,272	\$ 422	\$ 9,694	\$ (300)	\$ (1,023)	\$ (2,731)	\$ 5,640

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 our management's estimates and present intentions based on our current goals, in light of currently known circumstances and management's expectations about future developments. Statements about expectations, plans and future performance are "forward looking statements" within the meaning of applicable securities laws. Because these statements describe our goals, objectives and anticipated performance, they 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 "Item 1A: Risk Factors" below and other factors discussed elsewhere in this report or in our annual report on Form 10-K for the fiscal year ended December 31, 2007. Some of the issues that may have an adverse and material impact on our business, operating results and financial condition include economic conditions that affect consumer demand for our products and the prices we receive for them; the effect of financial market conditions on our investment portfolio and related liquidity; environmental and land use regulations that limit our ability to harvest timber and develop property; and other risks and uncertainties which are discussed in our other filings with the Securities and Exchange Commission. The forward-looking statements in this report reflect our estimates as of the date of the report, and we cannot 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"), was organized in late 1985 as a result of a spin-off by Pope & Talbot, Inc. ("P&T"). We are engaged in three primary businesses. The first, and by far most significant segment in terms of owned assets, revenues, income and operations, is the Fee Timber segment. This segment includes timberlands owned directly by the Partnership and operations of ORM Timber Fund I, LP ("Fund I") and ultimately ORM Timber Fund II, Inc. ("Fund II") and collectively with Fund I, the ("Funds"). Operations in this segment consist of growing timber to be harvested as logs for sale to domestic manufacturers and to a lesser extent export brokers. The second most significant business in terms of total assets owned is the development and sale of real estate. Real Estate activities primarily take the form of securing permits, entitlements, and, in some cases, installing infrastructure for raw land development and then realizing that land's value through the sale of larger parcels to buyers who will take the land further up the value chain, either to home buyers or to operators and lessors of commercial property. Since these land projects span multiple years, the Real Estate segment may incur losses for multiple years while a project is developed until that project is sold resulting in operating income. Our third business is providing timberland management and related services to third-party timberland owners and to the Funds, and raising investment capital from third parties for private equity timber funds like the Funds.

Management's major opportunity and challenge is to grow our revenue base profitably. Our current strategy for adding timberland acreage is centered on our timber fund business model. For example, Fund I acquired 24,000 acres of timberland in late 2006, and our 20% investment in Fund I affords us a share of Fund I's operations while allowing us to earn asset management and timberland management fees. Management also believes that this strategy allows us to maintain more sophisticated expertise in timberland acquisition, valuation, and management than could be cost effectively maintained for the Partnership's timberlands alone. Our real estate challenges center around how and when to "harvest" a parcel of land and capture the optimum value increment by selling the property.

In the fourth quarter of 2007 we adopted a unit repurchase program in which we proposed to acquire outstanding units having an aggregate value of up to \$5 million. In April 2008, we completed this program, repurchasing a total of 128,957 units at a weighted average purchase price of \$38.90 per unit.

RESULTS OF OPERATIONS

The following table reconciles and compares key revenue and cost elements that impact our net income for each of the quarter and six-month periods ended June 30, 2008 to June 30, 2007. In addition to the table's detailed numeric analysis, the explanatory text that follows the table describes many of these changes by business segment.

	Quarter ended June 30, 2008 and 2007		Six months ended June 30, 2008 and 2007	
	Total		Total	
Net income:				
2008 period	\$	1,683	\$	2,624
2007 period		4,815		5,669
Variance	\$	<u>(3,132)</u>	\$	<u>(3,045)</u>
Detail of earnings variance:				
Fee Timber:				
Log price realizations (A)	\$	(1,787)	\$	(2,264)
Log volumes (B)		(5,091)		(5,297)
Depletion		955		1,011
Production costs		1,392		1,777
Other Fee Timber		190		308
Timberland Management & Consulting (TM&C):				
Management fee changes		(11)		(6)
Other TM&C		69		(3)
Real Estate:				
Land sales		373		389
Depletion		-		(126)
Other		(117)		54
General & administrative costs		690		837
Interest expense		78		163
Other (taxes, minority int., interest inc.)		127		112
Total change in net income	\$	<u>(3,132)</u>	\$	<u>(3,045)</u>

(A) Price variance calculated by applying the change in price to current period volume.

(B) Volume variance calculated by applying the change in sales volume to the average log sales price for the prior period.

Fee Timber

Fee Timber revenue is earned primarily from the harvest and sale of logs from the Partnership's 114,000 acres of fee timberland located in western Washington and, to a lesser extent, from leasing cellular communication towers and selling gravel and other resources from our timberlands. Revenue from the sale of timberland tracts will also appear periodically in results for this segment. Fee Timber revenue is driven primarily by the volume of timber harvested, which we ordinarily express in terms of millions of board feet, or "MMBF", and by the average prices realized on log sales, which we express in dollars per thousand board feet, or "MBF".

When discussing our Fee Timber operations, we compare current results to both the previous quarter and the corresponding quarter of the prior year. Both of these comparisons are made to help the reader gain an understanding of trends in market price and harvest volumes that affect Fee Timber results of operations. Revenue and operating income for the Fee Timber segment for the quarters ended June 30, 2008, March 31, 2008 and June 30, 2007 are as follows:

(\$ Million) Quarter ended	Log Sale Revenue	Mineral, Cell Tower & Other Revenue	Total Fee Timber Revenue	Operating Income/(loss)	Harvest Volume (MMBF)
Pope Resources Timber	\$ 7.0	\$ 0.4	\$ 7.4	\$ 2.9	13.8
Timber Fund	0.3	2.4	2.7	0.0	0.7
Total Fee Timber June 30, 2008	\$ 7.3	\$ 2.8	\$ 10.1	\$ 2.9	14.5
Pope Resources Timber	\$ 5.0	\$ 0.5	\$ 5.5	\$ 2.4	9.3
Timber Fund	0.1	-	0.1	(0.1)	0.2
Total Fee Timber March 31, 2008	\$ 5.1	\$ 0.5	\$ 5.6	\$ 2.3	9.5
Pope Resources Timber	\$ 12.6	\$ 0.5	\$ 13.1	\$ 6.9	20.1
Timber Fund	1.5	-	1.5	0.4	2.5
Total Fee Timber June 30, 2007	\$ 14.1	\$ 0.5	\$ 14.6	\$ 7.3	22.6

The \$4.5 million increase in Fee Timber revenue for the current quarter relative to the first quarter of 2008 is due to increases in both log sale revenue and other revenue. The increase in log sale revenue of \$2.1 million is attributable to a 5 MMBF increase in harvest volume netted against a \$37/MBF, or 7%, decline in average log price realized. The \$2.3 million increase in other revenue from second quarter 2007 to second quarter 2008 is entirely attributable to the sale of an 8,035-acre conservation easement by Fund 1 to the Cascade Land Conservancy. The conservation easement covers approximately half of the Green River tree farm, and precludes any building or further subdivision on that portion of the property. There are no restrictions on timberland management or timber harvesting.

Fee Timber operating income increased \$667,000 in the second quarter over the first quarter of 2008 due to the revenue increases netted against basis and other costs of \$2.3 million related to the conservation easement sale.

Fee Timber revenue and operating income for the current quarter are \$4.5 million and \$4.4 million, respectively, lower than the comparable period in the prior year. This decrease is due to both an 8 MMBF decline in harvest volume and a \$125/MBF, or 20%, decline in average log price realized. The decline in log revenue from the same period in 2007 is offset in part by the aforementioned sale of the conservation easement in the second quarter of 2008. The conservation easement sale had a relatively small impact on the current quarter operating income.

Fund I's operating income in the second quarter of 2008 was \$27,000 compared to losses of \$71,000 in the first quarter of 2008 and \$434,000 in the second quarter of 2007. Fund I's operating income in the current quarter includes \$110,000 realized from the sale of the aforementioned conservation easement.

Revenue and operating income for the Fee Timber segment for the six-month periods ended June 30, 2008 and 2007 were as follows:

(\$ Million) Six Months ended	Log Sale Revenue	Mineral, Cell Tower & Other Revenue	Total Fee Timber Revenue	Operating Income/(loss)	Harvest Volume (MMBF)
Pope Resources Timber	\$ 11.9	\$ 0.9	\$ 12.8	\$ 5.3	23.1
Timber Fund	0.4	2.4	2.8	(0.1)	0.9
Total Fee Timber June 30, 2008	\$ 12.3	\$ 3.3	\$ 15.6	\$ 5.2	24.0
Pope Resources Timber	\$ 18.4	\$ 0.9	\$ 19.3	\$ 9.3	30.0
Timber Fund	1.5	-	1.5	0.4	2.6
Total Fee Timber June 30, 2007	\$ 19.9	\$ 0.9	\$ 20.8	\$ 9.7	32.6

The decrease in Fee Timber revenue and operating income for the current six-month period relative to the comparable period in 2007 is primarily attributable to an 9 MMBF decrease in harvest volume and a \$95/MBF, or 16%, decline in average log price realized. The decrease in 2008 harvest volume over 2007 is driven by the planned 36% reduction in harvest volume from our sustainable harvest level of 57 MMBF in response to weak log market conditions. Revenue generated by Fund I for the six months ended June 30, 2008 was \$2.8 million compared to \$1.5 million for the comparable prior year due to revenue generated by the conservation easement sale partially offset by a decline in harvest volume. Operating income generated by Fund I declined in 2008 from 2007 as harvest volumes are down from the previous year and the conservation easement had a relatively small contribution to operating income.

Fund I is consolidated into our financial statements and, as a result, Fund I's harvest and operating results are included in the Fee Timber discussion herein. The 80% of Fund I owned by third parties is reflected in our Statement of Earnings under the caption "Minority interest-ORM Timber Fund I, LP".

Log Volume

The Partnership harvested the following log volumes by species from its timberlands, including Fund I, for the quarters ended June 30, 2008, March 31, 2008 and June 30, 2007 and the six-month periods ended June 30, 2008 and 2007:

Log sale volumes (MBF):		Quarter Ended					
Sawlogs		June-08	% Total	March-08	% Total	June-07	% Total
	Douglas-fir	8,928	62%	7,202	76%	15,991	71%
	Whitewood	1,230	8%	512	5%	2,922	13%
	Cedar	392	3%	68	1%	575	2%
	Hardwood	451	3%	201	2%	878	4%
Pulp	All Species	3,461	24%	1,526	16%	2,241	10%
Total		14,462	100%	9,509	100%	22,607	100%

Log volumes (MBF):		Six Months Ended			
Sawlogs		June-08	% Total	June-07	% Total
	Douglas-fir	16,129	67%	23,106	71%
	Whitewood	1,742	7%	3,713	11%
	Cedar	460	2%	635	2%
	Hardwood	652	3%	1,007	3%
Pulp	All Species	4,987	21%	4,185	13%
Total		23,970	100%	32,646	100%

For the quarter ended June 30, 2008 we harvested 39% of our planned annual harvest as compared to 26% for the quarter ended March 31, 2008 and 42% for comparable quarter in the prior year. For the six months ended June 30, 2008, we have harvested 65% of our planned annual harvest volume of 37 MMBF, compared to the first half of 2007, when we harvested 59% of the total harvest volume of 55 MMBF. Of this year-to-date total, 0.9 MMBF relates to Fund I. We expect that nearly all the remaining harvest planned for 2008 will take place in the third quarter of 2008. As previously reported, our 2008 timber harvest volume has been reduced from our long-term sustainable level of 55 MMBF. This is in response to previously anticipated soft prices for logs, as forecasted early in 2008, which have materialized largely as expected. Management has the discretion to modulate harvest between quarters and years in response to changes in the market. The increase in harvest of stands with a higher mix of lower-valued pulpwood as part of an effort to allow the higher valued products to grow is an example of this.

Log Prices

While harvest volume is largely within management's control, one additional factor that impacts our Fee Timber income is the price we realize upon selling our logs into the market. We maximize Fee Timber revenue by timing harvest volumes to mitigate market lows and we target particular species or sorts to take advantage of strong niche markets. It is common to change the timing of harvest within a year to take advantage of seasonal changes in supply and price that might result from fire danger shutdowns, inclement weather and road closures. Additionally, harvests are adjusted in response to extremely poor markets when deferred volume can be made up in the subsequent year, incrementally over a number of years, or left to grow and appreciate in value. In 2008, faced with the lowest log prices experienced in a number of years, management decided to reduce harvest by 36% from our current sustainable harvest level of 57 MMBF. Additionally, we targeted niche markets that would bring prices for an increment of the harvest that would meet or exceed prices normally paid in a good overall log market. These included Douglas fir poles, alder veneer logs, and hemlock logs exported to Korea.

We realized the following log prices from our fee timberlands for the quarters ended June 30, 2008, March 31, 2008 and June 30, 2007 and the six-month periods ended June 30, 2008 and 2007:

		30-Jun-08		Quarter Ended 31-Mar-08		30-Jun-07	
Average price realizations (per MBF):							
Sawlogs							
	Douglas-fir	\$	525	\$	572	\$	638
	Whitewood		416		471		477
	Cedar		1,222		1,257		1,333
	Hardwood		671		639		945
Pulp	All Species		366		357		398
Overall			501		538		626

		30-Jun-08		Six Months Ended		30-Jun-07	
Average price realizations (per MBF):							
Sawlogs							
	Douglas-fir	\$	546	\$	630		
	Whitewood		432		480		
	Cedar		1,227		1,320		
	Hardwood		661		910		
Pulp	All Species		363		430		
Overall			516		611		

Douglas-fir: Douglas-fir is noted for its structural characteristics that make it generally preferable to other softwoods and hardwoods for the production of construction grade lumber and plywood. Demand and price for Douglas-fir sawlogs is very dependent upon the level of new housing construction. The price realized on Douglas-fir sawlogs in the current quarter declined \$113/MBF, or 18%, from the same period in 2007 and declined \$47/MBF, or 8%, from the first quarter of 2008. The decrease in price realized from the first quarter of 2007 to the current quarter is attributable to the continuation of weak domestic housing starts and a weak repair and remodel market. For the six-month period ended June 30, 2008 the price realized is off \$84/MBF, or 13%, from the same six-month period in 2007, also a result of the aforementioned weak domestic housing starts and weak repair and remodel market.

Whitewood: "Whitewood" is a term used to describe several softwood species, but for us primarily refers to western hemlock. Though generally considered to be of a lower quality than Douglas-fir, these logs are also used for manufacturing construction grade lumber and plywood. The average price realized on whitewood sawlogs in the current quarter decreased \$55/MBF, or 12%, versus the first quarter of 2008 and declined \$61/MBF, or 13%, versus the comparable period in 2007. The decline in whitewood pricing has not been quite as dramatic as Douglas-fir due to the development of an export market for whitewood that has emerged even as the U.S. housing market has declined. However, in the second quarter of 2008 large volumes of storm-damaged whitewood entered the market as operations got underway to salvage logs that were blown down in a major windstorm that hit coastal Washington in late 2007. This influx of salvage material depressed both the export and domestic markets for whitewood starting in the middle of the second quarter of 2008. These same factors served to bring down the average price realized for the year-to-date period ended June 30, 2008 by \$48/MBF, or 10%, from the same year-to-date period in 2007.

Cedar: Cedar is generally used for outdoor applications such as fencing, siding, and decking. Demand for these products is not as tightly linked to housing starts as is the case for our other softwood sawlogs. Cedar is also a minor component in most upland timber stands, and is generally in short supply when poor markets result in a regional or industry-wide reduction in timber harvest volumes. Cedar prices have declined recently as the home repair and remodeling markets have declined in response to poor overall economic conditions and weak credit markets which impact homeowners' access to capital for completion of home remodeling and repair projects. Cedar prices in the second quarter of 2008 declined \$35/MBF, or 3%, from the first quarter of the year and declined \$111/MBF, or 8%, from the same period in 2007. The weak economic conditions also drove down average year-to-date price realized on cedar through June 30, 2008 by \$93/MBF, or 7%, from the same six month period ended June 30, 2007.

Hardwood: "Hardwood" can refer to many different species, but on our tree farms primarily consists of red alder. The local mills that process red alder sawlogs are using the resource to manufacture lumber for use in furniture and cabinet construction. Over the last few years, the price realized from the sale of red alder sawlogs has increased in connection with relatively limited supply, coupled with increased demand as a result of new mills focused on hardwood lumber production in the Pacific Northwest. However, the demand for alder lumber has been blunted as users have substituted other species in the face of high alder prices. Most of the effect from this substitution was realized in lower prices in the first quarter of 2008 and explains why the year-to-date average price realized for hardwood is off \$249/MBF, or 27%, from the six-month period ended June 30, 2007. As such, the hardwood sawlog price for second quarter 2008 is off \$274/MBF, or 29%, from the same period in 2007. While hardwood sawlog prices remained basically flat from the first quarter of 2008 to the second quarter of 2008, we realized a \$32/MBF increase in the price realized for hardwood logs driven by a specialty market for peelable alder logs harvested during the current period.

Pulp: Pulp is a lower quality log of any species that is not suitable for lumber production and is thus manufactured into wood chips. These chips are used to make a full range of pulp and paper products from unbleached linerboard used in paper bags and cardboard boxes to fine paper and specialty products. Pulp prices have been elevated since the beginning of the downturn in the housing market, and the resultant reduction in operating rates of sawmills, the largest supplier of pulp wood chips. Pulp prices were steady from first quarter of 2008 to the current quarter, increasing a modest \$9/MBF, or 2%. Pulp log prices were off 8% in the second quarter of 2008 from the price realized in the second quarter of 2007. This decrease is due to a shift by the pulp mills to more portable chipping operations to increase supply and broaden their reach geographically.

Customers

The table below categorizes timber sold by customer type for the quarters ended June 30, 2008, March 31, 2008 and June 30, 2007 and for the six-month periods ended June 30, 2008 and 2007:

Destination	Q2 2008		Q1 2008		Q2 2007	
	Volume	Price	Volume	Price	Volume	Price
Domestic mills	8,869	\$ 559	5,836	\$ 554	18,230	\$ 656
Export brokers	2,129	550	2,147	628	2,136	612
Pulp	3,464	366	1,526	357	2,241	398
Total	14,462	\$ 501	9,509	\$ 538	22,607	\$ 626

Destination	30-Jun-08		Six Months Ended		30-Jun-07	
	Volume	Price	Volume	Price	Volume	Price
Domestic mills	14,704	549	25,630			\$ 640
Export brokers	4,276	581	2,831			626
Pulp	4,990	363	4,185			430
Total	23,970	\$ 516	32,646			\$ 611

Volume sold to domestic lumber mills represents 61% in the first and second quarters of 2008 versus 81% for the comparable quarter of 2007. Export brokers make up 15% of second quarter 2008 sales volume versus 23% of the first quarter volume and 9% of the sales volume for the same period in 2007. For the year-to-date period ended June 30, 2008, volumes sold to domestic mills declined to 61% from 79% for same period in 2007 while volumes sold to export brokers increased to 18% from 9%. The increased export volume in 2008 represents spot markets for hemlock and for higher grade domestic Douglas-fir sawlogs, both of which are not typically exported. Despite the decrease in average sales price from 2007 to 2008, the 2008 realizations nevertheless represent stronger pricing for those particular logs than would be realized in their typical domestic markets. Pulp markets represented 24% in the second quarter of 2008 sales versus 16% in the first quarter of 2008 and 10% for the same period in 2007. Pulp markets for the year-to-date period ended June 30, 2008 increased to 21% from 13% from the same period in 2007. Despite a drop in price from 2007 to 2008, the average price for pulp in 2008 still represents a significant improvement over long term pulp prices. This encouraged the harvest of stands high in pulp log content, and diversion of chip-and-saw logs into the pulp market as their prices were equalized. By focusing our current harvest on stands with a higher content of low quality pulp logs we will allow higher quality timber stands to continue to grow until an expected recovery in domestic log markets.

Cost of Sales

Cost of sales for the Fee Timber segment consists of harvest and haul costs and depletion expense. Harvest and haul costs represent the direct cost incurred to convert trees into logs and deliver those logs to their point of sale. Depletion expense represents the cost of acquiring or growing the harvested timber. The applicable depletion rate is derived by dividing the aggregate cost of timber and capitalized road expenditures by the estimated volume of merchantable timber available for harvest at the beginning of that year. The depletion rate is then applied to the volume harvested in a given period to calculate depletion expense for that period. We used two separate depletion rates in 2008 and 2007, with our primary pool used for volume harvested from the Hood Canal and Columbia tree farms and the second pool for volume harvested from tree farms owned by Fund I.

Fee Timber cost of sales for the quarters ended June 30, 2008, March 31, 2008 and June 30, 2007, and the six-month periods ended June 30, 2008 and 2007 respectively, are as follows, with the first table expressing these costs in total dollars and the second table expressing the costs on a per unit of production basis:

Quarter Ended:		Harvest, Haul and Other		Cost of Conservation Easement Sale		Depletion		Total Cost of Sales
June 30, 2008	\$	2.8 million	\$	2.2 million	\$	1.1 million	\$	6.1 million
March 31, 2008		1.6 million		-		0.7 million		2.3 million
June 30, 2007		4.3 million		-		2.0 million		6.3 million

Quarter Ended:		Harvest and Haul per MBF		Depletion per MBF		Total Cost of Sales per MBF (excluding Cost of Conservation Easement Sale)
June 30, 2008	\$	197	\$	75	\$	272
March 31, 2008		180		69		249
June 30, 2007		188		90		278

Six Months Ended:		Harvest, Haul and Other		Cost of Conservation Easement Sale		Depletion		Total Cost of Sales
June 30, 2008	\$	4.6 million	\$	2.2 million	\$	1.7 million	\$	8.5 million
June 30, 2007		6.4 million		-		2.7 million		9.1 million

Six Months Ended:		Harvest and Haul per MBF		Depletion per MBF		Total Cost of Sales per MBF (excluding Cost of Conservation Easement Sale)
June 30, 2008	\$	190	\$	73	\$	263
June 30, 2007		194		84		278

Cost of sales increased in the second quarter of 2008 relative to the first quarter of 2008 due to an increase in harvest volume and the cost of the conservation easement sale on Fund I's timberland. Harvest volume increased to 14.5 MMBF in the second quarter of 2008 from 9.5 MMBF in the first quarter of 2008. The \$143,000 decrease in cost of sales from the comparable quarter in the prior year is due to a decline in harvest volume of 8.1 MMBF from second quarter of 2007 that was offset by an increase in logging and hauling costs and the cost of the aforementioned conservation easement sale.

Harvest and haul costs per MBF increased in the second quarter of 2008 relative to the first quarter of 2008 and the second quarter of 2007. Harvest costs vary based upon the physical site characteristics of the specific acres harvested during the period. For example, difficult-to-access sites or those located on steep hillsides are more expensive to harvest. Furthermore, haul costs vary based upon the distance between the harvest area and the mill customer's location. Average logging and hauling costs per MBF in the current quarter have increased \$17 and \$9 per MBF from the first quarter of 2008 and the second quarter of 2007, respectively. About half the increase in harvest and haul costs per MBF is attributable to increased diesel costs and approximately half the increase is due to harvest in units requiring higher cost logging methods.

Depletion expense for the quarters ended June 30, 2008, March 31, 2008 and June 30, 2007 and the six-month periods ended June 30, 2008 and 2007 was calculated as follows:

	Pooled	Quarter Ended June 30, 2008		Combined
		Timber Fund		
Volume harvested (MBF)	13,753	709		14,462
Rate/MBF	\$ 65	\$ 274	\$	75
Depletion expense (\$000's)	\$ 889	\$ 194	\$	1,083

	Pooled	Quarter Ended March 31, 2008		Combined
		Timber Fund		
Volume harvested (MBF)	9,304	205		9,509
Rate/MBF	\$ 64	\$ 268	\$	69
Depletion expense (\$000's)	\$ 600	\$ 55	\$	655

	Pooled	Quarter Ended June 30, 2007		Combined
		Timber Fund		
Volume harvested (MBF)	20,072	2,535		22,607
Rate/MBF	\$ 70	\$ 247	\$	90
Depletion expense (\$000's)	\$ 1,411	\$ 627	\$	2,038

	Pooled	Six Months Ended June 30, 2008		Combined
		Timber Fund		
Volume harvested (MBF)	23,056	914		23,970
Rate/MBF	\$ 65	\$ 272	\$	73
Depletion expense (\$000's)	\$ 1,489	\$ 249	\$	1,738

	Pooled	Six Months Ended June 30, 2007		Combined
		Timber Fund		
Volume harvested (MBF)	30,081	2,565		32,646
Rate/MBF	\$ 70	\$ 247	\$	84
Depletion expense (\$000's)	\$ 2,115	\$ 634	\$	2,749

The column labeled "Pooled" consists primarily of historical timber cost that has been owned by the Partnership for many decades together with the Columbia property that was acquired in 2001. The column labeled "Timber Fund" consists of timber acquired by Fund I in the fourth quarter of 2006, as such the book value is higher than properties acquired in past with lower book value relative to lands in the "Pooled" category and this therefore translates into a higher depletion rate.

Operating Expenses

Fee Timber operating expenses for the quarters ended June 30, 2008, March 31, 2008 and June 30, 2007 were \$1.0 million, \$915,000 and \$1.1 million, respectively. Operating expenses for the six-month periods ended June 30, 2008 and June 30, 2007 were \$1.9 and \$2.0 million, respectively. Operating expenses include management, silviculture and the cost of both maintaining existing roads and building temporary roads required for harvest activities. The primary factor in the fluctuation of operating expenses is the timing of silviculture and road costs.

Timberland Management & Consulting

The Timberland Management & Consulting segment generates revenue by providing timberland management and forestry consulting services to timberland owners and managers. An additional aspect of that segment's activities is the development of timberland property investment portfolios on behalf of third-party clients and Fund I.

The Timberland Management & Consulting segment is currently managing more than 267,000 acres of timberland for Cascade Timberlands LLC and an additional 24,000 acres for Fund I. The Cascade project includes management, consulting, and disposition services.

Revenue and operating loss for the Timberland Management & Consulting segment for the quarters ended June 30, 2008, March 31, 2008 and June 30, 2007 and the six-month periods ended June 30, 2008 and 2007 were as follows:

Quarter Ended:		Revenue		Operating Loss
June 30, 2008	\$	0.3 million	\$	0.1 million
March 31, 2008		0.2 million		0.2 million
June 30, 2007		0.4 million		0.2 million

Six Months Ended:		Revenue		Operating Loss
June 30, 2008	\$	0.5 million	\$	0.3 million
June 30, 2007		0.7 million		0.3 million

Revenue and operating loss for the second quarter of 2008 were \$102,000 and \$58,000 lower, respectively, than the comparable period in 2007. The decrease in revenue is due to the loss of consulting revenue from our McCloud office which was closed at the end of 2007 as well as the decreased management fees from Cascade Timberlands. The decrease in the operating loss is due to closure of the unprofitable McCloud operation offset by increased expenses related to the formation of Fund II.

Revenue and operating losses for the six-month period ending June 30, 2008 were \$230,000 and \$9,000 lower, respectively, than the same six-month period in 2007. This is also a result of the closure of McCloud resulting in decreased revenue and operating costs and a decrease in Cascade management fees resulting from the sale of acres by Cascade which decreases management fees. Decreased operating expenses related to the McCloud office were offset by increased costs associated with the formation of Fund II.

Fund I was formed by Olympic Resource Management LLC (ORM LLC) for the purpose of attracting investor capital to purchase timberlands. Fund I had a \$61.8 million capital commitment and we placed \$58.5 million of this commitment in late 2006. Pope Resources' co-investment totaled \$11.7 million, or 20% of Fund I. Because ORM LLC, a wholly owned subsidiary of the Partnership, is the general partner of Fund I, the Partnership indirectly controls Fund I and that entity Fund I is thus treated as a consolidated subsidiary whose results are reported under the Fee Timber segment. Operating results attributed to the 80% third-party interest in Fund I are reported under "Minority interest-ORM Timber Fund I, LP", below operating income.

In July 2008, we completed the first of two expected closings for Fund II with total capital commitments of \$46.3 million. Our co-investment in this first close is \$9.3 million. The second and final close is expected to take place in the fourth quarter of 2008 to bring the total committed capital balance to between \$100 million and \$120 million, including our co-investment of 20% of the committed capital balance. We are not required to contribute our co-investment capital until suitable timber properties are identified and acquired. Fund II is a corporation organized as a domestically controlled timber real estate investment trust ("REIT"). When Fund II has acquired properties, we would expect the accounting treatment for its assets, liabilities, results of operations and cash flows to mirror that of Fund I.

Operating Expenses

Timberland Management & Consulting operating expenses for the quarters ended June 30, 2008 and 2007 were \$365,000 and \$525,000, respectively. The decrease in operating expense is attributable to the closure of the McCloud office with attendant reduction in operating costs offset in part by an increase in costs related to the formation of Fund II. Operating expenses for the six-month periods ended June 30, 2008 and June 30, 2007 were \$787,000 and \$1.0 million respectively, for the same aforementioned reasons.

Real Estate

The Partnership's Real Estate segment consists primarily of revenue from the sale of land together with residential and commercial property rents. The Partnership's real estate holdings are located primarily in Pierce, Kitsap, and Jefferson Counties in Washington State.

Revenue and operating loss for the Real Estate segment for the quarters and six-month periods ended June 30, 2008 and 2007 were as follows:

Quarter Ended:		Revenue		Operating Loss
June 30, 2008	\$	0.9 million	\$	0.2 million
June 30, 2007		0.4 million		0.5 million
Six Months Ended:				
June 30, 2008	\$	1.5 million	\$	0.7 million
June 30, 2007		0.6 million		1.0 million

Real Estate revenue for the quarters and six-month periods ended June 30, 2008 and 2007 is comprised of the following:

For the three months ended:						
Description	Revenue	Gross Margin	Acres Sold	Revenue/Acre	Gross Margin/ Acre	
Rural Residential	\$ 559,000	\$ 403,000	75	\$ 7,453	\$ 5,373	
Rentals	296,000	296,000	NA	NA	NA	
Other	55,000	55,000	NA	NA	NA	
June 30, 2008 Total	\$ 910,000	\$ 754,000	75	\$ 7,453	\$ 5,373	
Rural Residential	\$ 106,000	\$ 86,000	12	\$ 8,833	\$ 7,167	
Rentals	250,000	250,000	NA	NA	NA	
June 30, 2007 Total	\$ 356,000	\$ 336,000	12	\$ 8,833	\$ 7,167	

For the six months ended:

Description	Revenue	Gross Margin	Acres Sold	Revenue/Acre	Gross Margin/ Acre
Rural Residential	\$ 886,000	\$ 413,000	104	\$ 8,519	\$ 3,971
Rentals	521,000	521,000	NA	NA	NA
Other	59,000	59,000	NA	NA	NA
June 30, 2008 Total	\$ 1,466,000	\$ 993,000	104	\$ 8,519	\$ 3,971
Rural Residential	\$ 106,000	\$ 86,000	12	\$ 8,833	\$ 7,167
Rentals	461,000	461,000	NA	NA	NA
Other	32,000	(1,000)	NA	NA	NA
June 30, 2007 Total	\$ 599,000	\$ 546,000	12	\$ 8,833	\$ 7,167

Real Estate revenue is generated through the sale of land and rural residential lots, and to a lesser extent from real property rents, most of which are earned at the Port Gamble townsite. Rural residential lot sales are made to developers or individuals where the lot is expected to be used for a residential dwelling with a general requirement to undertake some capital improvements such as zoning, road building, or utility access improvements prior to completing the sale. Our rural residential lot program produces lots from 5 to 80 acres in size, based on underlying zoning densities. This type of program typically entails an entitlement effort more modest in scale, usually involving simple lot segregations and boundary line adjustments. Development activities include minor road building, surveying, and the extension of utilities. Demand for rural lots has dropped significantly with the decrease in demand for housing.

Revenue for the Real Estate segment was higher in the second quarter of 2008 compared to second quarter of 2007 due to increased rental income and two rural residential lot sales in the three month period ended June 30, 2008 versus one residential lot sale in same period for 2007. One of the properties sold in the second quarter of 2008 carried a relatively high basis as it was part of a fourth quarter 2004 timberland acquisition, resulting in a lower gross margin. The second of the two sales in the second quarter of 2008 was part of the Hood Canal Tree farm and carried a relatively low basis contributing to a higher gross margin. Revenue for the six-month period ended June 30, 2008 included the sale of a third residential lot for the period, resulting in revenue that was \$867,000 higher than the same period in 2007. Other revenue in the quarter and six-month period ended June 30, 2008 is primarily a result of the recognition of deferred revenue on a 2005 real estate transaction.

Cost of Sales

Real Estate cost of sales for the quarters ended June 30, 2008 and 2007 were \$158,000 and \$20,000, respectively. On a year-to-date basis, cost of sales was \$473,000 and \$53,000 for the six-month periods ended June 30, 2008 and 2007, respectively. Cost of sales for the three and six-month periods ended June 30, 2008 represents costs incurred on sales of one and three rural residential lots, respectively, versus cost of sales in 2007 related to costs incurred on the sale of a single residential lot.

Operating Expenses

Real Estate operating expenses for the quarters ended June 30, 2008 and 2007 were \$958,000 and \$798,000, respectively. The increase in operating expenses in 2008 is due primarily to an increase in professional costs incurred in the pursuit of entitlements for real estate projects and an increase in routine maintenance costs at the Port Gamble townsite. For the six-month periods ended June 30, 2008 and 2007 operating expenses were \$1.7 million and \$1.6 million, respectively.

Environmental Remediation

The Partnership has accrued liabilities for environmental cleanup of \$1.8 million and \$2.0 million as of June 30, 2008 and December 31, 2007, respectively. This liability represents our share of the liability for environmental clean up activities in and around the Port Gamble townsite. Port Gamble is a historic town that was owned by P&T for decades until 1985 when the townsite and other assets were spun off to the Partnership. P&T continued to operate the townsite through 1995 and leased the millsite at Port Gamble until January 2002 when a settlement agreement was signed between the Partnership and P&T. This settlement agreement set forth how the two companies would apportion the costs and responsibility for environmental remediation in Port Gamble. The "millsite" is referred to as such because a lumber mill operated on that portion of the property for more than one hundred years until 1995, before it was dismantled by the end of 1996.

In the fourth quarter of 2007, the bankruptcy of P&T prompted us to record a \$1.9 million charge to earnings to increase our environmental remediation liability for Port Gamble because of the bankruptcy of P&T. This increase, adjusted from time to time as described in this report, reflects our current estimate of potential liability associated with environmental contamination at Port Gamble, and represents the outcome of a simulation analysis discussed below in greater detail. This contamination is believed to have occurred during the years P&T operated a mill at Port Gamble, from 1853 to 1995. At the time Pope Resources was spun off from P&T, Port Gamble was included in our assets, and after contamination was discovered at the town site, mill site, and in the adjacent bay, we entered into a settlement and remediation agreement with P&T pursuant to which we and P&T allocated responsibility for cleanup costs. Under Washington law, both Pope Resources and P&T are "potentially liable persons" based on ownership and/or operation of the site. These laws provide for joint and several liability among parties owning or operating property on which contamination occurs, meaning that cleanup costs can be assessed against any or all such parties. Our agreement with P&T was intended to apportion responsibility based on this principle, with P&T bearing the larger share of responsibility based upon their role in operating the site and upon their relatively lengthy ownership.

However, P&T's financial condition declined markedly in recent years, having first disclosed questions about its ability to continue as a going concern in its Annual Report on Form 10-K for the fiscal year ended December 31, 2006. Since that time we have closely monitored P&T's financial disclosures, including its repeated attempts to restructure its credit arrangements throughout the second and third quarters of 2007 and culminating in a late October 2007 bankruptcy filing in Canada, followed in November 2007 by a Chapter 11 (reorganization) bankruptcy filing in the United States. Since then, P&T has undertaken to sell substantially all of its assets and in May 2008 converted its case in the United States from Chapter 11 to Chapter 7 (liquidation). These cumulative events raise substantial doubt in management's views as to whether P&T can meet all or any portion of its obligations under our settlement and remediation agreement.

Because of the joint and several liability that attends to the cleanup obligation, management has taken a number of steps to address our own exposure as follows:

As noted above, as of December 31, 2007 we increased our remediation estimate by \$1.9 million to reflect our current estimate of the remediation costs.

In the fourth quarter of 2006, we revised our methodology for assessing this liability, shifting to a "Monte Carlo simulation" analysis which we hope will improve our ability to predict the actual liability for the remaining cleanup. We believe that a Monte Carlo simulation model is a useful tool for estimating the costs of a complex project where many different activities may have a wide variety of possible outcomes. A Monte Carlo simulation model allows the user to establish high, medium, and low cost estimates for discrete tasks within the project, and then to assign probability estimates for specific outcomes. Using these inputs, the simulation ultimately generates a data set of 3,000 randomly generated outcomes with related costs and provides the capability to map these on a histogram with the axes defining "frequency" and "total cost". Additionally, the simulation produces a range of costs with probability-of-outcome percentiles attached to each. Our new methodology adopts the practice of accruing to the dollar amount that corresponds to the 50th percentile, such that there is a 50% probability that costs will not exceed such amount based on the simulation exercise, as we believe this is the best available estimate. The Monte Carlo simulation model results indicated a range of potential losses of \$276,000 to \$6.3 million which represents the range of two standard deviations from the mean of the estimated liability as of December 31, 2007.

We are in active discussions with the Washington State Department of Ecology to promote protection of the environment, optimize and appropriately allocate the remaining cleanup liabilities, and maximize our control over the remediation process.

We are participating actively in the P&T bankruptcy action as an unsecured creditor in an effort to maximize any potential recovery from P&T's remaining assets, although we have substantial doubt as to whether we will recoup any material portion of those assets because substantially all of P&T's assets are subject to the security interests of its lenders.

Although management continues to monitor closely both the Port Gamble cleanup process and the P&T bankruptcy proceeding, our \$1.8 million estimate of the remediation liability reflects the amount management believes to be the best estimate of the remaining cleanup cost based upon an estimation method that represents the most likely outcome.

The environmental liability at June 30, 2008 includes \$90,000 that the Partnership expects to expend in the next 12 months and \$1.74 million thereafter. Current activities at the site include dismantling a sparse area of dredged materials on the millsite itself and costs for developing a clean up plan for the site as a whole. Activity in the environmental remediation liability is detailed as follows:

	Balances at the Beginning of the Period		Additions to Accrual		Expenditures for Monitoring and Remediation		Balances at the End of the Period
Year Ended December 31, 2007	\$	242,000	\$	1,878,000	\$	126,000	\$ 1,994,000
Quarter ended March 31, 2008		1,994,000		-	\$	33,000	\$ 1,961,000
Quarter ended June 30, 2008	\$	1,961,000		-	\$	127,000	\$ 1,834,000

General and Administrative (G&A)

General and administrative expenses for the quarters ended June 30, 2008 and 2007 were \$1.0 million and \$1.7 million, respectively. For the six-months ended June 30, 2008 and 2007 G&A expenses were \$1.9 million and \$2.7 million, respectively. We expect a decline in G&A expense in 2008 due to non-recurring professional costs incurred in 2007 to evaluate capital structuring alternatives with management and the Board of Directors of the General Partner.

Interest Income and Expense

Interest income for the quarter ended June 30, 2008 was \$218,000 compared to \$391,000 for the corresponding period of 2007. The decrease in interest income is due to a 12% decrease in the average cash and investment balance and a decrease in average rates of return to 3.0% for the quarter ended June 30, 2008 from 5.3% in the same quarter in 2007. On a year-to-date basis, interest income decreased to \$613,000 from \$811,000 for the corresponding period in 2007 as result of a 5% decrease in the average cash and investment balance and a decrease to 4.1% from 5.6% in the average rates of return from the same six month period in 2007.

Interest expense for the three-month periods ended June 30, 2008 and 2007 was \$606,000 and \$637,000, respectively. The Partnership's debt consists primarily of mortgage debt with a fixed interest rate. The decrease in interest expense is due to a decrease in long-term debt as a result of scheduled annual principal payments of \$1,290,000 that occur on March 31st. For the quarter ended June 30, 2008, \$311,000 of interest expense was capitalized to the long-term development projects at Gig Harbor and Bremerton. In the second quarter of 2007, we capitalized \$264,000 of interest expense to the Gig Harbor and Bremerton projects. On a year-to-date basis, interest expense prior to the reduction for capitalized interest decreased to \$1.2 million from \$1.3 million for the corresponding period in 2007. Capitalized interest for the six months ended June 30 increased to \$619,000 in 2008 from \$518,000 in 2007.

Income Tax

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 tax return. Pope Resources does have corporate subsidiaries, however, that are subject to income tax.

For the quarter ended June 30, 2008, the Partnership did not record a tax provision as compared to a \$10,000 provision for income taxes for the corresponding period in 2007. On a year-to-date basis, the provision for income taxes was \$57,000 and \$17,000 for the periods ended June 30, 2008 and 2007, respectively.

Minority Interest-IPMB

Minority Interest-IPMB represents that share of income earned from the Investor Portfolio Management Business (IPMB) allocated to Pope MGP, Inc., the Managing General Partner of the Partnership. The 1997 amendment to the Limited Partnership Agreement authorizing the Partnership to pursue the IPMB further specifies that income from the IPMB will be split using a sliding scale allocation method beginning at 80% to the Partnership's wholly-owned subsidiary, ORM, Inc., and 20% to Pope MGP, Inc. The sliding scale allocation method evenly divides IPMB income between ORM, Inc. and Pope MGP, Inc. once such income reaches \$7,000,000 in a given fiscal year. The share of IPMB allocated to Pope MGP is further split between Pope MGP and a management incentive plan. In both the first quarters and year to date periods of 2007 and 2008, Pope MGP's share of IPMB was zero as the IPMB did not generate income in either of the quarters, respectively.

Current activities of the IPMB are contained in the Timberland Management & Consulting segment, which include timberland consulting, management, acquisition, and disposition services, and expenses associated with the launch of a second private equity timber fund.

Minority Interest-ORM Timber Fund I, LP

Minority interest-ORM Timber Fund I, LP represents the portion of Fund I's income and loss during the quarter and for the six-month periods ended June 30, 2008 attributed to the 80% of Fund I owned by third-party investors. The increase in this amount in the first quarter of 2008 from the comparable period in prior year is due to the increase in operating activities of Fund I.

Off Balance Sheet Arrangements

We do not have any off balance sheet arrangements.

Liquidity and Capital Resources

We ordinarily finance our business activities using funds from operations and, where appropriate in management's assessment, a bank line of credit. Funds generated internally from operations and externally through financing are expected to provide the required resources for the Partnership's future capital expenditures. The Partnership's debt-to-total-capitalization ratio as measured by the book value of equity was 24% at June 30, 2008 versus 25% as of June 30, 2007 and 24% as of December 31, 2007. The debt-to-capitalization ratio at June 30, 2008 reflects offsetting events during the quarter and year-to-date period. The first was our annual timberland mortgage payment of \$1.3 million which reduced long-term debt outstanding, offset by the asset impairment recognized on our SLARS portfolio of \$1.2 million as well as \$3.7 million in distributions to unit holders and \$3.6 million in units repurchased pursuant to our unit repurchase program that began in late 2007.

At June 30, 2008, the Partnership held AAA-rated Student Loan Auction Rate Securities ("SLARS") with a par value of \$15.7 million but an estimated fair value, based on the methodology described in the notes to the unaudited financial statements included with this report, of \$14.5 million. SLARS are collateralized long-term debt instruments that are intended to provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined intervals, typically every 35 days. Beginning in February 2008, auctions failed for approximately \$17 million in par value of SLARS we held because sell orders exceeded buy orders. Although higher interest rates for those securities went into effect upon failure of the auctions, the principal amount of the securities associated with failed auctions will not be accessible until the issuer calls the security, a successful auction occurs, a buyer is found outside of the auction process, or the security matures. We have thus included in current assets only that portion of the value of the SLARS that we believe can be realized in the current period, and we have characterized as non-current assets the estimated current fair value of all the remaining SLARS in our portfolio.

The Partnership's debt consists primarily of a timberland mortgage with a fixed amortization schedule and loan term, which includes a prepayment penalty. On July 31, 2008, after the period covered by this report, the Partnership entered into a \$40 million revolving line of credit with Northwest Farm Credit Services. This unsecured revolving loan agreement matures in August 2011 and imposes maintenance of a minimum debt-to-total capitalization ratio that the Partnership passes comfortably at present. The cash we hold in excess of our current operating needs together with this newly obtained line of credit provide the Partnership with ample liquidity for its near-term operating needs, even if we are not able to liquidate our portfolio of SLARS in a timely manner.

Over the remaining six months of 2008, management plans to harvest approximately 13 MMBF of timber for a total fiscal 2008 harvest of 37 MMBF, 9 MMBF of which will come from the Hood Canal and Columbia tree farms and 4 MMBF from Fund I's tree farms. Since harvest plans are based on demand and pricing, actual harvest levels may vary, and revenues may vary substantially, subject to management's ongoing review of market conditions. Management believes that the working capital and borrowing capacity available to the Partnership will be sufficient to meet cash requirements.

Current assets declined \$19 million from December 31, 2007 to June 30, 2008. This decline in current assets reflects the reclassification of \$13.5 million of SLARS from current to non-current investments as a result of the recent failed auctions associated with these securities. As of December 31, 2007 we held \$30.8 million of SLARS of which \$13.9 million were liquidated prior to the deterioration of the auction process for these securities. The decline in current assets has had little impact on our debt covenants and in management's opinion, has not materially impacted the Partnership's borrowing capacity. Our balance sheet remains strong with borrowing capacity sufficient to fund operations and management's plans for future timber fund co-investments and investments in development properties.

For the six months ended June 30, 2008, overall cash and cash equivalents increased \$9.4 million versus a decrease of \$1.0 million for the corresponding period in the prior year. Cash provided by operating activities was \$5.6 million for the six months ended June 30, 2008 versus cash provided by operating activities of \$6.9 million for the corresponding period in 2007. The decrease in cash generated by operating activities primarily results from a decline in net income offset by land and conservation easement sales and a decrease in cash used for working capital.

Cash provided by investing activities was \$12.8 million for the first half of 2008 versus cash used in investing activities of \$4.5 million for the corresponding period in 2007. The increase in cash provided by investing activities results from the sale of \$15.1 million of SLARS in the first half of 2008. We currently own SLARS with a fair market value of \$14.5 million. In July 2008, SLARS of \$1.1 million were redeemed at par, however it is uncertain whether the remaining securities will be settled in cash within one year.

Capital expenditures for the year-to-date period ended June 30, 2008 totaled \$2.3 million and consisted of the following: \$539,000 and \$80,000 of capitalized interest at the Gig Harbor and Bremerton sites, respectively; \$60,000 and \$427,00 of capitalized development costs at the Gig Harbor and Bremerton sites, respectively; \$234,000 of capitalized development costs at the Arborwood site, \$108,000 of capitalized development costs at the Tala Point site and \$100,000 of capitalized development costs on the Partnership's other development properties; \$382,000 of reforestation and road building costs; \$159,000 of capital improvements at the Port Gamble townsite; \$125,000 for forester trucks and \$72,000 of other miscellaneous capital expenditures.

Cash used in financing activities increased to \$9.1 million for the first half of 2008 from \$3.5 million for the comparable period in prior year. This increase is due primarily to the repurchase of \$3.6 million of partnership units, a \$1.1million increase in unitholder cash distributions, and a \$645,000 increase in distributions to minority interest owners of Fund I. Cash provided by financing activities include a \$10,000 subscription payment from a Fund II investor and \$352,000 received in option exercises.

Seasonality

Fee Timber. The Partnership owns 114,000 acres of timberland in Washington State. Our timber acreage is concentrated in two non-contiguous tree farms: the 71,000-acre Hood Canal tree farm located in Kitsap, Jefferson, and Mason Counties on the eastern side of Washington's Olympic Peninsula, and the 43,000-acre Columbia tree farm located in Cowlitz, Clark, Lewis, and Skamania counties on the western side of Washington's Cascade mountain range.

The Hood Canal tree farm is concentrated at low elevations, which permits us to harvest trees year-round. Generally, we concentrate our harvests from this tree farm in the winter and spring when supply, and thus competition, is typically lower and, accordingly, when we can expect to receive higher prices. With the acquisition of the Columbia tree farm in 2001, and the timberlands acquired by Fund I in 2006, management expected a decrease in the seasonality of Fee Timber operations as the Columbia tree farm and timberlands owned by Fund I are at higher elevations where harvest activities are not possible during the winter months when snow precludes access to the lands.

Timberland Management & Consulting. In broad terms, Timberland Management & Consulting operations are not currently 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 "lumpiness" 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

Projected capital expenditures for the second half of 2008 are \$4.5 million, excluding any potential co-investment by the Partnership in ORM Timber Fund II, Inc. ("Fund II"). Projected capital expenditures are currently expected to include \$1.2 million and \$50,000 for the Gig Harbor and Bremerton sites, respectively, \$413,000 and \$59,000 of capitalized interest for the Gig Harbor and Bremerton sites, respectively, \$493,000 for Arborwood, and \$1.3 million for the Port Gamble townsite. These expenditures could be increased or decreased as a consequence of future economic conditions. Projected capital expenditures are subject to permitting timetables and progress towards closing on specific land sale transactions.

Fund II completed its first close in July 2008 with total committed equity of \$46.3 million of which Pope Resources' commitment is \$9.3 million. We expect to complete the second and final close of Fund II by the end of 2008 with a total committed fund balance of between \$100 million and \$120 million, with Pope Resources investing 20% of this amount. The capital will not be called until Fund II has located and successfully acquired suitable timber properties.

ACCOUNTING MATTERS

Critical Accounting Policies and Estimates

Management believes its most critical accounting policies and estimates relate to management's calculation of timber depletion and liabilities for matters such as environmental remediation, and potential asset impairments. In relation to liabilities, potential impairments and other estimated charges, it is management's policy to conduct ongoing reviews of significant accounting policies and assumptions used in the preparation of the financial results of the Partnership. The assumptions used are tested against available and relevant information and reviewed with subject-matter experts for consistency and reliability. During the preparation of financial results, tests are conducted to ascertain that the net book carrying values of assets are not in excess of estimated future cash flows. These tests use current market information, if available, or other generally accepted valuation methods, such as expected future cash flows. When the use of estimates is necessary, an exact answer is unlikely, and therefore, the reporting within a range of likely outcomes is used in the preparation of the financial statements. Tests are also applied in order to be reasonably assured that liabilities are properly reflected on the records of the Partnership and that the notes to the financial statements are prepared in a fashion that informs readers of possible outcomes and risks associated with the conduct of business.

Fair Value Determination for Student Loan Auction Rate Securities (SLARS): At June 30, 2008, Pope Resources held AAA-rated Student Loan Auction Rate Securities ("SLARS") with a par value of \$15.7 million and an estimated fair value, based on the discussion below, of \$14.5 million. SLARS are collateralized long-term debt instruments that historically provided liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined intervals, typically every 28 days. Beginning in February 2008, auctions failed for approximately \$17 million in par value of SLARS we held because sell orders exceeded buy orders. When these auctions failed to clear, higher interest rates for those securities went into effect. However, the funds associated with these failed auctions will not be accessible until the issuer calls the security, a successful auction occurs, a buyer is found outside of the auction process, or the security matures. The underlying assets of the SLARS we hold, including the securities for which auctions have failed, are student loans which are guaranteed by the U.S. Department of Education for 97% of the loan and interest due. With the exception of \$1,050,000 of SLARS that were redeemed in July 2008, we are reporting these investments as non-current assets on the June 30, 2008 balance sheet date and have recorded a \$1.2 million asset impairment against this portfolio as a result of the liquidity issues in the market.

FASB Statement No. 157 Fair Value Measurement (SFAS No. 157) was followed to determine the fair value of our SLARS portfolio. SFAS No. 157 defines a hierarchy of three levels of evidence used to determine fair value:

- Level 1 - quoted prices for identical assets/liabilities in active markets
- Level 2 - quoted prices in a less active market, quoted prices for similar but not identical assets/liabilities, inputs other than quoted prices
- Level 3 - significant unobservable inputs including the Partnership's own assumptions in determining the fair value of investments

Under current credit market conditions there is no actively traded market for SLARS, thus eliminating any available Level 1 inputs for use in determining a market value. SLARS are unique and there are no other markets that one can observe to determine a value for the SLARS. We were able to identify market interest rates for similar securities and perform a discounted cash flow calculation using these alternative interest rates. This method of determining value represents a Level 3 input, which is the best evidence we have to indicate value under today's market conditions. If the current market conditions deteriorate further or a recovery in market value does not occur, we may be required to record additional unrealized or realized losses in future quarters.

Management believes the impairment of the SLARS portfolio is temporary and plans to hold these securities until they can be sold or otherwise redeemed for their par value or materially close to par value. The Partnership has \$1.2 million of its SLARS portfolio redeemed at par since the auction failures began and recorded \$1,050,000 of these securities as a current asset on June 30, 2008 as they were redeemed in July 2008.

Consolidation of ORM Timber Fund I, LP (Fund I): Fund I is owned 19% by Pope Resources, A Delaware Limited Partnership, 1% by Olympic Resource Management LLC (a wholly owned subsidiary of the Partnership), and 80% by third-party investors. Olympic Resource Management LLC is the general partner of Fund I. Limited partners do not have the right to dissolve Fund I or otherwise remove the general partner without cause nor do they have substantive participating rights in major decisions of Fund I. Based on this governance structure, Olympic Resource Management LLC has presumptive control of Fund I and, as a result, under accounting rules Fund I must be consolidated into the Partnership's financial statements.

Olympic Resource Management LLC earns management fees for managing Fund I and its properties. Transactions between Fund I and Pope Resources and its subsidiaries are eliminated in consolidation and include \$209,000 of management fees earned in the second quarter of 2008. Revenue and expenses, net of fees paid to Pope Resources and its subsidiaries, are included in our financial statements which include \$2.7 million of revenue and expenses of Fund I. The portion of loss attributed to the 80% of Fund I not owned by us is reported as Minority interest-ORM Timber Fund I, LP.

Purchased Timberlands Allocation: When the Partnership acquires timberlands, a purchase price allocation is performed that allocates cost between the categories of merchantable timber, pre-merchantable timber, and land based upon the relative fair values pertaining to each of the categories. When timberland is acquired the land is evaluated for current value. To the extent the land has value under current market conditions as something other than timberland, generally referred to as HBU, we assign a value greater than that typically associated with timberland.

Depletion-Cost Pools: Depletion represents the cost of timber harvested and is charged to operations by applying a depletion rate to volume harvested during the period. The depletion rate is calculated in January each year by dividing the Partnership's cost of merchantable timber by the volume of merchantable timber. Merchantable timber is defined as timber that is equal to or greater than 35 years of age.

To calculate the depletion rate, the Partnership combines all properties with similar characteristics and uses one depletion rate for all volume harvested from that timberland cost pool. Each timberland acquisition is evaluated for consistency with the already established timberland portfolio using the following five characteristics:

1. Management-Will the acquisition be managed as part of the existing cost pool?
2. Location-Is the tree farm in the same geography as the existing timberland cost pool?
3. Products-Will the products harvested from the acquisition be substantially similar to those harvested from the existing cost pool?
4. Customers/Markets-Will the harvest from the acquisition be sold to the same customers/markets as logs harvested from the existing cost pool?
5. Stocking-Are the acres in the acquisition of a similar age class distribution to the existing cost pool? (If the pre-merchantable timberland acres in the acquisition are less than 50% of total acres, stocking on the acquisition will be deemed sufficiently different and strongly indicate that a separate pool is appropriate.)

Timber owned by Fund I is accounted for in a separate depletion pool. Fund I's timberland does not meet the first criteria in the list of characteristics listed above as the timberland is bought by an entity with a limited life whereas timberland owned directly by the Partnership is owned and managed as properties that will be owned indefinitely. Therefore these properties are accounted for in separate depletion pools and generally carry a higher depletion rate due to the more recent acquisition which generally leads to a higher cost to deplete upon harvest.

Depletion-Estimated Volume: Depletion represents the cost of timber harvested and the cost of the permanent road system and is charged to operations by applying a depletion rate to volume harvested during the period. The depletion rate is calculated on January 1st of each year by dividing the Partnership's cost of merchantable timber and the cost of the permanent road system by the volume of merchantable timber. If the current market conditions deteriorate further or a recovery in market values does not occur, we may be required to record additional unrealized or realized losses in future quarters.

To calculate the depletion rate, the Partnership uses a combined pool when the characteristics of the acquired timber are not significantly different from the Partnership's existing timberlands. The depletion cost on recently acquired timber, such as timber harvested from ORM Timber Fund I, LP timberland, is expected to approximate the net stumpage realized on the sale, which will result in relatively little net income impact from the harvest but will generate operating cash flow.

Timber inventory volumes take into account the applicable state and Federal regulatory limits on timber harvests as applied to the Partnership's properties. Washington State's forest practice regulations provide for expanded riparian management zones, wildlife leave trees, and other harvest restrictions to protect various fish and other wildlife species. Timber inventory volume is accounted for by the Partnership's standing timber inventory system, which utilizes annual statistical sampling of the timber (cruising) together with adjustments made for estimated annual growth and the depletion of areas harvested.

The standing inventory system is subject to two processes each year to monitor accuracy. The first is the annual cruise process and the second is a comparison of (a) volume actually extracted by harvest to (b) inventory in the standing inventory system at the time of the harvest. A "cruise", which utilizes statistical sampling techniques, represents a physical measurement of timber on a specific set of acres. The cruise process is completed when the physical measurement totals are compared to the volume captured in the standing inventory system. Only productive acres with timber that is at least 20 years old are selected as subject to a cruise. The Partnership cruises 15-20% of its productive acres with 20-year-old or greater timber annually. Specific acres are first selected for cruising with a bias towards those acres that have gone the longest without a cruise and, second, with a bias towards those acres that have been growing the longest. As the cruise is being performed, only those trees with a breast height diameter (approximately 4.5 feet from the ground) of at least 6 inches are measured for inclusion in the inventory.

Environmental Remediation: The environmental remediation liability represents estimated payments to be made to monitor (and remedy if necessary) certain areas in and around the townsite and millsite of Port Gamble, Washington. Port Gamble is a historic town that was owned and operated by P&T, formerly a related party, until 1985 when the townsite and other assets were spun off to the Partnership. P&T continued to operate the townsite until 1996 and leased the millsite at Port Gamble through January 2002, at which point P&T signed an agreement with the Partnership dividing the responsibility for environmental remediation of Port Gamble between the two parties. Under Washington law, both Pope Resources and P&T are "potentially liable persons" based on ownership and/or operation of the site. These laws provide for joint and several liability among parties owning or operating property on which contamination occurs, meaning that cleanup costs can be assessed against any or all such parties. Our agreement with P&T was intended to apportion responsibility based on this principle, with P&T bearing the larger share of responsibility based upon their role in operating the site and upon their relatively lengthy ownership.

However, P&T's financial condition declined markedly in recent years, having first disclosed questions about its ability to continue as a going concern in its Annual Report on Form 10-K for the fiscal year ended December 31, 2006. Since that time we have closely monitored P&T's financial disclosures, including its repeated attempts to restructure its credit arrangements throughout the second and third quarters of 2007 and culminating in a late October 2007 bankruptcy filing in Canada, followed in November 2007 by a Chapter 11 bankruptcy filing in the United States. Since then, P&T has undertaken to sell substantially all of its assets, and in July 2008 P&T's bankruptcy was converted to a plan of liquidation under Chapter 7. These actions raised substantial doubt in management's views as to whether P&T can meet all or any portion of its obligations under our settlement and remediation agreement.

Because of the joint and several liability that attends to the cleanup obligation, management has taken a number of steps to reassess our own exposure. First, as noted above, we increased our remediation estimate by \$1.9 million in the fourth quarter of 2007 to reflect our revised estimate of the remediation costs. Second, because we have increased our estimate of the potential costs on several occasions in the past, we have revised our methodology for assessing this liability, shifting to a "Monte Carlo simulation" analysis which we hope will improve our ability to predict the actual liability for the remaining cleanup. Third, we are in active discussions with the Washington State Department of Ecology to promote protection of the environment, optimize and appropriately allocate the remaining cleanup liabilities, and maximize our control over the remediation process. Finally, we are monitoring the P&T bankruptcy action as an unsecured creditor in an effort to maximize any potential recovery from P&T's remaining assets, although we have substantial doubt as to whether we will recoup any material portion of those assets because substantially all of P&T's assets are subject to the security interests of its lenders.

Management continues to monitor closely both the Port Gamble cleanup process and the P&T bankruptcy proceeding; however, in light of current circumstances our addition of \$1.9 million in the fourth quarter of 2007 to the remediation liability reflects what management believes to be the best estimate of the remaining cleanup cost based upon an estimation method that represents the most likely outcome. The Monte-Carlo simulation model used to estimate this liability indicated a range of potential losses of \$276,000 to \$6.3 million which represents the range two standard deviations from the mean of the estimated liability as of December 31, 2007.

Property development costs: The Partnership is developing several master planned communities with the Gig Harbor and Bremerton projects being the most notable currently. Costs of development, including interest, are capitalized for these projects and allocated to individual lots based upon their relative preconstruction value. This allocation of basis supports, in turn, the computation of those amounts reported as a current vs. long-term asset ("Land Held for Sale" and "Land Held for Development", respectively). As lot sales occur, the allocation of these costs becomes part of cost of sales attributed to individual lot sales. Costs associated with land including acquisition, project design, architectural costs, road construction, and utility installation are accounted for as investment activities (as opposed to an operating activity) on our statement of cash flows. These investments are often made for a number of years prior to the realization of revenue from the disposition of these properties. Cash generated from the sale of these properties is classified as an operating activity on our cash flow statement as the sale of these properties is the main operating activity of our Real Estate segment.

Percentage of Completion Revenue Recognition: The partnership accounts for revenue recognized from development sales consistent with Statement of Financial Accounting Standards No. 66, Accounting for Sales of Real Estate. When a real estate transaction is closed with significant outstanding obligations to complete infrastructure or other construction, revenue is recognized on a percentage of completion method by calculating a ratio of costs incurred to total costs expected. Revenue is deferred proportionately based on the remaining costs to complete the project.

Impairment of Long Lived Assets: The Partnership evaluates its long lived assets for impairment and recognizes an impairment loss in connection with long-lived assets used in a business when the carrying value exceeds the estimated future undiscounted cash flows attributable to those assets over the expected useful life. The Partnership obtains annual appraisals of its timberlands and evaluates the appraised value of those properties to the carrying value to determine if an asset impairment is indicated. The long term holding period of timberland properties make an asset impairment unlikely as the undiscounted expected cash flows from a timberland would need to decrease very significantly to not total in excess of the carrying value of a timber property. The Partnership evaluates its development properties for impairment by comparing actual income generated by the project against expectations. When actual results compare unfavorably to plan the property is evaluated to determine if the carrying value is less than the projected undiscounted cash flows attributable to the property. The land basis associated with most of our development properties is well below current market value therefore an asset impairment charge on one of our development projects is not likely.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

As of June 30, 2008, the Partnership had \$29.4 million of fixed-rate debt outstanding with a fair value of approximately \$31.9 million based on the current interest rates for similar financial instruments. A change in the interest rate on fixed-rate debt will affect the fair value of the debt, whereas a change in the interest rate on variable-rate debt will affect interest expense and cash flows. A hypothetical 1% change in prevailing interest rates would change the fair value of the Partnership's fixed-rate long-term debt obligations by \$1.0 million. 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, 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. The Partnership's President & Chief Executive Officer and Vice President & Chief Financial Officer ("Executive 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.

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 Executive Officers completed an evaluation of the disclosure controls and procedures and have determined them to be effective. There have been no changes to internal controls over financial reporting that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II

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.

ITEM 1A. RISK FACTORS

Our business is subject to a number of risks and uncertainties, any one or more of which could impact our operating results and financial condition materially and adversely. Some of these risks are discussed in greater detail below, arranged according to business segment. In addition, we face a number of risks that affect our business generally. We compete against much larger companies in each of our business segments. These larger competitors may have access to larger amounts of capital and significantly greater economies of scale. Land ownership carries with it the risk of incurring liabilities due to accidents that take place on the land and previously undiscovered environmental contamination. The Partnership endeavors to maintain adequate accruals to reflect the cost of remediating known environmental contamination and other liabilities resulting from land ownership. However these estimates may prove to be inadequate as additional information is discovered. A more thorough discussion of the risks and uncertainties that may affect our business is contained in the Annual Report on Form 10-K for the fiscal year ended December 31, 2007, and in our various other filings with the Securities and Exchange Commission. Readers should review these risks in deciding whether to invest in Partnership units, and should recognize that those factors are not an exhaustive list of risks that could cause us to deviate from management's expectations. Readers also are cautioned that, in reviewing these risk factors, the factors contained in this report and in our other SEC filings are effective as of the date the filing was made, and we cannot undertake to update those disclosures.

Valuation of Student Loan Auction Rate Securities

At June 30, 2008 Pope Resources held AAA-rated Student Loan Auction Rate Securities ("SLARS") with a par value of \$15.7 million but an estimated \$14.5 million fair value. SLARS are collateralized long-term debt instruments that historically provided liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined intervals, typically every 28 days. Beginning in February 2008, auctions failed for approximately \$17 million in par value of SLARS we held because sell orders exceeded buy orders. When these auctions failed to clear, higher interest rates for those securities went into effect. However, the funds associated with these failed auctions will not be accessible until the issuer calls the security, a successful auction occurs, a buyer is found outside of the auction process, or the security matures. The underlying assets of the SLARS we hold, including the securities for which auctions have failed, are student loans which are guaranteed by the U.S. Department of Education for 97% of the loan and interest due. The Partnership has \$1.2 million of its SLARS portfolio redeemed at par in the second quarter of 2008. With the exception of a \$1.1 million of these securities that were redeemed for par in July 2008, we are reporting these investments as non-current assets and have recorded a \$1.2 million temporary asset impairment against this portfolio as a result of the liquidity issues in the market. We also have reclassified \$13.5 million of the value of SLARS from current assets to non-current assets to reflect uncertainties about the liquidity of those assets. However, we cannot offer assurances that we ultimately will realize either the full recorded value or the par value of these SLARS, or that the timing of any such proceeds will be sufficient to meet our business needs. If the aforementioned \$1.2 million impairment in value proves to be other than temporary, we will have to record such loss to net income. If credit markets deteriorate further, we may experience additional adverse impact on the amount and timing of the proceeds from the sale of these investments. Finally, if circumstances that influence the value of these securities do not improve as we expect or even worsen, we may be required to reduce further the carrying value of these securities, or change management's assessment that the impairment is temporary, which may have an adverse impact on our cash flows or net income for the relevant period or periods.

Fee Timber

Fee Timber revenue is generated primarily through the sale of softwood logs to both domestic mills and third-party intermediaries that resell to the export market. The domestic market for logs in the Puget Sound region of Washington State has been impacted by imported lumber from Canada and decreased demand for lumber as engineered wood products have gained market acceptance in the U.S. These factors have had the effect of concentrating mill ownership with larger mill operators and decreasing the number of mills operating in the Puget Sound region. If this trend continues, decreases in local demand for logs may decrease our profitability. Over the last few years the Partnership has seen the price of logs erode in the Japanese market as competing logs and lumber from regions outside of the U.S. and engineered wood products have gradually gained market acceptance. These export markets for Pacific Northwest logs are significantly affected by fluctuations in U.S. and Japanese economies, as well as by the foreign currency exchange rate between the Japanese yen and the U.S. dollar.

Our ability to grow and harvest timber can be significantly impacted by legislation, regulations or court rulings that restrict or stop forest practices. Restrictions on logging, planting, road building, fertilizing, managing competing vegetation and other activities can significantly increase the cost or reduce available inventory thereby reducing income.

Timberland Management & Consulting

The Timberland Management & Consulting segment is currently operating with one major timberland management client. Management is working to expand our fee-for-service business through the launch of the timber fund business, also a component of our Timberland Management & Consulting segment. To date we have launched ORM Timber Fund I, LP and in July 2008 we completed the first of two expected closes for Fund II with total capital commitments of \$46.3 million. The second and final close is expected to take place in the fourth quarter of 2008 to bring the total committed capital balance to between \$100 million and \$120 million. Unlike other components of our business, which relate solely or primarily to real estate and timber operations, this line of business carries risks relating to the offer and sale of securities, and to the management of investment operations, including potential liability to investors if we are determined to have made material misstatements or omissions to those investors, potential accusations that we have breached fiduciary duties to other limited partners, and similar types of investor action. Moreover, litigation of shareholder-related matters can be expensive and time consuming, and if brought, would likely distract management from their focus on ordinary operating activities.

Real Estate

The value of our real estate investments is subject 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 zoning variances that would allow us to maximize our 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 affect on our investments. Moreover, these investments often are highly illiquid and thus may not generate cash flow if and when needed to support our other operations.

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

(a) – (e) None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

(a) None

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

ITEM 6. EXHIBITS

Exhibits.

- 10.34 Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, PCA dated July 31, 2008
- 10.35 Revolving Operating Note from Pope Resources to Northwest Farm Credit Services, PCA dated July 31, 2008
- 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).

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 6, 2008.

POPE RESOURCES,
A Delaware Limited Partnership

By: POPE MGP, Inc.
Managing General Partner

By: /s/ David L. Nunes
David L. Nunes
President and Chief Executive Officer
(Principal Executive Officer)

By: /s/ Thomas M. Ringo
Thomas M. Ringo
Vice President and CFO
(Principal Accounting and Financial Officer)

MASTER LOAN AGREEMENT

DATED AS OF JULY 31, 2008

AMONG

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

AS BORROWER

AND

NORTHWEST FARM CREDIT SERVICES, PCA

AS LENDER

MASTER LOAN AGREEMENT
TABLE OF CONTENTS

TERMS	SECTION
Definitions	1
Loans	2
Loans	2.01
Fees	2.02
Evidence of Debt	2.03
Payments Generally	2.04
Accounting Terms	2.05
Unused Commitment Fee	2.06
Stock/Participation Certificates	3
Ownership	3.01
Voting Rights	3.02
Stock Conversion	3.03
Patronage	3.04
FPF Account	4
General Authorization	5
Conditions Precedent	6
Documents Required for Closing	6.01
Conditions precedent to Advances Under All Loans	6.02
Representations and Warranties	7
Representations and Warranties of Borrower	7.01
Representations and Warranties of Lender	7.02
Survival	7.03
Covenants	8
Affirmative Covenants	8.01
Financial Covenants	8.02
Negative Covenants	8.03
Default	9
Events of Default	9.01
Notice and Opportunity to Cure	9.02

MASTER LOAN AGREEMENT
TABLE OF CONTENTS (continued)

TERMS	SECTION
Prepayment and Breakage Fees	10
Prepayment Fee	10.01
Breakage Fee	10.02
Participation	10.03
Enforcement and Waiver; Indemnity	11
Enforcement and Waiver by Lender	11.01
Indemnity; Waiver of Damages by Borrower	11.02
Communications	12
Notices and Other Communications	12.01
Facsimile Documents and Signatures	12.02
Use of E-mail	12.03
Participation	13
Governing Law; Jurisdiction; Etc.	14
Governing Law	14.01
Submission to Jurisdiction	14.02
Waiver of Venue	14.03
Service of Process	14.04
Waiver of Jury Trial	14.05
Consultation with Counsel	14.06
Miscellaneous	15
Construction	15.01
Binding Effect, Assignment and Entire Agreement	15.02
Severability	15.03
No Personal Liability of General Partners	15.04
Exhibit A: Form of Compliance Certificate	
Exhibit B: Covenant Compliance Worksheet	
Exhibit C: Prepayment Fee and Breakage Fee	

MASTER LOAN AGREEMENT
(INCLUDING MEMBERSHIP AGREEMENT)

THIS MASTER LOAN AGREEMENT (this "Loan Agreement") is made and entered into effective July 31, 2008, by and between Lender, as defined below, and Borrower, as defined below.

RECITALS

WHEREAS, Borrower has requested that Lender make a \$40,000,000.00 loan for operating and capital purposes to Borrower; and

WHEREAS, Lender has agreed to make the requested Loan available to Borrower on the terms and conditions hereinafter set forth, which shall apply to Loan No. 56548-141 and to any future Loans made subject to this Loan Agreement.

NOW THEREFORE, IN CONSIDERATION of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

1. **Definitions.** Capitalized terms not otherwise defined herein shall have the meanings given in the Note(s) or other Loan Documents. As used herein:

"**Affiliate**" means, with respect to any Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"**Asset Disposition**" means any sale, lease, transfer or other disposition (including any such transaction effected by way of merger, amalgamation or consolidation) by Borrower, subsequent to the Closing Date of any asset (including stock or other equity interests in Borrower), including without limitation, any sale leaseback transaction (whether or not involving a Capital Lease), but excluding (a) the sale of inventory in the ordinary course of business for fair consideration, (b) the sale or disposition of obsolete machinery and equipment no longer used or useful in the conduct of such Person's business (except for assets which are security for Lender's Loans), and (c) the sale of or realization on delinquent receivables.

"**Bankruptcy Code**" means the Bankruptcy Code in Title 11 of the United States Code, as amended, modified, succeeded or replaced from time to time.

"**Bankruptcy Event**" means, with respect to any Person, the occurrence of any of the following with respect to such Person: (a) a court or governmental agency having jurisdiction in the premises shall enter a decree or order for relief in respect of such Person in an involuntary case under any applicable bankruptcy, insolvency or other similar Law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person, or for any substantial part of its Property, or ordering the winding up or liquidation of its affairs; or (b) there shall be commenced against such Person an involuntary case under any applicable bankruptcy, insolvency or other similar Law now or hereafter in effect, or any case, proceeding or other action for the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person, or for any substantial part of its Property, or for the winding up or liquidation of its affairs, and such involuntary case or other case, proceeding or other action shall remain undismissed, undischarged or unbonded for a period of 60 consecutive days; or (c) such Person shall commence a voluntary case under any applicable bankruptcy, insolvency or other similar Law now or hereafter in effect, or consent to the entry of an order for relief in an involuntary case under any such Law, or consent to the appointment or taking possession by a receiver, liquidator, assignee, custodian, trustee, sequestrator (or similar official) of such Person, or for any substantial part of its Property, or make any general assignment for the benefit of creditors; or (d) such Person shall be unable to, or shall admit in writing its inability to, pay its debts generally as they become due.

"**Base Rate**" shall have the meaning indicated in the particular Note for a Loan.

"**Borrower**" means Pope Resources, A Delaware Limited Partnership, a Delaware limited partnership.

"**Borrower's Obligations**" means, without duplication, all of the obligations of Borrower to Lender whenever arising, under this Loan Agreement, the Notes or any of the other Loan Documents, including without limitation, all principal, interest, monies advanced on behalf of Borrower under the terms of the Loan Documents, and taxes, insurance premiums, costs and expenses, and fees and any amounts that would have accrued but for the automatic stay under the Bankruptcy Code, and any obligations under any Swap Contract between Borrower and any Swap Issuer, whenever arising.

"**Breakage Fee**" shall have the meaning given in Exhibit C attached hereto.

"**Business Day**" means any day Lender is open for business in Spokane, Washington, except it shall not include Saturday, Sunday or a day that commercial banks in Spokane, Washington are closed. Provided however, for purposes of defining any date upon which an interest rate shall be determined by Lender using an Index other than published by Lender, Business Day means any day Lender and the Index Source are open for business except it shall not include Saturday, Sunday or a day that commercial banks in Spokane, Washington are closed.

"**Capital Lease**" means, as applied to any Person, any lease of any Property by that Person as lessee which, in accordance with GAAP, is or should be accounted for as a capital lease on the balance sheet of that Person.

"**Capital Stock**" means (i) in the case of a corporation, capital stock, (ii) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of capital stock, (iii) in the case of a partnership, partnership interests (whether general or limited), (iv) in the case of a limited liability company, membership interests, and (v) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distribution of assets of, the issuing Person.

"Closing Date" for any particular Loan, means the Business Day the associated Loan Documents are fully executed and delivered to Lender, following satisfaction of all conditions precedent or waiver thereof by Lender.

"Company," and "Companies" means Borrower, as well as any present or future Subsidiaries whose financial statements and accounting procedures should, in accordance with GAAP, be consolidated with Borrower.

"Compliance Certificate" shall have the meaning given in Section 8.01.b.iii. and shall be in substantially the form of Exhibit A hereto.

"Consolidated Capital Expenditures" means, for any period, all internally financed operating capital expenditures (excluding timberland acquisitions and the portion associated with the minority interest in Timber Funds) of Companies, on a consolidated basis for such period, as determined in accordance with GAAP.

"Consolidated EBITDDA" means, for any period, the sum of: (a) Consolidated Net Income; (b) Consolidated Interest Expense; (c) consolidated depreciation expense; (d) consolidated amortization expense; (e) consolidated depletion expense (excluding the portion associated with the minority interest in Timber Funds); and (f) the cost of land sold of Companies, plus or minus, as the case may be, Consolidated Taxes to the extent recognized in the computation of Consolidated Net Income, all as determined in accordance with GAAP.

"Consolidated Interest Coverage Ratio" means, as of any date of determination for the prior four (4) Fiscal Quarters ending on such date, the ratio of (a) Consolidated EBITDDA minus Consolidated Capital Expenditures to (b) Consolidated Interest Expense of Companies for such period.

"Consolidated Interest Expense" means, for any period, all interest expense (including capitalized interest cost and the interest component under Capital Leases) of Companies on a consolidated basis for such period, all as determined in accordance with GAAP.

"Consolidated Net Income" means, for any period, the net income or net loss after Consolidated Taxes for such period of Companies on a consolidated basis, as determined in accordance with GAAP.

"Consolidated Taxes" means, as of any date of determination, the provision for federal, state and other income taxes of Companies on a consolidated basis, as determined in accordance with GAAP.

"Contractual Obligation" means, as to any Person, any provision of any security issued by such Person or of any agreement, instrument or other undertaking to which such Person is a party or by which it or any of its Property is bound.

“Control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. “Controlling” and “Controlled” have meanings correlative thereto.

“Covenant Compliance Worksheet” shall have the meaning given in Section 8.01.b.iii. hereof and shall have the form substantially of Exhibit B hereto.

“Event of Default” shall have the meaning provided in Section 9 hereof.

“FPF Account” means the Future Payment Fund Account that is an interest-bearing conditional advance payment account with Lender and all money paid into that account and all interest earned thereon.

“Fiscal Quarter” means the three month periods ending March 31, June 30, September 30 and December 31.

“Fiscal Quarter-End” means March 31, June 30, September 30 and December 31.

“Fiscal Year” means the calendar year.

“Fiscal Year-End” means December 31.

“Fiscal Year-to-Date” means the period from the first day of Borrower’s Fiscal Year being reported upon through the last day of the Fiscal Quarter being reported upon.

“Fixed Rate Maturity Date” shall have the meaning indicated in the particular Note for a Loan.

“Fixed Rate Option” shall have the meaning indicated in the particular Note for a Loan.

“GAAP” means generally accepted accounting principles in the United States set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the public accounting profession in the United States, that are applicable to the circumstances as of the date of determination, consistently applied.

“Governmental Authority” means the United States, any foreign state or nation, or any state, commonwealth, district, territory, agency, department, subdivision, court, tribunal or other instrumentality thereof.

“Incipient Default” means an event that with the giving of notice or passage of time, or both, would become an Event of Default.

"**Indebtedness**" of any Person means: (a) all obligations of such Person for borrowed money; (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, or upon which interest payments are customarily made; (c) all obligations of such Person under conditional sale or other title retention agreements relating to Property purchased by such Person (other than customary reservations or retentions of title under agreements with suppliers entered into in the ordinary course of business); (d) all obligations, including without limitation, intercompany items, of such Person issued or assumed as the deferred purchase price of Property or services purchased by such Person (other than trade debt incurred in the ordinary course of business and due within six months of the incurrence thereof) which would appear as liabilities on a balance sheet of such Person; (e) all obligations of such Person under take-or-pay or similar arrangements or under commodities agreements; (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on, or payable out of the proceeds of production from, Property owned or acquired by such Person, whether or not the obligations secured thereby have been assumed; (g) all guaranty obligations of such Person; (h) the principal portion of all obligations of such Person under Capital Leases; (i) the maximum amount of all standby letters of credit issued or bankers' acceptances facilities created for the account of such Person and, without duplication, all drafts drawn thereunder (to the extent unreimbursed); and (j) all obligations of such Person in respect to any Swap Termination Value of any Swap Contract between Borrower and any Swap Issuer. The Indebtedness of any Person shall include the Indebtedness of any partnership or joint venture in which such Person is a general partner or a joint venturer.

"**Indebtedness to Total Capitalization Ratio**" means, as of any date of determination, Companies' Indebtedness, excluding the portion thereof associated with the minority interest in Timber Funds, divided by the sum of (a) Companies' Indebtedness excluding the portion thereof associated with the minority interest in Timber Funds, plus (b) the greater of (i) the book value of Borrower's partners' capital according to GAAP, or (ii) Borrower's closing unit price at each Fiscal Quarter-End, multiplied by the number of units outstanding.

"**Intercompany Indebtedness**" means any Indebtedness of Borrower that is owing to a Subsidiary or Related Party.

"**Laws**" means all ordinances, codes, statutes, rules, regulations, licenses, permits, orders, injunctions, writs or decrees of any Governmental Authority, and without limiting the generality of the foregoing, the following are Laws: the Internal Revenue Code of 1986 ("IRC"), the Employee Retirement Income Security Act of 1974 ("ERISA"), the Fair Labor Standards Act ("FLSA"), and the Comprehensive Environmental Response, Compensation and Liability Act of 1980 ("CERCLA").

"**Lender**" means Northwest Farm Credit Services, PCA, an association organized under the laws of the United States, together with its successors and assigns.

"**Lien**" means any mortgage, pledge, hypothecation, assignment, deposit arrangement, security interest, encumbrance, lien (statutory or otherwise), preference, priority or charge of any kind (including any agreement to give any of the foregoing, any conditional sale or other title retention agreement, any financing or similar statement or notice filed under the Uniform Commercial Code as adopted and in effect in the relevant jurisdiction or other similar recording or notice statute, and any lease in the nature thereof).

“Loan” means any loan that Lender has made to Borrower under Customer No. 56548, and such other additional loans as Lender may make to Borrower pursuant to this Loan Agreement or make in the future and that are governed by this Loan Agreement as specifically set forth and referenced in such Loans.

“Loan Documents” means all of the Contractual Obligations associated with the Loan(s), including but not limited to this Loan Agreement, the Note(s), Swap Contract(s), intercreditor agreement(s) and other documents or instruments as required by Lender, executed in connection with the Loan(s), and any extensions, renewals, amendments, substitutions or replacements thereof.

“Loans” means two or more Loans.

“Loan Maturity Date” shall have the meaning indicated in the particular Note for a Loan.

“Loan Segment” shall have the meaning indicated in the particular Note for a Loan.

“Material” means that which, in reasonable and objective contemplation, will or realistically might affect the business or property of a Person, or the Person's creditworthiness as to such business or property, in a significant manner.

“Material Adverse Effect” means a material adverse effect on (a) the condition (financial or otherwise), operations, business, assets, liabilities or prospects of Borrower, (b) the ability of Borrower or its Related Parties to perform any Material obligation under the Loan Documents to which it is a party, or (c) the Material rights and remedies of Lender under the Loan Documents.

“Note” means the note evidencing a Loan and which contains a promise to pay a sum certain.

“Notes” means one or more Notes.

“Organization” means a corporation, limited liability company, joint venture, firm business trust, estate, trust, partnership or association, two or more Persons having a joint or common interest, or any other legal or commercial entity.

“Organization Documents” means (a) with respect to any corporation, the certificate or articles of incorporation and the bylaws; (b) with respect to any limited liability company, the certificate or articles of formation or organization and operating agreement; and (c) with respect to any partnership, joint venture, trust or other form of business entity, the partnership, joint venture or other applicable agreement of formation or organization and any agreement, instrument, filing or notice with respect thereto filed in connection with its formation or organization with the applicable Governmental Authority in the jurisdiction of its formation or organization and, if applicable, any certificate or articles of formation or organization of such entity.

"Participation Certificate" means Stock which does not confer voting rights upon the owner.

"Permitted Liens" means:

- a. Liens (other than Liens created or imposed under ERISA) for taxes, assessments or governmental charges or levies not yet due or Liens for taxes being contested in good faith by appropriate proceedings for which adequate reserves, determined in accordance with GAAP, have been established (and as to which the Property subject to any such Lien is not yet subject to foreclosure, sale or loss on account thereof);
- b. Statutory Liens of landlords and Liens of carriers, warehousemen, mechanics, materialmen and suppliers and other Liens imposed by law or pursuant to customary reservations or retentions of title arising in the ordinary course of business, provided that such Liens secure only amounts not yet due and payable or, if due and payable, are unfilled and no other action has been taken to enforce the same or are being contested in good faith by appropriate proceedings for which adequate reserves, determined in accordance with GAAP, have been established (and as to which the Property subject to any such Lien is not yet subject to foreclosure, sale or loss on account thereof);
- c. Liens (other than Liens created or imposed under ERISA) incurred or deposits made by Borrower in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, or to secure the performance of tenders, statutory obligations, bids, leases, government contracts, performance and return-of-money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money);
- d. Liens in connection with attachments or judgments (including judgment or appeal bonds) provided that the judgments secured shall, within 90 days after the entry thereof, have been discharged or execution thereof stayed pending appeal, or shall have been discharged within 45 days after the expiration of any such stay;
- e. Easements, rights-of-way, restrictions (including zoning restrictions), minor defects or irregularities in title and other similar charges or encumbrances not, in any material respect, impairing the use of the encumbered Property for its intended purposes;
- f. Liens on Property securing purchase money Indebtedness (including Capital Leases and obligations under letters of credit) to the extent permitted hereunder, provided that any such Lien attaches to such Property concurrently with or within 90 days after the acquisition thereof;
- g. Any interest of title of a lessor under, and Liens arising from UCC financing statements relating to, leases permitted by this Loan Agreement and the other Loan Documents;
- h. Normal and customary rights of setoff upon deposits of cash in favor of banks or other depository institutions;

i. Liens existing as of the Closing Date and set forth in a schedule presented to Lender; provided that no such Lien shall at any time be extended to or cover any Property other than the Property subject thereto on the Closing Date;

j. Liens on the PPF Account pursuant to Section 4 hereof; and

k. Liens on Property securing Indebtedness to the extent the Indebtedness is permitted under Sections 8.03 f.(vi), (vii) or (viii) hereof.

“Person” means an individual, an Organization or a Governmental Authority.

“Prepayment Fee” shall have the meaning given in Exhibit C attached hereto.

“Property” or “Properties” means any interest in any kind of property or asset, whether real, personal or mixed, tangible or intangible.

“Records” means correspondence, memoranda, tapes, discs, computer data, papers, certificates, books, cruise maps and other documents, or transcribed information of any type, whether expressed in ordinary or machine readable language.

“Regulation U or X” means Regulation U (12 CFR Part 221, Credit by banks and persons other than brokers and dealers for the purpose of purchasing or carrying margin stock) or Regulation X (12 CFR Part 224, Borrowers of securities credit) respectively, to the Board of Governors of the Federal Reserve System as from time to time in effect and any successor to all or a portion thereof.

“Related Party or Parties” means, with respect to any Person, such Person’s Affiliates and the general partners, directors and officers of such Person and of such Person’s Affiliates.

“Responsible Officer” means the chief executive officer, president, chief financial officer, treasurer or assistant treasurer of Borrower or the effective equivalent thereof or any other duly authorized officer. Any document delivered hereunder that is signed by a Responsible Officer shall be conclusively presumed to have been authorized by Borrower and such Responsible Officer shall be conclusively presumed to have acted on behalf of Borrower.

“Stock” means uncertificated shares of stock evidencing proprietary interests in Northwest Farm Credit Services, ACA (“ACA”), an Affiliate of Lender, and all patronage, distributions and other rights and entitlements related thereto.

“Subsidiary” means, as to any Person, (a) any corporation more than 50 percent of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time, any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by such Person directly or indirectly through Subsidiaries, and (b) any partnership, association, joint venture or other entity in which such Person directly or indirectly through Subsidiaries has more than 50 percent equity interest at any time. Unless otherwise specified, all references herein to a “Subsidiary” or “Subsidiaries” shall refer to a Subsidiary or Subsidiaries of Borrower. For purposes of Section 8 hereof, Subsidiary or Subsidiaries shall include Timber Funds; provided however, Section 8.03.c. shall exclude Timber Funds from such definition.

"**Swap Contract**" means (a) any and all rate swap transactions, basis swaps, credit derivative transactions, forward rate transactions, commodity swaps, commodity options, forward commodity contracts, equity or equity index swaps or options, bond or bond price or bond index swaps or options or forward bond or forward bond price or forward bond index transactions, interest rate options, forward foreign exchange transactions, cap transactions, floor transactions, collar transactions, currency swap transactions, cross-currency rate swap transactions, currency options, spot contracts, or any other similar transactions or any combination of any of the foregoing (including any options to enter into any of the foregoing), whether or not any such transaction is governed by or subject to any master agreement, and (b) any and all transactions of any kind, and the related confirmations, which are subject to the terms and conditions of, or governed by, any form of master agreement published by the International Swap Dealers Association, Inc., any International Foreign Exchange Master Agreement, or any other master agreement, including any such obligations or liabilities under any such master agreement.

"**Swap Issuer**" means a financial institution chosen by Borrower and reasonably acceptable to Lender, with whom Borrower enters into a Swap Contract.

"**Swap Termination Value**" means, in respect of any one or more Swap Contracts, after taking into account the effect of any legally enforceable netting agreement relating to such Swap Contracts, (a) for any date on or after the date such Swap Contracts have been closed out and termination value(s) determined in accordance therewith, such termination value(s) and (b) for any date prior to the date referenced in clause (a), the amount(s) determined as the mark-to-market value(s) for such Swap Contracts, as determined based upon one or more mid-market or other readily available quotations provided by any recognized dealer in such Swap Contracts (which may include Lender or participant of Lender).

"**Timber Funds**" means, ORM Timber Fund I, LP, ORM Timber Fund II, Inc. and any future similar timberland investment entity.

"**Unused Commitment Fee**" shall have the meaning given in Section 2.06 hereof.

2. Loans.

2.01 Loans. Subject to the terms and conditions set forth herein, Lender agrees to make Loan No. 56548-141 to Borrower. Borrower agrees to repay the Loan(s) and all of Borrower's Obligations under the Loan Documents, according to their terms.

2.02 Fees. Borrower shall pay Lender's fees as set forth in the Note or a separate fee letter.

2.03 Evidence of Debt. The Loan(s) shall be evidenced by one or more accounts or records maintained by Lender in the ordinary course of business. The accounts or records maintained by Lender shall be conclusive absent manifest error of the amount of the Loans made by Lender to Borrower and the interest and payments thereon. Any failure to so record or any error in doing so shall not, however, limit or otherwise affect the obligation of Borrower to pay any amount owing with respect to Borrower's Obligations.

2.04 Payments Generally. All payments to be made by Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, all payments by Borrower hereunder shall be made to Lender in U.S. Dollars and in immediately available funds as further described in the Note(s) and according to the terms of the Note(s).

2.05 Accounting Terms means, except as otherwise provided herein, all accounting terms used herein shall be interpreted, and all financial statements and certificates and reports as to financial matters to be delivered to Lender hereunder shall be prepared in accordance with GAAP, applied on a consistent basis.

2.06 Unused Commitment Fee. Borrower shall pay Lender an Unused Commitment Fee, as may be indicated in the Note for the applicable Loan.

3. Stock/Participation Certificates.

3.01 Ownership. Borrower agrees to acquire and maintain Stock or Participation Certificates in an amount required by ACA's Board of Directors, pursuant to its bylaws. Borrower hereby grants Lender a first lien security interest in all Stock or Participation Certificates presently owned or to be acquired by Borrower. All right, title and interest in the Stock or Participation Certificates shall hereby vest in Borrower.

3.02 Voting Rights. For so long as Borrower owns voting Stock, Borrower is entitled to one vote at ACA stockholder meetings and to participate in the affairs of ACA. Such vote may be cast by any stockholder who meets the definition of "farmers, ranchers or aquatic producers or harvesters" in the Farm Credit Administration regulations. Borrower authorizes David L. Nunes to act as Borrower's attorney-in-fact for all joint owners of the voting Stock and to cast the vote or appoint proxies on behalf of Borrower. In the event that the attorney-in-fact designated above is unavailable or otherwise unable or unwilling to act, then Borrower authorizes Thomas M. Ringo to act upon Borrower's behalf as attorney-in-fact or such other person as Borrower may indicate in a written authorization provided to Lender.

3.03 Stock Conversion. Borrower authorizes conversion of any Stock or Participation Certificates into any other class of Stock or Participation Certificates of ACA as provided by law, and authorizes ACA's appropriate officer(s) to record such conversion on ACA's books, with full power of substitution. In an Event of Default, ACA may retire any Stock/Participation Certificates acquired by Borrower at book value (not to exceed par value or face amount) and apply the proceeds to the outstanding balance of any Loan. When the policies of ACA permit retirement of excess Stock/Participation Certificates, ACA, at its sole discretion, may elect to retire and apply excess Stock/Participation Certificates to Borrower's Obligations, or if permitted by ACA's policies, excess Stock or Participation Certificates may be applied upon request by Borrower.

3.04 Patronage. Only the portion of a Loan held by Lender for its own account and not subject to participation shall be eligible for patronage or equity distributions of any kind in accordance with the bylaws, practices and procedures of ACA. To the extent a participation in any portion of a Loan is sold at any time, such portion so participated may not be eligible for patronage distributions of ACA or its successors or assigns.

4. FPF Account. If requested by Borrower, Lender may open and maintain an FPF Account for Borrower on any Loan. An FPF Account or accounts will be held, applied or withdrawn in accordance with the following terms and conditions. Payments will be accepted into an FPF Account and held for application on Loans with, or serviced by, Lender. Interest will accrue on FPF Account balances at such minimum balances to be determined by Lender, from the date payments were made into an FPF Account. A variable interest rate, subject to adjustment in the sole discretion of Lender, will be paid on FPF Account(s). The rate paid on funds held in any FPF Account will not exceed the rate paid by Borrower on the related Loan.

The maximum account balance for each FPF Account shall be subject to the limitations set forth below.

a. The sum which may be held in an FPF Account associated with an operating or revolving line of credit Loan shall not exceed the lesser of the Note amount or the actual maximum outstanding balance on that Loan during the previous 12 months. Lender reserves the right to further limit the maximum FPF Account balance in the event a Borrower's historical Note usage is significantly less than the lesser of their maximum outstanding balance or the Note commitment amount;

b. For all other Loans, the maximum amount that may be held in the FPF Account shall not exceed the outstanding principal balance on the associated Loan or some other amount as may be determined by Lender.

c. Provided however, amounts held in an FPF Account for a given Loan may, at Lender's option, be limited to a pro rata amount equal to Lender's ratable share if the Loan is participated with other lenders.

Funds will be applied to Borrower's Obligations on any Loan covered by this Loan Agreement at Borrower's direction or when any payment under any Loan covered by this Loan Agreement becomes due and payable. Application of funds to a Loan does not relieve Borrower from the obligation to make all payments as provided for in the Loan Documents. Funds may be returned to Borrower for purposes for which Lender would make or increase Loans to Borrower, upon written request or upon request pursuant to Lender's electronic funds transfer procedures.

Funds held in any FPF Account are uninsured. Funds are protected only by the financial condition of Lender. In the event Lender were to become insolvent and liquidated, the funds in Borrower's FPF Account would be applied against any outstanding Loan of Borrower. Any funds in excess of the total outstanding Loan balances would be at risk and subject to the claims of creditors of Lender.

Borrower hereby grants to Lender a first lien security interest in any FPF Account established or to be established by or on behalf of Borrower related to any Loan. To the extent allowed by law, Borrower authorizes the filing of and appoints Lender as its attorney-in-fact, coupled with an interest, for the purpose of executing and filing financing statements and similar documents that may, in Lender's reasonable judgment, be necessary or advisable for perfecting, continuing and reperfecting its security interest. Borrower further acknowledges and agrees that in the Event of Default under any Loan covered by this Loan Agreement, Lender has a right of set-off against all funds in Borrower's FPF Accounts. All conditions applicable to FPF Accounts are subject to change and the program is subject to termination at Lender's sole discretion.

5. **General Authorization.** Borrower hereby authorizes any one of the following named individuals to request funds be deposited or disbursed from any Loan Borrower may have with Lender, to request on behalf of Borrower, advances under the Loans, to execute any notice in order to effect prepayment, repricing or payment of any Loan Segment (as that term may be defined in a given Note) under the Note(s), to request retirement of Stock under any Stock retirement program Lender may have in effect, and other Loan servicing requests, including deposits to and withdrawals from any FPF Account. Individuals authorized hereunder: a Responsible Officer or any other individual(s) as authorized by Borrower in a written authorization provided to Lender. Any such request shall be conclusively presumed to have been made to or for the benefit of Borrower.

6. **Conditions Precedent.** The obligation of Lender to close a Loan is subject to satisfaction of the following conditions precedent by Borrower, on or before the Closing Date or to waiver thereof by Lender.

6.01 Documents Required for Closing.

- a. Borrower, and all other parties required pursuant to Borrower's Organization Documents, shall have executed where appropriate and delivered to Lender, on or prior to a Closing Date, the applicable Loan Documents, each in form and substance satisfactory to Lender;
- b. A certified (as of the applicable Closing Date) copy of resolutions, or equivalent, of the governing body of each Organization signing a Loan Document, authorizing the execution, delivery and performance of each of the Loan Documents to which it is a party and providing Lender an incumbency certificate for any Person authorized to execute the Loan Documents;
- c. A certified (as of the applicable Closing Date) copy of the Organization Documents of each such Person, as identified above, together with a certificate (dated as of the Closing Date) of each such Person to the effect that such Organization Documents have not been amended since the date of the aforesaid certification;

d. A certificate (as of the most recent date practicable) of the relevant Secretary of State as to the current existence of each such Person, as identified above, a certificate (as of the most recent date practicable) of the Secretary of State of each state in which the business activities or Property of such Person requires qualification as a foreign corporation or entity, as the case may be, and that such Person is duly qualified to transact business in that state as a foreign corporation or entity, as the case may be;

e. The written opinion of the outside counsel for Borrower, dated as of the applicable Closing Date and addressed to Lender and any participating lenders as Lender may request, in form satisfactory to Lender, to the effect that:

i. Borrower is validly formed, has been duly organized, and to the knowledge of such counsel, is now existing and is qualified to transact business in those states where the nature of business conducted or Property owned by Borrower requires qualification and, to the knowledge of such counsel, is not required to be qualified as a foreign corporation, or entity, as the case may be, in any other jurisdiction;

ii. Borrower has the power to execute, deliver and perform its obligations under each of the Loan Documents to which it is a party;

iii. All official action by Borrower and all consents and approvals of any Persons necessary to the validity of Loan Documents have been duly obtained, and the Loan Documents do not conflict with any provision of the Organization Documents of Borrower, or of any applicable laws or of any Contractual Obligation binding upon Borrower or its Property, of which such counsel has knowledge;

iv. The Loan Documents have been duly executed and delivered by, and each is the valid and binding contract of Borrower and such Loan Documents are enforceable in accordance with their terms;

f. Evidence, as requested by Lender, that no condition shall exist which would constitute a Material Adverse Effect, in the reasonable opinion of Lender, in the business, operation or financial conditions of Borrower since the date of the applicable Loan commitment;

g. A UCC lien search satisfactory to Lender; and

h. Copies of the most recent timberland appraisals covering all fee timber and timberlands currently owned by Borrower.

6.02 Conditions Precedent to Funding Any Loan. The obligation of Lender to fund any Loan is subject to the following additional conditions precedent:

a. Evidence as requested by Lender that no condition shall exist which would constitute a Material Adverse Effect, in the opinion of Lender, in the business, operation or financial conditions of Borrower at the time of the advance;

b. Borrower shall have complied with all conditions precedent contained herein and in Lender's escrow instructions and commitment letters for any Loan, if any;

c. Payment by Borrower to Lender of the following amounts:

i. Any unpaid balance of any Loan fees; and

ii. All unpaid costs and expenses to Lender; and

d. All representations and warranties made in the Loan Documents are true and correct.

7. Representations and Warranties.

7.01 Representations and Warranties of Borrower. To induce Lender to enter into this Loan Agreement, Borrower represents and warrants to Lender as follows:

a. Borrower is a validly formed limited partnership that has been duly organized and exists and is in good standing under the laws of the State of Delaware, the jurisdiction in which it was organized, has the lawful power to own its properties and to engage in the business it conducts, and is duly qualified to do business in all other states where the nature of the business transacted by it or Property owned by it makes such qualification necessary, except to the extent that the failure to qualify would not create a Material Adverse Effect;

b. Borrower is not in default with respect to any Contractual Obligation so as to have a Material Adverse Effect on the consolidated financial condition of Borrower;

c. The execution, delivery and performance of the Loan Documents will not immediately or with the passage of time, or the giving of notice, or both:

i. Violate the Organizational Documents governing Borrower, or violate any Laws or result in a default under the terms of any Contractual Obligation to which Borrower is a party or by which Borrower or its respective Properties is bound; or

ii. Result in the creation or imposition of any Lien upon any of the Property of Borrower, except the Liens in favor of Lender;

d. Borrower has the power and authority to enter into and perform the Loan Documents to which it is a party or is bound, and to incur obligations, and has taken all action necessary to authorize the execution, delivery and performance of the Loan Documents to which it is a party or is bound;

e. The Loan Documents, when delivered, will be legally valid and binding Contractual Obligations, enforceable in accordance with their respective terms;

- f. Borrower has good and marketable title to all of its Property and such Property is not subject to any Lien, except for Permitted Liens;
- g. Borrower's financial statements have been and will be prepared and presented and hereafter will present fully and fairly the financial condition of Borrower on the dates thereto and the results of operations for the periods covered thereby, and there has been no condition so as to create a Material Adverse Effect in the financial condition or business of Borrower from January 1, 2008 to the Closing Date for Loan No. 56548-141;
- h. Except as otherwise permitted herein, Borrower has filed all federal, state and local tax returns and other reports that it was required by Law to file prior to the date hereof and that are Material to the conduct of its business; has paid or caused to be paid all taxes, assessments and other similar governmental charges that were due and payable prior to the date hereof; have made adequate provision for the payment of taxes which are accruing but not yet payable; and have no knowledge of any deficiency or additional assessment in a Material amount in connection with any taxes which has not been provided for on their books;
- i. To the best of its knowledge, after due diligence in investigating relevant matters, except as otherwise disclosed or to the extent that the failure to comply would not be Material to the conduct of the business of Borrower, it has complied with all applicable laws with respect to:
- i. The products that it produces or sells or to the services it performs;
 - ii. The conduct of its businesses; and
 - iii. The use, maintenance and operation of the Properties owned or leased by it;
- j. No representation or warranty by Borrower, as to its best knowledge, after due diligence in investigating relevant matters, contained herein or in any certificate or other document furnished pursuant hereto, or in the Loan Documents, contains any untrue statement of Material fact or omits to state a Material fact necessary to make such representation or warranty not misleading in light of the circumstances under which it was made; and
- k. To the best knowledge of Borrower, after due diligence in investigating relevant matters, each consent, approval or authorization of, or filing, registration or qualification with, any Person required to be obtained or effected by Borrower in connection with the execution and delivery of the Loan Documents, or the undertaking or performance of any obligation thereunder, has been duly obtained or effected.
- l. No part of the proceeds of the Loan(s) will be used, directly or indirectly, for the purpose of purchasing or carrying or trading in any securities in violation of Regulation U. If requested by Lender, Borrower shall furnish to Lender a statement to the foregoing effect in conformity with the requirements of FR Form U-1 referred to in Regulation U. No indebtedness being reduced or retired out of the proceeds of the Loans was or will be incurred for the purpose of purchasing or carrying any margin stock within the meaning of Regulation U. "Margin stock" within the meanings of Regulation U does not constitute more than 25 percent of the value of the consolidated assets of Borrower. None of the transactions contemplated by this Loan Agreement (including without limitation, the direct or indirect use of the proceeds of the Loans) will violate or result in a violation of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, or regulations issued pursuant thereto, or Regulation U or X.

m. Borrower is not subject to regulation under the Public Utility Holding Company Act of 2005 or the Federal Power Act or the Investment Company Act of 1940, each as amended. In addition, Borrower is not (i) an "investment company" registered or required to be registered under the Investment Company Act of 1940, as amended, and is not controlled by such a company, or (ii) a "holding company," or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary" of a "holding company," within the meaning of the Public Utility Holding Company Act of 2005, as amended.

n. Borrower has obtained all Material licenses, permits, franchises or other governmental authorizations necessary to the ownership of its Property and to the conduct of its businesses.

o. Borrower is not in violation of any Law, which violation could reasonably be expected to have a Material Adverse Effect.

p. Borrower is current with all Material reports and documents, if any, required to be filed with any state or federal securities commission or similar agency and is in full compliance in all Material respects with all applicable rules and regulations of such commissions.

7.02 Representations and Warranties of Lender. Lender represents and warrants to Borrower as follows:

a. Lender is a legal entity duly organized, validly existing and is in good standing under the Farm Credit Act of 1971, as amended, has the necessary power and authority to conduct the business in which it is currently engaged, is duly qualified to conduct its business and is in compliance with all Material requirements of law, except to the extent that failure to comply therewith would not, in the aggregate, be reasonably expected to have a Material Adverse Effect on the operations of Lender.

b. Lender and each person executing this Loan Agreement on behalf of Lender has the necessary power and authority, and the legal right, to make and deliver this Loan Agreement, and has taken all necessary action to authorize the conditions of this Loan Agreement and to authorize the execution, delivery and performance thereof. No consent or authorization of, filing with, notice to or other similar act by or in respect of any Governmental Authority or any other Person is required to be obtained or made by or on behalf of Lender in connection with the execution, delivery, performance, validity or enforceability of this Loan Agreement. This Loan Agreement has been duly executed and delivered on behalf of Lender. This Loan Agreement constitutes a legal, valid and binding Loan Agreement enforceable against Lender in accordance with its terms.

7.03 Survival. All of the representations and warranties set forth in Subparagraph 7.01 shall survive until all Borrower's Obligations are paid and satisfied in full and all offsets, defenses or counterclaims that Borrower has or may claim to have, have been released or discharged.

8. Covenants.

8.01 Affirmative Covenants. Borrower hereby covenants and agrees that so long as this Loan Agreement is in effect or any of Borrower's Obligations shall remain outstanding, and until all of the commitments hereunder or in the Notes and other Loan Documents have been terminated, Borrower shall maintain the following covenants:

a. **Loan Purpose.** Borrower shall use the proceeds of a Loan only for the purposes set forth in the Note evidencing such Loan, and will furnish Lender such evidence as it may reasonably require with respect to such use.

b. **Financial Reporting/Notices.** Borrower shall furnish Lender, in form and detail satisfactory to Lender, during the term of the Loan(s):

i. As soon as available, but in any event within 90 days after each Fiscal Year-End: a consolidated balance sheet, the related consolidated statement of shareholders' (or equivalent) equity and cash flows and the related consolidated statement of income or operations for such Fiscal Year of Borrower and its Subsidiaries as of the end of such Fiscal Year, setting forth in each case, in comparative form, the figures for the previous Fiscal Year, all in reasonable detail and prepared in accordance with GAAP. Such consolidated statements shall be audited and accompanied by a report and opinions of an independent certified public accountant, reasonably acceptable to Lender, which report and opinion shall be prepared in accordance with generally accepted auditing standards and shall not be subject to any "going concern" or like qualification or exception or any qualification or exception as to the scope of such audit;

ii. As soon as available, but in any event within 45 days after each Fiscal Quarter-End, a consolidated balance sheet, the related consolidated statement of cash flows and the related consolidated statement of income or operations for such Fiscal Quarter-End of Borrower and its Subsidiaries, and for the portion of Borrower's Fiscal Year then ended, setting forth in each case, in comparative form, the figures for the corresponding Fiscal Quarter-End of the previous Fiscal Year and the corresponding portion of the previous Fiscal Year, all in reasonable detail;

iii. Concurrently with the delivery of the financial statements referred to in Sections 8.01b.i. and ii., a duly completed Compliance Certificate, signed by a Responsible Officer, certifying that such financial statements are fairly presenting the financial condition, results of operations, shareholders' (or equivalent) equity and cash flows of Borrower and its Subsidiaries in accordance with GAAP (subject only to normal year-end audit adjustments and the absence of footnotes with respect to financial statements provided under Section 8.01b.i.). A sample of the Compliance Certificate is attached hereto as Exhibit A and such Compliance Certificate shall be accompanied by a Covenant Compliance Worksheet, a sample of which is attached hereto as Exhibit B, signed by a Responsible Officer;

- iv. Promptly upon receipt thereof, copies of management letters submitted to Borrower by its independent certified public accountants in connection with an audit or review of Borrower and the responses of management to such letters;
- v. Promptly upon the request of Lender, (1) copies of any filings and registrations with, and reports to or from, the Securities Exchange Commission, or any successor agency, and copies of all financial statements, proxy statements, notices and reports as Borrower shall send to its shareholders, and (2) all reports and written information to and from the United States Environmental Protection Agency, or any state or local agency responsible for environmental matters, the United States Occupational Health and Safety Administration, or any state or local agency responsible for health and safety matters, or any successor agencies or authorities concerning environmental, health or safety matters that are Material to Borrower; and
- vi. Upon Borrower's obtaining knowledge thereof, Borrower shall give written notice to Lender immediately of (1) the occurrence of an event or condition consisting of an Event of Default or Incipient Default, specifying the nature and existence thereof and what action Borrower proposes to take with respect thereto, and (2) the occurrence of any of the following with respect to Borrower: (a) the pendency or commencement of any litigation, arbitral or governmental proceeding against Borrower or a Related Party which if adversely determined is likely to have a Material Adverse Effect, (b) the institution of any proceedings against Borrower or a Related Party with respect to, or the receipt of notice by such Person of potential liability or responsibility for violation, or alleged violation, of any federal, state or local law, rule or regulation, including but not limited to, environmental Laws, the violation of which would likely have a Material Adverse Effect.
- c. Insurance. Borrower shall maintain, for itself and its Subsidiaries, casualty insurance with insurance companies reasonably acceptable to Lender in such amounts, with such terms and covering such risks as are usually carried by companies engaged in the same or similar business and similarly situated, and make such increases in the type or amount of coverage as Lender may reasonably request. At the request of Lender, copies of such policies (or such other proof of compliance with this subsection as may be satisfactory to Lender) shall be delivered to Lender.
- d. Taxes. Borrower shall pay, or cause to be paid, for itself and its Subsidiaries, before they become delinquent and where the failure to pay or discharge such amounts will have a Material Adverse Effect, all taxes imposed upon it or on any of their Property or that it is required to withhold and pay, except when contested in good faith by appropriate proceedings with adequate reserves therefore having been set aside on their books. Notwithstanding the foregoing right of contest, such taxes will be paid whenever foreclosure on any Lien that has attached appears imminent.
- e. Records. Borrower shall keep accurate and complete Records of its operations, consistent with sound business practices. Borrower shall, when reasonably requested by Lender, make available for inspection all assets and properties of Borrower and make available for inspection and copying by duly authorized representatives of Lender, all Records related to its assets and Properties reasonably requested by Lender and will furnish Lender any reasonable information regarding its business affairs and financial condition within a reasonable time after Lender's request.

f. **Laws.** Borrower shall comply with all Laws applicable to it and its Property if noncompliance with any such Law would have a Material Adverse Effect.

g. **Property Maintenance.** Borrower shall maintain and preserve its Property in good repair, working order and condition, normal wear and tear and casualty and condemnation excepted, and will make, or cause to be made, in such Properties and equipment from time to time, all repairs, renewals, replacements, extensions, additions, betterments and improvements as may be needed or proper, to the extent and in the manner customary for companies in similar businesses. Borrower shall perform in all material aspects, all of its obligations under the terms of all Material agreements, indentures, mortgages, security agreements or other debt instruments to which it is a party or which it is bound.

h. **Indebtedness.** Borrower shall pay when due (or within applicable grace periods) all Indebtedness due third persons, except when the amount is being contested in good faith by appropriate proceedings and with adequate reserves being set aside on their books.

i. **Subordination.** Borrower hereby subordinates all Intercompany Indebtedness to Borrower's Obligations to Lender; provided however, so long as there exists no Event of Default or Incipient Default, Borrower may pay such Intercompany Indebtedness in the ordinary course of its businesses.

j. **Change of Location.** Borrower shall provide Lender with reasonable notice in advance of any change in its headquarters location.

k. **Additional Documents.** From time to time, Borrower shall execute and deliver to Lender such additional documents and will provide such additional information as Lender may reasonably require to carry out the terms of this Loan Agreement and be informed of the status and affairs of Borrower.

8.02 Financial Covenants. Borrower hereby covenants and agrees that so long as this Loan Agreement is in effect or any of Borrower's Obligations shall remain outstanding, Borrower shall comply with and maintain the following financial covenant, to be measured as of each Fiscal Quarter-End:

a. Indebtedness to Total Capitalization Ratio less than or equal to 0.50:1.00.

8.03 Negative Covenants. Borrower hereby covenants and agrees that so long as this Loan Agreement is in effect or any of Borrower's Obligations shall remain outstanding, and until all of the commitments hereunder have terminated, unless the prior written consent of Lender is obtained, which consent shall not be unreasonably withheld Borrower shall not and shall not allow any of its Subsidiaries to:

- a. Liens. Create, assume or suffer to exist, and will not permit any of its Subsidiaries to create, assume or suffer to exist, any Lien on any asset now owned or hereafter acquired by it other than Permitted Liens.
 - b. Nature of Business. Substantively alter the nature, character or conduct of its business conducted by it.
 - c. Consolidation, Merger, Sale or Purchase of Assets.
 - i. Dissolve, liquidate or wind up its affairs, or enter into any transaction of merger or consolidation; provided however, that, so long as no Event of Default or Incipient Default would be directly or indirectly caused as a result thereof, Borrower may merge or consolidate with any of its Subsidiaries, provided that Borrower is the surviving entity;
 - ii. Make an Asset Disposition that would have a Material Adverse Effect on the financial condition of Borrower.
 - d. Fiscal Year; Organizational Documents. Change its Fiscal Year-End or amend, modify or change its Organization Documents such that the result would have a Material Adverse Effect.
 - e. Accuracy of Reporting. Furnish any certificate or other document to Lender that contains any untrue statement of Material fact or that omits to state all Material facts necessary to make it not misleading in light of the circumstances under which it was furnished.
 - f. Indebtedness. Create, assume, incur, suffer to exist or otherwise become or remain liable in respect of any Indebtedness other than: (i) Indebtedness evidenced by the Note(s); (ii) existing Indebtedness, listed on a schedule provided to Lender as of the Closing Date; (iii) purchase money Indebtedness, including capital leases, not to exceed \$1,000,000.00 annually; (iv) Indebtedness related to Permitted Liens; (v) Indebtedness incurred or assumed after the date hereof which has been subordinated to the obligations of Borrower to Lender hereunder and under the Note(s) on terms and conditions satisfactory to Lender; (vi) obligations to secure the performance of bids, trade contracts (other than for borrowed money), leases, statutory obligations, surety and appeal bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business; (vii) Timber Fund Indebtedness, to the extent allowed under the governing documents of such Timber Fund; (viii) additional secured Indebtedness of a Subsidiary (other than that provided for under Section 8.03 f.(vi) above) in aggregate over the term of the Loan(s), not to exceed \$8,000,000.00, and; (ix) additional unsecured Indebtedness, in the aggregate over the term of the Loan(s), not to exceed \$10,000,000.00; provided, however, total additional Indebtedness allowed under (viii) and (ix) above shall not exceed \$10,000,000.00, in aggregate over the term of the Loan(s).
-

9. **Default.**

9.01 **Events of Default.** Time is of the essence in the performance of the Loan Documents. The occurrence of any one or more of the following events shall constitute an Event of Default under the Loan Documents:

- a. Borrower fails to make any payment of principal, interest or other costs, fees or expenses when due or perform any obligation or covenant as and when required under the Loan Documents for the Loan(s) or any other Note(s), loan(s) Borrower, or any of them, may have with Lender.
- b. Any financial statement, representation, warranty or certificate made or furnished by Borrower to Lender in connection with a Loan, or as an inducement to Lender to enter into a Loan is Materially false, incorrect or incomplete when made.
- c. Any Bankruptcy Event shall occur with respect to Borrower, or any Bankruptcy Event that has a Material Adverse Effect on Borrower shall occur with respect to any of Borrower's Subsidiaries.
- d. This Loan Agreement or any other Loan Document ceases to be valid and binding on Borrower or is declared null and void, or the validity or enforceability thereof is contested by Borrower, or Borrower denies that it has any or further liability under any of the Loan Documents.

9.02 **Notice and Opportunity to Cure.** Notwithstanding any other provision of the Loan Documents, Lender shall not accelerate the maturity of a Loan (a) because of a monetary default (defined below), unless the monetary default is not cured within ten days of its due date, or (b) because of a nonmonetary default (defined below), unless the nonmonetary default is not cured within 30 days after (i) the date on which Lender transmits by facsimile, mails or delivers written notice of the nonmonetary default to Borrower, or (ii) the date on which Borrower notifies Lender (verbally or in writing) of the nonmonetary default. For purposes of this Loan Agreement, the term "monetary default" means a failure by Borrower to make any payment required of it pursuant to the applicable Note or any other Loan Document, and the term "nonmonetary default" means a failure by Borrower or any other Person to perform any obligation contained in the Loan Documents, other than the obligation to make payments provided for in the Loan Documents.

10. **Prepayment and Breakage Fees.**

10.01 **Prepayment Fee.**

- a. **Exemption to Prepayment Fee.** Principal prepayments made while a Loan or Loan Segment is priced under the Base Rate shall not be subject to a Prepayment Fee. In addition, there is no Prepayment Fee for any prepaid principal if a prepayment is received on a Fixed Rate Maturity Date for the Loan or Loan Segment being prepaid. Other prepayments of principal shall be subject to a Prepayment Fee, as described below.

b. **“Prepayment” Defined.** For purposes of this Loan Agreement, “prepayment” shall mean any instance wherein the indebtedness is partially or fully satisfied in any manner prior to a payment due date, whether voluntarily or involuntarily (excluding scheduled payments that have been paid) pursuant to the terms of the Loan Documents. Prepayment shall include, but not be limited to: (i) any payment after an Event of Default under the Loan Documents; (ii) any payment after the Loan Maturity Date is accelerated for any reason; (iii) payment resulting from any sale or transfer of Property pursuant to foreclosure, sale under power, judicial order or trustee’s sale; and (iv) payment by sale, transfer or offsetting credit in connection with or under any bankruptcy, insolvency, reorganization, assignment for the benefit of creditors or receivership or similar proceedings under any statute of the United States or any state thereof involving Borrower. In the event of any acceleration of the Loan Maturity Date, the amount due hereunder shall include the charge that would be due under the Prepayment Fee in the event of a voluntary prepayment at the time of such acceleration, and the date of acceleration of the Loan Maturity Date will be deemed to be the date of prepayment.

c. **Prepayment Fee.** The “Prepayment Fee” is an amount intended to reasonably compensate Lender for the loss of the intended benefit of Lender’s bargain in the case of a prepayment. Borrower and Lender intend that the principal balance of the Loan or each Loan Segment will yield to Lender an annual return, after the date the Loan or Loan Segment is prepaid of not less than the annual return for the period when the interest rate is fixed. In the event of a prepayment, Lender will lose the intended benefit of its bargain. Accordingly, the Prepayment Fee shall be payable, on demand, and shall be an amount calculated on a make-whole basis, consistent with the procedure described in Exhibit C hereof.

10.02 Breakage Fee. In the event of an occurrence under sub-Sections a. or b. below, Borrower shall immediately pay Lender, on demand, a Breakage Fee in an amount calculated on a make-whole basis, consistent with the procedure described in Exhibit C hereof:

- a. Borrower provides Lender Notice that Loan principal is to be priced using a Fixed Rate Option, after which Borrower revokes such Notice; or
- b. Borrower provides Lender Notice that Loan principal priced under a Fixed Rate Option is to be priced, repriced or prepaid on other than a Pricing Date, after which Borrower revokes such Notice.

10.03 Participation. Participant(s), if any, shall calculate a Prepayment Fee or Breakage Fee using the calculation on a make-whole basis, consistent with the procedure described in Exhibit C hereof; provided however, a participant may use a different value than Lender for the Initial and Final Reference Rates, as those terms are described in Exhibit C hereof.

11. Enforcement and Waiver; Indemnity.

11.01 Enforcement and Waiver by Lender. Lender shall have the right at all times to enforce the provisions of the Loan Documents in strict accordance with the terms thereof, notwithstanding any conduct or custom on the part of Lender in refraining from so doing at any time or times. The failure of Lender at any time or times to enforce its rights under such provisions, strictly in accordance with the same, shall not be construed as having created a custom in any way or manner contrary to specific provisions or as having in any way or manner modified or waived the same. All rights and remedies of Lender are cumulative and concurrent, and the exercise of one right or remedy shall not be deemed a waiver or release of any other right or remedy. Lender shall have, in addition to the rights and remedies given it by the Loan Documents, all rights and remedies allowed by all applicable Laws and in equity.

11.02 Indemnity; Waiver of Damages by Borrower.

a. Indemnification by Borrower. Borrower shall indemnify Lender and each Related Party of Lender (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses (including the fees, charges and disbursements of any counsel for any Indemnitee), incurred by any Indemnitee or asserted against any Indemnitee by any third party or by Borrower or any other party hereto arising out of, in connection with, or as a result of (i) the execution or delivery of this Loan Agreement, any other Loan Document or any agreement or instrument contemplated, the performance by the parties hereto of their respective obligations or the consummation of the transactions contemplated, (ii) any actual or alleged presence or release of hazardous materials on or from any Property owned or operated by Borrower, or any environmental liability related in any way to Borrower or any of its Subsidiaries, or (iii) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory, whether brought by a third party or by Borrower or any other party hereto, and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses (x) are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted from the gross negligence or willful misconduct of such Indemnitee or (y) result from a claim brought by Borrower or any other party hereto against an Indemnitee for breach in bad faith of such Indemnitee's obligations hereunder or under any other Loan Document, if Borrower or such party hereto has obtained a final and nonappealable judgment in its favor on such claim as determined by a court of competent jurisdiction. Provided however, in the course of any proceeding of any nature contemplated by this subsection between or among Indemnitee, Borrower or any party hereto, each such party shall be responsible for their own fees and expenses, provided further, that following a nonappealable judgment, the prevailing party or substantially prevailing party shall be entitled to payment of its reasonable costs and expenses from the other party or parties.

b. Waiver by Borrower of Consequential Damages, Etc. To the fullest extent permitted by applicable Law, Borrower shall not assert, and each such party hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Loan Agreement, any other Loan Document or any agreement or instrument contemplated, the transactions contemplated, any Loan or the use of the proceeds thereof. No Indemnitee referred to in Subsection a. above shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems in connection with this Loan Agreement or the other Loan Documents or the transactions contemplated.

c. Payments. All amounts due under this Section 11.02 shall be payable not later than ten Business Days after demand therefore.

d. Survival. The agreements in this Section shall survive the repayment, satisfaction or discharge of Borrower's Obligations.

12. Communications.

12.01 Notice and Other Communications.

a. General. Unless otherwise expressly provided herein or in the Loan Documents, all notices and other communications provided for hereunder shall be in writing (including by facsimile transmission). All such written notices shall be mailed, faxed or delivered to the applicable address, facsimile number or, subject to Section 12.03 below, e-mail address, and all notices and other communications expressly permitted hereunder to be given by telephone and shall be made to the applicable telephone number, as follows:

i. If to Borrower:
Attention: Thomas M. Ringo
19245 Tenth Ave. NE
Poulsbo, WA 98370
Facsimile: (360) 697-1476
E-mail: tringo@orminc.com

ii. If to Lender:
Attention: Kristy Searles
Northwest Farm Credit Services, PCA
650 Hawthorne Ave. SE, Suite #210
Salem, OR 97301
Facsimile: (503) 373-3006
E-mail: NWFCsalemagribusiness@farm-credit.com

b. Effectiveness. All such notices and other communications shall be deemed to be given or made upon the earlier to occur of (1) actual receipt by the relevant party hereto and (2) (a) if delivered by hand or by courier, when signed for by or on behalf of the relevant party hereto; (b) if delivered by Certified Mail, Return Receipt Requested, upon receipt; (c) if delivered by Facsimile, when sent and receipt has been confirmed by telephone; and (d) if delivered by e-mail (which form of delivery is subject to the provisions of Section 12.03 below), when delivered. In no event shall a voicemail message be effective as a notice, communication or confirmation hereunder.

12.02 Facsimile Documents and Signatures. Loan Documents may be transmitted and or signed by facsimile. The effectiveness of any such documents and signatures shall, subject to applicable law, have the same force and effect as manually signed originals and shall be binding on Borrower and Lender, as applicable. Lender may also require that any such document and signature be confirmed by a manually signed original thereof, provided however, that the failure to request or deliver the same shall not limit the effectiveness of any facsimile document or signature.

12.03 Use of E-mail. E-mail, internet or intranet websites may be used only to distribute routine communications, such as financial statements, billing statements and other like information and to distribute Loan Documents for execution by the parties thereto, but may not be used for any other purpose, unless approved by Lender. Provided, an original signed document that has been scanned and attached to an e-mail shall have the same force and effect as a document sent by facsimile.

13. Participation. Notwithstanding any other provision of this Loan Agreement, Borrower understands that Lender may at any time enter into participation agreements with one or more participating lenders, whereby Lender will allocate certain percentages of its commitment to these lenders. Borrower acknowledges that, for the convenience of all parties, this Loan Agreement is being entered into with Lender only, and that Borrower's Obligations under this Loan Agreement are undertaken for the benefit of, and as an inducement to, any such participating lender as well as Lender, and Borrower hereby grants to each participating lender, all the rights and remedies afforded Lender hereunder.

14. Governing Law; Jurisdiction; Etc.

14.01 Governing Law. THIS LOAN AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF WASHINGTON, EXCEPT WHERE FEDERAL LAWS, INCLUDING THE FARM CREDIT ACT OF 1971, AS AMENDED, MAY BE APPLICABLE.

14.02 Submission to Jurisdiction. BORROWER AND EACH PARTY HERETO IRREVOCABLY AND UNCONDITIONALLY SUBMITS, FOR ITSELF AND ITS PROPERTY, TO THE NONEXCLUSIVE JURISDICTION OF THE COURTS OF THE STATE OF WASHINGTON SITTING IN SPOKANE COUNTY AND OF THE UNITED STATES DISTRICT COURT OF THE EASTERN DISTRICT OF WASHINGTON, AND ANY APPELLATE COURT FROM ANY THEREOF, IN ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS LOAN AGREEMENT OR ANY OTHER LOAN DOCUMENT, OR FOR RECOGNITION OR ENFORCEMENT OF ANY JUDGMENT, AND EACH OF THE PARTIES HERETO IRREVOCABLY AND UNCONDITIONALLY AGREES THAT ALL CLAIMS IN RESPECT OF ANY SUCH ACTION OR PROCEEDING MAY BE HEARD AND DETERMINED IN SUCH WASHINGTON STATE COURT OR, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, IN SUCH FEDERAL COURT. EACH OF THE PARTIES HERETO AGREES THAT A FINAL JUDGMENT IN ANY SUCH ACTION OR PROCEEDING SHALL BE CONCLUSIVE AND MAY BE ENFORCED IN OTHER JURISDICTIONS BY SUIT ON THE JUDGMENT OR IN ANY OTHER MANNER PROVIDED BY LAW. NOTHING IN THIS LOAN AGREEMENT OR IN ANY OTHER LOAN DOCUMENT SHALL AFFECT ANY RIGHT THAT LENDER MAY OTHERWISE HAVE TO BRING ANY ACTION OR PROCEEDING RELATING TO THIS LOAN AGREEMENT OR ANY OTHER LOAN DOCUMENT AGAINST BORROWER OR ANY OTHER LOAN PARTY OR ITS PROPERTIES IN THE COURTS OF ANY JURISDICTION.

14.03 Waiver of Venue. BORROWER AND EACH OTHER LOAN PARTY IRREVOCABLY AND UNCONDITIONALLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY OBJECTION THAT IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS LOAN AGREEMENT OR ANY OTHER LOAN DOCUMENT IN ANY COURT REFERRED TO IN SECTION 14.02 HEREOF. EACH OF THE PARTIES HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF SUCH ACTION OR PROCEEDING IN ANY SUCH COURT.

14.04 Service of Process. EACH PARTY HERETO IRREVOCABLY WAIVES PERSONAL SERVICE OR PROCESS, WHICH MAY BE MADE IN ANY OTHER MANNER PERMITTED BY APPLICABLE LAW.

14.05 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 AGREEMENT OR ANY OTHER LOAN DOCUMENTS AND ANY FUTURE MODIFICATIONS, AMENDMENTS, EXTENSIONS, RESTATEMENTS AND SERVICING ACTIONS RELATING TO THIS LOAN AGREEMENT AND ANY OTHER LOAN DOCUMENTS. THE PARTIES INTEND THAT THIS JURY WAIVER WILL BE ENFORCED TO THE MAXIMUM EXTENT ALLOWED BY LAW.

14.06 Consultation with Counsel. Borrower certifies that it has carefully read this Loan Agreement and other Loan Documents; that it understands the contents of this Loan Agreement and other Loan Documents; that in executing this Loan Agreement and other Loan Documents, it has not relied on the advice, opinions or statements of Lender or its officers, directors, employees or attorneys; and that it signed this Loan Agreement and other Loan Documents of their own free will and accord. Lender recommends that Borrower consult its counsel and or other professional advisor before signing this Loan Agreement and other Loan Documents. To the extent Borrower has not consulted with an attorney or other professionals in connection with this Loan Agreement and other Loan Documents, it acknowledges that it was given the opportunity to do so and chose of their own free will and accord not to do so.

15. Miscellaneous.

15.01 Construction.

a. The provisions of this Loan Agreement shall be in addition to those of any other Loan Document or other evidence of liability held by Lender, all of which shall be construed as complementary to each other. In the event of a conflict between the terms of this Loan Agreement and any other Loan Document, the terms of this Loan Agreement shall control such conflict. Nothing herein contained shall prevent Lender from enforcing any or all of the other Loan Documents in accordance with their respective terms. All Exhibits attached to this Loan Agreement are incorporated herein and made a part hereof.

b. This Loan Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract.

c. In this Loan Agreement, in the computation of a period of time from a specified date to a later specified date, unless otherwise stated the word "from" means "from and including" and the word "to" or "until" means "to and including."

d. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include," "includes" and "including" shall be deemed to be followed by the phrase "without limitation." The word "will" shall be construed to have the same meaning and effect as the word "shall." Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document (including any Organization Document) shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person's successors and assigns and (iii) the words "herein," "hereof" and "hereunder," and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof.

e. A reasonable person standard shall be applied to each and every warranty, representation, requirement or thing to be done or performed hereunder except when the term "in its discretion" or "in its sole discretion" is used herein.

15.02 Binding Effect, Assignment and Entire Agreement. The Loan Documents will inure to the benefit of, and shall be binding upon, the respective successors and permitted assigns of the parties hereto. Borrower has no right to assign any of its rights or obligations hereunder without the prior written consent of Lender. The Loan Documents constitute the entire agreement between the parties, and may be amended only by a writing signed on behalf of each party and dated subsequent to the date herein.

15.03 Severability. If any provision of this Loan Agreement shall be held invalid under any applicable Laws, such invalidity shall not affect any other provision of this Loan Agreement that can be given effect without the invalid provision, and, to this end, the provisions hereof are severable.

15.04 No Personal Liability of General Partners. In any action brought to enforce the obligation of Borrower to pay Borrower's Obligations, any judgment or decree shall not be subject to execution on, nor be a lien on, assets of the General Partners of Borrower. The foregoing shall in no way otherwise affect the personal liability of Borrower.

In Witness Whereof, the parties hereto have duly executed this Loan Agreement as of the date first above written.

LENDER:
NORTHWEST FARM CREDIT SERVICES, PCA

By: _____
Authorized Agent

BORROWER:
POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

By: _____
David L. Nunes, President and Chief Executive Officer

EXHIBIT A TO MASTER LOAN AGREEMENT
FORM OF COMPLIANCE CERTIFICATE

Financial Statement Date: _____, 20__

To: Northwest Farm Credit Services, PCA

Reference is made to that certain Master Loan Agreement, dated as of June __, 2008, (the "Loan Agreement") among POPE RESOURCES, A DELAWARE LIMITED PARTHERSHIP, a Delaware limited partnership ("Borrower"), and NORTHWEST FARM CREDIT SERVICES, PCA, "Lender."

The undersigned Responsible Officer hereby certifies as of the date hereof that he/she is the _____ of Borrower, and that, as such, he/she is authorized to execute and deliver this Certificate to Lender on behalf of Borrower, and that:

[Use following Paragraph 1 for Fiscal Year-End financial statements]

1. Attached hereto as Schedule 1, are the Fiscal Year-End audited financial statements required by Section 8.01.b.i of the Loan Agreement for the fiscal year of Borrower ended as of the above date, together with the report and opinion of an independent certified public accountant required by such section.

[Use following Paragraph 1 for [first/second/third] Fiscal Quarter-End financial statements]

1. Attached hereto as Schedule 1, are the financial statements required by Section 8.01.b.ii. of the Loan Agreement for the Fiscal Quarter of Borrower ended as of the above date. Such financial statements fairly present the financial condition, results of operations and cash flows of Borrower and its Subsidiaries in accordance with GAAP, as at such date and for such period, subject only to normal year-end adjustments and the absence of footnotes.

2. The undersigned has reviewed and is familiar with the terms of the Loan Documents and has made, or has caused to be made under his/her supervision, a detailed review of the transactions and condition (financial or otherwise) of Borrower during the accounting period covered by the attached financial statements.

3. A review of the activities of Borrower during such fiscal period has been made under the supervision of the undersigned with a view to determining whether during such fiscal period Borrower performed and observed all its obligations under the Loan Documents, and

[select one:]

[To the best knowledge of the undersigned during such fiscal period, Borrower performed and observed each covenant and condition of the Loan Documents applicable to it.]

--or--

[The following covenants or conditions have not been performed or observed and the following is a list of each such Default and its nature and status:]

4. To the best knowledge of the undersigned, the representations and warranties of Borrower contained in the Loan Documents, and any representations and warranties of Borrower that are contained in any document furnished at any time under or in connection with the Loan Documents, are true and correct on and as of the date hereof, except to the extent that such representations and warranties specifically refer to an earlier date, in which case they are true and correct as of such earlier date.
5. To the best knowledge of the undersigned, the financial covenant analyses and information set forth on Schedule 1, attached hereto, are true and accurate on the Calculation Date and the undersigned has received no information to the contrary as of the date of this Certificate.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of _____, 20__.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

By: _____
Name: _____
Title: _____

EXHIBIT B TO MASTER LOAN AGREEMENT
COVENANT COMPLIANCE WORKSHEET

For the Fiscal Quarter-End / Fiscal Year-End _____ ("Calculation Date")

I. Section 8.02 a. – Indebtedness to Total Capitalization Ratio

A. Companies' Indebtedness at Statement Date:	\$ _____
B. Indebtedness associated with minority interest in Timber Funds at Statement Date:	\$ _____
C. Numerator (Line I.A. minus Line I.B.):	\$ _____
D. Total Capitalization at Statement Date:	\$ _____
1. Partners' capital at Statement Date:	\$ _____
2. Market capital at Statement Date:	\$ _____
a. Closing unit price at Statement Date:	\$ _____
b. Partnership units outstanding at Statement Date:	_____
c. Market Capital (Line I D. 2. a. multiplied by Line I D. 2. b.)	\$ _____
E. Denominator (Line I C. plus the greater of Line I.D.1. or Line I.D.2.c.):	\$ _____
C. Ratio of Indebtedness to Total Capitalization (Line I.C. divided by Line I.E.):	_____

Maximum allowed: _____ 0.50

II. Consolidated Interest Coverage Ratio (Pricing Only)

A. Consolidated EBITDDA for the prior four Fiscal Quarters ending on the above date (the "Subject Period"):

1. Consolidated Net Income for the Subject Period	\$ _____
2. Consolidated Interest Expense for the Subject Period:	\$ _____
3. Consolidated depreciation expense for the Subject Period:	\$ _____
4. Consolidated amortization expense for the Subject Period:	\$ _____
5. Consolidated depletion expense for the Subject Period (excluding the portion associated with the minority interest in Timber Funds):	\$ _____
6. Cost of land sold:	\$ _____
7. Consolidated Taxes for the Subject Period (to the extent considered in calculating Consolidated Net Income):	\$ _____
8. Consolidated EBITDDA (the sum of Lines II.A.1 through I.A.7. inclusive):	\$ _____

B. Consolidated Interest Expense for Subject Period: \$ _____

C. Consolidated Interest Coverage Ratio (Line I.A.8 divided by Line I.B): _____ to 1

**EXHIBIT C TO MASTER LOAN AGREEMENT
PREPAYMENT / BREAKAGE FEE CALCULATION**

A. Definitions. For the purposes herein, the following definitions apply:

1. "Prepayment Amount," for the purpose of a Prepayment Fee, means the amount of any principal prepayment.
2. "Prepayment Amount," for the purpose of a Breakage Fee, means the principal that Borrower has indicated on a Notice to be advanced or priced using a Fixed Rate Option.
3. "Remaining Fixed Pricing Period," for any principal priced with a Fixed Rate Option, means the period of time beginning (a) on the date a principal prepayment is made or, (b) in the case of a Breakage Fee, on the date Notice is given and ending on the Fixed Rate Maturity Date.
4. "Initial Reference Rate," for any principal priced with a Fixed Rate Option, means the annualized rate used by Lender or a participant to obtain the funds loaned to Borrower in the case of a Prepayment Fee, or the annualized rate applicable on the last Pricing Date, or on the date Notice of prepayment is given, as the case may be, in the case of a Breakage Fee.
5. "Final Reference Rate" means the annualized rate Lender or a participant would use to fund a new advance in such amount for the Remaining Fixed Pricing Period on the date of such prepayment. For a Breakage Fee, the Final Reference Rate means the annualized rate as of the date Notice is given.

B. Calculation of Prepayment/Breakage Fee. The Prepayment Fee and the Breakage Fee are calculated on a make-whole basis in five (5) steps, as provided below:

1. Compare the Initial Reference Rate and the Final Reference Rate. If the Initial Reference Rate is less than or equal to the Final Reference Rate, the Prepayment / Breakage Fee is zero. If the Initial Reference Rate is greater than the Final Reference Rate, complete the following steps to calculate the Prepayment/Breakage Fee.
2. Calculate the interest payment that will accrue on the Prepayment Amount over the Remaining Fixed Pricing Period at the Initial Reference Rate ("Initial Interest Amounts").
3. Calculate the interest payment that will accrue on the Prepayment Amount over the Remaining Fixed Pricing Period at the Final Reference Rate ("Final Interest Amounts").

4. Calculate the "Differential Interest Amount" for each interest payment due during the Remaining Fixed Pricing Period by subtracting the Final Interest Amount from the Initial Interest Amount for each such payment.
5. The Prepayment or Breakage Fee is the sum of the discounted present value of each Differential Interest Amount, discounted at the Final Reference Rate from the date such payment would be due back to the prepayment date, or in the case of a Breakage Fee, on the date Notice is given.

An example of a Prepayment/Breakage Fee calculation is attached hereafter.

EXAMPLE OF PREPAYMENT/BREAKAGE FEE CALCULATION

Prepayment Amount	\$1,000,000.00
Initial Reference Rate	5.50%
Final Reference Rate	5.00%
Scheduled Interest Payments in the Remaining Fixed Pricing Period	1
Remaining Fixed Pricing Period	90 Days
Installment Period	Quarterly

Compare Rates – Step 1	
<u>Initial Reference Rate</u>	5.50%
<u>Final Reference Rate</u>	5.00%
<small>(The Final Reference Rate is the 90-day Current Discount Note Rate, as adjusted by Lender)</small>	
<small>Continue to the next step because the Initial Reference Rate is greater than the Final Reference Rate.</small>	

Scheduled Interest Payments at the Initial Reference Rate – Step 2		
<u>Interest Payment</u>	<u>Initial Interest Amounts</u>	<u>Balance</u>
1	\$13,750.00	\$1,000,000.00
<small>[((\$1,000,000.00 x 5.50%)/4) = \$13,750.00]</small>		
<small>Carry forward the Initial Interest Amounts to Step 4</small>		

Scheduled Interest Payments at the Final Reference Rate – Step 3		
<u>Interest Payment</u>	<u>Final Interest Amounts</u>	<u>Balance</u>
1	\$12,500.00	\$1,000,000.00
<small>[((\$1,000,000.00 x 5.00%)/4) = \$12,500.00]</small>		
<small>Carry forward the Final Interest Amounts to Step 4</small>		

Interest Difference – Step 4			
<u>Interest Payment</u>	<u>Initial Interest Amounts</u>	<u>Final Interest Amounts</u>	<u>Differential Interest Amount</u>
1	\$13,750.00	\$12,500.00	\$1,250.00
<small>Carry forward the Differential Interest Amount to Step 5</small>			

Net Present Value of Differential Interest Amounts – Step 5				
<u>Interest Payment</u>	<u>Final Reference Rate</u>	<u>Present Value Factor</u>	<u>Differential Interest Amount</u>	<u>Present Value</u>
1	5.00%	0.98765	\$1,250.00	\$1,234.57
			Prepayment/Breakage Fee	\$1,234.57

Date: July 31, 2008

Pope Resources, A Delaware Limited Partnership
Customer/Note No. 56548-811

**REVOLVING OPERATING NOTE
(WITH MULTIPLE PRICING OPTIONS)**

For Value Received, on the Loan Maturity Date, Borrower, as principal, promises to pay to Lender, as defined below, or order, at its office in Spokane, Washington, or such other place as the holder of this Revolving Operating Note and Loan Agreement (this "Note") may designate in writing, the principal sum of **Forty Million and no/100's Dollars (\$40,000,000.00)** (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 Master Loan Agreement, dated on or about the same date herewith (as amended and modified, the "Loan Agreement").

"**Applicable Margin**" means the per annum percentage set forth below, which corresponds to the Borrower's Pricing Level as of the most recent Calculation Date.

Pricing Level	Consolidated Interest Coverage Ratio	Applicable Margin for Base Rate	Applicable Margin for Fixed Rate Options	Unused Commitment Fee
I	≥ 3.00:1.00	- 1.00%	+1.25%	0.10%
II	≥ 2.00:1.00	- 0.75%	+1.40%	0.15%
III	< 2.00:1.00	- 0.50%	+1.65%	0.20%

The pricing level shall be determined and adjusted on the date ten (10) Business Days after the date Borrower provides Lender the Compliance Certificate, as required herein, for Borrower's most recent Calculation Date (each, an "Adjustment Date"); provided however, that the initial pricing level shall be I and shall remain at such pricing level until the first Adjustment Date occurring after the first Calculation Date following the Closing Date. On such Adjustment Date and on each Adjustment Date thereafter, the pricing level shall be determined by the Consolidated Interest Coverage Ratio as of the most recent Calculation Date. If Borrower fails to timely provide Lender the Compliance Certificate for such most recent Calculation Date, the pricing level commencing the day after the due date thereof shall be the highest pricing level, which shall remain in effect until subsequently adjusted ten (10) Business Days after the delivery of the required Compliance Certificate. Any adjustment in the pricing level shall be applicable to all existing Loan Segments. Provided, however, in the Event of Default, Lender shall have the right at any time to change to the highest pricing level and the applicable interest rate shall also be subject to default interest, as provided in Section 7.03 hereof. In calculating the pricing level, Lender will use the Consolidated Interest Coverage Ratio, notwithstanding any grace period provided for in the Loan Documents.

“Base Rate” shall have the meaning given in Section 4.01 hereof.

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

“Beneficiary” means the party designated as the recipient of a Letter of Credit issued by Lender under this Loan.

“Borrower” means Pope Resources, A Delaware Limited Partnership, a Delaware limited partnership.

“Calculation Date” means the first three Fiscal Quarter-Ends and the Fiscal Year-End of Borrower.

“Closing Date” means the date the Loan Documents are fully executed and the conditions precedent to Loan closing have been met to Lender's satisfaction or waived by Lender in writing.

“Commitment Period” means the Closing Date to the Loan Maturity Date.

“Default Interest” shall have the meaning given in Section 7.03 hereof.

“Disbursement Date” means any Business Day when 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” means the last day of an Interest Period.

“Fixed Rate Option” means any of the Fixed Rate Options defined in Section 4.02 hereof.

“Index Source” means Citibank, N.A. for the Base Rate Option and the British Bankers' Association for the Fixed Rate Options, unless an Index Source is otherwise identified by Lender.

“Interest Period” means, as to each Fixed Rate Loan Segment, the period commencing on the date such Fixed Rate Loan Segment is advanced, converted to or continues as a Fixed Rate Loan Segment and ending on the date one, three or six months thereafter, as selected by Borrower in a Notice to Lender; provided that:

- (i) any Interest Period that would otherwise end on a day that is not a Business Day shall be extended to the next succeeding Business Day, unless such Business Day falls in another calendar month, in which case such Interest Period shall end on the next preceding business Day;
- (ii) any Interest Period that begins on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period) shall end on the last Business Day of the calendar month at the end of such Interest Period; and
- (iii) no Interest Period shall extend beyond the Loan Maturity Date.

"Lender" means Northwest Farm Credit Services, PCA.

"Letter of Credit" means a letter of credit issued by Lender to a Beneficiary at the request of Borrower.

"LIBOR" means the rate per annum at approximately 11:00 a.m. (London time) on the date that is two (2) Business Days prior to the beginning of the relevant interest period by reference to the British Bankers' Association Interest Settlement Rates for deposits in Dollars (as set forth by the Bloomberg Information Service or any successor thereto, which has been nominated by the British Bankers' Association as an authorized information vendor for the purpose of displaying such rates) for a period equal to such interest period; provided, that, to the extent that an interest rate is not ascertainable pursuant to the foregoing provisions of this definition, "LIBOR" shall be the interest rate per annum determined by Lender to be the average of the rates per annum at which deposits in dollars are offered for such relevant interest period to major banks in the London interbank market in London, England at approximately 11:00 a.m. (London time) on the date that is two (2) Business Days prior to the beginning of such interest period.

"Loan" or "Loan No. 56548-811" means all principal amounts advanced by Lender to Borrower or on the account of Borrower or otherwise under this Note and the other Loan Documents, and all fees or charges incurred as provided for in this Note and the other Loan Documents, plus all interest accrued thereon.

"Loan Documents" means this Note and all other documents executed in connection with the Loan, including without limitation the Loan Agreement, and all renewals, extensions, amendments, modifications, substitutions and replacements thereof.

"Loan Maturity Date" means August 1, 2011.

"Loan Purpose" means (a) to provide financing for Borrower's operating and capital needs (including distributions to Borrower's unitholders in the ordinary course of business and repurchases of partnership units from Borrower's unitholders as may be approved by Borrower's Board of Directors), and (b) to pay for Stock, Loan fees and all of Lender's reasonable transaction costs.

"Loan Segment" means the Base Rate Loan Segment, an LOC Loan Segment or a Fixed Rate Loan Segment.

"LOC Loan Segment" means the total principal commitment of all Letters of Credit issued by Lender under this Note.

"Notice" shall have the meaning given in Section 2.04 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.

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

"Unused Commitment Fee" shall have the meaning given in Section 2.01 hereof.

2. Loan Fee, Expenses, Stock and Notice.

2.01 Loan Fee. Borrower shall pay Lender the Loan fees set forth in a separate Loan fee letter on the Closing Date. In addition, Borrower shall pay Lender, quarterly in arrears, an Unused Commitment Fee to be calculated by multiplying the average daily unused balance of the Loan by the annual percentage indicated in the pricing grid in the definition of Applicable Margin and dividing the resulting product by four. The Unused Commitment Fee shall be due on the first day following each Fiscal Quarter-End and shall be payable by the tenth day following each Fiscal Quarter-End.

2.02 Costs and Expenses. Borrower shall pay Lender, on the Closing Date and subsequently on Lender's demand, all costs and expenses related to closing, whether or not the Loan is disbursed. Provided, however, such costs and expenses shall not exceed \$1,000.00.

2.03 Stock. Borrower shall comply with the capitalization requirements of ACA, as provided in the Loan Agreement.

2.04 Notice.

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 three Business Days prior to the Business Day the prepayment will be made.

b. **Pricing.** Borrower shall provide Lender irrevocable Notice of pricing of a Fixed Rate Loan Segment by 10:00 a.m. Spokane time three days prior to the Pricing Date.

c. **Form of Notice.** Borrower may provide Lender any Notice required under this Note by use of a Notice in form substantially the same as set forth in 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. **Advances and Pricing Elections.**

3.01 Advances. So long as there is no Event of Default or Incipient Default under this Note or the other Loan Documents during the Commitment Period, Lender will make advances to Borrower on a Disbursement Date for a purpose consistent and in compliance with the Loan Documents in amounts requested by Borrower, provided that, after giving effect to any requested advance, the aggregate principal amount of such advances made hereunder will not exceed the Total Commitment Amount. The advances constitute a revolving line of credit. During the Commitment Period, Borrower may borrow, repay and reborrow Loan principal on the terms and conditions contained herein.

3.02 Letters of Credit. Lender will make Letters of Credit available to Borrower as one means of advancing Loan proceeds. Borrower may only request Letters of Credit prior to the Loan Maturity Date within the Total Commitment Amount for an approved Loan purpose and so long as there is no Event of Default or Incipient Default under the Loan Documents. Letters of Credit are subject to the terms and conditions of this Note and the other Loan Documents, including, but not limited to, the following terms and conditions:

- a. **Purpose.** Lender and Borrower agree that the sole purpose for the advance of any Loan proceeds under a Letter of Credit shall be by Lender to pay directly to the Beneficiary designated therein, upon its written demand, pursuant to the terms of that certain Letter of Credit, issued by Lender for the account of Borrower.
- b. **Termination.** Lender's duty to advance loan proceeds to the Beneficiary shall terminate on July 20, 2011, or the earlier termination of the Letter of Credit. The aggregate amount that Lender shall be required to advance shall be limited to the commitment amount of such Letter of Credit.
- c. **Payment.** In the event any amount is advanced under a Letter of Credit, Borrower shall repay interest and principal associated with such advance pursuant to the terms of this Note.
- d. **Letter of Credit Fee.** Borrower shall pay Lender a fee of one and one half of one percent (1.5%) of the Letter of Credit commitment amount, at inception and annually during the term of such Letter of Credit, for each Letter of Credit issued.
- e. **Indemnification.** Borrower shall defend, indemnify and hold Lender harmless for any and all claims, damages, liabilities, costs or expenses whatsoever by Borrower, or any other party ("liabilities") which Lender may incur or suffer by reason of or in conjunction with Lender's performance under a Letter of Credit except only if and to the extent that any such liability shall be caused by the willful misconduct or gross negligence of Lender in performing its obligations under such Letter of Credit. Provided however, Lender may rely on the documents presented to Lender by the Beneficiary in accordance with the Letter of Credit as to any and all matters set forth therein, whether or not any statement or any document presented pursuant thereto proves to be forged, fraudulent, invalid or insufficient in any respect or any statement therein proves to be untrue or inaccurate in any respect. Borrower shall reimburse Lender for any legal or other expenses incurred in connection with investigating or defending against any of the foregoing except if the same is due to Lender's gross negligence or willful misconduct. The indemnities contained herein shall survive the expiration of any Letter of Credit.

f. LOC Loan Segment. Any LOC Loan Segment shall be treated as fully disbursed for purposes of determining the amount that Borrower may borrow under the Loan.

3.03 Pricing Elections. Upon irrevocable Notice to Lender, as to principal (i) in the amount of an advance, (ii) in a 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 an advance or the unpaid principal balance of such Loan Segment on such Pricing Date to bear interest at any Rate Option; provided however, that (1) there is no Event of Default or Incipient Default; (2) Borrower shall price principal in Fixed Rate Loan Segments in initial minimum principal amounts of \$1,000,000.00; (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 five Fixed Rate Loan Segments at any one time. If Borrower does not provide Lender irrevocable Notice of election of a Rate Option three Business Days prior to a Fixed Rate Maturity Date for a Fixed Rate Loan Segment, the unpaid principal balance of such Loan Segment shall be priced at the Base Rate effective on such Pricing Date.

3.04 Single Base Rate Loan Segment. If on a Pricing Date, a 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 balances from all such Loan Segments priced under the Base Rate on such Pricing Date.

4. Pricing Options.

4.01 Base Rate: Prime Based Adjustable Interest Rate. The Base Rate is the Prime Based Adjustable Interest Rate. The "Prime Based Adjustable Interest Rate" on any given date is the per annum interest rate equal to the prime base rate (the "Index") charged on loans at Citibank, N.A. in effect on such date or one Business Day later, as determined by Lender in its sole discretion, plus the Applicable Margin. The Prime Based Adjustable Interest Rate may change at any time.

4.02 Fixed Rate Options. A Fixed Rate Loan Segment may be priced at a fixed rate equal to the 1-, 3- or 6-Month Fixed Rate Options, as defined herein, plus the Applicable Margin. With these Fixed Rate Options: (a) rates may be fixed for an Interest Period of 1-, 3- or 6-months; and (b) rates may only be fixed on a Pricing Date to take effect on such Pricing Date. For purposes hereof, the "1-, 3- and 6- Month Fixed Rate Options" means the LIBOR rates for the corresponding Interest Period.

4.03 Additional Pricing Options. In the event Borrower should desire to price a Loan Segment using an Index, Pricing Date and repricing 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, which rate shall be effective on the date determined upon terms and conditions and within timeframes as Lender may prescribe at the time of the quote.

5. Payment.

5.01 Payment of Loan Segments. Borrower shall make monthly interest only payments, which payments shall consist of interest that accrued during such period on the unpaid principal balance of each Loan Segment. Interest only payments shall be due and payable on the tenth day of the following month.

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

5.03 Application of Payments. So long as there is no Event of Default or Incipient Default, payments received prior to the Loan Maturity Date, in amounts other than as billed, shall be applied to Loan Segments, as of the date of receipt, as follows:

- a. First to any fees and reimbursable expenses due under this Note or any other Loan Documents;
- b. Second to billed and unpaid interest by Loan Segment, beginning with the Loan Segment bearing the highest interest rate and then to Loan Segments in descending order of their interest rates. Provided however, if two or more Loan Segments are subject to the same interest rate as of the date of receipt of payment, the payment shall be applied first to the Base Rate Loan Segment, then to the Fixed Rate Loan Segment with the earliest Fixed Rate Maturity Date and then to the Fixed Rate Loan Segments in increasing order of their Fixed Rate Maturity Dates;
- c. Third to the principal balance in the Base Rate Loan Segment; and
- d. Thereafter to Borrower's FPF Account, except where Borrower provides Lender Notice that such payment amount should be applied against one of the Fixed Rate Loan Segments subject to the Prepayment Fee as provided for herein. Provided however, on the Loan Maturity Date, payments shall be applied as provided in subparagraphs a.-c. above, and then to the principal balance in any Fixed Rate Loan Segments.

5.04 Payment from FPF Account. Upon Borrower's request, Lender will apply funds, if any, held in the FPF Account with respect to the Loan to the unpaid balance, if any, of the Loan. Each payment from the FPF Account will be applied to Loan Segments as provided for in subparagraphs a.-c. of Section 5.03 above. The FPF Account is governed by the terms of the Loan Documents. In the Event of Default or Incipient Default, Lender shall have the right to apply payments made by or for the account of Borrower, including without limitation, from the FPF Account, to any Loan Segment as Lender may determine, in its sole discretion, at any time.

6. **Prepayment and Breakage Fees.** The Loan is subject to the Prepayment and Breakage Fees indicated in the Loan Agreement.

7. **Default.**

7.01 **Events of Default.** Time is of the essence in the performance of this Note. The occurrence of any one or more of the following events shall constitute an "Event of Default" under this Note:

- a. Borrower fails to make any payment of principal, interest or other costs, fees or expenses when due and payable or to perform any obligation or covenant as and when required under the Loan Documents for the Loan or any other note, loan or contract Borrower, or any of them, may have with Lender or an affiliate of Lender.
- b. Any financial statement, representation, warranty or certificate made or furnished by Borrower to Lender in connection with the Loan, or as an inducement to Lender to enter into the Loan is materially false, incorrect, or incomplete when made.
- c. Borrower shall fail generally to pay its debts as such debts become due, or becomes insolvent or becomes the subject of an insolvency proceeding.
- d. This Note or any other Loan Document ceases to be valid and binding on Borrower or is declared null and void, or the validity or enforceability thereof is contested by Borrower, or Borrower denies that it has any or further liability under this Note or any of the other Loan Documents.

7.02 **Acceleration.** In the event of any uncured Event of Default beyond any applicable cure periods provided for in the Loan Documents, at Lender's option, without notice or demand, the unpaid principal balance of the Loan, plus all accrued and unpaid interest thereon and all other amounts due shall immediately become due and payable.

7.03 **Default Interest.** The Default Interest rate applicable to a delinquent payment for a Loan Segment shall remain at the rate in effect on such Loan Segment at the time such payment was due. 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 each Loan Segment, until paid in full.

8. **Loan Terms, Provisions and Covenants.** The Loan is subject to the terms, provisions and covenants of this Note and the other Loan Documents.

9. **Miscellaneous.**
- 9.01 **Notice of Default.** Borrower shall provide Lender immediate Notice of any Event of Default or Incipient Default under this Note and the other Loan Documents.
- 9.02 **Interest Rates.**
- a. **Base Rate Option.** The Base Rate interest rate is a per annum rate and is calculated on the basis of the actual number of days elapsed during the year for the actual number of days in the year. If any payment date is not a Business Day, then payment shall be due on the next succeeding Business Day.
- b. **Fixed Rate Options.** The interest rate for the Fixed Rate Options and the Unused Commitment Fee are per annum rates and are calculated on the basis of the actual number of days elapsed during the year for a 360 day year. If any payment date is not a Business Day, then payment shall be due on the next succeeding Business Day.
- 9.03 **Exhibits.** All Exhibits hereto are incorporated herein and made a part of this Note.
- 9.04 **Index and Index Source.** The Indexes used herein do not necessarily represent the lowest rates charged by Lender on its loans. If any Index or Index Source provided for herein becomes unavailable during the Loan 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.
- 9.05 **Payments.** Upon Lender's written request, payments shall be electronically submitted no later than 10:00 a.m. Spokane time on the date specified for payment. All sums payable to Lender hereunder shall be paid directly to Lender in immediately available funds in U.S. dollars. Lender shall send to Borrower periodic statements of all amounts due hereunder at applicable interest rates, which statements shall be considered correct and conclusively binding on Borrower in all respects and for all purposes unless Borrower notifies Lender in writing of any objections within 15 days of receipt of any such statement.
- 9.06 **Authorization.** Borrower authorizes a Responsible Officer, or any other individual(s) as they or either of them may authorize in writing, to request advances of principal under this Note, to confirm interest rates and lock-in fees, and to provide Lender notice of pricing, repricing or prepayment as required under this Note.
- 9.07 **Advances, Fees and Costs.** Borrower shall pay Lender, on demand, all attorney fees and costs incurred to protect or enforce any of Lender's rights in bankruptcy, appellate proceedings, or otherwise, under this Note or the other Loan Documents. All sums advanced by Lender to protect its interests hereunder or under the other Loan Documents and all Prepayment and Breakage Fees shall be payable, on demand, and shall accrue interest under the interest rate in effect for the Base Rate Loan Segment on such date and shall be treated as an advance under the Base Rate Loan Segment.

9.08 Funds Management Services. Lender may provide funds management services to Borrower. Upon request, Lender shall provide Borrower a quote for identified funds management services. 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 the Loan. The funds management services and fees may be adjusted upon reasonable notice by Lender.

9.09 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.

9.10 General Provisions. Borrower agrees to this Note as of the date first above written. 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 may at any time, without notice, release all or any part of the security for this Note, including the real estate and or personal property covered by the Loan Documents; grant extensions, deferrals, renewals or reamortizations of any part of the Loan over any period of time; and release from personal liability any one or more of the parties who are or may become liable for the Loan, without affecting the personal liability of any other party. Lender may exercise any and all rights and remedies available at law, in equity and provided herein and in the other Loan Documents. Any delay or omission by Lender in exercising a right or remedy shall not waive that or any other right or remedy. No waiver of default by Lender shall operate as a waiver of the same or any other default on a future occasion. Lender shall not be obligated to renew the Loan or any part thereof or to make additional or future loans to Borrower.

9.11 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.

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.

(signature page follows)

BORROWER:
POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

By: _____
David L. Nunes, President and Chief Executive Officer

Pay to the Order of CoBank, ACB.

EXHIBIT A
NOTICE/CONFIRMATION

To:
Technical Accounting Services
Northwest Farm Credit Services, PCA
1700 South Assembly Street
Spokane, WA 99224-2121

P. O. Box 2515
Spokane, WA 99220-2515

Fax: 509-340-5508
Tel.: 1-800-216-4535

NOTICE
This Notice is provided pursuant to the Revolving Operating Note dated July 31, 2008, as extended, renewed, amended or restated.

PRICING. If checked, Borrower elects to price or reprice principal in a Loan Segment as follows:

- New Advance
- Base Rate Loan Segment
- Fixed Rate Loan Segment Currently Priced Under Fixed Rate Option _____
- Principal Amount _____
- To New Fixed Rate Option _____
- To be Effective (Date) _____

PREPAYMENT OF PRINCIPAL. If checked, Borrower elects to prepay principal as follows:

- Base Rate Loan Segment
- Fixed Rate Loan Segment Priced Under Option _____
- Principal Amount _____
- To be Effective (Date) _____

POPE RESOURCES, A DELAWARE LIMITED
PARTNERSHIP

Date: _____

By: _____
Authorized Agent

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

NORTHWEST FARM CREDIT SERVICES, PCA

Date: _____

By: _____
Authorized Agent

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, David L. Nunes, 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; and
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 6, 2008

/s/ David L. Nunes
David L. Nunes
Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL 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; and
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 6, 2008

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

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 March 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David L. Nunes, 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/ David L. Nunes

David L. Nunes
Chief Executive Officer

August 6, 2008

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 March 31, 2008, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas M. Ringo, 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/ Thomas M. Ringo
Thomas M. Ringo
Chief Financial Officer

August 6, 2008