

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [Fee Required]

**For the fiscal year ended December 31, 2000**

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 [No Fee Required] For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-9035

**Pope Resources, A Delaware Limited Partnership**  
(Exact name of registrant as specified in its charter)

**Delaware**

**91-1313292**

(IRS Employer I.D. No.)

(State of Organization)

19245 Tenth Avenue NE, Poulsbo, WA 98370  
(Address of principal executive offices Zip Code)

Registrant's telephone number, including area code: **(360) 697-6626**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

**Depository Receipts (Units)**

**Nasdaq National Market System**

Securities registered pursuant to Section 12(g) of the Act:  
**None**

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, and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K.

Approximate aggregate market value of the non-voting equity in the form of units held by nonaffiliates of the registrant as of March 7, 2001 was **\$75,223,170**.

Documents incorporated by reference: **See Item 14. Exhibit Index Item IV.**

**PART I**

**Item 1. BUSINESS**

**OVERVIEW**

Pope Resources, A Delaware Limited Partnership (the "Partnership"), was organized in October 1985 as a result of a spin-off by Pope & Talbot, Inc. (P&T) of certain of its assets, and two of its subsidiaries (Ludlow Water Company and Gamble Village Water & Sewer Company). The Partnership is a successor to Pope & Talbot Development, Inc. and other P&T affiliates. P&T acquired its first timberlands in the Puget Sound area in 1853.

In March 1997, the Partnership's unitholders authorized management to expand its timberland business with the Investor Portfolio Management Business (IPMB). The IPMB has two complementary business strategies: timberland management and portfolio development. Timberland management's goal is to provide management services to third-party owners of timberlands. Portfolio development's goal is to build and manage diversified portfolios of timberlands for third-party investors, sometimes acting exclusively as an investment manager, while at other times co-investing as a partner on behalf of Pope Resources. ORM, Inc.

and Olympic Resource Management LLC (ORMLLC) were formed in 1997 to facilitate the IPMB activities. To date, the Partnership has developed a client base for timberland management services but has not accomplished the same for portfolio development.

The amendment to the Limited Partnership Agreement authorizing Management to pursue the IPMB strategy limits cumulative net expenditures to \$5,000,000, including debt guarantees. As of December 31, 2000, cumulative net expenditures, incurred in pursuit of IPMB opportunities, including guarantees, totaled approximately \$258,000 net of income generated. The amendment further specifies that income from the IPMB will be split using a sliding scale allocation method beginning at 80% to ORM, Inc., a subsidiary of Pope Resources and 20% to Pope MGP, Inc., the managing general partner of the Partnership. The sliding scale allocation method will evenly divide IPMB income between ORM, Inc. and Pope MGP, Inc. once such income reaches \$7,000,000 in a given fiscal year.

During 1998, the Partnership formed ORM International, Inc. and ORM Resources Canada Ltd. to facilitate the acquisition of assets of Simons Reid Collins, a division of H.A. Simons Ltd. of Vancouver, British Columbia. These assets and employees are dedicated to two business operations: timberland management and forestry consulting. The timberland management operation consists of managing 61,000 acres for the Hancock Timber Resource Group in British Columbia. The forestry consulting business provides consulting services throughout Canada and in Jamaica and Argentina. The Partnership is planning to sell the forestry consulting operation in British Columbia during 2001.

The Partnership formed Ludlow Bay Realty, Inc. in 1993. During 1998, the Partnership formed the following wholly owned subsidiaries: Olympic Property Group LLC, Olympic Real Estate Development LLC, and Olympic Resorts LLC. The Partnership also changed the name of Ludlow Bay Realty, Inc. to Olympic Real Estate Management, Inc. and Ludlow Water Company to Olympic Water and Sewer, Inc. In 1991, Pope Resources became a partner in Ludlow Associates, a Washington partnership, for the purposes of ownership of the Heron Beach Inn on Ludlow Bay. In 1998, Ludlow Associates was dissolved and Pope Resources acquired the entire ownership of the Heron Beach Inn on Ludlow Bay. The operations in these entities consist of real estate development and commercial property operations in Port Ludlow, Washington and to a lesser extent investments in land located in Kingston Hansville, Seabeck, Gig Harbor, and Bremerton, Washington. In January 2001, the Partnership signed an agreement to sell the residential development and commercial property assets in Port Ludlow Washington, along with the common stock of Olympic Water and Sewer, Inc. That transaction is expected to close during the first half of 2001.

## **NARRATIVE DESCRIPTION OF BUSINESS**

The Partnership operates in three primary business segments: (1) Fee Timber, (2) Timberland Management and Consulting, and (3) Real Estate. Fee Timber operations consist of the growing and harvesting of timber from the Partnership's tree farm. Timberland Management and Consulting encompasses providing timberland management and forestry consulting services to third-party owners of timberlands. Real Estate consists of residential development and income-producing property operations in the resort community of Port Ludlow, Washington and, to a lesser extent, engages in activities to realize the value of investments in land by obtaining the entitlements necessary to make further development possible. In 2001 the majority of the Real Estate segment and a portion of the Timberland Management and Consulting segment is expected to be sold. The following describes each business segment and identifies the specific assets expected to be disposed of in 2001.

### **Fee Timber**

The Fee Timber segment consists of operations surrounding management of the Partnership's core asset, the 72,000-acre tree farm located in the Hood Canal area of Washington. Operations consist of the growing of timber to its optimal harvest age and the subsequent harvesting and marketing of timber and timber products to both domestic and Pacific Rim markets. This segment produced 41%, 45% and 48% of the Partnership's consolidated gross revenues in 2000, 1999, and 1998, respectively.

The dominant timber species on the Partnership's 72,000-acre tree farm is Douglas-fir. Douglas-fir is noted for its strength, flexibility and other physical characteristics that make it generally preferable to other softwoods and hardwoods for the production of construction grade lumber and plywood. As of December 31, 2000, the tree farm's total inventory volume was estimated to be 418 million board feet (MMBF). This compares to inventory volumes of 420 MMBF and 432 MMBF as of December 31, 1999 and 1998, respectively. The 2000 inventory volume takes into account the new Forests and Fish rules that supplement Washington State's forest practice regulations to provide for expanded riparian management zones. The Partnership estimates that between 7% and 12% of the aforementioned volume may not be available for harvest due to Washington State forest practice regulations that provide for riparian management zones, wildlife leave trees, and other harvest restrictions. The timber inventory volume is accounted for by the Partnership's standing timber inventory system, which utilizes periodic statistical sampling of the timber (cruising) with annual adjustments made for estimated growth and the depletion of areas harvested.

The Hood Canal tree farm has a large number of acres with mature timber and an even larger number of acres with relatively immature trees resulting in an age class gap. The Partnership intends to fill in this gap through timberland acquisitions. Over the next five years the Partnership plans to seek out opportunities to purchase reasonably priced timberlands to fill in this age gap. In February 2001, the Partnership entered into an agreement to purchase approximately 44,500 acres of timberland in southwest Washington from Plum Creek Timberlands, L.P. (Plum Creek). The partnership expects to close on this transaction by April 2001 and will call these lands the Columbia tree farm.

The Partnership views its tree farms as core holdings and will manage them accordingly. As such, the Partnership's annual harvest policy is to schedule harvesting to coincide with a given stand's economic rotation age, consistent with rate-of-harvest regulations in the State Forest Practices Act. From year to year the policy allows for flexibility in response to external market

conditions. For instance, when log markets are weak, annual harvest levels might be reduced whereas in strong log markets annual levels may be above the average. The Partnership's harvesting schedules are based on both inventory data and projected growth rates. Inventory data includes species, site index, classification of soils, volume, size and age of the timber. From this information, the Partnership develops its annual and long-term harvest plans predicated on existing and anticipated economic conditions with the objective of maximizing long-term values.

The Partnership markets timber using one of two methods. Under the first method management engages independent logging contractors to harvest the standing timber and manufacture it into logs that are then sold on the open market. Logs produced are sold both domestically and internationally. Nearly all of our timber sold in 2000 was marketed in this fashion. One of the principal international markets served is the Pacific Rim. Logs going to this destination are generally sold to brokers who in turn sell direct to offshore destinations. Japan is by far the largest buyer of logs in the Pacific Rim market, though Korea and China are significant from time to time.

The second method in which timber is sold is through stumpage sales where standing timber is sold to purchasers who manage the harvesting and marketing of the timber. These operations are governed by provisions of the sales contract and are closely monitored by management to facilitate sound forestry and stewardship practices and regulatory compliance. Stumpage sales are generally used in unique situations when management believes returns can be improved by selling timber immediately "on the stump" rather than waiting for the harvest to be completed and selling manufactured logs.

There are many competitors of the Partnership, most of whom are comparable in size or larger. Forest product suppliers compete on the basis of quality, pricing and the ability to satisfy volume demands for various types and grades of logs to respective markets. Management believes that the location, type and grade of the Partnership's timber will enable it to effectively compete in these markets. However, the Partnership's products are subject to increasing competition from a variety of non-wood and engineered wood products as well as competition from foreign-produced products.

The Partnership's timberland operations often require management activities that include reforestation, control of competing brush in young stands, and thinning of the timber to achieve optimal spacing after stands are established and fertilization. During 2000, the Partnership planted 644,000 seedlings on 1,500 acres of the Partnership's tree farm. This compares to 1999 and 1998 in which the Partnership planted 1,003,000 and 1,048,000 seedlings on 2,100 and 2,600 acres, respectively. The number of acres and seedlings planted will vary from year to year based upon harvest level and timing and weather conditions that affect seedling survival. Management's policy is to stay current on its reforestation program, returning all timberlands to productive status as soon as economically feasible following harvest.

Over the longer term, management anticipates that population and economic pressures will contribute to the development of increasing portions of its tree farm. To offset the resulting reductions in the timberland base, management is actively seeking acquisitions and trades that enhance tree farm ownership. An example of such is the aforementioned Plum Creek acquisition.

In the operation and management of its tree farm, the Partnership is subject to federal, state, and local laws that govern land use. Management's objective is to be in compliance with such laws and regulations at all times. They anticipate that increasingly strict requirements relating to the environment, threatened and endangered species, natural resources, forestry operations, and health and safety matters, as well as increasing social concern over environmental issues, may result in additional restrictions on the timber operations of the Partnership. This will in turn result in increased costs, additional capital expenditures, and reduced operating flexibility. Although management does not consider current laws and regulations to be materially burdensome, there can be no assurance that future legislative, governmental, or judicial decisions will not adversely affect the Partnership's operations.

Risk of loss from fire, while possible on any timberland, is minimized on Partnership lands for several reasons. First, the Partnership maintains a well-developed road system that allows access and quick response to any fire that may occur. Second, management maintains a fire plan and program that provides for increased monitoring activities and requires all operators to maintain adequate fire suppression equipment during fire season. The Washington State Department of Natural Resources is ultimately responsible for all fire suppression activities in the state.

Fee Timber is a year-round operation of the Partnership and presently employs 9 full-time salaried employees and up to 7 part-time and seasonal personnel.

### **Timberland Management and Consulting**

The Timberland Management and Consulting segment's key operation is providing timberland management services to third-party timberland owners. As of December 31, 2000, total acres under management exceeded 500,000 acres in British Columbia, Washington, Oregon, and California. The Partnership earns revenue from management and consulting fees received from third-party timberland owners. This segment produced 22%, 23% and 20% of the Partnership's consolidated gross revenues in 2000, 1999, and 1998, respectively.

All of the activities of the IPMB are currently conducted within this segment. The vehicle for the IPMB is ORMLLC, which pursues third-party timberland management opportunities in North America and also seeks investors interested in developing risk-diversified portfolios of timberland. ORMLLC generates fee income directly and indirectly by providing services to large investors

in acquiring, managing, and/or eventually disposing of timberland investments. Since 1998, ORMLLC has been the western region manager for the Hancock Timber Resource Group (HTRG) to manage timberlands in Washington, Oregon, and California. As of December 31, 2000, ORMLLC managed 218,000 acres for HTRG in the Western United States and British Columbia. ORMLLC is also providing management and disposition services on approximately 365,000 acres for another client. In addition to the IPMB activities, ORMLLC also earns revenue by providing forestry consulting services to third-party owners and managers of timberland assets.

ORM Resources Canada Ltd. provides forestry consulting services in forest inventory, timber supply analysis, timber sale cruising and forest resource mapping to a broad range of clients in western Canada, Argentina and Jamaica. The Partnership is planning on selling the forestry consulting operations in British Columbia during 2001.

Timberland Management and Consulting is a year-round operation of the Partnership and presently employs 101 full-time salaried employees and up to 35 part-time and seasonal personnel.

## **Real Estate**

The Real Estate segment produced 37%, 32%, and 32% of the Partnership's consolidated gross revenues in 2000, 1999, and 1998, respectively. The Partnership has signed an agreement to sell its assets and operations in Port Ludlow, Washington. This sale is expected to be completed during the first half of 2001. The Real Estate segment consists of the following components:

### **Expected to be Sold During the First Half of 2001**

#### **Port Ludlow:**

- Residential Development
- 27-hole Golf Course
- 300-Slip Marina
- 37-Room Heron Beach Inn
- Leased retail/office space
- Water and Sewer Utilities

### **Continuing Real Estate Operations**

#### **Commercial/residential leases:**

- Port Gamble
- Kingston

#### **Other land investments located in:**

- Bremerton
- Hansville
- Seabeck
- Grandridge (Port Orchard)
- Gig Harbor

**Port Ludlow.** Port Ludlow produced 34%, 26%, and 20% of the Partnership's consolidated gross revenues in 2000, 1999, and 1998. The following narrative describes assets in Port Ludlow, which are expected to be sold in the first half of 2001:

Residential development in Port Ludlow consists of the sale of single-family homes, finished lots and undeveloped acreage. Port Ludlow is an active adult community and resort on approximately 2,000 acres of which 1,300 acres are still owned by the Partnership. Work is progressing on five remaining subdivisions in this community, ranging from permit approval to actual construction on the final 450 lots of this development.

On December 31, 1998, the Partnership dissolved Ludlow Associates, a Washington partnership, and acquired the entire ownership interest in all of Ludlow Associates' assets, including the Heron Beach Inn on Ludlow Bay. Prior to this event, the Partnership was a 50% joint venture partner in Ludlow Associates. The acquisition has facilitated promotion of the Inn as part of a broader destination resort at Port Ludlow. The Inn, golf course, marina, and RV park business is seasonal, with the peak season beginning in May and running through September of each year.

In May 2000, Jefferson County adopted the Port Ludlow Development Agreement. The development agreement is essentially a contract between the Partnership and Jefferson County that locks in Port Ludlow's comprehensive plan designation as a Master Planned Resort, related zoning, and other development regulations for a period of 20 years. Jefferson County's adoption of this agreement represents the culmination of years of hard work and cooperation between management, residents and the county to plan and obtain regulatory approval for the future build-out of the Port Ludlow resort and community. This cooperative effort, known as the Port Ludlow Planning Forum was recognized with an award from the Washington State Chapter of the American Planning Association in September 2000.

In December 2000, the Partnership signed an agreement to sell the residential development and commercial property operations in Port Ludlow, Washington. That transaction is expected to close during the first half of 2001.

Following the close of the transaction to sell Port Ludlow operations, the Partnership's Real Estate activities will remain closely associated with the management of its timberlands. After logging its timberlands, the Partnership has the option of reforesting the land, developing it for sale as improved property, or selling it in developed or undeveloped acreage tracts. Management continually evaluates timberlands in terms of their best economic use, whether it means continuing to grow timber or reclassifying the property for sale or development. As the Partnership reclassifies timber properties for sale or development, the Partnership may replace such properties with timberland purchases in more remote areas.

**Commercial and Residential Leases/Lot Sales.** Real Estate operations following the Port Ludlow transaction will include owning and managing residential and commercial properties in Port Gamble and the sale of developed lots at the Seabeck and Grandridge plats.

Port Gamble. As part of its July 1999 Washington State Growth Management Act (GMA) plan submission, Kitsap County designated Port Gamble as a "Rural Historic Town." This designation, upheld by the GMA Hearings Board, provides for substantial new commercial, industrial and residential development of the town utilizing historic land use patterns, densities and architectural character. The Partnership also initiated a legislative amendment to the GMA, signed into law in March 2000, that provides additional clarification and opportunities for designations involving national historic townsites. The Partnership is now in a position to evaluate potential opportunities and strategies for redevelopment of the Port Gamble townsite.

Seabeck/Grandridge. The Partnership sells developed lots from Seabeck located in Seabeck, Washington and Grandridge located in Port Orchard, Washington. The Seabeck plat has 19 unsold lots at December 31, 2000. Grandridge has 17 unsold lots at December 31, 2000.

**Other Land Investments.** The Partnership will also strive to add value to other real estate development properties located in Bremerton, Kingston, Gig Harbor and Hansville, Washington, through obtaining approved development plans.

Bremerton. The City of Bremerton approved the request for a planned development on the Partnership's 270-acre property in Bremerton. The planned development has a mix of industrial and residential uses. In July 2000, a 15-year development agreement was approved and adopted by the City of Bremerton.

Gig Harbor. Gig Harbor, a suburb of Tacoma, is the site of a 320-acre mixed-use development consisting of 200 acres for residential development; 120 acres for a business park; and a site for a neighborhood commercial center. The Gig Harbor property is also included in the agreement to sell Port Ludlow; however, as a result of questions surrounding the availability of utilities, the Gig Harbor property is not expected to be included in the transaction that is expected to close in the first half of 2001. The Partnership continues to work with officials in Gig Harbor regarding this development. Efforts in 1999 focused on a successful public/private partnership agreement to construct an arterial road through the property which in turn connects to a nearby freeway interchange. Construction of the road began in the summer of 2000.

Kingston and Hansville. There are two on-going projects in Kitsap County, a 720-acre residential development in Kingston and a 185-acre residential development in Hansville. While significant progress has been made in the governmental entitlement process, final approval was delayed pending the outcome of a court case, in which the Partnership was not a party. In 2000, the Supreme Court delivered its final decision upholding the vesting of projects to the land use regulations in place at the time of the project application. The Partnership will now develop a plan with Kitsap County to resume processing the project applications for the two Kitsap County projects.

Land holdings throughout Washington State are affected by the GMA, which requires counties to submit comprehensive plans that identify the future direction of growth and stipulate where population densities are to be concentrated.

Land values in Jefferson and Kitsap counties are affected by transportation limitations between the Kitsap Peninsula and the Seattle-Tacoma corridor. The Washington State Department of Transportation has been working for several years to add a new span to the Tacoma Narrows Bridge connecting Tacoma and Gig Harbor. The project was proposed as a public/private partnership that would be financed through the imposition of tolls. In November, 2000 the Washington State Supreme Court ruled that the financing scheme conflicted with a 1961 law that prevents tolls from being used to improve existing bridges. Currently the Washington State legislature is considering a repeal to the 1961 law.

Real Estate is a year-round operation of the Partnership and presently employs 66 full-time salaried employees and up to 122 part-time and seasonal personnel.

The total number of employees not otherwise classified under a segment is 41 full-time salaried employees. No employee is a member of a labor union.

## **Item 2. PROPERTIES**

See the discussion of each segment under "Item 1. Business."

## **Item 3. LEGAL PROCEEDINGS**

None.

## **Item 4. SUBMISSION OF MATTER TO A VOTE OF SECURITY HOLDERS**

No matters were submitted to a vote of the Partnership's unitholders during the fourth quarter of 2000.

## **PART II**

**Item 5. MARKET FOR PARTNERSHIP'S UNITS AND RELATED SECURITY HOLDER MATTERS**

The units are traded on the Nasdaq National Market System. The Partnership's units trade under the ticker symbol "POPEZ". The following table sets forth the 1999 – 2000 quarterly ranges of low and high prices for the Partnership's units:

	1999		2000	
	High	Low	High	Low
First Quarter	\$30.75	\$27.88	\$29.25	\$17.75
Second Quarter	\$35.00	\$29.75	\$25.00	\$19.75
Third Quarter	\$34.00	\$31.63	\$21.00	\$18.13
Fourth Quarter	\$33.00	\$29.25	\$25.50	\$19.25

As of January 31, 2001 there were approximately 696 beneficial holders and 361 registered holders of 4,528,095 outstanding units.

During 2000, cash distributions totaled \$1,811,000, consisting of quarterly distributions of 10 cents per unit. The fourth quarter distribution of 10 cents per unit was paid on December 15, 2000. During 1999, cash distributions totaled \$1,810,000 consisting of 10 cents per unit each quarter. All cash distributions are at the discretion of the Partnership's managing general partner, Pope MGP, Inc. The Partnership plans to discontinue making quarterly partnership distributions during 2001. The Partnership plans to make an annual distribution to cover the estimated flow-through tax liability incurred by unitholders as a result of owning the Partnership's units.

**Item 6. SELECTED FINANCIAL DATA**

The financial information set forth below for each of the years ending December 31, 1996 through 2000 is derived from the Partnership's audited financial statements. This information should be read in conjunction with the financial statements and related notes included with this report and previously filed with the Securities and Exchange Commission. Per unit amounts reflected below have been restated for the 5 for 1 unit split completed in 1997.

	(Dollars in thousands, except per unit data)				
	2000	1999	1998	1997	1996
<b>Revenues:</b>					
Fee Timber	\$20,657	\$22,796	\$20,404	\$19,486	\$21,569
Timberland Management and Consulting	11,011	11,705	8,906	-	-
Real Estate	18,989	16,352	13,642	10,623	11,444
<b>Total Revenues</b>	<b>50,657</b>	<b>50,853</b>	<b>42,952</b>	<b>30,109</b>	<b>33,013</b>
Total Income/(loss) from Operations	(5,877)	6,680	10,363	4,854	9,818
<b>Net Income/(loss)</b>	<b>(6,251)</b>	<b>5,066</b>	<b>8,792</b>	<b>3,509</b>	<b>8,334</b>
Earnings/(loss) per Unit – Diluted	(1.38)	1.11	1.94	0.78	1.84
<b>Distribution per Unit</b>	<b>0.40</b>	<b>0.40</b>	<b>0.40</b>	<b>0.49</b>	<b>0.82</b>
Total Assets	61,732	66,880	62,706	56,319	54,599
Long-term Debt	12,801	13,282	13,818	14,323	14,678
Partners' Capital	\$41,280	\$49,302	\$45,896	\$38,911	\$37,616
Acres Owned/Managed (In Thousands)	655	534	640	74	74
Fee Timber Harvested (MMBF)	37.3	42.0	38.9	33.2	31.6
Homes Sold	34	28	13	14	17
Lots Sold	14	48	39	24	39

**Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

Note: Certain information in this report constitutes forward-looking statements within the meaning of federal securities laws. Forward-looking information, which includes forecasted business divestitures and asset purchases, is subject to risks, trends, and uncertainties that could cause actual results to differ materially from those projected. Those uncertainties include but are not limited to changes to (a) regulations that affect the Partnership's ability to harvest timber and develop real estate and (b) changes in economic conditions, which can have a significant effect on the price the Partnership can obtain for its timber, real estate, and other investments.

This discussion should be read in conjunction with the Partnership's audited consolidated financial statements included with this report.

## **Strategic Focus**

In December 2000, the Partnership announced plans to narrow its strategic focus. In accordance with this shift, the Partnership signed an agreement to sell its residential development and income-producing properties and operations in the resort community of Port Ludlow, Washington. The 320-Acre property in Gig Harbor is also included in the agreement to sell Port Ludlow; however, as a result of questions regarding the availability of utilities, the Gig Harbor property is not expected to be included in the closed transaction. This transaction is expected to close in the first half of 2001. The Partnership is also seeking a buyer for its forestry consulting business in British Columbia and expects to sell that operation also in the first half of 2001. Asset impairment and exits costs of \$10.1 million related to these transactions were recorded in 2000. Proceeds from these sales will be reinvested in new timberland assets that are in the process of being acquired from Plum Creek.

The Partnership will retain some operations in the Real Estate segment in 2001 but those operations will be significantly reduced from prior years. Operations will consist primarily of adding value to Real Estate investments through obtaining zoning and other permitting necessary for future development. Revenue in the Real Estate segment following the disposition in 2001 is expected to primarily consist of residential and commercial property rents (that will partially offset the cost of holding the property), and of revenue from the sale of land to developers or investors. Real Estate holdings that will remain following the disposition of Port Ludlow are for the most part in Kitsap County, Washington.

The Partnership's focus following these disposition activities will be on ownership and management of timberlands, and consulting for owners of such properties. In 2001, the Partnership plans to use a combination of proceeds from the sale of Port Ludlow and additional debt financing to pursue timberland acquisitions. In February 2001, the Partnership entered into an agreement to purchase approximately 44,500 acres of timberland in southwest Washington from Plum Creek for \$54.0 million. This transaction is expected to close by April 2001. It will be referred to as the Columbia tree farm.

## **Asset Impairment, Environmental Remediation, and Exit Costs**

*Asset impairment and exit costs* are related to the following:

Port Ludlow	\$9.2 million
Forestry consulting	0.5 million
Timberland management	0.1 million
Software under development	0.3 million
<b>Total</b>	<b>10.1 million</b>

The Partnership has signed an agreement to sell Real Estate segment assets in Port Ludlow, Washington. This transaction is expected to close in the second quarter of 2001. The forestry consulting business in British Columbia is also expected to be sold in the first half of 2001. Timberland management costs represent the cost of restructuring operations following the reduction in acres under management for HTRG. The asset impairment on software under development represents the write-off of costs incurred to develop land management software. Following the loss of acres under management for HTRG, development of this software was no longer economical.

*Environmental remediation* charges of \$2.0 million result from an estimate of environmental clean up costs in and around the townsite of Port Gamble. The Partnership has been the owner of the Town of Port Gamble and adjacent upland areas (the "Site") since December 3, 1985. Pope & Talbot, Inc. (P&T) formerly owned and operated the Site, including the former sawmill and related waste disposal areas.

Based on information provided by consultants and P&T, the Partnership estimates that the cost range for cleaning up the Site to applicable State standards is \$10.0 million to \$13.0 million. Although the Partnership was not responsible for creating any of these environmental conditions, the Washington Model Toxics Control Act imposes strict, joint and several liability on "potentially responsible persons" who include the current owner/operator of contaminated property. P&T is also strictly, jointly and severally liable as the former owner/operator when the release of contaminants occurred, and the generator of the contaminants.

The Partnership and P&T have made significant progress toward resolving the allocation of liability for Port Gamble cleanup costs. If the current settlement negotiations are successfully concluded, Pope Resources estimates its contractual liability at approximately \$1.8 million or less.

## **Fee Timber**

Fee Timber revenue is earned from the harvest and sale of logs from the Partnership's 72,000-acre tree farm located in the Hood Canal area of Washington. Revenue and operating income generated by the Fee Timber segment for each year in the three-year period ended December 31, 2000, are as follows:

Year ended	Revenues	Operating income
December 31, 2000	\$20.7 million	\$12.1 million
December 31, 1999	22.8 million	13.0 million
December 31, 1998	20.4 million	11.6 million

Fee Timber revenue and operating income declined 9% and 7%, respectively, during the year ended December 31, 2000. The decline in revenue and operating income is primarily due to a decrease in volume harvested that was partially offset by a small improvement in prices. Both revenue and operating income increased 12% during 1999 due to an increase in volume harvested. The increase in 1999's harvest volume resulted from the January 1999 acquisition of 500 acres and subsequent logging of a portion of the acquired tract. The Partnership harvested the following timber over the past three years:

Year	Softwood Sawlogs		Pulp, Hardwood, and Other		Totals	
	Volume MMBF	Price \$/MBF	Volume MMBF	Price \$/MBF	Volume MMBF	Price \$/MBF
2000	28.2	\$634	9.1	\$283	37.3	\$549
1999	32.1	\$628	9.9	\$255	42.0	\$542
1998	28.6	\$583	10.3	\$268	38.9	\$500

MMBF = million board feet  
MBF = thousand board feet

Log revenues from the Partnership's timberland ownership are significantly affected by export log market conditions. Sales to the export market totaled 32%, 33%, and 29% of segment revenues for 2000, 1999, and 1998, respectively. The majority of the Partnership's export log volume is sold to Japan. Indirect sales to the export market totaled 9.1 MMBF, 11.1 MMBF, and 8.6 MMBF of softwood logs for 2000, 1999, and 1998, respectively. The decrease in volume sold to the export market in 2000 was consistent with the overall reduction in harvest volumes. The average price per MBF realized for export logs sold was \$731, \$694, and \$681 for 2000, 1999, and 1998, respectively. Average export price realized in 2000 increased from 1999 due to an increase in the quality of logs sold to the export market in 2000. In 1999, the Partnership benefited from an improved market in Japan that resulted in an increase in export prices and the proportion of harvest volume sold to the export market.

Domestic sawlog volumes were 19.1 MMBF, 21.0 MMBF, and 20.0 MMBF in 2000, 1999, and 1998, respectively. The decrease in volume sold domestically is consistent with the overall decline in harvest volume in 2000. The increase in domestic log volume in 1999 reflects increased timber harvest resulting from the Partnership's aforementioned timberland acquisition. Average domestic log prices per MBF were \$588, \$593, and \$541 for 2000, 1999, and 1998, respectively. The decrease in domestic log prices in 2000 reflects the overall slowing of the domestic economy. The increase in domestic log prices in 1999 is the indirect result of improved export market conditions. As prices improved in the export market volume was diverted from the domestic to the export market, which in turn increased domestic prices in 1999.

Pulp, hardwood, and other (other) log volumes were 9.1 MMBF, 9.9 MMBF, and 10.3 MMBF, for 2000, 1999, and 1998, respectively. Other log volumes were also down as a result of the decline in overall harvest volumes in 2000. Other log volumes decreased in 1999, as the Partnership did not harvest as many lower quality timber stands that tend to generate a larger proportion of pulp logs. Other log prices were \$283, \$255, and \$268 per MBF for 2000, 1999, and 1998, respectively.

The Partnership's tree farm is located in the Hood Canal region of Washington State. Most of the tree farm acreage owned by the Partnership is at a relatively low elevation where harvest activities are possible year-round. As a result of this competitive advantage, the Partnership tends to harvest and sell a greater portion of the annual harvest in the first half of the year when the supply of logs tends to be lower. Towards the end of September or October, harvest activities taper off as the Partnership reaches the planned annual harvest volume. The mild winter in late 2000 combined with a slowing U.S. economy has resulted in relatively low timber prices in the fourth quarter of 2000. The outlook for log prices in the first half of 2001 is not positive due to the large supply of logs and lumber on the market while the U.S. economy appears to be in decline.

The Hood Canal tree farm has a large number of acres with mature timber and an even larger number of acres with relatively immature trees resulting in an age class gap. The age class gap will have a negative impact on the inventory of trees available for harvest beginning in about ten years. The Partnership is attempting to mitigate the effect of the age class gap through a combination of timber harvest deferral and the acquisition of timberlands with timber age classes that fill in the gap on the Hood Canal tree farm.

### **Timberland Management and Consulting**

Timberland Management and Consulting earns revenue by providing management and consulting services to timberland owners and investors. The majority of this segment's operations are derived through providing management and consulting

services to two customers.

Year ended	Revenues	Operating income
December 31, 2000	\$11.0 million	\$0.4 million*
December 31, 1999	11.7 million	2.1 million
December 31, 1998	8.9 million	3.8 million

\* Includes \$0.9 million in asset impairment and exit costs.

Revenue and operating income declined 6% and 81%, respectively, in 2000. The decrease in revenue resulted from a decrease in acres under management for HTRG. Operating income declined in 2000 due to \$0.9 million of asset impairments and exit costs combined with a decrease in operating income earned through providing timberland management services to HTRG. The Partnership managed over 500,000 acres for HTRG during most of 1999. As a result of changes in HTRG's client mix, acres under management for HTRG during most of 2000 declined to just over 200,000. While revenue was significantly reduced by the reduction in acres under management, the effect on operating income was even greater as a result of the decline in economies of scale.

Total acres under management for HTRG may continue to change as HTRG's client portfolios are adjusted. The current contracts covering management services provided in the western United States and British Columbia each run for one year beginning January 1, 2001. As of December 31, 2000, ORMLLC (together with its Canadian subsidiary) was managing 218,000 acres of HTRG timberland in Washington, Oregon, California, and British Columbia.

As part of its strategy to expand service offerings to third-party owners of timberlands, Management worked throughout 2000 to market its timberland management services. In March 2000, a new contract was signed to manage an additional 365,000 acres in California, Oregon, and Washington. In addition to timberland management services, ORMLLC is providing timberland disposition services on these properties. Revenue from the disposition services is expected to have a positive impact on 2001 revenue and operating income. This will be partially offset by a reduction in management contract revenue as the properties are sold.

In 1999, Timberland Management and Consulting revenue increased 31% while operating income declined 45%. Both of these changes resulted from the Partnership's acquisition of Simon Reid Collins' timberland management and forestry consulting business in British Columbia and Alberta. The forestry consulting portion of these operations are expected to be sold in the first half of 2001.

### **Real Estate**

The majority of revenue and operating income generated by the Real Estate segment results from operations at the resort community of Port Ludlow, Washington. The Partnership signed an agreement to sell the assets and operations in Port Ludlow. This transaction is expected to close during the first half of 2001. The discussion that follows includes operations of both Port Ludlow and the portion of the Real Estate segment that will continue after the Port Ludlow sale is complete.

Real Estate segment revenues are derived from residential development and income-producing properties. Residential development consists of the sale of single-family homes, developed lots, and undeveloped acreage. These activities span approximately 3,000 acres of the Partnership's ownership and are concentrated in Port Ludlow. Income-producing properties consist of the following properties in Port Ludlow: the 37-room Heron Beach Inn on Ludlow Bay, a 300-slip saltwater marina, a 27-hole championship golf course, a commercial center, an RV park, a restaurant/lounge and related facilities, and the water and sewer utilities serving the area.

Real Estate operations following the sale of Port Ludlow will consist of the rental of residential and commercial properties in Port Gamble and Kingston, and the sale of developed lots at the Seabeck and Grandridge plats. Investments in land at Gig Harbor, Bremerton, Port Gamble, Kingston, and Hansville will also be included in the Real Estate segment following the Port Ludlow sale.

Revenues and operating income/(loss) for the Real Estate segment for each year in the three-year period ending December 31, 2000, are as follows:

Year ended	Revenues	Operating income/(loss)
December 31, 2000	\$19.0 million	\$(10.3) million *
December 31, 1999	16.4 million	0.5 million
December 31, 1998	13.6 million	2.9 million

\* Includes \$11.2 million in asset impairment, exit, and environmental remediation charges.

Revenue generated in the Real Estate segment increased 16% in 2000 as a result of an increase in homes sold at the resort community of Port Ludlow. The majority of the 21% increase in Real Estate segment revenues in 1999 was the result of the Partnership's purchase of the remaining interest in the Heron Beach Inn in December of 1998, which resulted in the Partnership

consolidating the Inn's revenues and expenses. Operating income declined \$10.8 million as a result of \$11.2 million in asset impairment, exit, and environmental remediation charges. Excluding those charges, operating income increased \$0.4 million in 2000 reflecting improved operating results at the income producing properties in Port Ludlow. Operating income in 1999 declined due to a decrease in undeveloped land sales from 1998.

In 2000, Port Ludlow generated revenue of \$10.9 million through the sale of six developed lots and 34 homes. This compared to 1999 revenue of \$7.2 million through the sale of six lots and 28 homes and 1998 revenue of \$4.6 million through the sale of 13 lots and 21 homes.

Prospective home and lot buyers often pay an earnest money deposit in anticipation of completing the eventual purchase. The Partnership does not record a sale when earnest money deposits are received, but does track the sales backlog which represents total sales dollars expected to be recorded once these properties are sold. Port Ludlow's residential development backlog of sales was approximately \$4.9 million as of December 31, 2000. This compares to sales backlogs of \$4.6 million and \$0.9 million as of December 31, 1999 and 1998, respectively.

Income-producing properties' revenue increased 8% from 1999 as a result of more residents moving into the area and improved marketing cooperation between the Heron Beach Inn, golf course, and marina. Income-producing property revenue in 1999 increased 40% to \$7.0 million due to the Partnership's purchase of the remaining interest in the 37-room Heron Beach Inn on Ludlow Bay in December of 1998. Prior to 1998 the Partnership participated in a joint venture that owned and operated the Inn. As a joint venture partner, only the Partnership's share of profit from the joint venture was included in non-operating income/loss. On December 31, 1998, the joint venture was dissolved and the Partnership acquired the entire interest in the Inn, and has subsequently included the Inn's revenues and expenses in operating income during 2000 and 1999.

Revenue and operating loss for the Real Estate segment excluding Port Ludlow for each year during the three-year period ending December 31, 2000 are as follows:

Year ended	Revenues	Operating income/(loss)
December 31, 2000	\$1.8 million	\$(2.0) million*
December 31, 1999	3.3 million	0.5 million
December 31, 1998	5.0 million	2.9 million

\* Includes \$2.0 million in environmental remediation charges

The decline in Real Estate segment revenue (exclusive of Port Ludlow) from 1998 and 1999 to 2000 is due to a reduction in sales of undeveloped acreage. Other sources of revenue and operating income including Port Gamble and developed lot sales at Seabeck have not fluctuated significantly. The \$2.0 million environmental remediation charge in 2000 is due to environmental contamination in and around the townsite of Port Gamble.

### **Selling General and Administrative (SG&A)**

SG&A decreased \$0.7 million in 2000. The decrease is due to cost saving measures taken in the last half of 2000 following the decline in acres under management for HTRG. SG&A expenses are expected to continue to decline in 2001 with the divestiture of real estate operations in Port Ludlow and forestry consulting in British Columbia. SG&A increased \$1.0 million in 1999 due to the additional administrative infrastructure necessary following the acquisition of the Heron Beach Inn and forestry consulting business in British Columbia.

### **Other Income/Expense**

Interest income increased in 2000 as a result of an increase in cash and short-term investments. The decrease in interest income in 1999 is the result of a decline in the average balance of cash and short-term investments following the Partnership's acquisition and debt retirement of the Heron Beach Inn in December 1998.

The provision for income taxes and minority interest decreased in 2000 due primarily to the loss of operating income as a result of the decline in acres under management for HTRG.

### **Liquidity and Capital Resources**

Funds generated internally through operations and externally through financing will provide the required resources for the Partnership's plans to increase timberland acres owned and other capital expenditures. Management intends to increase the Partnership's debt-to-total capitalization ratio to participate in investments in timberland, if the investments meet the Partnership's requirements of return and provide a good fit with the Partnership's portfolio of properties.

In 2001, the Partnership plans to use a combination of proceeds from the sale of Port Ludlow and additional debt financing to pursue timberland acquisitions. In February 2001 the Partnership entered into an agreement to purchase approximately 44,500 acres of timberland in southwest Washington from Plum Creek. The Partnership expects to close on this transaction by April 2001. Management considers its capital resources to be adequate for its current plans. At December 31, 2000, the Partnership had available an unused \$20 million bank loan commitment.

Management has discretion to increase or decrease the level of logs cut and thereby may increase or decrease net income and cash flow, assuming log prices and demand remain stable. Management's current plan is to harvest approximately 27 million board feet of softwood timber from the Hood Canal Tree Farm in 2001. Since harvest plans are based on demand and pricing, actual harvesting may vary subject to management's ongoing review.

For the year ended December 31, 2000, cash provided by operating activities was \$10.0 million and overall cash and cash equivalents increased \$5.0 million. Cash provided by operating activities in 2000 was used for cash payments to unitholders of \$1.8 million, capital expenditures of \$2.9 million, and repayment of long-term debt of \$0.4 million.

In 1999, cash provided by operating activities was \$8.3 million and overall cash and cash equivalents increased \$2.3 million. Cash provided by operating activities in 1999 was used for cash payments to unitholders of \$1.8 million, capital expenditures of \$3.8 million, and repayment of long-term debt of \$0.5 million. Capital expenditures in 1999 included \$1.3 million for the acquisition of 500 acres of timberland.

The Partnership plans to discontinue making quarterly partnership distributions during 2001. The Partnership plans to make an annual distribution to cover the estimated flow-through tax liability incurred by unitholders as a result of owning the Partnership's units.

### **Commitments and Contingencies**

The Partnership's commitments consist of performance bonds, letters of credit, and operating leases entered into in the normal course of business. As described above, the Partnership recorded a \$1.8 million contingent liability in 2000 for environmental remediation in and around the Port Gamble townsite. The Partnership may from time to time be a defendant in lawsuits arising in the ordinary course of business. Management believes that loss to the Partnership, if any, will not have a material adverse effect to the Partnership's financial condition or results of operations.

### **Financial Information About Segments**

Segment financial information is presented in Note 12 to the Partnership's Financial Statements included with this report.

## **Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

As of December 31, 2000, the Partnership had \$13.1 million of fixed rate debt outstanding with a fair value of approximately \$14.8 million. Since the debt bears interest at a fixed rate, the fair value of the debt is affected by changes in market interest rates. The following table presents principal cash payments (in thousands) for the fixed rate debt outstanding at December 31, 2000:

Long-term debt including current portion	2001	2002	2003	2004	2005	Thereafter	Interest Rate
Mortgage-Principal payments	405	446	491	541	595	10,452	9.65%
Local Improvement District-Principal Payments	36	36	36	36	8	45	6.5% to 8%

## **Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTAL SCHEDULES**

### **POPE RESOURCES**

### **A DELAWARE LIMITED PARTNERSHIP**

**YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998**

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP  
YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998

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Independent Auditors' Report

To the Board of Directors and Unitholders  
Pope Resources, A Delaware Limited Partnership  
Poulsbo, Washington

We have audited the accompanying consolidated balance sheets of Pope Resources, A Delaware Limited Partnership and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, partners' capital and cash flows for each of the three years in the period ended December 31, 2000. Our audits also included the financial statement schedule listed in the index at Item 14 (a)(2). These financial statements and financial statement schedule are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Pope Resources, A Delaware Limited Partnership and subsidiaries as of December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ DELOITTE & TOUCHE LLP  
Seattle, Washington  
February 27, 2001

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2000 AND 1999

ASSETS

(Thousands)

	2000	1999
<b>Current assets:</b>		
Cash and cash equivalents	\$9,882	\$4,922
Accounts receivable	1,933	1,583
Work in progress	1,504	12,033
Current portion of contracts receivable	490	587
Prepaid expenses and other	555	550
Assets held for sale (Notes 2 & 3)	18,790	-
<b>Total current assets</b>	<b>33,154</b>	<b>19,675</b>
<b>Properties and equipment:</b>		
Land and land improvements	9,899	15,611
Roads and timber, net of accumulated depletion of \$11,025 and \$10,024	12,394	12,391
Buildings and equipment, net of accumulated depreciation of \$6,841 and \$14,358	3,847	15,921
	<b>26,140</b>	<b>43,923</b>
<b>Other assets:</b>		
Contracts receivable (net of current portion)	1,167	1,733
Unallocated amenities and project costs	-	1,356
Other	396	193
	<b>1,563</b>	<b>3,282</b>
<b>Total assets</b>	<b>\$60,857</b>	<b>\$66,880</b>

LIABILITIES AND PARTNERS' CAPITAL

<b>Current Liabilities:</b>		
Accounts payable	\$761	\$1,084
Accrued liabilities	2,449	2,011
Environmental remediation	1,870	-
Current portion of long-term debt	442	406
Minority interest	128	366
Deposits	446	88
<b>Total current liabilities</b>	<b>6,096</b>	<b>3,955</b>
Long-term debt	12,801	13,282
Deferred profit	680	341
Commitments and contingencies (Notes 4 and 10)		
Partners' capital (units outstanding: 4,528 and 4,528)	41,280	49,302
<b>Total liabilities and partners' capital</b>	<b>\$60,857</b>	<b>\$66,880</b>

See notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP  
CONSOLIDATED STATEMENTS OF OPERATIONS  
YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998

(Thousands, except per unit information)	2000	1999	1998
<b>Revenues:</b>			
Fee timber	\$20,657	\$22,796	\$20,404
Timberland management and consulting	11,011	11,705	8,906
Real estate	18,989	16,352	13,642
<b>Total revenues</b>	<b>50,657</b>	<b>50,853</b>	<b>42,952</b>
<b>Costs and expenses:</b>			
Fee Timber:			
Cost of sales	(6,784)	(7,566)	(6,842)
Operating expenses	(1,730)	(2,207)	(2,001)
	<b>(8,514)</b>	<b>(9,773)</b>	<b>(8,843)</b>
Timberland management and consulting:			
Operating expenses	(9,639)	(9,643)	(5,087)
Impairment and exit costs	(940)	-	-
	<b>(10,579)</b>	<b>(9,643)</b>	<b>(5,087)</b>
Real estate:			
Cost of sales	(10,186)	(8,233)	(5,287)
Operating expenses	(7,901)	(7,591)	(5,422)
Impairment and exit costs	(9,205)	-	-
Environmental remediation	(1,956)	-	-
	<b>(29,248)</b>	<b>(15,824)</b>	<b>(10,709)</b>
Selling, general, and administrative	(8,193)	(8,933)	(7,950)
<b>Income/(loss) from operations</b>	<b>(5,877)</b>	<b>6,680</b>	<b>10,363</b>
Other income (expense):			
Interest expense	(1,273)	(1,298)	(1,406)
Interest income	573	259	618
Equity in losses of joint venture	-	-	(217)
<b>Total other expense</b>	<b>(700)</b>	<b>(1,039)</b>	<b>(1,005)</b>

Income/(loss) before income taxes and minority interest	(6,577)	5,641	9,358
Income tax benefit/(provision)	326	(259)	(310)
Income/(loss) before minority interest	(6,251)	5,382	9,048
Minority interest	-	(316)	(256)
<b>Net income/(loss)</b>	<b>\$(6,251)</b>	<b>\$5,066</b>	<b>\$8,792</b>
<b>Earnings/(loss) per unit:</b>			
Basic	\$(1.38)	\$1.12	\$1.95
Diluted	\$(1.38)	\$1.11	\$1.94

See notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP  
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL  
YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998

(Thousands)	General Partners	Limited Partners	Total
January 1, 1998	\$539	\$38,372	\$38,911
Net Income	117	8,675	8,792
Distributions	(24)	(1,783)	(1,807)
December 31, 1998	\$632	\$45,264	\$45,896
Net Income	67	4,999	5,066
Translation loss	(1)	(37)	(38)
Comprehensive income	66	4,962	5,028
Issuance of Partnership units		188	188
Distributions	(24)	(1,786)	(1,810)
December 31, 1999	\$674	\$48,628	\$49,302
Net loss	(83)	(6,168)	(6,251)
Translation gain	-	13	13
Comprehensive income	(83)	(6,155)	(6,238)
Equity based compensation		27	27
Distributions	(24)	(1,787)	(1,811)
December 31, 2000	\$567	\$40,713	\$41,280
<b>Weighted average units outstanding :</b>	<b>12/31/2000</b>	<b>12/31/1999</b>	<b>12/31/1998</b>
Basic	4,528	4,523	4,519
Diluted	4,528	4,548	4,534

See notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2000, 1999, AND 1998

(Thousands)	2000	1999	1998
<b>Cash flows from operating activities:</b>			
Cash received from customers	\$51,026	\$50,055	\$41,294
Cash paid to suppliers and employees	(40,515)	(40,006)	(30,693)
Interest received	585	234	609
Interest paid, net of amounts capitalized	(1,200)	(1,394)	(1,663)
Income taxes paid	77	(542)	(395)
Net cash provided by operating activities	9,973	8,347	9,152
<b>Cash flows from investing activities:</b>			
Capital expenditures	(2,858)	(3,764)	(2,496)
Proceeds from sale of fixed assets	319	-	-
Business combinations	-	-	(2,476)
Joint venture investment	-	-	(610)
Net cash used for investing activities	(2,539)	(3,764)	(5,582)
<b>Cash flows from financing activities:</b>			
Cash distributions to unitholders	(1,811)	(1,810)	(2,260)
Repayment of long-term debt	(424)	(497)	(2,594)
Issuance of Partnership units	-	188	-
Minority interest distribution	(239)	(208)	-
Net cash used for financing activities	(2,474)	(2,327)	(4,854)
Net increase (decrease) in cash and cash equivalents	4,960	2,256	(1,284)
<b>Cash and cash equivalents:</b>			
Beginning of year	4,922	2,666	3,950
End of year	\$9,882	\$4,922	\$2,666
<b>Reconciliation of net income to net cash provided by operating activities:</b>			
Net (loss)/income	\$(6,251)	\$5,066	\$8,792
Land sold through tax-deferred exchange	-	-	(2,677)
Cost of land and timber sold	31	1,200	946
Minority interest	-	316	256
Land resale expenditures	-	(7)	(66)
Depreciation and depletion	2,899	2,686	2,053
Unit option compensation	27	-	-
Loss on equity in joint venture	-	-	217
Deferred profit	340	(147)	(48)
Asset impairment	5,651	-	-
<b>Increase (decrease) in cash from changes in operating accounts:</b>			
Accounts receivable	(351)	(944)	41
Work in progress	4,012	(834)	(1,353)
Contracts receivable	663	71	919
Accounts payable and accrued liabilities	2,861	1,007	280
Other long-term liabilities	(21)	(20)	(118)
Deposits	358	16	(8)
Loan fees and other	(203)	10	(82)
Other, net	(43)	(73)	-
Net cash provided by operating activities	\$9,973	\$8,347	\$9,152

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(DOLLARS IN THOUSANDS EXCEPT PER UNIT AMOUNTS)  
YEARS ENDED DECEMBER 31, 2000, 1999 AND 1998

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

**Nature of operations:**

Pope Resources, A Delaware Limited Partnership (the "Partnership"), is a publicly traded limited partnership engaged principally in managing timber resources on its own properties as well as those owned by others, and real estate development activities in the northwest region of the United States. The managing general partner is Pope MGP, Inc. Operating activities are classified into three segments: Fee Timber, Timberland Management and Consulting and Real Estate. Fee Timber represents the growing and harvesting of trees from owned properties. Timberland Management and Consulting represents management and consulting services provided to third party owners of timberlands. Real Estate includes the sale of single-family homes, finished lots and undeveloped acreage, and various commercial property operations.

**Principles of consolidation:**

The consolidated financial statements include the accounts of the Partnership and its subsidiaries. Significant intercompany balances and transactions have been eliminated in consolidation.

**Minority interest:**

Minority interest represents Pope MGP, Inc.'s interest in the Investor Portfolio Management Business (see Note 11) and has been classified as a current liability as the minority interest's share in income is generally distributed on an annual basis.

**Use of estimates in financial statements:**

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Contracts receivable:**

The Partnership sells land parcels under contracts requiring a minimum cash down payment of 20% and having financing terms of up to eight years at interest rates of 10%. The Partnership reduces credit risk on contracts through collateral on the underlying land and down payment requirements.

Principal payments on contracts receivable for the next five years are due as follows:

2001	490
2002	160
2003	69
2004	43
2005	43

**Unallocated amenities and project costs:**

Unallocated amenities and project costs represent indirect development costs for long-term real estate development projects. These costs are expensed based on anticipated project sales of residential dwellings and lots over the life of the project.

**Properties and equipment:**

Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 5 to 39 years. Depletion of logging roads and costs of fee timber harvested are provided at rates based on unrecovered costs and estimated recoverable volume of softwood timber.

When facts and circumstances indicate the carrying value of properties may be impaired, an evaluation of recoverability is performed by comparing the carrying value of the property to the projected future cash flows. Upon indication that the carrying value of such assets may not be recoverable, the Partnership would recognize an impairment loss by a charge against current operations (See Note 2).

### **Revenue recognition:**

Revenue on timber sales is recorded when title and risk of loss passes to the buyer. Revenue on real estate sales is recorded on the date the sale closes. The Partnership uses the installment method of accounting for real estate sales transactions until 20% to 25% of the contract sales value has been collected, at which time the full accrual method of accounting is used. Management fees and consulting service revenues are accrued as the services are provided. Accounts receivable includes earned but unbilled services of \$376 and \$896 at December 31, 2000 and 1999, respectively.

### **Income (loss) per partnership unit:**

Basic income (loss) per partnership unit is computed using the weighted average number of units outstanding during each year. Diluted income (loss) per unit is calculated using the weighted average units outstanding during the year, plus the dilutive impact of unit options outstanding.

### **Statement of cash flows:**

The Partnership considers all highly liquid debt instruments with a maturity of three months or less when purchased to be cash equivalents. Noncash investing activities in 1998 include \$2,677 of proceeds from land sales received by tax-deferred exchange facilitators and utilized to purchase other real property on behalf of the Partnership and the assumption of \$2,239 in debt for the acquisition of real property.

### **New Accounting Standards:**

Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities, is effective for all fiscal years beginning after June 15, 2000. SFAS 133, as amended, establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts and for hedging activities. Under SFAS 133, certain contracts that were not formerly considered derivatives may now meet the definition of a derivative. The Partnership will adopt SFAS 133 effective January 1, 2001. Management does not expect the adoption of SFAS 133 to have a significant impact on the financial position, results of operations, or cash flows of the Partnership.

In December 1999, Staff Accounting Bulletin (SAB) No. 101, *Revenue Recognition in Financial Statements* was issued. SAB No. 101 summarizes the SEC's views in applying accounting standards generally accepted in the United States of America to revenue recognition in financial statements. The adoption of SAB No. 101 in 1999 did not have a material impact on the Partnership's financial statements.

### **Reclassifications:**

Certain reclassifications have been made to the prior years' financial statements to conform with the current year's presentation.

## **2. ASSET IMPAIRMENT**

In the fourth quarter of 2000 the Partnership recorded asset impairment charges and exit costs as part of management's plan to focus on owning and managing timberlands and divesting of a certain portion of its real estate and forestry consulting operations. As a result of this initiative, results of operations in 2000 include charges for estimated asset impairment and exit costs.

The Partnership signed a sales agreement to sell the Partnership's real estate assets in Port Ludlow during 2000. Those assets and operations consist of a golf course, marina, 37-room inn, water and sewer services, commercial properties and homes and lots for retail sale. The agreement provides for cash proceeds of approximately \$20 million and is expected to close in the second quarter of 2001. As a result, management recorded asset impairment and exit costs of \$9.2 million.

Operations at Port Ludlow produced revenues of \$17,211, \$13,092 and \$8,603, and net operating loss of \$8,325, \$17 and \$25 during the years ended December 31, 2000, 1999 and 1998, respectively.

The Partnership recognized additional asset impairment and exit costs of \$940 which represent the expected loss incurred on the sale of forestry consulting operations in British Columbia and the cost of reorganizing timberland management operations.

Management anticipates completing the disposition of the forestry consulting operations by the end of 2001.

### 3. ASSETS HELD FOR SALE

Assets held for sale represent assets that the Partnership expects to sell during 2001 in connection with the disposition of Real Estate operations at Port Ludlow and forestry consulting in British Columbia. Assets held for sale consist of the following:

Work in progress	\$7,279
Fixed assets	7,477
Land	2,979
Unallocated amenities	1,055
<b>Total</b>	<b>\$18,790</b>

### 4. BUSINESS COMBINATIONS

In December of 1998 the Partnership acquired assets comprising the forestry consulting and timberland management business of H.A. Simons Ltd. This acquisition was structured primarily as an "earnout," where the Partnership is required to make contingent payments over five years provided the acquired operation meets or exceeds specified profitability levels from business outside of the United States. The Partnership was not required to make a payment on the earnout agreement based on results of operations in 1999 or 2000.

The assets acquired have been used to provide forestry consulting services in Canada, Jamaica and Argentina and manage 60,000 acres of timberland in British Columbia. The Partnership intends to sell the forestry consulting business in the first half of 2001 but retain the timberland management business.

In December 1998 the Partnership acquired the remaining 50% interest in a joint venture that the Partnership participated in to own and operate the 37-room Heron Beach Inn on Ludlow Bay in western Washington, which is part of operations for the Real Estate segment in 1999 and 2000. As a result of this acquisition the Partnership owns 100% of the Inn and the Inn's operations have been included in the consolidated financial statements for 1999. Prior to the acquisition, the Partnership owned 50% of the joint venture and losses from the joint venture were recorded on the equity method. The purchase price and the Partnership's basis in the dissolved joint venture were allocated to assets and liabilities acquired.

### 5. INCOME TAXES

The Partnership is not subject to income taxes. Instead, partners are taxed on their share of the Partnership's taxable income, whether or not cash distributions are paid. The provision (benefit) for income taxes relating to taxable subsidiaries of the Partnership consists of the following:

	2000	1999	1998
Current	\$(298)	\$263	\$278
Deferred	(28)	(4)	32
<b>Total</b>	<b>\$(326)</b>	<b>\$259</b>	<b>\$310</b>

The following schedule reconciles net income/(loss) reported for financial statement purposes to consolidated taxable income:

	2000	1999	1998
Net income/(loss) per financial statements	<b>\$(6,251)</b>	\$5,066	\$8,792
Undistributed subsidiary corporation (income)/loss	<b>2,217</b>	371	(1,226)
Difference in reporting depreciation and depletion	<b>(106)</b>	(40)	(326)
Cost basis of land, timber and homes sold	<b>155</b>	139	316
Deferred profit on real property sold	<b>61</b>	224	(177)
Asset impairment and environmental accrual	<b>10,066</b>	-	-
Deferred gain from land exchange		-	(2,771)
Other	<b>107</b>	108	
<b>Taxable income</b>	<b>\$6,249</b>	<b>\$5,868</b>	<b>\$4,608</b>

## 6. LONG-TERM DEBT

Long-term debt at December 31 consists of:

	2000	1999
Mortgage note payable to an insurance company, with interest at 9.65%, collateralized by timberlands, with a minimum monthly payment of \$136 and maturing May 2022	\$12,930	\$13,298
Local improvement district assessments, with interest ranging from 6.5% to 8%, due through 2009	197	253
Other	116	137
	13,243	13,688
Less current portion	(442)	(406)
Total long-term debt	\$12,801	\$13,282

The Partnership has a \$20 million revolving term loan agreement. There was no balance outstanding on the agreement as of December 31, 2000 and 1999. The agreement expires on June 30, 2002.

The Partnership debt agreements contain certain financial statement ratio covenants and have tangible net worth requirements. The minimum net worth requirements for the bank and the insurance company notes were \$25,388 as of December 31, 2000. The net worth requirements increase each year by a percentage of the current year's net income. The mortgage note payable also includes debt repayment provisions in the event that timber harvests exceed specified levels. The Partnership was in compliance or obtained a waiver from the lender for these covenants as of December 31, 2000.

Principal payments on long-term debt for the next five years are due as follows:

2001	442
2002	482
2003	527
2004	577
2005	603

## 7. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Partnership's financial instruments include cash and cash equivalents, accounts receivable, contracts receivable, and variable rate debt, for which the carrying amount of each approximates fair value. The fair value of contracts receivable was determined based on current yields for similar contracts. The fair value of fixed rate debt having a carrying value of \$13,127 and \$13,551 has been estimated based on current interest rates for similar financial instruments and totals \$14,845 and \$14,113 as of December 31, 2000 and 1999, respectively.

## 8. UNIT OPTION PLAN

The Partnership's 1997 Unit Option Plan authorized the granting of nonqualified unit options to employees, officers, and directors of the Partnership. A total of 300,000 units have been reserved for issuance under the plan. Unit options are granted at prices not less than the fair value of the limited partnership units on the date of the grant. The options generally become exercisable annually over a four-year period and have a maximum term of ten years. Unit options vested were 60,618 and 28,250 at December 31, 2000 and 1999, respectively. Unit options outstanding were as follows:

	Number of units (in thousands)	Weighted average strike price
Balance, January 1, 1997	-	-
Granted	42.5	20.0
Exercised	-	-
Balance, December 31, 1997	42.5	20.0
Granted	50.0	26.5
Exercised	-	-
Balance, December 31, 1998	92.5	23.5

Granted	57.5	27.9
Exercised	(8.6)	21.8
Balance, December 31,1999	141.4	25.4
Granted	120.7	22.3
Exercised	-	-
Expired	(77.1)	25.3
Balance, December 31,2000	185.0	23.4

The Partnership accounts for unit-based compensation in accordance with APB Opinion No. 25, Accounting for Stock Issued to Employees. Accordingly, compensation cost for unit options is measured as the excess, if any, of the fair value of the Partnership's units at the date of grant over the amount an employee must pay to acquire the unit. During 2000, \$27 in compensation expense was recognized for the issuance of 5,206 unit options to a member of the board of directors for interim oversight services.

Unit options granted have an exercise price not less than the fair value of the Partnership's unit price on the date of the grant. Had compensation expense for unit option grants been recognized based on the fair value at the grant date consistent with the method described in SFAS No. 123, Accounting for Stock-Based Compensation, the Partnership's net income would have been adjusted to the pro forma amounts indicated below:

	2000	1999	1998
Net income/(loss) as reported	\$(6,251)	\$5,066	\$8,792
Pro forma net income/(loss) under SFAS No. 123	(6,479)	4,819	8,656

The fair value of options was calculated using the Black-Scholes option-pricing model, with the following assumptions:

	2000	1999	1998
Expected life	5 years	5 years	5 years
Risk-free interest rate	5.9%	6.0%	5.0%
Dividend yield	2.1%	1.4%	1.5%
Volatility	.49	.49	.49

## 9. Employee benefits

Employees with six months of service are eligible to receive benefits under a defined contribution plan. In the first half of 2000, the Partnership made a voluntary contribution of 3% of eligible employee compensation. In the last half of 2000 the Partnership matched 50% of the employees' contribution up to 8% of compensation. The Partnership was required to contribute 3% of eligible employee compensation into the plan during 1999 and 1998.

The Partnership contributed the following amounts to the plan: \$190, \$308, and \$230 for December 31, 2000, 1999, and 1998, respectively.

## 10. Commitments and Contingencies

**Environmental remediation:** As of December 31, 2000, the Partnership has recorded an accrual of \$1,870 for estimated environmental remediation costs in and around the townsite of Port Gamble. Port Gamble is a historical town that was built and operated by Pope & Talbot, Inc. (P&T), a related party, until 1985 when the townsite and other assets were spun off into the Partnership. P&T leased the mill site at Port Gamble through 1995. The liability recorded represents management's estimate of the Partnership's share of the remediation costs.

Based on information provided by consultants and P&T, the Partnership estimates that the cost range for cleaning up the Port Gamble townsite and surrounding area to applicable State standards is \$10.0 million to \$13.0 million. The Partnership and P&T have made significant progress toward resolving the allocation of liability for Port Gamble cleanup costs. The environmental remediation liability at year-end is based upon an estimate of the Partnership's portion of the clean up costs based upon those negotiations, and represents the low end of an estimated range of \$1,870 to \$3,000.

**Performance bonds and letters of credit:** In the ordinary course of business, and as part of the entitlement and development process, the Partnership is required to provide performance bonds and letters of credit to ensure completion of certain public facilities. The Partnership had performance bonds and letters of credit totaling \$458 and \$610 outstanding at December 31, 2000 and 1999, respectively.

**Operating leases:** The Partnership has non-cancelable operating leases for office and computer equipment. The lease terms are from 12 to 36 months. Rent expense under the operating leases totaled \$563, \$558, and \$421 for the years ending December 31, 2000, 1999, and 1998, respectively.

Future minimum rental payments required under non-cancelable operating leases are as follows:

Year	Amount
2001	558
2002	140
2003	79
2004	41
2005	4

Contingencies: The Partnership may from time to time be a defendant in various lawsuits arising in the ordinary course of business. Management believes that loss to the Partnership, if any, will not have a material adverse effect to the Partnership's financial condition or results of operations.

## 11. Related party transactions and minority interest

Pope MGP, Inc., is the managing general partner of the Partnership and receives an annual fee of \$150.

The minority interest represents Pope MGP, Inc.'s interest in the IPMB. The amendment to the Limited Partnership Agreement authorizing management to pursue the IPMB specifies that net income from the IPMB will be split using a sliding scale allocation method, commencing with 80% to ORM, Inc., a subsidiary of Pope Resources, and 20% to Pope MGP, Inc. The sliding scale allocation method will allocate income evenly between ORM, Inc. and Pope MGP, Inc. once net income from the IPMB reaches \$7,000 in a fiscal year. The aforementioned amendment authorizing pursuit of the IPMB limits cumulative net expenditures to \$5,000, including debt guarantees. The Partnership has incurred approximately \$258 of net expenditures and debt guarantees through December 31, 2000.

A director of Pope MGP, Inc., is also a director of Pope & Talbot, Inc. (P&T). In 2000, 1999, and 1998, the Partnership received lease payments of \$75 from P&T for lease of a log sorting and storage site at Port Gamble, Washington.

The Partnership holds a promissory note from the retired president and CEO of the Partnership with a balance of \$271 at December 31, 2000, 1999 and 1998. The note bears interest at 6.48% and was cancelled in January 2001 in consideration for a Port Ludlow residence.

The Partnership contracted with a relative of the retired President and CEO to locate opportunities to expand the IPMB business. The Partnership paid \$62, \$120, and \$121 to the individual during 2000, 1999, and 1998, respectively.

## 12. Segment and major customer information

The Partnership's operations are classified into three segments: Fee Timber, Timberland Management and Consulting, and Real Estate. The Fee Timber segment consists of the harvest and sale of timber from the Partnership's 72,000 acre tree farm in the Hood Canal area of Washington State. The Timberland Management and Consulting segment manages over 500,000 acres of timberland properties for third parties and provides timberland consulting services throughout Canada and the Western United States. Timberlands under management are in Washington, Oregon, California and British Columbia. Major customers include two customers with 10% and 9%; 17% and 11%; and 21% and 9% of total revenues for 2000, 1999, and 1998, respectively.

The Real Estate segment builds and sells homes and lots and manages several commercial properties including a marina, golf course, sewer and water facilities and other commercial properties. All of the Partnership's real estate development activities are in Washington State.

Prior to 2000 the Partnership combined the timberland management and consulting segment with fee timber. As a result of the Partnership's change in strategic focus during 2000 the Partnership now has three segments and has restated segments for all years presented. Identifiable assets are those used exclusively in the operations of each industry segment or those allocated when used jointly. The Partnership does not allocate cash, accounts receivable, certain prepaid expenses or the Partnership's administrative office for purposes of evaluating segment performance. Details of the Partnership's operations by business segment for the years ended December 31 were as follows:

	2000	1999	1998
<b>Revenues:</b>			
Fee timber	\$20,657	\$22,796	\$20,404
Timberland management and consulting	11,011	11,705	8,906
Real estate	18,989	16,352	13,642
<b>Total</b>	<b>50,657</b>	<b>50,853</b>	<b>42,952</b>

**Operating income/(loss):**

Fee timber	12,113	13,020	11,560
Timberland management and consulting	152	1,877	3,224
Real estate	(10,888)	(95)	2,527
Other	(7,254)	(8,122)	(6,948)
Total	(5,877)	6,680	10,363

**Depreciation and Depletion:**

Fee timber	1,044	1,188	825
Timberland management and consulting	208	213	37
Real Estate	1,110	799	731
Other	537	483	460
Total	2,899	2,683	2,053

**Identifiable Assets:**

Fee timber	19,653	18,567	16,196
Timberland management and consulting	708	1,226	780
Real estate	30,813	36,862	36,461
Other	10,558	10,225	9,269
Total	61,732	66,880	62,706

**Capital and land expenditures:**

Fee timber	1,047	2,664	782
Timberland management and consulting	193	255	532
Real estate	1,440	424	5,613
Other	178	421	697
Total	2,858	3,764	7,624

Revenues by product line for the years ending December 31, 2000, 1999, and 1998 are as follows:

	<u>2000</u>	<u>1999</u>	<u>1998</u>
<b>Sales of forest products:</b>			
Domestic	\$9,417	\$15,108	\$14,547
Export, indirect	6,182	7,688	5,857
Sales of homes, lots, and undeveloped acreage	11,249	9,254	8,631
<b>Fees for service:</b>			
Domestic	20,472	16,495	13,917
Foreign	3,337	2,308	-
Total Revenue	\$50,657	\$50,853	\$42,952

## 12. Quarterly financial information (unaudited)

	Revenues	Income/(loss) from Operations	Net Income/(loss)	Net Income/(loss) per Partnership unit diluted
<b>2000</b>				
First quarter	\$13,449	\$2,476	\$2,367	\$0.52
Second quarter	14,096	1,795	1,457	0.32
Third quarter	12,119	1,115	871	0.19
Fourth quarter	10,993	(11,263)	(10,946)	(2.41)
<b>1999</b>				
First quarter	\$12,566	\$2,994	\$2,567	\$0.57
Second quarter	14,228	2,904	2,488	0.55
Third quarter	14,349	2,321	2,089	0.46
Fourth quarter	9,710	(1,539)	(2,078)	(0.47)
<b>1998</b>				
First quarter	\$9,948	\$2,791	\$2,337	\$0.52
Second quarter	14,313	5,011	4,547	1.01
Third quarter	12,574	3,395	2,941	0.65
Fourth quarter	6,117	(834)	(1,033)	(0.24)

**Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS  
ON ACCOUNTING AND FINANCIAL DISCLOSURE**

None.

**PART III**

**Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT**

The Managing General Partner of the Partnership is Pope MGP, Inc. (the "General Partner") Its address is the same as the address of the principal offices of the Partnership. Pope MGP, Inc. receives \$150,000 per year for acting as managing general partner of the Partnership.

The Partnership has no directors. The following table identifies the officers and directors of the General Partner as of December 31, 2000. Officers of the General Partner hold identical offices with the Partnership.

<u>Name</u>	<u>Age</u>	<u>Position and Background</u>
Allen E. Symington (1) (2)	61	Chairman and CEO from September 2000 to present. Private investor and consultant from January 1999 to September 2000. President, COO, and CFO U.S. Timberlands from January 1998 to January 1999. VP Finance, Simpson Investment Company from July 1996 to January 1998. VP, Investments and Treasurer, Simpson Investment Company from January 1995 to July 1996. VP, Investments, Simpson Investment Company from December 1987 to December 1994.
Thomas R. Gilkey (1)	54	Vice President Timberlands from December 2000 to January 2001. Senior Vice President Timberlands from November 1998 to December 2000. Senior Vice President Timberland and Acquisitions from January 1997 to October 1998 of Pope MGP, Inc. Private consultant from January 1994 to December 1996. Executive Vice President, The Campbell Group 1987 to 1994. Timberland Division Manager of Crown Zellerbach 1974 to 1987.
Charles Goodbrand (1)	50	Vice President and General Manager of ORM Resources Canada Ltd. from January 2001 to present. Senior Vice President and General Manager of ORM Resources Canada Ltd. from January 1999 to December 2000. Vice President and General Manager, Simons Reid Collins from 1996 to December 1998.
Thomas A. Griffin (1)	43	Vice President Income Properties since June 1996. Treasurer and Controller from November 1991 to June 1996. Controller from March 1989 to October 1991. Assistant Controller May 1988 to February 1989 of Pope MGP, Inc. and the Partnership. Property Manager of Wood Associates, January 1986 to April 1988. Controller of Vestar, January 1984 to January 1986.
Gregory M. McCarry (1)	51	Vice President Real Estate since January 2001. Senior Vice President Real Estate from June 1996 to December 2000. Vice President Development from November 1987 to June 1996 of Pope MGP, Inc. and the Partnership. Owner of Pace Builders, 1986 to November 1987. Treasurer of Security Resources, Inc., from 1983 to 1986.
Douglas E. Norberg (3), (4)	60	Director; President, Wright Runstad & Company, 1975 to his retirement in 1999.
David L. Nunes (1)	39	President and Chief Operating Officer since September 2000. Senior Vice President Acquisitions & Portfolio Development from November 1998 to August 2000. Vice President Portfolio Development from December 1997 to October 1998. Director of Portfolio Development from April 1997 to December 1997 of Pope MGP, Inc. and the Partnership. Strategic Planning Director of Weyerhaeuser Company from April 1997 to June 1988.
Peter T. Pope (3), (4)	66	Director; Chairman of the Board of Pope & Talbot, Inc., 1971 to 1999. Mr. Pope retired as CEO of Pope & Talbot in 1999.
Thomas M. Ringo (1)	47	Vice President & CFO since December 2000. Senior Vice President Finance and Client Relations from June 1996 to December 2000. Vice President Finance from November 1991 to June 1996. Treasurer from March 1989 through October 1991 of Pope MGP, Inc. and the Partnership. Tax Manager of Westin Hotel Company, 1985 to March 1989. Tax Consultant for Price Waterhouse, 1981 to 1985.
Joseph O. Tobin II (3), (4)	47	Director; private investor.
Marco F. Vitulli (2), (4)	66	Director; President, Vitulli Ventures Ltd., 1980 to present.

(1) Term as an officer expires December 31, 2001.

- (2) Term as a director expires December 31, 2001.
- (3) Term as a director expires December 31, 2002.
- (4) Member of the Board of Directors Audit and Human Resources committees.

**Item 11. EXECUTIVE COMPENSATION**

The following table sets forth certain information concerning the cash compensation paid to each of the five most highly compensated executive officers of the Partnership.

**Summary Compensation Table**

Name and Principal Position	Annual Compensation				Long-term Compensation	
	Year	Salary (\$)	Bonus (\$)(1)	Other Annual Compensation (\$)(2)	All Other Compensation (\$)(3)	LTIP Payments (\$)(4)
Allen E. Symington Chairman & CEO	2000	66,667	58,000			
Gary F. Tucker Retired CEO & President	2000	277,586	-		5,250	15,117
	1999	266,910	120,884		4,800	7,812
	1998	258,300	124,047		4,800	-
David L. Nunes President & COO	2000	148,275	112,714	15,000	5,250	3,678
Greg McCarry V.P. Real Estate	2000	159,262	37,027	15,000	5,250	5,044
	1999	153,136	53,943		4,800	2,604
	1998	148,196	54,472		4,800	-
Thomas M Ringo V.P. & CFO	2000	143,199	85,102	15,000	5,250	5,044
	1999	137,692	58,503		4,800	2,604
	1998	133,250	49,241		4,800	-
Thomas Gilkey V.P. Timberlands	2000	143,199	42,805	15,000	5,250	5,044
	1999	137,692	60,796		4,800	2,604
	1998	133,250	62,566		4,800	-

- (1) Amounts represent bonuses or commissions earned in the year shown but paid after year end.
- (2) During 2000, the Partnership stopped providing company vehicles to certain executives. The \$15,000 payment represents a one-time payment made as a result of this change.
- (3) Amounts represent contributions to the Partnerships 401(k) plan.
- (4) The LTIP payments are made from Pope MGP's share of the IPMB.

**Compensation Pursuant To Unit Options**

During 2000 unit options were issued at the unit market value as follows:

Name	Individual Grants		Potential realizable value at assumed annual rates of stock price appreciation for term of option			
	Number of securities underlying Options Granted	Percent of total options granted to employees in fiscal year	Exercise Price	Expiration date	5%	10%
Allen E. Symington Chairmen & CEO	45,000	41%	19.63	09/27/10	\$555,534	\$1,407,832
Gary Tucker	15,000	14%	24.13	02/10/10	\$227,581	\$576,736

Retired CEO &  
President

David L. Nunes President & COO	4,000	4%	24.13	02/10/10	\$60,701	\$153,828
Greg McCarry V.P. Real Estate	4,000	4%	24.13	02/10/10	\$60,701	\$153,828
Thomas M. Ringo V.P. and CFO	4,000	4%	24.13	02/10/10	\$60,701	\$153,828
Thomas Gilkey V.P. Timberlands	4,000	4%	24.13	02/10/10	\$60,701	\$153,828

### **Aggregated Option Exercises**

The following table provides information on option exercises in fiscal 2000 by the named executive officers and the value of exercisable and unexercisable unit options at December 31, 2000.

#### **Aggregated Option Exercises in Last Fiscal Year and FY-End Option Values**

Name	Units Acquired on exercise	Value Realized	Number of securities underlying unexercised options at year-end (#)		Value of unexercised in-the- money options at year-end (\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Allen E. Symington Chairment and CEO	-	-	-	45,000	\$-	\$219,150
Gary Tucker Retired President and CEO	-	-	22,500		\$67,500	\$-
David L. Nunes President & COO	-	-	3,188	8,562	\$4,219	\$1,500
Greg McCarry V.P. Real Estate	-	-	5,813	9,937	\$12,659	\$1,500
Thomas M. Ringo V.P. and CFO	-	-	2,938	9,937	\$4,221	\$1,500
Thomas Gilkey V.P. Timberlands	-	-	3,938	9,937	\$4,221	\$1,500

No awards were made from the Long Term Incentive Plan based upon 2000 operating results.

### **Compensation Of Directors**

Compensation of the outside directors of Pope MGP, Inc. consisted of a monthly fee of \$1,500 plus a \$1,000 per day fee for each board meeting attended or \$500 for participation in a board meeting via telephone. For the year ended December 31, 2000, three outside directors were granted 3,000 unit options each at a strike price of \$24.125 and one director was granted 4,537 unit options at a strike price of \$22.25 for service as lead director. One outside director was granted 9,743 unit options at a weighted average exercise price of \$21.35 as compensation for interim oversight services. Compensation expense of \$27,000 was recognized in 2000 as a result of this option grant. For the years ended December 31, 1999 and 1998 two outside directors were granted 3,000 unit options each at a strike price of \$27.88, and 3,000 units each with a strike price of \$26.50, respectively. The option grants were made pursuant to the Partnership's 1997 Unit Option Plan for their service as directors of Pope MGP, Inc.

### **Employee Benefit Plans.**

Employees with six months of service are eligible to receive benefits under a defined contribution plan. In the first half of 2000, the Partnership made a voluntary contribution of 3% of eligible employee compensation. In the last half of 2000 the Partnership matched 50% of the employees' contribution up to 8% of compensation. The Partnership was required to contribute 3% of eligible employee compensation into the plan during 1999 and 1998. Partnership contributions to the plan amounted to \$190,000, \$308,000, and \$230,000, for each of the three years ended December 31, 2000, 1999, and 1998, respectively. Employees become fully vested over a six-year period in the Partnership's contribution.

The Partnership has a supplemental retirement plan for a retired key employee. The plan provides for a retirement income of 70% of the employee's base salary at retirement after taking into account both 401(k) and social security benefits. The Partnership accrued \$181,000 for this benefit in 1995.

## Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

### Principal Unitholders

As of December 31, 2000, the following persons were known or believed by the Partnership to be the beneficial owners of more than five percent (5%) of the outstanding Partnership units:

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)	Percent of Class
Units	Private Capital Management, Inc. 3003 Tamiami Trail North Naples, FL 33940	1,714,579 (2)	37.9
Units	Emily T. Andrews 600 Montgomery Street 35th Floor San Francisco, CA 94111	557,100 (3)	12.3
Units	Peter T. Pope 1500 S.W. 1st Avenue Portland, OR 97201	325,415 (4)	7.2

(1) Each beneficial owner has sole voting and investment power unless otherwise indicated.

(2) Private Capital Management, Inc. is an investment adviser shown registered under the Investment Advisers Act of 1940. Units are held in various accounts managed by Private Capital Management, Inc. which shares dispositive powers as to those units.

(3) Includes 1,090 units owned by her husband, Adolphus Andrews, Jr. as to which she disclaims beneficial ownership. Also includes a total of 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc., as to which she shares voting and investment power.

(4) Includes 53,420 units held in trust for his children. Also includes a total of 60,000 units held by Pope MGP, Inc., and Pope EGP, Inc., as to which he shares investment and voting power.

### Management

As of December 31, 2000, the beneficial ownership of the Partnership units of (I) the general partners, (II) the directors of the Partnership's general partners, (III) the executive officers named in the Executive Compensation Table above, and (IV) the Partnership's general partners, directors and officers of the Partnership as a group was as follows:

Name	Position and Offices	Amount and Nature of Beneficial Ownership (1)	Percent of Class
Adolphus Andrews, Jr.	Retired Director, Pope MGP, Inc. and Director of Pope EGP, Inc. (3)	557,100 (2)	12.3
Joseph O. Tobin II	Director, Pope MGP, Inc. (7)	78,994 (7)	1.7
Peter T. Pope	Director, Pope MGP, Inc. and Pope EGP, Inc. (5)	325,415 (4)	7.2
Pope EGP, Inc.	Equity General Partner	54,000	1.2
Pope MGP, Inc.	Managing General Partner	6,000	*
Marco Vitulli	Director, Pope MGP, Inc.	1,000	*
Douglas Norberg	Director, Pope MGP, Inc.	3,250	*
Thomas M. Ringo	Vice President & CFO, Pope MGP, Inc. and the Partnership	500	*
Allen E. Symington	CEO	-	*
Thomas R. Gilkey	Vice President Timberlands	-	*
Charles Goodbrand	Vice President and General Manager ORM Resources Canada	-	*
Thomas A. Griffin	Vice President Income Properties	-	*
Gregory McCarry	Vice President Real Estate	-	*
David L. Nunes	President and Chief Operating Officer	-	*

\* Less than 1%

- (1) Each beneficial owner has sole voting and investment power unless otherwise indicated.
- (2) Includes 497,100 units as to which he shares investment and voting power. Also includes 60,000 units owned by Pope MGP, Inc. or Pope EGP, Inc., as to all of which he disclaims beneficial ownership. See footnote (3) under "Principal Unitholders."
- (3) Mr. Andrews is also a Vice President of Pope EGP, Inc.
- (4) See footnote (4) under "Principal Unitholders."
- (5) Mr. Pope is also President of Pope EGP, Inc.
- (6) For this computation, the 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc. are excluded from units beneficially owned by Mr. Pope and Mr. Andrews. Mr. Pope and Mr. Andrews' wife, Emily T. Andrews, owns all of the outstanding stock of POPE MGP, INC. and POPE EGP, INC.
- (7) Includes 67,963 units owned by Edith Tobin, Mr. Tobin's wife, and 11,031 units held in trust for Mr. Tobin's children.

### Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The Partnership Agreement provides that it is a complete defense to any challenge to an agreement or transaction between the Partnership and a general partner, or related person, due to a conflict of interest if, after full disclosure of the material facts as to the agreement or transaction and the interest of the general partner or related person, (1) the transaction is authorized, approved or ratified by a majority of the disinterested directors of the managing general partner, Pope MGP, Inc., or (2) the transaction is authorized by partners of record holding more than fifty percent (50%) of the units held by all partners.

The Partnership held a promissory note issued in connection with the Retired CEO and President's purchase of a home that had a balance of \$271,000. The note bore interest at 6.48% and was cancelled in January 2001 in consideration for the transfer of a Port Ludlow residence to the Partnership by him.

The Partnership contracted with a relative of the retired President and CEO to direct the Partnership's outreach efforts, which involved the location of potential timberland properties to be included in investor portfolios and opportunities to sell timberland management services. During the last fiscal year, the Partnership paid fees totaling \$62,000 for services provided by this individual.

## PART IV

### Item 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

**(a) Financial Statements**  
**Page**

- (1) Financial Statements:
  - Independent Auditors' Report
  - Consolidated Balance Sheets
  - Consolidated Statements of Income
  - Consolidated Statements of Partners' Capital
  - Consolidated Statements of Cash Flows
  - Notes to Consolidated Financial Statements

- (2) Financial Statement Schedules

#### Schedule II - Valuation and Qualifying Accounts

#### Reserve for Environmental Remediation

Year Ended	Balances at the Beginning of the Period	Charged to Costs and Expenses	Deductions	Balances at the End of the Period
	\$120,000	\$ -	\$ -	\$120,000

December 31, 1998

Year Ended

December 31, 1999	\$120,000	\$ -	\$ -	\$120,000
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Year Ended

December 31, 2000	\$120,000	\$1,956,000	\$206,000	\$1,870,000
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**(b) Reports on Form 8-K.**

The Partnership filed one report on form 8-K during the quarter ended March 31, 2001. The Partnership disclosed that on February 12, 2001 a definitive purchase and sale agreement was signed by the Partnership with Plum Creek Marketing, Inc. to acquire 44,500 acres of industrial timberland in southwest Washington for approximately \$54 million. The acquisition will be funded by a mixture of senior debt and short-term revolving acquisition credit facility. The transaction is expected to close in the first half of 2001, subject to financing and other closing contingencies.

**(c) Exhibits.**

- 3.1 Partnership's Certificate of Limited Partnership. (1)
- 3.2 Partnership's Limited Partnership Agreement, dated as of November 7, 1985. (1)
- 3.3 Amendment to Partnership's Limited Partnership Agreement dated December 16, 1986. (2)
- 3.4 Amendment to Partnership's Limited Partnership Agreement dated March 14, 1997. (4)
- 4.1 Specimen Depository Receipt of Registrant. (1)
- 4.2 Partnership's Limited Partnership Agreement dated as of November 7, 1985 and amended December 16, 1986 (see Exhibits 3.1 and 3.3).
- 9.1 Shareholders Agreement entered into by and among Pope MGP, Inc., Pope EGP, Inc., Peter T. Pope, Emily T. Andrews, P&T, present and future directors of Pope MGP, Inc. and the Partnership, dated as of November 7, 1985 included as Appendix C to the P&T Notice and Proxy Statement filed with the Securities and Exchange Commission on November 12, 1985, a copy of which was filed as Exhibit 28.1 to the Partnership's registration on Form 10 identified in footnote (1) below. (1)
- 10.1 Transfer and Indemnity Agreement between the Partnership and P&T dated as of December 5, 1985. (1)
- 10.2 Management Agreement between the Partnership and P&T dated as of December 5, 1985. (1)
- 10.3 Ground Leases between the Partnership as Lessor and P&T as Lessee dated December 3, 1985. (1)
- 10.4 Purchase and sale agreement between the Partnership and HCV Pacific Partners LLC.
- 10.5 Employment agreement between the Partnership and Allen E. Symington, Chairman and CEO.
- 22.1 Subsidiaries of the Partnership (3) and (4)
- 99.1 Certificate of Incorporation of Pope MGP, Inc. (1)
- 99.2 Amendment to Certificate of Incorporation of Pope MGP, Inc. (3)
- 99.3 Bylaws of Pope MGP, Inc. (1)
- 99.4 Certificate of Incorporation of Pope EGP, Inc. (1)
- 99.5 Amendment to Certificate of Incorporation of Pope EGP, Inc. (3)
- 99.6 Bylaws of Pope EGP, Inc. (1)

- (1) Incorporated by reference from the Partnership's registration on Form 10 filed under File No. 1-9035 and declared effective on December 5, 1985.
- (2) Incorporated by reference from the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 1987.
- (3) Incorporated by reference from the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 1988.
- (4) Incorporated by reference from the Partnership's Proxy Statement filed on February 14, 1997.

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

POPE RESOURCES, A Delaware  
Limited Partnership

By POPE MGP, INC.  
Managing General Partner

Date: March 19, 2001

BY           /s/          Allen E. Symington

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ALLEN E. SYMINGTON,  
President and  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

Date: March 19, 2001

By /s/ Allen E. Symington

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ALLEN E. SYMINGTON,  
President and Chief Executive Officer (principal executive officer), Partnership  
and Pope MGP, Inc.; Director, Pope MGP, Inc.

Date: March 19, 2001

By /s/ Thomas M. Ringo

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THOMAS M. RINGO  
Vice President & CFO (principal financial officer), Partnership and Pope MGP,  
Inc.

Date: March 19, 2001

By /s/ Joseph O. Tobin

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JOSEPH O. TOBIN II  
Director, Pope MGP, Inc.

Date: March 19, 2001

By /s/ Peter T. Pope

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PETER T. POPE  
Director, Pope MGP, Inc.

Date: March 19, 2001

By /s/ Marco F. Vitulli

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MARCO F. VITULLI  
Director, Pope MGP, Inc.

Date: March 19, 2001

By /s/ Douglas E. Norberg

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DOUGLAS E. NORBERG  
Director, Pope MGP, Inc.

#### **INDEX TO EXHIBITS**

- 10.4 Purchase and sale agreement between the Partnership and HCV Pacific Partners LLC.
- 10.5 Employment agreement between the Partnership and Allen E. Symington, Chairman and CEO.

#### INSERT 1

Management formalized the plan to divest of these assets and reduce headcount in December 2000. Management anticipates the Port Ludlow disposition will be completed during the first half of 2001, and the disposition of the Canadian forestry consulting operations by the end of 2001.

**REAL ESTATE PURCHASE AND SALE AGREEMENT****by and between****Pope Resources****and****HCV Pacific Partners LLC****(Port Ludlow and Peacock Hill)****TABLE OF CONTENTS****ARTICLE I. PROPERTY**

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- 1.2 [Appurtenances](#)
- 1.3 [Tenant Leases](#)
- 1.4 [Equipment and Inventory](#)
- 1.5 [Contracts](#)
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- 1.7 [DNR Lease](#)
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**REAL ESTATE PURCHASE AND SALE AGREEMENT**  
(Pope Resources and HCV Pacific Partners LLC)  
(Port Ludlow and Peacock Hill)

THIS REAL ESTATE PURCHASE AND SALE AGREEMENT (this “Agreement”) is made and entered into as of January 12, 2001, by and between HCV PACIFIC PARTNERS LLC, a California limited liability company (or its assigns as permitted herein) (“Buyer”), and Pope Resources, a Delaware limited partnership, its wholly owned subsidiary Olympic Property Group LLC, a Washington limited liability company, and its wholly owned subsidiaries Olympic Real Estate Development LLC, a Washington limited liability company, Olympic Real Estate Management, Inc., a Washington corporation, and Olympic Resorts LLC, a Washington limited liability company (collectively, “Seller”). It is understood that Pope & Talbot, Inc. is not a Seller under this Agreement nor an affiliate of Seller, and that any reference in this Agreement to Seller’s “affiliates” does not include Pope & Talbot, Inc. or any other predecessor-in-title of any portion of the Property (as defined below), other than a party named as Seller herein.

Seller is the owner of certain real property (a) known herein as the MPR Properties and located within the unincorporated master planned resort area commonly known as Port Ludlow, Jefferson County, Washington, and (b) known herein as the Peacock Hill Property and located within the City of Gig Harbor, Pierce County, Washington. Buyer desires to purchase from Seller and Seller desires to sell to Buyer such property and related assets on the terms and conditions set forth below.

In consideration of the mutual covenants and promises contained herein, and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, Seller and Buyer agree as follows:

**ARTICLE I. PROPERTY**

Seller hereby agrees to sell, assign, and convey to Buyer, and Buyer hereby agrees to purchase, assume, and acquire from Seller, the following property subject to the terms and conditions set forth herein:

2001 Land and Improvements. The following lots and parcels of real property (the “Land”), together with the buildings, structures, fixtures, and improvements owned by Seller and located thereon (the “Improvements”):

1.1.1 The real property located within the unincorporated master planned resort area commonly known as Port Ludlow, Jefferson County, Washington, comprising the following properties (collectively, the “MPR Properties”):

- (a) MPR Operating Properties, defined as the aggregate of the following:
  - (i) Heron Beach Inn as described on Schedule 1.1.1(a)(i);
  - (ii) Marina as described on Schedule 1.1.1(a)(ii);
  - (iii) Golf Course as described on Schedule 1.1.1(a)(iii);
  - (iv) Village Center as described on Schedule 1.1.1(a)(iv);
  - (v) RV Park as described on Schedule 1.1.1(a)(v);
  - (vi) Harbormaster Restaurant as described on Schedule 1.1.1(a)(vi);
  - (vii) Conference Center as described on Schedule 1.1.1(a)(vii);
  - (viii) Miscellaneous MPR Operating Properties as described on Schedule 1.1.1(a)(viii); and
  - (ix) Sales Office as described on Schedule 1.1.1(a)(ix).
- (b) MPR Land Properties, defined as the aggregate of the following:
  - (i) MPR Platted Lots as described on Schedule 1.1.1(b)(i);
  - (ii) MPR Unplatted Parcels as described on Schedule 1.1.1(b)(ii); and
  - (iii) MPR Outparcels as described on Schedule 1.1.1(b)(iii).

Certain of the MPR Platted Lots are subject to presently existing executory purchase and sale agreements and to potential new purchase and sale agreements that may be entered into by Seller prior to Closing as provided in Section 6.2. Schedule 1.1.1(b)(i) shall be revised if closing under any such agreement occurs prior to the Closing Date under this Agreement.

1.1.2 The real property located within the City of Gig Harbor, Pierce County, Washington, legally described on Schedule 1.1.2 (the “Peacock Hill Property”).

2002 Appurtenances. All rights, obligations, privileges, and easements owned by Seller, including without limitation all minerals, oil, and gas on and under the Land, all development rights, air rights, water rights, and all easements, rights-of-way, permits, licenses, entitlements of any nature, plat, and permit applications, all rights under any warranties or guaranties relating to the Improvements, and other rights and obligations appurtenant to or used in connection with the Land and Improvements subject to matters of record and matters specifically excepted under this Agreement (the “Appurtenances”), including without limitation those rights, obligations, privileges, and easements described on Schedule 1.2.

Seller shall also grant to Buyer at Closing, by an instrument in the form of Schedule 7.2(h), non-exclusive easements over Seller’s lands within one-half (1/2) mile of the MPR Properties for water, electricity, sewer and other utilities, for drilling and maintenance of wells and related pipelines, and for trails (all of which easements shall be floating but shall be located and used so as not to interfere unreasonably with use, occupancy or development of Seller’s lands); and by an instrument in the form of Schedule 7.2(i), the right to continue (for a period of ten (10) years after the Closing Date, as defined below) to dispose of sludge from the Olympic Water and Sewer, Inc., system on Seller’s lands in a location reasonably designated by Seller.

2003 Tenant Leases. The interest of Seller as landlord under the leases relating to the Marina, Village Center, RV Park, Harbormaster Restaurant, and Conference Center, which are described on Schedule 1.3 (the “Tenant Leases”), and the security deposits, if any, collected and held by Seller thereunder.

2004 Equipment and Inventory. The equipment and inventory, including without limitation cars, trucks, other motor vehicles, construction equipment and small tools, office equipment, construction materials, spare parts and materials, computer hardware and software, security systems, files, and records, owned by Seller and located on and used in connection with the Land and Improvements (the “Equipment and Inventory”), including without limitation the equipment and inventory described on Schedule 1.4.

2005 Contracts. The contractual obligations and rights of Seller that are described in the development agreements, land use entitlement agreements, management agreements, service contracts, supply contracts, vendor agreements, equipment leases, maintenance agreements, executory purchase and sale agreements for MPR Platted Lots, construction contracts, brokerage agreements, and other agreements and contracts of record and as described on Schedule 1.5 (the “Contracts”). Upon Buyer’s satisfaction or written waiver of all of Buyer’s conditions precedent to Closing, Seller shall also terminate at Closing any Contracts that Seller has the right to terminate without material penalty that are specified by Buyer within ten (10) days prior to Closing (except that as to any Contracts that can only be terminated with not more than thirty (30) days prior written notice, Seller’s obligation shall be to give notice of termination at or before Closing).

2006 Intellectual Property Rights. All copyrights, trademarks, trade names, marketing materials, web sites (including rights to domain names), and other intellectual property rights owned by Seller and relating exclusively to the Property (the “Intellectual Property”), including without limitation those rights described on Schedule 1.6.

2007 DNR Lease. The interest of Seller under the aquatic lands lease between the Washington State Department of Natural Resources (“DNR”) as landlord and Seller as tenant as described on Schedule 1.7 (the “DNR Lease”).

2008 Additional Defined Terms. The Land, Improvements, Appurtenances, the Tenant Leases and DNR Lease are referred to collectively herein as the “Real Property.” The Equipment and Inventory, Contracts, and Intellectual Property are referred to collectively herein as the “Personal Property.” The Real Property and Personal Property, comprising all of the items described in Sections 1.1 through 1.7 above, are herein collectively referred to as the “Property.”

## **ARTICLE II. PURCHASE PRICE**

2009 Purchase Price [Omitted Confidential Information has been filed separately with the Securities and Exchange Commission].

2010 Adjustments to Purchase Price [Omitted Confidential Information has been filed separately with the Securities and Exchange Commission].

2011 Escrow Officer. Transnation Title Insurance Company, Seattle Washington (“Escrow Officer” in its capacity as escrow officer and “Title Company” in its capacity as title insurer), has been designated as Escrow Officer hereunder by mutual agreement of Seller and Buyer. Upon mutual execution and delivery of this Agreement, Escrow Officer shall open a closing escrow in accordance with the terms of this Agreement.

2012 Earnest Money [Omitted Confidential Information has been filed separately with the Securities and Exchange Commission].

## **ARTICLE III. CONDITION AND CONVEYANCE OF TITLE**

2013 Preliminary Commitment. Within ten (10) days after mutual execution and delivery of this Agreement, Seller shall provide Buyer with a preliminary commitment to issue an ALTA Extended Owner’s Policy of title insurance insuring Buyer’s interest in the Real Property (the “Preliminary Commitment”), together with complete and legible copies of all exceptions and

encumbrances noted thereon. The Preliminary Commitment shall be issued by Transnation Title Insurance Company or its local affiliates in Jefferson County, Washington, and Pierce County, Washington ("Title Company"). The Preliminary Commitment may be to issue an ALTA Standard Owner's Policy of title insurance as to those portions of the Real Property for which Title Company will not issue an ALTA Extended Owner's Policy for lack of an ALTA survey prior to Closing, subject to Buyer's approval during the Title and Survey Review Period defined below. Buyer shall have until expiration of the Inspection Period described in Section 4.1 or ten (10) days after receipt of the ESM Survey described at Section 3.2, whichever is later (the "Title and Survey Review Period"), to advise Seller in writing of any encumbrances, restrictions, easements, or other matters shown in the Preliminary Commitment or ESM Survey (collectively, "Exceptions") to which Buyer objects. Except as otherwise provided below, all Exceptions to which Buyer does not object in writing prior to expiration of the Title and Survey Review Period shall be deemed accepted by Buyer, provided, however, that if Buyer does not deliver any written notice to Seller regarding its objection to Exceptions prior to expiration of the Title and Survey Review Period, then Buyer shall be deemed to have and disapproved the condition of title to the Real Property, in which event this Agreement shall terminate and the Earnest Money shall be returned to Buyer. If Buyer does not receive complete and legible copies of all exceptions and encumbrances noted in the Preliminary Commitment within ten (10) days after mutual execution and delivery of this Agreement, then Seller shall cooperate with Buyer and assist Buyer in obtaining such copies from the Title Company as soon as possible.

If Buyer timely objects to any Exceptions, then Seller shall advise Buyer in writing within ten (10) days after receipt of Buyer's written objections: (a) which Exceptions Seller will remove at Closing, (b) which Exceptions the Title Company has agreed to remove from the title policy to be issued at Closing, and (c) which Exceptions will not be removed by Seller or Title Company. If Seller does not otherwise give an adequate, complete, timely, and written notice to Buyer regarding any Exception to which Seller has timely objected, then Seller shall be deemed to have given notice Buyer that such Exception will not be removed by Seller or Title Company prior to Closing.

Within twenty (20) days after Seller's receipt of Buyer's written objections, if Seller has not agreed to remove all Exceptions to which Buyer objects, Buyer shall notify Seller in writing of Buyer's election to either: (a) terminate this Agreement, in which event the Earnest Money shall be returned to Buyer, or (b) waive its objections to the Exceptions that Seller will not remove or cause Title Company to insure around, in which event such Exceptions shall be deemed accepted by Buyer. If Buyer does not terminate this Agreement in writing within the twenty (20) day period, then Buyer shall be deemed to have waived its objections to the Exceptions that Seller will not remove or cause Title Company to insure around.

Notwithstanding the foregoing, Seller shall cause, at Seller's sole expense, all mortgages, deeds of trust, and other monetary liens except non-delinquent assessment liens (e.g., liens for local improvement district assessments), including liens for delinquent taxes, mechanics, materialman's or service provider liens, and judgment liens, to be fully satisfied, released, and discharged of record on or prior to the Closing Date without necessity of Buyer's objection. All such mortgages, deeds of trust and other monetary liens shall automatically be deemed unacceptable to Buyer (without any need for Buyer to object to them expressly) and shall be removed by Seller as provided above.

2014 Survey. Within five (5) days after mutual execution and delivery of this Agreement, Seller shall engage ESM Consulting Engineers, L.L.C. ("ESM"), to prepare a survey of portions of the Land by letter proposal dated January \_\_\_\_, 2001 (the "ESM Survey"). The parties shall cooperate to cause the ESM Survey to be completed and delivered to Buyer as soon as practicable, and acknowledge that they desire to have the completed ESM Survey delivered no later than March 7, 2001, if feasible. The parties acknowledge that Seller is solely responsible for the cost of the ESM Survey if this transaction fails to close but that if this transaction does close, then at Closing Buyer shall pay all ESM Survey costs.

2015 Permitted Exceptions. The term "Permitted Exceptions" means: (a) the Exceptions accepted or deemed accepted by Buyer as provided above; (b) the lien of non-delinquent real estate taxes for the current calendar year, subject to pro-rata as provided herein; (c) the Tenant Leases; (d) non-delinquent assessment liens, subject to pro-rata as provided herein; and (e) matters that would be disclosed by an accurate ALTA survey of the Real Property.

2016 Title Policy. At Closing, Seller shall cause Title Company to deliver to Buyer an ALTA Extended Owner's Policy of title insurance (or, at Buyer's option, a binder therefor) issued by Title Company in the amount of the Purchase Price, dated the Closing Date, insuring Buyer's title subject to no exceptions other than the general exceptions and the Permitted Exceptions (the "Title Policy"). The Title Policy may be for an ALTA Standard Owner's Policy of title insurance as to those portions of the Real Property for which Title Company will not issue an ALTA Extended Owner's Policy for lack of an ALTA survey prior to Closing, subject to Buyer's approval during the Title and Survey Review Period. The Title Policy shall be consistent with the Preliminary Commitment and otherwise in form and substance reasonably satisfactory to Buyer and shall contain such coverages and endorsements issued by Title Company as Buyer may specify, provided that Buyer shall pay the cost of all endorsements.

2017 Conveyance of Real Property. At Closing, Seller shall convey to Buyer fee simple title to the Real Property by execution and delivery of statutory warranty deeds in the form of Schedule 3.4(a) hereto as to the MPR Property (the "MPR Deed") and in the form of Schedule 3.4(b) hereto as to the Peacock Hill Property (the "Peacock Hill Deed"), subject only to the Permitted Exceptions. Seller shall also execute and deliver at Closing instruments granting the additional easement and rights described in the last sentence of Section 1.2 above in the forms of Schedules 7.2(h) and 7.2(i).

2018 Assignment of DNR Lease. At Closing, subject to the prior written approval of the DNR, Seller shall assign to Buyer the interest of Seller in and to the DNR Lease by execution and delivery of an Assignment and Assumption of DNR Lease in the form of Schedule 3.5 hereto (the "Assignment of DNR Lease").

2019 Assignment of Tenant Leases. At Closing, Seller shall assign to Buyer the interest of Seller in and to the Tenant Leases by execution and delivery of an Assignment and Assumption of Leases in the form of Schedule 3.6 hereto (the “Assignment of Tenant Leases”).

2020 Assignment of Contracts. At Closing, Seller shall assign to Buyer the interest of Seller in and to the Contracts that Buyer has elected not to cancel and terminate prior to Closing in accordance with Section 1.5 by execution and delivery of an Assignment and Assumption of Contracts in the form of Schedule 3.7 hereto (the “Assignment of Contracts”).

2021 Bill of Sale. At Closing, Seller shall convey to Buyer the interest of Seller in and to the Equipment and Inventory by execution and delivery of a Bill of Sale in the form of Schedule 3.8 hereto (the “Bill of Sale”).

2022 Assignment of Intellectual Property. At Closing, Seller shall convey to Buyer the interest of Seller in and to the Intellectual Property by execution and delivery of an Assignment of Intellectual Property in the form of Schedule 3.9 hereto (the “Assignment of Intellectual Property”).

#### **ARTICLE IV. INSPECTION OF DOCUMENTS AND REAL PROPERTY**

2023 Inspection Period. The period beginning on the day this Agreement has been executed and delivered by all parties and ending on [Omitted Confidential Information has been filed separately with the Securities and Exchange Commission], shall be the “Inspection Period.” The Inspection Period shall be extended one (1) day for each day after [Omitted Confidential Information has been filed separately with the Securities and Exchange Commission], that all schedules hereto are not approved by the parties in the amendment to this Agreement described at Section 16.9, provided, however, that if all schedules hereto are not approved by the parties in an amendment to this Agreement mutually executed and delivered on or before [Omitted Confidential Information has been filed separately with the Securities and Exchange Commission], then this Agreement shall terminate, the Earnest Money shall be returned to Buyer, and the parties shall have no further obligations hereunder except under those provisions intended to survive the termination of this Agreement.[Omitted Confidential Information has been filed separately with the Securities and Exchange Commission]

2024 Seller’s Documents. During the Inspection Period, Buyer and its agents and consultants, subject to their strict compliance with the confidentiality requirements of this Agreement, shall have the right to review and photocopy at Buyer’s expense all documents in the possession of Seller relating to the Property (“Seller’s Documents”) except Seller’s internal financial analysis and, subject to the terms and conditions set forth below, [Omitted Confidential Information has been filed separately with the Securities and Exchange Commission]. The review and photocopying of Seller’s Documents shall be conducted at a location in Kitsap County, Washington, to be designated by Seller. “In the possession of Seller” shall include documents relating to the Property in the possession of Seller’s consultants and prepared at Seller’s expense, provided that Buyer shall make arrangements with such consultants for the review and photocopying of such documents at Buyer’s expense (and provided further, that Seller shall cooperate with Buyer’s efforts to obtain access to all such Seller’s Documents in the possession of Seller’s consultants). Except as otherwise expressly provided herein, Seller makes no representations or warranties, express or implied, as to the accuracy or completeness of Seller’s Documents except those prepared by Seller for Buyer (such as financial information and also including, without limitation, all schedules and exhibits attached to this Agreement). Seller expressly disclaims any and all liability for representations or warranties, expressed or implied, contained in or for omissions from Seller’s Documents, except those prepared by Seller for Buyer and except as otherwise expressly provided in this Agreement. Buyer agrees not to distribute Seller’s Documents to others (other than its consultants, affiliates, investors, advisors and their respective employees) in whole or in part at any time without the prior written consent of Seller, and to keep confidential all information contained therein or made available in connection with any further discussions relating to the Property. Seller’s Documents are being delivered for the limited purpose of assisting Buyer in deciding whether or not to proceed with its purchase of the Property and upon the express understanding that they will be used only for such purpose. Buyer agrees to make use of Seller’s Documents only for the purpose of evaluating the purchase of the Property and agrees not to disclose to any person, except its consultants, affiliates, investors, advisors and their respective employees who have a need to know, the contents of Seller’s Documents, that discussions are taking place, or that information is being exchanged between parties. Upon the termination of this Agreement, Buyer shall return its copies of Seller’s Documents to Seller without retaining any copies thereof. Buyer shall not distribute Seller’s Documents to more than ten (10) investors at a time and shall require all such investors to keep confidential all information contained therein.

The above notwithstanding, Buyer and its agents and consultants shall have the right (i) to use all Seller’s Documents in connection with its due diligence review; (ii) to discuss the Property, and information contained in or learned from the Seller’s Documents, with governmental authorities in connection with its due diligence review; (iii) to disclose information contained in the Seller’s Documents to the extent required by any law or regulation or in connection with enforcement of this Agreement; and (iv) to keep and retain all Seller’s Documents and all records relating to the Property upon Closing. Buyer shall have no confidentiality obligation after Closing.

[Omitted Confidential Information has been filed separately with the Securities and Exchange Commission]

2025 Inspection of Real Property. During the Inspection Period, Buyer at its sole expense may inspect the physical condition of the Real Property, verify to its satisfaction the financial information provided to it and conduct any environmental or other inspections as it deems appropriate; provided, however, Buyer shall have the right to enter upon the Real Property only in accordance with the following terms and conditions:

- (a) This Agreement has not been terminated;

(b) Any entry upon the Real Property shall be only for the purpose of inspections, studies, and surveys upon prior written notice to Seller; and

(c) Buyer shall indemnify, defend and hold Seller harmless from any claims, demands and causes of action for personal injury, property damage, mechanics liens, violation of laws or breach of contract or lease that arise out of or are related to Buyer's activities on the Real Property prior to Closing, including without limitation Seller's costs, expenses and attorney's fees, except to the extent such claims, demands or causes of action arise out of Seller's negligence, misconduct, breach of lease or contract or violation of law. Without expanding Buyer's obligations set forth above, it is understood that Buyer shall not be liable for or in connection with the discovery and reporting as required by law of any hazardous or environmental condition on the Property. Notwithstanding anything to the contrary herein, this indemnity shall survive termination of this Agreement.

(d) Buyer's entry shall be at reasonable times and in compliance with all laws, leases, and other agreements of Seller, so as to minimize any disruption of Seller's tenants and the operations of Seller, its affiliates and subsidiaries. Buyer, its agents and consultants, to the extent reasonably possible, will be sensitive to the impacts of their due diligence efforts on the employees of Seller, will minimize their intrusions, and will not disclose the purpose of their work to any person or entity without Seller's prior written consent. Unless Seller has given its prior written consent, which shall not unreasonably be withheld or delayed, (i) no improvements shall be constructed upon the Real Property, no materials, vehicles or equipment shall be placed or stored on the Real Property except for the purposes of testing, and no construction activity shall be conducted upon the Real Property, and (ii) no grading, filling, excavation, or other disturbance of the soils shall be permitted. Buyer's activities shall not violate any law, regulation, ordinance or permit.

Buyer may communicate with and retain Seller's consultants regarding the condition of the Real Property. All consultants retained by Buyer shall be compensated solely by Buyer for their work. If this Agreement is terminated for any reason prior to Closing, then Buyer shall provide to Seller and shall cause its consultants to provide to Seller complete copies of any work product Buyer and its consultants have produced on behalf of Buyer, provided that Seller shall compensate Buyer and its consultants for their reproduction costs. Buyer shall cause all of its consultants to keep the transaction described in this Agreement completely confidential.

2026 Approval of Property Condition. If Buyer is satisfied in its sole discretion with the results of its inspection of Seller's Documents and the Real Property, then at any time prior to expiration of the Inspection Period Buyer shall give written notice to Seller of Buyer's approval of the condition of the Property. If Buyer shall fail to give timely written notice to Seller of Buyer's approval of the condition of the Property, then Buyer shall be deemed to have disapproved the condition of the Property, whereupon this Agreement shall terminate, the Earnest Money shall be returned to Buyer, and the parties shall have no further obligations hereunder except under those provisions intended to survive the termination of this Agreement.

2027 Certification. Within ten (10) days after the date this Agreement has been executed by all parties, Seller shall certify and deliver to Buyer complete copies of all Tenant Leases, Contracts, the DNR Lease, and all reports, assessments, and studies listed on Schedule 8.1.1(i). With respect to any materials previously delivered to Buyer, Seller's certification shall be sufficient as to those materials if it identifies how and when such materials were delivered and certifies that the copies so delivered were complete.

## **ARTICLE V. CONDITIONS PRECEDENT TO CLOSING**

Buyer's obligations under this Agreement are expressly conditioned on, and subject to satisfaction of, the following conditions precedent:

2028 Performance by Seller. Seller shall have timely performed all material obligations required by this Agreement to be performed by it.

2029 Approval of Property Condition. Buyer shall have given written notice to Seller prior to expiration of the Inspection Period that Buyer approves the condition of the Property based on Seller's inspection of Seller's Documents and the Real Property. It is understood that Buyer may disapprove the Real Property prior to expiration of the Inspection Period for any reason (and thereby terminate this Agreement and receive back the Earnest Money) if it is dissatisfied with any aspect of the Real Property, including (without limitation) its condition, value or development potential.

2030 Title Policy. Title Company shall be ready, willing and able to issue the Title Policy.

2031 Representations and Warranties True. The representations and warranties of Seller contained herein shall be true and correct on and as of the Closing Date in all material respects, and Seller shall so certify to Buyer in an instrument reasonably specified by Buyer.

2032 No Damage or Destruction. There shall be no material damage to or destruction of any portion of the Property.

2033 Tenant Estoppels. Seller shall have delivered to Buyer, not less than five (5) days prior to expiration of the Inspection Period, from tenants under the Tenant Leases comprising at least 80% of the rentable area of the Village Center, a tenant estoppel letter in the form of Schedule 5.6-1 without any material exception or claim thereon and dated not less than thirty (30) days after the date this Agreement is executed and delivered by all parties. Seller shall also have delivered, not less than five (5) days prior to expiration of the Inspection Period, a certificate of Seller with respect to the Leases for the Harbormaster Restaurant and the

Conference Center containing substantially the same information contained in Schedule 5.6-1 without any material exception or claim thereon (except that Seller may describe such tenant's existing default as alleged by Seller) and dated not less than thirty (30) days after the date this Agreement is executed and delivered by all parties. Seller shall also have used best efforts to obtain from the State of Washington an estoppel letter as to the DNR Lease in the form of Schedule 5.6-2.

2034 OWSI Stock Purchase Closing. Buyer as buyer and Olympic Property Group LLC as seller shall have simultaneously closed that certain Stock Purchase Agreement of even date herewith relating to the stock of Olympic Water and Sewer, Inc., a Washington corporation.

2035 Heron Beach Inn. Seller shall have terminated or made arrangements satisfactory to Buyer for the termination of the management agreement relating to the Heron Beach Inn.

2036 Consents and Notices. Buyer and Seller shall have timely given all notices required by all applicable laws, ordinances, regulations, and agreements relating to the conveyance of the Property and other matters relating thereto and shall have timely obtained all consents required by all applicable laws, ordinances, regulations, and agreements relating to the same. Without limiting the generality of the foregoing, the DNR shall have approved the transfer of the DNR Lease without requiring any material and adverse change to the terms of such lease and at a rental rate not exceeding the rate DNR currently alleges is payable thereunder (which rate Seller is contesting). If such consent by the DNR has not been obtained by the date scheduled for Closing, at Buyer's option the Closing Date shall be extended for up to forty-five (45) days to allow the parties to satisfy this condition (and the parties shall cooperate for such purpose).

2037 Liquor License. The Washington State Department of Licensing shall have issued new temporary retail liquor licenses under applicable statutes permitting the sale of liquor at the Heron Beach Inn, Port Ludlow Marina, and Port Ludlow Golf Course after closing in the same manner and to the same extent as presently allowed.

2038 Payment Certification. Buyer shall have received from Seller a written warranty and certification in the form of Schedule 5.11 that Seller has paid all contractors, material providers and any other persons or parties performing work or supplying construction materials for work on any part of the Real Property for all work performed and materials supplied through the date of Closing. Seller also agrees to indemnify, defend and hold harmless Buyer and the Real Property from any claim or allegation which, if true, would make such warranty and certification inaccurate (and including, without limitation, from any mechanics lien or similar lien filed by any person or party).

The conditions set forth in Sections 5.1 through 5.11 above are intended solely for the benefit of Buyer. If any of the foregoing conditions is not satisfied or waived by Buyer in writing as of the Closing Date, then Buyer shall have the right at its sole election either to waive such condition and proceed with Closing or, in the alternative, to terminate this Agreement, whereupon this Agreement shall terminate, the Earnest Money shall be returned to Buyer, and the parties shall have no further obligations hereunder except under those provisions intended to survive the termination of this Agreement (provided, that if any such condition is not satisfied due to Seller's default hereunder, then Buyer shall have all remedies for such default provided under this Agreement or under law).

Seller's obligations under this Agreement are expressly conditioned on, and subject to satisfaction of, the following conditions precedent:

2039 Performance by Buyer. Buyer shall have timely performed all material obligations required by this Agreement to be performed by it.

2040 Representations and Warranties True. The representations and warranties of Buyer contained herein shall be true and correct on and as of the Closing Date in all material respects, and Buyer shall so certify to Seller in an instrument reasonably specified by Buyer.

2041 OWSI Stock Purchase Closing. Buyer as buyer and Olympic Property Group LLC as seller shall have simultaneously closed the OWSI Stock Purchase Agreement.

2042 Consents and Notices. Buyer and Seller shall have timely given all notices required by all applicable laws, ordinances, regulations, and agreements relating to the conveyance of the Property and other matters relating thereto and shall have timely obtained all consents required by all applicable laws, ordinances, regulations, and agreements relating to the same. It is understood that if the DNR has not consented to transfer of the DNR Lease by the date scheduled for Closing, such date may be extended at Buyer's option in the manner described in Section 5.9 above.

2043 Board Approval. Within ten (10) calendar days after mutual execution and delivery of this Agreement, the Board of Directors of Pope MGP, Inc., the managing general partner of Pope Resources, shall have approved the execution and delivery of this Agreement and the OWSI Stock Purchase Agreement and the performance by Pope Resources of the transactions contemplated herein and therein.

The conditions set forth in Sections 5.12 through 5.16 above are intended solely for the benefit of Seller. If any of the foregoing conditions are not satisfied or waived by Seller in writing as of the Closing Date, Seller shall have the right at its sole election either to waive the condition in question and proceed with the sale or, in the alternative, to terminate this Agreement. No such termination, however, shall be deemed a waiver of Seller's right to retain the Earnest Money if Buyer is then in default under this Agreement.

## **ARTICLE VI. OPERATIONS PENDING CLOSING**

**2044 Operations Pending Closing.** At all times prior to the Closing or the sooner termination of this Agreement, Seller agrees: (a) to maintain, manage and operate the Property in the ordinary course of business free from waste and neglect, in accordance with applicable laws, regulations and permits, and consistent with its past management practices; (b) to maintain the Property in its current condition and state of repair (normal wear and tear and casualty loss excepted); (c) to maintain its existing casualty and liability insurance on the Property; (d) to perform all of its material obligations under the Tenant Leases, DNR Lease, and the Contracts and not to amend, modify or terminate or permit the termination of any of the Tenant Leases, DNR Lease, or the Contracts without the prior written consent of Buyer, which shall not unreasonably be withheld; (e) not to lease or rent any portion of the Property without the prior written consent of Buyer, except for leases in the ordinary course of business of the Marina and accommodations and rental agreements at the Golf Course, RV Park, and Heron Beach Inn; and (f) not to make any capital improvements costing in excess of Fifty Thousand Dollars (US\$50,000.00) to all or any portion of the Real Property (except MPR Platted Lots in the ordinary course of business) without Buyer's prior written consent.

**2045 Conditions of Title to Real Property.** Without Buyer's prior written consent, at all times prior to the Closing or sooner termination of this Agreement, Seller agrees with respect to the Real Property: (a) not to mortgage the Property; (b) not to enter into any new agreements that would be binding on Buyer after Closing without the prior written consent of Buyer except for leases in the ordinary course of business of the Marina, future reservations in the Golf Course, RV Park, and the Heron Beach Inn, construction agreements for homes on the MPR Platted Lots in the ordinary course of business, Golf Course membership agreements in the ordinary course of business, construction agreements for capital improvements approved by Buyer, sales of MPR Platted Lots as described at subsection (c) hereof; and (c) not to enter into any new agreements to transfer all or any portion of the Property except for sales of MPR Platted Lots for sale prices equal to or in excess of the minimum sale prices set forth on Schedule 6.2, conveyances of open space tracts to homeowner associations in the ordinary course of business.

**2046 Special Conditions Applicable to Heron Beach Inn, Marina and Golf Course.** Seller shall continue to operate the Golf Course and the Marina, and shall use best efforts to cause the Heron Beach Inn to continue to be operated, in accordance with existing practices, policies, and procedures and will not conduct any transaction outside the ordinary course of business except with Buyer's prior written consent. Among other things, Seller will cause Equipment and Inventory to be maintained at normal and customary levels and repairs and maintenance to be performed as reasonably required. As to the Heron Beach Inn, Seller shall cause guest and room service levels and marketing efforts to be maintained in accordance with existing practice and existing management personnel to remain fully involved in the operation of the Heron Beach Inn until the day of Closing. Seller shall use best efforts and due diligence to cause the termination prior to Closing of the Hotel Management Agreement dated April 3, 1991, between Pope Resources and CRG Hospitality, Inc., as amended (the "CRG Agreement").

**2047 Updating of Schedules.** The schedules attached hereto may be revised prior to Closing to reflect changes in the ordinary course of business or as otherwise approved by Buyer. Seller shall also give Buyer prompt written notice if Seller, after the date this Agreement is executed by Seller, discovers or learns of any fact or occurrence that would make any of Seller's warranties and representations materially inaccurate if such warranty or representation were made on or after the date Seller discovered or learned of such fact or occurrence.

**2048 Liquor Licenses.** Seller will cooperate fully with Buyer in Buyer's efforts to obtain from the Washington State Department of Licensing ("DOL") new temporary retail liquor licenses under applicable statutes to permit the sale of liquor at the Heron Beach Inn, Port Ludlow Marina, and Port Ludlow Golf Course after closing in the same manner and to the same extent as presently allowed. Buyer and Seller acknowledge that the DOL probably will not issue non-temporary retail liquor licenses to Buyer until some time after closing and that the issuance of such licenses will not be a condition precedent to Buyer's obligation to close this transaction. Seller also will cooperate fully with Buyer in Buyer's efforts to secure any non-temporary liquor licenses desired by Buyer for the sale of liquor at the Heron Beach Inn, Port Ludlow Marina, and Port Ludlow Golf Course after closing.

## **ARTICLE VII. CLOSING AND ESCROW**

**2049 Closing.** The Closing hereunder (the "Closing" or the "Closing Date") shall be held at the offices of the Title Company in Seattle, Washington, forty-five (45) days following Buyer's approval of the condition of the Property under Article IV.

**2050 Seller's Deliveries.** On or prior to the Closing Date, Seller shall deposit with Escrow Officer the following:

- (a) The duly executed and acknowledged (where applicable) MPR Deed, Peacock Hill Deed, Assignment of DNR Lease, Assignment of Tenant Leases, Assignment of Contracts, Bill of Sale, and Assignment of Intellectual Property;
- (b) The duly executed Washington State Real Estate Excise Tax Affidavits relating to the MPR Deed and Peacock Hill Deed, consistent with the allocations set forth on Schedule 2.1;
- (c) An affidavit duly executed by Seller in the form of Schedule 7.2(c) hereto (the "FIRPTA Affidavit");
- (d) A duly executed management agreement to be negotiated in good faith prior to Closing (the "Management Agreement"), under which Buyer will manage certain post-closing obligations of Seller described therein and relating to the Property in exchange for reasonable consideration to be described therein;
- (e) The Tenant Estoppel Letters;

- (f) The Contracts, DNR Lease, and Tenant Leases;
- (g) A certificate executed by Seller stating that Seller's representations and warranties in Article VIII are true and correct as of the Closing Date;
- (h) The duly executed Easements Over Adjoining Lands in the form of Schedule 7.2(i);
- (i) The duly executed Bio-solids Disposal Agreement in the form of Schedule 7.2(i); and
- (j) The duly executed Seller's Payment Certificate in the form of Schedule 5.11.

2051 Buyer's Deliveries. On or prior to the Closing Date, Buyer shall deposit with Escrow Officer the following:

- (k) The Purchase Price;
- (l) The duly executed and acknowledged (where applicable) Assignment of DNR Lease, Assignment of Tenant Leases, Assignment of Contracts, and Assignment of Intellectual Property;
- (m) The duly executed Washington State Real Estate Excise Tax Affidavits relating to the MPR Deed and Peacock Hill Deed, consistent with the allocations set forth on Schedule 2.1;
- (n) The duly executed Management Agreement;
- (o) A certificate executed by Buyer stating that Buyer's representations and warranties in Article VIII are true and correct as of the Closing Date; and
- (p) The duly executed Bio-solids Disposal Agreement in the form of Schedule 7.2(i).

2052 Title Policy; Other Instruments. Seller shall cause Title Company to issue the Title Policy to Buyer at Closing or as soon thereafter as practicable (provided, however, that it shall be a condition to Buyer's obligation to close that title Company shall be committed to issue the Title Policy effective on and as of the Closing Date). Seller and Buyer shall each deposit such other instruments as are reasonably required by Escrow Officer or otherwise required to close the escrow and consummate the purchase of the Property in accordance with the terms hereof.

#### 2053 Prorations.

7.1.2 General. Except as otherwise provided in Sections 7.5.2 and 7.5.3, all revenues and all expenses of the Property, including but not limited to, real property taxes, hotel occupancy taxes, assessments, rents under the Tenant Leases, water, sewer and utility charges, amounts payable under the Contracts, and other expenses normal to the operation and maintenance of the Property, but excluding insurance premiums and payments pursuant to any of the Contracts that Buyer has elected not to assume, shall be prorated as of 12:01a.m. on the Closing Date (the "Cutoff Time"). Real Property tax prorations will be on the basis of taxes paid or payable in the year of Closing. Prepaid rents, security deposits, earnest money deposits, prepaid rentals or other deposits under any Tenant Leases or by customers under the Contracts, including without limitation gift certificates, prepaid fees and Member Book Balances for the Golf Course or any other facilities comprising part of the Property, shall be credited to Buyer. Prepaid rents and security deposits under the DNR Lease shall be credited to Seller. Utility deposits or prepaid amounts under any of the Contracts assigned to Buyer shall be credited to Seller. Any rents under Tenant Leases or other receivables past due as of the Closing Date shall not be prorated at Closing but upon receipt by Buyer shall be applied first to amounts due after Closing and the balance, if any, remitted to Seller for amounts due prior to Closing.

7.1.3 Heron Beach Inn Adjustments and Prorations. Except as otherwise provided herein, adjustments and prorations for the Heron Beach Inn shall be determined in accordance with the current edition of the Uniform Systems of Accounts for Hotels, as published by the Hotel Association of New York City, and shall all be prorated as of the Cutoff Time. The following matters and items shall be prorated or credited as of the Cutoff Time. Net credits in favor of Buyer shall be deducted from the balance of the Purchase Price at Closing, and net credits in favor of Seller shall be paid in cash at Closing.

(a) Revenues and Expenses. Except as otherwise provided in this section, Seller shall be entitled to all revenue and shall be responsible for all expenses for the period of time up to but not including the date of Closing, and Buyer shall be entitled to all revenue and shall be responsible for all expenses for the period of time from, after and including the date of Closing.

(b) Guest Ledger Receivables. Guest Ledger Receivables shall mean all amounts, including, without limitation, room charges and housekeeping costs, accrued to the accounts of guests occupying rooms in Heron Beach Inn as of the Cutoff Time. Seller shall receive a credit for all Guest Ledger Receivables for all room nights up to but not including the room night during which the Cutoff Time occurs, and Buyer shall be entitled to the amounts of Guest Ledger Receivables for the room nights after the Cutoff time. Seller and Buyer shall each receive a credit equal to one-half of the amount of Guest Ledger Receivables for the full room night during which the Cutoff Time occurs. All restaurant and bar facilities will be closed as of the Cutoff Time and Seller shall receive the income from the same until the Cutoff time.

(c) Advance Bookings. Buyer shall receive a credit for advance payments and security deposits, if any, under advance room and event bookings to the extent they relate to a period after the Cutoff Time.

(d) Petty Cash Funds and House Banks. Buyer shall purchase all petty cash funds and cash in house banks at 100% of face value at the Cutoff Time.

(e) Accounts Receivable. Seller shall retain the receivables of the Heron Beach Inn as of the Cutoff Time, other than Guest Ledger Receivables. Buyer agrees that it will promptly remit to Seller any funds received by Buyer in payment of such accounts receivable. With regard to any collection made from a person or entity who has accounts receivable arising both prior and subsequent to the Cutoff Time, such collection shall be applied first to current accounts receivable, then to prior accounts receivable.

(f) Operating Supplies and Inventory. Operating supplies and inventory for the Heron Beach Inn are included in the Personal Property for the Heron Beach Inn, and no proration or credits shall be made at Closing.

(g) Calculation of Heron Beach Inn Prorations. Seller shall cause its accounting staff to make such inventories, examinations, and audits of the Heron Beach Inn, and of the books and records of the Heron Beach Inn, as they may deem necessary to make the adjustments and prorations required under this section and other provisions of this Agreement. Buyer or its designated representatives may be present at such inventories, examinations and audits. Based upon such audits and inventories, Seller will prepare and deliver to the parties no later than two (2) days prior to Closing a closing statement containing Seller's best estimate of the prorations and adjustments in this Agreement.

7.1.4 Compensating Tax. Seller has disclosed to Buyer that portions of the Real Property are currently classified or designated as current use or forest land for tax purposes under RCW Ch. 84.33 or RCW Ch. 84.34, which portions to Seller's current actual knowledge are identified either in the Preliminary Commitment or in Schedule 7.5.3 or both. Conversion of the Real Property to another use will require the payment of compensating tax. At Closing, Buyer either shall continue the current classification or designation or pay the compensating tax, and in any event Buyer shall bear sole responsibility for, and shall indemnify and hold Seller harmless against, all such compensating tax. The provisions of this section shall survive Closing. In any suit, action, or appeal therefrom to enforce this section, the prevailing party shall be entitled to its costs incurred therein, including reasonable attorneys' fees and costs of litigation.

7.1.5 Golf Club Memberships. All complimentary Golf Club memberships, or special memberships based upon a promise of or right to a material discount of annual fees or charges from standard rates in effect from time to time, shall be terminated by Seller at or prior to Closing, except that Seller shall not be required to terminate (and Buyer shall accept) the special memberships of George Folquet, R.D. Bruce, and Joan Bruce as described in the recorded amended and restated lifetime membership easement, whose rights Seller has no ability or right to terminate.

2054 Closing Costs and Expenses. Buyer and Seller shall each pay their own attorneys fees and expenses and the following:

(a) Seller shall pay:

- (i) The owner's standard coverage portion of the premium for the Title Policy;
- (ii) All real estate excise or transfer taxes; and
- (iii) One-half (1/2) of the fees for the Escrow Officer.

(b) Buyer shall pay:

- (i) One-half (1/2) of the fees for the Escrow Officer;
- (ii) All costs and expenses of Buyer's consultants and investigations during the Inspection Period;
- (iii) The premium differential between owner's standard coverage and owner's extended coverage for the Title Policy plus the cost of all endorsements requested by Buyer;
- (iv) All survey costs;
- (v) All costs of recording the MPR Deed and Peacock Hill Deed; and
- (vi) Any sales or use tax relating to the conveyance of the Personal Property.

2055 Closing Statements. The prorations shall be made on the basis of a written closing statement submitted by Escrow Officer to Buyer and Seller prior to the Closing Date and approved by Buyer and Seller, which approval shall not be unreasonably withheld. In the event any prorations or apportionments made hereunder shall prove to be incorrect for any reason, then any party shall be entitled to an adjustment to correct the same. Any item that cannot be prorated because of the unavailability of information shall be tentatively prorated on the basis of the best data then available and re-prorated between Buyer and Seller when the information is available. Notwithstanding the foregoing, any adjustments or re-prorations shall be made, if at all, within one hundred eighty (180) days after the Closing Date.

2056 Delivery Outside of Escrow. Seller shall deliver to Buyer at Closing outside of the Closing escrow the originals of Seller's Documents (including but not limited to the originals of the Tenant Leases, DNR Lease, and Contracts), keys and/or codes to all doors and security equipment, copies of all books and records of Seller used in the operation, maintenance, repair and protection of the Property, and such other presently existing records and items as reasonably requested by Buyer.

2057 Guest Property. All baggage or other property of guests of the Heron Beach Inn checked or left in the care of Seller shall be listed in an inventory to be prepared in duplicate and signed by Seller and Buyer on the Closing date. Buyer shall be responsible from and after the Closing date and will indemnify and hold Seller harmless from and against all claims for all baggage and property listed in such inventory. Seller shall indemnify and hold harmless Buyer from and against claims for baggage and property not listed in such inventory but shown to have been left in Seller's custody prior to the Closing Date.

## **ARTICLE VIII. REPRESENTATIONS AND WARRANTIES**

Seller and Buyer make the following representations and warranties:

2058 Seller's Representations. Seller represents and warrants to Buyer as of the Date of this Agreement:

### 8.1.1 General Representations and Warranties Applicable to the Property.

(a) Tenant Leases. There are no leases, licenses, or other agreements granting any person or party the right to use or occupy the Real Property or any portion thereof except the Tenant Leases, matters set forth in the Title Commitment, matters that would be disclosed by an accurate ALTA survey of the Real Property, the use by guests, members, or patrons of the Heron Beach Inn and the Golf Course in the ordinary course of business between the date hereof and the Closing Date, and the Heron Beach Inn Reservations. The Tenant Leases have not been modified, amended, or terminated except as identified on Schedule 1.3. Schedule 1.3 sets forth all Tenant Leases and all security deposits and prepaid amounts due or owing to any tenant thereunder. To Seller's current actual knowledge, neither Seller nor any tenant is in default under or has asserted any uncured default under the Tenant Leases and no event has occurred that with the giving of notice or passage of time, or both, would constitute a default under any of the Tenant Leases. Seller has completed all tenant build-out items or other improvements required to be completed by Seller under the Tenant Leases. All brokerage commissions with respect to the Tenant Leases and any renewals, extensions, or expansions have been paid in full except with respect to those commission agreements disclosed on Schedule 1.5.

(b) Litigation. There is no claim, litigation, or proceeding pending against Seller, or to Seller's current actual knowledge threatened against Seller, which relate to the Property or the transactions contemplated by this Agreement except as set forth on Schedule 8.1.1(b). Seller also covenants and agrees to provide Buyer, within ten (10) days after the date this Agreement is mutually executed and delivered, a list of all material claims and actions known to Seller that were asserted or commenced against Seller relating to the Property since January 1, 1990 (other than the matters listed on Schedules 8.1.1(b)), including all such matters that have been resolved, dismissed, or settled. Such list shall include without limitation all arbitration and litigation proceedings known to Seller and commenced since January 1, 1990 (other than the matters listed on Schedules 8.1.1(b)).

(c) Compliance. To Seller's current actual knowledge and except as set forth on Schedule 8.1.1(e), (i) all permits, licenses, and other governmental authorizations and approvals required to construct the Improvements upon and to own and operate the MPR Operating Properties have been obtained, are in full force and effect, Seller is not in violation of any such permits, licenses, or other governmental authorizations and approvals, and Seller has received no notice of violation or claim of violation relating thereto; (ii) all governmental authorizations and approvals (including subdivision maps) required for the platting and subdivision of the MPR Platted Lots have been obtained, are in full force and effect, Seller is not in violation of any such permits, licenses, or other governmental authorizations and approvals, and Seller has received no notice of violation or claim of violation relating thereto; (ii) all governmental authorizations and approvals (including subdivision maps) required for the platting and subdivision of the MPR Platted Lots have been obtained, are in full force and effect, Seller is not in violation of any such authorizations and approvals, and Seller has received no notice of violation or claim of violation relating thereto; and (iii) the Real Property and the use thereof complies in all material respects with applicable laws and regulations and all applicable agreements affecting the Real Property (including without limitation laws and regulations relating to zoning, land use and subdivision of land), and Seller has not received any notice alleging zoning non-compliance with respect to the Real Property. To Seller's current actual knowledge and except as set forth on Schedule 8.1.1(c), there are no unsatisfied requests or demands for repairs, restorations, or improvements from any person, entity, or authority, including but not limited to any tenant, insurance carrier, or governmental authority with respect to the Real Property. All permits, licenses, governmental authorizations and approvals relating to operation, development or subdivision of the Real Property or operation of the other Property either run with title to the Real Property or can be assigned to Buyer without the consent of any third party, other than liquor licenses and any others specifically listed in Schedule 8.1.1(c). Notwithstanding the foregoing, Seller makes no representation or warranty regarding government authorizations and approvals relating to the provision water and sewer utility services to those portions of the Real Property to which water and sewer utility services are not currently provided.

(d) No Prior Options, Sales, or Assignments. Seller has not granted any options nor obligated itself in any manner whatsoever to sell the Property or any portion thereof to any party other than Buyer except for sales of MPR Platted Lots for sale prices equal to or in excess of the minimum sale prices set forth on Schedule 6.2, conveyances of open space tracts to homeowner associations in the ordinary course of business, and creation of covenants and easements in connection with the subdivision and development of lands in the ordinary course of business. Seller shall indemnify and defend Buyer

and hold Buyer harmless from and against any claim which, if true, would constitute a breach of the warranty and representation set forth in the foregoing sentence.

(e) Condition of Property. To Seller's current actual knowledge and except as set forth on Schedule 8.1.1(e)-1, the Property is free from material defects that would materially impair the use or value of the Property, ordinary wear and tear excepted. As used within this section, "material defects" means a defect resulting in a liability or loss to Buyer of more than One Hundred Thousand Dollars (US\$100,000.00) in each instance and One Million Dollars (US\$1,000,000.00) in the aggregate. The inclusion of a defect on Schedule 8.1.1(e)-1 does not mean that the defect is material.

Schedule 8.1.1(e)-2 describes those improvements and repairs that Seller is presently undertaking within the Property or had scheduled for completion in calendar year 2000, and Seller covenants to complete such improvements and repairs at its own expense prior to Closing; provided, that if the improvements and repairs listed in Schedule 8.1.1(e)-2 are not completed by Closing, then at Buyer's option Seller shall grant a reasonable credit to Buyer at Closing to cover the cost of completing such improvements and repairs.

(f) Special Assessments. Except as set forth on Schedule 8.1.1(f), Seller has not been notified of any contemplated improvements to the area surrounding the Real Property that would result in the assessment of a special improvement or similar lien against the Real Property that is not shown in the Preliminary Commitments.

(g) Existing Agreements. There are no contracts, agreements, or understandings (whether written or oral) relating to the Property that will be binding on Buyer after Closing, except for the Permitted Exceptions, the Appurtenances, the Tenant Leases, the DNR Lease, the Contracts, and other matters disclosed in this Agreement. The Contracts have not been modified, amended or terminated except as identified in Schedule 1.5 and, to Seller's current actual knowledge, neither Seller nor any other party is in default under any of the Contracts. All development agreements, land use entitlement agreements, management agreements, service contracts, supply contracts, vendor agreements, equipment leases, maintenance agreements, executory purchase and sale agreements for MPR Platted Lots, construction contracts, brokerage agreements, and other agreements and contracts (other than Tenant Leases and Exceptions) applicable to or binding on the Property are listed on Schedule 1.5. Except as described on Schedule 8.1.1(g), all Contracts and leases related to the Real Property (except the DNR Lease) can be assigned to Buyer without the consent of any third party.

(h) Taxes. All business and occupation, sales, rooms, use, and other taxes imposed with respect to the Property, or the operation thereof, that are due and payable by Seller have been paid in full and Seller has not received any written notice that any such tax is overdue, has not been paid, or is subject to audit.

(i) Environmental Compliance. Seller has not caused or permitted the Property since December 31, 1985, to be used to generate, manufacture, refine, transport, treat, store, handle, dispose, transfer, produce, or process Hazardous Substances except as set forth in the reports, assessments, and studies described in Schedule 8.1.1(i) or as allowed by any applicable law, ordinance, or regulation. To Seller's current actual knowledge, there are no Hazardous Substances on the Property, except as set forth in the reports, assessments, and studies described in Schedule 8.1.1(i), or as allowed by any applicable law, ordinance, or regulation; all written reports, assessments, or studies related to Hazardous Substances on, under, or around the Property prepared by or for Seller are listed on Schedule 8.1.1(i); and there are no buried tanks on or under the Property except as set forth in the reports, assessments, and studies described in Schedule 8.1.1(i) or as otherwise disclosed to Buyer in writing during the Inspection Period. To Seller's current actual knowledge, except as specifically disclosed in the reports, assessments and studies described in Schedule 8.1.1(i), no Hazardous Substances have been used, generated, manufactured, refined, transported, treated, stored, handled, disposed of, transferred, produced, or processed on or about the Real Property, except in compliance with all applicable laws, ordinances, regulations and permits and in a manner that has not and will not require clean-up or remediation under any applicable law, ordinance, regulation or permit. For the purposes hereof, "Hazardous Substances" shall mean asbestos, petroleum and petroleum derivatives and products, and any substance, chemical, waste, or other material that is listed, defined, or otherwise identified as "hazardous" or "toxic" under any federal, state, or local ordinance or law or any administrative agency rule or determination applicable to the Property. Buyer acknowledges that Seller has used cleaning solvents, paints, lubricants, fertilizers, pesticides, other golf course and agricultural products, and chemicals and similar materials in the ordinary course of business, but Seller warrants and represents that all such substances have been used, handled, stored, transported and disposed of in compliance with all applicable laws, ordinances, regulations and permits and in a manner that has not required and will not require clean-up or remediation under any applicable law, ordinance, regulation or permit, except as disclosed otherwise to Buyer in writing during the Inspection Period. Buyer acknowledges that portions of the MPR Properties were used prior to December 31, 1985, for lumber mill and other timber industry purposes and that Seller does not have complete information regarding the generation, manufacture, refinement, transport, treatment, storage, handling, disposal, transfer, production, processing, and use of Hazardous Substances within the MPR Properties prior to December 31, 1985.

(j) Authority. Pope Resources is a limited partnership duly organized, validly existing, and in good standing under the laws of the State of Delaware and is qualified to do business in the State of Washington. Olympic Property Group LLC, Olympic Real Estate Development LLC, and Olympic Resorts LLC are limited liability companies duly organized, validly existing, and in good standing under the laws of the State of Washington. Olympic Real Estate Management, Inc., is a corporation duly organized, validly existing, and in good standing under the laws of the State of Washington. This Agreement and all documents to be executed by Seller at Closing have been or will be duly authorized, executed, and delivered by Seller and are binding on and enforceable against Seller in accordance with their terms. Seller has obtained all authorizations or approvals necessary in order for Seller to enter into and perform its obligations under this Agreement.

(k) Employees. Seller has approximately eighty (80) employees engaged at or in connection with operation, subdivision and sale of the Property, all of whom are listed on Schedule 8.1.1(k). Except as described at Schedule 8.1.1(k), there are no union contracts, labor agreements, or Employee Benefit Plans as defined in Section 3(3) of the Employee Retirement Income and Security Act of 1974, as amended from time to time, or written employment contracts relating to any employees of Seller engaged in the management, development or operation of the Property.

(l) Inventory Sales. Seller has been engaged in the construction and sale of homes, town homes, and condominium units on the MPR Property. Buyer shall have no liability or responsibility for warranty claims (actual or alleged), defects (actual or alleged) or by any other claim or matter arising from the construction or sale of such homes, town homes, or condominium units.

(m) Easements. To Seller's actual knowledge, no person or party has any easement rights or rights to use any portion of the Real Property, other than rights shown of record, rights under the Tenant Leases, rights of patrons to use the Golf Course in the ordinary course of operations, the Heron Beach Inn Reservations, rights otherwise disclosed in the Schedules to this Agreement, and possible prescriptive easements in the Real Property.

(n) Sewer and Water Utilities. To Seller's actual knowledge, there are no physical obstacles to the connection of water and sewer facilities to all undeveloped portions of the Real Property. Notwithstanding the foregoing, Seller makes no representation or warranty regarding the capacity of the existing water and sewer facilities or the availability of ground or surface water or water rights required to provide water and sewer utility services to those portions of the Real Property to which water and sewer utility services are not currently provided.

(o) Completeness of Documents. All of Seller's Documents prepared by Seller specifically for Buyer (including financial information concerning the Property and Schedules to this Agreement) are accurate in all material respects and do not omit any material fact necessary to make the information in such Seller's Documents not misleading. To the best of Seller's actual knowledge, all of Seller's Documents prepared by Seller but not specifically for Buyer were accurate in all material respects when prepared.

(p) Ownership. Subject to the Exceptions disclosed in the Preliminary Commitment and matters that an accurate ALTA survey of the Real Property would disclose, Seller owns all of the buildings, improvements, structures and fixtures connected or attached to the Real Property, all equipment and other personal property located on and used in connection with the Land or Improvements, and all rights, licenses, entitlements, permits and other appurtenances used in connection with the Land or Improvements, other than those relating to tenant fixtures, pay telephones, vending machines, office equipment, indoor telephone equipment and lines under lease, other utility facilities owned by private and public utility companies, improvements to easements constructed by other easement beneficiaries, and structural encroachments from adjoining properties.

#### 8.1.2 Additional Warranties and Representations Applicable to Golf Course.

(a) Memberships. Schedule 1.5 includes the Golf Course Membership Agreement Schedule, which lists all members of the Golf Course and provides for each of such members the following information, which is true, correct, and complete as of the date of this Agreement: (i) the member's name, (ii) the type of membership, (iii) the effective date of the membership, (iv) the amount of the initiation deposit or fee that has been paid in cash (with respect to those members that elected an installment plan, if any, for payment of the initiation deposit, this amount includes both the initial cash down payment plus any receivable), and (v) any terms of the membership or any rights, privileges, or obligations of the member that are different from other memberships (for example, pre-paid dues or complimentary memberships), subject to applicable articles, bylaws, and rules and regulations.

(b) Nature of Memberships. To Seller's current actual knowledge, no representations or statements (either orally or in writing) have been made by Seller to any member of the Golf Course that (i) memberships in the Club are equity memberships, (ii) members have a right to participate in the ownership, management, or operation of the Golf Course, (iii) members have a right to share in any profits from the refinancing or sale of the Golf Course, (iv) memberships in the Golf Course are perpetual or non-terminable except as set forth in the membership agreement, or (v) members enjoy contractual rights in addition to or different from the right to use the Golf Course in accordance with the applicable membership agreement, by-laws and rules and regulations. No member or other person has made any claim or allegation which, if true, would render the warranty and representation in the foregoing sentence inaccurate.

(c) Use of Club. To Seller's current actual knowledge and except for the memberships listed on Schedule 1.5 and except as may be disclosed in Schedule 8.1.2(c), Seller has made no representations, statements, promises, or agreements (either orally or in writing) to any person or entity, including without limitation home builders, prospective home buyers, or owners or occupants of the land surrounding the Golf Course, regarding any of the following: (i) the right to membership in the Golf Course or the intent to operate the Golf Course as a private or semi-private country club, (ii) the right to play golf at the Golf Course or to otherwise use any of the Golf Course facilities, except on the same terms and conditions as are offered to the public, (iii) the right to participate in the operation, management, or maintenance of the Golf Course, and (iv) the manner in which the Golf Course will be operated, managed, maintained, or improved. No member or other person has made any claim or allegation which, if true, would render the warranty and representation in the foregoing sentence inaccurate.

(d) Water Rights. Schedule 8.1.2(d) describes all documents, agreements, instruments, certificates, registrations, and permits evidencing Seller's right to withdraw surface or underground water for the operation and maintenance of the Golf Course.

(e) Reservations. Schedule 1.5 includes all reservations and deposits for use of the Golf Course for time periods after December 31, 2000.

### 8.1.3 Additional Warranties and Representations Applicable to Heron Beach Inn.

(a) Sufficiency of Inventories. To Seller's actual current knowledge, the Heron Beach Inn Equipment and Inventory are sufficient for the operation of the Heron Beach Inn in accordance with the standard of operation heretofore maintained by Seller and shall not materially differ in amount or quality as of Closing.

(b) Reservations. Schedule 1.5 includes all reservations and deposits for use of the Heron Beach Inn for time periods after December 31, 2000.

(c) Employees. Other than the general manager, all employees currently employed at the Heron Beach Inn are employees of Seller. A complete and accurate schedule of employees and hire dates is attached hereto as part of Schedule 8.1.1(k).

(d) Franchise and Management. There are no contracts or other agreements for franchises, management, marketing, or operation of the Heron Beach Inn except as shown on Schedule 1.5 attached hereto.

8.1.4 Seller's Current Actual Knowledge. The representations and warranties herein are based upon the current actual knowledge of (a) Gregory M. McCarry, who is Senior Vice President - Real Estate of Pope Resources and Chief Operating Officer of Olympic Property Group LLC, Olympic Real Estate Development LLC, and Olympic Resorts LLC, and (b) Thomas A. Griffin, who is Vice President of Olympic Real Estate Management LLC. Seller warrants and represents that Messrs. McCarry and Griffin are Seller's officers most familiar with the condition, use, operation and development of the Property. Seller has no obligation under this Agreement to undertake any investigation or take any affirmative action to acquire any knowledge, including without limitation the review of Seller's Documents, other than a reasonable inquiry of Seller's current employees likely to possess knowledge. It is also understood that information contained in the Disclosures, as defined in Section 11.1 below, is not imputed to Mr. McCarry or Mr. Griffin except as and to the extent either of them has actual knowledge of such information.

2059 Buyer's Representations. Buyer represents and warrants to Seller as of the Closing Date as follows:

(a) Status. Buyer is a limited liability company duly organized, validly existing, and in good standing under the laws of the State of California.

(b) Authority. This Agreement and all documents to be executed by Buyer at Closing have been or will be duly authorized, executed, and delivered by Buyer and are binding on and enforceable against Buyer in accordance with their terms.

## **ARTICLE IX. EMPLOYEES**

Schedule 8.1.1(k) sets forth a list of all employees of Seller regularly engaged in the management, operation, and construction activities of Seller relating to the Property ("Employees"). Buyer shall not assume any obligations of Seller (whether based upon contract or implied by law or otherwise) relating to the Employees, and Buyer shall have no obligation to hire any of the Employees upon Closing; provided, that Buyer shall have the right, after expiration of the Inspection Period, to solicit applications for employment from the Employees (or any of them), it being understood that all terms and conditions of employment offered by Buyer shall be in Buyer's sole discretion. During the Inspection Period, Buyer will designate the Employees with whom Buyer would like to discuss employment. Buyer shall not communicate with any Employees except Greg McCarry, Tom Griffin, and Jon Rose regarding their employment with Buyer or Seller without the prior written consent of Seller. After expiration of the Inspection Period, Seller shall cooperate with Buyer to further Buyer's efforts to enter into employment agreements with the Employees.

Buyer has no obligation under this Agreement to provide benefits to any or all Employees it hires. However, if Buyer provides benefits to Employees, then Buyer shall take the following actions in order to preserve Employee benefits to the extent possible after Closing, if and to the greatest extent allowed by the various plan and benefit providers, and only if such actions cause no additional expense to Buyer not compensated by Seller at Closing: (a) If Buyer offers Employees it hires a group health plan, then it will waive all pre-existing condition limitations and waiting periods for coverage, and Buyer's health plan will credit all payments made by the Employees it hires towards deductible, co-payment, and out-of-pocket limits under Seller's health care plans for the plan year that includes the Closing Date; and (b) If Buyer offers Employees it hires a qualified retirement plan, then it will give each such Employee credit for his or her past service with Seller as of the Closing Date for purposes of eligibility and vesting, but not for benefit accrual purposes, and will allow Employees to roll over distributions from Seller's 401(k) plan to Buyer's retirement plan. Seller shall remain responsible for any pre-Closing employee benefits, bonus plans, termination plans, and any other employee benefit plan applicable to the Employees, and also for any benefits or payments due to any Employee (whether under or by reason of any statute or regulation, contractual obligation of Seller, or any plan maintained by Seller) as a result of such

Employee's termination in conjunction with the sale of the Property. Seller shall be responsible to provide any required WARN Act notices and any required COBRA coverage under Seller's health plans.

## **ARTICLE X. CASUALTY AND CONDEMNATION**

In the event that all or any portion of the Property is damaged or destroyed by any material casualty or is the subject of a material condemnation action under the provisions of eminent domain law after the making of this Agreement but prior to the Closing Date, Buyer may terminate this Agreement and the Earnest Money shall be returned to Buyer. If the casualty or condemnation is not material or Buyer does not elect to terminate this Agreement, then Seller shall have no obligation to repair or replace any damage or destruction caused by the foregoing, but the following shall apply at the Closing: (a) in the event of a casualty, Buyer shall receive a credit against the Purchase Price at Closing for the reasonably estimated remaining cost to restore the Property to its condition immediately prior to such casualty (it being understood that the proceeds of any casualty insurance shall be and remain payable to Seller); and (b) in the event of condemnation, Seller shall assign to Buyer its rights to any resulting condemnation proceeds and shall not make any settlements without Buyer's prior written approval. For purposes of this section, "material" means a loss or liability in excess of Five Hundred Thousand Dollars (US\$500,000.00).

## **ARTICLE XI. DISCLOSURE, INDEMNITY, AND RELEASE RELATING TO CONDITION OF PROPERTY**

2060 Disclosures. Buyer acknowledges that Seller has disclosed to Buyer the condition of the Property by providing to Buyer the following documents and information (collectively, the "Disclosures"): the schedules hereto, the Preliminary Commitment, Seller's Documents, the right to interview Seller's consultants and employees, and the right to enter upon, inspect, study, survey, and conduct tests upon the Property, all prior to the time when Buyer was irrevocably committed to complete the purchase of the Property under this Agreement. Buyer further acknowledges that Buyer has acquired information regarding the condition of the Property from the inspections, studies, surveys and tests upon the Property conducted by Buyer and its agents, contractors, consultants, and employees.

Buyer acknowledges and agrees that the Disclosures disclose material defects in the condition of the Property and that Seller makes no covenant, representation, or warranty as to the suitability of the Property for any purpose or as to the condition of the Property except as otherwise expressly set forth in this Agreement. Buyer hereby waives all objections and complaints regarding the condition of the Property, including without limitation objections and complaints relating to surface and subsurface conditions, except as provided in any covenant, agreement, representation, or warranty in this Agreement. Buyer agrees that it is purchasing the Property in its present condition, AS IS, subject only to the covenants, agreements, representations, and warranties provided by Seller in this Agreement; provided that nothing in this Agreement shall be deemed a waiver or release of any claims or rights that Buyer may have against any third party, including without limitation any prior owner of any portion of the Property. Buyer assumes the risk that adverse conditions may not have been revealed by its own investigation or by the Disclosures (but without limiting Seller's covenants, agreements, warranties and representations in this Agreement). Except for and with respect to Seller's obligations, warranties and representations in this Agreement, Buyer hereby waives, releases, acquits, and forever discharges Seller of and from any and all claims, actions, demands, rights, damages, costs of response or remedial action, or expenses whatsoever, direct or indirect, known or unknown, foreseen or unforeseen, including claims of third parties, that now exist or that may arise in the future on account of or in connection with the condition of the Property, including without limitation any surface or subsurface contamination, but excluding claims for statutory or contractual right of contribution under any state or federal hazardous substance law or regulation.

EXCEPT AS EXPRESSLY PROVIDED IN THIS AGREEMENT, SELLER MAKES NO COVENANTS, REPRESENTATIONS, OR WARRANTIES WITH RESPECT TO: (I) THE CONDITION OF THE REAL OR PERSONAL PROPERTY OR ANY BUILDINGS, STRUCTURES, OR IMPROVEMENTS ON THE REAL PROPERTY OR THE SUITABILITY OF THE REAL PROPERTY FOR HABITATION OR FOR BUYER'S INTENDED USE OR FOR ANY USE WHATSOEVER; (II) ANY APPLICABLE BUILDING, ZONING, OR FIRE LAWS OR REGULATIONS, OR WITH RESPECT TO COMPLIANCE THEREWITH, OR WITH RESPECT TO THE EXISTENCE OF OR COMPLIANCE WITH ANY REQUIRED PERMITS, IF ANY, OF ANY GOVERNMENTAL AGENCY; (III) THE AVAILABILITY OR EXISTENCE OF ANY WATER, SEWER, OR OTHER UTILITIES OR UTILITY RIGHTS; (IV) THE EXISTENCE OF ANY WATER, SEWER OR OTHER UTILITY DISTRICT; OR (V) THE PRESENCE OF ANY HAZARDOUS SUBSTANCES; (VI) THE PRESENCE OF ANY UNDERGROUND STORAGE TANKS OR ASBESTOS; OR (VII) COMPLIANCE OF THE PROPERTY WITH THE TERMS OF THE AMERICANS WITH DISABILITIES ACT.

BUYER WAIVES ALL CLAIMS AGAINST SELLER, KNOWN OR UNKNOWN, WITH RESPECT TO THE PROPERTY (BUT EXCLUDING CLAIMS FOR CONTRIBUTION THAT BUYER MIGHT HAVE AGAINST SELLER UNDER FEDERAL OR STATE ENVIRONMENTAL REGULATIONS AND STATUTES), AND BUYER ASSUMES THE RISK OF ALL DEFECTS AND CONDITIONS, INCLUDING SUCH DEFECTS AND CONDITIONS, IF ANY, THAT CANNOT BE OBSERVED BY CASUAL INSPECTION; PROVIDING, THAT NOTHING HEREIN LIMITS OR IMPAIRS SELLER'S COVENANTS, AGREEMENTS, REPRESENTATIONS, AND WARRANTIES HEREIN. BUYER ACKNOWLEDGES THAT BUYER HAS HAD THE OPPORTUNITY TO INSPECT THE PROPERTY AND, EXCEPT FOR THE COVENANTS, AGREEMENTS, REPRESENTATIONS, AND WARRANTIES OF SELLER HEREIN, IS RELYING ENTIRELY THEREON, ON ANY CONSULTANTS THAT BUYER RETAINS, AND ON THE DISCLOSURES.

### 2061 Seller's Indemnification Liabilities.

11.2.1 Seller shall defend, indemnify, and hold Buyer, its affiliates, directors, employees, officers, partners, and subsidiaries, harmless from and against any and all claims, demands, damages, losses, liens, liabilities, fines, penalties, monitoring

costs, response costs, and any other costs and expenses (including attorney's fees and costs and fees of consultants) relating to the Property (collectively, "Seller's Indemnification Liabilities") that arise from or relate to a liability or loss arising after the Closing Date from the following matters: (i) breach of any covenant, agreement, representation or warranty of Seller made herein; (ii) any warranty claims (actual or alleged), defects (actual or alleged) or by any other claim or matter arising from the construction or sale of homes, town homes, or condominium units on or before the Closing Date; (iii) any violation of the rights of any employee or agent of Seller that occurred or is alleged to have occurred on or before the Closing Date or in conjunction with the termination of employment in connection with this transaction; or (iv) any actual or alleged breach of lease or contract or any mechanics' lien, or any claim, demand or action for personal injury, death or property damage resulting from or in connection with any activity on, upon, or about any portion of the Property that occurred or is alleged to have occurred on or before the Closing Date, and including without limitation all matters listed on Schedule 8.1.1(b)-1; provided, that Seller shall not be obligated to indemnify Buyer (under clause (iv)) from and against any loss, liability, damage, cost or expense to the extent arising from Buyer's negligence, willful misconduct or breach of this Agreement (including breach of any representation or warranty of Buyer). For purposes of this Section 11.2.1, it is understood that a warranty or representation has been "breached" if such warranty or representation was inaccurate or untrue in any material respect when made. Without limiting the generality of Seller's Indemnification Liabilities set forth above, Seller shall retain all liabilities and obligations relating to those matters of pending and threatened litigation described in Schedule 8.1.1(b)-1, shall continue to defend those matters at its own expense and using its own counsel, and Buyer shall communicate and cooperate with Seller regarding such matters, but at no expense to Buyer.

11.2.2 Seller shall also defend, indemnify, and hold Buyer, its affiliates, directors, employees, officers, partners, and subsidiaries, harmless from and against any and all claims, demands, damages, losses, liens, liabilities, fines, penalties, monitoring costs, response costs, and any other costs and expenses (including attorney's fees and costs and fees of consultants) relating to the Property that arise from or relate to (i) the remediation (including without limitation monitoring) or cleanup of any Hazardous Substances Problem (as defined below) resulting from the use, storage, handling, disposal or release of Hazardous Substances on or about the Property that occurred or is alleged to have occurred on or before the Closing Date (provided that such Hazardous Substance Problem was not disclosed to Buyer in the reports and studies listed on Schedule 8.1.1(i) or otherwise in writing prior to expiration of the Inspection Period); or (ii) any claim, demand or action made or commenced by a third party (including without limitation any governmental agency) against Buyer resulting from the use, storage, handling, disposal or release of Hazardous Substances on or about the Property that occurred or is alleged to have occurred on or before the Closing Date. Seller's obligations set forth above shall be deemed part of Seller's Indemnification Liabilities for purposes of this Agreement.

As used in this Section 11.2.2, a "Hazardous Substances Problem" means the presence of Hazardous Substances on any part of the Property that were used, stored, handled, disposed of or released in violation of any law or regulation or so as to require remediation (including monitoring) or cleanup under any law or regulation, whether or not any claim, demand or action has been made or commenced against Buyer by any third party. For purposes of clause (i) in the above paragraph, a Hazardous Substances Problem will have been "disclosed" to Buyer if there was disclosed (in the reports and studies listed in Schedule 8.1.1(i) or otherwise in writing to Buyer during the Inspection Period) reasonably specific information about such Problem. By way of example, if the presence of an underground tank in a reasonably specific location had been disclosed to Buyer, then clause (i) of the above paragraph would not impose on Seller any liability to remove such tank; but if it is discovered that the tank were leaking, and the leak had not been disclosed, then clause (i) would impose liability to remediate the leak (which might include removing the tank). By way of further example, disclosure of the mere fact that certain industrial activities had occurred on a portion of the Property, or that certain chemicals had been used on the Property, would not constitute disclosure of the need for remediation or cleanup resulting from such activity or use.

2062 Limitations on Seller's Indemnification Liabilities. Certain of Seller's Indemnification Liabilities shall be limited as described in this subsection. Seller's Indemnification Liabilities under Section 11.2.1(i) above (as to breach of any representation or warranty made herein, and as to breach of any agreement or covenant to be performed by Seller at or before Closing) shall apply and be enforced only to the extent that the aggregate liability or loss to Buyer exceeds Fifty Thousand Dollars (US\$50,000.00) and is asserted against or incurred by Buyer within two (2) year after the Closing Date. Seller's Indemnification Liabilities under Sections 11.2.1(iii) and 11.2.1(iv) above shall apply and be enforced only to the extent that the liability or loss to Buyer is asserted against or incurred by Buyer within four (4) years after the Closing Date.

Seller's Indemnification Liabilities under Section 11.2.2, as they apply to all claims made by Buyer directly against Seller under clause (i) (in the first paragraph of such Section 11.2.2), shall apply and be enforceable only as to Hazardous Substances Problems that have been identified to Seller by Buyer and as to which Buyer has commenced litigation against Seller relating to such Problems (if Seller has not previously accepted responsibility therefor) within eight (8) years after the Closing Date. As Seller's Indemnification Liabilities under Section 11.2.2 apply to claims, demands or actions made or commenced by a third party against Buyer (and are thus covered by clause (ii) in the first paragraph of such Section 11.2.2), such Seller's Indemnification Liabilities shall apply and be enforceable without limit as to claims, demands or actions that are made or commenced against Buyer within eight (8) years after the Closing Date and as to which Buyer has commenced litigation against Seller to enforce Seller's Indemnification Liabilities hereunder (if Seller has not previously accepted responsibility therefor) within such eight-year period after the Closing Date; but as to claims, demands or actions first made or commenced by a third party against Buyer more than eight (8) years after the Closing Date, Seller's Indemnification Liabilities shall not exceed One Million Dollars (\$1,000,000) in the aggregate.

With respect to Seller's Indemnification Liabilities described in Section 11.2.1, it shall be a further condition to Seller's obligation to indemnify and defend as to a particular loss or liability that Buyer shall have commenced litigation against Seller to enforce Seller's Indemnification Liabilities as to such loss or liability within the applicable time period (if any) described above (if Seller has not previously accepted responsibility therefor), except that with respect to any loss or liability resulting from an action

or proceeding commenced by a third party against Buyer within the applicable limitation period (if any), Buyer shall not be required to have commenced litigation against Seller within the applicable limitation period in order to have Seller's Indemnification Liabilities apply to such loss or liability.

2063 Buyer's Indemnification Liabilities and Release. Buyer shall defend, indemnify, and hold Seller, its affiliates, directors, employees, officers, partners, and subsidiaries, harmless from and against any and all claims, demands, damages, losses, liens, liabilities, fines, penalties, monitoring costs, response costs, and any other costs and expenses (including attorney's fees and costs and fees of consultants) relating to the Property (collectively, "Buyer's Indemnification Liabilities") that arise from or relate to a liability or loss arising after the Closing Date from the following matters: (i) breach of any covenant, agreement, representation or warranty of Buyer made herein; (ii) any claim, demand or action made or commenced by a third party (including without limitation any government agency) against Seller resulting from the use, storage, handling, disposal or release of Hazardous Substances on or about the Property that occurred or is alleged to have occurred after the Closing Date; (iii) any warranty claims (actual or alleged), defects (actual or alleged) or by any other claim or matter arising from the construction or sale of homes, town homes, or condominium units after the Closing Date; (iv) any violation of the rights of any employee or agent of Buyer that occurred or is alleged to have occurred after the Closing Date; or (v) any actual or alleged breach of lease or contract or any mechanics' lien, or any claim, demand or action for personal injury, death or property damage resulting from or in connection with any activity on, upon, or about any portion of the Property that occurred or is alleged to have occurred after the Closing Date, provided, that Buyer shall not be obligated to indemnify Seller under clause (v) from and against any loss, liability, damage, cost or expense to the extent arising from Seller's negligence, willful misconduct or breach of this Agreement (including breach of any representation or warranty of Seller). For purposes of this Section 11.4, it is understood that a warranty or representation has been "breached" if such warranty or representation was inaccurate or untrue in any material respect when made.

Buyer hereby waives, releases, acquits, and forever discharges Seller, its affiliates, directors, employees, officers, partners, and subsidiaries, of and from all claims, demands, damages, losses, liens, liabilities, fines, penalties, monitoring costs, response costs, and any other costs and expenses (including attorney's fees and costs and fees of consultants) relating to the Property that are incurred by Buyer after the Closing Date except as to (a) costs, expenses, and liabilities of Buyer for which Seller is obligated to defend, indemnify, and hold Buyer harmless under Seller's Indemnification Liabilities, including without limitation Seller's direct liability to Buyer for breach of any warranty or representation in this Agreement or for breach of any covenant or agreement to be performed by Seller at or before Closing, subject to the limitations set forth at Section 11.3, and (b) any obligation of Seller described within this Agreement that by its express terms is to be performed after or to extend beyond the Closing Date, including without limitation Seller's Post-Closing Community Obligations under Article XIV, the obligations of Seller arising under Seller's Closing documents described at Section 7.2, Seller's obligation to provide the Title Policy under Section 7.4, Seller's obligations under Section 6.5, Seller's obligations regarding post-Closing adjustments of pro-rations and costs, and Seller's obligations under Section 16.16. Buyer's release under this paragraph shall not take effect as to any matter that is the subject of pending litigation between Buyer and Seller as of the date of expiration of the applicable Seller's Indemnification Liabilities until dismissal, final judgment, or other resolution of such litigation. For example, if as of the date two (2) years after the Closing Date Buyer and Seller are engaged in litigation regarding a claim by Buyer that Seller has breached a warranty under this Agreement, then Buyer's release of Seller for the breach of warranty alleged by Buyer in such litigation shall not take effect until dismissal, final judgment, or other resolution of such litigation.

Except for Seller's Indemnification Liabilities, Seller's Post-Closing Community Obligations under Article XIV, the express obligations of Seller under Seller's Closing documents described at Section 7.2, Seller's obligation to provide the Title Policy under Section 7.4, Seller's obligations under Section 6.5, Seller's obligations regarding post-Closing adjustments of pro-rations and costs, Seller's obligations under Section 16.16, and as otherwise provided above, Seller shall have no liabilities or obligations to Buyer after Closing under this Agreement.

2064 Survival. The terms and conditions of this Article XI shall survive the Closing or termination of this Agreement and shall benefit and bind the successors and assigns of Buyer and Seller.

## **ARTICLE XII. POSSESSION**

Possession of the Property shall be delivered to Buyer on the Closing Date subject to the rights of tenants under the Tenant Leases and other Permitted Exceptions.

## **ARTICLE XIII. DOCUMENT RETENTION**

Buyer shall preserve and retain all documents provided by Seller to Buyer, including without limitation all copies and originals of Seller's Documents, at a secure administrative office or storage facility within Jefferson County, Kitsap County, or King County, Washington, for a period not less than ten (10) years after the Closing Date (the "Document Retention Period"). During the Document Retention Period, upon the prior written request of Seller, Buyer shall allow Seller to inspect and copy any and all of Seller's Documents at the office or storage facility during normal weekday business hours. All copies shall be made at Seller's expense.

## **ARTICLE XIV. OBLIGATIONS TO PORT LUDLOW COMMUNITY**

Buyer acknowledges that Seller has made certain oral and other commitments to the Port Ludlow community, some or all of which may be legally unenforceable, but all of which are moral obligations that Buyer and Seller desire and intend to perform after the Closing Date. These commitments are described on Schedule 14(a) ("Seller's Post-Closing Community Obligations") and Schedule 14(b) ("Buyer's Post-Closing Community Obligations"). Within a reasonable period of time after the Closing Date,

Seller shall perform or cause to be performed at its sole expense each of Seller's Post-Closing Community Obligations, and Buyer shall perform or cause to be performed at its sole expense each of Buyer's Post-Closing Community Obligations. The parties shall communicate and cooperate with each other to ensure that their performance of their respective Post-Closing Community Obligations is beneficial and causes no presently unforeseeable inconvenience or harm to the other party hereto.

#### **ARTICLE XV. DEFAULT; REMEDIES**

2065 Default by Buyer [Omitted Confidential Information has been filed separately with the Securities and Exchange Commission]

2066 Default by Seller [Omitted Confidential Information has been filed separately with the Securities and Exchange Commission]

2067 Attorneys' Fees. In the event either party brings an action or any other proceeding against the other party to enforce or interpret any of the terms, covenants or conditions hereof, the party prevailing in any such action or proceeding shall be paid all costs and reasonable attorneys' fees by the other party in such amounts as shall be set by the court, at trial and on appeal.

#### **ARTICLE XVI. MISCELLANEOUS**

2068 Brokers and Finders. Each party represents to the other that no broker or finder has been involved in this transaction. In the event of a claim for broker's fee, finder's fee, commission or other similar compensation in connection with this Agreement, Buyer, if such claim is based upon any agreement alleged to have been made by Buyer, hereby agrees to indemnify Seller against any and all damages, liabilities, costs and expenses (including, without limitation, reasonable attorneys' fees and costs) that Seller may sustain or incur by reason of such claim. Seller, if such claim is based upon any agreement alleged to have been made by Seller, hereby agrees to indemnify Buyer against any and all damages, liabilities, costs and expenses (including, without limitation, reasonable attorneys' fees and costs) that Buyer may sustain or incur by reason of such claim. Notwithstanding anything to the contrary herein, the provisions of this section shall survive the termination of this Agreement or the Closing.

2069 Notices. All notices, demands, requests, consents and approvals that may, or are required to, be given by any party to any other party hereunder shall be in writing and shall be deemed to have been duly given if delivered personally, sent by a nationally recognized overnight delivery service, electronically transmitted or if mailed or deposited in the United States mail and sent by registered or certified mail, return receipt requested, postage prepaid to:

Buyer at: HCV Pacific Partners LLC  
625 Market Street, Suite 600  
San Francisco, California 94105  
Telephone No. 415-882-0900  
Facsimile No. 415-882-0901

with a copy to: Kenneth J. Cohen  
Collette & Erickson LLP  
555 California Street  
Bank of America Center  
43rd Floor  
San Francisco, California 94104-1791  
Telephone No. 415-788-4646  
Facsimile No. 415-788-6929

Seller at: Pope Resources  
19245 Tenth Avenue N.E.  
Poulsbo, Washington 98370-0239  
Attn: Gregory M. McCarry  
Telephone No. 360-697-6626  
Facsimile No. 360-697-6696

with a copy to: Marco de Sa e Silva  
Davis Wright Tremaine LLP  
2600 Century Square  
1501 Fourth Avenue  
Seattle, Washington 98101-1688  
Telephone No. 206-628-7766  
Facsimile No. 206-628-7699

or to such other addresses as either party hereto may from time to time designate in writing and deliver in a like manner. All notices shall be deemed complete upon actual receipt or refusal to accept delivery.

2070 Amendment, Waiver. No modification, termination or amendment of this Agreement may be made except by written agreement. No failure by Seller or Buyer to insist upon the strict performance of any covenant, agreement, or condition of this Agreement or to exercise any right or remedy shall constitute a waiver of any such breach or any other covenant, agreement, term

or condition. No waiver shall affect or alter this Agreement, and each and every covenant, agreement, term and condition of this Agreement shall continue in full force and effect with respect to any other then existing or subsequent breach thereof. All the terms, provisions, and conditions of this Agreement shall inure to the benefit of and be enforceable by Seller's or Buyer's permitted successors and assigns.

2071 Survival. All provisions of this Agreement that involve obligations, duties or rights to be performed after the Closing Date or the recording of the Deed, and all representations, warranties and indemnities made in or to be made pursuant to this Agreement shall survive the Closing Date and the recording of the Deed. Those provisions of this Agreement intended to survive the termination of this Agreement, including without limitation Article XI and Sections 4.3(c), 4.3(d), and 16.1 hereof, shall survive the termination of this Agreement.

2072 Captions. The captions of this Agreement are for convenience and reference only and in no way define, limit or describe the scope or intent of this Agreement.

2073 Merger of Prior Agreements. This Agreement and the exhibits hereto constitute the final and complete agreement between the parties with respect to the purchase and sale of the Property and supersede all prior and contemporaneous agreements, letters of intent and understandings between the parties hereto relating to the subject matter of this Agreement except the Confidentiality Agreement described at Section 16.14.

2074 No Joint Venture. It is not intended by this Agreement to, and nothing contained in this Agreement shall, create any partnership, joint venture or other arrangement between Buyer and Seller. No term or provision of this Agreement is intended to be, or shall be, for the benefit of any person, firm, organization or corporation not a party hereto, and no such other person, firm, organization or corporation shall have any right or cause of action hereunder.

2075 Governing Law; Time. This Agreement and the rights of the parties hereto shall be governed by and construed in accordance with the internal laws of the State of Washington. "Day" as used herein means a calendar day and "business day" means any day on which commercial banks are generally open for business. Any period of time that would otherwise end on a non-business day shall be extended to the next following business day. Time is of the essence of this Agreement.

2076 Schedules. All schedules attached hereto or referenced herein are incorporated in this Agreement. The parties acknowledge and agree, however, that as of the date this Agreement has been executed, some schedules and exhibits have not been completed and agreed upon and the parties have also not agreed upon a final allocation of the Purchase Price among the Real Property, the Personal Property, and the Olympic Water and Sewer, Inc. stock. The parties agree to review and negotiate such matters diligently and in good faith, and upon completion and mutual approval of all such schedules, exhibits and other matters, they shall promptly execute an amendment to this Agreement memorializing such agreements.

2077 Severability. In case any one or more of the provisions contained in this Agreement shall for any reason be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provision hereof, and this Agreement shall be construed as if such provisions had not been contained herein.

2078 Counterparts. This Agreement and the documents to be delivered hereunder may be executed in any number of counterparts, and each such counterpart hereof shall be deemed to be an original instrument, but all such counterparts together shall constitute but one agreement.

2079 Assignment. Buyer's rights under this Agreement are not assignable, by operation of law or otherwise, and Seller shall have no obligation to perform hereunder for any assignee or transferee of Buyer, except that Buyer may assign its rights under this Agreement to any affiliate of Buyer, or to any limited partnership, general partnership, co-tenancy or a limited liability company that is controlled or managed directly or indirectly by Buyer. In the event of any assignment by Buyer of its rights under this Agreement, Buyer will not be released from any obligations under this Agreement.

2080 Tax Deferred Exchange. Buyer and Seller will cooperate with each other in connection with the form and structure of this transaction in order to limit tax liabilities and preserve tax benefits to themselves to the extent permitted by law. Either Buyer or Seller may elect to close this transaction as a part of a tax-deferred exchange under Section 1031 of the Internal Revenue Code, in which case the other party will sign all documents necessary for such exchange and otherwise cooperate therewith, provided only that the other party will not be required to incur any additional expense or liability or acquire title to any property except as provided otherwise in this Agreement. Each party electing to close as part of a tax-deferred exchange will indemnify, defend, and hold the other party harmless from any loss, liability, claim, or expense that is asserted against or incurred by the other party in connection with their cooperation with any tax deferred exchange.

2081 Confidentiality. Buyer shall keep this Agreement, the transactions described in this Agreement, Seller's Documents, and all information relating to the Property disclosed by Seller to Buyer completely confidential and shall not disclose the same to any person or entity (specifically including without limitation all employees of Seller other than management personnel) other than Buyer's consultants, affiliates, investors, and their respective employees (who shall agree to keep the information confidential and be provided only such information as is necessary to perform their services) without Seller's prior written consent; provided, that Buyer may disclose information as required under any law or regulation or as necessary to enforce this Agreement; and provided further that Buyer shall have no obligation of confidentiality after Closing. Buyer shall conduct all due diligence consistent with this section. The obligations of Buyer under this section supplement and do not replace the obligations of Buyer under that certain Confidentiality Agreement dated February 8, 2000.

2082 Continuing Forest Land Obligations. Buyer acknowledges that portions of the Real Property are subject to certain continuing forest land obligations applicable under the forest practices rules adopted pursuant to RCW 76.09.370 (the "Continuing Obligations"). The Continuing Obligations are described on Schedule 16.15 hereto. At or before Closing, Buyer agrees to sign and deliver to Seller an original notice that indicates the Buyer's knowledge of the Continuing Obligations, including any notice provided or required by the DNR. At Closing, Seller shall send the executed notice to DNR in accordance with the requirements of RCW 76.09.390. As of Closing, Buyer assumes and agrees to perform the Continuing Obligations at Buyer's sole cost and expense in a timely fashion, and to indemnify, defend and hold Seller harmless from and against the Continuing Obligations and any claim, loss, damage, cost or expense resulting from Buyer's failure to fulfill and perform the same. The provisions of this indemnity shall survive the Closing of this Agreement.

2083 Cooperation. The parties acknowledge that Seller has disclosed in the schedules to this Agreement various potential issues and disputes relating to boundary lines affecting the Real Property. Seller agrees to cooperate with Buyer to resolve such issues and disputes after Closing, and in connection with any minor boundary line adjustments between the Real Property and Sellers' adjoining lands reasonably requested by Buyer from time to time (whether before or after Closing). In addition, Buyer and Seller agree that at any time or from time to time after the execution of this Agreement, whether before or after Closing, they will execute and deliver such further documents and undertake such other actions as the other party may reasonably request in order to effect fully the purposes of this Agreement.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the day and year first above written.

POPE RESOURCES L.P.

By: /s/ POPE MGP, Inc.

\_\_\_\_\_  
Managing General Partner

By: /s/ Gregory M. McCarry

\_\_\_\_\_  
Gregory M. McCarry  
Vice President - Real Estate

OLYMPIC PROPERTY GROUP LLC

By: /s/ Gregory M. McCarry

\_\_\_\_\_  
Gregory M. McCarry  
Chief Operating Officer

OLYMPIC REAL ESTATE  
DEVELOPMENT LLC

By: /s/Gregory M. McCarry

\_\_\_\_\_  
Gregory M. McCarry  
Chief Operating Officer

OLYMPIC REAL ESTATE  
MANAGEMENT, INC.

By: /s/ Tom Griffin

\_\_\_\_\_  
Tom Griffin  
Vice President

OLYMPIC RESORTS LLC

By: /s/ Gregory M. McCarry

\_\_\_\_\_  
Gregory M. McCarry  
Chief Operating Officer

HCV PACIFIC PARTNERS LLC

By: /s/ Randall J. Verrue

\_\_\_\_\_  
Randall J. Verrue  
President and Chief Operating  
Officer



## EMPLOYMENT AGREEMENT

This Employment Agreement (the "Agreement") is dated as of August 31, 2000 by and between Allen E. Symington ("Executive") and Pope Resources, a Delaware Limited Partnership (the "Company").

**1. Term of Agreement.** This Agreement shall commence on the date hereof and shall have a term of three (3) years (the "Term"). This Agreement may be terminated by either party, with or without cause, in accordance with Section 4 of this Agreement, on 30 days' written notice to the other party.

**2. Employment.** Executive shall be employed as Chairman and Chief Executive Officer, and will report directly to the Company's Board of Directors. Executive shall have general and active management and control of the affairs and business of the Company, and in general shall perform all duties commonly incident to the office of Chief Executive Officer or which are or may at any time be authorized or required by law or determined by the Board of Directors of the Company. In addition, Executive, as a specific primary priority, shall devote substantial time and attention to furthering the development of the Company's other senior executives and enhancing their ability to assume more substantial and expanded responsibilities, with a goal of assuring that a successor CEO is fully prepared to commence serving in that capacity at the end of the Term. During the term of Executive's employment relationship with the Company, Executive further agrees that he will devote substantially all of his business time and attention to the business of the Company, except during vacation time, any periods of illness and authorized leaves of absence. Executive shall be permitted to engage in outside business endeavors, provided that they are not competitive in any manner with the business of the Company, and do not interfere with the performance of Executive's duties. In accordance with the governing documents of Pope MGP, Inc, Executive will also serve on the Board of Directors of Pope MGP, Inc. while he serves as Chief Executive Officer of the Company.

**3. Compensation.** For the duties and services to be performed by Executive hereunder, the Company shall pay Executive, and Executive agrees to accept, the salary, stock options, bonuses and other benefits described below in this Section 3.

(a) **Base Salary.** Executive shall receive a monthly salary of \$16,667, which is equivalent to \$200,000 on an annualized basis. Executive's monthly salary will be payable in equal payments pursuant to the Company's normal payroll practices.

(b) **Unit Options and Other Incentive Programs.** As of September 28, 2000 (with pricing as of the close of business on September 27, 2000), Executive shall be granted special options to purchase 45,000 units of the Company's Units pursuant to the terms and conditions of the Company's Unit Option Plan, modified to permit Executive to have his units vest over the three (3) years of employment, one third (1/3) per year, and to have four (4) years instead of two (2) years after employment termination to exercise vested options

The Company will provide Executive with a copy of the Unit Option Plan and an Individual Unit Option Letter Agreement, which will govern and more fully articulate the terms and provisions applicable to Executive's options. Except as specifically provided otherwise in this Agreement, Executive's Individual Unit Option Agreement will contain the terms and provisions customarily applicable to options granted to the Company's executive employees. This grant of special options is in lieu of Executive's participation in the Company's annual executive option grant program, and Executive shall not receive additional options during the term of this Agreement.

(c) **Bonuses.** An annual target bonus of forty-five percent (45%) of base salary shall be payable to Executive based on the attainment of such performance objectives as may be agreed upon between the Executive and the Board of Directors. Such bonus, if earned, shall be paid within sixty (60) days after the end of each fiscal year. Upon execution of this Agreement and commencement of employment, the Company shall pay to Executive a signing bonus in the gross amount of Twenty-five Thousand Dollars (\$25,000.00).

(d) **Additional Benefits.** Executive will be eligible to participate in the Company's executive benefit plans of general application, including without limitation, those plans covering medical, disability and life insurance in accordance with the rules established for individual participation in any such plan and under applicable law. Executive will be eligible for four (4) weeks of paid vacation annually. Such vacation must be used in the calendar year in which it is accrued, and may not be carried over to subsequent calendar years without the express approval of the Board of Directors, and, further, in no event at any time may Executive have more than four (4) weeks of accrued but unused vacation. Any vacation which is accrued but not used or approved for carry-over as provided herein shall be forfeited. Executive may take up to one additional week of vacation annually provided that the needs of the business allow it. Executive shall be entitled to sick leave in accordance with the policies in effect during the term of this Agreement and will receive such other benefits as the Company generally provides to its other Executives of comparable position and experience, including, without limitation, the Long-Term Incentive Plan.

(e) **Reimbursement of Expenses.** Executive shall be authorized to incur on behalf and for the benefit of, and shall be reimbursed by, the Company for reasonable expenses, provided that such expenses are substantiated in accordance with Company policies. Reimbursement shall be made no later than thirty (30) days after Executive submits the appropriate vouchers and receipts for such expenses.

**4. Termination of Employment and Severance Benefits.**

(a) **Termination of Employment.** This Agreement may be terminated during its Term (or any extension thereof) upon the occurrence of any of the following events:

(i) The Company's determination in good faith that it is terminating Executive for Cause (as defined in Section 5 below) ("Termination for Cause");

(ii) The Company's determination that it is terminating Executive without Cause, which determination may be made by the Company at any time at the Company's sole discretion, for any or no reason or the Company's actions which Constructively Discharge Executive. Constructive Discharge shall be deemed to occur if the Company assigns any duties or reduces Executives duties to levels inconsistent with the position of Chief Executive Officer, requires relocation to another city or requires an out-of-town assignment for more than 30 days. Upon the occurrence of any of these events, Executive may at his option deem himself to be Constructively Discharged and terminate his employment. Such termination by either party shall be considered ("Termination Without Cause");

(iii) The effective date of a written notice sent to the Company from Executive stating that Executive is electing to terminate his employment with the Company ("Voluntary Termination"); or

(iv) Following Executive's death or Disability (as defined in Section 6 below).

(b) **Severance Benefits.** Executive shall be entitled to receive severance benefits upon termination of employment only as set forth in this Section 4(b):

(i) **Voluntary Termination.** If Executive's employment terminates by Voluntary Termination, then Executive shall not be entitled to receive payment of any severance benefits. Executive will receive payment(s) for all salary and unpaid vacation accrued (subject to the provisions of subsection 3(d) above) as of the date of Executive's termination of employment and Executive's benefits will be continued under the Company's then existing benefit plans and policies in accordance with such plans and policies in effect on the date of termination and in accordance with applicable law.

(ii) **Termination Without Cause.** If Executive's employment is terminated under Section 4(a)(ii) above (such termination, an Termination Without Cause"), Executive will be entitled to receive payment of severance benefits equal to Executive's regular monthly salary for the number of months remaining in the Term (the "Severance Period"). Such payments shall be made in a lump sum or ratably over the Severance Period according to the Company's standard payroll schedule, at the Executive's option. Executive will also be entitled to receive payment on the date of termination of any bonus payable under Section 3(c). Health insurance benefits with the same coverage provided to Executive and his family prior to the termination (e.g. medical, dental, optical, mental health) and in all other respects significantly comparable to those in place immediately prior to the termination will be provided at the Company's cost over the Severance Period. Any unvested unit options held by Executive as of the date of Executive's termination of employment shall continue to vest through the end of the Severance Period according to the vesting schedule set forth in any agreement between Executive and the Company governing the issuance to Executive of such options. Executive will receive a prorated amount of Executive's target bonus for the fiscal year in which Termination Without Cause occurs based on the specific corporate and individual performance targets established for such fiscal year, and the duration of Executive's active employment during such fiscal year.

(iii) **Termination for Cause.** If Executive's employment is Terminated for Cause, then Executive shall not be entitled to receive payment of any severance benefits. Executive will receive payment(s) for all salary and unpaid vacation accrued as of the date of Executive's termination of employment and Executive's benefits will be continued under the Company's then existing benefit plans and policies in accordance with such plans and policies in effect on the date of termination and in accordance with applicable law.

(iv) **Termination by Reason of Death or Disability.** In the event that Executive's employment with the Company terminates as a result of Executive's death or Disability (as defined in Section 6 below), Executive or Executive's estate or representative will receive all salary and unpaid vacation accrued as of the date of Executive's death or Disability and any other benefits payable under the Company's then existing benefit plans and policies in accordance with such plans and policies in effect on the date of death or Disability and in accordance with applicable law. In addition, Executive's estate or representative will receive the amount of Executive's target bonus for the fiscal year in which the death or Disability occurs to the extent that the bonus has been earned as of the date of Executive's death or Disability, as determined by the Board of Directors or its Compensation Committee based on the specific corporate and individual performance targets established for such fiscal year.

**5. Definition of Cause.** For purposes of this Agreement, Executive may be terminated for "Cause" by a majority vote of the Board of Directors as a result of the occurrence of one or more of the following:

(a) Executive's willful misconduct or gross negligence in performance of his duties hereunder, including Executive's refusal to comply in any material respect with the legal directives of the Company's Board of Directors so long as such directives are not inconsistent with the Executive's position and duties, and such refusal to comply is not remedied within 20 working days after written notice from the Board of Directors, which written notice shall state that failure to remedy such conduct may result in Termination for Cause;

(b) Dishonest or fraudulent conduct, a deliberate attempt to do an injury to the Company, or conduct that materially discredits the Company, including conviction of a felony; or

(c) Executive's theft or other misappropriation of the Company's proprietary information.

**6. Definition of Disability.** For purposes of this Agreement, "Disability" shall mean that Executive has been unable to perform his duties hereunder as the result of his incapacity due to physical or mental illness, and such inability, which continues for at least 120 consecutive calendar days or 180 calendar days during any consecutive twelve-month period, if shorter, after its commencement, is determined to be total and permanent by a physician selected by the Company and its insurers and acceptable to Executive or to Executive's legal representative. If the Company and the Executive cannot agree on the selection of a medical doctor, then each of them will select a medical doctor and the two medical doctors will select a third medical doctor who will determine whether Executive has a disability. The determination of the medical doctor selected under the terms of this Section 6 will be binding on both parties. Executive must submit to a reasonable number of examinations by the medical doctor making the determination of Disability under this Section 6 and Executive hereby authorizes the disclosure and release to the Company of such determination and all supporting medical records. If Executive is not legally competent, Executive's legal guardian or duly authorized attorney-in-fact will act in Executive's stead, under this Section 6, for purposes of submitting Executive to the examinations, and providing the authorization of disclosure, required under this Section 6.

**7. Confidentiality.** During the Term and thereafter, Executive shall keep secret and retain in strictest confidence, and shall not, without the prior written consent of the Company, furnish, make available or disclose to any third party (except in furtherance of the Company's business activities and for the sole benefit of the Company or by legal compulsion) or use for the benefit of himself or any third party, any Confidential Information. As used in this Agreement, "Confidential Information" shall mean information relating to the business or affairs of the Company or its affiliates relating to its or their business which is not generally known to persons in businesses similar to the Company's business, including but not limited to information relating to financial statements, customer identities, potential customers, employees, suppliers, manufacturing and servicing methods, equipment, programs, strategies and information, analyses, profit margins, cost basis, or other proprietary information used by the Company in connection with its business; provided, however, that Confidential Information shall not include any information which is in the public domain or becomes known in the industry through no wrongful act on the part of Executive or is previously known by the Executive or disclosed to the Executive by a third party. Executive acknowledges that the Confidential Information is confidential and proprietary to the Company. Executive hereby agrees that during and after the term of this Agreement, he shall deliver possession to the Company on termination of this Agreement, or at any time on request by the Company, all Confidential Information and all documents, writings, and other things of every kind and description prepared or acquired in connection with Company business or at Company expense or in the course of Employee's employment or that contain Company proprietary information including all copies of the same.

**8. Noncompetition Covenant.** Executive hereby agrees that he shall not, during the term of his employment pursuant to this Agreement and for a period of twelve (12) months following the date of termination of such employment, do any of the following without the prior written consent of the Company's Board of Directors:

(a) **Solicit Business.** Solicit or influence or attempt to influence any Customer, either directly or indirectly, to direct their purchase of timber management or consulting services of or similar to the type of such services which have been provided by the Company to that Customer, to any person, firm, corporation, institution or other entity which competes with the Company in providing such services. "Customers" shall be Hancock, Pioneer and those entities for whom the Company has provided such timber management or consulting services in the immediately preceding 24 months. This provision shall not prevent Executive from being employed as an officer, director or executive with a competing timber company or prevent executive from conducting management consulting or investment banking activities, including working on or consulting on acquisitions with firms competing with the Company, provided that his activities are not directed at providing such timber management or consulting services to Customers.

(b) **Solicit Personnel.** Solicit or influence or attempt to influence any person employed by the Company to terminate or otherwise cease his or her employment with the Company or become an executive of any competitor of the Company

**9. Conflicts.** Executive represents that his performance of all the terms of this Agreement will not breach any other agreement to which Executive is a party. Executive has not, and will not during the term of this Agreement, enter into any oral or written agreement in conflict with any of the provisions of this Agreement.

**10. Successors.** Any successor to the Company (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation or otherwise) to all or substantially all of the Company's business and/or assets shall assume the obligations under this Agreement and agrees expressly to perform the obligations under this Agreement in the same manner and to the same extent as the Company would be required to perform such obligations in the absence of a succession. The terms of this Agreement and all of Executive's rights hereunder shall inure to the benefit of, and be enforceable by, Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees.

## **11. Miscellaneous Provisions.**

(a) **No Duty to Mitigate.** Executive shall not be required to mitigate the amount of any payment contemplated by this Agreement (whether by seeking new employment or in any other manner), nor, except as otherwise provided in this Agreement, shall any such payment be reduced by any earnings that Executive may receive from any other source.

(b) **Amendments and Waivers.** Any term of this Agreement may be amended or waived only with the written consent of the parties.

(c) **Sole Agreement.** This Agreement and all agreements set forth in this Agreement, including any Exhibits hereto, constitutes the sole agreement of the parties and supersedes all oral negotiations and prior writings with respect to the subject matter hereof.

(d) **Notices.** Any notice required or permitted by this Agreement shall be in writing and shall be deemed sufficient upon receipt, when delivered personally or by a nationally-recognized delivery service (such as Federal Express or UPS), or 48 hours after being deposited in the U.S. mail as certified or registered mail with postage prepaid, if such notice is addressed to the party to be notified at such party's address as set forth below or as subsequently modified by written notice.

(e) **Choice of Law.** The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Washington, without giving effect to the principles of conflict of laws.

(f) **Severability.** If one or more provisions of this Agreement are held to be unenforceable under applicable law, the parties agree to renegotiate such provision in good faith. In the event that the parties cannot reach a mutually agreeable and enforceable replacement for such provision, then (i) such provision shall be excluded from this Agreement, (ii) the balance of the Agreement shall be interpreted as if such provision were so excluded and (iii) the balance of the Agreement shall be enforceable in accordance with its terms.

(g) **Counterparts.** This Agreement may be executed in counterparts, each of which shall be deemed an original, but all of which together will constitute one and the same instrument.

(h) **Counsel.** Executive acknowledge that he has had the opportunity to review this Agreement with legal counsel and has done so to the extent he deems it appropriate. Executive shall be reimbursed for the cost of his Attorney's fees for the review of this Agreement by the Company pursuant to paragraph 3 (e) of this Agreement. Each party represents and warrants to the other that it has reviewed, knows and understands and agrees with the terms and conditions of this Agreement.

(i) **Arbitration.** Any dispute or claim arising out of or in connection with this Agreement will be finally settled by binding arbitration in Seattle, Washington in accordance with the rules of the American Arbitration Association by one arbitrator appointed in accordance with said rules. The arbitrator shall apply Washington law, without reference to rules of conflicts of law or rules of statutory arbitration, to the resolution of any dispute. Judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction thereof. Each party shall bear their own legal fees in connection with any such arbitration. Notwithstanding the foregoing, the parties may apply to any court of competent jurisdiction for preliminary or interim equitable relief, or to compel arbitration in accordance with this paragraph, without breach of this arbitration provision.. The parties, their representatives, other participants and the mediator or arbitrator shall hold the existence, content and result of any arbitration in confidence. This Section 11(i) shall not be construed to prohibit either party from seeking injunctive relief for actual or threatened violations of Sections 7 or 8 of this Agreement.

(j) **Survival.** The rights and obligations of the Executive and the Company under Sections 7 and 8 shall survive the termination or expiration of this Agreement.

The parties have executed this Agreement the date first written above.

**POPE RESOURCES**

By: /s/ Peter T. Pope

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Peter T. Pope  
Chairman of Human Resource

**ALLEN E. SYMINGTON**

By: /s/ Allen E. Symington

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Allen E. Symington