UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-K

(Mark one)

x Annual Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2019

or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. For the transition period from to________

Commission File No. 1-9035

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

Delaware	**91-1313292**
(State of Organization)	(IRS Employer I.D. No.)

19950 Seventh Avenue NE, Suite 200, Poulsbo, WA 98370
(Address of principal executive offices, Zip Code)

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

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Depositary Receipts (Units)	**POPE**	**NASDAQ**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No x

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 than the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ☐

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (Section 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐	Accelerated Filer x
Non-Accelerated Filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

At June 30, 2019, the aggregate market value of the non-voting equity units of the registrant held by non-affiliates was approximately $225,812,479

The number of the registrant's limited partnership units outstanding as of February 14, 2020 was 4,367,215.

Documents incorporated by reference: None

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PART I

Item 1. BUSINESS

OVERVIEW

Pope Resources, a Delaware Limited Partnership was formed in 1985 as a result of the spinoff of certain timberlands and development properties from Pope & Talbot, Inc. We currently operate in four primary business segments: (1) Partnership Timber, (2) Funds Timber, (3) Timberland Investment Management, and (4) Real Estate. Operations in our two timber segments consist of growing, managing, harvesting, and marketing timber from the Partnership's 119,000 acres of direct timberland ownership, plus another 3,500 acres under timber deeds, in Washington (Partnership Timber) and our private equity timber funds' 141,000 acres of timberland in Washington, Oregon, and California that we co-own with our third-party investors (Funds Timber). Our Timberland Investment Management segment is engaged in organizing and managing private equity timber funds using capital invested by third parties and the Partnership. Our Real Estate segment's operations are focused on a portfolio of approximately 1,500 acres in the west Puget Sound region of Washington, most of which are legacy timberlands that have become suitable as development property owing to the expansion of the Puget Sound metropolitan and suburban areas. This segment's activities consist of efforts to enhance the value of our land by obtaining the entitlements and, in some cases, building the infrastructure necessary to enable further development, and then selling those properties, ordinarily to commercial and residential developers. Recently, we have acquired and developed a small number of other properties for sale, either on our own or by partnering with other experienced real estate developers. Our Real Estate operations also include ownership and management of certain commercial properties, including Port Gamble, Washington, now an historic town. Port Gamble was established by Pope & Talbot in 1853 and was operated as a company town for over 165 years and served as the location for a lumber mill for most of that time.

When we refer to the "Partnership," the "Company," "we," "us," or "our," we mean Pope Resources, A Delaware Limited Partnership and its consolidated subsidiaries. In some contexts, particularly with respect to our co-investment in our private equity timber funds, "Partnership" may refer to Pope Resources and its wholly-owned subsidiaries, exclusive of the timber funds. References to notes to the financial statements refer to the Notes to the Consolidated Financial Statements of Pope Resources, A Delaware Limited Partnership, included in Item 8 of this report. Statements of intention, belief, or expectation reflect intent, beliefs and expectations of our management and the Board of Directors of our managing general partner as of the date of this report, based on information known to them as of that date. Readers should not place undue reliance on these statements, as they are, in large part, an attempt to predict future outcomes and events. The section of this report entitled "Item 1A: Risk Factors" contains a list of known factors that may cause us to fall short of our expectations or to deviate from the plans discussed herein.

Copies of our reports filed or furnished under the Securities Exchange Act, including our annual reports on Form 10-K, our quarterly reports on Form 10-Q, our current reports on Form 8-K, and all amendments to these reports, are available free of charge at www.poperesources.com. The information contained in or linked through our website is not incorporated by reference into this Annual Report on Form 10-K and should not be considered part of this or any other report filed with or furnished to the Securities and Exchange Commission, or of any report, registration statement, or other filing into which the contents hereof are incorporated by reference. The SEC also maintains an internet database, known as EDGAR, at www.sec.gov that contains our current and periodic reports and all of our other securities filings.

RECENT DEVELOPMENTS

On January 15, 2020, we announced that we had entered into an Agreement and Plan of Merger dated January 14, 2020 (the "Merger Agreement") with Rayonier, Inc., a North Carolina corporation ("Rayonier"), Rayonier Operating Company LLC, a Delaware limited liability company ("OpCo"), Pacific GP Merger Sub I, LLC, a Delaware limited liability company and a wholly owned subsidiary of Rayonier ("Merger Sub 1"), Pacific GP Merger Sub II, LLC, a Delaware limited liability company and a wholly owned subsidiary of Rayonier ("Merger Sub 2"), Pacific LP Merger Sub III, LLC, a Delaware limited liability company and a wholly owned subsidiary of OpCo ("Merger Sub 3"), and our general partners, Pope EGP, Inc., a Delaware corporation ("EGP"), and Pope MGP, Inc., a Delaware corporation and the managing general partner of the Partnership ("MGP" and together with EGP, the "General Partners").

The Merger Agreement provides that upon the satisfaction of certain conditions prescribed in the Merger Agreement and summarized below, (i) MGP will merge with and into Merger Sub 1, with Merger Sub 1 as the surviving corporation ("MGP Merger"); (ii) EGP will merge with and into Merger Sub 2, with Merger Sub 2 as the surviving corporation ("EGP Merger" and together with the MGP Merger, the "GP Mergers"); and (iii) Merger Sub 3 will merge with and into the

Partnership, with the Partnership as the surviving entity ("Partnership Merger" and together with the GP Mergers, the "Mergers"). Upon consummation of the Partnership Merger, holders of our limited partner units (other than those held by Rayonier and certain of their respective affiliates) will be entitled to receive, for each unit they hold, merger consideration consisting of (i) 3.929 common shares of Rayonier common stock, (ii) 3.929 OpCo units, or (iii) $125 in cash. Elections will be subject to proration to ensure that the aggregate amount of cash, on the one hand, and Rayonier common stock and Rayonier operating partnership units, on the other hand, that are issued in the merger would be equal to the amounts issued as if each of our units received $37.50 in cash and 2.751 Rayonier common shares or Rayonier operating partnership units. If elections for the Rayonier common shares and OpCo units are oversubscribed, then to reduce the effect of proration Rayonier can, in its discretion, add additional equity (and decrease the amount of cash) payable to our unitholders who elect to receive those securities. Restricted units issued under our equity incentive plan that are unvested and outstanding at the effective time will be exchanged for restricted Rayonier common shares having terms and vesting schedules substantially equivalent to the restricted units for which exchanged. The Merger Agreement also provides for Rayonier to acquire the general partner entities of the Partnership, Pope MGP, Inc. and Pope EGP, Inc. (collectively, the "GP Entities"), for consideration consisting of $10 million of cash (excluding the Partnership units and certain other assets owned by the GP Entities, all of which will be distributed to the shareholders of the GP Entities immediately prior to closing).

Based on Rayonier's then 10-day volume-weighted average price, the transaction valued our units, in the aggregate, at $554 million, or $126.91 per Partnership Unit (assuming 70% of our units are exchanged for equity consideration and 30% are exchanged for cash consideration). Readers are cautioned, however, that because the exchange ratios are fixed, the actual value holders of Partnership Units would receive upon consummation of the Partnership Merger may be more or less than the foregoing values.

After the Mergers are completed, and subject to a 60-day notice period and certain other conditions, the units representing partnership interests in Rayonier Operating Partnership LP (the "OpCo Units") will be convertible into cash based on the market price of Rayonier's common shares, or, at the election of Rayonier, exchanged for Rayonier common shares ("Rayonier Shares") on a 1:1 basis. The terms and conditions of the OpCo Units, including the requirements for a redemption thereof, will be set forth in an Amended and Restated Limited Partnership Agreement of OpCo that will be adopted prior to the Mergers. The OpCo Units and the Rayonier Shares will be registered on a Registration Statement on Form S-4 to be filed and declared effective under the Securities Act and are tradeable separate and apart from the Rayonier Shares. The Rayonier Shares are traded on the New York Stock Exchange under the symbol "RYN." The OpCo Units will not be listed on a securities exchange and there will be no market for OpCo Units other than by way of a redemption and exchange for Rayonier Shares.

Completion of the Mergers is subject to the satisfaction (or waiver, if permissible under applicable law) of customary closing conditions, including the approval of the holders of a majority of the outstanding Partnership Units. The approval measures set forth above is referred to herein as the "Unitholder Approval."

The Merger Agreement contains representations, warranties and covenants of the parties that we believe are customary for a transaction of this nature. Among other things, the parties have agreed to use reasonable best efforts to promptly take all actions necessary to obtain all necessary approvals applicable to the Mergers, and to forbear from taking any actions that would result in certain adverse tax treatment or that would reasonably be expected to adversely affect Rayonier's ability to obtain approval under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. The Merger Agreement also requires the parties to take any of the following measures if necessary to obtain antitrust approvals, subject to certain terms and conditions: (i) take or commit to take any action that limits their respective freedom of action with respect to, or their ability to retain, any property, assets or businesses, and (ii) initiate or defend against any lawsuit, action or proceeding, judicial or administrative, challenging the Merger Agreement or the Mergers.

Until the earlier of the termination of the Merger Agreement or the consummation of the Mergers, we have agreed to operate our business in the ordinary course consistent with past practice. We also have agreed to certain other operating covenants, some of which require us to refrain from taking certain specified actions prior to the consummation of the Mergers. We also agreed to convene and hold a meeting for the purpose of obtaining the Unitholder Approval. In addition, the Merger Agreement requires that, subject to certain exceptions, our board of directors (the "Board") recommend that our unitholders approve the Merger Agreement and the Mergers. In addition, the Partnership and each of the General Partners agreed to terminate discussions with other parties relating to a business combination, and to refrain from initiating, soliciting or, subject to certain conditions, knowingly encouraging or facilitating takeover proposals from third parties. Notwithstanding these restrictions, prior to the receipt of the Unitholder Approval, we may under certain circumstances and in compliance with certain obligations provide non-public information to and participate in discussions or negotiations with third parties with respect to unsolicited alternative takeover proposals. Prior to obtaining the Unitholder Approval, the Board may change its recommendation that the unitholders approve the Merger Agreement and the Partnership Merger under certain specified circumstances in response to a Superior Proposal (as defined in the Merger Agreement) or the occurrence of an Intervening

Event (as defined in the Merger Agreement), subject to complying with notice and other specified conditions, including giving Rayonier the opportunity to propose revisions to the terms of the Merger Agreement during a period following such notice.

The Merger Agreement contains certain termination rights for the Partnership and Rayonier, including, among others, the right of Rayonier to terminate the Merger Agreement as a result of the Board changing its recommendation with respect to the Merger Agreement and the Mergers. The Merger Agreement provides that in the event of a termination under specified circumstances, including the one described above, the Partnership will be required to pay Rayonier a termination fee of $20 million.

Voting Agreements

On January 14, 2020, in connection with the execution of the Merger Agreement, Rayonier entered into voting and support agreements (the "Voting Agreements") with Gordon P. Andrews and certain entities related to him, and Maria M. Pope and certain entities related to her, which collectively beneficially own approximately 16% of the outstanding Partnership Units. The Voting Agreements require, subject to the terms and conditions thereof, their respective signatories to vote their Partnership Units in favor of the Merger Agreement and the Transactions. The Voting Agreements were filed as Exhibits 1.2 and 1.3 to the original filing of a Current Report on Form 8-K filed on January 15, 2020, and are incorporated by reference herein.

Further Information

The summaries of the Merger Agreement and the Voting Agreements set forth above are not complete and are qualified in their entirety by reference to the definitive agreements, each of which is incorporated by reference herein. Each of those agreements is filed as an exhibit to a Current Report on Form 8-K (filed as definitive additional proxy solicitation material) dated January 15, 2020, as amended on January 17, 2020. The descriptions above are intended to facilitate a general understanding of the Merger and the related transactions, but readers seeking a complete description of the binding obligations relating to the Merger Agreement should review the transaction documents as so filed.

DESCRIPTION OF BUSINESS SEGMENTS

Partnership Timber and Funds Timber

Background. The 119,000 timberland acres that we own, plus another 3,500 acres under timber deeds, under the Partnership Timber segment consist of the approximately 66,000-acre Hood Canal tree farm, located in western Washington, and the 53,000-acre Columbia tree farm located in southwest Washington. The Hood Canal and Columbia tree farms are the Partnership's core holdings, and we manage them as a single operating unit for planning harvest volumes. When we refer to these two tree farms, we will describe them as the "Partnership's tree farms." We have owned the Hood Canal tree farm, substantially as currently comprised, since our formation in 1985. We acquired the bulk of the Columbia tree farm in 2001, a smaller block in 2004, added over 8,000 acres to this tree farm in 2016, and over 1,000 acres in each of 2017 and 2018.

The Funds Timber segment includes the operations and management of ORM Timber Fund II (Fund II), ORM Timber Fund III (Fund III), and ORM Timber Fund IV (Fund IV), which are consolidated into Pope Resources' financial statements. When referring to all the Funds collectively, depending on context, we use the designations "Fund" or "Funds" interchangeably. The Partnership holds ownership interests of 20% in Fund II, 5% in Fund III, and 15% in Fund IV. The Funds' assets at December 31, 2019, consist of 141,000 acres of timberland as outlined in the table below:

Fund	Acquisition Date	Location	Acres (in thousands)
Fund II	Q4 2009	Northwestern Oregon	5
	Q3 2010	Western Washington	13
	Q3 2010	Northwestern Oregon	13
		Fund II total	31
Fund III	Q4 2012	Northern California	19
	Q4 2013	Southwestern Washington	10
	Q4 2014	Northwestern Oregon	13
	Q4 2015	Southern Puget Sound Washington	15
		Fund III total	57
Fund IV	Q1 2018	Southwestern Oregon	20
	Q1 2018	Southern Puget Sound Washington	17
	Q4 2018	Southern Puget Sound Washington	9
	Q1 2019	Western Washington	7
		Fund IV total	53
		Funds total	141

When referring to the Partnership and Fund tree farms together we refer to them as the “Combined tree farms”. When referring to the combination of the Partnership’s tree farms and its 20%, 5%, and 15% ownership interest in Fund II, Fund III, and Fund IV, respectively, with respect to certain information about our aggregate ownership of timberlands and inventory, we will refer to the sums as “Look-through” totals.

Operations. As indicated above, operations in these two segments consist primarily of growing, managing, harvesting, and marketing timber from multiple tree farms owned by the Partnership and the Funds. These segments generated the following percentage of our consolidated revenue for the years ended December 31, 2019, 2018, and 2017:

	2019	**2018**	**2017**
Partnership Timber	**36%**	44%	40%
Funds Timber	**44%**	48%	34%

Delivered log sales to domestic manufacturers and export brokers represent the overwhelming majority of timber revenue, but we also occasionally sell rights to harvest timber from our tree farms, known as “timber deed sales”. In addition, our tree farms generate revenue from commercial thinning operations, sales of other minor forest products, ground leases for cellular communication towers, and royalties from gravel mines and quarries.

Inventory. Timber volume is generally expressed in thousands of board feet (MBF) or millions of board feet (MMBF) using long-log Scribner scale rules common to western Washington and western Oregon. In the discussion below, we present merchantable volume, productive acres, and projected harvest level data for the Partnership’s and the Funds’ tree farms on a stand-alone and Look-through basis. On our Washington and Oregon tree farms, which we manage on an even-aged basis, we define “merchantable volume” to mean timber inventory in productive stands that are 35 years of age and older. Fund III’s California tree farm has been managed historically using an uneven-aged harvest regime wherein stands consist of trees of a variety of age classes. On that tree farm, we classify merchantable volume based on the tree’s diameter at breast height (DBH), or four and one-half feet above ground. Trees with a DBH greater than or equal to 16 inches are considered merchantable and less than 16 inches are considered pre-merchantable. Accordingly, merchantable volume from Fund III’s California tree farm is reflected in the tables below as “16+ inches”.

Partnership Timber merchantable available volume (in MMBF) as of December 31:

	2019			2018
Merch Class	**Sawtimber**	**Pulpwood**	**Total**	Total
35 to 39 yrs.	**289**	**15**	**304**	307
40 to 44 yrs.	**92**	**3**	**95**	97
45 to 49 yrs.	**14**	**1**	**15**	15
50 to 54 yrs.	**7**	**—**	**7**	9
55 to 59 yrs.	**1**	**—**	**1**	5
60 to 64 yrs.	**4**	**1**	**5**	1
65+ yrs.	**18**	**1**	**19**	23
	425	**21**	**446**	457

Funds Timber merchantable available volume (in MMBF) as of December 31:

	2019			2018
Merch Class	**Sawtimber**	**Pulpwood**	**Total**	Total
35 to 39 yrs.	**102**	**5**	**107**	112
40 to 44 yrs.	**66**	**2**	**68**	75
45 to 49 yrs.	**84**	**3**	**87**	91
50 to 54 yrs.	**47**	**2**	**49**	56
55 to 59 yrs.	**49**	**1**	**50**	43
60 to 64 yrs.	**28**	**1**	**29**	38
65+ yrs.	**105**	**1**	**106**	87
16+ inches	**168**	**—**	**168**	161
	649	**15**	**664**	663

Look-through merchantable available volume (in MMBF) as of December 31:

	2019 Volume			2018 Volume		
	Partnership		**Look-through Total**	Partnership		Look-through Total
Merch Class	**100% Owned**	**Share of Funds**		100% Owned	Share of Funds	
35 to 39 yrs.	**304**	**13**	**317**	307	14	321
40 to 44 yrs.	**95**	**10**	**105**	97	11	108
45 to 49 yrs.	**15**	**13**	**28**	15	14	29
50 to 54 yrs.	**7**	**8**	**15**	9	9	18
55 to 59 yrs.	**1**	**8**	**9**	5	7	12
60 to 64 yrs.	**5**	**5**	**10**	1	6	7
65+ yrs.	**19**	**15**	**34**	23	12	35
16+ inches	**—**	**8**	**8**	—	8	8
	446	**80**	**526**	457	81	538

Merchantable volume estimates are updated quarterly. Changes in merchantable volume estimates reflect depletion of harvested timber, growth of standing timber, transitions of timber stands from pre-merchantable to merchantable, revised estimates of acres available for harvest, timber inventory measurement (cruising) updates, and timberland acquisition and disposition activity. A portion of each tree farm's timber stands is physically measured or re-measured each year using a statistical sampling process called "cruising". Stands with actual volume are generally cruised every seven years. The comparison of actual volume harvested to the volume carried in our inventory system is referred to as a "cutout analysis"; a quarterly analysis used to monitor the accuracy of our inventory process. Over the last five years, our overall inventory variances from the cutout analysis have been up to approximately 8% in any one year, but have averaged about 6% in the aggregate over that time frame.

The dominant timber species on the Partnership's tree farms is Douglas-fir, which has unique growth and structural characteristics that make it generally preferable to other softwoods for producing construction-grade lumber and plywood. A secondary softwood conifer species on the Partnership's tree farms is western hemlock, which is similar in color and structural characteristics to several other minor softwood conifer timber species, including the true firs. These secondary species are referred to generically as "whitewoods". Western red cedar is another softwood conifer species found on the Partnership's tree farms. Western red cedar is used in siding, fencing, and decking applications. Hardwood species on the Partnership's tree farms include primarily red alder and smaller volumes of other hardwood species.

The merchantable timber inventory on Fund properties contains a greater proportion of whitewoods than do the Partnership's timberlands. The most significant contributor to the Funds' whitewood volume is from white fir on Fund III's tree farm in northern California. White fir is a member of the whitewood species group and is used primarily for lumber and core layers in plywood. Given that the Partnership holds only a 5% ownership interest in Fund III, on a Look-through basis the Funds contribute a more equally-weighted species mix between Douglas-fir and whitewoods.

Partnership Timber merchantable available volume as of December 31:

	2019		2018	
Species	**MMBF**	**% of Total**	**MMBF**	**% of Total**
Douglas-fir	**358**	**80%**	360	79%
Western hemlock	**31**	**7%**	33	7%
Western red cedar	**8**	**2%**	10	2%
Other conifer	**21**	**5%**	21	5%
Red alder	**24**	**5%**	28	6%
Other hardwood	**4**	**1%**	5	1%
Total	**446**	**100%**	457	100%

Funds Timber merchantable available volume as of December 31:

	2019		2018	
Species	**MMBF**	**% of Total**	**MMBF**	**% of Total**
Douglas-fir	**319**	**49%**	327	50%
Western hemlock	**106**	**16%**	105	16%
Western red cedar	**15**	**2%**	15	2%
Pine	**60**	**9%**	59	9%
Other conifer	**145**	**22%**	139	21%
Red alder	**17**	**3%**	15	2%
Other hardwood	**2**	**—%**	3	—%
Total	**664**	**101%**	663	100%

Look-through merchantable available volume (in MMBF) as of December 31, 2019:

Species	Partnership 100% Owned	Partnership Share of Funds	Look-through Total	% of total
Douglas-fir	**358**	**46**	**404**	**76%**
Western hemlock	**31**	**14**	**45**	**9%**
Western red cedar	**8**	**2**	**10**	**2%**
Pine	**—**	**4**	**4**	**1%**
Other conifer	**21**	**12**	**33**	**6%**
Red alder	**24**	**3**	**27**	**5%**
Other hardwood	**4**	**—**	**4**	**1%**
Total	**446**	**81**	**527**	**100%**

Look-through merchantable available volume (in MMBF) as of December 31, 2018:

Species	Partnership 100% Owned	Partnership Share of Funds	Look-through Total	% of total
Douglas-fir	360	47	407	75%
Western hemlock	33	15	48	9%
Western red cedar	10	2	12	2%
Pine	—	4	4	1%
Other conifer	21	11	32	6%
Red alder	28	2	30	6%
Other hardwood	5	—	5	1%
Total	457	81	538	100%

The Partnership's tree farms as of December 31, 2019, consist of 103,200 available acres (including timber deeds), representing 83% of total acres, that are designated as available acres, meaning land that will grow timber where harvesting that timber is not constrained by physical, environmental, or regulatory restrictions. The Funds' tree farms as of December 31, 2019, totaled 120,400 available acres, representing 86% of total acres. On a Look-through basis, this results in 117,600 available acres, of which over 22% contain merchantable timber. In addition, another 21% of the Look-through productive acres are in the 25-34 age classes, much of which will begin moving from pre-merchantable to merchantable timber volume over the next five to ten years. There is no age-class associated with the California tree farm because of the historic uneven-aged management regime, resulting in stands that contain timber with multiple ages. Productive acres for our California tree farm are shown in the following tables under the heading "California".

Productive acres are spread by timber age-class as follows as of December 31, 2019 and 2018:

	Productive acres (in thousands)							
	Partnership Timber				Funds Timber			
Age	2019		2018		2019		2018	
Class	Acres	% of Total	Acres	% of Total	Acres	% of Total	Acres	% of Total
Clear-cut	**3.5**	**3%**	2.9	3%	**4.5**	**4%**	3.9	3%
0 to 4	**10.5**	**10%**	8.6	8%	**9.9**	**8%**	8.4	7%
5 to 9	**8.6**	**8%**	9.2	9%	**10.8**	**9%**	8.7	8%
10 to 14	**10.0**	**10%**	10.3	10%	**11.7**	**10%**	12.3	11%
15 to 19	**10.3**	**10%**	10.5	10%	**11.2**	**9%**	10.0	9%
20 to 24	**14.7**	**14%**	12.7	12%	**8.2**	**7%**	7.9	7%
25 to 29	**6.9**	**7%**	10.3	10%	**8.2**	**7%**	7.5	7%
30 to 34	**17.0**	**16%**	16.5	16%	**8.7**	**7%**	8.0	7%
35 to 39	**15.3**	**15%**	15.3	15%	**5.9**	**5%**	6.4	6%
40 to 44	**4.6**	**4%**	4.6	4%	**3.5**	**3%**	3.6	3%
45 to 49	**0.7**	**1%**	0.7	1%	**3.8**	**3%**	4.4	4%
50 to 54	**0.3**	**—%**	0.5	—%	**2.9**	**2%**	2.9	3%
55 to 59	**0.1**	**—%**	0.2	—%	**2.6**	**2%**	2.1	2%
60 to 64	**0.2**	**—%**	0.1	—%	**1.6**	**1%**	2.6	2%
65+	**0.5**	**—%**	0.7	1%	**8.2**	**7%**	7.1	6%
California	**—**	**—%**	—	—%	**18.7**	**16%**	18.7	16%
	103.2		103.1		**120.4**		114.5	

Look-through productive acres are spread by timber age-class as follows:

	12/31/2019 Look-through Productive Acres (in thousands)				12/31/2018 Look-through Productive Acres (in thousands)			
Age	100%	Share of	Look-		100%	Share of	Look-	
Class	Owned	Funds	Through	% of Total	Owned	Funds	Through	% of Total
Clear-cut	**3.5**	**0.6**	**4.1**	**3%**	2.9	0.5	3.4	3%
0 to 4	**10.5**	**1.3**	**11.8**	**10%**	8.6	1.2	9.8	8%
5 to 9	**8.6**	**1.4**	**10.0**	**9%**	9.2	1.1	10.3	9%
10 to 14	**10.0**	**1.4**	**11.4**	**10%**	10.3	1.4	11.7	10%
15 to 19	**10.3**	**1.3**	**11.6**	**10%**	10.5	1.2	11.7	10%
20 to 24	**14.7**	**0.9**	**15.6**	**13%**	12.7	0.8	13.5	12%
25 to 29	**6.8**	**1.2**	**8.0**	**7%**	10.3	1.1	11.4	10%
30 to 34	**17.0**	**1.1**	**18.1**	**15%**	16.5	0.9	17.4	15%
35 to 39	**15.3**	**0.7**	**16.0**	**14%**	15.3	0.8	16.1	14%
40 to 44	**4.6**	**0.6**	**5.2**	**4%**	4.6	0.6	5.2	4%
45 to 49	**0.7**	**0.6**	**1.3**	**1%**	0.7	0.7	1.4	1%
50 to 54	**0.3**	**0.5**	**0.8**	**1%**	0.5	0.5	1.0	1%
55 to 59	**0.1**	**0.4**	**0.5**	**—%**	0.2	0.4	0.6	1%
60 to 64	**0.2**	**0.3**	**0.5**	**—%**	0.1	0.4	0.5	—%
65+	**0.6**	**1.2**	**1.8**	**2%**	0.7	1.0	1.7	1%
California	**—**	**0.9**	**0.9**	**1%**	—	0.9	0.9	1%
	103.2	**14.4**	**117.6**		103.1	13.5	116.6	

Site Index. The site index for a given acre of timberland is a measure of the soil's potential to grow timber in a given location. In our Washington and Oregon operating regions, site index is expressed in feet reflecting the measured or projected height of a Douglas-fir tree at age 50. In the California region, it is based on a mix of species. Site index is calculated by tree height and age data collected during the cruising process. Site index measurements are grouped into five site classes and are an important input into models used for projecting harvest levels on all tree farms. The following table presents site class information for the Partnership and the Funds, and on a Look-through basis.

	Partnership Timber		Funds Timber		Share of Funds		Look-through	
Site Class	Net Acres	% of total	Net Acres	% of total	Net Acres	% of total	Net Acres	% of total
I (135+ feet)	12,566	12.2%	9,589	8.0%	963	6.7%	13,529	11.5%
II (115-134 feet)	48,012	46.5%	49,416	41.0%	6,230	43.2%	54,242	46.1%
III (95-114 feet)	33,951	32.9%	21,210	17.6%	3,024	21.0%	36,975	31.4%
IV (75-94 feet)	7,646	7.4%	20,694	17.2%	2,550	17.7%	10,196	8.7%
V (<=74 feet)	1,040	1.0%	19,519	16.2%	1,651	11.5%	2,691	2.3%
Total	103,215	100.0%	120,428	100.0%	14,418	100.0%	117,633	100.0%
Acre-weighted average site index	117	feet	109	feet	109	feet	116	feet

Long-term Harvest Planning. Long-term harvest plans for the Partnership's and the Funds' tree farms are based on the different ownership time horizons associated with each group. Plans for Partnership timberlands are designed to maintain sustainable harvest levels over an extended time frame, assuming perpetual ownership. "Sustainable harvest level" denotes our assessment of the annual volume of timber that can be harvested from a tree farm in perpetuity. As such, the sustainable harvest level generally resembles the annual growth of merchantable timber. Actual annual harvest levels may vary depending on log market conditions and timberland acquisition or disposition activity. Over multi-year time frames, however, annual harvest volumes will average out to the sustainable harvest levels developed in our long-term harvest plan. In addition, we strategically harvest timber on our Real Estate properties. The Real Estate volume and productive acres are not used to calculate our long-term sustainable harvest level as it has been designated for potential sale as HBU real estate rather than perpetual timber operations.

The harvest levels for the Funds' tree farms are developed to maximize the total return during the investment period of each fund by blending cash flow from harvest with the value of the portfolio upon disposition. This will result in more harvest variability between years for Fund tree farms than is the case with the Partnership's tree farms.

We periodically review the sustainable harvest level for the Partnership and the Funds, a review we completed most recently in the latter part of 2018. With the addition of small-tract acquisitions over the past few years, continued improvements in our inventory data and growth-and-yield modeling, and recent investments in silviculture, we increased the Partnership's annual sustainable harvest level to 57 MMBF, a 10% increase from the prior 52 MMBF level. This change became effective for our 2019 harvest. Assuming full operations on the Funds' existing tree farms, at December 31, 2019, the long-term planned average annual harvest volume for the Partnership and Fund tree farms is presented in the table below:

(amounts in MMBF)	Planned annual harvest volume	Look-through planned annual harvest volume
Partnership tree farms	57	57
Fund tree farms	93	12
Total	150	69

Marketing and Markets. The following discussion applies to the Combined tree farms. We sell logs to lumber, plywood, and chip producers and to log export brokers. To do so, we engage independent logging contractors to harvest the standing timber, manufacture that timber into logs, and deliver the logs to our customers. Except in the case of some timber deed sales, we retain title to the logs until they are delivered to a customer's log yard.

Domestic mills buy the majority of our sawlog volume. These customers use the logs as raw material for manufacturing lumber. Higher quality logs sold to the domestic market are generally used to peel veneer necessary to manufacture plywood or specialized beams. Lumber markets tend to rise and fall with new home starts and the repair and remodel market, which in turn drives domestic demand for logs. Additional domestic demand for our logs comes from producers of utility poles and cedar fencing. Our lowest quality logs are chipped for use by pulp mills in the production of pulp and paper.

We also sell logs to export markets in Asia through brokers based in the Pacific Northwest. Our decision to sell through intermediaries is predicated on risk management considerations, such as mitigation of foreign exchange risk, loss prevention, and minimizing cash collection risks. These export markets generally represent 15% to 35% of the log volume we produce in any given year but can reach as high as 50%. Export markets provide important diversification from our domestic markets. Drivers of export markets include construction activities in Japan, China, and Korea, exchange rates, tariffs, and shipping costs. Export markets generally do not tend to correlate with our domestic markets, thus helping diversify our geographic sales concentration.

Historically, Japanese customers have paid a premium for the highest quality Douglas-fir logs from which they mill visually appealing exposed beams used for residential construction. U.S. mills, on the other hand, manufacture mostly framing lumber requiring structural integrity for wall systems or trusses that are ultimately concealed by drywall and thus do not require high aesthetic quality. Accordingly, the logs sold to domestic markets are more of a commodity relative to logs sold to the Japanese market, and thus do not command as high a price.

China represents the largest export market for Pacific Northwest (PNW) sawlogs in Asia. Notwithstanding recent tariffs, and threats of additional tariffs, imposed on U.S. logs exported to China, this export market has provided additional support to log prices during the gradual recovery of U.S. housing over the past several years. Sawlogs sold to China are used chiefly for construction of concrete forms, pallets, and other uses that can be satisfied with whitewood and lower quality Douglas-fir sawlogs.

Customers. Logs from the Combined tree farms are sold to customers in both the domestic and export markets. Domestic customers include lumber and plywood mills and other wood fiber processors located throughout western Washington, Oregon, and northern California. Export customers consist of intermediaries located at the Washington ports of Longview, Tacoma, Port Angeles, and Olympia. Whether destined for domestic or export markets, the cost of transporting logs limits the destinations to which we can profitably deliver and sell our logs.

The ultimate decision on where to sell logs is based on the net proceeds we receive after considering both the delivered log prices and the cost to deliver the logs to that customer. In instances where harvest operations are closer to a domestic mill than the log yard of an export broker, we may earn a higher margin from selling to a domestic mill even though the delivered log price is lower owing to the savings in delivery costs. As such, realized delivered log price movements are influenced by marketing decisions predicated on margins rather than focusing exclusively on the delivered log price. In such instances, our reported delivered log prices may reflect both the proximity of the harvest location to customers and the broader market trend.

Competition. Most of our competitors are comparable to us in size or larger. Log sellers like the Partnership and the Funds compete on the basis of quality, pricing, and the ability to satisfy volume demands for various types and grades of logs to particular markets. We believe that the location, type, and grade of timber from the Combined tree farms helps us compete effectively in these markets. However, our products are subject to competition from foreign-produced logs and lumber as well as a variety of non-wood building products.

Forestry, Silviculture, and Stewardship Practices. Silviculture activities on the Combined tree farms include reforestation, control of competing brush in young stands, and density management (thinning) of forests to achieve optimal spacing after stands are established. This is all to ensure that young stands are on a pathway to produce the desired log sorts and species mix. We manage our forests to create a species mix and log top-end diameters of a size and quality that we predict will satisfy what domestic mills and export markets will desire in future years. During 2019, we planted 1.8 million seedlings on 6,200 acres of the Combined tree farms compared to 1.8 million seedlings on 5,500 acres in 2018 and 1.9 million seedlings on 6,300 acres in 2017. Seedlings are generally planted from December to April to restock stands that were harvested during the preceding twelve months. The number of seedlings planted varies from year to year based upon harvest level, the timing of harvest, seedling availability, and weather and soil conditions that control the timing of reforestation. Our policy is to return all timberlands to productive status in the first planting season after harvest, provided any requisite brush control has been completed and seedlings are available.

Harvest and road construction activities are conducted in compliance with federal, state, and local laws and regulations. Many of these regulations are programmatic and include, for example: limitations on the size of harvest areas, reforestation following harvest, retention of trees for wildlife habitat and water quality, and sediment management on forest roads. Regulations also require project-specific permits or notifications that govern a defined set of forestry operations. An application for harvest or road construction may require specific controls to avoid potential impact to the environment.

Sustainable Forestry Initiative (SFI®). Since 2003, we have been a member of the SFI® forest certification program; an independent environmental review and certification program that promotes sustainable forest management, focusing on water quality, biodiversity, wildlife habitat, and the protection of unique biota. With our participation in this certification program, we are subject to annual independent audits of the standards required by the program. We view this certification as an important indication of our commitment to manage our lands sustainably while continually seeking ways to improve our management practices. We believe this commitment is an important business practice that contributes to our reputation and to the long-term value of our assets. Our certifications are current for all the Combined tree farms.

Timberland Investment Management (TIM)

Background. Our TIM segment provides timberland investment management services for third-parties, for which it earns management fees and incurs expenses resulting from raising, investing, and managing capital which is invested in PNW timberland on behalf of third-party investors alongside the Partnership's co-investment. Since the launch of our private equity timber fund strategy in 2003, the activities in this segment have consisted primarily of raising third-party investment capital for the Funds and then acquiring and managing timberland portfolios on their behalf. When we discuss the Fund properties we will refer to either the acquisition values, defined as contractually agreed-upon prices paid for the properties, or the value of assets under management, based on the current third-party appraised value of the properties. As of December 31, 2019, we manage 141,000 acres of timberland in Washington, Oregon, and California with combined appraised values of $520 million.

The following table summarizes the committed and called capital for the TIM segment on a cumulative basis since its inception, as well as distributions received by the Partnership, as of December 31, 2019:

	Total Fund		Partnership Co-investment			
(in millions)	Commitment	Called Capital	Commitment	Called Capital	Distributions Received	Ownership Percentage
Fund I *	$ 61.8	$ 58.5	$ 12.4	$ 11.7	$ 15.1	20%
Fund II	84.4	83.4	16.9	16.7	14.9	20%
Fund III	180.0	179.7	9.0	9.0	1.5	5%
Fund IV **	388.0	167.2	58.0	25.0	1.1	15%
Total, December 31, 2019	714.2	488.8	96.3	62.4	32.6	

* Fund I assets were sold in 2014 and the fund was wound up in 2015.

** The capital commitment for Fund IV expired in January 2020, thus there will be no new capital called prospectively.

Operations. The TIM segment's key activity is to provide investment and portfolio management services to the Funds. The TIM segment represented less than 1% of consolidated revenue for each of the three years ended December 31, 2017 through 2019, as fee revenue is eliminated in consolidation. On an internal reporting basis, before these eliminations, the TIM segment represented 5%, 4%, and 3% of total revenue for the years ended December 31, 2019, 2018, and 2017, respectively.

The Partnership benefits in several ways from this segment. First, the Partnership co-invests in each of these funds, allowing us to diversify our market exposure across a wider geography and more frequent acquisitions than we could by investing Partnership capital alone. We also benefit from the economies of scale generated through managing these additional acres of timberland, by using the same personnel and resources to manage both the Partnership and Fund timberlands. The contribution margin from the fees charged to the Funds lowers the management costs on the Partnership's timberlands. Lastly, we retain additional expertise that neither the Partnership nor the Funds' timberlands could support on a stand-alone basis.

The Partnership earns annual asset management fees from the Funds based on the equity capital used to acquire timberland properties. The Partnership also earns timberland management fees on acres owned by the Funds and log marketing fees based on harvest volume from Fund tree farms. At the end of a Fund term, if a Fund exceeds threshold return levels, the Partnership earns a carried interest incentive fee.

Accounting rules require that we eliminate in consolidation the fee revenue generated from managing the Funds in our TIM segment and the corresponding operating expenses for the Funds Timber segment. The elimination of the fee revenue and corresponding operating expenses reduces the reported cost per acre of operating Fund tree farms under our Funds Timber segment. These eliminations make the Funds Timber results appear relatively stronger and the TIM results appear correspondingly weaker.

Marketing. When raising capital for a new Fund, we market opportunities to investors that desire to invest alongside the Partnership in PNW timberland assets. Our Funds fill a niche among timberland investment management organizations due to our PNW regional specialization, degree of co-investment, and the ability to target relatively small transactions. Additional marketing and business development efforts include regular contact with forest products industry representatives, non-industry owners, and others who provide key financial services to the timberland sector. Our acquisition and disposition activities keep management informed of changes in timberland ownership that can represent opportunities for us to market our services.

Customers. The Funds are the primary customers and users of TIM services. Investors in the Funds are primarily large institutional investors, including pension funds, insurance companies, and endowments.

Competition. We compete against both larger and comparably sized companies providing similar timberland investment management services. There are over 20 established timberland investment management organizations competing with us in this business. Some companies in this group have access to established sources of capital and, in some cases, increased economies of scale that can put us at a disadvantage. Our value proposition to investors is centered on the differentiation we provide relative to other managers, as described above, as well as our long track record of success in the Pacific Northwest.

Real Estate

Background. The Partnership's real estate activities are associated closely with the management of our timberlands. After timberland has been logged, we choose among four primary alternatives to generate value from the underlying land: reforest and continue to operate as timberland, sell as undeveloped property, undertake some level of development to prepare the land for sale as improved property, or hold for later development or sale. We regularly evaluate our timberland for its best economic use. We currently have a 1,500-acre portfolio of properties for which we believe there to be a higher and better use than timberland. In addition, we may acquire and develop other properties for sale, either on our own or by partnering with other experienced real estate developers. To date, this activity has not constituted a material part of our Real Estate segment's operations.

The Real Estate segment's activities generally consist of investing in, and later selling, improved properties as well as holding properties for later development and sale. As a result, revenue from this segment tends to fluctuate substantially, and is characterized by periods during which revenue is low, while costs incurred to increase the value of our development properties may be higher. During periods of diminished demand, we manage our entitlement related costs and infrastructure investment to minimize negative cash flows. Segment expenses do not generally trend directly with segment revenues. When improved properties are sold, income is recognized in the form of sale price net of acquisition and development costs.

Operations. The Real Estate segment represented 19%, 8%, and 26% of consolidated revenue in 2019, 2018, and 2017, respectively. Real Estate operations focus on maximizing the value of the 1,500-acre portfolio mentioned above. For Real Estate projects, we secure entitlements and/or infrastructure necessary to make development possible and then sell the entitled property to a party who will construct improvements. This segment's results also reflect conservation-related transactions with respect to our timberland. These transactions can take the form of sales of timberland for conservation purposes, sales of conservation easements (CE) that encumber Partnership Timber properties and preclude future development but allow continued harvest operations, or sales of timberland on which we retain the right to harvest the standing timber for a period of time, typically up to 25 years. The third and final area of operations in this segment includes leasing residential and commercial properties in Port Gamble, Washington, and leasing out a portion of our corporate headquarters building in Poulsbo, Washington.

We recognize the significant value represented by the Partnership's Real Estate holdings and are focused on adding to that value. The means and methods of adding value to this portfolio vary considerably depending on the specific location and zoning of each parcel. Our properties range from land that has commercial activity zoning where unit values are measured on a per-square-foot basis to large lots of recently harvested timberland where value is measured in per-acre terms. In general, value-adding activities that allow for development of the properties include: working with communities and elected officials to develop grass roots support for entitlement efforts, securing favorable comprehensive plan designation and zoning, acquiring easements, and obtaining plat approvals.

Information about the location and zoning categories of our Real Estate portfolio is set forth in Part I, Item 2: "Properties."

Development Properties

Projects in Gig Harbor, Port Gamble, Port Ludlow, Kingston, and Bremerton, Washington comprise nearly two-thirds the acres in our development property portfolio. Depending on each property's size, development complexity, and regulatory environment, a project may be long-term in nature and require extensive time and capital investments to maximize returns.

Gig Harbor. Gig Harbor, a suburb of Tacoma, Washington, is the site of Harbor Hill, a 292-acre mixed-use development project that, at its inception, included the following mix of zoning: 42 acres of commercial/retail sites, 50 acres of business park lots, and 200 acres of land with residential zoning. At December 31, 2019, we still own 18 acres of commercial/retail lots in this project. A 20-year development agreement was approved by the City of Gig Harbor (City) in late 2010. Key provisions of the development agreement and plat approval include: (a) extending the project development period from 7 to 20 years; (b) reserving sufficient domestic water supply, sanitary sewer, and traffic trip capacity on behalf of the project's residential units; and (c) waiver of park impact fees in exchange for a 7-acre parcel of land for City park purposes. All components of this project have transportation, water, and sewer capacities reserved for full build-out. We received preliminary plat approval in early 2011 for the then 200-acre residential portion of this project that included 554 single-family and 270 multi-family units. The last 18 acres in the master plan was entitled for a grocery-anchored shopping center and was part of a joint venture with another developer. The project is currently on hold as a result of construction cost increases and a doubling of traffic impact fees by the City of Gig Harbor. We have initiated litigation against the City for unfairly increasing the impact fees.

Port Gamble. Port Gamble fits within both the development and commercial properties aspects of our Real Estate operations. Port Gamble is located northwest of Kingston in Kitsap County. Founded in 1853 by the company that became Pope & Talbot, Inc. ("P&T"), Port Gamble served as a company town for over 140 years, and a mill site and logging port for much of that time, with many of its buildings still standing. The town and mill sites, totaling 113 acres, were acquired from P&T at the time of the Partnership's formation in 1985. The operation and management of the town of Port Gamble is discussed under "Commercial Properties" below.

With respect to our development plans for the site, Port Gamble may be sold on a bulk-sale basis to a developer interested in taking the project forward, or development may take place under a joint venture with a developer or using third-party capital, with the Partnership seeking to limit its own capital in this development. Port Gamble has been designated a "Rural Historic Town" under Washington's Growth Management Act since 1999. This designation allows for substantial new commercial, industrial, and residential development using historic land use patterns and densities while maintaining the town's unique architectural character. On September 6, 2018, we submitted the master plan for the 113-acre townsite and adjoining 205-acre agrarian district to Kitsap County for review. Our plans are focused on bringing back the New England-style homes that have slowly disappeared since Port Gamble's heyday in the 1920s. If approved as proposed, our plat application to Kitsap County will allow for between 200 and 240 additional residential units and 200,000 to 260,000 square feet of additional commercial building space. The proposal also calls for the development of homes, an inn, a dock, waterfront trails, and an agricultural area with greenhouses, orchard, and winery. Walking trails along the shoreline, through the adjoining forestlands, and along pastoral farmland would contribute to the lifestyle of residents and should enhance Port Gamble as a unique tourist attraction. In 2016, the town was connected to the Kitsap County water supply infrastructure. During 2017, a new membrane bioreactor wastewater treatment plant with a large onsite septic system was installed and turned over to Kitsap County's Public Utility District, and the former treatment plant was de-commissioned.

As discussed in greater detail below, P&T's operations at Port Gamble prior to the Partnership's ownership of the millsite and surrounding areas resulted in the release of hazardous substances that impacted the upland and submerged portions of the site. As a result, we have an environmental remediation liability as a result of our ownership of Port Gamble.

Kingston. The Partnership owns a 374-acre property in Kingston called "Arborwood" with plans for the development of 663 single-family lots and 88 multi-family units. In 2016, we acquired an adjacent 10 acres to provide another access point to the project and allow it to be divided into three or more smaller projects. Like Port Gamble, we may sell Arborwood on a bulk-sale basis to a developer interested in taking the project forward, or we may develop it under a joint venture with a developer or using third-party capital. An amendment to the preliminary plat was submitted in late 2018. We are preparing engineering and construction drawings for the first phase of lot development in 2020.

Bremerton. The West Hills area of Bremerton, Washington is the site of a 46-acre industrial park which we have been developing in two phases totaling 24 lots. Construction on the 9 lots covering 10 acres that comprise Phase I was completed in 2007 and six lots remain to be sold. In 2013, we obtained a comprehensive plan designation change from industrial to residential for the 35-acre Phase II portion of this property. In 2014, Phase II was rezoned to single-family residential. In 2018, we sold this phase to a commercial developer.

Hansville. The Partnership owned a 149-acre residential development project in Hansville called "Chatham," with 19 parcels ranging from 3 to 10 acres in size. Construction was completed in late 2007, and the last six lots were sold in 2019.

Port Ludlow. Port Ludlow represents a 256-acre property in Jefferson County located just outside the Master Planned Resort boundary of Port Ludlow, Washington. Development of the property will progress commensurate with demand for rural residential lots in this area.

Rural Residential. We have a number of properties totaling 514 acres for which rural residential development represents a higher and better use compared to continued management as timberland. In general, these properties are non-contiguous smaller lots ranging in size between 5 and 40 acres with zoning ranging from one dwelling unit per 5 acres to one per 80 acres. Development and disposition strategies vary depending on the property's unique characteristics. Development efforts and costs incurred to prepare these properties for sale include work to obtain development entitlements that will increase the property's value as residential property as well as making improvements to existing logging roads, constructing new roads, and extending dry utilities. As is the case with much of the Real Estate portfolio, investments in the rural residential program have been limited to those necessary to achieve entitlements, while deferring construction costs until warranted by market conditions.

North Kitsap County. Since 2011, we have been formally engaged with a coalition of approximately 30 entities to conserve up to 6,500 acres of the Partnership's timberland in north Kitsap County. This effort, known as the Kitsap Forest & Bay Project, saw two closings in 2014 totaling 901 acres. In 2015, an additional 175 acres were sold to Kitsap County utilizing state conservation funds, and in 2016 we sold 1,356 acres to Kitsap County, though we retained a timber deed that will allow us to harvest timber on the property for 25 years. In December 2017, we sold an additional 1,504 acres to Kitsap County and retained a timber deed that will allow us to harvest timber on 1,334 acres of the property for 25 years. In December 2019, we sold 921 acres the Port Gamble S'Klallam tribe and retained timber deeds that will allow us to harvest on 128 acres of the property for five to 15 years.

Commercial Properties

Poulsbo. In May 2011, we purchased a 30,000-square-foot commercial office building in Poulsbo, on a 2-acre parcel of land. We utilize the second floor, basement, and part of the first floor for our own operations. We lease a portion of the first floor to a separate tenant.

Port Gamble. As described above under "*Development Properties*," the Partnership owns and operates the town of Port Gamble where 25 residential buildings and approximately 46,000 square feet of commercial space are currently leased to third parties. In addition, we operate a wedding and events business, utilizing another 8,000 square feet in the town's venues that leverages the charm of the townsite to attract clientele, and a museum. These commercial activities help offset the costs of maintaining the town while the master plan progresses.

Environmental Remediation. As noted above, P&T and its corporate predecessors operated a sawmill at Port Gamble from 1853 to 1995. P&T continued to lease various portions of the site for its operations until 2002. During the time P&T operated in Port Gamble, it also conducted shipping, log storage, and log transfer operations in the tidal and subtidal waters of Port Gamble Bay, some of which were under a lease from the Washington State Department of Natural Resources (DNR) that lasted from 1974 to 2004. P&T's operations resulted in the release of hazardous substances that impacted the upland and submerged portions of the site. These substances include various hydrocarbons, cadmium, and toxins associated with wood waste and the production of wood products.

Following the mill closure, the Washington State Department of Ecology (DOE) began to examine the environmental conditions at Port Gamble. Under Washington law, both Pope Resources and P&T were considered by DOE to be "potentially liable persons" (PLPs); the Partnership because of its ownership of certain portions of the site, and P&T because of its historical ownership and operation of the site.

P&T and Pope Resources entered into a settlement agreement in 2002 that allocated responsibility for environmental contamination at the townsite, millsite, a solid waste landfill, and adjacent waters to the Partnership, with P&T assuming responsibility for funding cleanup in the Bay and the other areas of the site that were impacted by its historical operations. At that time, the parties estimated the aggregate cleanup costs allocable to both parties to be between $10 million and $13 million, with the clean-up of Port Gamble Bay expected to amount to approximately 90% of the overall project costs.

In 2005, both Pope Resources and P&T received Environmental Excellence Awards from DOE for their work in remediating the contamination that had existed at the Port Gamble townsite and landfill. DOE also issued letters to both parties in 2006 indicating that the agency expected to take no further action regarding conditions at those portions of the site. Pope Resources continued cleaning up the remaining contamination at the millsite. By late 2005, the millsite portion of the site had largely been cleaned and the remaining aspects of that project consisted of test well monitoring and modest additional remediation. The Port Gamble Bay area and related tidelands, for which P&T was responsible under the parties' settlement agreement, had not yet been remediated. In 2007, P&T filed for bankruptcy protection and was eventually liquidated, leaving the Partnership as the only remaining PLP. Because environmental liabilities are joint and several as between PLPs, the result of P&T's bankruptcy was to leave the liability with the Partnership as the only remaining solvent PLP. At that time, we increased our accrual for remediation liabilities by $1.9 million to reflect the resulting increase in risk.

In-water cleanup

Beginning in 2010, DOE began to reconsider its expectations regarding the level of cleanup that would be required for Port Gamble Bay, largely because of input from interested citizens and groups, one of the most prominent of which has been the Port Gamble S'Klallam Tribe. In response to input from these groups, DOE adopted remediation levels that were far more stringent than either DOE or the Partnership had contemplated previously. This culminated in significant modifications to the cleanup alternatives in the draft Port Gamble Bay and Mill Site Remedial Investigation and Feasibility Study issued by DOE in May 2012. As a result, we recorded a $12.5 million increase in our accrual for the environmental remediation liability in the second quarter of 2012.

In December 2013, the Partnership and DOE entered into a consent decree that included a cleanup action plan (CAP) requiring the removal of docks and pilings, excavation and backfilling of intertidal areas, subtidal dredging and monitoring, and other specific remediation steps. Throughout 2014, we evaluated the requirements of the CAP and conducted additional sampling and investigation to design the remediation project. In November 2014, we submitted a draft engineering design report (EDR) to DOE, followed by other supplemental materials establishing our proposed means for complying with the CAP. Based on the EDR and subsequent discussions with DOE, we reached the conclusion that the existing accrual for environmental liabilities was insufficient. Accordingly, we accrued an additional $10.0 million in December 2014. The construction phase of the cleanup of the Port Gamble Bay area and related tidelands began in September 2015 and the in-water portion of the cleanup was completed in January 2017. In the fourth quarter of 2016, we accrued an additional $7.7 million, primarily representing costs associated with removing pilings and dredging and capping an area of deep wood waste discovered along the southern embankment of the millsite, as well as estimated additional long-term monitoring costs.

Millsite cleanup

With the in-water portion of the cleanup completed, there will be relatively modest cleanup activity on the millsite and a monitoring period. In February 2018, the Partnership and DOE entered into an agreed order with respect to the millsite under which the Partnership performed a remedial investigation and feasibility study (RI/FS) which it submitted to DOE for review in January 2019. Following the finalization of the RI/FS, the Partnership has worked with DOE to develop a CAP. As with the in-water portion of the project, the CAP will define the scope of the remediation activity for the millsite. Once the CAP is approved by DOE, it will be codified in a consent decree.

Natural Resource Damages (NRD)

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

Accrual adjustments

We accrued an additional $5.6 million in 2018 as a result of updates to our estimates of costs associated with the cleanup of the millsite and estimated NRD costs. In 2019, we accrued an additional $1.6 million for NRD costs as the scope of the restoration projects became more clearly defined and to account for changes in the frequency of long-term monitoring activities over the next two years. It is reasonably possible that these components of the liability may increase as the project progresses. With the in-water cleanup completed, which was by the far the most significant component of the project, and the

2018 adjustments, we expect that any future adjustments to the liability should be less significant than they have been historically.

Additional information regarding this environmental remediation liability, and the methodology used to monitor its adequacy, is set forth in Part II, Item 7: "Management's Discussion and Analysis of Financial Condition and Results of Operations – Real Estate" and "– Critical Accounting Estimates".

Marketing. Marketing efforts for development properties from 2017 to 2019 were focused primarily on our Harbor Hill development and conservation land and easement sales. During this period, we also started investigating and pursuing the acquisition and development of other real estate properties (not owned by the Partnership) and closed on the acquisition of a two-acre parcel on Bainbridge Island, Washington. In 2017, we partnered with another developer to form a joint venture for the acquisition of a 5-acre property on Bainbridge Island, Washington, that includes 107 apartments that are in the process of being leased as well as 18 townhomes for sale that are currently under construction. Efforts were also expended in the last several years to sell North Kitsap lands for conservation.

Customers. We typically market properties from the Real Estate portfolio to private individuals, residential contractors, and commercial developers. Customers for rental space in the Port Gamble townsite consist of both residential and commercial tenants.

Competition. We compete in this segment with local and regional peers that offer land for sale or lease.

Transportation. Land values for the Real Estate portfolio are influenced by transportation options between the west side of Puget Sound, where our properties are located, and the Seattle-Tacoma metropolitan corridor. These areas are separated by bodies of water. Transportation options include the Tacoma Narrows Bridge or one of several car and passenger ferries that link the communities of Kingston, Bremerton, and Bainbridge Island to Edmonds and Seattle. A new passenger ferry with 40-minute travel time from Kingston to downtown Seattle started in late 2018 and should have positive impacts on the desirability of the Partnership's holdings in North Kitsap County.

Employees

As of December 31, 2019**,** we employed 61 full-time employees and 7 part-time or seasonal personnel, who are distributed among the segments as follows:

Segment	**Full-Time**	**Part-Time/ Seasonal**	**Total**
Partnership Timber	21	4	25
Timberland Investment Management (TIM)	12	—	12
Real Estate	13	3	16
General & Administrative	15	—	15
Totals	61	7	68

Our Funds Timber segment does not have employees. Rather, this segment is served by employees from the TIM and Partnership Timber segments. None of our employees are subject to a collective bargaining agreement and the Partnership has no knowledge that any steps toward unionization are in progress. We consider our relations with our employees to be good.

Government Regulation

Our timberland and real estate operations are subject to a number of federal, state, and local laws and regulations that govern forest practices and land use. These laws and regulations can directly and indirectly affect our Partnership Timber, Funds Timber, and TIM segments by regulating harvest levels and impacting the market values of forest products and forestland. Our Real Estate operations are also directly and indirectly affected by these laws and regulations by limiting development opportunities and the underlying market value of real estate.

Laws and Regulations that Affect Our Forestry Operations. Our Partnership Timber, Funds Timber, and TIM segments are affected by federal and state laws and regulations that are designed to promote air and water quality and protect endangered and threatened species. Further, each state in which we own or manage timberland has developed "best management practices" (BMP) to reduce the effects of forest practices on water quality and plant and animal habitat. Collectively, these laws and regulations affect our harvest and forest management activities. At times, regulatory agencies and citizens' and environmental groups seek to expand regulations using a wide variety of judicial, legislative, and administrative processes, as well as state ballot initiatives, a process applicable to all three states in which we operate, that allows citizens to adopt laws without legislative or administrative action.

The primary laws and regulations that affect our forestry operations include:

Endangered Species Laws

A number of fish and wildlife species that inhabit geographic areas near or within our timberlands have been listed as threatened or endangered under the federal Endangered Species Act (ESA) or similar state laws. Federal ESA listings include the northern spotted owl, marbled murrelet, numerous salmon species, bull trout, steelhead trout, and other species. At times, state endangered species laws impose further restrictions by limiting the proximity of harvest operations to certain plants and wildlife. Legislative, regulatory, and legal efforts to expand the list of protected species and populations may impose further restrictions. Federal and state requirements to protect habitat for threatened and endangered species have imposed restrictions on timber harvest on some of our timberlands, and these protections may be expanded in ways that further affect our operations. These actions may increase our operating costs, further restrict timber harvests or reduce available acres, and adversely affect supply and demand more broadly across our markets.

Further, federal and state regulatory agencies monitor environmental conditions to determine whether existing forest practice rules are effective at protecting threatened and endangered wildlife. New or modified regulations could result in increased costs, additional capital expenditures, and reduced operating flexibility.

Water Quality Laws

Also affecting our forestry operations are laws and regulations that are designed to protect water quality. The preeminent federal law is the Clean Water Act (CWA), which is enforced through associated state laws and regulations in the jurisdictions in which we operate. These state laws and regulations reduce timberlands available for harvest by, among other things, requiring buffers on some streams to meet state water quality standards related to maintaining temperature or reducing or eliminating turbidity. Other laws and regulations could have significant impacts on our harvest activities, including increases in setback requirements. As these rules grow more restrictive, we may face increasing costs associated with our silviculture, may find some areas of our tree farms inaccessible (either physically or because of economic inefficiency), and may face reductions in the portion of our timberlands that can be harvested.

The Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA) and other state laws related to the use of pesticides restrict the use of herbicides. Herbicides are used to promote reforestation and to optimize the growth of regenerated stands of trees. FIFRA and state laws and regulations may reduce the efficiency with which we can produce timber, and they may ultimately reduce the volume of timber that is available for harvest. Further limits to the use of insecticides or herbicides may make our tree farms more vulnerable to disease or infestations.

State Harvest Permitting Processes

Washington, Oregon, and California all have a permitting or notification system as part of their forest practice rules. Changes in these processes can cause additional administrative expenses and/or delay project implementation. These rules may require significant environmental studies and permitting requirements prior to the issuance of harvest permits. All three states periodically update their regulations and permitting processes. Changes could cause us to incur expenses, and new permitting regulations commonly require us to increase the level of research and expertise necessary to meet applicable requirements. Substantive changes in these regulations may increase our harvest costs, may decrease the volume of our timber that is available for harvest, and may otherwise reduce our revenues or increase our costs of operations.

Climate Change Laws

California has implemented a cap and trade program that limits the amount of greenhouse gases emitted by certain stationary sources as well as transportation sources. This may impact forest landowners through increased costs of energy to our manufacturing customers and logging contractors. The Washington and Oregon legislatures are exploring different policy mechanisms related to climate change that could impact forest landowners through increased costs of energy to our manufacturing customers and logging contractors.

The effects of these laws and initiatives cannot readily be quantified or predicted. However, management does not expect to be disproportionately affected by these programs in comparison with typical timberland owners. Likewise, management does not expect that these programs will significantly disrupt our planned operations over large areas or for extended periods.

Laws and Regulations that Affect Real Estate Development. Many of the federal laws (ESA and CWA) that impact forest management can, in a more limited manner, also apply to real estate development. State and local land use regulations can also have additional permitting requirements and limit development opportunities. For example, development rights in Washington State are affected by the Growth Management Act (GMA), which requires counties to submit comprehensive plans that identify the future direction of growth and stipulate where population densities are to be concentrated. The purposes of the GMA include: (1) direction of population growth to population centers (Urban Growth Areas), (2) reduction of “suburban sprawl”, and (3) protection of historical sites. We work with local governments within the framework of the GMA to develop our real estate holdings to their highest and best use. Oregon also has growth management provisions in its land use laws which served as a model for Washington’s growth management provisions. Oregon’s land use laws are generally more stringent outside of urban areas, especially in commercial forest lands where residential conversions are often outright disallowed without statutory action by the State legislature. These regulations can impact the permitted density of a given area, which may affect the number of lots, dwellings, or commercial buildings that can be constructed in a given location, any or all of which may affect our real estate revenues and the value of our real estate holdings.

Item 1A. RISK FACTORS

Risks Related to Our Industry and Our Markets

Our Partnership Timber and Funds Timber segments are sensitive to demand and price issues relating to our sales of logs in both domestic and foreign markets. We generate timber revenue in these segments 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 and remodeling activity. The U.S. housing market has been in recovery for several years, but to the extent this recovery should stall, such a turn of events could have a negative impact on our operating results. For example, mortgage rates are low compared to historical levels, and if they were to increase it could have a negative impact on the U.S. housing market. Demand from export markets for Pacific Northwest logs are affected by fluctuations in the economies of the United States, Japan, China, and to a lesser degree, Korea; the foreign currency exchange rate between the currencies of these Asian countries and the U.S. dollar; and by ocean transportation costs. Further, the prices we realize for our logs depend in part upon competition, including the supply of logs from Canada that can be impacted by fluctuations in currency exchange rates and trade relations between the U.S., Canada, and China. The U.S. announced tariffs on lumber imported from Canada in the latter half of 2018, with the intention of making U.S.-sourced lumber more competitive. An indirect effect of the tariffs could be support for U.S. log prices. The U.S. and China announced tariffs on a number of products in 2018, including timber exported from the U.S. to China, which has resulted in an element of uncertainty in the trade relationship between the U.S. and China. We cannot predict the ultimate outcome of these trade issues, or the impact on log prices. In recent years, European forests have experienced drought, severe storms and a spruce bark beetle infestation, the combination of which has resulted in the death of large areas of timber. The response has been an extensive timber salvage program in which most of the European volume is being shipped to China, resulting in declines in softwood log prices paid by China and diminished log imports from North America and Russia.

Our Partnership Timber, Funds Timber, and Timberland Investment Management (TIM) segments are highly dependent upon sales of commodity products. Revenue from our forestry operations is widely available from producers in other regions of the United States, as well as Canada and a number of other countries. We do not normally hedge against the financial risks associated with this condition. We are therefore subject to risks associated with the production of commonly available products, such that an increase in supply from abroad as a result of overproduction by competitors in other nations or as a result of changes in currency exchange rates, may reduce the demand for our products in some or all of the markets in which we do business. A bilateral agreement between the United States and Canada, called the Softwood Lumber Agreement, had been intended to help manage potentially harmful effects of international competition between our countries, but that agreement expired in October 2015. In December 2017, the U.S. International Trade Commission (ITC) ruled that the U.S. lumber industry was injured by Canadian lumber imports. The final ruling resulted in countervailing duties (CVD) and anti-dumping duties (ADD) on Canadian lumber shipments to the U.S. The expected net effect of these CVD and ADD duties is upward price pressure for sawlog producers in the Pacific Northwest, though management cannot predict accurately the precise effects. Similarly, we have seen or may experience an increase in supply or a reduction in demand as a result of international tensions or competition that is beyond our control and that may not be predictable.

Consolidation of sawmills in our geographic operating area may reduce competition among our customers, which could adversely affect our log prices. In the past we have experienced, and may continue to experience, consolidation of sawmills and other wood products manufacturing facilities in the Pacific Northwest. Because a portion of our cost of sales in our Timber segments consists of transportation costs for delivery of logs to domestic sawmills, it could become 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 Timber segments' revenue, income, or cash flow and, as those segments have traditionally represented our largest business units, upon our results of operations and financial condition as a whole. Any such material adverse impact on timber revenue, income, and cash flow as a result of regional mill consolidations will also indirectly affect our TIM segment in the context of raising capital for investment in Pacific Northwest-based timber funds. Further, this consolidation increases our sensitivity to fluctuations in building demand, and especially residential construction, in the Pacific Northwest. As a result, factors such as a slowdown in home building in the Puget Sound region can have a disproportionate impact on our Timber results.

We are subject to statutory and regulatory restrictions that currently limit, and may increasingly limit, our ability to generate income and cash flow. 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 on natural disasters and damage to timberlands have at various times brought increasing public attention to forestry practices. Similarly, certain activist groups in Oregon are likely to continue to register ballot initiatives that would eliminate clearcutting, which is the predominant harvest practice across our geographic region. These and other activists also have proposed, and can be expected to continue proposing, bans on herbicides and various methods of applying herbicides, and attempt to inhibit other practices that are commonly used to promote efficient, sustainable forestry practices. While these initiatives have thus far failed to gain traction, such initiatives, alone or in combination, may limit the portion of our timberlands that is eligible for harvest, may make it more expensive or less efficient to harvest all or certain portions of our timberlands, or may restrict other aspects of our operations. Additional regulations, whether or not adopted in response to such events, may make it more difficult or expensive for us to harvest timber and may reduce the amount of harvestable timber on our properties. These and other restrictions on logging, planting, road building, fertilizing, managing competing vegetation, and other activities can increase the cost or reduce available inventory thereby reducing income and cash flow. Any such additional restrictions would likely have a similar effect on our TIM 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 project at Port Gamble, Washington after soliciting or receiving input from tribal representatives. These revisions substantially increased the cost associated with our pre-existing remediation plans, and we cannot offer assurances that similar actions will not further protract the process or increase remediation costs. In an ongoing example of this activism, various citizens' and tribal groups are asserting, in their capacities as trustees under the Natural Resources Damages Act, that we are liable for damages to the environment on the basis of our now largely remediated property at Port Gamble, Washington. 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. Our Partnership Timber, Funds Timber, and TIM segments depend upon housing and construction markets in the United States and in other Pacific Rim countries, and our geographic concentration in the Pacific Northwest increases our exposure to economic, labor, and shipping risks that are tied to this particular area. Similarly, our Real Estate segment depends upon a highly localized demand in the Puget Sound region of western Washington. Factors that affect these markets will have a disproportionate impact on our business, and may be difficult or impossible to predict or estimate accurately.

We face increasing competition from engineered and recycled products. Our Partnership Timber, Funds Timber, and TIM segments derive substantially all of 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, earnings, cash flow, and the value of our assets.

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

Risks Relating to Our Operations

We are subject to certain risks that arise in connection with our merger agreement with Rayonier, Inc. On January 15, 2020, we announced that we and our general partners had entered into an Agreement and Plan of Merger with Rayonier, Inc., and certain of its subsidiaries, that provides that, upon satisfaction of certain conditions (including the approval of our unitholders), our general partners will merge into specified Rayonier subsidiaries and another Rayonier subsidiary will merge into the Partnership. The terms of the merger agreement and certain related agreements are summarized under “Business - Recent Developments” above, and the definitive agreements are filed as definitive additional proxy solicitation material on a Current Report on Form 8-K dated January 15, 2020, as amended on January 17, 2020. The merger agreement conditions the completion of the merger on a number of actions and circumstances, including the approval of our unitholders and the expiration of the waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976. Although we have indicated that we expect to complete the merger in the coming months, we cannot be sure that all of the closing conditions will be satisfied or, if satisfied, precisely when the merger will be completed. The merger agreement provides for an “outside date” of October 14, 2020, which will be extended to January 14, 2021 in certain circumstances, but if the closing conditions remain unsatisfied as of the outside date, either party may terminate the merger agreement. During the pendency of the merger agreement we are subject to certain restrictions on our operations, including a requirement that we continue to operate in the ordinary course, that we forbear from making significant acquisitions, that we refrain from initiating discussions with third parties that could result in an acquisition of the Partnership, and that we limit distributions to no more than $1.00 per quarter. The merger agreement permits our board of directors to consider alternative transactions in certain limited circumstances and subject to compliance with specified conditions, but provides for a termination fee of $20,000,000 if we enter into any such transaction. During the pendency of the merger agreement we face additional risks, including:

- restrictions on our ability to make strategic and operational decisions without Rayonier’s consent;
- distraction of our board and management personnel from our day to day operating activities;
- increased legal, accounting and financial advisory costs associated with the merger agreement and the related transactions;
- difficulties in maintaining optimum relationships with our customers and other contractors (such as harvest and transportation providers);
- increased risk of litigation from unitholders; and
- difficulties in retaining key personnel whose roles are critical to our ongoing operations and to our consummation of the merger and the related transactions.

Further, the announcement of our entry into the merger agreement resulted in a substantial increase in the value of our limited partner units on the Nasdaq Stock Market, and substantial delays in or the abandonment or termination of the merger may result in significant volatility in the trading price of our units. Similarly, the presence of a $20 million termination fee in the merger agreement may have the effect of deterring other potential acquirors from seeking to acquire our operations and assets. These factors, alone or in combination, may have a material adverse effect on our business, results of operations and financial condition.

We have incurred, and we expect to continue incurring, higher than normal general and administrative expenses. Our exploration of strategic alternatives and the resulting entry into the merger agreement with Rayonier, Inc., as described in the preceding paragraphs and elsewhere in this Report, have resulted in a higher than normal level of general and administrative expenses associated primarily with the fees of attorneys, financial advisors, accountants, and other professionals whose advice is required in connection with these matters. These fees and expenses affect both our net income and our working capital, and we expect these fees and other transaction costs to remain at an elevated level until a transaction is consummated or until the merger agreement is terminated. Further, the announcement that we have abandoned the merger or that the merger agreement has been terminated may increase our risk of litigation from security holders, the effect of which would (in either instance) result in further legal fees as we respond to any such allegations. These fees and expenses may have a material adverse effect upon our reported results of operations and financial condition.

We have certain environmental remediation liabilities associated with our Port Gamble property, and that liability may increase. We currently own certain real estate at Port Gamble on the Kitsap Peninsula in western Washington. Sediments adjacent to these properties were alleged to have been impacted by operations of the former owner of the property, Pope & Talbot, Inc. (P&T). However, as current owner of Port Gamble, we have environmental liability for these properties under Washington State's Model Toxics Control Act (MTCA). In December 2013, we reached an agreement with the Washington State Department of Ecology (DOE) in the form of a consent decree ("CD") and clean-up action plan ("CAP") that provided for the cleanup and monitoring of Port Gamble Bay. Together, these documents outline the terms under which the Partnership conducted environmental remediation and will perform monitoring of Port Gamble Bay. In February 2018, the Partnership and DOE entered into an agreed order with respect to the millsite under which the Partnership has performed a remedial investigation and drafted a CAP. As with the in-water portion of the project, this new CAP defines the scope of the remediation activity for the millsite and will be codified in a new CD.

We are pursuing contribution of costs under P&T's insurance policies, though there can be no assurance that we will prevail in this matter. The recorded liability does not reflect any contribution by P&T's insurance policies. Additionally, certain environmental laws allow state, federal, and tribal trustees (collectively, the Trustees) to bring suit against property owners to recover damages for injuries to natural resources (NRD). Like the liability that attaches to current property owners in the cleanup context, liability for natural resource damages can attach to a property owner simply because an injury to natural resources resulted from releases of hazardous substances on that owner's property, regardless of culpability for the release. The Trustees are alleging that Pope Resources has NRD liability because of releases that occurred on its property. We have been in discussions with the Trustees regarding their claims, and the alleged conditions in Port Gamble Bay. We have also been discussing restoration alternatives that might address the damages the Trustees allege. Discussions with the Trustees may result in an obligation for us to fund NRD assessment and restoration activities that are greater than we have estimated.

Management continues to monitor the Port Gamble cleanup processes closely. The $10.0 million remediation accrual as of December 31, 2019, represents our current estimate of the remaining cleanup cost and most likely outcome to various contingencies, though it is reasonably possible that the millsite cleanup and NRD components of the liability may increase. These estimates are predicated upon a variety of factors, including the actual amount of the ultimate cleanup costs. The liability is based upon a number of estimates and judgments that are subject to change as the project progresses. The filing of the CDs limits our legal exposure for matters covered by the decree, but does not eliminate it entirely. DOE reserves the right to reopen the CDs if new information regarding factors previously unknown to the agency requires further remedial action. While unlikely, a reopening of the CDs 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, cash flow, and operations.

Our leverage may give rise to additional risks. The Partnership's total outstanding debt was $97.0 million at December 31, 2019, of which $29.0 million bears interest at variable rates, with the remaining balance at fixed rates. The Funds' total debt outstanding was $57.4 million at December 31, 2019, all of which bears interest at fixed rates. This debt, particularly that portion that carries variable interest rates, exposes us to certain additional risks, including higher interest expense if interest rates increase in the future. In addition, generally speaking, an increase in our indebtedness may limit our ability to defer timber harvests and potentially restricts our flexibility to take advantage of other investment opportunities that might otherwise benefit our business. In extreme cases, we could be placed in a position in which we default under one or more of our credit arrangements, which could require us to pledge additional portions of our timberland as collateral for our indebtedness or which might require us to take other actions or expose us to other remedies that could have a material adverse effect upon our assets, operations, or business.

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

Our operations are geographically concentrated, and we may face greater impacts from localized events than would more geographically diverse timber companies. Because our operations are conducted exclusively west of the Cascade Mountains of the Pacific Northwest, between northern California and the Canadian border, regionalized events and conditions may have a more pronounced impact upon our operations than they might upon a more geographically diverse timber company. For example, disease and insect infestations tend to be local or regional in scope, and because our Timber and TIM 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.

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

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

We and our customers are dependent upon active credit markets to fund operations. We sell logs from our Timber segments 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 on our properties. Forests are subject to a number of natural hazards, including damage by fire, severe windstorms, insects, 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. While we carry fire insurance on approximately 14% of our Combined timberland acres, we do not otherwise maintain insurance against loss of standing timber on our timberlands due to natural disasters.

We rely on experienced contract loggers and truckers who are at times in short supply and who may seek consistent work. We rely on contract loggers and truckers for the production and transportation, respectively, of our products to customers. The pool of available contractors is limited and can result in an increase in harvest and haul costs, or harvest constraints, as harvest volumes increase regionally. In addition, contractors may value continuity of work which influences contractor availability and the selection of contract bidders. A commitment to more continuous work could reduce our flexibility to time markets, affecting total returns.

We have incurred, and may continue to incur, expenses relating to a recently announced activism campaign from one of our unitholders. As previously disclosed, certain individuals purporting to be assignees of more than 5% of our outstanding limited partner units have filed and subsequently amended a beneficial ownership report on Schedule 13D. These reporting persons have contended in their public filings and in other communications with partners, unitholders and others that the Partnership is “materially undervalued in the marketplace” by virtue of its governance structure and have expressed a lack of confidence in the Partnership and its board of directors. Some of these contentions have been reported in the news media, and we have information that leads us to believe that these individuals are communicating with other unitholders in an effort to increase pressure on management to change the Partnership’s strategic directions through a variety of means, and that suggests that they intend to continue doing so. We do not expect these reporting persons to cease their activities given our announcement that we are considering a transaction, and in fact their communications may intensify.

Activism campaigns against public companies have become increasingly commonplace in recent years, and may impose material adverse impacts upon targeted companies and their security holders. In the case of Pope Resources, the announcement of the recent activism initiative has had, and may in the future have, one or more of the following effects:

- Increasing professional fees and costs and other general and administrative expenses.
- Distracting management and the board from the Partnership’s day-to-day operations.
- Creating uncertainty among key employees, which in turn may increase the risk of either losing one or more such employees and the cost of retaining them.
- Increasing the volatility in the trading price and trading volume of the Partnership’s units.

Further, activism campaigns such as this one may make it more difficult to come to mutually agreeable terms with a prospective acquirer because of the perception of increased litigation risk or the potential for an activist to increase the consummation risk of a transaction. We can offer no assurances as to the response, if any, of these reporting persons to our communications regarding such a transaction, nor can we be certain that other current or future investors will not take other actions that may increase these risks.

Risks Relating to Ownership of Our Securities

Our entry into the merger agreement with Rayonier, Inc., may increase the risk of volatility in our reported trading prices. The announcement of our entry into the merger agreement with Rayonier, Inc., as described elsewhere in this Report, resulted in an immediate and substantial increase in the reported trading prices of our units. As a result of the announcement of the proposed merger, our units can be expected to vary in price based upon factors other than our own performance, including factors such as the perceived consummation risk attendant to the mergers and fluctuations in Rayonier’s stock price as reported on the New York Stock Exchange. Further, the announcement of the merger agreement resulted in a substantial increase in the reported trading prices of our limited partner units, and if it were to become necessary to abandon the proposed merger, such an announcement may have the effect of reducing our unit prices and increasing the volatility of those prices.

We are controlled by our managing general partner. As a master limited partnership, substantially all of our day-to-day affairs are controlled by our managing general partner, Pope MGP, Inc. The board of directors of Pope MGP, Inc. serves as our board of directors and, by virtue of a stockholder agreement, each of the two controlling shareholders of Pope MGP, Inc. has 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 position. Limited partners may remove the managing general partner only in limited circumstances, including, among other things, a vote by the limited partners holding two-thirds of the “qualifying units,” which generally means the units that have been owned by their respective holders for at least five years prior to such vote, or by limited partners holding ninety percent (90%) of all units outstanding (excluding limited partner units held by the general partner whose removal is sought). By virtue of the terms of our amended and restated agreement of limited partnership, as amended, or “partnership agreement”, our managing general partner directly, and the general partner shareholders indirectly, have substantial ability to control or exercise substantial influence over the following: a change of control of the Partnership (including but not limited to the removal or replacement of our managing general partner); preventing or causing the sale of the assets of the Partnership; admitting assignees and unitholders as limited partners; and causing the Partnership to take or refrain from taking certain other actions that might be argued as being in the best interests of the Partnership and our unitholders and limited partners. Under our partnership agreement, we are required to pay to Pope MGP, Inc. an annual management fee of $150,000, and to reimburse Pope MGP, Inc. for certain expenses incurred in managing our business.

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

Our limited partner units trade at a discount to their net asset value (NAV), and unitholders may be unable to realize that NAV in the near or long term. As we have commonly disclosed in our investor materials, we believe the underlying NAV of our units is significantly higher than the trading price of our units on the Nasdaq Global Select Market. While NAV is a difficult concept to establish with any degree of precision, our recent timberland purchases and our knowledge of timberland markets in our operating region suggest that the value of our timberlands, net of debt, would be higher than our recent unit trading prices imply.

Discounts to NAV are common among publicly traded limited partnerships, and we do not expect that we can fully eliminate this discount. Our general partner believes that this characteristic is largely associated with our status as a master limited partnership, which conveys substantial tax, operating, and governance benefits that the general partner believes help to balance the related discount. Accordingly, unitholders should expect that our units continue to trade at a discount to NAV for the foreseeable future, and there can be no assurance that this discount will be reduced, or even that it will not grow more significant.

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 taxable subsidiaries that help make our tax structure more efficient, and that are intended to incur and pay federal and state taxes where it is economically efficient or legally required. 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 1B. UNRESOLVED SECURITIES AND EXCHANGE COMMISSION COMMENTS

None

Item 2. PROPERTIES

The following table reconciles acreage owned as of December 31, 2019, to acreage owned as of December 31, 2018. As noted previously, we own 20% of Fund II, 5% of Fund III, and 15% of Fund IV. This table includes the acres of timberland owned by the Funds and also presents the acreage on a Look-through basis. Properties are typically transferred from the Fee Timber segment to the Real Estate segment at the point in time when the Real Estate segment takes over responsibility for managing the properties with the goal of maximizing the properties' value upon disposition.

	Timberland Acres (in thousands) by Tree Farm				
Description	2018	Acquisitions	Sales	Transfer	**2019**
Hood Canal tree farm (1)	66.5	—	(0.9)	—	**65.6**
Columbia tree farm (1)	52.8	0.3	—	—	**53.1**
Partnership Timberland acres	119.3	0.3	(0.9)	—	**118.7**
Fund II tree farms (2)	30.8	—	—	—	**30.8**
Fund III tree farms (2)	56.7	—	—	—	**56.7**
Fund IV tree farms (3)	46.2	7.1	—	—	**53.3**
Funds Timberland acres	133.7	7.1	—	—	**140.8**
Partnership share of Funds	15.9	1.1	—	—	**17.0**
Total Real Estate acres (see detail below)	1.8	—	(0.3)	—	**1.5**
Combined Look-through total acres (3)	137.0	1.4	(1.2)	—	**137.2**

(1) A subset of this property is used as collateral for the Partnership's long-term debt, which does not include debt of the Funds. The Hood Canal tree farm is located in northwestern Washington and the Columbia tree farm is located in western Washington.

(2) A subset of these properties is used as collateral for the Funds' long-term debt and has no recourse to the Partnership. Fund II's tree farms are located in western Washington and northwestern Oregon. Fund III's tree farms are located in southern Puget Sound and southwestern Washington, northwestern Oregon and northern California. The Partnership holds a 20% interest in Fund II, a 5% interest in Fund III, and a 15% interest in Fund IV.
(3) Fund IV's tree farms are located in southwestern Oregon and southern Puget Sound, Washington.

	Real Estate Acres Detail					Basis
Project Location	2018	Acquisitions	Sales	Transfers	**2019**	(in thousands)
Bremerton	8				**8**	**$ 1,518**
Gig Harbor	40		(22)		**18**	**6,190**
Hansville	66		(66)		**—**	**—**
Kingston - Arborwood	374				**374**	**2,594**
Port Gamble town and mill sites	113				**113**	**5,388**
Port Gamble Agrarian District	205				**205**	**1,758**
Port Ludlow	256				**256**	**726**
Poulsbo	2				**2**	**491**
Bainbridge Island	1				**1**	**359**
Other Rural Residential	722		(208)		**514**	**1,137**
Total	1,787	—	(296)	—	**1,491**	**$ 20,161**

Item 3. LEGAL PROCEEDINGS

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

In 2015, the Partnership filed a lawsuit seeking coverage under the Partnership's insurance policies at the time it acquired the Port Gamble site from Pope & Talbot (P&T). Pursuant to an order from P&T's bankruptcy court, the Partnership later amended its complaint to add claims against P&T and P&T's historical liability insurers. The litigation is currently pending in King County Superior Court, although the defendant insurers are currently pursuing an interlocutory appeal of a recent key ruling by the trial court in the Partnership's favor.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

Item 5. MARKET FOR REGISTRANT'S UNITS, RELATED SECURITY HOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

The Partnership's equity securities are listed on NASDAQ and traded under the ticker symbol "POPE".

Distributions

The Partnership has no directors. Instead, the board of directors of its managing general partner, Pope MGP, Inc. (the Managing General Partner), serves in that capacity. References to the "Board" or words of similar construction in this report are to the board of the Managing General Partner, acting in its management capacity with respect to the Partnership. All cash distributions are at the discretion of the Board of Directors. During 2019, the Partnership made four quarterly distributions of $1.00 per unit, totaling $17.4 million in the aggregate. During 2018, The Partnership made two quarterly distributions of 70 cents per unit each, one distribution of 80 cents per unit, and one distribution of $1.00 per unit, totaling $13.9 million in the aggregate. During 2017, the Partnership made four quarterly distributions of 70 cents per unit each, totaling $12.2 million in the aggregate.

Our Board of Directors increased our quarterly distribution by $0.10 per unit, or 14%, in the third quarter of 2018 and by $0.20 per unit, or 25%, in the fourth quarter of 2018. The Board, in its discretion, determines the amount of the quarterly distribution and regularly evaluates distribution levels. As such, the quarterly determination of distribution amounts, if any, will reflect the expectations of management and the Board for the Partnership's liquidity needs.

Unitholders

As of January 31, 2020, there were 4,367,215 outstanding units, held by 197 holders of record. Units outstanding include 34,672 units that are currently restricted from trading and that were granted to 21 holders of record who are either current or former employees or members of the Board of Directors. The trading restriction for these units is removed as the units vest. These restricted units vest over ratably over four years.

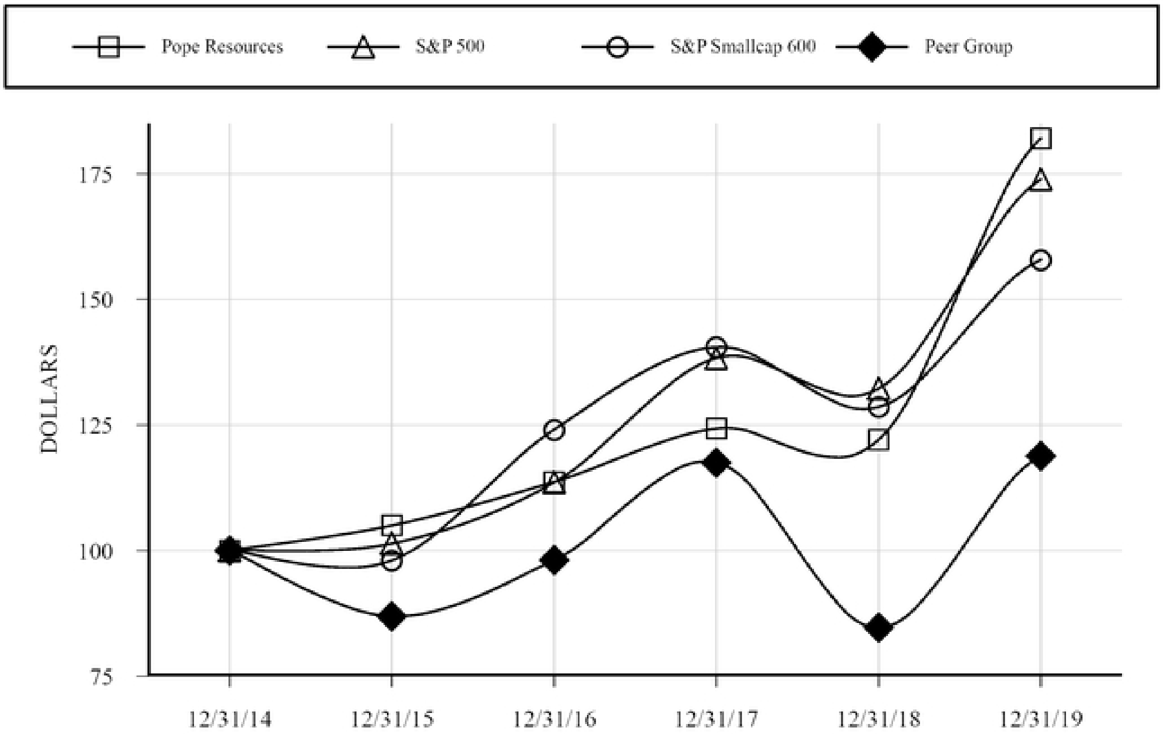
Equity Compensation Plan Information

The Partnership maintains the Pope Resources 2005 Unit Incentive Plan, which authorizes the granting of nonqualified equity compensation in order to provide incentives to align the interests of management with those of unitholders. Pursuant to the plan, the Partnership issues restricted unit grants that vest over four years. As of December 31, 2019, there were 37,375 unvested and outstanding restricted units and 841,861 limited partnership units remaining issuable under the plan. Additional information regarding equity compensation arrangements is set forth in Note 11 to Consolidated Financial Statements and Item 11 - Executive Compensation. Such information is incorporated herein by reference.

Performance Graph

The graph below matches the cumulative 5-Year total return of holders of Pope Resources' units with the cumulative total returns of the S&P 500 index, the S&P Smallcap 600 index and a customized peer group of thirteen companies that includes: Alico Inc, Catchmark Timber Trust Inc, Eastgroup Properties Inc, Farmland Partners Inc, FRP Holdings Inc, Griffin Industrial Realty Inc, Limoneira Co, Monmouth Real Estate Investment Corp, PotlatchDeltic Corp, Rayonier Inc, St. Joe Co, Tejon Ranch Co and Weyerhaeuser Co. The graph assumes that the value of the investment in our units, in each index, and in the peer group (including reinvestment of dividends) was $100 on 12/31/2014 and tracks it through 12/31/2019.

UNIT PERFORMANCE GRAPH
Total Return
Stock Price Plus Reinvested Dividends



*$100 invested on 12/31/14 in stock or index, including reinvestment of dividends.
Fiscal year ending December 31.

	12/31/14	12/31/15	12/31/16	12/31/17	12/31/18	12/31/19
Pope Resources	$100.00	$104.98	$113.66	$124.29	$122.04	$182.01
S&P 500	100.00	101.38	113.51	138.29	132.23	173.86
S&P Smallcap 600	100.00	98.03	124.06	140.48	128.56	157.85
Peer Group	100.00	86.92	98.07	117.47	84.66	118.80

Issuance of Unregistered Securities

The Partnership did not conduct any unregistered offering of its securities in 2017, 2018, or 2019.

Item 6. SELECTED FINANCIAL DATA

The financial information set forth below for each of the indicated years is derived from the Partnership's audited consolidated financial statements. This information should be read in conjunction with the audited consolidated financial statements and related notes included with this report.

(In thousands, except per unit data)	Year Ended December 31,				
Statement of operations data	**2019**	2018	2017	2016	2015
Revenue:					
Partnership Timber	**$ 39,987**	$ 45,422	$ 39,672	$ 36,275	$ 28,914
Funds Timber	**48,646**	49,819	33,842	21,029	23,250
Timberland Investment Management	**18**	9	9	8	—
Real Estate	**21,252**	8,304	26,300	23,116	25,864
Total revenue	**$ 109,903**	$ 103,554	$ 99,823	$ 80,428	$ 78,028
Operating income (loss):					
Partnership Timber	**$ 15,181**	$ 21,326	$ 19,127	$ 15,726	$ 12,012
Funds Timber	**(5,286)**	8,415	15,586	1,403	1,289
Timberland Investment Management	**(4,875)**	(4,486)	(3,511)	(2,823)	(2,965)
Real Estate (1)	**3,121**	(5,402)	4,592	(3,609)	5,313
General & Administrative	**(12,139)**	(7,217)	(5,742)	(5,076)	(4,972)
Total operating income (loss)	**$ (3,998)**	$ 12,636	$ 30,052	$ 5,621	$ 10,677
Net income attributable to unitholders	**$ 2,435**	$ 6,821	$ 17,891	$ 5,942	$ 10,943
Earnings per unit – basic and diluted	**$ 0.52**	$ 1.54	$ 4.10	$ 1.35	$ 2.51
Distributions per unit	**$ 4.00**	$ 3.20	$ 2.80	$ 2.80	$ 2.70
Balance sheet data					
Total assets	**$ 493,549**	$ 508,249	$ 380,673	$ 399,050	$ 370,056
Total long-term debt - Partnership	**$ 96,539**	$ 94,056	$ 70,160	$ 73,142	$ 27,405
Total long-term debt - Funds	**$ 57,335**	$ 57,313	$ 57,291	$ 57,268	$ 57,246
Partners' capital	**$ 42,761**	$ 57,477	$ 64,547	$ 59,133	$ 64,548
Noncontrolling interests	**$ 276,232**	$ 281,123	$ 176,079	$ 189,331	$ 198,518

(1) Real Estate operating results in 2019, 2018, 2016 and 2014 included, $1.6 million, $5.6 million, $7.7 million, and $10.0 million, respectively, of environmental remediation charges.

Management uses cash available for distributions (CAD), a non-GAAP measure, as a meaningful indicator of liquidity and, as such, has provided this information in addition to the generally accepted accounting principles-based presentation of cash provided by operating activities. CAD is a measure of cash generated by the Partnership that starts with consolidated cash provided by operating activities and subtracts cash provided by operating activities for the Funds and our Real Estate joint venture and maintenance capital expenditures by the Partnership only, and adds distributions received by the Partnership from the Funds and Real Estate joint venture. CAD represents cash generated that is available to fund capital allocation alternatives, such as distributions to unitholders, repurchasing units, paying down debt, co-investing in the Funds, or acquisition of timberland and real estate. Management considers this metric in evaluating capital allocation alternatives described above. Management recognizes that there are varying methods of calculating CAD and has provided the information below to illustrate this particular metric's calculation.

(In thousands)	Year Ended December 31,				
Cash Available for Distribution (CAD):	**2019**	2018	2017	2016	2015
Cash provided by operations - consolidated	**$ 34,221**	$ 39,778	$ 31,980	$ 5,146	$ 20,170
Less: Cash provided by operations - Funds & Real Estate joint venture	**(14,163)**	(20,801)	(11,970)	(3,561)	(5,824)
Less: Partnership maintenance capital expenditures (1)	**(1,689)**	(2,297)	(1,381)	(1,114)	(1,251)
Add: Partnership's share of Fund and Real Estate joint venture distributions	**1,447**	1,852	6,443	548	2,172
Cash available for distribution (CAD)	**$ 19,816**	$ 18,532	$ 25,072	$ 1,019	$ 15,267

	Year Ended December 31,				
Other data	**2019**	2018	2017	2016	2015
Distributions to unitholders	**$ 17,435**	$ 13,943	$ 12,215	$ 12,177	$ 11,708
Timber acres owned/managed (thousands)	**260**	254	206	212	205
Timber sold (MMBF)	**144**	137	112	97	84

(1) Capital expenditures by the Partnership only and excluding timberland acquisitions.

Item 7. 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 goals, 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 Item 1A above. 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 Partnership's audited consolidated financial statements included with this report.

EXECUTIVE OVERVIEW

Pope Resources, A Delaware Limited Partnership ("we" or the "Partnership"), is engaged in four primary businesses. By far the most significant segments in terms of owned assets and operations, are our two timber segments, which we refer to as Partnership Timber and Funds Timber. These segments include timberlands owned directly by the Partnership and operations of our three private equity funds ("Fund II", "Fund III", and "Fund IV", collectively, the "Funds"). We refer to the timberland owned by the Partnership as the Partnership's tree farms, and our Partnership Timber segment reflects operations from those properties. We refer to timberland owned by the Funds as the Funds' tree farms, and operations from those properties are reported in our Funds Timber segment. When referring collectively to the Partnership's and Funds' timberland, we refer to them as the Combined tree farms. Operations in each of these segments consist of growing timber to be harvested as logs for sale to domestic manufacturers and export brokers.

Our Timberland Investment Management segment is engaged in organizing and managing private equity timber funds using capital invested by third parties and the Partnership. The Funds are consolidated into our financial statements, but then income or loss attributable to equity owned by third parties is subtracted from consolidated results in our Consolidated

Statements of Comprehensive Income (Loss) under the caption "Net and comprehensive (income) loss attributable to non-controlling interests-ORM Timber Funds" to arrive at "Net and comprehensive income attributable to unitholders".

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 for the Partnership. As of December 31, 2019, we have assets under management totaling approximately $520 million based on the most recent appraisals. Through our 20% co-investment in Fund II, our 5% co-investment in Fund III, and our 15% co-investment in Fund IV, we have deployed $51 million of Partnership capital. Our co-investment affords us a share of the Funds' operating cash flows while also allowing us to earn asset 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.

Our Real Estate segment's activities primarily include 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 Partnership Timber properties which preclude future development, but allow for continued harvest operations. 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.

Our consolidated revenue in 2019, 2018, and 2017, on a percentage basis by segment, was as follows:

Segment	**2019**	2018	2017
Partnership Timber	**37%**	44%	40%
Funds Timber	**44%**	48%	34%
Timberland Investment Management *	**—%**	—%	—%
Real Estate	**19%**	8%	26%

* Fee revenue earned from managing the Funds is eliminated in consolidation. See Part II, Item 7: "Management's Discussion and Analysis of Financial Condition and Results of Operations – Timberland Investment Management (TIM)," and "– Noncontrolling Interests - ORM Timber Funds" for further information.

Additional segment financial information is presented in Note 16 to the Partnership's Consolidated Financial Statements included with this report.

Recent Developments

On January 15, 2020, we announced that we had entered into an Agreement and Plan of Merger dated January 14, 2020 (the "Merger Agreement") with Rayonier, Inc., a North Carolina corporation, Rayonier Operating Company LLC, a Delaware limited liability company, Pacific GP Merger Sub I, LLC, a Delaware limited liability company and a wholly owned subsidiary of Rayonier, Pacific GP Merger Sub II, LLC, a Delaware limited liability company and a wholly owned subsidiary of Rayonier, Pacific LP Merger Sub III, LLC, a Delaware limited liability company and a wholly owned subsidiary of OpCo, and our general partners, Pope EGP, Inc., a Delaware corporation, and Pope MGP, Inc., a Delaware corporation and the managing general partner of the Partnership. The Merger Agreement also provides for the entry into voting agreements by the shareholders of our general partners.

The Merger Agreement provides that upon the satisfaction of certain conditions prescribed in the Merger Agreement and summarized below, (i) MGP will merge with and into Merger Sub 1, with Merger Sub 1 as the surviving corporation; (ii) EGP will merge with and into Merger Sub 2, with Merger Sub 2 as the surviving corporation; and (iii) Merger Sub 3 will merge with and into the Partnership, with the Partnership as the surviving entity. Please see "*Business – Recent Developments*" above for a summary of the Merger Agreement.

Completion of the Mergers is subject to the satisfaction (or waiver, if permissible under applicable law) of customary closing conditions, including the approval of our unitholders, and the consummation of the mergers is not assured, nor can we predict the timing as to when closing will occur. Our entry into the Merger Agreement came as a result of a previously announced evaluation of strategic options by our board of directors, and resulted in a substantial increase in our general and administrative expense as a result of legal, accounting and other professional fees as further described herein.

The Merger Agreement also contains operating covenants that may impact our ongoing operations, as we cannot take certain actions without the consent of Rayonier (which consent may not be unreasonably withheld). These covenants preclude our entering into transactions or making operational decisions outside the ordinary course of our business, which may limit our ability to realize certain business opportunities, and require us to conduct a meeting of our unitholders and, in connection with that meeting, to prepare and circulate a proxy statement to our unitholders, which will lead to continuing elevated general and administrative expenses.

The Merger Agreement also contains certain termination rights for the Partnership and Rayonier, including, among others, the right of Rayonier to terminate the Merger Agreement as a result of the Board changing its recommendation with respect to the Merger Agreement and the Mergers. The Merger Agreement provides that in the event of a termination under specified circumstances, including the one described above, the Partnership will be required to pay Rayonier a termination fee of $20 million.

We are optimistic that the closing conditions will be satisfied, and we hope to complete the merger during the second or third fiscal quarter, but we cannot offer assurances as to the timing or the ultimate completion of the mergers.

RESULTS OF OPERATIONS

Timber - Overall

As of December 31, 2019, Timber results include operations on 119,000 acres of timberland owned by the Partnership, plus another 3,500 acres under timber deeds, in western Washington (Partnership Timber), and 141,000 acres of timberland owned by the Funds (Funds Timber) in western Washington, northwestern Oregon, southwestern Oregon, and northern California.

Timber revenue is earned primarily from the harvest and sale of logs from these timberlands and is driven primarily by the volume of timber harvested and the average log price realized on the sale of those logs. Our harvest volume represents delivered log sales to domestic mills and log export brokers. We also occasionally sell rights to harvest timber (timber deed sales) from the Combined tree farms. The metrics used to calculate volumes sold and average price realized during the reporting periods exclude timber deed sales, except where stated otherwise. Harvest volumes are generally expressed in million board feet (MMBF) increments while harvest revenue and related costs are generally expressed in terms of revenue or cost per thousand board feet (MBF).

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. The ultimate decision of whether to sell our logs to the domestic or export market is based on the net proceeds we receive after considering 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.

Revenue in our timber segments is also derived from commercial thinning operations, ground leases for cellular communication towers, and royalties from gravel mines and quarries, all of which are characterized as “other revenue” in the tables that follow. Commercial thinning consists of the selective cutting of timber stands not yet of optimal harvest age. The smaller diameter logs harvested in these operations do, however, have some commercial value, thus allowing us to earn revenue while at the same time improving the projected value at harvest of the remaining timber in the stand.

Log Prices and Harvest Volume. For the Partnership, the weighted-average realized log price for 2019 decreased 17% from 2018 and for the Funds it decreased 16%. Average realized log prices in 2019 declined from the all-time historical highs achieved in 2018 due to a well-supplied log market. Demand from China for logs from the PNW diminished as a result of an increased supply of lower cost spruce logs supplied from Europe. In recent years, European forests have experienced drought, severe storms and a spruce bark beetle infestation, the combination of which has resulted in the death of large areas of timber. The response has been an extensive timber salvage program in which most of the European volume is being shipped to China. West Coast break-bulk log exports decreased 31% in 2019 from 2018, after having decreased by 9% in 2018 from 2017. With fewer logs from the PNW diverted to the China market, logs available to the domestic market increased. Moreover, relatively mild weather throughout 2019 allowed for greater log production than usual, thus increasing supply. These factors combined to exert downward pressure on log prices. However, domestic demand for sawlogs in the PNW in 2019 was healthy, as the high lumber inventories at domestic mills from late 2018 normalized on improved construction take-away. West Coast softwood lumber production decreased 2% in 2019 from 2018, after having expanded by 5% in 2018 from 2017.

Partnership Timber

Partnership Timber operating results for each year in the three-year period ended December 31, 2019, are as follows:

	2019	2018	2017
Partnership			
Overall delivered log price per MBF	**$ 604**	$ 726	$ 676
Total volume (in MMBF)	**62.5**	59.7	55.6
(in thousands)			
Log sale revenue	**$ 37,605**	$ 43,038	$ 37,093
Timber deed sale revenue	**25**	92	422
Other revenue	**2,357**	2,292	2,157
Total revenue	**39,987**	45,422	39,672
Cost of sales	**(19,605)**	(17,828)	(14,874)
Operating expenses	**(5,288)**	(6,268)	(5,671)
Gain on sale of timberland	**87**	—	—
Operating income	**$ 15,181**	$ 21,326	$ 19,127

Operating Income

Fiscal Year 2019 compared to 2018. Operating income decreased $6.1 million, or 29%, in 2019 from 2018, reflecting a 17% decrease in weighted-average log price realizations and a 4% increase in per MBF cost of sales that was partially offset by a 5% increase in log volume, including timber deed sales, and a $980,000 decrease in operating expenses.

Fiscal Year 2018 compared to 2017. Operating income increased by $2.2 million, or 11%, in 2018, reflecting a 7% increase in log volume, including timber deed sales, and a 7% increase in weighted-average log price realizations. These results reflect the favorable operating environment we enjoyed through the first three quarters of 2018.

Revenue

Fiscal Year 2019 compared to 2018. Log sale revenue in 2019 decreased by $5.4 million, or 13%, from 2018, due to a 17% decrease in weighted-average log price realizations that was partially offset by a 5% increase in log volume, including timber deed sales. The net changes in timber deed sale revenue and other revenue were offsetting.

Fiscal Year 2018 compared to 2017. Log sale revenue in 2018 increased by $5.9 million, or 16%, from 2017, due to a 7% increase in harvest volume, including timber deed sales, and a 7% rise in average realized log prices. The $330,000 decrease in timber deed sale revenue was partially offset by a $135,000 increase in cell tower leases and mineral sales included in other revenue. Through much of 2018, log prices were strong as domestic housing continued its rebound and supply disruptions caused log and lumber prices to rise. Beginning in the fourth quarter, these factors reversed and trade tensions with China caused a decline in export log prices, but not before we were able to take advantage of the relatively strong markets in the first three quarters of the year.

Log Prices

Partnership Timber log prices for each year in the three-year period ended December 31, 2019, were as follows:

Average price realizations (per MBF)	**2019**	2018	2017
Partnership			
Douglas-fir domestic	**$ 652**	$ 777	$ 734
Douglas-fir export	**705**	849	766
Whitewood domestic	**521**	607	532
Whitewood export	**521**	692	721
Cedar	**986**	1,270	1,452
Hardwood	**604**	732	678
Pulpwood	**351**	370	316
Overall delivered log price	**604**	726	676
Timber deed sales	**145**	230	594

Fiscal Year 2019 compared to 2018. Average realized log prices declined 17% in 2019. Our overall average is influenced heavily by price movements for Douglas-fir and whitewood as these two saw log types represent the majority of our harvest volume. Douglas-fir is a single species whereas whitewood represents a collection of species with very similar wood characteristics. Douglas-fir will command a premium over whitewood and that premium will grow in a strong domestic market for logs. Domestic buyers will generally pay a premium for Douglas-fir due to its strength characteristics and relative efficiency when manufactured into lumber versus whitewood. This premium will also grow in the event of a soft China export market, as China's demand for whitewood tends to support higher whitewood log prices.

The Douglas-fir premium expanded during the first half of 2018 as domestic markets gained traction with improved housing starts, but it then contracted after mid-year as concerns over the domestic housing recovery mounted and tariffs began to erode the export demand from the China market. During 2019, this premium expanded again with renewed strength in the domestic market and reduced demand from China. Realized log prices decreased by 16% for Douglas-fir and by 19% for whitewood in 2019 from 2018. Other price declines included 22% for cedar, 17% for hardwood and 5% for pulpwood.

Fiscal Year 2018 compared to 2017. Overall realized log prices increased 7% in 2018. During the first half of 2018, we saw a widening of the Douglas-fir premium as domestic markets gained traction with improved housing starts. The Douglas-fir premium weakened after mid-year as concerns over the domestic housing recovery mounted. Douglas-fir realized log prices increased 7%, while whitewood realized log prices remained flat. The Douglas-fir component of the total volume mix increased 4% from 2017, which was additive to the overall delivered log price.

Whitewood log prices are strongly influenced by the export market to China, which weakened after mid-year with the onset of trade tensions and tariffs, resulting in a flat blended (domestic and export) whitewood log price for the year. The 17% price increase for pulpwood resulted from relatively strong log markets during the first three quarters of the year, which caused logs that otherwise would have been chipped for pulp being diverted into mills for sawlogs. This diversion of volume away from the pulp mills supported stronger pricing for pulpwood. Hardwood log prices increased 8% and cedar prices decreased 13%. Both of these are relatively minor species to the Partnership and as such the price often reflects the relative quality of the logs harvested during the period.

Log Volume

The Partnership sold the following log volumes by species for each year in the three-year period ended December 31, 2019:

Volume (in MMBF)	2019		2018		2017	
Partnership						
Douglas-fir domestic	**33.5**	**54%**	34.8	59%	29.1	53%
Douglas-fir export	**8.9**	**14%**	8.4	14%	8.7	16%
Whitewood domestic	**3.8**	**6%**	1.9	3%	2.1	4%
Whitewood export	**1.1**	**2%**	1.6	3%	3.2	6%
Cedar	**1.4**	**2%**	1.2	2%	1.2	2%
Hardwood	**3.0**	**5%**	2.5	4%	1.6	3%
Pulpwood	**10.6**	**17%**	8.9	15%	9.0	16%
Log sale volume	**62.3**	**100%**	59.3	100%	54.9	100%
Timber deed sale volume	**0.2**		0.4		0.7	
Total volume	**62.5**		59.7		55.6	

Fiscal Year 2019 compared to 2018. 2019 total volume was 2.8 MMBF, or 5%, higher than 2018. The greater volume is attributable to a recent increase to the Partnership's annual sustained yield target. Volume harvested in excess of our 57 MMBF annual sustainable yield is attributable to the timber on Real Estate property and recent small-tract timberland acquisitions. The relative volume mix was similar to 2018, with slight variations attributable to the composition of the units harvested. The continued decline in whitewood export volume was driven by the weak export market to China.

Fiscal Year 2018 compared to 2017. Harvest volume, including timber deed sales, increased 4.1 MMBF, or 7%, in 2018. The increase in volume is attributable to harvest activity on recent small-tract acquisitions and Real Estate properties. Volume sold to the domestic market grew relative to the export market due to a mid-year weakening of China exports as U.S-China trade tensions developed during the second half of 2018. This reduced the whitewood premium normally paid by our export market customers to divert volume away from the domestic market, in turn resulting in an increase in the proportion of log volume sold to the domestic market.

Cost of Sales

Cost of sales in this segment, which consist predominantly of harvest, haul and depletion costs, vary primarily with harvest volume. Harvest costs are affected by terrain, with steeper slopes requiring more expensive cable systems and a high labor component relative to more moderate slopes. Haul costs vary with the distance traveled from logging sites to the customers and will also reflect the volatility of fuel costs. Commercial thinning costs are a primary component of other cost of sales.

Partnership Timber cost of sales for each year in the three-year period ended December 31, 2019, is as follows, with the first part of the table expressing these costs in total dollars and the second part of the table expressing those costs that are driven by volume on a per MBF basis:

(in thousands)	2019	2018	2017
Partnership			
Harvest, haul, and tax	**$ 14,992**	$ 13,701	$ 10,855
Depletion	**4,524**	4,114	4,019
Other	**89**	13	—
Total cost of sales	**$ 19,605**	$ 17,828	$ 14,874
Amounts per MBF *			
Harvest, haul, and tax	**$ 241**	$ 231	$ 198
Depletion	**$ 72**	$ 69	$ 72

* 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.

Fiscal Year 2019 compared to 2018. Cost of sales rose $1.8 million, or 10%, in 2019 due to 5% higher harvest volume, including timber deed sales, a 4% increase in the per-MBF harvest, haul and tax rate, and a 4% increase in the depletion rate. Note that timber deed sales include depletion expense but do not include harvest, haul, and tax expense. The greater per-MBF harvest, haul and tax rate reflects a higher relative proportion of harvesting operations occurring on steep terrain as well as the species composition and average piece size within the units harvested during 2019. The increase in the depletion rate is attributable to recent small-tract timberland acquisitions.

Fiscal Year 2018 compared to 2017. Cost of sales increased $3.0 million, or 20%, in 2018 due to a 7% increase in harvest volume, including timber deed sales, and a 17% increase in the per-MBF harvest, haul and tax rate. The increase in the per-MBF harvest, haul and tax rate reflects a higher relative proportion of harvesting operations occurring on steeper terrain compared to 2017.

Operating Expenses

Operating expenses include the cost of both maintaining existing roads and building temporary roads for harvesting, silviculture costs, and other management expenses. For the years ended December 31, 2019, 2018, and 2017, operating expenses were $5.3 million, $6.3 million, and $5.7 million, respectively. The decrease from 2018 to 2019 was due to lower management and silviculture expenses that were partially offset by increased road maintenance expenses. The increase from 2017 to 2018 was due to higher road costs, professional services expenses, and personnel costs related to increased harvest activity.

Funds Timber

Funds Timber operating results for each year in the three-year period ended December 31, 2019, are as follows:

	2019	2018	2017
Funds			
Overall delivered log price per MBF	**$ 589**	$ 700	$ 632
Total volume (in MMBF)	**81.1**	77.0	55.9
(in thousands)			
Log sale revenue	**$ 44,429**	$ 37,262	$ 30,947
Timber deed sale revenue	**2,378**	11,440	2,337
Other revenue	**1,839**	1,117	558
Total revenue	**48,646**	49,819	33,842
Cost of sales	**(48,142)**	(36,732)	(26,910)
Operating expenses - internal	**(11,322)**	(9,239)	(7,261)
Gain on sale of timberland	**—**	—	12,547
Operating income - internal	**(10,818)**	3,848	12,218
Eliminations *	**5,532**	4,567	3,368
Operating income - external	**$ (5,286)**	$ 8,415	$ 15,586

* Represents management fees charged to the Funds and eliminated from operating expenses in consolidation. In the TIM segment, these fees are reflected as revenue, on an internal reporting basis, and eliminated in consolidation.

Operating income

Fiscal Year 2019 compared to 2018. Operating income decreased $13.7 million in 2019 from 2018, reflecting a 16% decline in weighted-average log price realizations and increases of 31% and 23% in cost of sales and operating expenses, respectively, that were partially offset by 5% higher log volume, including timber deed sales.

Fiscal Year 2018 compared to 2017. Similar to the results generated by Partnership Timber, Funds Timber benefited from a favorable operating environment through most of 2018. Funds Timber also added operations from the acquisition of two tree farms for Fund IV in early 2018 and a third in the 4th quarter of 2018. Operating income decreased $7.2 million, or 46% in

2018. Our 2017 results reflect a $12.5 million gain on the January 2017 sale of a 6,500-acre tree farm on the Oregon coast by Fund II. Excluding this gain, operating income increased by $5.4 million, driven by a $6.3 million rise in log sale revenue and a $9.1 million increase in timber deed sale revenue, which were partially offset by $9.8 million and $2.0 million increases in cost of sales and operating expenses, respectively.

Revenue

Fiscal Year 2019 compared to 2018. Log sale revenue increased $7.2 million, or 19%, from 2018. This increase was driven by a 42% rise in delivered log volume, which was partially offset by a 16% decline in average realized delivered log price. Timber deed sale revenue dropped $9.1 million in 2019, or 79%, driven primarily by a shift from timber deed to delivered log sales for two properties acquired by Fund IV in January of 2018. Once a property has been owned for a year, we can then begin delivered log sales and retain eligibility to be taxed as a REIT. The $722,000 increase in other revenue was primarily driven by salvage operations of fire-damaged timber on a Fund IV property.

Fiscal Year 2018 compared to 2017. Log sale revenue increased by $6.3 million, or 20%, in 2017. This increase was driven by a 9% rise in delivered log volume and an 11% increase in average realized log prices from the strong log markets we enjoyed during the first three quarters of the year. Timber deed sale revenue increased $9.1 million in 2018, driven primarily by timber deed sales from two properties acquired by Fund IV in January of 2018. The $559,000 increase in other revenue was primarily driven by a $425,000 easement sale for a cell tower and a $90,000 increase in ground leases for cell towers.

Log Prices

Funds Timber log prices for each year in the three-year period ended December 31, 2019, were as follows:

Average price realizations (per MBF)	**2019**	2018	2017
Funds			
Douglas-fir domestic	**$ 643**	$ 784	$ 705
Douglas-fir export	**700**	853	810
Whitewood domestic	**543**	649	585
Whitewood export	**538**	693	687
Pine	**438**	545	496
Cedar	**937**	1,203	1,164
Hardwood	**510**	729	687
Pulpwood	**329**	365	295
Overall delivered log price	**589**	700	632
Timber deed sales	**416**	480	332

Fiscal Year 2019 compared to 2018. For the Funds, the overall realized log price was 16% lower in 2019 than 2018. Realized log prices for Douglas-fir and whitewood sawlogs (volume-weighted) declined 19% and 17%, respectively. Price decreases relative to 2018 were driven by abundant log supply for domestic producers that was primarily driven by greatly reduced demand from the log export market. Price decreases for other species groups include: pine (20%), cedar (22%), hardwood (30%), and pulpwood (10%). The 13% decline in the average price realized on timber deed sales is driven by the same market factors that resulted in price decreases for delivered log volume.

Fiscal Year 2018 compared to 2017. Overall realized log prices increased 11% in 2018 as we took advantage of particularly strong log markets during the first three quarters of 2018. Realized log prices for Douglas-fir and whitewood sawlogs (volume-weighted) increased 10% and 7%, respectively. Price increases relative to 2017 were driven by strengthening domestic demand from the continued recovery in the domestic housing market, however, log prices dropped precipitously after the third quarter as the export market to China lost steam as trade tensions intensified. Price increases for other species groups include: pine (10%), cedar (3%), hardwood (6%), and pulpwood (24%), again brought on by overall log market strength that weakened after the third quarter. The average price realized on timber deed sales increased 45% due to the sale of timber deeds from our recent Fund IV acquisitions in very strong log markets, as well as a higher mix of Douglas-fir volume in 2018 versus 2017 timber deed sales, which contained a higher proportion of whitewood volume.

Log Volume

The Funds sold the following log volumes by species for each year in the three-year period ended December 31, 2019:

Volume (in MMBF)	**2019**		2018		2017	
Funds						
Douglas-fir domestic	**36.1**	**48%**	16.5	31%	16.4	35%
Douglas-fir export	**9.2**	**12%**	8.3	16%	5.9	12%
Whitewood domestic	**14.9**	**20%**	14.6	27%	12.3	25%
Whitewood export	**1.5**	**2%**	3.2	6%	4.5	9%
Pine	**4.5**	**6%**	3.1	6%	3.6	7%
Cedar	**1.0**	**1%**	0.8	2%	0.5	1%
Hardwood	**1.6**	**2%**	1.2	2%	0.6	1%
Pulpwood	**6.6**	**9%**	5.5	10%	5.1	10%
Log sale volume	**75.4**	**100%**	53.2	100%	48.9	100%
Timber deed sale volume	**5.7**		23.8		7.0	
Total volume	**81.1**		77.0		55.9	
Partnership’s share of Funds	**10.6**		9.0		6.2	

Fiscal Year 2019 compared to 2018. Volume from harvest and timber deed sales was 4.1 MMBF, or 5%, higher in 2019, driven by the addition of two tree farms to Fund IV in October 2018 and January 2019. A 22.2 MMBF increase in delivered log sale volume was mostly offset by an 18.1 MMBF decrease in timber deed volume. The shift from timber deed to delivered log sales is driven primarily by two properties acquired by Fund IV in January of 2018. The change in relative volume mix reflects a decrease in export volume to 14% in 2019 from 22% in 2018, indicative of the reduced export demand. The relative volume mix for Douglas-fir increased by 13%, while that of whitewood decreased 11%. The relative volume mix of the other species was consistent between 2018 and 2019.

Fiscal Year 2018 compared to 2017. Total harvest volume increased 21.1 MMBF, or 38%, in 2018. The increase was driven by a 16.8 MMBF increase in timber deed sales, which are primarily related to two properties that were acquired during Q1 2018 by Fund IV, and a 4.3 MMBF increase in delivered log sales. Douglas-fir export volume increased modestly as a percentage of total volume while Douglas-fir sold to domestic markets retreated, which was driven primarily by the quality of the Douglas-fir stands harvested during 2018. High quality Douglas-fir is often exported to the Japan market, and we harvested a greater proportion of high-quality Douglas-fir in 2018 than 2017. We observed the opposite situation with whitewood volume. Whitewood exports shrank as a percent of total volume due to weakness in the export market to China. As trade tensions increased in the latter half of 2018, the export market to China weakened, causing a reduction in the premium paid to divert volume from the domestic to the export market.

Cost of Sales

Cost of sales in this segment, which consist predominantly of harvest, haul and depletion costs, vary primarily with harvest volume. Harvest costs are also affected by terrain, with steeper slopes requiring more expensive cable systems and a high labor component relative to more moderate slopes. Haul costs vary with the distance traveled from logging sites to the customers and with the volatility of fuel costs. Commercial thinning costs are a primary component of other cost of sales. Because of the relatively recent acquisition dates of the Funds’ tree farms relative to the Partnership’s tree farms, the Funds’ properties were acquired at more recent, and higher, timberland values. Accordingly, the depletion rates associated with harvests from the Fund properties are considerably higher than those for the Partnership’s tree farms. The depletion rate charged to harvest tends to decrease over time as a result of the purchase price allocation process, in which the most valuable, merchantable timber at the time of acquisition is assigned a higher cost than the younger timber. Over time, the depletion rate on an individual tree farm declines as we begin harvesting what was the younger timber at the time of acquisition.

Funds Timber cost of sales for each year in the three-year period ended December 31, 2019, is as follows, with the first part of the table expressing these costs in total dollars and the second part of the table expressing those costs that are driven by volume on a per MBF basis:

(in thousands)	**2019**	2018	2017
Funds			
Harvest, haul, and tax	**$ 20,220**	$ 13,304	$ 11,478
Depletion	**26,654**	23,007	15,168
Other	**1,268**	421	264
Total cost of sales	**$ 48,142**	$ 36,732	$ 26,910
Partnership's share of Funds	**$ 6,016**	$ 3,928	$ 2,706
Amounts per MBF *			
Harvest, haul, and tax	**$ 268**	$ 250	$ 235
Depletion	**$ 329**	$ 299	$ 271

* 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.

Fiscal Year 2019 compared to 2018. Cost of sales increased $11.4 million, or 31%, in 2018 due to 42% higher delivered log volume, 76% lower timber deed sale volume, a 7% increase in the per-MBF harvest, haul and tax rate, and a 10% increase in the per-MBF depletion rate. The increase in the harvest, haul, and tax rate reflects a higher relative proportion of harvesting operations occurring on steeper terrain in 2019 versus 2018. The increase in the average depletion rate between years reflects the increase in the relative share of total harvest volume from the newer Fund IV properties.

Fiscal Year 2018 compared to 2017. Cost of sales increased $9.8 million, or 36%, in 2018 primarily due to a 9% increase in delivered log volume, a 240% increase in timber deed sale volume, a 6% increase in the per-MBF harvest, haul and tax rate, and a 10% increase in the per-MBF depletion rate. The increase in the harvest, haul, and tax rate reflects a more varied terrain across which we harvested in 2018 versus 2017. The change in the average depletion rate between years reflects the change in the mix of volume from each tree farm in any year, as each tree farm carries a unique depletion rate.

Operating Expenses

Operating expenses include the cost of maintaining existing roads and building temporary roads for harvesting, silviculture costs, and other management expenses that include the asset and timberland management fees charged to the Funds. These fees, which are the source of revenue for our Timberland Investment Management segment (discussed below), are eliminated in consolidation. The following table presents operating expenses on an internal and external reporting basis.

(in thousands)	**2019**	2018	2017
Funds			
Operating expenses - internal	**$ 11,322**	$ 9,239	$ 7,261
Elimination of asset and management fees	**(5,532)**	(4,567)	(3,368)
Operating expenses - external	**$ 5,790**	$ 4,672	$ 3,893

The increase from 2018 to 2019 was due to increases in professional services, silviculture and road expenses attributed to operating the entire Fund IV portfolio for the entire year. The increase from 2017 to 2018 was due to increases in professional services, silviculture and road expenses attributed to the two tree farms acquired in early 2018, as well as the increase in harvest volume.

Gain on Sale of Timberland

The $12.5 million gain on sale of timberland in the first quarter of 2017 resulted from the sale of a 6,500-acre tree farm on the Oregon coast by Fund II for $26.5 million. The Partnership's share of this gain was $2.5 million.

Other information

The table below reflects the Partnership’s share of elements of the Funds’ results based on its 20%, 5%, and 15% ownership interest in Fund II, Fund III, and Fund IV, respectively. We present this as additional information to help readers understand the financial impact from investing in these private equity vehicles and the resulting economics of owning Pope Resources units. These results will fluctuate between periods based on the relative activity in each fund and the Partnership’s different ownership interest in each fund:

	Year Ended December 31,		
	2019	2018	2017
Partnership's share of Funds			
Total volume (MMBF)	**10.6**	9.0	6.2
(in thousands)			
Log sale revenue	**$ 5,703**	$ 4,064	$ 3,666
Timber deed sale revenue	**386**	1,609	117
Other revenue	**264**	127	94
Cost of sales	**(6,016)**	(3,928)	(2,706)
Operating expenses - internal	**(1,698)**	(1,105)	(793)
Gain on sale of timberland	**—**	—	2,503
Eliminations *	**656**	504	328

* Represents the Partnership’s share of management fees charged to the Funds and eliminated from operating expenses in consolidation. In the TIM segment, these fees are reflected as revenue, on an internal reporting basis, and eliminated in consolidation.

Timberland Investment Management (TIM)

Fund Distributions and Fees Paid to the Partnership

The Partnership received combined distributions from the Funds of $1.4 million, $1.9 million, and $6.4 million in 2019, 2018, and 2017, respectively. Fund distributions are paid from available Fund cash, generated primarily from the harvest and sale of timber after paying Fund expenses, management fees, and recurring capital costs. Fund distributions received by the Partnership during 2017 included $5.5 million generated by the sale of one of Fund II’s tree farms in January 2017.

The Partnership earned investment and timberland management fees from the Funds which totaled $5.8 million, $4.6 million, and $3.4 million in 2019, 2018, and 2017, respectively. These fees are eliminated in the Partnership’s consolidated financial statements, but generate cash for the Partnership.

Revenue and Operating Loss

The fees earned from managing the Funds include a fixed component related to invested capital and acres under management, and a variable component related to harvest volume from the Funds’ tree farms. As all fee revenue from the Funds is eliminated in consolidation, operating losses consist almost entirely of operating expenses incurred by the TIM segment.

Revenue and operating loss for the TIM segment for each year in the three-year period ended December 31, 2019, were as follows:

(in millions, except acre and volume data)	Year ended December 31, 2019	2018	2017
Revenue - internal	**$ 5.8**	$ 4.6	$ 3.4
Intersegment eliminations	**(5.7)**	(4.6)	(3.4)
Revenue - external	**$ 0.1**	$ —	$ —
Operating income (loss) - internal	**$ 0.6**	$ —	$ (0.2)
Intersegment eliminations	**(5.5)**	(4.5)	(3.3)
Operating loss - external	**$ (4.9)**	$ (4.5)	$ (3.5)
Invested capital	**$ 406**	$ 386	$ 240
Acres under management	**141,000**	134,000	88,000
Harvest volume, including timber deed sales - Funds (MMBF)	**81.1**	77.0	55.9

Fiscal Year 2019 compared to 2018. TIM generated management fee revenue of $5.8 million and $4.6 million from managing the Funds in 2019 and 2018, respectively. The increase in fee revenue resulted from a full year of management fees for the entire Fund IV portfolio for all of 2019.

Fiscal Year 2018 compared to 2017. TIM generated management fee revenue of $4.6 million and $3.4 million from managing the Funds in 2018 and 2017, respectively. The increase in fee revenue resulted from the acquisition of two tree farms by Fund IV in Q1 2018 and a third tree farm in Q4 2018.

Operating expenses incurred by the TIM segment totaled $4.9 million in 2019, $4.5 million in 2018, and $3.5 million in 2017. The increase in operating expenses is attributable to the costs associated with managing most of the Fund IV portfolio for all of 2019.

Real Estate

Revenue and Operating Income

The Real Estate segment's activities consist of investing in and later reselling improved properties, holding properties for later development and sale, and managing commercial properties. Revenue is generated primarily from the sale of land within our 1,500-acre portfolio, sales of development rights known as conservation easements (CE's), sales of tracts from the Partnership's timberland portfolio, and residential and commercial rents from our Port Gamble and Poulsbo properties. The CE sales allow us to continue conducting harvest operations on the timberland, but bar any future subdivision, or real estate development on, the property. The Partnership's Real Estate holdings are located primarily 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 generally are 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 and is normally completed with very little capital investment prior to sale.

Real Estate operations also include development, commercial real estate, and environmental remediation activities in connection with our ownership of the Port Gamble, Washington townsite and former millsite as discussed in greater detail in "Business – Real Estate – Port Gamble," and "– Environmental Remediation."

Results from Real Estate operations are expected to vary significantly from year to year as we make multi-year investments in entitlements and infrastructure prior to selling entitled or developed land. Further, Real Estate results will vary as a result of adjustments to our environmental remediation liability related to Port Gamble. These adjustments are reflected in our Real Estate segment within operating expenses. Real Estate segment revenue and gross margin for each year in the three-year period ended December 31, 2019, consisted of the following components:

(in thousands except acres)							Per acre/lot *	
Description	**Revenue**	**Gross margin**	**Gross margin %**	**Units Sold**			**Revenue**	**Gross margin**
Development rights (CE)	**$ 2,610**	**$ 2,363**	**91%**	**Acres:**	**1,937**		**$ 1,347**	**$ 1,220**
Gig Harbor residential	**12,025**	**3,652**	**30%**	**Lots:***	**65**		**185,000**	**56,185**
Other residential	**770**	**204**	**26%**	**Lots:***	**7**		**110,000**	**29,143**
Unimproved land	**4,383**	**2,974**	**68%**	**Acres:**	**1,134**		**3,865**	**2,623**
Total land	**19,788**	**9,193**	**46%**					
Rentals and other	**1,464**	**622**						
2019 Total	**$ 21,252**	**$ 9,815**	**46%**					
Development rights (CE)	3,730	3,485	93%	Acres:	7,800		478	447
Bremerton residential	1,375	292	21%	Lots:*	110		12,500	2,655
Other residential	751	247	33%	Lots:	3		250,333	82,333
Other commercial	400	124	31%	Acres:	1		400,000	124,000
Unimproved land	205	166	81%	Acres:	13		15,769	12,769
Total land	6,461	4,314	67%					
Rentals and other	1,843	463						
2018 Total	$ 8,304	$ 4,777	58%					
Conservation land sales	$ 5,056	$ 4,289	85%	Acres:	1,720		$ 2,940	$ 2,494
Gig Harbor residential	14,157	3,557	25%	Lots:*	93		152,226	38,247
Gig Harbor commercial	3,500	1,414	40%	Acres:	12		291,667	117,833
Other residential	2,255	924	41%	Lots:*	12		187,917	77,000
Total land	24,968	10,184	41%					
Rentals and other	1,332	(84)						
2017 Total	$ 26,300	$ 10,100	38%					

* Lots represent residential single-family lots

Revenue

Land transactions. In the third quarter of 2019, we closed on the sale of the final 65 residential lots from our Harbor Hill project in Gig Harbor, Washington, for $12.0 million and seven residential rural lots for a combined $770,000. In the fourth quarter of 2019, we closed on the sale of a 921-acre parcel of timberland for $3.3 million, though we retained timber deeds for periods ranging from five to 15 years on 128 of those acres, a conservation easement on 1,937 acres of our Hood Canal tree farm for $2.6 million, and a 210-acre parcel of undeveloped land for $1.1 million.

In the second quarter of 2018, we closed on the sale of a conservation easement covering 7,800 acres in Skamania County to the Washington State Department of Natural Resources for $3.7 million. In the second and third quarters of 2018 we sold four residential parcels in Bremerton, Bainbridge Island, and northern Kitsap County, Washington for a combined $2.1 million. The remaining land sales in 2018 included a commercial parcel in Bremerton for $400,000 and two parcels of undeveloped land for $205,000.

In the fourth quarter of 2017, we closed on two conservation land sales totaling 1,720 acres for $5.1 million. Under one of these sales, we retained the right to harvest timber on 1,234 acres for a period of 25 years. In our Harbor Hill project, we closed on the sale of 93 single-family residential lots (15 in the third quarter and 78 in the fourth quarter) for $14.2 million and an 11.5-acre business park lot for $3.5 million in the fourth quarter. Included in the residential lot revenue from this project is $285,000 of revenue recognized on the percentage-of-completion method on lots sold in the fourth quarter of 2016. Over the course of the year, we also sold 12 residential lots from other properties for $2.2 million.

Rentals and other. Rental and other activities in our Real Estate segment are generally much less volatile from year-to-year than land sales. Rentals and other in 2019 and 2018 included development and investment management fees related to our joint-venture project on Bainbridge Island as well as a consulting project for the City of Bainbridge Island that finished in Q2 2019.

Cost of Sales

Real Estate cost of sales for each of the three years ended December 31, 2019, 2018, and 2017 was $11.4 million, $3.5 million, and $16.2 million, respectively, with these amounts comprised of land basis, legal, other closing costs, as well as costs incurred in the generation of rental revenue. Unlike fee simple sales which include land basis in cost of sales, CE sales typically have little or no cost basis as part of the transaction. The changes in cost of sales from year-to-year are driven directly by the volume and types of sales with Gig Harbor lot sales generally representing the most expensive lots we sell due to the amount of infrastructure improvement costs associated with these lots.

Operating Expenses

Real Estate operating expenses for each of the three years ended December 31, 2019, 2018, and 2017 were $6.7 million, $10.2 million, and $5.5 million, respectively. Excluding environmental remediation charges, described below, Real Estate operating expenses for each of the three years ended December 31, 2019, 2018, and 2017 were $5.1 million, $4.6 million, and $5.5 million, respectively. The increase from 2018 to 2019 is due primarily to our share of the net losses from an unconsolidated real estate joint venture while it is in the process of securing tenants for its new apartment building on Bainbridge Island, Washington. The decrease from 2017 to 2018 is due primarily to lower professional fees in connection with planning and development for properties, as well as reduced labor costs resulting from lower personnel in the Real Estate segment in 2018 as the Harbor Hill project progressed towards completion.

Environmental Remediation

The environmental remediation liability represents estimated costs to remediate and monitor certain areas in and around the townsite/millsite of Port Gamble, Washington. The history of that site is summarized at “Business – Real Estate – Environmental Remediation.”

We have adjusted the liability from time to time based on evolving circumstances. We recorded a $1.6 million increase to the liability in 2019 and a $5.6 million increase to the liability in 2018. Following is a summary of each of these adjustments and the next steps for the project:

2018 Adjustments

During 2018, we worked with the Washington State Department of Ecology (DOE) to formulate the design of the millsite cleanup. As a result of this design work, we were informed by DOE during the second quarter that we needed to excavate, cap, and monitor a greater amount of soil contamination at the millsite than we had previously anticipated. These changes led us to increase our accrual by $2.9 million in the second quarter of 2018.

During 2018, we finalized the remedial investigation/feasibility study (RI/FS) and draft Cleanup Action Plan (CAP) and submitted it to DOE in early 2019. These two documents reflected the new scope of the millsite cleanup. We also made progress on the Natural Resource Damages (NRD) component of the project during the second half of 2018. As we have disclosed previously, certain environmental laws allow state, federal, and tribal trustees (collectively, the Trustees) to bring suit against property owners to recover damages for injuries to natural resources. Like the liability that attaches to current property owners in the cleanup context, liability for NRD can attach to a property owner simply because an injury to natural resources resulted from releases of hazardous substances on that owner’s property, regardless of culpability for the release. In the case of Port Gamble, the Trustees are alleging that the Partnership has NRD liability because of releases that occurred on its property. We have been in discussions with the Trustees regarding their claims and the alleged conditions in Port Gamble Bay and have also been discussing restoration alternatives that might address the damages the Trustees allege. These discussions progressed to the point where we could identify a short list of restoration projects that would resolve the Trustees’ NRD claims. We re-evaluated our liability to incorporate the information included in the RI/FS submission for the millsite and the status of the discussions with the NRD trustees and recorded an additional $2.7 million increase to our liability. This, along with the second quarter adjustment described above, brought the total adjustment to the liability to $5.6 million for 2018.

2019 Adjustment and next steps

The 2019 increase to the liability was necessary to address continuing developments in our NRD negotiations and an expansion of our long-term monitoring obligations. Ongoing negotiations with the NRD Trustees required us to expand on the scope of the restorations projects we had proposed earlier. In addition, results from the landfill monitoring we had performed in 2018 and 2019 caused the Kitsap Public Health District (KPHD) to require bi-annual monitoring through 2021, rather than the annual monitoring that we had previously anticipated. The scope expansion for the NRD restoration projects and more frequent landfill monitoring activity required by KPHD resulted in a combined $1.6 million increase to our liability in the fourth quarter of 2019.

The CAP and consent decree for the millsite are expected to be finalized during mid-year 2020, following a public review period. For the NRD component of the project, we are continuing to discuss settlement with the Trustees and remain hopeful that we will also have a settlement agreement in place by mid-year 2020. In both cases, it is reasonably possible that our cost estimates could change as a result of changes to either the millsite cleanup or the NRD restoration components of the liability, or both. With the 2018 adjustment and the in-water cleanup completed, however, we expect that any future adjustments to the liability should be less significant than they have been historically. We currently expect the millsite cleanup and NRD restoration to occur over the next two to three years.

Finally, there will be a monitoring period of approximately 10 to 15 more years during which we will monitor conditions in the Bay, on the millsite, and at the landfill containing the dredged and excavated sediments, which is on land that we own a short distance from the town of Port Gamble. During this monitoring phase, conditions may arise that require corrective action, and monitoring protocols may change over time. In addition, extreme weather events could cause damage to the sediment caps that would need to be repaired. These factors could result in additional costs.

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 when we can reasonably estimate the amount.

General & Administrative (G&A)

G&A expenses were $12.1 million, $7.2 million, and $5.7 million for 2019, 2018, and 2017, respectively. The increase in G&A expenses is due primarily to legal and professional fees of $5.3 million for the full year of 2019 related to our strategic evaluation project, which ultimately led to the recently announced pending merger with Rayonier, Inc. and its subsidiaries. The increase from 2017 to 2018 was due primarily to professional fees associated with the previously discussed review of the Partnership's capital allocation strategy, business mix, and organizational structure.

Interest Income and Expense

(in thousands)	**2019**	2018	2017
Interest income - Partnership	**$ 3**	$ 132	$ 3
Interest expense - Partnership	**(3,717)**	(3,075)	(2,644)
Interest expense - Funds	**(2,247)**	(2,247)	(2,321)
Capitalized interest expense - Partnership	**164**	295	491
Net interest expense	**$ (5,797)**	$ (4,895)	$ (4,471)

The increases in interest expense for the Partnership are due primarily to increasing debt balances. In 2019 and 2018, the Partnership borrowed on its credit facilities to finance its co-investment in Fund IV's timberland acquisitions. 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 loan agreements. The patronage program reduced interest expense by $1.4 million, $1.4 million and $1.0 million in 2019, 2018, and 2017, respectively. The increase in the patronage rebate is due to the higher debt balances as well as an increase in the patronage rate in 2018.

Capitalized interest relates to our Harbor Hill project. The changes in capitalized interest from year-to-year are due to the reduction in basis from completed construction activity at Harbor Hill. Following the sale of the final residential lots in Q3 2019, we are no longer capitalizing interest on the Gig Harbor project as we are not currently performing construction on the small remaining portion of that project.

Income Taxes

We recorded income tax expense of $159,000, $104,000 and $1.2 million in 2019, 2018 and 2017, respectively, based on taxable income in our taxable corporate subsidiaries. The increase in income tax expense for 2017 resulted primarily from stronger log prices and higher harvest volumes which generated higher taxable income in 2017, particularly in the taxable corporations in our timber funds.

Pope Resources is a limited partnership and, therefore, is not subject to income tax. Instead, most taxable income or loss is passed through and reported to unitholders each year on a Form K-1 for inclusion in each unitholder's income tax return. Pope Resources does, however, have certain corporate subsidiaries that are subject to income tax. The corporate tax-paying entities are utilized for the Funds and certain activities of the Partnership.

Noncontrolling Interests-ORM Timber Funds

Noncontrolling interests-ORM Timber Funds represents the portion of 2019, 2018, and 2017 net (income) losses of the Funds attributable to third-party owners of the Funds. Included in these results are the management fees charged by ORM LLC (as subsidiary of the Partnership) to the Funds, interest, and income taxes. The portion of the loss or (income) attributable to these third-party investors is added back or deducted to determine "Net and comprehensive (income) loss attributable to unitholders" as follows:

(in thousands)

Noncontrolling interest-2019	**Fund II**	**Fund III**	**Fund IV**	**Total**
Management fees paid to ORM LLC	**$ (1,102)**	**$ (2,281)**	**$ (2,149)**	**$ (5,532)**
Operations	**3,765**	**(1,828)**	**(7,223)**	**(5,286)**
Fund operating income (loss) - internal	**2,663**	**(4,109)**	**(9,372)**	**(10,818)**
Interest expense	**(1,086)**	**(1,161)**	**—**	**(2,247)**
Income tax benefit (expense)	**56**	**(193)**	**50**	**(87)**
Fund net income (loss) - internal	**1,633**	**(5,463)**	**(9,322)**	**(13,152)**
Net (income) loss attributable to noncontrolling interest	**$ (1,306)**	**$ 5,190**	**$ 7,929**	**$ 11,813**

Noncontrolling interest-2018	Fund II	Fund III	Fund IV **	Total
Management fees paid to ORM LLC	$ (1,032)	$ (2,321)	$ (1,200)	$ (4,553)
Operations	5,359	2,188	854	8,401
Fund operating income (loss) - internal	4,327	(133)	(346)	3,848
Interest expense	(1,086)	(1,161)	—	(2,247)
Income tax benefit (expense)	23	(203)	—	(180)
Fund net income (loss) - internal	3,264	(1,497)	(346)	1,421
Net (income) loss attributable to noncontrolling interest	$ (2,611)	$ 1,421	$ 295	$ (895)

Noncontrolling interest-2017	Fund II *	Fund III	Fund IV **	Total
Management fees paid to ORM LLC	$ (1,063)	$ (2,305)	$ —	$ (3,368)
Operations	16,461	(483)	(392)	15,586
Fund operating income (loss) - internal	15,398	(2,788)	(392)	12,218
Interest expense	(1,087)	(1,235)	—	(2,322)
Income tax expense	(448)	(440)	—	(888)
Fund net income (loss) - internal	13,863	(4,463)	(392)	9,008
Net (income) loss attributable to noncontrolling interest	$ (11,092)	$ 4,240	$ 336	$ (6,516)

* Fund II recognized a gain of $12.5 million on the sale of one of its tree farms in January 2017.
** Fund IV was launched in December 2016, but did not acquire its first tree farm until January 2018.

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. We expect that funds generated internally from operations and externally through financing will provide the required resources for the Partnership's and Funds' future operations and capital expenditures for at least the next twelve months.

The Partnership's debt consists of mortgage debt with fixed and variable interest rate tranches and an operating line of credit with Northwest Farm Credit Services (NWFCS). The Partnership's mortgage debt at December 31, 2019, includes a $71.8 million credit facility with NWFCS structured in ten tranches that mature from 2024 through 2036, as well as a $40.0 million delayed-draw facility under which the Partnership may borrow at any time through October 2023. This facility matures in October 2028 and $7.0 million was outstanding at December 31, 2019. The Partnership's credit arrangements with NWFCS include an accordion feature under which the Partnership may borrow, subject to lender approval, up to an additional $50.0 million under either the $71.8 million or the $40.0 million facility. The Partnership has a $30.0 million operating line of credit that matures in October 2023, and had $16.0 million outstanding as of December 31, 2019. The operating line of credit carries a variable interest rate that is based on the one-month LIBOR rate plus 1.6%. All of these facilities are collateralized by portions of the Partnership's timberland. In addition, our commercial office building in Poulsbo, Washington is collateral for a $2.2 million amortizing loan from NWFCS that matures through 2023.

These debt agreements contain covenants that are measured annually, consisting of the following:

- a maximum debt-to-total-capitalization ratio of 30%, with total capitalization calculated using fair market (vs. carrying) value of Partnership timberland, roads and timber; and
- a maximum loan-to-appraised value of collateral of 50%.

The Partnership is in compliance with these covenants as of December 31, 2019, and management expects to remain in compliance for at least the next twelve months.

Mortgage debt within our private equity funds is collateralized by Fund properties only, with no recourse to the Partnership. 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 II's covenants contain a requirement to maintain a loan-to-value ratio of less than 50%, with the denominator defined as fair market value of the timberland pledged as collateral. Fund III has a timberland mortgage with NWFCS comprised of two fixed rate tranches totaling $32.4 million. This mortgage is collateralized by a portion of Fund III's timberland and is non-amortizing, with an $18.0 million tranche maturing in December 2023 and a $14.4 million tranche maturing in October 2024. Fund III's loan contains covenants, measured annually, that require Fund III to maintain an interest coverage ratio of 1.5:1, not exceed a debt-to-appraised value of collateral of 50%, and maintain working capital of $500,000. Fund II and Fund III are in compliance with these covenants as of December 31, 2019, and we expect they will remain in compliance for at least the next twelve months.

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). The weighted average interest rates on debt for the Partnership and Funds were as follows at December 31, 2019:

	Weighted Average Interest Rate	
	Gross	**Net After Patronage**
Partnership debt	4.39%	3.34%
Funds debt	4.58%	3.88%

The change in cash flows from 2019 to 2018 and 2018 to 2017, respectively, is broken down in the following table:

(in thousands)	**2019**	Change	2018	Change	2017
Cash provided by operations	**$ 34,221**	$ (5,557)	$ 39,778	$ 7,798	$ 31,980
Investing activities					
Capital expenditures	**(3,358)**	743	(4,101)	(1,601)	(2,500)
Proceeds from sale of property and equipment	**142**	100	42	12	30
Proceeds from sale of timberland	**90**	90	—	(26,590)	26,590
Proceeds from insurance recovery	**365**	365	—	—	—
Investment in real estate joint venture	**—**	—	—	5,790	(5,790)
Deposits for acquisitions of timberland - Funds	**—**	1,005	(1,005)	4,683	(5,688)
Acquisition of timberland - Partnership	**(812)**	5,544	(6,356)	(475)	(5,881)
Acquisition of timberland - Funds	**(19,313)**	121,326	(140,639)	(140,639)	—
Cash provided by (used in) investing activities	**(22,886)**	129,173	(152,059)	(158,820)	6,761
Financing activities					
Line of credit borrowings	**24,886**	(7,589)	32,475	4,475	28,000
Line of credit repayments	**(25,286)**	(13,011)	(12,275)	13,525	(25,800)
Repayment of long term debt	**(128)**	(5)	(123)	4,996	(5,119)
Proceeds from issuance of long-term debt	**3,000**	(1,000)	4,000	4,000	—
Debt issuance costs	**(125)**	108	(233)	(129)	(104)
Proceeds from unit issuances	**42**	(173)	215	206	9
Unit repurchases	**(863)**	326	(1,189)	116	(1,305)
Payroll taxes paid on unit net settlements	**(80)**	21	(101)	(7)	(94)
Cash distributions to unitholders	**(17,435)**	(3,492)	(13,943)	(1,728)	(12,215)
Cash distributions from Real Estate joint venture	**136**	136	—	—	—
Cash distributions - ORM Timber Funds, net of distributions to Partnership	**(9,886)**	5,621	(15,507)	15,396	(30,903)
Capital call - ORM Timber Funds, net of Partnership contribution	**17,259**	(102,476)	119,735	114,498	5,237
Capital call - Real Estate, net of Partnership contribution	**—**	—	—	(5,900)	5,900
Preferred stock issuance - ORM Timber Funds	**125**	125	—	—	—
Cash provided by (used in) financing activities	**(8,355)**	(121,409)	113,054	149,448	(36,394)
Net increase in cash and restricted cash	**$ 2,980**	$ 2,207	$ 773	$ (1,574)	$ 2,347

Operating cash activities. The decrease in cash provided by operating activities of $5.6 million from 2018 to 2019 resulted primarily from $4.9 million increase in general and administrative expenses and a 17% decline in log prices. This decline was offset partially, however, by a $13.3 million increase in Real Estate sales and a 5% increase in harvest volume.

The increase in cash provided by operating activities of $7.8 million from 2017 to 2018 resulted primarily from a 9% increase in log prices and a 22% increase in harvest volume. These favorable results were partially offset, however, by an $18.5 million decrease in Real Estate sales. Additional contributions to the increase in cash provided by operations included a $6.3 million decrease in environmental remediation expenditures and a $4.4 million decrease in real estate project expenditures.

Investing cash activities. The $129.2 million increase in cash from investing activities from 2018 to 2019 resulted from a decrease in timberland acquisitions for Fund IV in 2019 compared to 2018 and a decrease in small tract acquisitions for the Partnership in 2019 compared to 2018. Capital expenditures were also higher in 2018.

The $158.8 million decrease in cash from investing activities from 2017 to 2018 was due primarily to sales and acquisitions of timberland by the Partnership and Funds. In addition, a consolidated subsidiary of the Partnership invested $5.8 million in an unconsolidated real estate joint venture in 2017.

Financing activities. The $121.4 million decrease in cash from financing activities from 2018 to 2019 resulted primarily from a $102.5 million net decrease in capital calls from the Funds and $21.6 million lower borrowings under our credit facilities. This was offset partially by lower distributions by the Funds and the Partnership in the aggregate.

The $149.4 million increase in cash from financing activities from 2017 to 2018 resulted primarily from a $108.6 million net increase in capital calls from the funds and real estate joint venture, a $27.0 million net increase in borrowings under our credit facilities, and a $15.4 million decrease in distributions by the Funds, primarily because 2017 included a distribution by Fund II of the proceeds from the sale of one of its tree farms.

Expected Future Changes to Cash Flows

Due to the recently announced pending acquisition of the Partnership, which is expected to close by mid-year 2020, changes to future cash flows are difficult to predict. We expect that our G&A expenses will continue at an elevated level until the transaction closes. For the first half of 2020, we expect timber prices to remain relatively flat.

Management is currently projecting that cash on hand, cash generated from operating activities, and financing available from our existing credit facilities will be sufficient to meet our needs for the coming year. To date, the Partnership's strong financial position has enabled fairly easy access to credit at reasonable terms when needed.

Seasonality

Partnership Timber and Funds 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.

The percentage of total annual harvest volume, on a Combined basis and excluding timber deed sales, by quarter for each year in the three-year period ended December 31, 2019, was as follows:

Year ended	Q1	Q2	Q3	Q4
2019	**26%**	**30%**	**18%**	**25%**
2018	23%	26%	25%	26%
2017	26%	22%	19%	31%

Timberland Investment Management. Management revenue generated by this segment consists of asset and timberland management fees. These fees, which relate primarily to our activities on behalf of the Funds and are eliminated in consolidation, vary based upon the amount of invested capital, the number of acres owned by the Funds, and the volume of timber harvested from properties owned by the Funds. Only the latter has any component of seasonality as it is based on harvest volume.

Real Estate. While Real Estate results are not normally 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 much lower revenue and income (or losses) 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 development activities in the Pacific Northwest.

Contractual Obligations, Commercial Commitments and Contingencies

Our commitments at December 31, 2019, are presented in the following table:

(in thousands)	Payments Due By Period /Commitment Expiration Date				
Obligation or Commitment	**Total**	**Less than 1 year**	**1-3 years**	**4-5 years**	**After 5 years**
Debt - Partnership	$ 97,009	$ 133	$ 281	$ 23,793	$ 72,802
Debt - Funds	57,380	25,000	—	32,380	—
Operating leases	161	98	63	—	—
Interest on debt - Partnership	45,014	4,272	8,529	8,312	23,901
Interest on debt - Funds	10,409	2,629	4,901	2,879	—
Environmental remediation	10,010	1,105	7,361	218	1,326
Other long-term obligations	121	25	50	46	—
Total contractual obligations or commitments	$ 220,104	$ 33,262	$ 21,185	$ 67,628	$ 98,029

Environmental remediation represents our estimate of potential liability associated with environmental contamination at Port Gamble. “Other long-term obligations” consists of a $121,000 liability for a supplemental employment retirement plan.

The impact of inflation on our consolidated financial condition and consolidated results of operations for each of the periods presented was not material.

Off-Balance Sheet Arrangements

The Partnership is not a party to any material off-balance sheet arrangements and does not hold any variable interests in unconsolidated entities.

Capital Expenditures and Commitments

We expect capital expenditures for 2020 will be largely consistent with prior years. With the sale of the final residential lots from our Harbor Hill project in Gig Harbor in 2019, we do not expect significant Real Estate project expenditures in 2020.

Government Regulation

Compliance with laws and regulations usually involves capital expenditures as well as operating costs. We cannot reasonably quantify future amounts of capital expenditures required to comply with laws and regulations, or the effects on operating costs, because in some instances compliance standards have not been developed or have not become final or definitive. Accordingly, at this time, we have not attempted to quantify future capital requirements to comply with any new regulations being developed by United States regulatory agencies.

Additionally, many federal and state environmental regulations, as well as local zoning and land use ordinances, place limits upon various aspects of our operations. These limits include restrictions on our harvest methods and volumes, remediation requirements that may increase our post-harvest reforestation costs, Endangered Species Act limitations on our ability to harvest in certain areas, zoning and development restrictions that impact our Real Estate segment, and a wide range of other existing and pending statutes and regulations. Various initiatives are presented from time to time that seek further restrictions on timber and real estate development businesses, and although management currently is not aware of any material noncompliance with applicable law, we cannot assure readers that we will ultimately be successful in complying with all such regulations or that additional regulations will not ultimately have a material adverse impact upon our business.

ACCOUNTING MATTERS

Critical Accounting Estimates

Our significant accounting policies are discussed in note 1 to our consolidated financial statements. Certain of our accounting policies have a higher degree of complexity, and they involve estimates requiring a higher degree of judgment. We believe the accounting policies discussed below represent the most complex, difficult, and subjective matters in this regard.

Purchased timberland cost allocation. When the Partnership or the Funds acquire timberlands, a purchase price allocation is performed that allocates cost between the categories of merchantable timber, pre-merchantable timber, roads, and land based upon the relative fair values pertaining to each of these categories. Land value may include uses other than timberland, including potential conservation easement sales and development opportunities. The allocation of costs between the asset categories is driven largely by estimates of the volume of timber at the time of acquisition and future log prices, harvest and haul costs, volume at harvest, timing of harvest, silviculture costs, other operating expenses, and capital expenditures. These factors must be estimated for periods of several decades depending on the age class distribution of the acquired timberland. The allocation among the asset categories, particularly merchantable timber, pre-merchantable timber, and roads, forms the basis for calculating the depletion rate used to record depletion expense as the timber is harvested.

Timber volume. Timber volume includes only timber whose eventual harvest is not constrained by the applicable state and federal regulatory limits on timber harvests as applied to the Partnership's and Funds' properties. Timber volume is accounted for and adjusted by periodic statistical sampling of the harvestable timber acres. Since timber stands can be very heterogeneous, the accuracy of the statistical sampling of trees within a stand, known as a "timber cruise" or "cruising", can vary. The timber inventory system is designed in such a way that it is updated on a regular basis and thus the accuracy of the whole is reliable while any subset, or individual timber stand, will have a wider range of accuracy.

The standing timber inventory system is subject to three processes each quarter to monitor and maintain accuracy. The first is the cruise update process, the second is a comparison of the volume actually extracted by harvest to the volume in the standing inventory system at the time of the harvest (otherwise known as "cutout analysis"), and the third is necessary adjustments to productive acres based on actual acres harvested. The portion of productive acres of timber stands on the Combined tree farms that are physically measured or re-measured by cruising is such that generally stands with actual volume are cruised every seven years. Specific acres are first selected for cruising with a bias towards those acres that have gone the longest without a cruise and, second, with a bias towards those acres that have been growing the longest. Only stands older than 20 years are selected as subject to a cruise and, as the cruise is performed, only those trees with a diameter at breast height (DBH) (approximately 4.5 feet from the ground) of at least 5.6 inches are measured for inclusion in the inventory. For younger stands, all trees are tallied during the cruise process so that growth models can accurately predict how future stands will develop. The cutout analysis compares the total volume for a stand which was grown annually using systems designed to predict future yields, based on growth models, to actual harvest volumes. Due to the nature of statistical sampling, the results of the quarterly cutout analysis is meaningful only in the context of accumulated results over several years, and not in the context of a single harvest unit. Minor adjustments both up and down to productive acres are made quarterly after foresters and managers accurately map those harvested acres in the Geographic Information System (GIS). These adjusted acres are linked to the inventory system and are used to drive the estimates of future available volume. Over the last five years, our overall volume variances from the cutout analysis, which examines harvested stands rather than the entire population of merchantable timber, have been as much as approximately 8% in any one year, but have averaged about 6% in the aggregate over that time frame. Moreover, as our volume estimates in our standing inventory system are adjusted regularly as part of the cruising process, our depletion rates are continually incorporating the resulting updated volumes.

The estimate of timber inventory impacts our financial statements in the following ways:

Depletion expense. Depletion represents the cost of timber harvested and the cost of the permanent road system that is charged to operations by applying a depletion rate to volume harvested during the period. The depletion rate is calculated on January 1st of each year by dividing the recorded cost of merchantable timber and the cost of the permanent road system by the volume of merchantable timber. For purposes of the depletion calculation, merchantable timber is defined as timber that is equal to or greater than 35 years of age for all of our tree farms except California, for which merchantable timber is defined as timber with a DBH of 16 inches or greater because of the uneven-aged management regime of that tree farm. On an annual basis, the volume and recorded cost for stands that become 35 years of age or 16 inches in DBH are incorporated in the depletion rate calculation.

To calculate the depletion rate, we use a combined pool for the Partnership's timberlands as they are managed as one unit and the characteristics of the individual tree farms are substantially similar to one another. Depletion rate calculations for the Funds' timberlands are specific to each tree farm, as each tree farm is managed individually and they tend to have a more diverse set of characteristics.

A hypothetical 5% change in estimated merchantable timber volume would have changed 2019 depletion expense by approximately $1.2 million.

Timber deed sale revenue. Our timber deed sale contracts provide the customer the legal right to harvest timber on the Partnership's or Funds' property. Revenue is generally recognized when the contract is signed, as this transfers control of the timber to the customer. The value of a timber deed contract is determined based on the estimated timber volume by tree species multiplied by the contracted price. The total contract value is an estimate as it is based on the estimated timber inventory and species mix of the harvest units subject to the contract. A hypothetical 5% change in the estimated timber inventory volume of timber deed sale contracts would have changed 2019 revenue by approximately $120,000.

Environmental remediation. The Partnership has an accrual for estimated environmental remediation costs of $10.0 million and $9.1 million as of December 31, 2019 and 2018, respectively. The environmental remediation liability represents estimated payments to be made to remedy and monitor certain areas in and around Port Gamble Bay and complete related natural resource damages restoration projects. Additional information about the Port Gamble site is presented in “Business – Real Estate – Environmental Remediation” above and in “Management’s Discussion and Analysis – Real Estate”. The remaining costs for the project include costs to clean up the millsite and monitor the conditions in Port Gamble Bay, on the millsite, and at the storage location of the dredged sediments. The millsite remediation will include primarily excavation of contaminated soils and placement of clean caps. Monitoring costs include primarily evaluating and maintaining caps, as well as sampling and surveying the conditions at the site and taking any corrective action that may be necessary based on the results. The remaining monitoring period is estimated to be approximately 13 years, but could be shorter or longer depending on the information gathered during the monitoring period.

Costs may still vary as the project progresses due to a number of factors, some of which are outlined as follows:

Uncertainty with respect to the millsite cleanup: Although we do not anticipate material changes to our estimated costs for this element of the project, the design and scope of this work has not yet been finalized and our estimates could change.

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

Unforeseen conditions: As we transition to the maintenance and monitoring phases of the project, conditions may arise that require corrective action, and monitoring protocols may change over time. In addition, extreme weather events could cause damage to caps that would need to be repaired. These factors could result in additional costs. Likewise, we cannot accurately predict the impacts, if any, of the alleged NRD claims.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

At December 31, 2019, the Partnership and Funds had a combined $125.4 million of fixed-rate debt outstanding with a fair value of approximately $162.1 million based on the current interest rates for similar financial instruments. A change in the interest rate on fixed-rate debt will affect the fair value of the debt, whereas a change in the interest rate on variable-rate debt will affect interest expense and cash flows. A hypothetical 1% change in prevailing interest rates would change the fair value of our fixed-rate long-term debt obligations by $3.8 million and result in a $290,000 change in annual interest expense from our variable-rate debt balance of $29.0 million at December 31, 2019.

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Item 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

POPE RESOURCES

A DELAWARE LIMITED PARTNERSHIP

YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP

YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017

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Report of Independent Registered Public Accounting Firm

To the Unitholders of Pope Resources, A Delaware Limited Partnership and the Board of Directors of Pope MGP, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Pope Resources, A Delaware Limited Partnership, and subsidiaries (the Partnership) as of December 31, 2019 and 2018, the related consolidated statements of comprehensive income (loss), partners' capital, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Partnership as of December 31, 2019 and 2018, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 2019, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Partnership's internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 28, 2020 expressed an unqualified opinion on the effectiveness of the Partnership's internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Partnership changed its method of accounting for revenue recognition effective January 1, 2018 due to the adoption of ASC 606 *Revenue from Contracts with Customers*.

Basis for Opinion

These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

(signed) KPMG LLP

We have served as the Partnership‘s auditor since 2002.

Seattle, Washington
February 28, 2020

Report of Independent Registered Public Accounting Firm

To the Unitholders of Pope Resources, A Delaware Limited Partnership and the Board of Directors of Pope MGP, Inc.:

Opinion on Internal Control Over Financial Reporting

We have audited Pope Resources, A Delaware Limited Partnership, and subsidiaries' (the Partnership) internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. In our opinion, the Partnership maintained, in all material respects, effective internal control over financial reporting as of December 31, 2019, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Partnership as of December 31, 2019 and 2018, the related consolidated statements of comprehensive income (loss), partners' capital, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements), and our report dated February 28, 2020 expressed an unqualified opinion on those consolidated financial statements.

Basis for Opinion

The Partnership's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying *Management's Report on Internal Control Over Financial Reporting*. Our responsibility is to express an opinion on the Partnership's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Partnership in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

(signed) KPMG LLP

Seattle, Washington
February 28, 2020

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2019 AND 2018
(IN THOUSANDS)

ASSETS	2019	2018
Current assets		
Partnership cash	$ 2,030	$ 1,784
ORM Timber Funds cash	6,197	3,330
Cash	8,227	5,114
Restricted cash	810	943
Total cash and restricted cash	9,037	6,057
Accounts receivable	3,824	4,670
Contract assets	2,765	2,872
Land held for sale	—	5,697
Prepaid expenses and other current assets	1,385	1,070
Total current assets	17,011	20,366
Properties and equipment, at cost		
Timber and roads	367,305	377,970
Timberland	77,035	74,267
Land held for development	20,223	20,891
Buildings and equipment, net of accumulated depreciation	5,340	5,500
Total properties and equipment, at cost	469,903	478,628
Other assets	6,635	9,255
Total assets	$ 493,549	$ 508,249
LIABILITIES, PARTNERS' CAPITAL AND NONCONTROLLING INTERESTS		
Current liabilities		
Accounts payable	$ 1,700	$ 2,379
Accrued liabilities	7,165	5,191
Current portion of long-term debt - Partnership	133	128
Current portion of long-term debt - Funds	24,990	—
Deferred revenue	223	336
Current portion of environmental remediation liability	1,104	1,082
Other current liabilities	1,399	865
Total current liabilities	36,714	9,981
Long-term debt, net of unamortized debt issuance costs and current portion - Partnership	96,406	93,928
Long-term debt, net of unamortized debt issuance costs - Funds	32,345	57,313
Environmental remediation and other long-term liabilities	9,091	8,427
Commitments and contingencies		
Partners' capital		
General partners' capital (units issued and outstanding 2019 - 60; 2018 - 60)	751	944
Limited partners' capital (units issued and outstanding 2019 - 4,258; 2018 - 4,253)	42,010	56,533
Noncontrolling interests	276,232	281,123
Total partners' capital and noncontrolling interests	318,993	338,600
Total liabilities, partners' capital, and noncontrolling interests	$ 493,549	$ 508,249

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017
(IN THOUSANDS, EXCEPT PER UNIT INFORMATION)

	2019	2018	2017
Revenue			
Partnership Timber	**$ 39,987**	$ 45,422	$ 39,672
Funds Timber	**48,646**	49,819	33,842
Timberland Investment Management	**18**	9	9
Real Estate	**21,252**	8,304	26,300
Total revenue	**109,903**	103,554	99,823
Costs and expenses			
Cost of sales			
Partnership Timber	**(19,605)**	(17,828)	(14,874)
Funds Timber	**(48,142)**	(36,732)	(26,910)
Real Estate	**(11,437)**	(3,527)	(16,200)
Total cost of sales	**(79,184)**	(58,087)	(57,984)
Operating expenses			
Partnership Timber	**(5,288)**	(6,268)	(5,671)
Funds Timber	**(5,790)**	(4,672)	(3,893)
Timberland Investment Management	**(4,893)**	(4,495)	(3,520)
Real Estate	**(5,118)**	(4,579)	(5,508)
Environmental remediation (Real Estate)	**(1,576)**	(5,600)	—
General & Administrative	**(12,139)**	(7,217)	(5,742)
Total operating expenses	**(34,804)**	(32,831)	(24,334)
Gain on sale of timberland	**87**	—	12,547
Operating income (loss)			
Partnership Timber	**15,181**	21,326	19,127
Funds Timber	**(5,286)**	8,415	15,586
Timberland Investment Management	**(4,875)**	(4,486)	(3,511)
Real Estate	**3,121**	(5,402)	4,592
General & Administrative	**(12,139)**	(7,217)	(5,742)
Total operating income (loss)	**(3,998)**	12,636	30,052
Interest expense, net	**(5,797)**	(4,895)	(4,471)
Income (loss) before income taxes	**(9,795)**	7,741	25,581
Income tax expense	**(159)**	(104)	(1,176)
Net and comprehensive income (loss)	**(9,954)**	7,637	24,405
Net and comprehensive (income) loss attributable to noncontrolling interests-ORM Timber Funds	**11,813**	(895)	(6,516)
Net and comprehensive loss attributable to noncontrolling interests-Real Estate	**576**	79	2
Net and comprehensive income attributable to unitholders	**$ 2,435**	$ 6,821	$ 17,891
Allocable to general partners	**$ 34**	$ 95	$ 250
Allocable to limited partners	**2,401**	6,726	17,641
Net and comprehensive income attributable to unitholders	**$ 2,435**	$ 6,821	$ 17,891
Basic and diluted earnings per unit attributable to unitholders	**$ 0.52**	$ 1.54	$ 4.10
Distributions per unit	**$ 4.00**	$ 3.20	$ 2.80

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL
YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017
(IN THOUSANDS)

		Attributable to Pope Resources			
	Units	General Partners	Limited Partners	Noncontrolling Interests	Total
December 31, 2016	4,315	$ 934	$ 58,199	$ 189,331	$ 248,464
Net income	—	250	17,641	6,514	24,405
Cash distributions	—	(171)	(12,044)	(30,903)	(43,118)
Capital call		—	—	11,137	11,137
Equity-based compensation	15	16	1,112	—	1,128
Unit issuances - distribution reinvestment plan	—	—	9	—	9
Unit repurchases	(18)	—	(1,305)	—	(1,305)
Indirect repurchase of units for minimum tax withholding	(1)	(1)	(93)	—	(94)
December 31, 2017	4,311	1,028	63,519	176,079	240,626
Net income	—	95	6,726	816	7,637
Cash distributions	—	(194)	(13,749)	(15,507)	(29,450)
Capital call	—	—	—	119,735	119,735
Equity-based compensation	17	16	1,111	—	1,127
Unit issuances - distribution reinvestment plan	3	—	215	—	215
Unit repurchases	(17)	—	(1,189)	—	(1,189)
Indirect repurchase of units for minimum tax withholding	(1)	(1)	(100)	—	(101)
December 31, 2018	4,313	944	56,533	281,123	338,600
Net income (loss)	**—**	**34**	**2,401**	**(12,389)**	**(9,954)**
Cash distributions	**—**	**(242)**	**(17,193)**	**(9,886)**	**(27,321)**
Capital calls	**—**	**—**	**—**	**17,259**	**17,259**
Preferred stock issuance		**—**	**—**	**125**	**125**
Equity-based compensation	**18**	**16**	**1,169**	**—**	**1,185**
Unit issuances - distribution reinvestment plan	**1**	**—**	**42**	**—**	**42**
Unit repurchases	**(13)**	**—**	**(863)**	**—**	**(863)**
Indirect repurchase of units for minimum tax withholding	**(1)**	**(1)**	**(79)**	**—**	**(80)**
December 31, 2019	**4,318**	**$ 751**	**$ 42,010**	**$ 276,232**	**$ 318,993**

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017
(IN THOUSANDS)

	2019	2018	2017
Cash flows from operating activities:			
Cash received from customers	**$ 111,707**	$ 101,621	$ 97,665
Cash paid to suppliers and employees	**(67,840)**	(51,551)	(45,307)
Environmental remediation payments	**(649)**	(1,496)	(7,791)
Interest received	**3**	126	3
Interest paid, net of amounts capitalized	**(6,021)**	(4,941)	(4,603)
Real Estate project expenditures	**(2,772)**	(3,210)	(7,588)
Income taxes paid	**(207)**	(771)	(399)
Net cash provided by operating activities	**34,221**	39,778	31,980
Cash flows from investing activities:			
Capital expenditures	**(3,358)**	(4,101)	(2,500)
Proceeds from sale of fixed assets	**142**	42	30
Proceeds from sale of timberland	**90**	—	26,590
Proceeds from insurance recovery	**365**	—	—
Investment in unconsolidated Real Estate joint venture	**—**	—	(5,790)
Deposit for acquisition of timberland - Funds	**—**	(1,005)	(5,688)
Acquisition of timberland - Partnership	**(812)**	(6,356)	(5,881)
Acquisition of timberland - Funds	**(19,313)**	(140,639)	—
Net cash provided by (used in) investing activities	**(22,886)**	(152,059)	6,761
Cash flows from financing activities:			
Line of credit borrowings	**24,886**	32,475	28,000
Line of credit repayments	**(25,286)**	(12,275)	(25,800)
Repayment of long-term debt	**(128)**	(123)	(5,119)
Proceeds from issuance of long-term debt	**3,000**	4,000	—
Payment of debt issuance costs and prepayment penalty	**(125)**	(233)	(104)
Proceeds from unit issuances - distribution reinvestment plan	**42**	215	9
Unit repurchases	**(863)**	(1,189)	(1,305)
Payroll taxes paid on unit net settlements	**(80)**	(101)	(94)
Cash distributions to unitholders	**(17,435)**	(13,943)	(12,215)
Cash distributions from Real Estate joint venture	**136**	—	—
Cash distributions - ORM Timber Funds, net of distributions to Partnership	**(9,886)**	(15,507)	(30,903)
Capital call - ORM Timber Funds, net of Partnership contribution	**17,259**	119,735	5,237
Capital call - Real Estate, net of Partnership contribution	**—**	—	5,900
Preferred stock issuance - ORM Timber Funds	**125**	—	—
Net cash provided by (used in) financing activities	**(8,355)**	113,054	(36,394)
Net increase (decrease) in cash and restricted cash	**2,980**	773	2,347
Cash and restricted cash:			
Beginning of year	**6,057**	5,284	2,937
End of year	**$ 9,037**	$ 6,057	$ 5,284

See accompanying notes to consolidated financial statements.

POPE RESOURCES, A DELAWARE LIMITED PARTNERSHIP
SCHEDULE TO CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2019, 2018, AND 2017
(IN THOUSANDS)

Reconciliation of net income to net cash provided by operating activities:	**2019**	2018	2017
Net income	**$ (9,954)**	$ 7,637	$ 24,405
Depletion	**31,178**	27,121	19,187
Equity-based compensation	**1,185**	1,127	1,128
Depreciation and amortization	**765**	604	534
Loss on early extinguishment of debt	**64**	—	—
Gain on sale of timberland	**(87)**	—	(12,547)
Gain on sale of property and equipment	**(108)**	(43)	(2)
Deferred taxes, net	**72**	(76)	288
Cost of land sold - Real Estate	**9,281**	1,674	13,862
Loss from unconsolidated real estate joint venture	**801**	4	5
Increase (decrease) in cash from changes in operating accounts:			
Accounts receivable	**847**	1,757	(2,046)
Prepaid expenses, contract assets and other assets	**395**	(2,502)	2,336
Real estate project expenditures	**(2,772)**	(3,210)	(7,588)
Accounts payable and accrued liabilities	**1,445**	689	417
Deferred revenue	**(113)**	139	(222)
Environmental remediation accruals	**1,576**	5,600	—
Environmental remediation payments	**(649)**	(1,496)	(7,791)
Other current and noncurrent liabilities	**295**	753	14
Net cash provided by operating activities	**$ 34,221**	$ 39,778	$ 31,980

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Pope Resources, A Delaware Limited Partnership is a publicly traded limited partnership engaged primarily in managing timber resources on its own properties as well as those owned by others. Pope Resources' wholly-owned subsidiaries include the following: ORM, Inc., which is responsible for managing Pope Resources' timber properties; Olympic Resource Management LLC (ORMLLC), which provides timberland management activities and is responsible for developing the timber fund business; Olympic Property Group I LLC, which manages the Port Gamble townsite and millsite together with land that is held as development property; and OPG Properties LLC, which owns land that is held as development property and holds other real estate investments. These consolidated financial statements include ORM Timber Fund II, Inc. (Fund II), ORM Timber Fund III, Inc. (Fund III), and ORM Timber Fund IV LLC (Fund IV, and collectively with Fund II and Fund III, the Funds). ORMLLC is the manager of and owns 1% of Funds II, III and IV. Pope Resources owns 19% of Fund II, 4% of Fund III, and 14% of Fund IV. The purpose of all three Funds is to invest in timberlands. See Note 4 for additional information. These consolidated financial statements also include OPG Ferncliff Investors LLC (Ferncliff Investors). OPG Properties LLC, through wholly-owned subsidiary OPG Ferncliff Management LLC (Ferncliff Management) owns 33.33% of Ferncliff Investors, which in turn holds a 50% interest in an unconsolidated real estate joint venture entity, Bainbridge Landing LLC. Ferncliff Management is the manager of Ferncliff Investors. See Note 6 for additional information.

The Partnership operates in four business segments: Partnership Timber, Funds Timber, Timberland Investment Management, and Real Estate. The Partnership Timber and Funds Timber segments represent the growing and harvesting of trees from properties owned by the Partnership and the Funds, respectively. Timberland Investment Management represents management, acquisition, disposition, and consulting services provided to third-party owners of timberland and provides management services to the Funds. Real Estate consists of obtaining and entitling properties that have been identified as having value as developed residential or commercial property and operating the Partnership's existing commercial properties in Kitsap County, Washington.

Principles of consolidation

The consolidated financial statements include the accounts of the Partnership, entities controlled by the Partnership, and variable interest entities where the Partnership or entities it controls have the authority to direct the activities that most significantly impact their economic performance. Intercompany balances and transactions, including operations related to the Funds, have been eliminated in consolidation. The wholly-owned subsidiaries, Funds, and Ferncliff Investors are consolidated into Pope Resources' financial statements (see Notes 3 and 5).

New accounting standards

Effective January 1, 2018, the Partnership adopted Topic 606, *Revenue from Contracts with Customers*. For delivered log sales from the Partnership Timber and Funds Timber segments, there were no changes to the timing or amount of revenue recognized because contracts are legally enforceable, the transaction price is fixed, and performance is completed and control transfers at a point in time, typically when risk of loss and title passes to the customer. Similarly, no changes were identified to the timing or amount of revenue recognized from certain components of other revenue in these segments, including commercial thinning, royalties from gravel mines and quarries, and land use permits. For timber deed sales, the timing of revenue recognition was accelerated under the new standard to the effective date of the contract, whereas under the previous revenue recognition guidance the revenue was generally recognized when the timber was harvested by the customer. Under Topic 606, revenue recognized from timber deed sales for the year ended December 31, 2019 was $3.2 million less than it would have been under the previous revenue recognition standards. For the year ended December 31, 2018, revenue recognized from timber deed sales was $7.4 million greater than it would have been under the previous revenue recognition accounting standards. For the Real Estate segment, this new standard may result in accelerating the recognition of revenue for performance obligations that are satisfied over time, which generally consist of construction and landscaping activity in common areas completed after transaction closing. The Partnership adopted this standard using the cumulative effect transition method applied to uncompleted contracts as of the date of adoption. The Partnership, however, had no uncompleted contracts at the date of adoption. Accordingly, the adoption of this standard did not have a cumulative effect on the Partnership's consolidated financial statements.

In February 2016, the FASB established Topic 842, *Leases*, which requires lessees to recognize leases on the balance sheet and disclose certain information about leasing arrangements. Topic 842 was subsequently amended by ASU No. 2018-01, *Land Easement Practical Expedient for Transition to Topic 842*; ASU No. 2018-10, *Codification Improvements to Topic 842, Leases*; and ASU No. 2018-11, *Targeted Improvements*. The new standard establishes a right-of-use (ROU) model that requires a lessee to recognize a ROU asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Leases are classified as financing or operating, with classification affecting the pattern and classification of expense recognition in the income statement. For lessors, leases are classified as a sales-type, direct financing, or operating lease.

The Partnership adopted this new standard effective January 1, 2019 and utilized the effective date as the date of initial application. Consequently, financial information was not updated, and the disclosures required under the new standard are not provided for dates and periods prior to January 1, 2019. The new standard provides a number of optional practical expedients in transition. The Partnership elected the 'package of practical expedients', which permits us to not reassess under the new standard our prior conclusions about lease identification, lease classification, and initial direct costs. We did not elect the use-of-hindsight or the practical expedient pertaining to land easements, the latter not being applicable to us.

The Partnership recognized a ROU asset and lease liability of $294,000 as of January 1, 2019 in connection with the adoption of this standard and all of its leases continue to be classified as operating leases. Accordingly, the adoption of this standard did not have a cumulative effect, or material effect, on the Partnership's consolidated financial statements.

General partner

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, income and other capital related items between the general and limited partners is pro rata among all units outstanding. The managing general partner of the Partnership is Pope MGP, Inc. The Partnership has no directors. Instead, the board of directors of Pope MGP, Inc. serves in that capacity.

Noncontrolling interests

Noncontrolling interests represents the portion of net income and losses of the Funds and Ferncliff Investors attributable to third-party owners of these entities. Noncontrolling interests represent 80% of Fund II, 95% of Fund III, 85% of Fund IV, and 66.67% of Ferncliff Investors ownership. To arrive at net and comprehensive income attributable to Partnership unitholders, the portion of the income attributable to these third-party investors is subtracted from net and comprehensive income or, in the case of a loss attributable to third-party investors, added back to net and comprehensive income.

Significant estimates in financial statements

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

Depletion

Timber costs are combined into depletion pools based on how the tree farms are managed and on the common characteristics of the timber such as location and species mix. Each tree farm within the Funds is considered a separate depletion pool and timber harvested from the Funds' tree farms is accounted for and depleted separately from timber harvested from the Partnership's timberlands, which are considered one depletion pool. The applicable depletion rate is derived by dividing the aggregate cost of merchantable stands of timber, together with capitalized road expenditures, by the estimated volume of merchantable timber available for harvest at the beginning of that year. For purposes of the depletion calculation, merchantable timber is defined as timber that is equal to or greater than 35 years of age for all of the tree farms except California, for which merchantable timber is defined as timber with a diameter at breast height (DBH) of 16 inches or greater. The depletion rate, so derived and expressed in per thousand board feet (MBF) terms, is then multiplied by the volume harvested in a given period to calculate depletion expense for that period as follows:

$$\text{Depletion rate} = \frac{\text{Accumulated cost of timber and capitalized road expenditures}}{\text{Estimated volume of merchantable timber}}$$

Purchased timberland cost allocation

When the Partnership or Funds acquire timberlands, a purchase price allocation is performed that allocates cost between the categories of merchantable timber, pre-merchantable timber, roads, and land based upon the relative fair values pertaining to each of the categories. Land value may include uses other than timberland including potential conservation easement (CE) sales and development opportunities.

Cost of sales

Cost of sales consists of the Partnership's cost basis in timber (depletion expense), real estate, and other inventory sold, and direct costs incurred to make those assets salable. Those direct costs include the expenditures associated with the harvesting and transporting of timber and closing costs incurred in land and lot sale transactions. Cost of sales also consists of those costs directly attributable to the Partnership's rental activities.

Restricted cash

Restricted cash comprises capital contributed by third-party owners of Ferncliff Investors that must be invested in an unconsolidated real estate joint venture entity or used to pay related management fees.

Like-kind exchanges

In order to acquire and sell assets, primarily timberland and other real property, in a tax efficient manner, we sometimes utilize Internal Revenue Code (IRC) Section 1031 like-kind exchange transactions. There are two main types of like-kind exchange transactions: forward transactions, in which property is sold and the proceeds are reinvested by acquiring similar property; and reverse transactions, in which property is acquired and similar property is subsequently sold. We use qualified intermediaries to facilitate such transactions and proceeds from forward transactions are held by the intermediaries. Both types of transactions must be completed within prescribed periods under IRC Section 1031, generally 180 days. Any unused funds held by intermediaries at the expiration of these time periods revert to the Partnership. To the extent we have identified potential replacement properties to acquire, funds held by intermediaries are classified as non-current in other assets on the consolidated balance sheets. To the extent funds held by qualified intermediaries exceed the value of identified potential properties to acquire, the funds are included in prepaid expenses and other current assets. There were no amounts held by like-kind exchange intermediaries at December 31, 2019 or 2018.

Concentration of credit risk

Financial instruments that potentially subject the Partnership to concentrations of credit risk consist principally of accounts and notes receivable. The Partnership limits its credit exposure by considering the creditworthiness of potential customers and utilizing the underlying land sold as collateral on real estate contracts. The Partnership had no allowance for doubtful accounts at December 31, 2019 or 2018.

Income taxes

The Partnership itself is not subject to income taxes, but its corporate subsidiaries, and those of the Funds, are subject to income taxes which are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Operating loss and tax credit carryforwards, if any, are also factored into the calculation of deferred tax assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date. The Partnership has concluded that it is more likely than not that its deferred tax assets will be realizable and thus no valuation allowance has been recorded as of December 31, 2019. This conclusion is based on anticipated future taxable income, the expected future reversals of existing taxable temporary differences, and tax planning strategies to generate taxable income, if needed. The Partnership will continue to reassess the need for a valuation allowance during each future reporting period. The Partnership is not aware of any tax exposure items as of December 31, 2019 and 2018, where the Partnership's tax position is not more likely than not to be sustained if challenged by the taxing authorities. The Partnership recognizes interest expense related to unrecognized tax benefits or underpayment of income taxes in interest expense and recognizes penalties in operating expenses. There have been no interest expense or penalties incurred for any of the periods presented.

Land and timber held for sale and Land held for development

Land and timber held for sale and Land held for development are recorded at cost, unless impaired. Costs of development, including interest, are capitalized for these projects and allocated to individual lots based upon their relative preconstruction fair value. This allocation of basis supports, in turn, the computation of those amounts reported as current versus long-term assets based on management's expectation of when the sales will occur (Land and timber held for sale and Land held for development, respectively). As lot sales occur, the allocation of these costs becomes part of cost of sales attributed to individual lot sales. Costs associated with land including acquisition, project design, architectural costs, road construction, capitalized interest, and utility installation are accounted for as operating activities on the statement of cash flows.

Those properties that are for sale, under contract, and for which the Partnership has an expectation they will be sold within 12 months are classified on the balance sheet as a current asset under "Land and timber held for sale". The Partnership had no land and timber held for sale at December 31, 2019. Land and timber held for sale of $5.7 million as of December 31, 2018, reflected expected sales in 2019 of a parcel comprising 20 acres from the Harbor Hill project, as well as three other parcels in Kitsap County, Washington.

Land held for development on our balance sheet represents the Partnership's cost basis in land that has been identified as having greater value as development property rather than as timberland. Land development costs, including interest, clearly associated with development or construction of fully entitled projects are capitalized, whereas costs associated with projects that are in the entitlement phase are expensed. Interest capitalization ceases once projects reach the point of substantial completion or construction activity has been delayed intentionally.

Timberland, timber and roads

Timberland, timber and roads are recorded at cost. The Partnership and Funds capitalize the cost of building permanent roads on the tree farms and expenses temporary roads and road maintenance. Timberland is not subject to depletion.

Buildings and equipment

Buildings and equipment depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 3 to 39 years.

Buildings and equipment are recorded at cost and consisted of the following as of December 31, 2019 and 2018, (in thousands):

Description		**12/31/2019**		12/31/2018
Buildings	**$**	**9,375**	$	9,716
Equipment		**3,514**		3,343
Furniture and fixtures		**665**		664
Total	**$**	**13,554**	$	13,723
Accumulated depreciation		**(8,214)**		(8,223)
Net buildings and equipment	**$**	**5,340**	$	5,500

Impairment of long-lived assets

When facts and circumstances indicate the carrying value of properties may be impaired, an evaluation of recoverability is performed by comparing the currently recorded carrying value of the property to the projected future undiscounted cash flows of the same property or, in the case of land held for sale, fair market value less costs to sell. If it is determined that the carrying value of such assets may not be fully recoverable, we would recognize an impairment loss, adjusting for the difference between the carrying value and the estimated fair market value, and would recognize an expense in this amount against current operations.

Deferred revenue

Deferred revenue represents the unearned portion of cash collected. Deferred revenue of $223,000 and $336,000 at December 31, 2019, and 2018, respectively, reflects primarily the unearned portion of rental payments received on cell tower leases.

Environmental remediation liabilities

Environmental remediation liabilities have been evaluated using a combination of methods. The liability is estimated based on amounts included in construction contracts and estimates for construction contingencies, project management, and other professional fees. See Note 14 for further discussion of environmental remediation liabilities.

Equity-based compensation

The Partnership issues restricted units to certain employees, officers, and directors of the Partnership as part of their annual compensation. Restricted units are valued on the grant date at the market closing price of the partnership units on that date. The value of the restricted units is amortized to compensation expense on a straight-line basis during the vesting period which is generally four years. Grants to retirement-eligible individuals on the date of grant are expensed immediately.

Income per partnership unit

Basic and diluted net earnings per unit are calculated by dividing net income attributable to unitholders, adjusted for non-forfeitable distributions paid out to unvested restricted unitholders and Fund II, Fund III, and Fund IV preferred shareholders, by the weighted average units outstanding during the period.

The table below displays how we arrived at basic and diluted earnings per unit:

	Year Ended December 31,		
(in thousands, except per unit data)	**2019**	2018	2017
Net and comprehensive income attributable to unitholders	**$ 2,435**	$ 6,821	$ 17,891
Less: Net and comprehensive income attributable to unvested restricted unitholders	**(152)**	(125)	(133)
Less: Dividends paid to Funds preferred shareholders	**(46)**	(31)	(31)
Net and comprehensive income attributable to unitholders for earnings per unit calculation	**$ 2,237**	$ 6,665	$ 17,727
Basic and diluted weighted average units outstanding	**4,321**	4,317	4,323
Basic and diluted net earnings per unit	**$ 0.52**	$ 1.54	$ 4.10

Fund II, Fund III, and Fund IV preferred shares

Fund II, Fund III, and Fund IV each have issued 125 par $0.01 shares of Series A Cumulative Non-Voting Preferred Stock (Series A Preferred Stock) at $1,000 per share. Every holder of the Series A Preferred Stock is entitled to a liquidation preference of $1,000 per share. Dividends on each share of Series A Preferred Stock will accrue on a daily basis at the rate of 12.5% per annum, for Funds II and III, and 12.0% for Fund IV. Upon a liquidation, the Series A Preferred Stock will be settled in cash and is not convertible into any other class or series of Fund shares or Partnership units. The timing of such a redemption is controlled by the Funds. The maximum amount that each of the consolidated subsidiaries could be required to pay to redeem the instruments upon liquidation is $125,000 plus accrued but unpaid dividends. The Series A Preferred Stock is recorded within noncontrolling interests on the consolidated balance sheets and are considered participating securities for purposes of calculating earnings per unit.

Fair value hierarchy

We use a fair value hierarchy in accounting for certain nonfinancial assets and liabilities including long-lived assets (asset groups) measured at fair value for an impairment assessment.

The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon its own market assumptions.

The fair value hierarchy consists of the following three levels (see note 9 for further fair value information):

- Level 1-Inputs are quoted prices in active markets for identical assets or liabilities.
- Level 2-Inputs are: (a) quoted prices for similar assets or liabilities in an active market, (b) quoted prices for identical or similar assets or liabilities in markets that are not active, or (c) inputs other than quoted prices that are observable and market-corroborated inputs, which are derived principally from or corroborated by observable market data.
- Level 3-Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable.

2. **REVENUE**

Revenue is measured based on the consideration specified in a contract with a customer. The Partnership recognizes revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Taxes assessed by a governmental authority that are both imposed on and concurrent with a specific revenue-producing transaction that are collected by the Partnership from a customer are excluded from revenue. Shipping costs associated with delivering products to customers are included in cost of sales.

Included in “Accounts receivable” are $2.2 million and $3.0 million of receivables from contracts with customers as of December 31, 2019, and 2018, respectively.

Significant changes in the contract asset balance during the period were as follows, and there were no contract liabilities as of December 31, 2019, and 2018:

	2019	2018
Contract assets, beginning of year	**$ 3,829**	$ —
Revenue recognized from the satisfaction of performance obligations	**2,488**	11,381
Revenue recognized from changes in estimates of variable consideration	**(85)**	151
Transferred to receivables from contract assets	**(3,467)**	(7,703)
Total contract assets, end of year	**2,765**	3,829
Less: noncurrent portion included in other assets	**—**	(957)
Current portion of contract assets, end of year	**$ 2,765**	$ 2,872

The contract assets in the table above represent rights to consideration for timber deeds transferred to the customer and are related to the Partnership Timber and Funds Timber segments. These contracts provide the customer the legal right to harvest timber on the Partnership’s or Funds’ property. The value of a timber deed contract is determined based on the estimated timber volume by species multiplied by the contracted price. The contract consideration is considered variable because the timber volume is an estimate until the harvest is completed. The contract assets are transferred to receivables when the rights to consideration become due under the contract. Customers may harvest the timber at their discretion, within a time period and operational parameters stated in the contract.

The Partnership and Funds collect performance deposits from customers at the inception of the contract. These performance deposits are refunded to the customer at the conclusion of the contract or applied against final amounts owing from the customer, and are recorded in other current liabilities or environmental remediation and other long-term liabilities based on management’s estimate of the ultimate duration of each contract.

Included in “Other current liabilities” and “Environmental remediation and other long-term liabilities” are $905,000 and $0, respectively, of such performance deposits at December 31, 2019. There are $500,000 and $300,000, respectively, of such performance deposits at December 31, 2018.

The following is a description of principal activities, separated by reportable segments, from which the Partnership generates its revenue.

Partnership Timber and Funds Timber

These two segments consist of the harvest and sale of timber from the Partnership’s 119,000 acres of timberland and 3,500 acres of timber deeds (Partnership Timber) in Washington and the Funds’ 141,000 acres of timberland (Funds Timber) in Washington, Oregon and California. Revenue in these two segments is earned primarily from the harvest and sale of logs from the Partnership’s and Funds’ timberland. Log sale revenue in these two segments is recognized when control is transferred, and title and risk of loss passes to the customer, which typically occurs when logs are delivered to the customer. Other revenue in these segments is generated from the sale of rights to harvest timber (timber deed sales), commercial thinning, ground leases for cellular communication towers, royalties from gravel mines and quarries, and land use permits. Timber deed sales are generally structured so that the customer pays a contracted price per volume, measured in thousands of board feet (MBF), and revenue is recognized when control is transferred to the customer, which generally occurs on the effective date of the contract. The value of a timber deed contract is determined based on the estimated timber volume by tree species multiplied by the contracted price. Commercial thinning consists of the selective cutting of timber stands that have not yet reached optimal harvest age. However, this timber does have some commercial value and revenue is based on the volume harvested. Royalty revenue from gravel mines and quarries is recognized monthly based on the quantity of material extracted.

The following table presents revenue for the years ended December 31, as follows:

(in thousands)	2019	2018	2017
Partnership Timber			
Log sale revenue - domestic	**$ 30,732**	$ 34,789	$ 28,126
Log sale revenue - export brokers (indirect)	**6,873**	8,249	8,967
Timber deed sale revenue	**25**	92	422
Other revenue	**2,357**	2,292	2,157
Total revenue	**$ 39,987**	$ 45,422	$ 39,672
Funds Timber			
Log sale revenue - domestic	**$ 36,949**	$ 27,981	$ 15,490
Log sale revenue - export brokers (indirect)	**7,480**	9,281	15,457
Timber deed sale revenue	**2,378**	11,440	2,337
Other revenue	**1,839**	1,117	558
Total revenue	**$ 48,646**	$ 49,819	$ 33,842

Timberland Investment Management (TIM)

The TIM segment provides investment management, disposition, and technical forestry services in connection with the 141,000 acres owned by the Funds. Fee revenue generated by the TIM segment for managing the Funds includes fixed components related to invested capital and acres under management, and a variable component related to harvest volume from the Funds' tree farms. These fees, which represent an operating expense in the Funds Timber segment, are eliminated in consolidation. This elimination is illustrated in note 16. The TIM segment occasionally earns revenue from providing timberland management-related consulting services to third-parties and recognizes such revenue as the related services are provided.

Real Estate

The Real Estate segment's activities consist of managing a portfolio of 1,500 acres in Washington and investing in and later selling improved properties, holding properties for later development and sale, and managing commercial properties. Revenue is generated primarily from sales of land, sales of development rights known as conservation easements (CE's), sales of unimproved land from the Partnership's timberland portfolio, and residential and commercial rents. The Partnership considers the sale of land and CE's to be part of its normal operations and therefore recognizes revenue from such sales and cost of sales for the Partnership's basis in the property sold. CE sales allow us to retain harvesting and other timberland management rights, but bar any future subdivision of or real estate development on the property. Cash generated from these sales is included in cash flows from operations on the Partnership's statements of cash flows.

Revenue on real estate sales is recorded on the date the sale closes. When a real estate transaction is closed with obligations to complete infrastructure or other construction, the portion of the total contract allocated to the post-closing obligations may be recognized over time as that work is performed, provided the customer either simultaneously receives and consumes the benefits as we perform under the contract, our performance creates or enhances the asset controlled by the customer, or we do not create an asset with an alternative use to the customer and we have an enforceable right to payment for the performance completed. Otherwise, revenue is recognized once the post-closing obligations are completed. Progress towards the satisfaction of our performance obligations is generally measured based on costs incurred relative to the total cost expected to be incurred for the performance obligations.

The following table breaks down revenue for the Real Estate segment for the years ended December 31, as follows:

	2019	2018	2017
Conservation land sale	$ —	$ —	$ 5,056
Conservation easements	**2,610**	3,730	—
Gig Harbor residential	**12,025**	—	14,157
Gig Harbor commercial	**—**	—	3,500
Bremerton residential	**—**	1,375	—
Other residential	**770**	751	2,255
Other commercial	**—**	400	—
Unimproved land	**4,383**	205	—
Total land sales	**19,788**	6,461	24,968
Rentals and other	**1,464**	1,843	1,332
Total revenue	**$ 21,252**	$ 8,304	$ 26,300

3. **LEASES**

The Partnership is both a lessee and a lessor. A contract is determined to contain a lease if there is an identified asset to which the lessee has the right to substantially all of the economic benefits and has control over how the asset is used throughout the contract period. Upon adoption of ASC 842, *Leases,* the Partnership elected the practical expedients to not separate lease and non-lease components for all of its leases.

Lessee lease information

As a lessee, the Partnership's leases consist of office equipment and office space and are classified as operating leases. Leases for some printers have a variable payment for printing in excess of a page allowance set in the lease contract. The discount rate for leases was determined based on Northwest Farm Credit Services' (NWFCS), the Partnership's lender, cost of funds for the lease period plus a margin of 1.60%, as provided for in the Partnership's credit agreement with NWFCS.

The following table presents the balances of our right-of-use assets and lease liabilities and the balance sheet captions in which they are reported (in thousands):

	December 31, 2019	Balance Sheet caption
Right of use assets	$ 161	Other assets
Lease liability - current	$ 98	Other current liabilities
Lease liability - long-term	$ 63	Environmental remediation and other long-term liabilities

The following table presents the components of lease costs and other lease information for the year ended December 31, 2019:

In thousands, except weighted-average information

		2019
Lease cost		
Operating lease cost	$	188
Variable lease cost		8
Total lease cost	$	196
Other lease information		
Cash paid for amounts included in the measurement of lease liabilities	$	196
Right-of-use asset obtained in exchange for new leases	$	17
Weighted-average remaining lease term in years		1.84
Weighted average discount rate		4.2%

Payments due under lease contracts for the next five years and thereafter are as follows (in thousands):

2020	$	103
2021		50
2022		14
Unamortized discount		(8)
Total lease liability at December 31, 2019	$	161

Lessor lease information

As a lessor, the Partnership's leases consist of leases of commercial and residential real estate, reported in the Real Estate segment under "rentals and other", and land leases on the Partnership's and Funds' timberland for cellular communication towers (Tower Leases), reported in the Partnership Timber and Funds Timber segments under "other revenue". All these leases are classified as operating leases. Tower Leases have a variable payment component for revenue sharing from subleases of space on the tower. Tower Leases typically have a five-year term and two to five automatic five-year extensions.

Commercial real estate leases have non-lease components of taxes, insurance and common area maintenance. Tower Leases have non-lease components for real property taxes related to tenant improvements.

The following table presents the components of lease income for the year ended December 31, 2019 (in thousands):

		2019
Lease Income		
Operating lease income	$	1,710
Variable lease income		55
Total lease income	$	1,765

Buildings subject to operating leases had a cost of $2.1 million and accumulated depreciation of $1.2 million at December 31, 2019.

Lease income at December 31, 2019, based on payments due by period under the lease contracts, are presented in the following table (in thousands):

2020	$	792
2021		683
2022		649
2023		594
2024		550
Thereafter		3,586
Total	$	6,854

4. ORM TIMBER FUND II, INC. (FUND II), ORM TIMBER FUND III (REIT) INC. (FUND III), AND ORM TIMBER FUND IV LLC. (FUND IV) (COLLECTIVELY, "THE FUNDS")

The Funds were formed by ORMLLC 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 specified term from the end of its respective investment period; ten years for each of Fund II and Fund III, and fifteen years for Fund IV. Fund II is scheduled to terminate in March 2021, Fund III is scheduled to terminate in December 2025, and Fund IV is scheduled to terminate in December 2034.

Together, Pope Resources and ORMLLC own 20% of Fund II, 5% of Fund III, and 15% of Fund IV. The Funds are considered variable interest entities because their organizational and governance structures are the functional equivalent of a limited partnership. As the managing member of the Funds, the Partnership is the primary beneficiary of 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 16 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 in the Partnership's Consolidated Statement of Comprehensive Income (Loss) under the caption "Net (income) loss attributable to noncontrolling interests - ORM Timber Funds."

In January 2017, Fund II closed on the sale of one of its tree farms, located in northwestern Oregon, for $26.5 million. The Partnership's share of the pretax profit or loss generated by this tree farm was a gain of $12.5 million for the year ended December 31, 2017.

In January 2018, Fund IV closed on the acquisition of two tree farms, one in southwestern Oregon and one in south Puget Sound, Washington, for $33.6 million and $80.4 million, respectively. The partnership's share of the combined purchase price was $17.1 million. The combined purchase price was allocated $100.7 million to timber and roads, and $13.3 million to the underlying land. In October 2018, Fund IV closed on the acquisition of a tree farm in south Puget Sound, Washington for $32.3 million, of which the Partnership's share was $4.8 million. The purchase price was allocated $27.1 million to timber and roads, and $5.2 million to the underlying land.

In January 2019, Fund IV closed on the acquisition of 7,100 acres of timberland in south central Washington for $20.3 million, of which the Partnership's share was $3.0 million. The purchase price was allocated $17.5 million to timber and roads, and $2.8 million to the underlying land. At December 31, 2018, Fund IV had paid deposits of $1.0 million, which is included in other assets.

The Partnership's consolidated balance sheets include Fund II, Fund III, and Fund IV assets and liabilities at December 31, 2019, and 2018, which were as follows:

(in thousands)	2019	2018
Cash	**$ 6,197**	$ 3,330
Other current assets	**5,192**	4,931
Total current assets	**11,389**	8,261
Properties and equipment, net of accumulated depreciation	**355,162**	360,163
Other long-term assets	**—**	1,962
Total assets	**$ 366,551**	$ 370,386
Current liabilities	**$ 28,737**	$ 3,237
Long-term debt	**32,345**	57,313
Other long-term liabilities	**—**	300
Funds' equity	**305,469**	309,536
Total liabilities and equity	**$ 366,551**	$ 370,386

The table above includes management fees and other expenses payable to the Partnership of $1.1 million and $1.0 million as of December 31, 2019 and 2018, respectively. These amounts are eliminated in the Partnership's consolidated balance sheets.

5. PARTNERSHIP TIMBERLAND ACQUISITIONS

During 2018, the Partnership closed on several acquisitions in western Washington totaling 1,342 acres for $7.2 million. The aggregate purchase price was allocated $6.3 million to timber and roads and $869,000 to the underlying land. The Partnership utilized $598,000 of funds held by like-kind exchange intermediaries to fund a portion of these acquisitions. Part of the consideration paid for one of these transactions involved the conveyance by the Partnership of 365 acres of non-strategic timberland to the seller, valued at $214,000, with the remainder paid in cash

During 2019, the Partnership closed on several acquisitions of timberland in western Washington totaling 322 acres for $751,000. The aggregate purchase price was allocated $653,000 to timber and roads and $98,000 to the underlying land.

6. OTHER ASSETS

Other assets consisted of the following at December 31:

	2019	2018
Deferred tax assets, net	**$ 469**	$ 540
Right of use asset	**161**	—
Contract assets, noncurrent	**—**	957
Deposits for acquisitions of timberland	**—**	1,005
Investment in Real Estate joint venture entity	**4,954**	5,891
Advances to Real Estate joint venture entity	**1,000**	804
Notes receivable	**50**	57
Other	**1**	1
Total	**$ 6,635**	$ 9,255

The long-term portion of contract assets represented the portion of timber deed sales expected to be received after December 31, 2019. See note 2 for further information on these timber deed sales.

In 2017, the Partnership formed Ferncliff Management and Ferncliff Investors for the purpose of raising capital from third parties to invest in an unconsolidated real estate joint venture entity, Bainbridge Landing LLC, that is developing a 5-acre parcel on Bainbridge Island, Washington into a multi-family community containing apartments and townhomes. Sales of the townhomes and leasing of apartments commenced in 2019. As described in Note 1, Ferncliff Management is the manager and 33.33% owner of Ferncliff Investors, with the remaining ownership interest held by third-party investors. Ferncliff Investors holds a 50% interest in Bainbridge Landing LLC that owns and is developing the property.

Ferncliff Investors is considered a variable interest entity because its organizational and governance structure is the functional equivalent of a limited partnership. As the managing member of Ferncliff Investors, the Partnership, through Ferncliff Management, is the primary beneficiary of Ferncliff Investors as it has the authority to direct the activities that most significantly impact its economic performance, as well as the right to receive benefits and obligation to absorb losses that could potentially be significant to Ferncliff Investors. Accordingly, Ferncliff Investors is consolidated into the Partnership's financial statements. Additionally, the obligations of Ferncliff Investors do not have any recourse to the Partnership.

Bainbridge Landing LLC is considered a voting interests entity. Ferncliff Investors accounts for its interest in the joint venture entity under the equity method because neither it nor the other member can exercise control over Bainbridge Landing LLC. Under the equity method, Ferncliff Investors records its 50% share of the net income or loss of Bainbridge Landing LLC. Accordingly, the "Investment in real estate joint venture entity" item in the table above represents the combination of Ferncliff Investors' total cash investment in the joint venture entity plus its cumulative 50% share of net income or loss. To date, this activity has been a loss and is included in operating expenses in the Real Estate segment. The portion of this loss attributed to third-party investors is reflected as an adjustment to income in the Partnership's Consolidated Statement of Comprehensive Income (Loss) under the caption "Net loss attributable to noncontrolling interests - Real Estate."

Advances to Real Estate joint venture entity represents advances made by Ferncliff Investors to Bainbridge Landing LLC to fund a portion of the construction costs associated with the project. The advances will be repaid with proceeds from the sale of townhomes, which is expected to occur in 2020.

7. LONG-TERM DEBT

(in thousands)	At December 31,	
Partnership debt:	**2019**	2018
$30.0 million revolving line of credit with Northwest Farm Credit Services (NWFCS), variable interest based on LIBOR plus margin of 1.60% (3.30% at December 31, 2019) with quarterly interest-only payments and collateralized by timberlands (matures October 2023)	**$ 16,000**	16,400
Mortgage payable to NWFCS, collateralized by Poulsbo headquarters:		
Interest at 3.80% with monthly principal and interest payments, (matures January 2023)	**2,209**	2,337
$71.8 million credit facility payable to NWFCS with quarterly interest-only payments, collateralized by Partnership timberlands, with the following tranches:		
Interest at 6.40% (refinanced April 2019)	**—**	9,800
Interest at LIBOR plus 1.60% (3.30% at December 31, 2019) (matures October 2024)	**6,000**	6,000
Interest at 6.05% (matures July 2025)	**10,000**	10,000
Interest at 3.89% (matures July 2026)	**11,000**	11,000
Interest at 4.13% (matures July 2028)	**11,000**	11,000
Interest at 5.34% (matures October 2034)	**8,000**	8,000
Interest at 5.34% (matures October 2035)	**8,000**	8,000
Interest at 5.42% (matures October 2036)	**8,000**	8,000
Interest at 4.35% (matures May 2031)	**3,000**	—
Interest at 4.49% (matures May 2031)	**3,000**	—
Interest at 4.60% (matures May 2031)	**3,800**	—
$40.0 million delayed-draw facility, quarterly interest-only payments with ultimate maturity of October 2028, collateralized by Partnership timberlands, with the following tranche:		
Interest based on LIBOR plus margin of 1.60% (3.30% at December 31, 2019)	**7,000**	4,000
Total Partnership debt	**97,009**	94,537
Less unamortized debt issuance costs	**(470)**	(481)
Less current portion	**(133)**	(128)
Long-term debt, less unamortized debt issuance costs and current portion - Partnership	**$ 96,406**	$ 93,928

As described in note 8, Partnership's and Fund III's debt arrangements with NWFCS includes an annual rebate of interest expense (patronage).

In October 2018, the Partnership amended its timberland mortgage credit facilities (Credit Agreement) with NWFCS to increase its borrowing capacity. Under the $71.8 million facility, variable-rate loan segments may be converted to fixed-rate loan segments with maturities from 1 - 10, 12, 15, or 18 years, not to exceed the ultimate maturity dates above. Any such fixed-rate loan segment will bear interest, paid quarterly, at the lender's pricing index at the time of conversion plus margins of 1.60%, for maturities up to five years, and 1.65% for maturities greater than five years.

The Partnership may borrow at any time under the $40.0 million delayed-draw facility through October 2023, subject to certain conditions in the Credit Agreement. Borrowings may bear interest, paid quarterly, at variable or fixed rates at the election of the Partnership. Variable-rate segments bear interest at LIBOR plus a margin of 1.60%. Fixed-rate segments bear interest at the lenders pricing index at the time of borrowing plus a margin of 1.60%, for maturities up to five years, and 1.65% for maturities greater than five years. Variable-rate segments may be converted to fixed-rate segments at the election of the Partnership. Fixed-rate loan segments must be for a minimum of $5.0 million, and no more than five such fixed-rate loan segments may be outstanding at any time. Fixed-rate loan segment maturities may be from one through ten years at the election of the Partnership, not to exceed the ultimate maturity of October 2028.

The Credit Agreement also includes an accordion feature that the Partnership may exercise in the future, subject to lender approval, to increase borrowing capacity by up to $50.0 million under either the $40.0 million facility or the $71.8 million facility. Any draws on the accordion feature must be in $15.0 million minimum increments with no more than three such draws.

In April 2019, the Partnership refinanced a $9.8 million debt tranche with Northwest Farm Credit Services that was originally due in September 2019. As refinanced, this debt has an ultimate maturity of May 2031. The $9.8 million refinancing was divided into three tranches with fixed rates, gross of patronage rebates, for specific periods, as follows:

- $3.0 million at 4.35% through April 2027
- $3.0 million at 4.49% through April 2029
- $3.8 million at 4.60% through April 2031

On the expiration of the fixed-rate periods, the tranches can be repaid or refinanced without penalty, or revert to a floating rate or be fixed at then-current rates for periods not to exceed the ultimate maturity of April 2031. The Partnership paid a make-whole premium of $61,000 in connection with this refinancing.

The amended credit facilities eliminated the 3:1 interest coverage ratio covenant that had previously applied to the loans. Instead, the interest coverage ratio will be calculated quarterly, and the interest margins will be adjusted if the interest coverage ratio is below 3:1. The maximum interest margin is 2.20%, for variable-rate loan segments and prospective fixed-rate loan segments with maturities up to five years, and 2.50% for prospective fixed-rate loan segments with maturities greater than five years. The lender may reset the interest margin in October 2023, for the $40.0 million delayed-draw facility, and in October 2023, 2028, and 2033, for the $71.8 million facility.

The amended credit facilities retain the requirements that the Partnership 1) not exceed a maximum debt-to-capitalization ratio of 30%, with total capitalization calculated using fair market (rather than carrying) value of all Partnership timberland, roads and timber, and 2) not exceed a maximum loan-to-appraised value of collateral of 50%. The Partnership is in compliance with these covenants as of December 31, 2019.

(in thousands)	At December 31,	
ORM Timber Funds debt:	**2019**	2018
Fund II Mortgages payable to MetLife, collateralized by Fund II timberlands with quarterly interest payments (matures September 2020), as follows:		
Interest at 4.85%	**$ 11,000**	$ 11,000
Interest at 3.84%	**14,000**	14,000
Fund III mortgages payable to NWFCS, collateralized by Fund III timberlands with quarterly interest payments, as follows:		
Interest at 5.10% (matures December 2023)	**17,980**	17,980
Interest at 4.45% (matures October 2024)	**14,400**	14,400
Total ORM Timber Funds debt	**57,380**	57,380
Less unamortized debt issuance costs	**(45)**	(67)
Less current portion	**(24,990)**	—
Long-term debt, less unamortized debt issuance costs and current portion - Funds	**$ 32,345**	$ 57,313

Fund II's debt agreement contains a requirement to maintain a loan-to-value ratio of less than 50%, with the denominator defined as fair market value of the timberland pledged as collateral. Fund II is in compliance with this covenant as of December 31, 2019.

Fund III's debt agreement contains a requirement to maintain a minimum interest coverage ratio of 1.5:1, maintain working capital of $500,000, and a loan-to-value ratio of less than 50%, with the denominator defined as fair market value. Fund III is in compliance with these covenants as of December 31, 2019.

At December 31, 2019, principal payments on long-term debt for the next five years and thereafter are due as follows (in thousands):

	Partnership	Funds
2020	$ 133	$ 25,000
2021	138	—
2022	143	—
2023	17,795	17,980
2024	6,000	14,400
Thereafter	72,800	—
Total	$ 97,009	$ 57,380

8. INTEREST, NET

Interest expense, net comprised the following for the years ended December 31:

(in thousands)	**2019**	2018	2017
Interest income - Partnership	**$ 3**	$ 132	$ 3
Interest expense - Partnership	**(3,717)**	(3,075)	(2,644)
Interest expense - Funds	**(2,247)**	(2,247)	(2,321)
Capitalized interest - Partnership	**164**	295	491
Interest expense, net	**$ (5,797)**	$ (4,895)	$ (4,471)

Each of the Partnership's and Fund III's debt arrangements with NWFCS includes an annual rebate of interest expense (patronage). Interest expense was reduced by $1.4 million, $1.4 million and $1.0 million in 2019, 2018, and 2017, respectively, which reflects estimated patronage to be refunded in the following year with the related receivable reflected in accounts receivable.

Accrued interest relating to all debt instruments was $1.6 million and $1.8 million at December 31, 2019 and 2018, respectively, and is included in accrued liabilities.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Partnership's consolidated financial instruments include cash and accounts receivable, for which the carrying amount of each represents fair value based on their short-term nature. Carrying amounts of notes receivable also approximate fair value given the current market interest rates. The fair value of the Partnership's and Funds' combined fixed-rate debt, having a carrying value of $125.4 million and $125.5 million as of December 31, 2019 and 2018, respectively, has been estimated based on current interest rates for similar financial instruments, Level 2 inputs in the Fair Value Hierarchy, to be approximately $162.1 million and $126.3 million, respectively.

10. INCOME TAXES

The Partnership itself is not subject to income taxes. Instead, partners are taxed on their share of the Partnership's taxable income, whether or not cash distributions are paid. The Partnership's and Funds' corporate subsidiaries, however, are subject to income taxes. The following tables provide information on the impact of income taxes in taxable subsidiaries. Consolidated income (loss) is reconciled to income (loss) before income taxes in corporate subsidiaries for the years ended December 31 as follows:

(in thousands)	**2019**	2018	2017
Income (loss) before income taxes	**$ (9,795)**	$ 7,741	$ 25,581
Income (loss) in entities that pass-through pre-tax earnings to the partners	**(10,740)**	7,273	23,089
Income subject to income taxes	**$ 945**	$ 468	$ 2,492

The provision for income taxes relating to corporate subsidiaries of the Partnership and Funds consist of the following income tax benefit (expense) for each of the years ended December 31:

(in thousands)	**2019**	2018	2017
Current	**$ (87)**	$ (180)	$ (888)
Deferred	**(72)**	76	(288)
Total	**$ (159)**	$ (104)	$ (1,176)

Included in the deferred income tax expense for 2019, 2018, and 2017 are $79,000, $67,000, $109,000 related to the utilization of net operating loss carryforwards.

A reconciliation between the federal statutory tax rate and the Partnership’s effective tax rate is as follows for each of the years ended December 31:

	2019	2018	2017
Statutory tax on income (loss)	**(21)%**	21 %	34 %
(Income) loss from entities that pass-through pre-tax earnings to the partners	**23 %**	(20)%	(30)%
Effect on deferred tax assets of change in income tax rate	— %	— %	1 %
Effective income tax rate	**2 %**	1 %	5 %

The Tax Cuts and Jobs Act passed by Congress in December 2017 reduced the corporate income tax rate to 21% from 34%. This had the impact of decreasing deferred tax assets by $264,000 and increasing the 2017 effective income tax rate by 1%.

The net deferred tax assets are included in other assets on the consolidated balance sheets and are comprised of the following:

(in thousands)	**2019**	2018	2017
Compensation-related accruals	**$ 490**	$ 454	$ 359
Net operating loss carryforwards	**8**	87	123
Depreciation	**(23)**	(16)	15
Other	**(6)**	14	(32)
Total	**$ 469**	$ 539	$ 465

The federal net operating loss carryforwards in the table above expire in 2035.

11. UNIT INCENTIVE PLAN

One of the two components of a management incentive compensation program adopted in 2010 (2010 Incentive Compensation Program) is the Performance Restricted Unit (PRU) plan which includes both an equity and cash component. Compensation expense relating to the equity component is recognized over a 4-year future service period. On the date of grant, the restricted units are owned by the employee, officer, or director of the Partnership, subject to a trading restriction that is in effect during the vesting period. As of December 31, 2019, total compensation expense not yet recognized related to non-vested awards was $1.6 million with a weighted average 36 months remaining to vest.

The second component of the incentive compensation program is the Long-Term Incentive Plan (LTIP), which is paid in cash. The LTIP awards contain a feature whereby the award amount is based upon the Partnership’s total shareholder return (TSR) as compared to TSR’s of a benchmark peer group of companies, measured over a rolling three-year performance period. The component based on relative TSR requires the Partnership’s projected cash payout for future performance cycles to be re-measured quarterly based upon the Partnership’s projected relative TSR ranking, using a Monte Carlo simulation model.

Directors may elect to receive all or a portion of their quarterly board compensation in the form of unrestricted units rather than cash. Such units are included in equity compensation expense. During 2019, 2018 and 2017, the Partnership granted 1,574, 1,637, and 2,213 unrestricted units, respectively, to directors in payment of their board compensation.

Total equity compensation expense was $1.2 million, $1.1 million and $1.1 million for 2019, 2018 and 2017, respectively. As of December 31, 2019, accrued liabilities included $2.5 million relating to the 2010 Incentive Compensation Program, with $662,000 of that total attributable to the cash component of the PRU and the balance of $1.8 million attributable to the LTIP. This compares with December 31, 2018, when accrued liabilities included $1.9 million relating to the 2010 Incentive Compensation Program, with $597,000 related to the cash-payout component of the PRU and the balance of $1.3 million attributable to the LTIP.

The Partnership's 2005 Unit Incentive Plan (the 2005 Plan) authorized the granting of nonqualified equity compensation to employees, officers, and directors of the Partnership and provides a one-way linkage to the 2010 Incentive Compensation Program because it (2005 Plan) established the formal framework by which unit grants, options, etc., can be issued. The 2010 Incentive Compensation Program does not affect the existence or availability of the 2005 Unit Incentive Plan or change its terms. Upon the vesting of restricted units, grantees have the choice of tendering back units to pay for their minimum tax withholdings. A total of 1,105,815 units have been authorized for issuance under the 2005 Plan of which there are 841,861 units authorized but unissued as of December 31, 2019.

The Human Resources Committee makes awards of restricted units to certain employees, plus the officers and directors of the Partnership and its subsidiaries. The restricted unit grants vest over four years and are compensatory in nature. Restricted unit awards entitle the recipient to full distribution rights during the vesting period, and thus are considered participating securities, but are restricted from disposition and may be forfeited until the units vest.

Restricted unit activity for the three years ended December 31, 2019 was as follows:

	Units	Weighted Avg Grant Date Fair Value ($)
Outstanding December 31, 2016	35,493	59.96
Grants	20,893	66.10
Vested	(14,190)	66.48
Forfeited	(1,550)	65.02
Tendered back to pay tax withholding	(1,432)	65.65
Outstanding December 31, 2017	39,214	64.62
Grants	16,605	69.98
Vested	(15,151)	65.03
Tendered back to pay tax withholding	(1,466)	64.59
Outstanding December 31, 2018	39,202	66.72
Grants	**16,678**	69.84
Vested	**(17,090)**	66.33
Forfeited	**(272)**	69.50
Tendered back to pay tax withholding	**(1,143)**	69.75
Outstanding December 31, 2019	**37,375**	68.29

12. UNIT REPURCHASE PLAN AND DISTRIBUTION REINVESTMENT PLAN

In May 2017, the Partnership adopted a unit repurchase authorization under Rule 10b5-1 of the Securities Exchange Act of 1934 (1934 Act) and extended and expanded the plan on December 7, 2017. The plan allowed for the repurchase of units with an aggregate value of up to $2.5 million through December 7, 2018. The Partnership repurchased 18,101 units with an aggregate value of $1.3 million during 2017 and 16,542 units with an aggregate value of $1.2 million during 2018. In March 2019, the Partnership adopted a new unit repurchase authorization under Rule 10b5-1 of the 1934 Act that allowed for the repurchase of units with an aggregate value of $2.0 million through March 7, 2020. During 2019, the Partnership repurchased 12,578 units with an aggregate value of $863,000.

In June 2017, the Partnership adopted a Distribution Reinvestment Plan (DRP) under which unitholders may elect to reinvest their cash distributions to acquire newly issued units. The Partnership registered 225,000 units for issuance under the DRP. The Partnership issued 122 units, 3,069 units, and 611 units under the DRP during 2017, 2018, and 2019, respectively. The DRP was suspended on November 15, 2019.

13. EMPLOYEE BENEFITS

As of December 31, 2019, all employees of the Partnership and its subsidiaries are eligible to receive benefits under a defined contribution plan. During the years 2017 through 2019 the Partnership matched 50% of employees' contributions up to 8% of an individual's compensation. The Partnership's contributions to the plan amounted to $234,000, $222,000, and $195,000 for the years ended December 31, 2019, 2018, and 2017, respectively.

14. COMMITMENTS AND CONTINGENCIES

Environmental remediation

The Partnership has an accrual for estimated environmental remediation costs of $10.0 million and $9.1 million as of December 31, 2019 and 2018, respectively. The environmental remediation liability represents management's best estimate of payments to be made to remedy and monitor certain areas in and around the millsite of Port Gamble and Port Gamble Bay. The liability at December 31, 2019 is comprised of $1.1 million that the Partnership expects to expend in the next 12 months and $8.9 million thereafter.

In December of 2013, a consent decree (CD) and a Clean-up Action Plan (CAP) related to Port Gamble Bay were finalized with the Washington State Department of Ecology (DOE) and filed with Kitsap County Superior Court. Construction activity commenced in late September 2015. The required in-water construction activity was completed in January 2017. By the end of the third quarter of 2017, the sediments dredged from the Bay were moved to their permanent storage location on property owned by the Partnership a short distance from the town of Port Gamble. This effectively concluded the component of the project related to the in-water cleanup of Port Gamble Bay.

Management has adjusted the liability from time to time based on evolving circumstances, including increases to the liability of $1.6 million and $5.6 million in 2019 and 2018, respectively. Following is a summary of each of these adjustments and the next steps for the project:

<u>2018 Adjustments</u>

During 2018, the Partnership worked with the Washington State Department of Ecology (DOE) to formulate the design of the millsite cleanup. As a result of this design work, we were informed by DOE during the second quarter that we needed to excavate, cap, and monitor a greater amount of soil contamination at the millsite than we had previously anticipated. These changes led to an increase in the accrual of $2.9 million in the second quarter of 2018.

In early 2019, the Partnership submitted the final remedial investigation/feasibility study (RI/FS) and draft Cleanup Action Plan (CAP) to DOE that reflected the new scope of the millsite cleanup. We also made progress on the Natural Resource Damages (NRD) component of the project during the second half of 2018.

As disclosed previously, certain environmental laws allow state, federal, and tribal trustees (collectively, the Trustees) to bring suit against property owners to recover damages for injuries to natural resources. Like the liability that attaches to current property owners in the cleanup context, liability for natural resource damages (NRD) can attach to a property owner simply because an injury to natural resources resulted from releases of hazardous substances on that owner's property, regardless of culpability for the release. In the case of Port Gamble, the Trustees are alleging that the Partnership has NRD liability because of releases that occurred on its property. The Partnership has been in discussions with the Trustees regarding their claims and the alleged conditions in Port Gamble Bay, and has also been discussing restoration alternatives that might address the damages the Trustees allege. These discussions progressed to the point where management could identify a short list of restoration projects that it believed would resolve the Trustees' NRD claims.

Management re-evaluated the liability to incorporate the information included in the RI/FS submission for the millsite and the status of the discussions with the NRD trustees, and recorded an additional $2.7 million increase to the liability in December 2018. This, along with the second quarter adjustment described above, brought the total adjustment to the liability to $5.6 million for 2018.

2019 Adjustment and next steps

The 2019 increase to the liability was necessary to address continuing developments in the NRD negotiations and an expansion of long-term monitoring obligations. Ongoing negotiations with the NRD Trustees required us to expand on the scope of the restoration projects we had proposed earlier. In addition, results from the landfill monitoring performed in 2018 and 2019 caused the Kitsap Public Health District (KPHD) to require bi-annual monitoring through 2021, rather than the annual monitoring that we had previously anticipated. The scope expansion for the NRD restoration projects and more frequent landfill monitoring activity required by KPHD resulted in a combined $1.6 million increase to our liability in the fourth quarter of 2019.

The CAP and consent decree for the millsite are expected to be finalized during mid-year 2020, following a public review period. For the NRD component of the project, we are continuing to discuss settlement with the Trustees and remain hopeful that we will also have a settlement agreement in place by mid-year 2020. In both cases, it is reasonably possible that our cost estimates could change as a result of changes to either the millsite cleanup or the NRD restoration components of the liability, or both. We currently expect the millsite cleanup and NRD restoration projects to occur over the next two to three years.

Finally, there will be a monitoring period of approximately 10 to 15 more years during which the Partnership will monitor conditions in the Bay, on the millsite, and at the storage location of the dredged and excavated sediments. During this monitoring phase, conditions may arise that require corrective action, and monitoring protocols may change over time. In addition, extreme weather events could cause damage to the sediment caps that would need to be repaired. These factors could result in additional costs.

Changes in the environmental liability for the last three years are as follows:

(in thousands)	Balances at the Beginning of the Period	Additions to Accrual	Expenditures for Remediation	Balance at Period-end
Year ended December 31, 2017	$ 12,770	$ —	$ 7,791	$ 4,979
Year ended December 31, 2018	4,979	5,600	1,496	9,083
Year ended December 31, 2019	**9,083**	**1,576**	**649**	**10,010**

Performance bonds

In the ordinary course of business, and as part of the entitlement and development process, the Partnership is required to provide performance bonds to ensure completion of certain public facilities. The Partnership had outstanding performance bonds of $4.2 million and $7.5 million at December 31, 2019 and 2018, respectively. The bonds relate primarily to development activity in connection with pending and completed sales from our Harbor Hill project in Gig Harbor.

Contingencies

The Partnership may, from time to time, be a defendant in various lawsuits arising in the ordinary course of business. Management believes Partnership losses related to such lawsuits, if any, will not have a material adverse effect to the Partnership's consolidated financial condition or results of operations or cash flows.

15. RELATED PARTY TRANSACTIONS

Pope MGP, Inc. is the managing general partner of the Partnership and receives an annual management fee of $150,000. In connection with the Partnership's strategic evaluation project, and with it's entry into the agreement and plan of merger with Rayonier, Inc. as discussed in note 17, in 2019 the Partnership incurred legal and financial advisory fees totaling $786,000 for advisors to the shareholders of its general partners.

16. SEGMENT AND MAJOR CUSTOMER INFORMATION

The Partnership's operations are classified into four segments: Partnership Timber, Funds Timber, Timberland Investment Management (TIM), and Real Estate. See Note 2 for a description of the primary activities of each of these segments.

In the presentation of the Partnership's revenue and operating income (loss) by segment, all inter-segment 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 year ended December 31, 2019, the Partnership had two customers that each represented 11% of consolidated revenue. For the year ended December 31, 2018, the Partnership had one customer that represented 13% and another that represented 11% of consolidated revenue. In 2017, the Partnership had one customer that represented 12% and another that represented 11% of consolidated revenue.

Identifiable assets are those used exclusively in the operations of each reportable segment or those allocated when used jointly. The Partnership does not allocate cash, accounts receivable, certain prepaid expenses, or the cost basis of the Partnership's administrative office for purposes of evaluating segment performance by the chief operating decision maker.

Details of the Partnership's operations by business segment for the years ended December 31 are as follows:

(in thousands)

2019	Partnership Timber	Funds Timber	TIM	Real Estate	Other	Consolidated
Revenue internal	**$40,785**	**$48,646**	**$5,760**	**$21,746**	$—	**$116,937**
Eliminations	**(798)**	**—**	**(5,742)**	**(494)**		**(7,034)**
Revenue external	**39,987**	**48,646**	**18**	**21,252**	**—**	**109,903**
Cost of sales	**(19,605)**	**(48,142)**	**—**	**(11,437)**	—	**(79,184)**
Operating, general and administrative expenses - internal	**(6,266)**	**(11,322)**	**(5,173)**	**(5,258)**	**(12,243)**	**(40,262)**
Eliminations	**978**	**5,532**	**280**	**140**	**104**	**7,034**
Operating, general and administrative expenses - external	**(5,288)**	**(5,790)**	**(4,893)**	**(5,118)**	**(12,139)**	**(33,228)**
Environmental remediation	**—**	**—**	**—**	**(1,576)**	**—**	**(1,576)**
Gain (loss) on sale of timberland	**87**	**—**	**—**	**—**	**—**	**87**
Income (loss) from operations - internal	**15,001**	**(10,818)**	**587**	**3,475**	**(12,243)**	**(3,998)**
Eliminations	**180**	**5,532**	**(5,462)**	**(354)**	**104**	**—**
Income (loss) from operations - external	**$15,181**	**($5,286)**	**($4,875)**	**$3,121**	**($12,139)**	**($3,998)**

(in thousands)

2018	Partnership Timber	Funds Timber	TIM	Real Estate	Other	Consolidated
Revenue internal	$45,916	$49,819	$4,576	$8,807	$—	$109,118
Eliminations	(494)	—	(4,567)	(503)		(5,564)
Revenue external	45,422	49,819	9	8,304	—	103,554
Cost of sales	(17,828)	(36,732)	—	(3,527)	—	(58,087)
Operating, general and administrative expenses - internal	(6,943)	(9,239)	(4,566)	(4,723)	(7,324)	(32,795)
Eliminations	675	4,567	71	144	107	5,564
Operating, general and administrative expenses - external	(6,268)	(4,672)	(4,495)	(4,579)	(7,217)	(27,231)
Environmental remediation	—	—	—	(5,600)	—	(5,600)
Income (loss) from operations - internal	21,145	3,848	10	(5,043)	(7,324)	12,636
Eliminations	181	4,567	(4,496)	(359)	107	—
Income (loss) from operations - external	$21,326	$8,415	($4,486)	($5,402)	($7,217)	$12,636

(in thousands)

2017	Partnership Timber	Funds Timber	TIM	Real Estate	Other	Consolidated
Revenue internal	$40,004	$33,842	$3,377	$26,737	$—	$103,960
Eliminations	(332)	—	(3,368)	(437)	—	(4,137)
Revenue external	39,672	33,842	9	26,300	—	99,823
Cost of sales	(14,874)	(26,910)	—	(16,200)	—	(57,984)
Operating, general and administrative expenses - internal	(6,177)	(7,261)	(3,593)	(5,594)	(5,846)	(28,471)
Eliminations	506	3,368	73	86	104	4,137
Operating, general and administrative expenses - external	(5,671)	(3,893)	(3,520)	(5,508)	(5,742)	(24,334)
Gain (loss) on sale of timberland	—	12,547	—	—	—	12,547
Income (loss) from operations - internal	18,953	12,218	(216)	4,943	(5,846)	30,052
Eliminations	174	3,368	(3,295)	(351)	104	—
Income (loss) from operations - external	$19,127	$15,586	($3,511)	$4,592	($5,742)	$30,052

(in thousands)	**2019**	2018	2017
Depletion, depreciation, and amortization			
Partnership Timber	**$ 4,791**	$ 4,228	$ 4,121
Funds Timber	**26,656**	23,009	15,170
Timberland Investment Management	**92**	72	32
Real Estate	**261**	270	279
G&A	**49**	72	55
	31,849	27,651	19,657
Amortization of debt issuance costs	**94**	74	64
Total	**$ 31,943**	**$ 27,725**	**$ 19,721**

Assets	**2019**	2018	2017
Partnership Timber	**$ 90,508**	$ 94,353	$ 91,206
Funds Timber	**366,551**	370,386	244,846
Timberland Investment Management	**215**	211	83
Real Estate	**31,267**	36,382	39,420
G&A	**5,008**	6,917	5,118
Total	**$ 493,549**	$ 508,249	$ 380,673

Capital and Land Expenditures	**2019**	2018	2017
Partnership Timber	**$ 2,207**	$ 8,186	$ 7,168
Funds Timber	**20,984**	143,445	6,808
Timberland Investment Management	**140**	192	32
Real Estate project expenditures	**2,772**	3,210	7,588
Real Estate-other	**37**	213	2
G&A	**69**	65	58
Total	**$ 26,209**	$ 155,311	$ 21,656

17. SUBSEQUENT EVENT

On January 14, 2020, Pope Resources, entered into an Agreement and Plan of Merger (the "Merger Agreement") with Rayonier, Inc., ("Rayonier") and certain of its subsidiaries. Upon consummation of the transaction, holders of limited partner units of the Partnership (including the depositary receipts therefor, the "Partnership Units"), will be entitled to receive, for each Partnership Unit, merger consideration consisting of (i) 3.929 common shares of Rayonier, (ii) 3.929 units of Rayonier Operating Partnership LP, or (iii) $125 in cash. Elections will be subject to proration to ensure that the aggregate amount of cash, on the one hand, and Rayonier common stock and Rayonier operating partnership units, on the other hand, that are issued in the merger would be equal to the amounts issued as if every Partnership Unit received $37.50 in cash and 2.751 Rayonier common shares or Rayonier operating partnership units. If elections for the Rayonier common shares and Rayonier operating partnership units are oversubscribed, then to reduce the effect of such proration Rayonier can, in its discretion, add additional equity (and decrease the amount of cash) payable to the Partnership unitholders making such election.

Completion of the Merger is subject to the satisfaction (or waiver, if permissible under applicable law) of customary closing conditions, including the approval of the holders of a majority of the Partnership Units.

The Merger Agreement contains certain termination rights for the Partnership and Rayonier, including, among others, the right of (i) the Partnership to terminate the Merger Agreement in order to enter into a definitive agreement for an acquisition proposal that constitutes a Superior Proposal and (ii) Rayonier to terminate the Merger Agreement as a result of the Board changing its recommendation with respect to the Merger Agreement and the Mergers. The Merger Agreement provides that under specified circumstances, including those described above, the Partnership will be required to pay Rayonier a termination fee of $20 million.

18. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

(in thousands, except per unit amounts)	Revenue	Income (loss) from operations	Net and comprehensive income (loss) attributable to unitholders	Basic and diluted earnings (loss) per unit
2019				
First quarter	**$ 25,042**	**$ 2,376**	**$ 3,311**	**$ 0.75**
Second quarter	**27,975**	**189**	**2,205**	**0.50**
Third quarter	**27,948**	**(2,017)**	**(579)**	**(0.15)**
Fourth quarter	**28,938**	**(4,546)**	**(2,502)**	**(0.59)**
2018				
First quarter	$ 24,987	$ 6,957	$ 5,718	$ 1.31
Second quarter	27,912	3,809	199	0.04
Third quarter	28,008	4,172	2,644	0.60
Fourth quarter	22,647	(2,545)	(1,778)	(0.41)

Quarterly fluctuations in data result from the addition and/or deferral of harvest volumes as well as the timing of real estate sales and environmental remediation charges, as disclosed in our quarterly filings. Management considered the disclosure requirements of Item 302(a)(3) and does not note any extraordinary, unusual, or infrequently occurring items except for the environmental remediation charges of $2.9 million, $2.7 million, and $1.6 million in the second quarter of 2018, fourth quarter of 2018, and fourth quarter of 2019, respectively, and the sale of one of Fund II’s tree farms for $26.5 million, with a resulting gain of $12.5 million, in the first quarter of 2017.

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

None

Item 9A. CONTROLS AND PROCEDURES.

Conclusion Regarding the Effectiveness of Disclosure Controls and Procedures

The Partnership's management maintains a system of internal controls to promote the timely identification and reporting of material, relevant information. Those controls include requiring executive management and all managers in accounting roles to certify their compliance with the Code of Ethics. 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 managing general partner includes an Audit Committee that is comprised solely of independent directors who meet the requirements imposed by the Securities Exchange Act and the NASDAQ Stock Market. At least one member of our Audit Committee is a "financial expert" within the meaning of applicable NASDAQ rules. The Audit Committee reviews quarterly earnings releases and all reports on Form 10-Q and Form 10-K prior to their filing. The Audit Committee is responsible for hiring and overseeing the Partnership's external auditors and meets with those auditors at least four times each year, including executive sessions outside the presence of management, generally at each meeting.

The Partnership's executive officers are responsible for establishing and maintaining disclosure controls and procedures. They have designed such controls to ensure that others make known to them all material information within the organization. Management regularly evaluates ways to improve internal controls. As of the end of the period covered by the annual report on Form 10-K, our executive officers completed an evaluation of the disclosure controls and procedures and have determined them to be functioning effectively.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting for the Partnership. Internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, is a process designed by, or under the supervision of, the Partnership's principal executive officer and principal financial officer and effected by the Partnership's board of directors, management, and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Partnership's management, with the participation of the Partnership's principal executive and financial officers, has established and maintains policies and procedures designed to maintain the adequacy of the Partnership's internal control over financial reporting, and includes those policies and procedures that:

1) Pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Partnership;

2) Provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Partnership are being made only in accordance with authorizations of management of the Partnership; and

3) Provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Partnership's assets that could have a material effect on the financial statements.

Management has evaluated the effectiveness of the Partnership's internal control over financial reporting as of December 31, 2019 based on the control criteria established in a report entitled *Internal Control—Integrated Framework (2013)*, issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our assessment and those criteria, the Partnership's management has concluded that the Partnership's internal control over financial reporting was effective as of December 31, 2019.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect all errors or misstatements and all fraud. Therefore, even those systems determined to be effective can provide only reasonable, not absolute, assurance that the objectives of the policies and procedures are met. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

The registered independent public accounting firm of KPMG LLP, auditors of the Partnership's consolidated financial statements, has issued an attestation report on the Partnership's internal control over financial reporting. This report appears on page 55 of this annual report on Form 10-K.

Changes in Internal Control over Financial Reporting

There were no changes in the Partnership's internal control over financial reporting that occurred during the most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Partnership's internal control over financial reporting.

9B. OTHER INFORMATION.

None

PART III

Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

General Partner

The Partnership has no directors. Instead, the Board of Directors of its managing general partner, Pope MGP, Inc. (the “Managing General Partner”), serves in that capacity. References to the “Board” or words of similar construction in this report are to the board of the Managing General Partner, acting in its management capacity with respect to the Partnership. The Managing General Partner’s address is the same as the address of the principal offices of the Partnership. Pope MGP, Inc. receives $150,000 per year for serving as Managing General Partner of the Partnership. There are no family relationships among any of the executive officers and directors of the Managing General Partner.

The following table identifies the executive officers and directors of the Managing General Partner as of February 24, 2020. Officers of the Managing General Partner hold identical offices with the Partnership.

Name	Age	Position, Background, and Qualifications to Serve
Thomas M. Ringo (2)	66	President and Chief Executive Officer, and Director, from June 2014 to present. Vice President and CFO from December 2000 to April 2015. Senior Vice President Finance and Client Relations from June 1996 to December 2000. Vice President Finance from November 1991 to June 1996. Treasurer from March 1989 through October 1991 of Pope MGP, Inc. and the Partnership.
William R. Brown (1), (3), (4), (5)	68	Director since October 2015. Member, Board of Directors, Joshua Green Corporation, a privately held investment company, and Urban Renaissance Group, a full-service commercial real estate company. President, Green Diamond Resource Company from 2006 through 2013. Executive Vice President and Chief Financial Officer, Plum Creek Timber Company from 1999 through 2006. Mr. Brown’s experience in the forest products and real estate industries and knowledge of timberland markets in the Pacific Northwest and elsewhere allow him to provide extensive insight into strategic and tactical business issues relevant to the Partnership. In addition, the senior financial leadership positions he has held at other companies allows him to provide valuable financial guidance as a member of the Audit Committee.
John E. Conlin (2), (3), (4)	61	Director since December 2005. Managing Partner, Veradace Partners, an investment company, 2019 to present. Member, Board of Advisors of Fremont Group, 2018 to present. Co-President, NWQ Investment Management Company LLC, 2006 to 2018. Member, Board of Advisors, Victory Park Capital, 2009 to present. Member, Corporate Advisory Board, University of Michigan, Ross School of Business, 2006 to present and currently Chairman. Member, University of Rochester Endowment Committee, 2006 to present. Director, ACME Communications, 2005 to 2008. Director, Cannell Capital Management 2002 to 2006. CEO, Robertson Stephens, Inc, from 2001 to 2003; COO, Robertson Stephens, Inc, from 1999 to 2000. Held numerous positions with Credit Suisse from 1983 to 1999, the last of which was Managing Director. Mr. Conlin’s background in corporate finance, capital-raising and financial analysis bring the Partnership a perspective that is unique among our directors. Moreover, Mr. Conlin offers an ability to assess capital needs, structures and returns relating to the performance and operation of the Partnership, the Funds, and our strategic goals and objectives.
Sandy D. McDade (1), (3), (4)	68	Director since September 2016. Weyerhaeuser Company: Senior Vice President and General Counsel, 2006 through 2014; Senior Vice President, Industrial Wood Products and International Business Groups, 2005 through 2006; President, Weyerhaeuser Canada, January 2003 through 2005; Vice President of Strategic Planning, 2000 through 2003; Corporate Secretary, 1993 through 2000; Assistant General Counsel, 1980 through 2000. Mr. McDade is a board member of Aptitude Investment Management LP, registered investment advisor. Mr. McDade’s deep experience in the forest products industry brings both operational and strategic expertise to the Partnership, as well as knowledge of international markets and corporate governance.

Name	Age	Position, Background, and Qualifications to Serve
Maria M. Pope (1), (4)	55	Director since December 2012. President and CEO of Portland General Electric (PGE), an electric utility, since October 2017 and January 2018, respectively. Senior Vice President of Power Supply, Operations and Resource Strategy from March 2013 to October 2017 of PGE. Senior Vice President of Finance, Chief Financial Officer and Treasurer of PGE from 2009 through February 2013; Director, PGE from 2006 through 2008. Vice President and Chief Financial Officer, Mentor Graphics Corporation, a software company, from July 2007 to December 2008. Vice President and General Manager, Wood Products Division of Pope & Talbot, Inc., a pulp and wood products company, from December 2003 to April 2007; Vice President, Chief Financial Officer and Secretary of Pope & Talbot, Inc. from 1999 to 2003. Ms. Pope previously worked for Levi Strauss & Co. and Morgan Stanley & Co., Inc. Ms. Pope has extensive board experience, having served on several U.S. and Canadian corporate boards across a number of industries, including forest products. Ms. Pope is on the board of Umpqua Holdings Corporation (NASDAQ: UMPQ), The Federal Reserve Board, San Francisco Branch, and The Nature Conservancy, Oregon chapter. She previously served on the boards of Sterling Financial Corp. (NASDAQ: STSA), Premera Blue Cross, TimberWest Forest Corp. (TSE: TWF), Oregon Health Sciences University, and was the Chair of the Council of Forest Industries (COFI), Western Canada's industry association.
Kevin C. Bates	53	Vice President of Timberland Investments from June 2014 to present, Director of Timberland Investment Management from March 2007 to June 2014. Controller from February 2001 to March 2007, Accounting Manager from February 1998 to February 2001. Internal Audit for Fluke Corporation and Accounting Manager for WAVTrace from May 1997 to March 1998. Audit Senior and Audit Manager for Deloitte & Touche, 1991 to 1997.
Michael J. Mackelwich	49	Vice President of Timberland Operations since March 2017. Director of Timberland Operations from December 2013 through February 2017. Area Timber Operations Manager from March 2006 through November 2013. Forester and Senior Forester positions from January 1998 through February 2006. Resource Planning Forester for The Campbell Group from 1996 through 1997.
Daemon P. Repp	45	Vice President and CFO from December 2018 to present. Director of Finance from August 2017 to November 2018, Portfolio Manager from March 2016 to August 2017, Investment Analyst from August 2010 to February 2016. Financial Analyst and Senior Financial Analyst for Genesee Investments LLC from January 2000 to July 2010. Asset/Liability Management Analyst for Washington Mutual Bank from August 1999 to January 2000. Industrial Analyst at Boeing Co. from June 1997 to July 1999.
Jonathan P. Rose	57	Vice President of Real Estate and President of Olympic Property Group from June 2014 to present, Director of Real Estate and President of Olympic Property Group from March 2005 to June 2014. Vice President of Property Development from January 2000 to March 2005, Project Manager March 1996 to January 2000. Design Engineer for Apex Engineering from 1987 to 1996.

1) Class A Director
2) Class B Director
3) Member of the Audit Committee
4) Member of the Human Resources Committee
5) Designated financial expert for the Board of Directors Audit Committee

Board of Directors of the Managing General Partner

Board Composition. The Managing General Partner's Certificate of Incorporation provides that directors are divided into two classes, each class serving a period of two years which overlap. The Managing General Partner's shareholders elect approximately one-half of the members of the Board of Directors annually, and this election is governed by a shareholders agreement between the Managing General Partner's two stockholders. The terms of the Class A directors expire on December 31, 2020, and the terms of the Class B directors expire on December 31, 2021. The directors' election to the Board of Directors is subject to a voting agreement between the Managing General Partner's two shareholders, Ms. Maria M. Pope and Mr. Gordon P. Andrews. Sandy D. McDade serves as Mrs. Andrews' appointee to the Board of Directors. The Board of Directors met 15 times in 2019, with five of the meetings in person to discuss Partnership matters. The composition of our Board of

Directors is established by the Limited Partnership Agreement and by the Managing General Partner's shareholders agreement, and accordingly, as permitted by NASDAQ Rules IM-5065-7 and 5615(a)(4), board nominations are not made or approved by a separate nominating committee or by a majority of the independent directors.

Past Directorships. During the period 2015 through 2019, Ms. Pope served on boards of other public companies as outlined in the following table.

Individual's Name	Name of Public Company	Term of Directorship
Maria M. Pope	Umpqua Holdings Corporation (NASDAQ:UMPQ)	2015 - present

Board Leadership Structure. The Board does not utilize a Chairman. The CEO generally calls meetings of the Board and sets schedules and agendas for such meetings. The CEO regularly communicates with all directors on key issues and concerns outside of Board meetings and endeavors to ensure that information provided to the Board is sufficiently timely and complete to facilitate Board member fulfillment of responsibilities. As the individual with primary responsibility for managing the Partnership's day-to-day operations, the CEO is best positioned to chair regular Board meetings where key business and strategic issues are discussed. The Board utilized Mr. McDade as a "lead director" in 2019. His chief responsibility in this regard is to chair executive sessions of the non-management directors which are conducted as a part of every Board meeting.

Board's Role in the Risk Oversight Process. Given the size of the Board, management of the Partnership's material risks is administered through the whole Board in concert with executive and senior operating personnel. Risk is an integral part of Board and committee deliberations throughout the year with regular discussion of risks related to the company's business strategies at each meeting. Periodically, the Audit Committee and Board review Management's assessment of the primary operational and regulatory risks facing the Partnership, their relative magnitude, and management's plan for mitigating these risks. The Audit Committee considers risk issues associated with the Partnership's overall financial reporting and disclosure process and legal compliance. At each of its regularly scheduled meetings, the Audit Committee meets in executive session and meets with the independent auditor outside the presence of management.

Diversity Policy. As noted above, the Partnership's board is established pursuant to the Partnership Agreement and a shareholders' agreement among the shareholders of Pope MGP, Inc., the Partnership's managing general partner. The shareholders' agreement, in particular, establishes the rights of the Managing General Partner's stockholders to designate the Partnership's directors. Neither the Partnership Agreement nor the Managing General Partner's shareholders' agreement establishes a diversity policy, nor does any such policy otherwise exist. Accordingly, our ability to consider diversity as a criterion for inclusion in the Board of Directors is limited to the diversity of the directors' business and financial experience.

Audit Committee. The Audit Committee of the Board of Directors is comprised of three independent directors who comply with the Exchange Act and NASDAQ's qualification and independence requirements for Audit Committee members. The Audit Committee met to discuss the Partnership five times during 2019, with one of those meetings in person. The Audit Committee's Chairman and designated financial expert is William R. Brown. John E. Conlin and Sandy D. McDade also serve on the Audit Committee. See report of the Audit Committee on financial statements below.

Human Resources Committee. The Human Resources Committee is responsible for (1) establishing compensation programs for executive officers and senior management of the Partnership designed to attract, motivate, and retain key executives responsible for the success of the Partnership as a whole; (2) administering and maintaining such programs in a manner that will benefit the long-term interests of the Partnership and its unitholders; and (3) determining the salary, bonus, unit option, and other compensation of the Partnership's executive officers and senior management. The Human Resources Committee met four times during 2019, with one of those meetings in person. Mr. Conlin served as Chairman of the Human Resources Committee in 2019. William R. Brown, Sandy D. McDade, and Maria M. Pope also serve on the Human Resources Committee. See report of the Human Resources Committee on executive compensation below.

Beneficial Ownership and Section 16(a) Reporting Compliance

The Partnership is a reporting company pursuant to Section 12 of the Exchange Act. Under Section 16(a) of the Exchange Act, and the rules promulgated hereunder, directors, officers, greater than 10% shareholders, and certain other key personnel (the "Reporting Persons") are required to file with the Securities and Exchange Commission reports of ownership and reports of changes in ownership of Partnership units. Reporting Persons are required by SEC regulations to furnish us with copies of all Section 16(a) forms they file. Based solely on our review of such reports received or written or oral representations from the Reporting Persons, the Partnership believes that the Reporting Persons have complied with all Section 16(a) filing requirements applicable to them.

Code of Ethics

The Partnership maintains a Code of Ethics that is applicable to all executive officers, directors, and certain other employees. A copy of the Code of Ethics is available on the Investor Relations section of the Partnership's website.

Item 11. EXECUTIVE COMPENSATION; COMPENSATION DISCUSSION & ANALYSIS

Overview

This section describes our executive compensation plans and arrangements for the periods ended December 31, 2019, 2018 and 2017. Other than as expressly described herein, this discussion does not address severance or continuation compensation plans and arrangements that have been or may in the future be adopted in connection with our previously announced entry into the Merger Agreement. Additional information about any such arrangements, if adopted, will be described in future filings.

Objectives of our Executive Compensation Program

The objective of our executive compensation program is to reward performance and to attract, motivate, and retain those employees who embrace a culture of achievement with a long-term focus on the Partnership's strategies and values aimed at creating value for the unitholders.

Our executive compensation plans consist of two components: salary and a long-term incentive program (the "Incentive Program"), which is intended to reward selected management employees who provide services to and make decisions on behalf of the Partnership for performance that builds long-term unitholder value. Payments are made under the Incentive Program during the first quarter of each year with respect to results of decision-making in the prior year and the relative performance of our units over the three-year period ending on December 31 of the prior year. As a result, information depicted in this report includes amounts paid in 2018, 2019, and 2020 with respect to performance in 2015-2017, 2016-2018, and 2017-2019.

The Role of the Human Resources Committee and Executive Officers in Compensation Decisions

The Board's Human Resources Committee (the "Committee") is responsible for establishing our compensation objectives and approving all compensation for the CEO, his immediate subordinates, and the broader management team that participates in the Incentive Program. The Committee's primary focus is to administer compensation programs to reward and motivate employees, and then to monitor the execution of these programs. Periodically, the Committee revisits the design of the Partnership's compensation programs to ensure they maintain fairness and balance between the interests of our employees and our unitholders. With that in mind, the Committee intends that the Incentive Program as long-term to be a relatively stable set of arrangements, but may modify or terminate the Incentive Program at any time, as long as previously earned awards are not forfeited. In its role as administrator of the Incentive Program, the Committee has the authority to determine all matters relating to awards to be granted thereunder, and has sole authority to interpret its provisions and any applicable rule or regulation. In making its decisions and administering the Incentive Program and our other compensation programs, the Committee also monitors and evaluates periodically the impact of our compensation policies and objectives in light of the potential for such arrangements to promote excessive risk-taking by participants. The Partnership has not considered the results of shareholder advisory votes on executive compensation required by Section 14A of the Exchange Act because the rule is inapplicable to limited partnerships and the Partnership does not conduct annual meetings of limited partners.

The Incentive Program has two components – the Performance Restricted Unit ("PRU") plan and the Long-Term Incentive Plan ("LTIP"). Both components have a long-term emphasis, with the PRU plan focused on annual decision making, and the LTIP focused on three-year performance of the Partnership's units relative to a comparison group of companies to be determined at the beginning of each plan cycle. The Committee believes this focus is appropriate for the nature of the Partnership's assets and for strengthening alignment with unitholders. Each of these two Incentive Program components is described in more detail below.

The Committee has, from time-to-time, engaged compensation consultants to assist in assessing the market for top executives. Historically, these consultants have provided a limited scope of services on behalf of the Committee and their roles generally have been confined to specific peer analyses or assessments of specific compensation components within the Partnership's then-existing compensation structures. These consultants generally have performed no other services for the Partnership or its subsidiaries or management, and in each case the Committee has evaluated matters that the Committee determined to be relevant to the consultant's independence. The Committee engaged Farient Advisors, a compensation consulting advisory firm, to advise on executive compensation matters in 2017, 2018, and 2019, for which Farient was paid a total of $86,000, $103,000, and $49,000, respectively.

Elements of Compensation

Our executive compensation program is designed to be consistent with the objectives and guidelines set forth above. A discussion of each of the key elements of the program follows below.

Base Salary. Base salary represents that portion of compensation that is designed to provide the executive with a stable and predictable cash payment at a level that is competitive with other similarly situated companies. In establishing base salary levels for executives and other members of the management team, the Committee has used data provided by our compensation consultant, taking into account such factors as competitive industry salaries, general and regional economic conditions, and the size and geographic differences of "peer" companies against which the Partnership is compared. Using that data, the Committee attempts to tailor our executives' base compensation to each executive's scope of responsibilities, individual performance, and contribution to our organization. If adjustments in base salary are made, they are usually effective March 1 of each year, unless circumstances warrant otherwise.

Incentive Program. Our Incentive Program has been designed using a combination of the LTIP, which awards cash incentive payments based on relative total return to unitholders, together with the PRU plan, which uses a blend of cash and restricted units to reward annual decision making that is aligned with the Partnership's strategies. By designing the Incentive Program to align with both long-term decision making and performance, the Committee believes it has mitigated the risk to the Partnership that could be driven by excessive focus on short-term goals. Our Incentive Program is part of our performance culture and is intended to provide balanced reward opportunities tied to a variety of performance outcomes that drive unitholder value. The Committee subjects the programs to continual review with assistance from management and an independent consultant, and has concluded that the Incentive Program is designed to contribute to our success and reasonably unlikely to have a material adverse effect on the Partnership.

When considering our compensation philosophies and programs, the Committee takes into account the need to reward historical performance and encourage prospective thinking, balanced against the possibility that some compensation structures can encourage unnecessary risk-taking. We balance our overall executive compensation packages using a combination of equity-based and cash awards, and we determine those awards on the basis of past performance, but in a manner the Committee believes promotes prospective success. For example, executives involved in our Partnership Timber and Funds Timber segments are rewarded based upon their demonstrated ability to balance short-term objectives, such as growing acreage and harvest volume, against longer-term strategic thinking that benefits unitholders by optimizing harvest volumes in relation to market prices for our logs. Similarly, our Real Estate executives are compensated not just on the basis of properties sold during a given period, but also on making investments in a particular property in relation to the value we can ultimately realize on the sale of that property in the future. While no program can ensure against all avenues of inappropriate risk-taking, we believe our compensation policies and structures allow the committee sufficient flexibility to take into account all factors that might be relevant to an executive's performance, allowing us to reward success while doing so on a basis that avoids opportunistic or short-term thinking.

Long-Term Incentive Program (LTIP). The LTIP represents the Partnership's cash bonus plan for the CEO and other senior management personnel, and focuses on relative total unitholder return measured over a rolling three-year period ending on the last day of the fiscal year for which the award is to be computed. Specifically, the Partnership measures the arithmetic average trading price of the Partnership's limited partner units over the sixty-trading day period preceding the first day and ending on and including the last day of the three-year measurement period. The Partnership also takes into account all distributions to unitholders during that period, and compares the resulting total returns to those provided to security holders within a group of the Partnership's peers as measured using the same methodology. The peer group definition has evolved over time and has been based upon the recommendation of the Partnership's compensation consultant to include companies within the forest products industry, as well as those in real estate or agriculture deemed to have a strong focus on land or natural resources. The following group of 13 companies was used as a benchmark for the 2017-19 performance cycle.

Forest Products	**Real Estate**	**Agriculture**
CatchMark Timber Trust (CTT)	EastGroup Properties (EGP)	Alico (ALCO)
PotlatchDeltic (PCH)	FRPH Holdings (FRPH)	
		Farmland Partners (FPI)
	Monmouth RE Investment (MNR)	Griffin Industrial Realty (GRIF)
Rayonier (RYN)		
Weyerhaeuser (WY)	St. Joe (JOE)	Limoneira (LMNR)
	Tejon Ranch (TRC)	

Following the close of each rolling three-year LTIP performance period, the Committee ranks the Partnership’s total unitholder return against those of the selected peer companies, and makes awards if the Partnership’s total return is equal to or greater than the twentieth (20^{th}) percentile. The fiftieth (50^{th}) percentile within that ranking represents the Partnership’s “target performance level,” which results in a payout of 100% of the target LTIP bonus. The maximum award, which results in awards of 200% of the target LTIP amount, occurs when the Partnership is at or above the eightieth (80^{th}) percentile. Actual payouts are determined in proportionate fashion when the total returns fall between the 20^{th} (zero bonus) and 80^{th} percentile (200% of target bonus). The Committee has the discretion to adjust award levels upward or downward by 20% of the actual formula bonus.

Participants in the LTIP. Participation in the LTIP is comprised of the CEO and other executives selected by the Committee, generally from executives who report directly to the CEO.

Performance Restricted Unit Plan (“PRU”). The PRU is the equity-based element of the Incentive Program, although awards can be made in cash, restricted units, or a combination of each. Awards from this component of the Incentive Program are based upon a pool established at the beginning of each fiscal year and adjusted upward or downward as participants are added to or deleted from the Incentive Program. For 2019, the payout award pool consisted of 4,400 units for Mr. Ringo and 15,678 units for all other participants collectively.

Determination of Performance Awards. PRU awards are determined for the various participants on the basis of the participant’s role in the Partnership, and are measured on the basis of the quality of performance and decision making against a broad spectrum of criteria, organized by business segment as follows:

Partnership Timber and Funds Timber. Participants from these segments are evaluated primarily on the basis of growth in our timberland holdings that, in turn, increase our sustainable harvest volume.

Timberland Investment Management. Participants from this segment are evaluated on the basis of investor capital commitments and internal rates of return for the Funds.

Real Estate. Because our real estate revenues vary tremendously with market conditions, and sale transactions are relatively infrequent, participants from this segment are evaluated heavily on the estimated impact of entitlements and land improvements on the market value of our portfolio properties.

Corporate. Our corporate personnel are evaluated primarily on per unit growth in cash available for distribution.

The Committee has the discretion to adjust award levels based on the quality of participants’ performance and decision-making for the year. Awards may be adjusted lower in the event of poor performance or decision-making that exposes the Partnership to significant risk or loss, or higher for exceptional performance or generating or implementing decisions, plans, or programs that are of major positive influence on the Partnership.

Mechanics of the PRU. Immediately following the end of each fiscal year, the Committee determines the size of the PRU pool based on their assessment of the quality of decision-making during the year. The Committee also identifies any events or decisions that merit special recognition for particular individuals or groups and, if so, determines the amount of any special PRU awards that are to be allocated to those participants. The PRU pool is established on the basis of these determinations, and each participant is allocated a specified performance value, which is then converted to a number of restricted units or, in the case of PRU awards paid in cash, based on the arithmetic average of the closing prices of the Partnership’s limited partner units on Nasdaq on each of the sixty consecutive trading days ending on and including the last day of the relevant fiscal year. The Committee also determines the appropriate allocations between restricted units and cash awards based upon a compensation consultant’s market study with some influence from our past practices of granting restricted units and cash bonuses. In general, the higher up in the management group, the greater the percentage of that individual’s PRU award received in the form of restricted units. The percentage of each participant's PRU award paid in the form of restricted units was kept to simple options of 100%, 50%, or 0%. Restricted unit grants vest ratably, with 25% vesting on each of the first four anniversaries of the grant date, although the Committee has the discretion to vary such awards.

Participants in the PRU. All full-time employees participate in the PRU, with award opportunities calibrated to individual roles and responsibilities.

Clawbacks. The Partnership's incentive compensation program is subject to the clawback provisions of the Dodd-Frank Act and Section 304 of the Sarbanes-Oxley Act. The Committee reserves the right and option to require the return of incentive compensation paid pursuant to the Incentive Program in any instances of employee misconduct and, in certain circumstances, may require disgorgement of awards for periods covered by a restatement of the Partnership's financial reports. The Partnership adheres to all applicable regulations of the SEC, NASDAQ, and other governmental authorities regarding obligations to seek disgorgement of erroneous or excessive compensation.

Perquisites and Other Personal Benefits. We do not provide perquisites or other personal benefits to our executive officers or senior managers. We do not own or lease aircraft for our executives' personal use or otherwise. Our health care and medical insurance programs, as well as the terms of our defined contribution retirement plan (401(k)), are the same for all salaried employees, including officers. Further information regarding our defined contribution plan is set forth below in the paragraph entitled "Defined Contribution Retirement Savings Plan".

Defined Benefit Pension Plans. None of our named executive officers participate in or have account balances in qualified or non-qualified defined benefit plans sponsored by us.

Defined Contribution Retirement Savings Plan. As of December 31, 2019, all our employees are eligible to participate in our defined contribution plan, which is a tax qualified plan pursuant to Section 401(k) of the Code. During each of the years 2017 through 2019 the Partnership matched 50% of the employees' contributions on up to 8% of compensation. Partnership contributions to the plan amounted to $234,000, $222,000, and $195,000 for each of the years ended December 31, 2019, 2018, and 2017, respectively. Employees ordinarily become fully vested in the Partnership's contribution over a six-year period. The Partnership does not discriminate between executive and non-executive employees with respect to any aspect of this plan.

Agreements Between the Partnership and Executive Officers. Each employee is employed at the will of the Partnership and does not have a term of guaranteed employment. We do not have any employment agreements with any of our named executive officers. We do have in place, however, a change in control agreement with the CEO (see discussion below) and, as noted above the Committee may adopt certain severance and continuation compensation arrangements in connection with our entry into the Merger Agreement and the transactions related thereto.

Severance and Other Termination Benefits

The Committee recognizes that, as with all publicly traded entities, a change in control of Pope Resources or its Managing General Partner may occur and that the uncertainty created by this potential event could result in the loss or distraction of executives, with a resulting detriment to unitholders. Having recognized that Pope Resources, as a public company, might find itself in a circumstance involving an unsolicited change in control proposal, or in a situation in which the Board of Directors determines that a strategic transaction is in the best interests of the unitholders, the Committee has long assessed the desirability of maintaining change-in-control arrangements. To that end, in 2004, Pope Resources entered into a change in control agreement with Mr. Ringo that is intended to align his interests with the unitholders' by enabling him to promote the Partnership's interests in connection with strategic transactions that may be in the best interests of unitholders without undue concern for personal circumstances. Further, in light of the Merger Agreement, the Committee has considered, and continues to evaluate, the appropriateness of providing incentives to employees and executive officers whose roles would be affected by the Merger. No such program has yet been adopted, but the Partnership anticipates that these arrangements may be adopted prior to or in connection with the Merger. Any such program would be described in future filings with the Commission and communicated to unitholders in the proxy statement that would be used to seek unitholder approval for the Merger.

As noted above, the only Partnership employee who currently has a change-in-control agreement is Mr. Ringo. This program is based on a "double trigger" mechanism, which means that upon the involuntary termination of the executive's employment (other than "for cause," and including resignation for certain specified reasons) within eighteen months after a change in control occurs, the following benefits would be provided:

- cash payments equal to two times Mr. Ringo's base salary, plus the executive's target bonus for the year in which the change in control occurred;
- immediate vesting of all outstanding unit awards consistent with the terms of the Pope Resources 2005 Equity Incentive Plan; and
- continued coverage for Mr. Ringo and his dependents under Pope Resources' health and welfare plan for up to 18 months after termination.

The following table summarizes the cash payments that would have been due to Mr. Ringo if a change in control event had occurred on December 31, 2019.

Two times base salary	$830,000
Target bonus	$286,000
Total cash payments	$1,116,000

No trusts are maintained to protect benefits payable to executives covered under these change in control agreements with any funding, as applicable, to come from the general assets of the Partnership.

Policy with Respect to $1 Million Deduction Limit

It is not anticipated that the limitations on deductibility, under Internal Revenue Code Section 162(m), of compensation to any one executive that exceeds $1,000,000 in a single year will apply to the Partnership or its subsidiaries in the foreseeable future because this provision applies only to corporations and not to partnerships. In the event that the Partnership were to determine that such limitations would apply in a given scenario, the Committee will analyze the circumstances presented and act in a manner that, in its judgment, is in the best interests of the Partnership. This may or may not involve actions to preserve deductibility.

CEO Pay Ratio

The compensation for our CEO in 2019 was approximately 22 times the median compensation among all other employees. We identified the median employee by examining the 2019 taxable compensation for all individuals, excluding our CEO, who were employed by us on December 31, 2019, the last business day of our fiscal year. We included all employees, whether employed on a full-time, part-time, or seasonal basis. We did not adjust part-time or seasonal employees' compensation to reflect the equivalent of full-time employment. We did not annualize the compensation for any employees who were not employed by us for all of 2019, nor did we include independent contractors or other persons who were not actual employees. All our employees are located in the United States. We believe the use of total taxable compensation for all employees is a consistently applied compensation measure that reflects the relative value of the compensation of our employees.

After identifying the median employee based on total taxable compensation, we calculated the annual total compensation for such employee using the same methodology that we use for our named executive officers as set forth in the Summary Compensation Table below.

Summary Compensation Table

The following table sets forth information regarding compensation earned by our named executive officers for the years 2017 through 2019:

Name and Principal Position	Year	Salary ($)	Unit Awards ($) (1)	Non-equity Incentive Program Compensation ($) (2)	All Other Compensation ($) (3)	Total ($)
Thomas M. Ringo President and CEO	2019	412,500	386,734	540,000	49,144	1,388,378
	2018	400,000	235,800	171,450	39,877	847,127
	2017	395,833	262,275	196,300	32,671	887,079
Kevin C. Bates Vice President of Timberland Investments	2019	281,276	118,703	160,000	26,328	586,307
	2018	261,588	79,910	60,960	23,880	426,338
	2017	255,208	94,419	60,400	20,340	430,367
Michael J. Mackelwich Vice President, Timberland Operations	2019	221,667	109,914	100,000	19,700	451,281
	2018	204,167	58,950	38,100	17,250	318,467
	2017	198,333	69,940	60,400	15,054	343,727
Daemon P. Repp Vice President and CFO (4)	2019	196,667	48,295	43,592	13,596	302,150
	2018	178,333	29,475	31,442	12,287	251,537
Director of Finance	2017	145,658	27,976	28,272	10,516	212,422
Jonathan P. Rose Vice President - Real Estate and President of Olympic Property Group	2019	225,377	134,154	100,000	21,624	481,155
	2018	219,865	57,378	38,100	20,184	335,527
	2017	214,503	69,940	60,400	19,228	364,071
John D. Lamb Vice President and CFO (4)	2017	91,089	—	—	175,543	266,632

(1) Amounts represent the market value on the date of grant of restricted units received in January 2020, 2019, and 2018, respectively, as compensation under the PRU plan for 2019, 2018 and 2017 performance. Expense is recognized, however, over the four-year vesting period for each of these grants with 25% vesting each year.

(2) Represents awards earned for each of the years 2017 through 2019 under the LTIP but paid out in January 2018, 2019, and 2020, respectively, as discussed in the Compensation Discussion and Analysis. For Mr. Repp, the amount represents the award under the PRU plan paid in January 2020, 2019, and 2018 for 2019, 2018, and 2017 performance, respectively, as discussed in the Compensation Discussion and Analysis.

(3) Amounts represent matching contributions to the Partnership's 401(k) plan made by the Partnership on behalf of the executive, and distributions received by the executive on unvested restricted Partnership units (the value of the restricted units is described under footnote (1) above and not repeated here). For Mr. Lamb, the amount also includes $50,000 earned in 2016 and paid in 2017 in recognition that he would not receive his first payment under the LTIP until 2018. Mr. Lamb left the Partnership on August 11, 2017. Mr. Lamb's amounts include $98,165 and $29,916 of salary continuation payments for 2017 and 2018, respectively, and $73,333 paid in January 2018 under the LTIP pursuant to his separation agreement.

(4) Mr. Repp, in his role as Director of Finance, succeeded Mr. Lamb on August 11, 2017, and became a named executive officer as the Partnership's principal financial officer. On December 4, 2018, Mr. Repp was appointed Vice President and CFO of the Partnership.

Grants of Plan Based Awards Table

The following table supplements the Summary Compensation Table and lists both annual and long-term incentive awards made during 2019 to each named executive officer.

			Estimated Future Payouts Under Non-Equity Incentive Program Awards (1)			Estimated Future Payouts Under Equity Incentive Program Awards						
Name	Type of Award	Grant Date (2)	Thresh-old ($)	Target ($)	Maximum ($)	Thresh-old ($)	Target ($)	Maximum ($)	All Other Unit Awards: Number of Shares of Unit or Units (#) (3)	All Other Options Awards: Number of Securities Underlying Options (#)	Closing Price on Grant Date ($/Sh)	Grant Date Fair Value of Stock and Option Awards ($)
Thomas M Ringo President and CEO	LTIP 2019-2021	None	—	350,000	700,000							
	RU	1/14/19							3,600		69.50	250,200
Kevin C. Bates Vice President	LTIP 2019-2021	None	—	100,000	200,000							
	RU	1/14/19							1,220		69.50	84,790
Michael J. Mackelwich Vice President	LTIP 2019-2021	None	—	80,000	160,000							
	RU	1/14/19							900		69.50	62,550
Daemon P. Repp Vice President and CFO	LTIP 2019-2021	None	—	50,000	100,000							
	RU	1/14/19							450		69.50	31,275
Jonathan P. Rose Vice President	LTIP 2019-2021	None	—	50,000	100,000							
	RU	1/14/19							876		69.50	60,882

(1) Reflects potential awards under the LTIP. The LTIP was implemented in 2010 with an initial “cycle” corresponding to the performance period 2008-10, a second cycle for the performance period 2009-11, and so on up through the cycle for the performance period 2019-21 which is the only cycle shown in the table above since its performance period initiated in calendar year 2019. Payouts for the 2015-17, 2016-18, and 2017-19 cycles are reflected in the Summary Compensation Table (see footnote (2) from that table). A description of how the LTIP functions is described above under Long-Term Incentive Program (LTIP).
(2) No grant date attaches to LTIP cycles.
(3) Reflects the grant of time-based restricted units that will vest ratably over a four-year period on each of the four anniversaries of the grant dates.

Unit Incentive Program

In 2005, the Board of Directors of Pope MGP, Inc. adopted the Pope Resources 2005 Unit Incentive Program (the “Plan”) and terminated future awards under the Partnership’s 1997 Unit Option Plan. The Plan is administered by the Committee. The purpose of the change to the Plan was to allow the Committee to award restricted units to employees and directors, which the Committee believes better aligns participants’ interests with those of our current unitholders than did the option grants under the 1997 plan.

Units Available for Issuance

There are 1,105,815 units authorized under the Plan, of which 841,861 remained authorized but unissued at December 31, 2019.

Unit Options

There are currently no unexpired and unexercised options.

Vesting Schedule

Under the PRU plan, restricted units granted ordinarily vest ratably over four years, with 25% vesting on each anniversary of the grant. The administrator may vary this schedule in its discretion.

Unit Appreciation Rights

In addition to Unit grants, the Committee may grant unit appreciation rights. Unit appreciation rights represent a right to receive the appreciation in value, if any, of the Partnership's units over the base value of the unit appreciation right. As of December 31, 2019, no unit appreciation rights have been granted under the Plan.

Adjustments, Changes in Our Capital Structure

As discussed above, the Committee retains the discretion to adjust the number and kind of units available for grant under the Plan, as well as the other terms of awards currently outstanding or granted in the future, in the event of a merger or consolidation. Further information about any such adjustments in connection with the Merger will be disclosed in future filings.

Administration

The Committee has broad discretion to determine all matters relating to securities granted under the Plan.

Amendment and Termination

The Board of Directors has the exclusive authority to amend or terminate the Plan, except as would adversely affect participants' rights to outstanding awards. As the plan administrator, the Committee has the authority to interpret the plan and options granted under the Plan and to make all other determination necessary or advisable for plan administration. In addition, as administrator of the Plan, the Committee may modify or amend outstanding awards, except as would adversely affect participants' rights to outstanding awards without their consent.

Outstanding Equity Awards at Fiscal Year-End; Option Exercise and Units Vested

The following table summarizes the outstanding equity award holdings of our named executive officers as of December 31, 2019:

	Option Awards					Unit Awards			
Name	**Number of Securities Underlying Unexercised Options Exercisable (#)**	**Number of Securities Underlying Unexercised Options Unexercisable (#)**	**Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options (#)**	**Option Exercise Price ($)**	**Option Expiration Date**	**Number of Units That Have Not Vested (#)**	**Market Value of Units That Have Not Vested ($)**	**Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested (#)**	**Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested ($)**
Thomas M. Ringo President and CEO	—	—	—			9,486	877,455	—	—
Kevin C. Bates Vice President	—	—	—			3,782	349,835	—	—
Michael J. Mackelwich Vice President	—	—	—			2,550	235,875		
Daemon P. Repp Vice President and CFO	—	—	—			1,024	94,720	—	—
Jonathan P. Rose Vice President	—	—	—			2,606	241,055	—	—

The following table summarizes the number of units acquired and amounts realized by our named executive officers during the year ended December 31, 2019 on the vesting of restricted units.

	Option Awards		**Unit Awards**	
Name	**Number of Units Acquired on Exercise**	**Value Realized on Exercise**	**Number of Units Acquired on Vesting**	**Value Realized on Vesting**
	(#)	**($)**	**(#) (1)**	**($)**
Thomas M. Ringo President and CEO	—	—	3,138	218,781
Kevin C. Bates V.P. Timberland Investments	—	—	1,463	102,000
Michael J. Mackelwich V.P. Timberland Operations	—	—	850	59,262
Daemon P. Repp Vice President and CFO	—	—	375	26,145
Jonathan P. Rose V.P. Real Estate	—	—	1,140	79,480

(1) Of the 1,140 units acquired upon vesting in 2019 by Mr. Rose, he tendered back 336 units with an aggregate value of $23,426 to the Partnership in lieu of paying cash for payroll taxes due on the vesting. As such, Mr. Rose retained a net position of 804 of these units.

Officer Unit Ownership Guidelines

The Partnership has adopted unit ownership guidelines under which the President/CEO should hold units, including unvested restricted units, with a value of five times annual base salary. In addition, ORM Timber Fund IV LLC requires that certain other officers should hold units, including unvested restricted units, with a value of two to four times annual base salary, depending on their position. The other officers do not have a specific time period within which to satisfy the guideline, but may not sell units, except for the surrendering of newly vested units to satisfy income tax withholdings thereon, until their particular ownership target is reached. As of February 14, 2020, Messrs. Ringo, Bates, Mackelwich, Repp, and Rose owned units of Pope Resources that had the following values expressed as multiples of their December 31, 2019 base salary. In addition, the table below outlines, in a relative sense, how the respective ownership positions of each named executive officer were obtained.

		Thomas M. Ringo	Kevin C. Bates	Michael J. Mackelwich	Daemon P. Repp	Jonathan P. Rose
A	Total # of units owned - excluding unvested restricted units	33,739	24,900	4,237	5,126	6,661
B	Value of units owned - excluding unvested restricted units	$ 3,917,435	$ 2,891,139	$ 491,958	$ 595,180	$ 773,409
C	Base salary	$ 415,000	$ 285,000	$ 225,000	$ 200,000	$ 226,300
	Value divided by salary - B/C	9.4	10.1	2.2	3.0	3.4
% of A acquired via:						
	Open market purchase	7%	9%	—%	46%	—%
	Exercise of options	30%	15%	—%	—%	—%
	Vesting of restricted units	67%	76%	100%	54%	100%
D	Total # of unvested restricted units	9,966	3,547	2,663	1,146	2,947
E	Value of unvested restricted units	$ 1,157,152	$ 411,842	$ 309,201	$ 133,062	$ 342,176
	Value divided by salary - E/C	2.8	1.4	1.4	0.7	1.5
F	Combined value of all owned units - B + E	$ 5,074,587	$ 3,302,981	$ 801,159	$ 728,242	$ 1,115,585
	Value divided by salary - F/C	12.2	11.6	3.6	3.6	4.9
	Ownership guideline	5.0	4.0	2.0	2.0	

Director Compensation

Compensation of the outside directors of Pope MGP, Inc. consists of a quarterly retainer of $7,500. The Lead Director receives an additional quarterly retainer of $2,000. Members of the Audit Committee and Human Resources Committee receive additional quarterly retainers of $1,875 and $1,250, respectively. The Chairman of the Audit Committee and the Human Resources Committee receive an additional quarterly retainer of $3,125 and $2,000, respectively. Members of the Special Committee receive additional quarterly retainers of $2,000. With the exception of retainers related to serving on the Special Committee (which are paid only in cash), directors ordinarily may elect to receive all or a portion of their director fees in units rather than cash; however, the Directors’ ability to make such an election expired on December 31, 2019. When such an election is permitted, the number of units issued as payment for the quarterly retainers is determined by dividing the retainer amount by the closing price on the last trading day of each fiscal quarter, rounded down to the nearest whole unit. The remaining retainer amount is paid in cash.

The following table sets forth a summary of the compensation we paid to our non-employee directors for their services as such in 2019:

Name	Fees Earned or Paid in Cash ($)	Unit Awards ($) (1)	Option Awards ($) (2)	Non-Equity Incentive Program Compensation ($)	Change in Pension Value and Non-qualified Deferred Compensation Earnings	All Other Compensation ($) (3)	Total ($)
William R. Brown	55,000	50,040	—	—	—	18,284	123,324
John E. Conlin	—	100,540	—	—	—	17,909	118,449
Sandy D. McDade	20,500	80,040	—	—	—	28,053	128,593
Maria M. Pope	—	85,040	—	—	—	7,328	92,368

(1) Amounts include the market value on the date of grant (January 14, 2019) of restricted units received during the year. These units are subject to a trading restriction until the units vest. These unit grants vest ratably over four years, with 25% vesting on each anniversary of the grant. In addition, amounts include units with a value of $50,500 for Mr. Conlin, $30,000 for Mr. McDade, and $35,000 for Ms. Pope, who elected to receive all or a portion of their quarterly retainers in the form of units. For each of Mr. Conlin and Ms. Pope, a total of 375 restricted units granted during fiscal year 2015 vested and became eligible for trading on January 12, 2019. For Mr. Brown, 375 restricted units granted during fiscal year 2015 vested and became eligible for trading on March 24, 2019. For each of Mr. Brown, Mr. Conlin and Ms. Pope, 194 units granted during fiscal year 2016 vested and became eligible for trading on January 13, 2019. For Mr. McDade, 184 units restricted units granted during fiscal year 2016 vested and became eligible for trading on May 5, 2019. For each of Mr. Brown, Mr. Conlin, Mr. McDade, and Ms. Pope, 191 units granted during fiscal year 2017 vested and became eligible for trading on January 11, 2019. For each of Mr. Brown, Mr. Conlin, Mr. McDade, and Ms. Pope, 179 units granted during fiscal year 2018 vested and became eligible for trading on January 12, 2019.

(2) No options were awarded in 2019.

(3) Amounts represent distributions received on unvested restricted Partnership units. For Mr. McDade, amounts also include $10,000 for consultation services. For each of Mr. Brown, Mr. Conlin, and Mr. McDade, amounts also include $10,581 for service on a special committee formed by the Board to evaluate potential transactions that resulted in the recently announced agreement under which the Partnership will be acquired by Rayonier, Inc.

Director Unit Ownership Guidelines

The Partnership has adopted unit ownership guidelines under which the directors should hold units, including unvested restricted units, with a value of $250,000. Directors should generally achieve the target ownership level within five years of becoming a director. Mr. Brown, Mr. Conlin, Mr. McDade, and Ms. Pope have reached the ownership guideline.

Report of the Human Resources Committee on Executive Compensation

The Human Resources Committee of the General Partner’s Board of Directors has reviewed and discussed the contents of this Compensation Discussion and Analysis, required by Item 402(b) of SEC Regulation S-K, with the Partnership’s management and, based on such review and discussions, recommended to the General Partner’s Board of Directors that it be included in this Annual Report on Form 10-K.

The Committee's report is also intended to describe in general terms the process the Committee undertakes and the matters it considers in determining the appropriate compensation for the Partnership's executive officers: Messrs. Ringo, Bates, Mackelwich, Repp, and Rose.

Composition of the Committee

The Committee is comprised of William R. Brown, John E. Conlin, Sandy D. McDade, and Maria M. Pope. Mr. Conlin served as Committee Chair during 2019. None of the members are or were officers or employees of the Partnership or the General Partner.

Conclusion

The Human Resources Committee believes that for 2019 the compensation terms for Messrs. Ringo, Bates, Mackelwich, Repp, and Rose, as well as for our other management personnel, were clearly related to the realization of the goals and strategies established by the Partnership. The discussion set forth in this section entitled "Compensation Discussion and Analysis" is hereby adopted as the Report of the Human Resources Committee for the year ended December 31, 2019.

John E. Conlin, Chair
William R. Brown
Sandy D. McDade
Maria M. Pope

Audit Committee Report on Financial Statements

The Audit Committee of the General Partner's Board of Directors has furnished the report set forth in the following section entitled "Responsibilities and Composition of the Audit Committee" on the Partnership's year-end financial statements and audit for fiscal year 2019. The Audit Committee's report is intended to identify the members of the Audit Committee and describe in general terms the responsibilities the Audit Committee assumes, the process it undertakes, and the matters it considers in reviewing the Partnership's financial statements and monitoring the work of the Partnership's external auditors.

Responsibilities and Composition of the Audit Committee

The Audit Committee is responsible for (1) hiring the Partnership's independent registered public accounting firm and overseeing their performance of the audit functions assigned to them, (2) approving all audit and any non-audit services to be provided by the external auditors, and (3) approving all fees paid to the independent registered public accounting firm. Additionally, the Audit Committee reviews the Partnership's quarterly and year-end financial statements with management and the independent registered public accounting firm. The Board of Directors has adopted an Audit Committee Charter filed as Exhibit 3.9 to this Annual Report on form 10-K.

The Audit Committee is comprised of William R. Brown, John E. Conlin, and Sandy D. McDade. Mr. Brown serves as Audit Committee Chair. All members of the Audit Committee are independent as defined under NASDAQ Rule 5605(a)(2) and Exchange Act Section 10A(m)(3), and all are financially literate. Mr. Brown is designated as a "financial expert" for purposes of NASDAQ Rule 5605(c)(2)(A).

During the year, the Audit Committee reviewed with the Partnership's management and with its independent registered public accounting firm the scope and results of the Partnership's internal and external audit activities and the effectiveness of the Partnership's internal control over financial reporting. The Audit Committee also reviewed current and emerging accounting and reporting requirements and practices affecting the Partnership. The Audit Committee discussed certain matters with the Partnership's independent registered public accounting firm and received certain disclosures from the independent registered public accounting firm regarding their independence. All services provided and fees paid during the year to the Partnership's independent registered public accounting firm were reviewed and pre-approved by the Audit Committee. The Audit Committee has also made available to employees of the Partnership and its subsidiaries a confidential method of communicating financial or accounting concerns to the Audit Committee and periodically reminds the employees of the availability of this communication system to report those concerns.

Conclusion

Based on this review, the Audit Committee recommends to the Partnership's Board of Directors that the Partnership's audited financial statements be included in the Partnership's report on Form 10-K.

William R. Brown, Chair
John E. Conlin
Sandy D. McDade

Item 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED SECURITY HOLDER MATTERS

Principal Unitholders

As of February 14, 2020, the following persons were known or believed by the Partnership (based solely on statements made in filings with the SEC or other information we believe to be reliable) to be the beneficial owners of more than 5% of the outstanding Partnership units:

Name and Address of Beneficial Owner	Number Of Units [1]	Percent of Class
Gordon P. Andrews P.O. Box 2040 San Anselmo, CA 94979	567,758 (2)	13.0
James H. Dahl 501 Riverside, Suite 902 Jacksonville, FL 32202	538,080 (3)	12.3
Maria M. Pope 133 SW 2nd Ave., Ste. 301 Portland, OR 97204	311,295 (4)	7.1

(1) Each beneficial owner has sole voting and investment power unless otherwise indicated. Includes restricted units that are unvested since beneficial owner receives distributions on all such restricted units.

(2) Includes 437,113 units held in the Emily T. Andrews Revocable Trust of 1987 ("Andrews Trust"). Mr. Andrews is the sole trustee of the Andrews Trust. Also includes 1,090 units held in the Adolphus Andrews, Jr. Trust, of which Mr. Andrews is sole trustee. Includes a total of 60,000 units held by Pope MGP, Inc., and Pope EGP, Inc., the Partnership's general partners, attributable to Mr. Andrews by virtue of the Shareholders Agreement entered into by and among Pope MGP, Inc., Pope EGP, Inc., Peter T. Pope, Emily T. Andrews, Pope & Talbot, Inc., present and future directors of Pope MGP, Inc. and the partnership, dated as of November 7, 1985. Mr. Andrews is deemed to exercise shared voting and dispositive power over units held by the general partners because of his relationship to the Emily T. Andrews 1987 Revocable Trust, over which he holds or shares control. Mr. Andrews disclaims beneficial ownership of units held by the general partners except to the extent of his pecuniary interest therein. Includes 21,818 units held within the Gordon Pope Andrews Descendants Trust U/T/D December 31, 2012. Includes 540 unvested restricted units.

(3) This information is based upon information disclosed publicly by the filing person and without separate confirmation.

(4) Includes 198,244 units held by PT Pope Properties LLC in which the Ms. Pope shares beneficial ownership. Ms. Pope is the managing member of PT Pope Properties LLC. Ms. Pope disclaims beneficial ownership of such units except to the extent of her pecuniary interest in PT Pope Properties LLC. Includes 49,307 units held by PMG Family Limited Partnership which is controlled by Ms. Pope. Ms. Pope disclaims beneficial ownership of such units except to the extent of her pecuniary interest in PMG Family Limited Partnership. Includes a total of 60,000 units held by Pope MGP, Inc. ("MGP") and Pope EGP, Inc. ("EGP"). MGP and EGP are the Issuer's general partners. Ms. Pope is deemed to share voting and dispositive power over the units held by MGP and EGP by virtue of her position as the sole trustee of PMG Trust UTA dated June 28, 2016 ("PMG Trust"), which does not own any Units but which owns 50% of the outstanding capital stock of each of MGP and EGP. Ms. Pope is thus deemed to have shared beneficial ownership of the Units held by each of MGP and EGP by virtue the Issuer's Partnership Agreement and a shareholders agreement (the "Shareholders Agreement") among the Partnership, MGP, EGP, Ms. Pope's predecessor in interest, certain other reporting persons identified in this filing, and certain other persons party thereto the Shareholders Agreement. Ms. Pope disclaims beneficial ownership of the units held by each of MGP and EGP except to the extent of her pecuniary interest therein. Includes 1,088 unvested restricted units.

Management

As of February 14, 2020, the beneficial ownership of the Partnership units of (1) the named executives (2) the directors of the Partnership's general partners, (3) the general partners of the Partnership, and (4) the Partnership's officers, directors and general partners as a group, was as follows. **

Name	Position and Offices	Number of Units [1]	Percent of Class
Thomas M. Ringo	Director, President and CEO, Pope MGP, Inc. and the Partnership	43,705 [2]	1.0
William R. Brown	Director, Pope MGP, Inc.	3,725 [3]	*
John E. Conlin	Director, Pope MGP, Inc.	30,518 [4]	*
Sandy D. McDade	Director, Pope MGP, Inc.	3,939 [5]	*
Maria M. Pope	Director, Pope MGP, Inc.	311,295 [6]	7.1
Kevin C. Bates	Vice President of Timberland Investments	28,447 [7]	*
Daemon P. Repp	Vice President and CFO	6,272 [8]	*
Michael J. Mackelwich	Vice President, Timberland Operations	6,900 [9]	*
Jonathan P. Rose	Vice President – Real Estate and President of Olympic Property Group	9,608 [10]	*
Pope MGP, Inc.	Managing General Partner of the Partnership	6,000	*
Pope EGP, Inc.	Equity General Partner of the Partnership	54,000	1.2
All General partners, directors and officers of general partners, and officers of the Partnership as a group (9 individuals and 2 entities)		444,409 (11)	10.2

* Less than 1%

** The address of each of these parties is c/o Pope Resources, 19950 Seventh Avenue NE, Suite 200, Poulsbo, WA 98370.

(1) Each beneficial owner has sole voting and investment power unless otherwise indicated. Includes restricted units that are unvested since beneficial owner receives distributions on all such restricted units.
(2) Includes 9,966 unvested restricted units.
(3) Includes 1,088 unvested restricted units.
(4) Includes 1,088 unvested restricted units.
(5) Includes 1,272 unvested restricted units
(6) Includes 198,244 units held by a limited liability company controlled by Ms. Pope and 1,088 unvested restricted units. Also includes 49,307 units held by PMG Family Limited Partnership which is controlled by Ms. Pope and 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc., as to which she shares investment and voting power.
(7) Includes 3,547 unvested restricted units.
(8) Includes 1,146 unvested restricted units.
(9) Includes 2,663 unvested restricted units.
(10) Includes 2,947 unvested restricted units.
(11) For this computation, the 60,000 units held by Pope MGP, Inc. and Pope EGP, Inc. are excluded from units beneficially owned by Ms. Pope. Includes 24,805 unvested restricted units.

Equity Compensation Plan Information

The following table presents certain information with respect to the Partnership's equity compensation plans and awards thereunder on December 31, 2019.

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	-	N/A	841,861
Equity compensation plans not approved by security holders	-	-	-
Total	-	N/A	841,861

Item 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The Partnership Agreement provides that it is a complete defense to any challenge to an agreement or transaction between the Partnership and a general partner, or related person, due to a conflict of interest if, after full disclosure of the material facts as to the agreement or transaction and the interest of the general partner or related person, (1) the transaction is authorized, approved or ratified by a majority of the disinterested directors of the General Partner, or (2) the transaction is authorized by partners of record holding more than 50% of the units held by all partners. All of the transactions below were approved, authorized, or ratified by one of these two means.

Review, Approval or Ratification of Transactions with Related Persons. Our limited partnership agreement requires that the Partnership pay or reimburse our general partners for administrative expenses incurred in connection with their respective services as such. The Partnership maintains written policies and procedures for the approval of related party transactions, including transactions between the Partnership and the general partners and other affiliates. Fees and expenses payable or reimbursable to the general partners are subject to review and approval by the Board or by a committee thereof, depending on the circumstances of such transactions. The Partnership's audit committee charter charges the audit committee with overseeing most aspects of the Partnership's legal and ethical compliance, including review and preapproval of related party transactions and significant unusual transactions.

General Partner Fee. Pope MGP, Inc. receives an annual fee of $150,000, and reimbursement of administrative costs for its services as managing general partner of the Partnership, as stipulated in the Partnership Agreement. In accordance with our governing documents, two of the directors of the Pope MGP, Inc. are appointed by each of its two stockholders. Maria M. Pope is currently a director and stockholder of Pope MGP, Inc.

Reimbursement of General Partner Shareholder Expenses. In connection with the Partnership's strategic evaluation project discussed in this Report, and with our entry into the agreement and plan of merger with Rayonier, Inc., dated as of January 14, 2020, in 2019 the Partnership paid or accrued legal fees totaling $386,000 and financial advisory fees totaling $400,000 for advisors to the shareholders of our general partners, and has agreed to pay up to an additional $114,000 for legal fees and up to an additional $850,000 for financial advisory fees for such advisors. The fees and expenses paid or payable in respect of these services were approved by the special committee formed by the Board for the purpose of overseeing the Partnership's strategic evaluation project, which committee was comprised solely of directors who had no interest in the legal and advisory fees so paid or payable.

Director Independence

With the exception of Mr. Ringo, our Chief Executive Officer, and Ms. Pope, who is an affiliate of the General Partner by virtue of her beneficial ownership of 50% of the common stock of the General Partner, and subject to the above discussions regarding the relationships between the Partnership and the Managing General Partner, all of the directors of the Managing General Partner are independent under applicable laws and regulations and the listing standards of NASDAQ.

Item 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The following table summarizes fees related to the Partnership's principal accountants, KPMG LLP, for 2019 and 2018.

Description of services	**2019**	**%**	2018	%
Audit (1)	**$ 725,700**	**100%**	$ 745,489	100%
Audit related (2)	**—**	**—**	—	—
Tax (2)	**—**	—	—	—
All other fees (3)	**1,780**	**—%**	3,530	—%
Total	**$ 727,480**	**100%**	$ 749,019	100%

(1) Fees represent the arranged fees for the years presented, including the quarterly reviews, annual audit of internal control over financial reporting as mandated under Sarbanes-Oxley section 404, and audits over the ORM Timber Operating Company II, LLC, ORM Timber Fund III (REIT) Inc., and ORM Timber Fund IV (REIT), Inc. subsidiaries, and out-of-pocket expenses reimbursed during the years presented.
(2) There were no fees paid for audit related or tax services.

(3) Subscription to KPMG LLP's Accounting Research Online tool and required agreed-upon procedures report for Port Gamble environmental long-term monitoring activities for 2018.

Prior to hiring KPMG LLP to provide services to the Partnership, anticipated fees and a description of the services are presented to the Audit Committee. The Audit Committee then either pre-approves the services and fee arrangements and agrees to hire KPMG LLP to provide the services, or directs management to find a different service provider.

PART IV

Item 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULE

Financial Statements

Exhibits.

No.	Document
3.1	Certificate of Limited Partnership. (1)
3.2	Second Amended and Restated Limited Partnership Agreement of Pope Resources, A Delaware Limited Partnership dated February 20, 2019. (12)
3.3	Certificate of Incorporation of Pope MGP, Inc. (1)
3.4	Amendment to Certificate of Incorporation of Pope MGP, Inc. (2)
3.5	Bylaws of Pope MGP, Inc. (1)
3.6	Certificate of Incorporation of Pope EGP, Inc. (1)
3.7	Amendment to Certificate of Incorporation of Pope EGP, Inc. (2)
3.8	Bylaws of Pope EGP, Inc. (1)
3.9	Audit Committee Charter. (3)
4.1	Specimen Depositary Receipt of Registrant. (1)
4.2	Second Amended and Restated Limited Partnership Agreement of Pope Resources, A Delaware Limited Partnership dated February 20, 2019 (see Exhibit 3.2).
4.3	Pope Resources 2005 Unit Incentive Plan. (4)
9.1	Shareholders Agreement entered into by and among Pope MGP, Inc., Pope EGP, Inc., Peter T. Pope, Emily T. Andrews, P&T, present and future directors of Pope MGP, Inc. and the Partnership, dated as of November 7, 1985 included as Appendix C to the P&T Notice and Proxy Statement filed with the Securities and Exchange Commission on November 12, 1985, a copy of which was filed as Exhibit 28.1 to the Partnership's registration on Form 10 identified in footnote (1) below. (1)
10.1	Form of Change of control agreement. (3)
10.2	Mortgage, Financing statement and Fixture Filing executed by Pope Resources in favor of Northwest Farm Credit Services, FLCA dated June 10, 2010. (5)
10.3	Mortgage, Financing statement and Fixture Filing executed by Pope Resources in favor of Northwest Farm Credit Services, PCA dated June 10, 2010. (5)
10.4	First Amended and Restated Term Note from Pope Resources to Northwest Farm Credit Services, FLCA dated June 10, 2010. (5)

10.5	Term Note from Pope Resources to Northwest Farm Credit Services, FLCA dated June 10, 2010. (5)
10.6	Revolving Operating Note from Pope Resources to Northwest Farm Credit Services, PCA dated April 1, 2015. (8)
10.7	Amended and Restated Note (Revolving Line of Credit) from Pope Resources to Northwest Farm Credit Services, PCA dated October 11, 2018. (12)
10.8	Second Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, FLCA dated July 20, 2016. (9)
10.9	Second Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, PCA dated July 20, 2016. (9)
10.10	Amendment No. 3 To Second Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, FLCA dated October 11, 2018. (12)
10.11	Amendment No. 3 To Second Amended and Restated Master Loan Agreement between Pope Resources and Northwest Farm Credit Services, PCA dated October 11, 2018. (12)
10.12	Note and Loan Agreement between Pope Resources and Northwest Farm Credit Services, FLCA dated July 20, 2016. (9)
10.13	Amended and Restated Note and Loan Agreement between Seventh Avenue Poulsbo, LLC and Northwest Farm Credit Services, FLCA dated September 30, 2016. (10)
10.14	Amended and Restated Note between Pope Resources and Northwest Farm Credit Services, FLCA dated June 27, 2017. (11)
10.15	Amendment No. 1 to Amended and Restated Note (Long Term Financing Facility) (13)
10.16	Amended and Restated Note (Long Term Financing Facility) between Pope Resources and Northwest Farm Credit Services, FLCA dated October 11, 2018. (12)
10.17	Note (Acquisition Facility) between Pope Resources and Northwest Farm Credit Services, FLCA dated October 11, 2018. (12)
10.18	Loan Agreement between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated September 1, 2010. (5)
10.19	First Amendment to Loan Agreement between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated February 7, 2011. (5)
10.20	Promissory Note from ORM Timber Operating Company II, LLC to Metropolitan Life Insurance Company dated September 1, 2010. (5)
10.21	Guaranty by ORM Timber Fund II, Inc. in favor of Metropolitan Life Insurance Company dated September 1, 2010. (5)
10.22	Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated September 1, 2010. (5)
10.23	Trust Deed, Security Agreement, Assignment of Leases and Rents and Fixture Filing between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated September 1, 2010. (5)
10.24	Second Amendment to Loan Agreement between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated August 15, 2013. (6)
10.25	Promissory Note from ORM Timber Operating Company II, LLC to Metropolitan Life Insurance Company dated August 15, 2013. (6)
10.26	Amendment and Reaffirmation of Guaranty by ORM Timber Fund II, Inc. in favor of Metropolitan Life Insurance Company dated August 15, 2013. (6)
10.27	First Amendment to Deed of Trust, Security Agreement, Assignment of Leases and Rents and Fixture Filing between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated August 15, 2013. (6)

10.28	First Amendment to Trust Deed, Security Agreement, Assignment of Leases and Rents and Fixture Filing between ORM Timber Operating Company II, LLC and Metropolitan Life Insurance Company dated August 15, 2013. (6)
10.29	Master Loan Agreement among ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA and Northwest Farm Credit Services, PCA dated December 2, 2013. (6)
10.30	Promissory Note from ORM Timber Fund III (REIT) Inc. to Northwest Farm Credit Services, FLCA dated December 2, 2013. (6)
10.31	Mortgage, Assignment of Rents, Security Agreement, Financing Statement and Fixture Filing between ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA dated December 2, 2013 (Grays Harbor County). (6)
10.32	Mortgage, Assignment of Rents, Security Agreement, Financing Statement and Fixture Filing between ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA dated December 2, 2013 (Pacific County). (6)
10.33	Mortgage, Assignment of Rents, Security Agreement, Financing Statement and Fixture Filing between ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA dated December 2, 2013 (Siskiyou County). (6)
10.34	Guaranty Agreement by ORM Timber Fund III LLC and ORM Timber Fund III (Foreign) LLC in favor of Northwest Farm Credit Services, FLCA dated December 2, 2013. (6)
10.35	Amendment No. 3 to Master Loan Agreement among ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA and Northwest Farm Credit Services, PCA dated October 14, 2014. (7)
10.36	Amendment No. 5 to Master Loan Agreement among ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA and Northwest Farm Credit Services, PCA dated November 11, 2016. (10)
10.37	Promissory Note from ORM Timber Fund III (REIT) Inc. to Northwest Farm Credit Services, FLCA dated October 14, 2014. (7)
10.38	Mortgage, Financing Statement and Fixture Filing between ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, PCA dated October 14, 2014. (7)
10.39	Mortgage, Financing Statement and Fixture Filing between ORM Timber Fund III (REIT) Inc. and Northwest Farm Credit Services, FLCA dated October 14, 2014. (7)
21.1	Significant Subsidiaries. (14)
23.1	Consent of Independent Registered Public Accounting Firm. (14)
31.1	Certificate of Chief Executive Officer. (14)
31.2	Certificate of Chief Financial Officer. (14)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (14)
32.2	Certification of Principal Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. (14)
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

(1) Incorporated by reference from the Partnership's registration on Form 10 filed under File No. 1-9035 and declared effective on December 5, 1985.

(2) Incorporated by reference from the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 1988.
(3) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2005.
(4) Filed with Form S-8 on September 9, 2005.
(5) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2010.
(6) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2013.
(7) Incorporated by reference to the Partnership's annual report on form 10-K for the fiscal year ended December 31, 2014.
(8) Incorporated by reference to the Partnership's quarterly report on Form 10-Q for the fiscal quarter ended March 31, 2015.
(9) Incorporated by reference to the Partnership's quarterly report on Form 10-Q for the fiscal quarter ended September 30, 2016.
(10) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2016.
(11) Incorporated by reference to the Partnership's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2017.
(12) Incorporated by reference to the Partnership's annual report on Form 10-K for the fiscal year ended December 31, 2018.
(13) Incorporated by reference to the Partnership's quarterly report on Form 10-Q for the fiscal quarter ended June 30, 2019.
(14) Filed with this annual report on Form 10-K for the fiscal year ended December 31, 2019.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Partnership has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

POPE RESOURCES, A Delaware
Limited Partnership

By POPE MGP, INC.
Managing General Partner

Date: February 28, 2020

By /s/ Thomas M. Ringo
President and Chief Executive Officer

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

Date: February 28, 2020	By /s/ Thomas M. Ringo Thomas M. Ringo, President and Chief Executive Officer (principal executive officer), Partnership and Pope MGP, Inc.; Director, Pope MGP, Inc.
Date: February 28, 2020	By /s/ Daemon P. Repp Daemon P. Repp Vice President and Chief Financial Officer (principal financial officer), Partnership and Pope MGP, Inc.
Date: February 28, 2020	By /s/ Sean M. Tallarico Sean M. Tallarico Controller (principal accounting officer), Partnership
Date: February 28, 2020	By /s/ William R. Brown William R. Brown Director, Pope MGP, Inc.
Date: February 28, 2020	By /s/ John E. Conlin John E. Conlin Director, Pope MGP, Inc.
Date: February 28, 2020	By /s/ Sandy D. McDade Sandy D. McDade Director, Pope MGP, Inc.
Date: February 28, 2020	By /s/ Maria M. Pope Maria M. Pope Director, Pope MGP, Inc.

Exhibit 21.1

Significant Subsidiaries

Subsidiary	State of Formation
OPG Properties LLC	Washington
Olympic Property Group I LLC	Washington
ORM, Inc.	Washington
Olympic Resource Management LLC	Washington
ORM Timber Fund II, Inc.	Delaware
ORM Timber Fund III (REIT) Inc.	Delaware
ORM Timber Fund IV (REIT) Inc.	Delaware
OPG Ferncliff Investors LLC	Washington

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

The Board of Directors of Pope MGP, Inc.
Pope Resources, A Delaware Limited Partnership:

We consent to the incorporation by reference in the registration statement (No. 333-128245) on Form S-8 of Pope Resources, A Delaware Limited Partnership of our reports dated February 28, 2020, with respect to the consolidated balance sheets of Pope Resources, A Delaware Limited Partnership and subsidiaries, as of December 31, 2019 and 2018, the related consolidated statements of comprehensive income (loss), partners' capital, and cash flows for each of the years in the three-year period ended December 31, 2019, and the related notes (collectively, the consolidated financial statements), and the effectiveness of internal control over financial reporting as of December 31, 2019, which reports appear in the December 31, 2019 annual report on Form 10-K of Pope Resources, A Delaware Limited Partnership.

Our report on the consolidated financial statements refers to a change in the method of accounting for revenue recognition effective January 1, 2018 due to the adoption of ASC 606, *Revenue from Contracts with Customers*.

(signed) KPMG LLP

Seattle, Washington
February 28, 2020

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Thomas M. Ringo, certify that:

1. I have reviewed this annual report on Form 10-K 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: February 28, 2020

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

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Daemon P. Repp, certify that:

1. I have reviewed this annual report on Form 10-K 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: February 28, 2020

/s/ Daemon P. Repp
Daemon P. Repp
Vice President and Chief Financial Officer

Exhibit 32.1

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

In connection with the Annual Report of Pope Resources (the "Company") on Form 10-K for the period ended December 31, 2019, 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

February 28, 2020

Exhibit 32.2

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

In connection with the Annual Report of Pope Resources (the “Company”) on Form 10-K for the period ended December 31, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Daemon P. Repp, Principal 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/ Daemon P. Repp

Daemon P. Repp
Vice President and Chief Financial Officer

February 28, 2020