

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**Form 10-Q**

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

For the quarterly period ended March 31, 2016

OR

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

Commission File Number **1-9035**

**POPE RESOURCES, A DELAWARE  
LIMITED PARTNERSHIP**

(Exact name of registrant as specified in its charter)

**Delaware**

(State or other jurisdiction of  
incorporation or organization)

**91-1313292**

(IRS Employer  
Identification Number)

**19950 7th Avenue NE, Suite 200, Poulsbo, WA 98370**

Telephone: **(360) 697-6626**

(Address of principal executive offices including zip code)

(Registrant's telephone number including area code)

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

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

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

Large Accelerated Filer

Accelerated Filer

Non-accelerated Filer

Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes  No

Partnership units outstanding at April 29, 2016: 4,348,298

Pope Resources  
Index to Form 10-Q Filing  
For the Three Months Ended March 31, 2016

Description	Page Number
<u><a href="#">Part I. Financial Information</a></u>	
<u><a href="#">Item 1. Financial Statements (unaudited)</a></u>	
<u><a href="#">Condensed Consolidated Balance Sheets</a></u>	<u><a href="#">3</a></u>
<u><a href="#">Condensed Consolidated Statements of Comprehensive Income (Loss)</a></u>	<u><a href="#">4</a></u>
<u><a href="#">Condensed Consolidated Statements of Partners' Capital</a></u>	<u><a href="#">5</a></u>
<u><a href="#">Condensed Consolidated Statements of Cash Flows</a></u>	<u><a href="#">6</a></u>
<u><a href="#">Notes to Condensed Consolidated Financial Statements</a></u>	<u><a href="#">7</a></u>
<u><a href="#">Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</a></u>	<u><a href="#">11</a></u>
<u><a href="#">Item 3. Quantitative and Qualitative Disclosures about Market Risk</a></u>	<u><a href="#">24</a></u>
<u><a href="#">Item 4. Controls and Procedures</a></u>	<u><a href="#">24</a></u>
<u><a href="#">Part II. Other Information</a></u>	
<u><a href="#">Item 1. Legal Proceedings</a></u>	<u><a href="#">25</a></u>
<u><a href="#">Item 1A. Risk Factors</a></u>	<u><a href="#">25</a></u>
<u><a href="#">Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</a></u>	<u><a href="#">29</a></u>
<u><a href="#">Item 3. Defaults Upon Senior Securities</a></u>	<u><a href="#">29</a></u>
<u><a href="#">Item 4. Submission of Matters to a Vote of Security Holders</a></u>	<u><a href="#">29</a></u>
<u><a href="#">Item 5. Other Information</a></u>	<u><a href="#">29</a></u>
<u><a href="#">Item 6. Exhibits</a></u>	<u><a href="#">29</a></u>
<u><a href="#">Signatures</a></u>	<u><a href="#">30</a></u>

**P A R T I – FINANCIAL INFORMATION**

ITEM 1

**FINANCIAL STATEMENTS**

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

Pope Resources, a Delaware Limited Partnership

March 31, 2016 and December 31, 2015

(in thousands)

	2016	2015
<b>ASSETS</b>		
<b>Current assets</b>		
Partnership cash	\$ 1,262	\$ 6,310
ORM Timber Funds cash	2,679	3,396
Cash	3,941	9,706
Accounts receivable, net	3,184	3,238
Land held for sale	2,779	3,642
Prepaid expenses and other	869	810
Total current assets	10,773	17,396
<b>Property and equipment, at cost</b>		
Timber and roads, net of accumulated depletion (2016 - \$105,722; 2015 - \$103,378)	263,606	266,104
Timberland	53,798	53,879
Land held for development	26,181	25,653
Buildings and equipment, net of accumulated depreciation (2016 - \$7,380; 2015 - \$7,251)	5,976	6,024
Total property and equipment, at cost	349,561	351,660
<b>Other assets</b>	973	1,000
<b>Total assets</b>	\$ 361,307	\$ 370,056
 <b>LIABILITIES, PARTNERS' CAPITAL AND NONCONTROLLING INTERESTS</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 1,360	\$ 1,384
Accrued liabilities	2,800	3,442
Current portion of long-term debt	115	114
Deferred revenue	453	278
Current portion of environmental remediation liability	11,946	11,200
Other current liabilities	293	322
Total current liabilities	16,967	16,740
Long-term debt, net of unamortized debt issuance costs and current portion	86,018	84,537
Environmental remediation and other long-term liabilities	1,720	5,713
<b>Partners' capital and noncontrolling interests</b>		
General partners' capital (units issued and outstanding 2016 - 60; 2015 - 60)	957	1,009
Limited partners' capital (units issued and outstanding 2016 - 4,288; 2015 - 4,240)	59,778	63,539
<b>Noncontrolling interests</b>	195,867	198,518
Total partners' capital and noncontrolling interests	256,602	263,066
<b>Total liabilities, partners' capital and noncontrolling interests</b>	\$ 361,307	\$ 370,056

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)  
Pope Resources, a Delaware Limited Partnership  
For the Three Months Ended March 31, 2016 and 2015  
(in thousands, except per unit data)

	<u>2016</u>	<u>2015</u>
Revenue	\$ 11,069	\$ 26,908
Cost of sales	(7,140)	(14,497)
Operating expenses	(3,373)	(3,148)
General and administrative expenses	(1,604)	(1,190)
Gain on sale of timberland	226	—
Income (loss) from operations	<u>(822)</u>	<u>8,073</u>
Interest expense, net	<u>(658)</u>	<u>(745)</u>
Income (loss) before income taxes	(1,480)	7,328
Income tax expense	(50)	(340)
<b>Net and comprehensive income (loss)</b>	<b>(1,530)</b>	<b>6,988</b>
Net and comprehensive loss attributable to noncontrolling interests - ORM Timber Funds	<u>496</u>	<u>821</u>
<b>Net and comprehensive income (loss) attributable to unitholders</b>	<b>\$ (1,034)</b>	<b>\$ 7,809</b>
Allocable to general partners	\$ (14)	\$ 109
Allocable to limited partners	(1,020)	7,700
<b>Net and comprehensive income (loss) attributable to unitholders</b>	<b>\$ (1,034)</b>	<b>\$ 7,809</b>
<b>Basic and diluted earnings (loss) per unit attributable to unitholders</b>	<b>\$ (0.25)</b>	<b>\$ 1.80</b>
<b>Basic and diluted weighted average units outstanding</b>	<b><u>4,311</u></b>	<b><u>4,295</u></b>
<b>Distributions per unit</b>	<b>\$ 0.70</b>	<b>\$ 0.65</b>

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL (Unaudited)  
Pope Resources, a Delaware Limited Partnership  
Three Months Ended March 31, 2016  
(in thousands)

	Attributable to Pope Resources		Noncontrolling Interests	Total
	General Partners	Limited Partners		
December 31, 2015	\$ 1,009	\$ 63,539	\$ 198,518	\$ 263,066
Net loss	(14)	(1,020)	(496)	(1,530)
Cash distributions	(42)	(3,001)	(2,155)	(5,198)
Equity-based compensation	6	410	—	416
Indirect repurchase of units for minimum tax withholding	(2)	(150)	—	(152)
March 31, 2016	<u>\$ 957</u>	<u>\$ 59,778</u>	<u>\$ 195,867</u>	<u>\$ 256,602</u>

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)  
Pope Resources, a Delaware Limited Partnership  
Three Months Ended March 31, 2016 and 2015  
(in thousands)

	2016	2015
<b>Net income (loss)</b>	<b>\$ (1,530)</b>	<b>\$ 6,988</b>
<b>Adjustments to reconcile net income (loss) to net cash provided by operating activities</b>		
Depletion	2,330	3,211
Equity-based compensation	416	338
Excess tax benefit of equity-based compensation	—	(5)
Depreciation and amortization	184	155
Deferred taxes	—	179
Cost of land sold	904	4,078
Gain on sale of timberland	(226)	—
Gain on disposal of property and equipment	(13)	—
<b>Cash flows from changes in operating accounts</b>		
Accounts receivable, net	333	423
Prepaid expenses and other assets	(33)	(2,894)
Real estate project expenditures	(569)	(2,586)
Accounts payable and accrued liabilities	(654)	(686)
Deferred revenue	175	199
Environmental remediation	(3,222)	(286)
Other current and long-term liabilities	(55)	8
<b>Net cash provided by (used in) operating activities</b>	<b>(1,960)</b>	<b>9,122</b>
<b>Cash flows from investing activities</b>		
Maturity of short-term investments	—	1,000
Reforestation and roads	(263)	(426)
Buildings and equipment	(109)	(136)
Acquisition of timberland - Partnership	—	(2,876)
Proceeds from sale of timberland	445	—
<b>Net cash provided by (used in) investing activities</b>	<b>73</b>	<b>(2,438)</b>
<b>Cash flows from financing activities</b>		
Draw on line of credit	1,500	—
Repayment of long-term debt	(28)	(27)
Payroll taxes paid on unit net settlements	(152)	(107)
Excess tax benefit of equity-based compensation	—	5
Cash distributions to unitholders	(3,043)	(2,818)
Cash distributions - ORM Timber Funds, net of distributions to Partnership	(2,155)	(1,660)
<b>Net cash used in financing activities</b>	<b>(3,878)</b>	<b>(4,607)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(5,765)</b>	<b>2,077</b>
Cash at beginning of period	9,706	24,028
Cash at end of period	<b>\$ 3,941</b>	<b>\$ 26,105</b>

See accompanying notes to condensed consolidated financial statements.

POPE RESOURCES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)  
March 31, 2016

1. The condensed consolidated balance sheets as of March 31, 2016 and December 31, 2015 and the related condensed consolidated statements of comprehensive income (loss) for the three-month periods ended March 31, 2016 and 2015 have been prepared by Pope Resources, A Delaware Limited Partnership (the "Partnership"), pursuant to the rules and regulations of the Securities and Exchange Commission. The condensed consolidated financial statements are unaudited, but, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments and accruals) necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. The financial information as of December 31, 2015 is derived from the Partnership's audited consolidated financial statements and notes thereto for the year ended December 31, 2015, and should be read in conjunction with such financial statements and notes. The results of operations for the interim periods are not indicative of the results of operations that may be achieved for the entire fiscal year ending December 31, 2016.
2. The financial statements in the Partnership's 2015 annual report on Form 10-K include a summary of significant accounting policies of the Partnership and should be read in conjunction with this Quarterly Report on Form 10-Q.

On May 28, 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective on January 1, 2018. The standard permits the use of either the retrospective or cumulative effect transition method. The Partnership is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Partnership has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

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

The Partnership adopted ASU 2015-17, Balance Sheet Classification of Deferred Taxes, effective January 1, 2016. In accordance with this standard, all deferred tax assets and liabilities are classified as noncurrent on the Partnership's condensed consolidated balance sheets. Our adoption of this ASU did not have a material impact on our consolidated financial statements and related disclosures.

3. The Partnership has two general partners: Pope MGP, Inc. and Pope EGP, Inc. In total, these two entities own 60,000 partnership units. The allocation of distributions, profits and losses between the general and limited partners is pro-rata across all units outstanding.
4. ORM Timber Fund I, LP (Fund I), ORM Timber Fund II, Inc. (Fund II), and ORM Timber Fund III (REIT) Inc. (Fund III), collectively "the Funds", were formed by Olympic Resource Management LLC (ORMLLC), a wholly owned subsidiary of Pope Resources, for the purpose of attracting capital to purchase timberlands. The objective of these Funds is to generate a return on investments through the acquisition, management, value enhancement and sale of timberland properties. Each Fund is organized to operate for a term of ten years from the end of the respective investment period. Fund I sold all of its timberland holdings in 2014 and terminated in 2015. Fund II is scheduled to terminate in March 2021 and Fund III is scheduled to terminate in December 2025.

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

The consolidated financial statements exclude management fees paid by the Funds to ORMLLC as they are eliminated in consolidation. See note 5 for a breakdown of operating results before and after such eliminations. The portion of these fees, among other items of income and expense, attributed to third-party investors is reflected as an adjustment to income (loss) in the Partnership's Condensed Consolidated Statement of Comprehensive Income (Loss) under the caption "Net and comprehensive loss attributable to noncontrolling interests - ORM Timber Funds."

The Partnership's condensed consolidated balance sheet included assets and liabilities of the Funds as of March 31, 2016 and December 31, 2015, which were as follows:

(in thousands)	<b>March 31, 2016</b>	December 31, 2015
<b>Assets:</b>		
Cash	<b>\$ 2,679</b>	\$ 3,396
Other current assets	<b>1,028</b>	602
Total current assets	<b>3,707</b>	3,998
Properties and equipment, net of accumulated depletion and depreciation (2016 - \$36,818; 2015 - \$34,757)	<b>269,462</b>	271,850
Total assets	<b>\$ 273,169</b>	\$ 275,848
<b>Liabilities and equity:</b>		
Current liabilities	<b>\$ 1,804</b>	\$ 1,723
Long-term debt	<b>57,251</b>	57,246
Total liabilities	<b>59,055</b>	58,969
Funds' equity	<b>214,114</b>	216,879
Total liabilities and equity	<b>\$ 273,169</b>	\$ 275,848

5. In the presentation of the Partnership's revenue and operating income (loss) by segment, all intersegment revenue and expense is eliminated to determine operating income (loss) reported externally. The following tables reconcile internally reported income (loss) from operations to externally reported income (loss) from operations by business segment, for the three months ended March 31, 2016 and 2015:



Three Months Ended March 31, (in thousands)	Fee Timber			Timberland Management	Real Estate	Other	Consolidated
	Pope Resources	ORM Timber Funds	Total Fee Timber				
<b>2016</b>							
Revenue - internal	\$ 4,438	\$ 5,362	\$ 9,800	\$ 823	\$ 1,384	\$ —	\$ 12,007
Eliminations	(48)	—	(48)	(815)	(75)	—	(938)
Revenue - external	4,390	5,362	9,752	8	1,309	—	11,069
Cost of sales	(1,608)	(4,285)	(5,893)	—	(1,247)	—	(7,140)
Operating, general and administrative expenses - internal	(1,200)	(1,243)	(2,443)	(741)	(1,108)	(1,623)	(5,915)
Eliminations	27	815	842	67	10	19	938
Operating, general and administrative expenses - external	(1,173)	(428)	(1,601)	(674)	(1,098)	(1,604)	(4,977)
Gain on sale of timberland	—	226	226	—	—	—	226
Income (loss) from operations - internal	1,630	60	1,690	82	(971)	(1,623)	(822)
Eliminations	(21)	815	794	(748)	(65)	19	—
Income (loss) from operations - external	\$ 1,609	\$ 875	\$ 2,484	\$ (666)	\$ (1,036)	\$ (1,604)	\$ (822)
<b>2015</b>							
Revenue - internal	\$ 8,872	\$ 7,156	\$ 16,028	\$ 834	\$ 10,996	\$ —	\$ 27,858
Eliminations	(82)	—	(82)	(834)	(34)	—	(950)
Revenue - external	8,790	7,156	15,946	—	10,962	—	26,908
Cost of sales	(3,607)	(5,995)	(9,602)	—	(4,895)	—	(14,497)
Operating, general and administrative expenses - internal	(1,095)	(1,223)	(2,318)	(811)	(940)	(1,219)	(5,288)
Eliminations	—	834	834	82	5	29	950
Operating, general and administrative expenses - external	(1,095)	(389)	(1,484)	(729)	(935)	(1,190)	(4,338)
Income (loss) from operations - internal	4,170	(62)	4,108	23	5,161	(1,219)	8,073
Eliminations	(82)	834	752	(752)	(29)	29	—
Income (loss) from operations - external	\$ 4,088	\$ 772	\$ 4,860	\$ (729)	\$ 5,132	\$ (1,190)	\$ 8,073

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

(in thousands, except per unit amounts)	Quarter Ended March 31,	
	2016	2015
Net and comprehensive income (loss) attributable to unitholders	\$ (1,034)	\$ 7,809
Less:		
Net and comprehensive income attributable to unvested restricted unitholders	(25)	(66)
Preferred share dividends - ORM Timber Funds	(8)	(8)
Net and comprehensive income (loss) for calculation of earnings (loss) per unit	<u>\$ (1,067)</u>	<u>\$ 7,735</u>
Basic and diluted weighted average units outstanding	<u>4,311</u>	<u>4,295</u>
Basic and diluted earnings (loss) per unit	<u>\$ (0.25)</u>	<u>\$ 1.80</u>

7. In January 2016, the Partnership granted 10,400 restricted units pursuant to the management incentive compensation program and 3,880 restricted units to members of the Board of Directors. These restricted units vest ratably over four years with the grant date fair value equal to the market price on the date of grant. In March 2016, 476 units were granted with no restrictions to certain board members who elected to receive their quarterly board compensation in the form of units rather than cash. Units granted to board members are included in the calculation of total equity compensation expense, which is recognized over the vesting period, for restricted units, or immediately for unrestricted units. Grants to individuals who are retirement-eligible on the date of grant are expensed immediately. We recognized \$416,000 and \$338,000 of equity compensation expense in the first quarter of 2016 and 2015, respectively.
8. Supplemental disclosure of cash flow information: interest paid, net of amounts capitalized, totaled \$397,000 and \$457,000 for the first quarter of 2016 and 2015, respectively. The Partnership paid income taxes of \$50,000 and \$76,000 during the first quarter of 2016 and 2015, respectively.
9. The Partnership's financial instruments include cash and accounts receivable, for which the carrying amount of each represents fair value based on current market interest rates or their short-term nature. Carrying amounts of contracts receivable, although long-term, also approximate fair value based on current market rates. During the first quarter of 2016, the Partnership borrowed \$1.5 million on its operating line of credit. The carrying amount of the borrowing equals fair value due to its variable interest rate. Outstanding borrowings on the line of credit are reflected within long-term debt because the line of credit matures in April 2020 and interim principal payments are not required.

The Partnership's and the Funds' fixed-rate debt collectively have a carrying value of \$84.8 million and \$84.9 million as of March 31, 2016 and December 31, 2015, respectively, excluding debt issuance costs. The estimated fair value of this debt, based on current interest rates for similar instruments (Level 2 inputs in the Fair Value Hierarchy), is approximately \$91.9 million and \$89.8 million, as of March 31, 2016 and December 31, 2015, respectively.

10. The Partnership had an accrual for estimated environmental remediation costs of \$13.5 million and \$16.8 million as of March 31, 2016 and December 31, 2015, respectively. The environmental remediation liability represents management's estimate of payments to be made to monitor and remediate certain areas in and around Port Gamble Bay, Washington.

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

The environmental remediation liability also includes estimated costs related to a separate remediation effort within the resort community of Port Ludlow. The liability for this project consists primarily of ongoing monitoring activity.

The environmental liability at March 31, 2016 is comprised of \$11.9 million that management expects to expend in the next 12 months and \$1.6 million thereafter.

Activity in the environmental liability is as follows:

(in thousands)	Balance at Beginning of the Period	Additions to Accrual	Expenditures for Remediation	Balance at Period- end
Year ended December 31, 2014	\$ 13,241	\$ 10,000	\$ 1,590	\$ 21,651
Year ended December 31, 2015	21,651	—	4,890	16,761
Quarter ended March 31, 2016	16,761	—	3,222	13,539

**ITEM 2.**

**MANAGEMENT’S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

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

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

## EXECUTIVE OVERVIEW

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

Our primary strategy for adding timberland acreage is centered on our private equity timber fund business model, although in some instances, where not restricted by the Funds’ governing documents, we may acquire timberlands directly. We have assets under management totaling approximately \$364 million as of March 31, 2016, based on the most recent appraisals. Through our 20% co-investment in Fund II and our 5% co-investment in Fund III, we have deployed \$26 million of Partnership capital. Our co-investment affords us a share of the Funds’ operating cash flows while also allowing us to earn asset management and timberland management fees, as well as potential future incentive fees, based upon the overall success of each fund. We also believe that this strategy allows us to maintain more sophisticated expertise in timberland acquisition, valuation, and management on a more cost-effective basis than we could for the Partnership’s timberlands alone. We believe our co-investment strategy also enhances our credibility with existing and prospective Fund investors by demonstrating that we have both an operational and a financial commitment to the Funds’ success.

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

The strategy for our Real Estate segment centers around how and when to “harvest” a parcel of land and optimize value realization by selling the property, balancing the long-term risks and costs of carrying and developing a property against the potential for income and cash flows upon sale. Land held for development by our Real Estate segment represents property in western Washington that has been deemed suitable for residential and commercial building sites. Land held for sale represents those properties in the development portfolio that we expect to sell in the next year.

### First quarter highlights

- Harvest volume was 15.6 million board feet (MMBF) in Q1 2016 compared to 24.5 MMBF in Q1 2015, a 36% decrease. These harvest volume figures do not include timber deed sales by Fund III of 0.6 MMBF in Q1 2015. The harvest volume and log price realization metrics cited below also exclude these timber deed sales.
- Average realized log price per thousand board feet (MBF) was \$591 in Q1 2016 compared to \$609 per MBF in Q1 2015, a 3% decrease.
- Fund properties contributed 60% of Q1 2016 harvest volume, compared to 49% in Q1 2015.
- As a percentage of total harvest, volume sold to export markets in Q1 2016 decreased to 18% from 19% in Q1 2015, while the mix of volume sold to domestic markets was 60% in Q1 2016 compared to 57% in Q1 2015. Hardwood and pulpwood log sales make up the balance of total harvest volume.
- The percentage of total harvest comprised of Douglas-fir sawlogs increased to 55% in Q1 2016 from 46% in Q1 2015, with a corresponding decrease in the whitewood sawlog component to 17% in Q1 2016 from 25% in Q1 2015.
- During Q1 2016 we closed on the sale of nine lots from our Harbor Hill project in Gig Harbor, Washington, for \$1.0 million.
- Our timber funds sold two small parcels from their tree farms totaling 205 acres for \$772,000, recognizing a gain on the sales of \$226,000.

## Outlook

In total, we expect our 2016 harvest volume to be between 83 and 90 MMBF and shifted more towards the second half of the year than is typical for us. We will continue to monitor log markets and adjust our harvest levels as the year progresses. For our Real Estate segment, markets remain strong and we anticipate significant residential lot sales from our Harbor Hill project in the second half of 2016.

## RESULTS OF OPERATIONS

The following table reconciles and compares key revenue and cost elements that impacted our net and comprehensive income (loss) for the respective quarters ended March 31, 2016 and 2015. The explanatory text that follows the table describes in detail certain of these changes by business segment.

(in thousands)	Quarter Ended March 31,
Net and comprehensive income (loss) attributable to Pope Resources' unitholders:	
2016 period	\$ (1,034)
2015 period	7,809
Variance	<u>\$ (8,843)</u>
Detail of variance:	
Fee Timber	
Log volumes (A)	\$ (5,420)
Log price realizations (B)	(281)
Gain on sale of timberland	226
Timber deed sales	(211)
Production costs	2,828
Depletion	881
Other Fee Timber	(399)
Timberland Management	63
Real Estate	
Land sales	(1,584)
Conservation easement sales	(4,311)
Other Real Estate	(273)
General and administrative costs	(414)
Net interest expense	87
Income taxes	290
Noncontrolling interests	(325)
Total variances	<u>\$ (8,843)</u>

(A) Volume variance calculated by extending change in sales volume by the average log sales price for the comparison period.

(B) Price variance calculated by extending the change in average realized price by current period sales volume.

## Fee Timber

Fee Timber results include operations on 111,000 acres of timberland owned by the Partnership and 94,000 acres of timberland owned by the Funds. Fee Timber revenue is earned primarily from the harvest and sale of logs from these timberlands which are located in western Washington, northwestern Oregon, and northern California. This revenue source is driven primarily by the volume of timber harvested and the average log price realized on the sale of that timber. Our harvest volume is based typically on manufactured log sales to domestic mills and log export brokers. We also occasionally sell rights to harvest timber (timber deed sale) from the Combined tree farms. The metrics used to calculate volumes sold and average price realized during the reporting periods exclude the timber deed sales, except where stated otherwise. Harvest volumes are generally expressed in million board feet (MMBF) increments while harvest revenue and related costs are generally expressed in terms of revenue or cost per thousand board feet (MBF).

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

Revenue and operating income for the Fee Timber segment for the quarters ended March 31, 2016, December 31, 2015, and March 31, 2015 were as follows:

(in millions) Quarter ended	Log Sale Revenue	Other Revenue	Total Fee Timber Revenue	Gain on Sale of Timberland	Operating Income (Loss)	Harvest Volume (MMBF)	Timber Deed Sale Volume (MMBF)
Partnership	\$ 4.0	\$ 0.4	\$ 4.4	\$ —	\$ 1.6	6.3	—
Funds	5.2	0.2	5.4	0.2	0.9	9.3	—
<b>Total March 2016</b>	<b>\$ 9.2</b>	<b>\$ 0.6</b>	<b>\$ 9.8</b>	<b>\$ 0.2</b>	<b>\$ 2.5</b>	<b>15.6</b>	<b>—</b>
Partnership	\$ 8.2	\$ 0.7	\$ 8.9	\$ —	\$ 4.1	13.8	—
Funds	6.6	0.1	6.7	—	1.1	11.9	—
<b>Total December 2015</b>	<b>\$ 14.8</b>	<b>\$ 0.8</b>	<b>\$ 15.6</b>	<b>\$ —</b>	<b>\$ 5.2</b>	<b>25.7</b>	<b>—</b>
Partnership	\$ 8.3	\$ 0.5	\$ 8.8	\$ —	\$ 4.1	12.5	—
Funds	6.7	0.4	7.1	—	0.8	12	0.6
<b>Total March 2015</b>	<b>\$ 15.0</b>	<b>\$ 0.9</b>	<b>\$ 15.9</b>	<b>\$ —</b>	<b>\$ 4.9</b>	<b>24.5</b>	<b>0.6</b>

### Operating Income

**Comparing Q1 2016 to Q4 2015.** Operating income decreased \$2.7 million, or 52%, to \$2.5 million in Q1 2016 from \$5.2 million in Q4 2015, primarily as a result of a 39% decrease in harvest volume, as well as a \$287,000 decrease in other revenue. These decreases were offset partially by a 2% increase in average realized log prices, a 29% decrease in cost of sales, due to the lower harvest volume, a \$547,000 decrease in operating expenses, and a Q1 2016 gain of \$226,000 on the sale of two small Fund properties that had no counterpart in Q4 2015.

**Comparing Q1 2016 to Q1 2015.** Operating income decreased \$2.4 million, or 49%, to \$2.5 million in Q1 2016 from \$4.9 million in Q1 2015, primarily as a result of a 36% decrease in harvest volume, as well as a 3% decrease in average realized log prices. A \$478,000 decrease in other revenue stemming from no commercial thinning revenue or timber deed sales in Q1 2016, along with a \$117,000 increase in operating expenses, also contributed to the reduction in operating income. These factors were offset partially by a 39% decrease in cost of sales, due to the lower harvest volume, and a Q1 2016 gain of \$226,000 on the sale of two small Fund properties that had no counterpart during Q1 2015.

## Revenue

**Comparing Q1 2016 to Q4 2015.** Log sale revenue decreased \$5.6 million, or 38%, in Q1 2016 from Q4 2015 as a result of a 39% decrease in harvest volume that was offset slightly by a 2% increase in average realized log prices. A Q1 2016 combination of poor weather conditions that limited access to higher-elevation timber on both the Partnership and Fund tree farms, as well as expectations of better domestic log prices later in the year on an improved U.S. housing market, resulted in the lower harvest volume in the Q1 2016. By contrast, we harvested 31% of our annual volume in Q4 2015. The decrease in other revenue resulted from the lack of commercial thinning activity and reductions in revenue from cell tower leases and mineral royalties.

**Comparing Q1 2016 to Q1 2015.** Log sale revenue in Q1 2016 decreased \$5.8 million, or 39%, in Q1 2016 from Q1 2015 primarily as a result of a 36% decrease in harvest volume and a 3% decrease in average realized log prices. The harvest volume decline is the result of poor weather conditions during Q1 2016 that limited access to higher-elevation timber on both our Partnership and Fund tree farms, compared to unseasonably warm weather conditions during Q1 2015 that allowed for increased access to timberland throughout our operating region. Other revenue declined by \$478,000 in Q1 2016 as we had no commercial thinning revenue or timber deed sales.

## Log Volume

We harvested the following log volumes by species from the Combined tree farms, exclusive of timber deed sales, for the quarters ended March 31, 2016, December 31, 2015, and March 31, 2015:

Volume (in MMBF)		Quarter Ended					
		Mar-16	% Total	Dec-15	% Total	Mar-15	% Total
Sawlogs	Douglas-fir	8.6	55%	11.0	43%	11.3	46%
	Whitewood	2.7	17%	8.8	34%	6.0	25%
	Pine	—	—%	1.2	5%	—	—%
	Cedar	0.9	6%	0.9	3%	1.3	5%
	Hardwood	0.6	4%	1.0	4%	1.5	6%
Pulpwood	All Species	2.8	18%	2.8	11%	4.4	18%
Total		15.6	100%	25.7	100%	24.5	100%

**Comparing Q1 2016 to Q4 2015.** Harvest volume decreased 10.1 MMBF, or 39%, in Q1 2016 from Q4 2015. Poor weather during Q1 2016 that limited access to our higher-elevation timberlands, combined with the back-loading of our 2015 harvest volume into Q4, resulted in the decline in harvest volume. These weather conditions also influenced our species mix, which shifted towards Douglas-fir and away from whitewood and we had almost no pine volume in Q1 2016 compared to Q4 2015. Whitewood is more prevalent at higher elevations and our pine volume comes predominantly from Fund III's northern California tree farm that is also at higher elevations. In addition, weak demand from the export market for whitewood reduced prices for that species, whereas pricing for Douglas-fir was more favorable which influenced this shift in species mix towards Douglas-fir.

**Comparing Q1 2016 to Q1 2015.** Harvest volume decreased 8.9 MMBF, or 36%, in Q1 2016 from Q1 2015. The decrease is due primarily to the poor weather conditions in Q1 2016 compared to the unseasonably warm weather during Q1 2015. In addition, we did not front-load volume in Q1 2016 as we expect domestic log prices to improve later in the year as the U.S. housing market continues to improve. As with the Q1 2016 to Q4 2015 comparison, we experienced the same shift in species mix towards Douglas-fir in Q1 2016 compared to Q1 2015.

## Log Prices

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

We realized the following log prices by species for the quarters ended March 31, 2016, December 31, 2015, and March 31, 2015:

		Quarter Ended		
		Mar-16	Dec-15	Mar-15
Average price realizations (per MBF):				
Sawlogs	Douglas-fir	\$ 620	\$ 614	\$ 644
	Whitewood	490	541	555
	Pine	—	526	—
	Cedar	1,514	1,308	1,509
	Hardwood	539	572	646
Pulpwood	All Species	312	326	328
Overall		591	577	609

The following table compares the dollar and percentage change in log prices from each of Q4 2015 and Q1 2015 to Q1 2016:

		Change to Q1 2016 from Quarter Ended			
		Dec-15		Mar-15	
		\$/MBF	%	\$/MBF	%
Sawlogs	Douglas-fir	\$ 6	1%	\$ (24)	(4%)
	Whitewood	(51)	(9%)	(65)	(12%)
	Pine	NA	NA	NA	NA
	Cedar	206	16%	5	—%
	Hardwood	(33)	(6%)	(107)	(17%)
Pulpwood	All Species	(14)	(4%)	(16)	(5%)
Overall		14	2%	(18)	(3%)

Overall realized log prices in Q1 2016 were 2% higher than Q4 2015. Our overall average is influenced heavily by price movements for our two most prevalent species on the Combined tree farms, Douglas-fir and whitewood, and the relative mix of harvest volume between those two species. From Q4 2015 to Q1 2016, log prices for Douglas-fir were up 1%, while prices for whitewood were down 9% on weakness in the export market. The increase in the Q1 2016 overall average log prices compared to Q1 2015 is attributable primarily to the shift in species mix towards Douglas-fir. Cedar, though only 6% of our Q1 2016 production, experienced a 16% price increase which also contributed to increase in the overall realized log price. In Q4 2015, 13% of cedar volume was lower-value incense cedar produced on Fund III's northern California tree farm, while in Q1 2016 all cedar volume was higher-value western red cedar produced primarily on the Partnership's tree farms.

Overall realized log prices in Q1 2016 were 3% lower than Q1 2015. The decline was again heavily influenced by the price decreases of 4% and 12% in Douglas-fir and whitewood, respectively, though the shift towards Douglas-fir in Q1 2016 did reduce the impact of the larger decrease in whitewood pricing. An increase in lumber imported from Canada during Q1 2016 following the expiration of the Softwood Lumber Agreement in Q4 2015 also exerted downward pressure on prices in the domestic market relative to Q1 2015. Whitewood prices declined as a result of weakness in the China market and the strength of the U.S. dollar. Hardwood prices declined 17% due to Q1 2015 prices including the production of a significant portion of higher-value red alder peeler logs that had no counterpart in Q1 2016, though hardwood's impact on the overall price decline is limited due to its low share of total harvest volume.

### Customers

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



The table below categorizes logs sold by customer type for the quarters ended March 31, 2016, December 31, 2015, and March 31, 2015:

Destination	Q1 2016			Q4 2015			Q1 2015		
	Volume			Volume			Volume		
	MMBF	%	Price	MMBF	%	Price	MMBF	%	Price
Export brokers	2.8	18%	\$ 669	5.2	20%	\$ 625	4.7	19%	\$ 665
Domestic mills	9.4	60%	653	16.7	65%	604	13.9	57%	676
Hardwood	0.6	4%	539	1.0	4%	572	1.5	6%	646
Pulpwood	2.8	18%	312	2.8	11%	326	4.4	18%	328
Subtotal	15.6	100%	591	25.7	100%	577	24.5	100%	609
Timber deed sale	—		—	—		—	0.6		357
Total	15.6			25.7			25.1		

**Comparing Q1 2016 to Q4 2015.** Volume sold to the domestic and export markets decreased to 60% and 18%, respectively, of harvest volume in Q1 2016 compared to 65% and 20%, respectively, in Q4 2015. Conversely, volume sold as pulpwood increased to 18% of Q1 2016 harvest volume compared to 11% in Q4 2015. The increase in pulpwood is due to harvest units in Q1 2016 containing freeze-cracked whitewood logs that could not be sold as sawlogs, as well as an oversupply of chip-and-saw causing smaller sawlogs to be sold as pulpwood. Export prices improved 7% as Japanese market demand was strong for high quality Douglas-fir sawlogs ahead of a scheduled consumption tax increase next year. Domestic log prices improved 8% on the strength of Douglas-fir supply constrained by poor weather, and the aforementioned strength in cedar prices.

**Comparing Q1 2016 to Q1 2015.** Volume sold to our various customer types changed little in Q1 2016 from Q1 2015. In addition, timber deed sales volume declined from 0.6 MMBF in Q1 2015 on Fund III's Willapa tree farm to none in Q1 2016.

### Cost of Sales

Fee Timber cost of sales, which consist predominantly of harvest, haul and depletion costs, vary with harvest volume. Commercial thinning costs are the primary component of other cost of sales in the tables below.

Fee Timber cost of sales for the quarters ended March 31, 2016, December 31, 2015, and March 31, 2015, was as follows, with the first table expressing these costs in total dollars and the second table expressing those costs that are driven by volume on a per MBF basis:

(in thousands) Quarter Ended	Harvest, Haul and Tax	Depletion	Other	Total Fee Timber Cost of Sales	Harvest Volume (MMBF)	Timber Deed Sale Volume (MMBF)
Partnership	\$ 1,323	\$ 271	\$ 14	\$ 1,608	6.3	—
Funds	2,226	2,059	—	4,285	9.3	—
<b>Total March 2016</b>	<b>\$ 3,549</b>	<b>\$ 2,330</b>	<b>\$ 14</b>	<b>\$ 5,893</b>	<b>15.6</b>	<b>—</b>
Partnership	\$ 2,795	\$ 607	\$ 102	\$ 3,504	13.8	—
Funds	2,519	2,263	12	4,794	11.9	—
<b>Total December 2015</b>	<b>\$ 5,314</b>	<b>\$ 2,870</b>	<b>\$ 114</b>	<b>\$ 8,298</b>	<b>25.7</b>	<b>—</b>
Partnership	\$ 2,908	\$ 582	\$ 148	\$ 3,638	12.5	—
Funds	3,136	2,629	199	5,964	12.0	0.6
<b>Total March 2015</b>	<b>\$ 6,044</b>	<b>\$ 3,211</b>	<b>\$ 347</b>	<b>\$ 9,602</b>	<b>24.5</b>	<b>0.6</b>

(Amounts per MBF) Quarter Ended	Harvest, Haul and Tax *	Depletion *
Partnership	\$ 210	\$ 43
Funds	239	221
<b>Total March 2016</b>	<b>\$ 228</b>	<b>\$ 149</b>
Partnership	\$ 203	\$ 44
Funds	212	190
Total December 2015	\$ 207	\$ 112
Partnership	\$ 233	\$ 47
Funds	261	209
Total March 2015	\$ 247	\$ 128

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

**Comparing Q1 2016 to Q4 2015.** Cost of sales decreased \$2.4 million, or 29%, in Q1 2016 from Q4 2015. The decrease was attributable primarily to the 39% reduction in harvest volume that was offset partially by a 10% increase in per MBF harvest, haul, and tax amounts and a 34% increase in the depletion rate. The higher harvest, haul, and tax rates are the result of more expensive logging systems employed on the Combined tree farms given the terrain characteristics of the harvest units. The increase in the depletion rate is a function of the Funds' share of harvest volume increasing to 60% in Q1 2016 from 46% in Q4 2015. Depletion rates are higher for the Funds' tree farms because they were purchased more recently than the Partnership's tree farms and thus have a higher cost basis.

**Comparing Q1 2016 to Q1 2015.** Cost of sales decreased \$3.7 million, or 39%, in Q1 2016 compared to the corresponding period in 2015. The decrease was primarily attributable to a 36% decline in harvest volume and lack of timber deed sales in Q1 2016.

### ***Operating Expenses***

Fee Timber operating expenses include the cost of maintaining existing roads and building temporary roads for harvesting, silviculture costs, and other management expenses. For the quarters ended March 31, 2016, December 31, 2015, and March 31, 2015, operating expenses were \$1.6 million, \$2.1 million, and \$1.5 million, respectively. The \$547,000 decrease in operating expenses in Q1 2016 from Q4 2015 was attributable to reduced road expenses due to the lower harvest volume, and reduced silviculture expenses. The \$117,000 increase in operating expenses in Q1 2016 from Q1 2015 was attributable to the timing of professional services for the Funds and increased pre-commercial thinning activity and higher temporary road costs on the Partnership tree farms.

### **Timberland Management**

The Timberland Management segment develops timberland investment portfolios on behalf of the Funds. Our private equity timber funds own a combined 94,000 acres of commercial timberland in western Washington, northwestern Oregon, and northern California with total assets under management of \$364 million based on the most recent appraisals.

### ***Fund Distributions and Fees Paid to the Partnership***

Fund distributions are paid from available Fund cash, generated primarily from the harvest and sale of timber after paying all Fund expenses, management fees, and recurring capital costs. The Partnership received combined distributions from the Funds of \$113,000 and \$240,000, in the three months ended March 31, 2016, and 2015, respectively. The decrease in distributions from the Funds is due to the mix of Fund distributions and the Partnership's different ownership interests in each fund. In Q1 2016, total Fund distributions of \$2.3 million came entirely from Fund III, in which the Partnership holds only a 5% interest. In Q1 2015, Fund distributions were split between Fund II (which distributed \$1.0 million) in which the Partnership holds a 20% interest, and Fund III (which distributed \$900,000).

## Revenue and Operating Loss

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

Revenue and operating loss for the Timberland Management segment for the quarters ended March 31, 2016 and 2015 were as follows:

(in thousands, except invested capital, volume and acre data)	Quarter Ended	
	Mar-16	Mar-15
Revenue internal	\$ 823	\$ 834
Intersegment eliminations	(815)	(834)
Revenue external	\$ 8	\$ —
Operating income internal	\$ 82	\$ 23
Intersegment eliminations	(748)	(752)
Operating loss external	\$ (666)	\$ (729)
Invested capital (in millions)	\$ 258	\$ 253
Acres owned by Funds	94,000	80,000
Harvest volume - Funds (MMBF), including timber deed sales	9.3	12.6

Timberland Management generated management fee revenue of \$823,000 and \$834,000 from managing the Funds for the first quarters of 2016 and 2015, respectively. While the decline in revenue was only \$11,000, there were a number of larger offsetting factors that produced the result. The increase in invested capital from Fund III's acquisition of the \$50.5 million Mashel tree farm in Q4 2015 was offset by the Q4 2015 correction to the calculation of invested capital used to determine the asset management and investment management fees, resulting in lower fees. In addition, Fund III's sale from the Willapa tree farm in Q3 2015 and two small timberland sales in March 2016 served to reduce invested capital and, in turn, the management fees charged to the Funds. The Mashel tree farm acquisition added 15,000 acres to Fund III, while the timberland sales removed 1,000 acres. Finally, the reduction in harvest volume by the Funds contributed to the overall reduction in management fee revenue.

Operating expenses incurred for the quarters ended March 31, 2016, and 2015 totaled \$674,000 and \$729,000, respectively. The decrease in operating expenses is attributable to a decrease in operating activities from the comparable quarter in 2015.

## Real Estate

The Partnership's Real Estate segment produces its revenue primarily from the sale of land within its 2,400-acre portfolio. Additional sources of revenue include sales of development rights and tracts of land from the Partnership's timberland portfolio, together with residential and commercial property rents earned from our Port Gamble and Poulsbo properties. Real Estate holdings are located in the Washington counties of Pierce, Kitsap, and Jefferson with sales of land for this segment typically falling into one of three general types:

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

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

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

Those properties that are for sale, under contract, and that we expect to sell within the next 12 months are classified on our balance sheet as a current asset under “Land Held for Sale”. The \$2.8 million amount currently in Land Held for Sale reflects properties that are under contract and expected to close between now and the end of the first quarter of 2017, comprising 113 single-family residential lots from the Harbor Hill project as well as two other residential lot sales.

Project costs that are associated directly with the development and construction of a real estate project are capitalized and then included in cost of sales when the property is sold, along with our original basis in the underlying land and the closing costs associated with the sale transaction. Results from Real Estate operations vary significantly from period-to-period as we make multi-year investments in entitlements and infrastructure prior to selling entitled or developed land.

In the first quarter of 2016, we closed on the sale of nine residential lots from our Harbor Hill development, as well recognized revenue on a percentage-of-completion basis from previous sales from this project, for \$1.1 million. In Q1 2015, we closed on the sale of 42 residential lots from Harbor Hill for \$5.6 million and conservation easement and land sales of \$5.0 million in Jefferson County, Washington. Real Estate operating expenses increased slightly to \$1.1 million for the first quarter of 2016 compared to \$935,000 for the first quarter of 2015. These factors resulted in operating loss of \$1.0 million for the first quarter of 2016 compared to a operating income of \$5.1 million in the first quarter of 2015.

Real Estate revenue, gross margin and operating income are summarized in the table below for the three months ended March 31, 2016 and 2015:

(in thousands, except units sold and per unit amounts)

For the three months ended:

Description	Revenue	Gross Margin	Units Sold	Revenue per unit	Gross Margin per unit
<b>Residential</b>	\$ 1,063	\$ 152	<b>Lots: 9</b>	\$ 118,111	\$ 16,889
<b>Total land</b>	<b>1,063</b>	<b>152</b>			
<b>Rentals and other</b>	<b>246</b>	<b>(90)</b>			
<b>March 31, 2016 total</b>	<b>\$ 1,309</b>	<b>\$ 62</b>			
Conservation land sale	\$ 724	\$ 184	Acres: 294	\$ 2,463	\$ 626
Development rights (CE)	4,311	4,311	Acres: 3,392	1,271	1,271
Residential	5,645	1,534	Lots: 42	134,405	36,524
Total land	10,680	6,029			
Rentals and other	282	38			
March 31, 2015 total	\$ 10,962	\$ 6,067			

#### **Environmental Remediation**

As disclosed previously, we have a liability for environmental remediation at Port Gamble, Washington, due to contamination that occurred in Port Gamble Bay prior to our 1985 acquisition of the property from Pope & Talbot, Inc. We have adjusted that liability from time to time based on evolving circumstances. The first construction season was completed in January 2016 and the second and final construction season is scheduled to begin in July 2016 and will continue into the first half of 2017, followed by a period of monitoring activity.

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

*Disposal of dredged material:* Our liability contemplates that the majority of dredged material will be stored permanently on the millsite, which we currently believe is the most likely outcome. However, we have not yet obtained approval from the relevant regulatory agencies to use the millsite as a permanent storage location. It is possible that we may be required to relocate some or all of the dredged material to land that we own a short distance from the town of Port Gamble or to a commercial landfill. Either of these scenarios would result in an increase in costs.

*Costs based on unit pricing:* Certain components of the remediation work are based on a price per unit and the number of units is an estimate. For example, we do not know for certain the number of pilings or volume of wood waste that will need to be removed from Port Gamble Bay. The cost for this work is priced on a per piling basis, so to the extent the actual number of pilings or volume of wood waste to be removed changes from our estimates, the overall cost may change.

*Unforeseen conditions:* It is possible that site conditions may be different than what was contemplated during the project design and this could result in changes to the scope of work to be completed. For example, the Washington State Department of Ecology may require us to increase the depth of the dredging in certain areas if, as the project progresses, we encounter conditions that are different than expected.

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

#### **General and Administrative (G&A)**

G&A expenses increased to \$1.6 million in the first quarter of 2016 from \$1.2 million in the first quarter of 2015. The increase in G&A expenses was due primarily to personnel costs for being fully staffed in 2016 relative to 2015, as well as higher professional fees in 2016.

#### **Interest Expense, Net**

The components of net interest expense are summarized in the table below for the three months ended March 31, 2016 and 2015:

(in thousands)	Three Months Ended March 31,	
	2016	2015
Interest income	\$ 3	\$ 7
Interest expense	(811)	(981)
Capitalized interest expense	150	229
Interest expense, net	\$ (658)	\$ (745)

The Partnership's and Fund III's debt arrangements with Northwest Farm Credit Services (NWFCS) include an annual rebate of a portion of interest expense paid in the prior year (patronage). This NWFCS patronage program is a feature common to most of this lender's customer loan agreements. The decrease in interest expense resulted primarily from an increase in the patronage rebate, which reduced interest expense by \$251,000 and \$118,000 for the first quarters of 2016 and 2015, respectively. Capitalized interest decreased from Q1 2015 to Q1 2016 in conjunction with a decrease in basis in our Harbor Hill development resulting from sales over the last year.

#### **Income Tax**

The Partnership recorded income tax expense of \$50,000 and \$340,000 for the quarters ended March 31, 2016 and 2015, respectively. The decrease in income tax expense is due primarily to the decline in harvest volume, which in turn reduced taxable income in Q1 2016 compared to Q1 2015.

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

### **Noncontrolling interests-ORM Timber Funds**

The line item “Net loss attributable to noncontrolling interests-ORM Timber Funds” represents the portion of the net loss attributable to third-party investors in the Funds, which is 80% for Fund II and 95% for Fund III.

### **Off-Balance Sheet Arrangements**

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

### **Liquidity and Capital Resources**

We ordinarily finance our business activities using operating cash flows and, where appropriate in management’s assessment, commercial credit arrangements with banks or other financial institutions. During periods of reduced operating cash flows, such as the first quarter of 2016, we have available a line of credit that can be accessed in order to provide for any liquidity needs. We expect that funds generated internally from operations and externally through financing will provide the required resources for the Partnership’s future operations and capital expenditures for at least the next twelve months.

The Partnership’s debt consists of mortgage debt with fixed interest rates and an operating line of credit with Northwest Farm Credit Services (NWFCFS). The mortgage debt at March 31, 2016 includes \$24.8 million in term loans with NWFCFS structured in three tranches which mature from 2017 through 2025. In addition, our commercial office building in Poulsbo, Washington is collateral for a \$2.7 million loan from NWFCFS that matures in 2023. Our \$20.0 million operating line of credit matures April 1, 2020 and we had \$1.5 million drawn as of March 31, 2016. The line of credit carries a variable interest rate that is based on the one-month LIBOR rate plus applicable margins determined by certain financial covenants.

These debt agreements contain covenants that are measured quarterly. Among the covenants measured is a requirement that the Partnership not exceed a maximum debt-to-total-capitalization ratio of 30%, with total capitalization calculated using fair market (vs. carrying) value of timberland, roads and timber. The Partnership is in compliance with these covenants as of March 31, 2016 and expects to remain in compliance for at least the next twelve months.

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

The \$7.8 million decrease in cash for the three months ended March 31, 2016 compared to March 31, 2015 is explained in the following table:

(in thousands)	Three Months Ended March 31,		
	2016	Change	2015
Cash provided by (used in) operations	\$ (1,960)	\$ (11,082)	\$ 9,122
Investing activities			
Maturity of short-term investments	—	(1,000)	1,000
Reforestation and roads	(263)	163	(426)
Buildings and equipment	(109)	27	(136)
Proceeds from sale of timberland	445	445	—
Acquisition of timberland - Partnership	—	2,876	(2,876)
Cash provided by (used in) investing activities	73	2,511	(2,438)
Financing activities			
Draw on line of credit	1,500	1,500	—
Repayment of long-term debt	(28)	(1)	(27)
Payroll taxes paid upon unit net settlements	(152)	(45)	(107)
Excess tax benefit of equity-based compensation	—	(5)	5
Cash distributions to unitholders	(3,043)	(225)	(2,818)
Cash distributions to fund investors, net of distributions to Partnership	(2,155)	(495)	(1,660)
Cash used in financing activities	(3,878)	729	(4,607)
Net increase (decrease) in cash	\$ (5,765)	\$ (7,842)	\$ 2,077

The decrease in cash provided by (used in) operating activities of \$11.1 million resulted primarily from a 36% decrease in timber harvest volume and a 3% decrease in log prices, significantly less Real Estate land sales in 2016 compared to 2015 and a \$2.9 million increase in payments on our Port Gamble environmental remediation liability.

Cash flow from investing activities during 2016 increased by \$2.5 million compared to 2015 due primarily to the lack of timberland acquisitions in 2016 compared to 2015 and proceeds from the sale of timberland by our Funds in 2016, offset partially by the maturity of short-term investments in 2015 that had no counterpart in 2016.

Cash used in financing activities decreased in the current year by \$729,000 due primarily to the draw on our line of credit, offset partially by increases in distributions to unitholders and investors in our private equity timber funds.

### Seasonality

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

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

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

## **Capital Expenditures and Commitments**

Capital expenditures for the full year 2016 are projected to be approximately \$20.2 million. Land development projects in our Harbor Hill project account for \$13.0 million of this total. We also expect to spend approximately \$3.6 million on a new wastewater treatment plant for the town of Port Gamble. Projected capital expenditures are subject to permitting timetables, suitable weather for construction of such improvements, and progress towards closing on specific land transactions.

## **ACCOUNTING MATTERS**

### **Critical Accounting Policies and Estimates**

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

For a further discussion of our critical accounting policies and estimates see Accounting Matters in the Management Discussion and Analysis section of our Annual Report on Form 10-K for the year ended December 31, 2015. See also note 2 to the unaudited condensed consolidated financial statements filed with this report.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

### **Interest Rate Risk**

The consolidated fixed-rate debt outstanding had a fair value of approximately \$91.9 million and \$89.8 million at March 31, 2016 and December 31, 2015, respectively, based on the prevailing interest rates for similar financial instruments. A change in interest rate on fixed-rate debt will affect the fair value of debt, whereas a change in the interest rate on variable-rate debt will affect interest expense and cash flows payable by the Partnership. A hypothetical 1% change in prevailing interest rates would change the fair value of fixed-rate long-term debt obligations by \$3.1 million. We are not subject to material foreign currency risk, derivative risk, or similar uncertainties.

## **ITEM 4. CONTROLS AND PROCEDURES**

The Partnership’s management maintains a system of internal controls, which management views as adequate to promote the timely identification and reporting of material, relevant information. Those controls include (1) requiring executive management and all managers in accounting roles to sign and adhere to a Code of Conduct and (2) implementation of a confidential hotline for employees to contact the Audit Committee directly with financial reporting concerns. Additionally, the Partnership’s senior management team meets regularly to discuss significant transactions and events affecting the Partnership’s operations. The Partnership’s executive officers lead these meetings and consider whether topics discussed represent information that should be disclosed under generally accepted accounting principles and the rules of the SEC. The Board of Directors of the Partnership’s general partner includes an Audit Committee. The Audit Committee reviews the earnings release and all reports on Form 10-Q and 10-K prior to their filing. The Audit Committee is responsible for hiring the Partnership’s external auditors and meets with those auditors at least five times each year, including regularly scheduled executive sessions outside the presence of management.

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

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



## **PART II- OTHER INFORMATION**

### **ITEM 1. LEGAL PROCEEDINGS**

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

### **ITEM 1A. RISK FACTORS**

#### **Risks Related to Our Industry and Our Markets**

**We are sensitive to demand and price issues relating to our sales of logs in both domestic and foreign markets.** We generate Fee Timber revenue primarily by selling softwood logs to domestic mills and to third-party intermediaries who resell them to the export market. The domestic market for logs in our operating area depends heavily on U.S. housing starts. Recently, the U.S. housing market has started to improve but, to the extent the recovery in the housing market should stall, such a turn of events could have a negative impact on our operating results. Demand from export markets for Pacific Northwest logs are affected significantly by fluctuations in United States, Japanese and, increasingly, Chinese and Korean economies, the foreign currency exchange rate between these Asian currencies and the U.S. dollar, as well as by ocean transportation costs. Further, the prices we realize for our logs depend in part upon competition, and the recent expiration of the Softwood Lumber Agreement between the United States and Canada in October 2015 may have the effect of increasing the supply of logs from Canada. While this has not had a noticeable impact to date, it remains too early to assess whether the longer-term implications of the expiry of this agreement may have an adverse impact on the prices we realize on the sales of our logs.

**Our Fee Timber and Timberland Management segments are highly dependent upon sales of commodity products.** Our revenues from our forestry businesses, which comprise our Fee Timber and our Timberland Management segments, are widely available from producers in other regions of the United States and in a number of other countries. We are therefore subject to risks associated with the production of commonly available products, such that an increase in supply from abroad as a result of overproduction by competitors in other nations or as a result of changes in currency exchange rates, may reduce the demand for our products in some or all of the markets in which we do business. Similarly, from time to time in the past we have seen, and in the future we may experience, an increase in supply or a reduction in demand as a result of international tensions or competition that are beyond our control and that may not be predictable.

**We are subject to statutory and regulatory restrictions that currently limit, and may increasingly limit, our ability to generate income.** Our ability to grow and harvest timber can be impacted significantly by legislation, regulations or court rulings that restrict or stop forest practices. For example, events that focus media attention upon natural disasters and damage to timberlands have at various times brought increasing public attention to forestry practices. Similarly, certain activist groups in Oregon have proposed a ballot initiative that, if approved and sustained in the courts, would eliminate clearcutting, which is the predominant harvest practice across our geographic region. These initiatives, alone or in combination, may limit the portion of our timberlands that is eligible for harvest, may make it more expensive or less efficient to harvest all or certain portions of our timberlands, or may restrict other aspects of our operations. Additional regulations, whether or not adopted in response to such events, may make it more difficult or expensive for us to harvest timber and may reduce the amount of harvestable timber on our properties. These and other restrictions on logging, planting, road building, fertilizing, managing competing vegetation, and other activities can significantly increase the cost or reduce available inventory thereby reducing income. Any such additional restrictions would likely have a similar effect on our Timberland Management operations. We cannot offer assurances that we will not be alleged to have failed to comply with these regulations, or we may face a reduction in revenues or an increase in costs as a result of complying with newly adopted statutes, regulations and court or administrative decisions. These claims may take the form of individual or class action litigation, regulatory or enforcement proceedings, or both. Any such claims could result in substantial defense costs and divert management's attention from the ongoing operation of our business, and if any such claims were successful, may result in substantial damage awards, fines or civil penalties.

**Environmental and other activist groups may have an adverse impact on the value of our assets or on our ability to generate revenues from our timberlands.** In recent years we have seen an increase in activities by environmental groups, Native American tribes, and other activists in the legislative, administrative and judicial processes that govern all aspects of our operations. For example, on more than one occasion the Washington Department of Ecology applied more stringent regulatory standards to our existing environmental remediation operations at Port Gamble, Washington, after soliciting or receiving input from tribal representatives. These revisions substantially increased the cost and the time associated with our previously-existing remediation plans. Similarly, citizens' and environmental groups have significant influence in the

entitlement and zoning processes that affect our Real Estate operations. These activities are not likely to diminish in the foreseeable future, and in some instances may have a material impact upon the revenues we can generate from our properties or upon the costs of generating those revenues.

**Our businesses are highly dependent upon domestic and international macroeconomic factors.** Both our timberland operations and our real estate operations are highly influenced by housing markets. Our Fee Timber and Timberland Management segments depend upon housing and construction markets in the United States and in other Pacific Rim countries. Our Real Estate segment depends upon a highly localized demand in the Puget Sound region of Western Washington. Factors that affect these markets will have a disproportionate impact on our business, and may be difficult or impossible to predict or estimate accurately.

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

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

### **Risks Relating to Our Operations**

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

**Consolidation of sawmills in our geographic operating area may reduce competition among our customers, which could adversely affect our log prices.** In the past we have experienced, and may continue to experience, consolidation of sawmills and other wood products manufacturing facilities in the Pacific Northwest. For example, Simpson Timber Co. announced in 2015 the sale of four of their mills in the Pacific Northwest region to two separate buyers. Two of those mills will be shut down permanently while another will be closed until a new, more modern, mill is built in its place. The replacement mill is expected to open in 2017. In addition, Interfor announced recently their intention to sell a lumber mill in Tacoma, Washington that it closed in May 2015. Because a portion of our cost of sales in our Fee Timber segment, which encompasses the Combined tree farms, consists of transportation costs for delivery of logs to domestic sawmills, it becomes increasingly expensive to transport logs over longer distances for sales in domestic markets. As a result, a reduction in the number of sawmills, or in the number of sawmill operators, may reduce competition for our logs, increase transportation costs, or both. These consolidations thus may have a material adverse impact upon our Fee Timber revenue or income and, as that segment has traditionally represented our largest business unit, upon our results of operation and financial condition as a whole. Any such material adverse impact on timber revenue and income as a result of regional mill consolidations will also indirectly affect our Timberland Management segment in the context of raising capital for investment in Pacific Northwest-based timber funds.

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

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

**We have certain environmental remediation liabilities associated with our Port Gamble and former Port Ludlow resort properties, and those liabilities may increase.** We currently own certain real estate at Port Gamble on the Kitsap Peninsula and, until mid-2001, owned real estate within the resort community of Port Ludlow in Jefferson County in western Washington. Sediments adjacent to these properties were alleged to have been impacted by operations occurring prior to our acquisition of the properties, which occurred at the time of our spinoff from Pope & Talbot, Inc. in 1985. However, as current owner of Port Gamble and based on conditions of our sale of the Port Ludlow assets, we have environmental liability for these properties under Washington State's Model Toxics Control Act (MTCA). In December 2013, we reached an agreement with the Washington State Department of Ecology ("DOE") in the form of a consent decree ("CD") and clean-up action plan ("CAP") that provides for the cleanup of Port Gamble Bay. Together, these documents outline the terms under which the Partnership will conduct environmental remediation as well as the specific clean-up activities to be performed. The CD and CAP were filed with the Kitsap County Superior Court in December 2013. On June 8, 2015, Kitsap County Superior Court ruled on summary judgment that Washington's Department of Natural Resources (DNR) did not qualify as an owner or operator of the site and therefore did not have liability under the MTCA. DNR had been identified by DOE as a "potentially liable person" under the MTCA. The effect of the court's ruling is to absolve DNR of any responsibility to contribute to the cost of cleanup at Port Gamble. We have appealed the Superior Court's ruling, and believe we have a strong case for overturning the lower court's decision, however, there can be no assurance that we will prevail in this matter or that we can reach an acceptable settlement with DNR. The recorded liability reflects the estimated cost of the entire project, without any contribution by DNR. Additionally, certain environmental laws allow state, federal, and tribal trustees to bring suit against property owners to recover damages for injuries to natural resources. Like the liability that attaches to current property owners in the cleanup context, liability for natural resource damages can attach to a property owner simply because an injury to natural resources relates to a release of hazardous substances from the facility.

Management continues to monitor the Port Gamble and Port Ludlow cleanup processes closely. The \$13.5 million remediation accrual as of March 31, 2016 represents our current estimate of the remaining cleanup cost and most likely outcome to various contingencies within both locations. These estimates are predicated upon a variety of factors, including the actual amount of the ultimate cleanup costs. These liabilities are based upon a number of estimates and judgments that are subject to change as the project progresses. There may be additional litigation costs if we successfully overturn the Superior Court's ruling but cannot reach a settlement with DNR, and the outcome of any such litigation is uncertain. The filing of the CD limits our legal exposure, but does not eliminate it entirely. Any changes in factors relating to this matter may result in adverse financial impacts and may have the effect of distracting management and other key personnel from the day to day operation of our business. These factors, alone or in combination with other challenges, may have a material adverse effect upon our assets, income and operations.

**We compete with a number of larger competitors that may be better able than we to absorb price fluctuations, may be able to expend greater resources on production, may have greater access to capital, and may operate more efficiently than we can.** We compete against much larger companies in each of our business segments. We compete with these companies for management and line personnel, as well as for purchases of relatively scarce capital assets such as land and standing timber and for sales of our products. These larger competitors may have access to larger amounts of capital and

significantly greater economies of scale, and they may be better able to absorb the risks inherent in our line of business. Moreover, the timber industry has experienced consolidation in recent years and, as that consolidation occurs, our relative market share decreases and the relative financial capacity of our competitors increases. While management believes the Partnership is at a competitive advantage over some of these companies because of our lack of vertical integration into forest products manufacturing, our advantageous tax structure, and management's attempts to diversify our asset base, we cannot assure readers that competition will not have a material and adverse effect on our results of operations or our financial condition.

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

**We may incur losses as a result of natural disasters that may occur, or that may be alleged to have occurred, on our properties.** Forests are subject to a number of natural hazards, including damage by fire, severe windstorms, insects and disease, flooding and landslides. Changes in global climate conditions may intensify these natural hazards. Severe weather conditions and other natural disasters can also reduce the productivity of timberlands and disrupt the harvesting and delivery of forest products. While damage from natural causes is typically localized and would normally affect only a small portion of our timberlands at any one time, these hazards are unpredictable and losses might not be so limited. Consistent with the practices of other large timber companies, we do not maintain insurance against loss of standing timber on our timberlands due to natural disasters. However, as a result of the extreme fire conditions in the Pacific Northwest in 2015, we have acquired fire insurance on a portion of our timberland portfolio.

**We rely on contract loggers and truckers who are in short supply and seeking consistent work at increasing rates.** We rely on contract loggers and truckers for the production and transportation, respectively, of our products to customers. During the economic downturn of 2008 and 2009 most industrial forestry firms deferred harvest, which resulted in a shortfall in demand for the contract logging and trucking work force. Many private logging and trucking companies did not survive the protracted economic downturn. As the economy has improved and companies return to harvesting, a shortage of logging contractors and truckers has developed. The remaining contractors who survived did so by reducing their workforce or, in the case of log truckers, converting their trucks to configurations suitable for highway freight hauling. This decline in the pool of available contractors has resulted in a steady increase in harvest and haul costs and market forces that are stressing continuity of work when soliciting contractor bids for a job. The commitment to more continuous work could preclude our ability to time markets, affecting total returns.

#### **Risks Relating to Ownership of Our Securities**

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

**We have a limited market capitalization and a relatively low historic trading volume, as a result of which the trading prices of our units may be more volatile than would an investment in a more liquid security.** Our relatively small public float and our limited trading volume may, in certain instances, make trading in our units more volatile, as a result of which our price may deviate more significantly, and opportunities to buy or sell our units may be more limited, than investors might experience with a more liquid market. This circumstance may be magnified during times of significant or prolonged selling pressure on our securities.

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

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

None

## **ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None

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

None

## **ITEM 5. OTHER INFORMATION**

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

## **ITEM 6. Exhibits**

### **Exhibits.**

31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a).
32.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350 (furnished with this report in accordance with SEC Rel. No. 33-8238).
32.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350 (furnished with this report in accordance with SEC Rel. No. 33-8238).
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

## SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on May 9, 2016.

POPE RESOURCES,  
A Delaware Limited Partnership

By: POPE MGP, Inc.  
Managing General Partner

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

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

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

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER**

I, Thomas M. Ringo, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pope Resources;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2016

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

**CERTIFICATION OF CHIEF FINANCIAL OFFICER**

I, John D. Lamb, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Pope Resources;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 9, 2016

/s/ John D. Lamb

John D. Lamb  
Chief Financial Officer



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

In connection with the Quarterly Report of Pope Resources (the "Company") on Form 10-Q for the period ended March 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas M. Ringo, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company as of, and for, the periods presented in the Report.

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

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

May 9, 2016

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

In connection with the Quarterly Report of Pope Resources (the "Company") on Form 10-Q for the period ended March 31, 2016, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John D. Lamb, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company as of, and for, the periods presented in the Report.

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

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

May 9, 2016