UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

Form 10-Q

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

For the quarterly period ended September 30, 2019

OR

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

Commission File Number **1-9035**

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

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

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

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

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

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

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

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

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

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

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

Partnership units outstanding at October 31, 2019: 4,354,927

Pope Resources
Index to Form 10-Q Filing
For the Nine Months Ended September 30, 2019

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited, in thousands)
Pope Resources, a Delaware Limited Partnership
September 30, 2019 and December 31, 2018

	2019	2018
ASSETS		
Current assets		
Partnership cash	**$ 990**	$ 1,784
ORM Timber Funds cash	**2,909**	3,330
Cash	**3,899**	5,114
Restricted cash	**892**	943
Total cash and restricted cash	**4,791**	6,057
Accounts receivable, net	**3,327**	4,670
Contract assets	**2,620**	2,872
Land held for sale	**384**	5,697
Prepaid expenses and other current assets	**947**	1,070
Total current assets	**12,069**	20,366
Properties and equipment, at cost		
Timber and roads	**376,861**	377,970
Timberland	**77,109**	74,267
Land held for development	**20,243**	20,891
Buildings and equipment, net of accumulated depreciation (2019 - $8,066; 2018 - $8,223)	**5,452**	5,500
Total properties and equipment, at cost	**479,665**	478,628
Other assets	**7,170**	9,255
Total assets	**$ 498,904**	$ 508,249
LIABILITIES, PARTNERS' CAPITAL AND NONCONTROLLING INTERESTS		
Current liabilities		
Accounts payable	**$ 2,488**	$ 2,379
Accrued liabilities	**5,928**	5,191
Current portion of long-term debt - Partnership	**132**	128
Current portion of long-term debt - Funds	**24,987**	—
Deferred revenue	**244**	336
Current portion of environmental remediation liability	**1,140**	1,082
Other current liabilities	**1,238**	865
Total current liabilities	**36,157**	9,981
Long-term debt, net of unamortized debt issuance costs and current portion - Partnership	**92,323**	93,928
Long-term debt, net of unamortized debt issuance costs and current portion - Funds	**32,343**	57,313
Environmental remediation and other long-term liabilities	**7,627**	8,427
Partners' capital and noncontrolling interests		
General partners' capital (units issued and outstanding 2019 - 60; 2018 - 60)	**846**	944
Limited partners' capital (units issued and outstanding 2019 - 4,258; 2018 - 4,253)	**48,574**	56,533
Noncontrolling interests	**281,034**	281,123
Total partners' capital and noncontrolling interests	**330,454**	338,600
Total liabilities, partners' capital and noncontrolling interests	**$ 498,904**	$ 508,249

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS) (Unaudited)
Pope Resources, a Delaware Limited Partnership
Nine Months Ended September 30, 2019 and 2018
(in thousands, except per unit data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
Revenue	**$ 27,948**	$ 28,008	**$ 80,965**	$ 80,907
Cost of sales	**(21,193)**	(16,769)	**(58,636)**	(43,644)
Operating expenses	**(5,538)**	(5,137)	**(15,007)**	(14,471)
Environmental remediation expense	**—**	—	**—**	(2,900)
General and administrative expenses	**(3,234)**	(1,930)	**(6,774)**	(4,954)
Income (loss) from operations	**(2,017)**	4,172	**548**	14,938
Interest expense, net	**(1,420)**	(1,311)	**(4,385)**	(3,703)
Income (loss) before income taxes	**(3,437)**	2,861	**(3,837)**	11,235
Income tax expense	**(400)**	(117)	**(435)**	(243)
Net and comprehensive income (loss)	**(3,837)**	2,744	**(4,272)**	10,992
Net and comprehensive (income) loss attributable to noncontrolling interests - ORM Timber Funds	**3,148**	(110)	**9,058**	(2,498)
Net and comprehensive loss attributable to noncontrolling interests - Real Estate	**110**	10	**151**	68
Net and comprehensive income (loss) attributable to unitholders	**$ (579)**	$ 2,644	**$ 4,937**	$ 8,562
Allocable to general partners	**$ (8)**	$ 37	**$ 69**	$ 119
Allocable to limited partners	**(571)**	2,607	**4,868**	8,443
Net and comprehensive income (loss) attributable to unitholders	**$ (579)**	$ 2,644	**$ 4,937**	$ 8,562
Basic and diluted earnings per unit attributable to unitholders	**$ (0.15)**	$ 0.60	**$ 1.11**	$ 1.96
Basic and diluted weighted average units outstanding	**4,317**	4,316	**4,322**	4,319
Distributions per unit	**$ 1.00**	$ 0.80	**$ 3.00**	$ 2.20

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL AND NONCONTROLLING INTERESTS (Unaudited)
Pope Resources, a Delaware Limited Partnership
Nine Months Ended September 30, 2019 and 2018
(in thousands)

		Attributable to Pope Resources			
	Units	General Partners	Limited Partners	Noncontrolling Interests	Total
December 31, 2018	4,313	$ 944	$ 56,533	$ 281,123	$ 338,600
Net income (loss)	—	46	3,265	(2,544)	767
Cash distributions	—	(60)	(4,306)	(3,076)	(7,442)
Capital call	—	—	—	17,259	17,259
Preferred stock issuance	—	—	—	125	125
Equity-based compensation	17	8	585	—	593
Units issued under distribution reinvestment plan	—	—	24	—	24
Unit repurchases	(3)	—	(166)	—	(166)
Payroll taxes paid on unit net settlements	(1)	(1)	(78)	—	(79)
March 31, 2019	4,326	$ 937	$ 55,857	$ 292,887	$ 349,681
Net income (loss)	—	31	2,174	(3,407)	(1,202)
Cash distributions	—	(60)	(4,299)	(3,475)	(7,834)
Equity-based compensation	1	3	194	—	197
Units issued under distribution reinvestment plan	—	—	9	—	9
Unit repurchases	(7)	—	(500)	—	(500)
June 30, 2019	4,320	$ 911	$ 53,435	$ 286,005	$ 340,351
Net income (loss)	—	(8)	(571)	(3,258)	(3,837)
Cash distributions	—	(60)	(4,295)	(1,713)	(6,068)
Equity-based compensation	1	3	193	—	196
Units issued under distribution reinvestment plan	—	—	9	—	9
Unit repurchases	(3)	—	(197)	—	(197)
September 30, 2019	4,318	846	48,574	281,034	330,454

		Attributable to Pope Resources			
	Units	General Partners	Limited Partners	Noncontrolling Interests	Total
December 31, 2017	4,311	$ 1,028	$ 63,519	$ 176,079	$ 240,626
Net income (loss)	—	79	5,639	(3)	5,715
Cash distributions	—	(42)	(3,010)	(3,481)	(6,533)
Capital call	—	—	—	92,280	92,280
Equity-based compensation	15	7	516	—	523
Units issued under distribution reinvestment plan	1	—	59	—	59
Unit repurchases	(4)	—	(292)	—	(292)
Payroll taxes paid on unit net settlements	(1)	(1)	(101)	—	(102)
March 31, 2018	4,322	$ 1,071	$ 66,330	$ 264,875	$ 332,276
Net income	—	3	197	2,333	2,533
Cash distributions	—	(43)	(3,008)	(2,842)	(5,893)
Equity-based compensation	—	3	196	—	199
Units issued under distribution reinvestment plan	1	—	61	—	61
Unit repurchases	(5)	—	(361)	—	(361)
June 30, 2018	4,318	$ 1,034	$ 63,415	$ 264,366	$ 328,815
Net income	—	37	2,607	100	2,744
Cash distributions	—	(48)	(3,440)	(4,894)	(8,382)
Equity-based compensation	—	3	199	—	202
Units issued under distribution reinvestment plan	—	—	8	—	8
Unit repurchases	(4)	—	(286)	—	(286)
September 30, 2018	4,314	1,026	62,503	259,572	323,101

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited, in thousands)
Pope Resources, a Delaware Limited Partnership
Nine Months Ended September 30, 2019 and 2018

	2019	2018
Net income (loss)	**$ (4,272)**	$ 10,992
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depletion	**20,924**	21,104
Equity-based compensation	**987**	924
Depreciation and amortization	**581**	439
Cost of land sold	**8,585**	1,407
Other	**251**	48
Cash flows from changes in operating accounts		
Accounts receivable, net	**1,344**	772
Prepaid expenses, contract assets, and other assets	**1,028**	(5,656)
Real estate project expenditures	**(2,622)**	(2,182)
Accounts payable and accrued liabilities	**996**	(489)
Environmental remediation accruals	**—**	2,900
Environmental remediation payments	**(482)**	(1,145)
Other current and long-term liabilities	**22**	820
Net cash provided by operating activities	**27,342**	29,934
Cash flows from investing activities		
Reforestation and roads	**(2,164)**	(2,534)
Capital expenditures	**(419)**	(571)
Proceeds from sale of property and equipment	**142**	10
Proceeds from insurance recovery	**365**	—
Deposit for acquisition of timberland - Partnership	**(4)**	—
Acquisitions of timberland - Partnership	**(739)**	(6,355)
Acquisitions of timberland - Funds	**(19,344)**	(108,364)
Net cash used in investing activities	**(22,163)**	(117,814)
Cash flows from financing activities		
Line of credit borrowings	**14,786**	27,300
Line of credit repayments	**(19,286)**	(7,800)
Proceeds from issuance of long-term debt	**3,000**	—
Repayment of long-term debt	**(95)**	(92)
Payment of debt issuance costs and prepayment penalty	**(125)**	—
Proceeds from unit issuances - distribution reinvestment plan	**42**	128
Unit repurchases	**(863)**	(939)
Proceeds from preferred stock issuance - ORM Timber Funds	**125**	—
Payroll taxes paid on unit net settlements	**(79)**	(102)
Cash distributions to unitholders	**(13,080)**	(9,591)
Cash distributions from Real Estate joint venture	**136**	—
Cash distributions - ORM Timber Funds, net of distributions to Partnership	**(8,265)**	(11,217)
Capital call - ORM Timber Funds, net of Partnership contribution	**17,259**	92,280
Net cash provided by (used in) financing activities	**(6,445)**	89,967
Net increase (decrease) in cash and restricted cash	**(1,266)**	2,087
Cash and restricted cash at beginning of period	**6,057**	5,284
Cash and restricted cash at end of period	**$ 4,791**	$ 7,371

See accompanying notes to condensed consolidated financial statements.

1. The condensed consolidated balance sheets as of September 30, 2019, and December 31, 2018, and the related condensed consolidated statements of comprehensive income, partners' capital and noncontrolling interests, and cash flows for the nine-month periods ended September 30, 2019, and 2018, have been prepared by Pope Resources, A Delaware Limited Partnership (the "Partnership"), pursuant to the rules and regulations of the Securities and Exchange Commission. The condensed consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments and accruals) necessary for a fair presentation of the financial position, results of operations, and cash flows for the interim periods. The financial information as of December 31, 2018, is derived from the Partnership's audited consolidated financial statements and notes thereto for the year ended December 31, 2018, and should be read in conjunction with such financial statements and notes. The results of operations for the interim periods are not indicative of the results of operations that may be achieved for the entire fiscal year ending December 31, 2019.

2. The financial statements in the Partnership's 2018 annual report on Form 10-K include a summary of significant accounting policies of the Partnership and should be read in conjunction with this Quarterly Report on Form 10-Q.

   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.

3. 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. Included in "Accounts receivable, net" are $2.1 million and $3.0 million of receivables from contracts with customers as of September 30, 2019, and December 31, 2018, respectively.

   Significant changes in the contract asset balance during the period were as follows, and there were no contract liabilities as of September 30, 2019, and December 31, 2018 (in thousands):

Contract assets, December 31, 2018	$	3,829
Revenue recognized from changes in estimates of variable consideration		194
Transferred to receivables from contract assets		(1,426)
Contract assets, September 30, 2019	$	2,620

   The contract assets in the table above represent rights to consideration for timber deeds transferred to the customer and are related primarily to the Funds Timber segment. These contracts provide the customer the legal right to harvest timber on a designated portion of the Funds' or Partnership's property. The value of a timber deed contract is determined based on the estimated timber volume by tree species multiplied by the contracted price. The contract consideration is considered variable because the timber volume by species 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 following is a description of principal activities, separated by reportable segments, from which the Partnership generates its revenue.

Partnership Timber and Funds Timber

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. Revenue in these two segments is earned primarily from the harvest and sale of logs from the Partnership's and Funds' timberland. 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. 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 log sale and other revenue for the Partnership Timber and Funds Timber segments:

(in thousands)	Quarter ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
Partnership Timber				
Log sale revenue	**$ 5,107**	$ 11,638	**$ 33,514**	$ 31,312
Other revenue	**601**	601	**1,565**	1,635
Total revenue	**$ 5,708**	$ 12,239	**$ 35,079**	$ 32,947
Funds Timber				
Log sale revenue	**$ 9,638**	$ 11,353	**$ 29,915**	$ 29,356
Timber deed sale revenue	**23**	1,640	**217**	10,504
Other revenue	**42**	260	**1,761**	851
Total revenue	**$ 9,703**	$ 13,253	**$ 31,893**	$ 40,711

Timberland Investment Management (TIM)

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 expense in the Funds Timber segment, are eliminated in consolidation. 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 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. 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. 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:

(in thousands)	Quarter ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
Development rights (CE)	**$ —**	$ —	**$ —**	$ 3,730
Residential land sales	**12,150**	1,975	**12,795**	2,126
Unimproved land	**—**	—	**22**	125
Total land sales	**12,150**	1,975	**12,817**	5,981
Rentals and other	**387**	541	**1,176**	1,268
Total revenue	**$ 12,537**	$ 2,516	**$ 13,993**	$ 7,249

4. 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):

	September 30, 2019	Balance Sheet caption
Right of use assets	$ 179	Other assets
Lease liability - current	$ 115	Other current liabilities
Lease liability - long-term	$ 64	Environmental remediation and other long-term liabilities

The following table presents the components of lease costs and other lease information for the quarter ended September 30, 2019:

In thousands, except weighted-average information	Quarter ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Lease cost				
Operating lease cost	$ 47	$ —	$ 141	$ —
Variable lease cost	3	—	7	—
Total lease cost	$ 50	$ —	$ 148	$ —
Other lease information				
Cash paid for amounts included in the measurement of lease liabilities	$ 50	$ —	$ 148	$ —
Right-of-use asset obtained in exchange for new leases	$ —	$ —	$ 17	$ —
Weighted-average remaining lease term in years	1.6			
Weighted average discount rate	4.2%			

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

2019	$ 120
2020	55
2021	10
2022	1
Unamortized discount	(7)
Total lease liability at September 30, 2019	$ 179

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 three and nine months ended September 30, 2019 (in thousands):

(in thousands)	Quarter ended September 30,		Nine months ended September 30,	
	2019	2018	2019	2018
Lease Income				
Operating lease income	$ 452	$ —	$ 1,261	$ —
Variable lease income	12	—	43	—
Total lease income	$ 464	$ —	$ 1,304	$ —

Buildings subject to operating leases had a cost of $2.1 million and accumulated depreciation of $1.2 million at September 30, 2019.

Lease income at September 30, 2019, based on payments due by period under the lease contracts, are presented in the following table (in thousands):

2019	$ 699
2020	718
2021	662
2022	595
2023	563
Thereafter	3,785
Total	$ 7,022

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

6. ORM Timber Fund II, Inc. (Fund II), ORM Timber Fund III (REIT) Inc. (Fund III), and ORM Timber Fund IV LLC (Fund IV), collectively "the Funds", were formed by Olympic Resource Management LLC (ORMLLC), a wholly owned subsidiary of the Partnership, for the purpose of raising capital to purchase timberlands. The objective of these Funds is to generate a return on investments through the acquisition, management, value enhancement, and sale of timberland properties. Each fund is organized to operate for a specific term from the end of its respective investment period; 10 years for each of Fund II and Fund III, and 15 years for Fund IV. Fund II and Fund III are scheduled to terminate in March 2021 and December 2025, respectively. Fund IV will terminate on the fifteenth anniversary of the end of its investment period, which will occur on the earlier of placement of all committed capital or December 31, 2019, subject to certain extension provisions.

   Pope Resources and ORMLLC together own equity interests totaling 20% of Fund II, 5% of Fund III, and 15% of Fund IV. The Funds are considered variable interest entities because their organizational and governance structures are the functional equivalent of a limited partnership. As the managing member of the Funds, the Partnership is the primary beneficiary of each of the Funds as it has the authority to direct the activities that most significantly impact their economic performance, as well as the right to receive benefits and the obligation to absorb losses that could potentially be significant to the Funds. Accordingly, the Funds are consolidated into the Partnership's financial statements. The obligations of each of the Funds are non-recourse to the Partnership.

   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. At December 31, 2018, Fund IV had paid a deposit of $1.0 million in connection with the transaction, which was included in other assets. The purchase price was allocated $17.5 million to timber and roads, and $2.8 million to the underlying land.

   The assets and liabilities of the Funds as of September 30, 2019, and December 31, 2018, were as follows:

(in thousands)		September 30, 2019		December 31, 2018
Assets:				
Cash	**$**	**2,909**	$	3,330
Contract assets		**2,553**		2,780
Other current assets		**1,821**		2,151
Total current assets		**7,283**		8,261
Properties and equipment, net of accumulated depreciation		**364,478**		360,163
Other long-term assets		**—**		1,962
Total assets	**$**	**371,761**	$	370,386
Liabilities and equity:				
Current liabilities	**$**	**3,987**	$	3,237
Current portion of long-term debt		**24,987**		—
Total current liabilities		**28,974**		3,237
Long-term debt, net of unamortized debt issuance costs and current portion		**32,343**		57,313
Other long-term liabilities		**—**		300
Funds' equity		**310,444**		309,536
Total liabilities and equity	**$**	**371,761**	$	370,386

7. Other assets consisted of the following at September 30, 2019 and December 31, 2018:

(in thousands)		September 30, 2019		December 31, 2018
Investment in Real Estate joint venture entity	**$**	**5,577**	$	5,891
Advances to Real Estate joint venture entity		**934**		804
Deferred tax assets, net		**424**		541
Right-of-use assets		**179**		—
Contract assets		**—**		957
Note receivable		**52**		57
Deposits for acquisitions of timberland		**4**		1,005
Total	**$**	**7,170**	$	9,255

8. In the presentation of the Partnership's revenue and operating income (loss) by segment, all intersegment revenue and expense is eliminated to determine operating income (loss) reported externally. The following tables reconcile internally reported income (loss) from operations to externally reported income (loss) from operations by business segment.

   In the fourth quarter of 2018, the Partnership changed its method of reporting costs incurred by the Partnership Timber segment on behalf of the TIM segment, and reclassified $123,000 of operating expenses for the third quarter of 2018 and $366,000 for the first nine months of 2018 from the Partnership Timber segment to the TIM segment to conform to the current year presentation.

Quarter ended September 30, (in thousands)	Partnership Timber	Funds Timber	Timberland Investment Management	Real Estate	Other	Consolidated
2019						
Revenue - internal	**$ 5,915**	**$ 9,703**	**$ 1,393**	**$ 12,660**	**$ —**	**$ 29,671**
Eliminations	**(207)**	**—**	**(1,393)**	**(123)**	**—**	**(1,723)**
Revenue - external	**5,708**	**9,703**	**—**	**12,537**	**—**	**27,948**
Cost of sales	**(3,032)**	**(9,352)**	**—**	**(8,809)**	**—**	**(21,193)**
Operating, general and administrative expenses - internal	**(1,521)**	**(3,030)**	**(1,265)**	**(1,420)**	**(3,259)**	**(10,495)**
Eliminations	**250**	**1,339**	**71**	**38**	**25**	**1,723**
Operating, general and administrative expenses - external	**(1,271)**	**(1,691)**	**(1,194)**	**(1,382)**	**(3,234)**	**(8,772)**
Income (loss) from operations - internal	**1,362**	**(2,679)**	**128**	**2,431**	**(3,259)**	**(2,017)**
Eliminations	**43**	**1,339**	**(1,322)**	**(85)**	**25**	**—**
Income (loss) from operations - external	**$ 1,405**	**$ (1,340)**	**$ (1,194)**	**$ 2,346**	**$ (3,234)**	**$ (2,017)**
2018						
Revenue - internal	$ 12,373	$ 13,253	$ 1,212	$ 2,636	$ —	$ 29,474
Eliminations	(134)	—	(1,212)	(120)	—	(1,466)
Revenue - external	12,239	13,253	—	2,516	—	28,008
Cost of sales	(4,976)	(9,932)	—	(1,861)	—	(16,769)
Operating, general and administrative expenses - internal	(1,729)	(2,435)	(1,206)	(1,209)	(1,954)	(8,533)
Eliminations	43	1,212	151	36	24	1,466
Operating, general and administrative expenses -external	(1,686)	(1,223)	(1,055)	(1,173)	(1,930)	(7,067)
Income (loss) from operations - internal	5,668	886	6	(434)	(1,954)	4,172
Eliminations	(91)	1,212	(1,061)	(84)	24	—
Income (loss) from operations - external	$ 5,577	$ 2,098	$ (1,055)	$ (518)	$ (1,930)	$ 4,172

Nine Months Ended September 30, (in thousands)	Partnership Timber	Funds Timber	Timberland Investment Management	Real Estate	Other	Consolidated
2019						
Revenue - internal	**$ 35,676**	**$ 31,893**	**$ 4,235**	**$ 14,359**	$ —	**$ 86,163**
Eliminations	**(597)**	—	**(4,235)**	**(366)**	**—**	**(5,198)**
Revenue - external	**35,079**	**31,893**	**—**	**13,993**	**—**	**80,965**
Cost of sales	**(17,031)**	**(31,728)**	—	**(9,877)**	—	**(58,636)**
Operating, general and administrative expenses - internal	**(4,607)**	**(8,268)**	**(3,798)**	**(3,455)**	**(6,851)**	**(26,979)**
Eliminations	**729**	**4,080**	**207**	**105**	**77**	**5,198**
Operating, general and administrative expenses - external	**(3,878)**	**(4,188)**	**(3,591)**	**(3,350)**	**(6,774)**	**(21,781)**
Income (loss) from operations - internal	**14,038**	**(8,103)**	**437**	**1,027**	**(6,851)**	**548**
Eliminations	**132**	**4,080**	**(4,028)**	**(261)**	**77**	**—**
Income (loss) from operations - external	**$ 14,170**	**$ (4,023)**	**$ (3,591)**	**$ 766**	**$ (6,774)**	**$ 548**
2018						
Revenue - internal	$ 33,313	$ 40,711	$ 3,376	$ 7,621	$ —	$ 85,021
Eliminations	(366)	—	(3,376)	(372)	—	(4,114)
Revenue - external	32,947	40,711	—	7,249	—	80,907
Cost of sales	(11,996)	(28,754)	—	(2,894)	—	(43,644)
Operating, general and administrative expenses - internal	(5,076)	(6,766)	(3,337)	(3,327)	(5,033)	(23,539)
Eliminations	135	3,376	419	105	79	4,114
Operating, general and administrative expenses - external	(4,941)	(3,390)	(2,918)	(3,222)	(4,954)	(19,425)
Environmental remediation		—	—	(2,900)	—	(2,900)
Income (loss) from operations - internal	16,241	5,191	39	(1,500)	(5,033)	14,938
Eliminations	(231)	3,376	(2,957)	(267)	79	—
Income (loss) from operations - external	$ 16,010	$ 8,567	$ (2,918)	$ (1,767)	$ (4,954)	$ 14,938

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per unit amounts)	**2019**	2018	**2019**	2018
Net and comprehensive income attributable to Pope Resources' unitholders	**$ (579)**	$ 2,644	**$ 4,937**	$ 8,562
Less:				
Non-forfeitable distributions paid to unvested restricted unitholders	**(38)**	(27)	**(114)**	(53)
Preferred share dividends - ORM Timber Funds	**(12)**	(8)	**(35)**	(23)
Net and comprehensive income for calculation of earnings per unit	**$ (629)**	$ 2,609	**$ 4,788**	$ 8,486
Basic and diluted weighted average units outstanding	**4,317**	4,316	**4,322**	4,319
Basic and diluted net earnings per unit	**$ (0.15)**	$ 0.60	**$ 1.11**	$ 1.96

10. In the first quarter of 2019, the Partnership issued 11,504 restricted units pursuant to the management incentive compensation program and 3,600 restricted units to members of the Board of Directors. These restricted units vest ratably over four years with the grant date fair value equal to the market price on the date of grant. During the nine months ended September 30, 2019, 1,263 units were granted with no restrictions to certain board members who elected to receive their quarterly board compensation in the form of units rather than cash. Units granted to directors are included in the calculation of total equity compensation expense which is recognized over the vesting period, for restricted units, or immediately for unrestricted units. Grants to retirement-eligible individuals on the date of grant are expensed immediately. The Partnership recognized $196,000 and $202,000 of equity compensation expense in the third quarter of 2019 and 2018, respectively, and $986,000 and $924,000 for the nine months ended September 30, 2019 and 2018, respectively, related to these compensation programs.

11. Supplemental disclosure of cash flow information: interest paid, net of amounts capitalized, totaled $3.9 million and $3.2 million during the first nine months of 2019 and 2018, respectively. Income taxes paid totaled $82,000 and $660,000 for the first nine months of 2019 and 2018, respectively.

12. The Partnership's financial instruments include cash, accounts receivable, and notes receivable, included in prepaid expenses and other current asset and in other assets, for which the carrying amount of each represents fair value based on current market interest rates or their short-term nature.

    Collectively, the Partnership's and the Funds' fixed-rate debt has a carrying value of $125.4 million as of September 30, 2019 and December 31, 2018. The estimated fair value of this debt, based on current interest rates for similar instruments (Level 2 inputs in the Fair Value Hierarchy), is approximately $134.4 million and $126.3 million as of September 30, 2019 and December 31, 2018, respectively.

13. The Partnership had an accrual for estimated environmental remediation costs of $8.6 million and $9.1 million as of September 30, 2019 and December 31, 2018, respectively. The environmental remediation liability represents management's estimate of payments to be made to remedy and monitor certain areas in and around Port Gamble Bay, Washington. The liability at September 30, 2019 is comprised of $1.1 million that management expects to expend in the next 12 months and $7.5 million thereafter.

    In December 2013, a consent decree and 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 and the required in-water portion of the cleanup 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.

In February 2018, the Partnership and DOE entered into an agreed order with respect to the millsite under which the Partnership had performed a remedial investigation and feasibility study (RI/FS) and drafted a CAP. As with the in-water portion of the project, the CAP defines the scope of the remediation activity for the millsite.

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 have progressed to the point where management has identified a short list of restoration projects that may resolve the Trustees' NRD claims.

The RI/FS and CAP for the millsite will be reviewed by DOE prior to being finalized, which will be codified in a consent decree. For the NRD component of the project, discussions with the Trustees are continuing, and management expects those discussions will ultimately result in a settlement agreement. At present, management expects the CAP and consent decree for the millsite and the NRD settlement agreement to be finalized in the first half of 2020. In both cases, it is reasonably possible that cost estimates could change as a result of changes to either the millsite cleanup or the NRD restoration components of the liability, or both. Management currently expects the millsite cleanup and NRD restoration projects to occur over the next two to three years.

Finally, there will be a monitoring period that is expected to be approximately 15 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.

Activity in the environmental liability is as follows:

(in thousands)	Balance at Beginning of the Period	Additions to Accrual	Expenditures for Remediation	Balance at Period-end
Year ended December 31, 2017	$ 12,770	$ —	$ (7,791)	$ 4,979
Year ended December 31, 2018	4,979	5,600	(1,496)	9,083
Quarter ended March 31, 2019	**9,083**	**—**	**(158)**	**8,925**
Quarter ended June 30, 2019	**8,925**	**—**	**(203)**	**8,722**
Quarter ended September 30, 2019	**8,722**	**—**	**(120)**	**8,602**

14. 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 April 2031. The $9.8 million refinancing is 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 4.51% 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.

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

This report contains a number of projections and statements about our expected financial condition, operating results, and business and strategic plans and objectives. These statements reflect management’s estimates based upon our current expectations, in light of management’s knowledge of existing circumstances and our intentions 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 plans, goals, objectives and anticipated performance. These statements can be identified by words such as “anticipate”, “believe”, “expect”, “intend”, and similar expressions. Some of 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 or their outcomes may be material and adverse. Some of the factors that may cause our actual operating results and financial condition to fall short of our expectations are set forth in the part of this report entitled “Risk Factors” in Part II, Item 1A below. From time to time we identify other risks and uncertainties in our other filings with the Securities and Exchange Commission. The forward-looking statements in this report reflect our estimates and expectations as of the date of the report, and unless required by law, we do not undertake to update these statements as our business operations and environment change.

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

EXECUTIVE OVERVIEW

Pope Resources, A Delaware Limited Partnership (“we” or the “Partnership”), is engaged in four primary businesses: Partnership Timber, Funds Timber, Timberland Investment Management, and Real Estate.

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 three private equity funds (“Fund II”, “Fund III”, and “Fund IV”, collectively, the “Funds”), respectively. 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 and manufacturing logs for sale to domestic wood products manufacturers and log 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 Condensed Consolidated Statements of Comprehensive Income under the caption “Net and comprehensive (income) loss attributable to non-controlling interests-ORM Timber Funds” to arrive at “Net and comprehensive income attributable to unitholders”.

Our current strategy for adding timberland acreage is centered primarily on our private equity timber fund business model. However, where it does not conflict with exclusivity provisions with the Funds, we acquire smaller timberland parcels from time to time to add on to the Partnership’s existing tree farms. In addition, during periods when the Funds’ committed capital is fully invested, we may look to acquire larger timberland properties for the Partnership. Our three active timber funds have assets under management totaling approximately $545 million as of September 30, 2019 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. Fund IV, launched in December 2016, is still in its investment period and has not yet placed all of its committed capital. Our co-investment affords us a share of the Funds’ operating cash flows while also allowing us to earn asset management and timberland management fees, as well as potential future incentive fees, based upon the overall success of each fund. We also believe that this strategy allows us to maintain more sophisticated expertise in timberland acquisition, valuation, and management on a more cost-effective basis than we could for the Partnership’s timberlands alone. We believe our co-investment strategy also enhances our credibility with existing and prospective Fund investors by demonstrating that we have both an operational and a financial commitment to the Funds’ success.

Our Real Estate segment's activities primarily include securing permits and entitlements, and in some cases, installing infrastructure for raw land development and then realizing that land's value by selling larger parcels to developers who, in turn, seek to take the land further up the value chain by either selling homes to retail buyers or lots to developers of commercial property. More recently, we have acquired and developed other real estate properties (not previously owned by the Partnership), either on our own or by partnering with another developer in a joint venture. Since these projects often span multiple years, the Real Estate segment may incur losses for multiple years while a project is developed, and will not recognize operating income until that project is sold. In addition, within this segment, we sometimes negotiate and sell development rights in the form of conservation easements (CE's) on Partnership Timber properties which preclude future development, but allow continued timber operations. The strategy for our Real Estate segment centers around how and when to "harvest", or sell, a parcel of land to realize its optimal value. In doing so, we seek to balance the long-term risks and costs of carrying and developing a property against the potential for income and cash flows upon sale. Land held for development by our Real Estate segment represents property in western Washington that has been deemed suitable for residential and commercial building sites. Land held for sale includes those properties in the development portfolio that we expect to sell in the next 12 months.

Recent Developments

On November 5, 2019, we issued a press release announcing that we are in discussions with certain parties regarding one or more strategic transactions that, if consummated, may result in a merger of Pope Resources or an acquisition of the Partnership. No definitive agreement has been reached and there can be no assurances that any transaction will result from these discussions. However, in exploring, developing and analyzing these transactions and the various alternatives, we have incurred greater than normal general and administrative expense as discussed further herein.

Adjusted EBITDDA

We use Adjusted EBITDDA as a supplemental measure of segment performance. We define Adjusted EBITDDA as earnings before interest, taxes, depletion, depreciation, amortization, gain or loss on timberland sold, and environmental remediation expense. In addition, we reflect Adjusted EBITDDA on an internal reporting basis without eliminating inter-segment activity, which has no net impact on total Adjusted EBITDDA. Accordingly, fees earned from managing the Funds are reflected in the Timberland Investment Management segment and this same amount is reflected as expense in the Funds Timber segment. We believe Adjusted EBITDDA captures the ongoing operations of each of our segments and is a useful supplemental metric to assess the segments' financial performance. Our definition of Adjusted EBITDDA may be different from similarly titled measures reported by other companies, including those in our industry. Adjusted EBITDDA is not necessarily indicative of the Adjusted EBITDDA that may be generated in future periods. Adjusted EBITDDA is a non-GAAP performance measure which is reconciled to the GAAP measure of operating income in the table below.

Quarter ended September 30, (in thousands)	Partnership Timber	Funds Timber	Timberland Investment Management	Real Estate	Other	Consolidated
2019						
Income (loss) from operations - external	**$ 1,405**	**$ (1,340)**	**$ (1,194)**	**$ 2,346**	**$ (3,234)**	**$ (2,017)**
Reversal of segment eliminations	**(43)**	**(1,339)**	**1,322**	**85**	**(25)**	**—**
Income (loss) from operations - internal	**1,362**	**(2,679)**	**128**	**2,431**	**(3,259)**	**(2,017)**
Depletion, depreciation, and amortization	**728**	**4,679**	**25**	**64**	**24**	**5,520**
Adjusted EBITDDA	**$ 2,090**	**$ 2,000**	**$ 153**	**$ 2,495**	**$ (3,235)**	**$ 3,503**
2018						
Income (loss) from operations - external	$ 5,577	$ 2,098	$ (1,055)	$ (518)	$ (1,930)	$ 4,172
Reversal of segment eliminations	91	(1,212)	1,061	84	(24)	—
Income (loss) from operations - internal	5,668	886	6	(434)	(1,954)	4,172
Depletion, depreciation, and amortization	1,094	5,906	21	68	10	7,099
Adjusted EBITDDA	$ 6,762	$ 6,792	$ 27	$ (366)	$ (1,944)	$ 11,271

Nine Months Ended September 30, (in thousands)	Partnership Timber	Funds Timber	Timberland Investment Management	Real Estate	Other	Consolidated
2019						
Income (loss) from operations - external	**$ 14,170**	**$ (4,023)**	**$ (3,591)**	**$ 766**	**$ (6,774)**	**$ 548**
Reversal of segment eliminations	**(132)**	**(4,080)**	**4,028**	**261**	**(77)**	**—**
Income (loss) from operations - internal	**14,038**	**(8,103)**	**437**	**1,027**	**(6,851)**	**548**
Depletion, depreciation, and amortization	**4,175**	**16,958**	**67**	**196**	**36**	**21,432**
Adjusted EBITDDA	**$ 18,213**	**$ 8,855**	**$ 504**	**$ 1,223**	**$ (6,815)**	**$ 21,980**
2018						
Income (loss) from operations - external	$ 16,010	$ 8,567	$ (2,918)	$ (1,767)	$ (4,954)	$ 14,938
Reversal of segment eliminations	231	(3,376)	2,957	267	(79)	—
Income (loss) from operations - internal	16,241	5,191	39	(1,500)	(5,033)	14,938
Depletion, depreciation, and amortization	2,930	18,275	48	204	35	21,492
Environmental remediation	—	—	—	2,900	—	2,900
Adjusted EBITDDA	$ 19,171	$ 23,466	$ 87	$ 1,604	$ (4,998)	$ 39,330

Outlook

We expect 2019 harvest volume will range between 61-65 MMBF for the Partnership, and 81-85 MMBF for the Funds, including timber deed sales. The Partnership volume includes 4-8 MMBF of volume from timber located on real estate properties that is not factored into our long-term, sustainable harvest plan of 57 MMBF. On a look-through basis, accounting for the Partnership’s share of the Funds’ based on its ownership interest in fund, total 2019 harvest volume, including timber deed sales, is expected to be 72-76 MMBF. We expect relatively flat log prices over the balance of 2019 with uncertainty related to U.S. - China trade tensions.

In the fourth quarter of 2019, we expect the Partnership to close on the sale of a parcel of undeveloped land in Jefferson County, an industrial lot in Kitsap County, and a potential conservation easement sale in Kitsap County. We also expect to continue incurring general and administrative expenses at an elevated level in connection with our ongoing discussions regarding a potential strategic transaction. We can offer no additional guidance as to the amount or timing of any such expenses in the future.

Timber - Overall

Operations. Overall Timber results include operations on 120,000 acres of timberland owned by the Partnership (Partnership Timber) in western Washington, 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 typically 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 taking into account both the delivered log prices and the cost to deliver logs to the customer. As such, our reported log price realizations will reflect our properties’ proximity to customers as well as the broader log market.

Revenue in our Partnership Timber and Funds 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 included in other revenue in the tables that follow, and timber deed sales. 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. For the Partnership, the weighted-average realized log price for Q3 2019 decreased 10% and 27% relative to Q2 2019 and Q3 2018, respectively. For the Funds, the overall realized log price decreased 3% and 21% relative to Q2 2019 and Q3 2018, respectively. The Partnership's weighted-average realized log price declined 20% in the first nine months of 2019 relative to the same period of 2018, while that of the Funds decreased 17%.

Domestic demand for sawlogs in the Pacific Northwest ("PNW") has been affected by high inventory levels at lumber manufacturers and lower-than-expected construction take-away. West Coast softwood lumber production during the first nine months of 2019 decreased 2% relative to the same period of 2018. West Coast break-bulk log exports in Q3 2019 were 12% below Q2 2019 and 36% below Q3 2018, and down 46% during the first nine months of 2019 relative to the same period in 2018. The decline in log exports is driven primarily by a weaker China market due to ongoing trade tensions between the U.S. and China, a softening Chinese economy and a recent influx of inexpensive insect-salvage timber from Europe. We believe that PNW log exporters remain hesitant to purchase logs given the possibility that they could accumulate excessive log inventories and then be unable to sell them to China due to a potential increase in the export tariff rate. The decrease in logs sold to the export market resulted in an increase in logs available to the domestic market. The combination of reduced demand, both export and domestic, contributed to downward pressure on log prices.

Partnership Timber

Partnership Timber operating results for the quarters ended September 30, 2019, June 30, 2019, and September 30, 2018, and the nine months ended September 30, 2019, and September 30, 2018, were as follows:

				Nine Months Ended	
	Q3 2019	Q2 2019	Q3 2018	Sep-19	Sep-18
Partnership					
Overall log price per MBF	$ 555	$ 618	$ 759	$ 612	$ 763
Total volume (in MMBF)	9.2	22.2	15.3	54.8	41.0
(in thousands)					
Log sale revenue	$ 5,107	$ 13,685	$ 11,638	$ 33,514	$ 31,312
Other revenue	601	515	601	1,565	1,635
Total revenue	5,708	14,200	12,239	35,079	32,947
Cost of sales	(3,032)	(6,811)	(4,976)	(17,031)	(11,996)
Operating expenses	(1,271)	(1,535)	(1,686)	(3,878)	(4,941)
Operating income	$ 1,405	$ 5,854	$ 5,577	$ 14,170	$ 16,010

Operating Income

Comparing Q3 2019 to Q2 2019. Operating income decreased by $4.4 million, or 76%, from Q2 2019, driven primarily by a 59% decrease in total harvest volume and a 10% decrease in the weighted-average realized log price.

Comparing Q3 2019 to Q3 2018. Operating income decreased $4.2 million, or 75%, from Q3 2018, driven by decreases of 6.1 MMBF, or 40%, in total harvest volume, and 27% in the weighted-average realized log price.

Comparing YTD 2019 to YTD 2018. Operating income decreased $1.8 million, or 11%, for the first nine months of 2019 from the first nine months of 2018, reflecting a 20% decrease in in the weighted-average log price which was partially offset by a 13.8 MMBF, or 34%, increase in total harvest volume. Cost of sales increased 42% due to increased harvest volume between the relative periods.

Revenue

Comparing Q3 2019 to Q2 2019. Log sale revenue in Q3 2019 decreased $8.6 million, or 63%, from Q2 2019, due to a 13.0 MMBF, or 59%, decrease in harvest volume and 10% decrease in the weighted-average realized log price. Other revenue increased by $86,000, or 17%, in Q3 2019 from Q2 2019 due primarily to an increase in mineral sale royalties from the Partnership's tree farms.

Comparing Q3 2019 to Q3 2018. Log sale revenue in Q3 2019 decreased $6.5 million, or 56%, from Q3 2018, due to decreases of 6.1 MMBF, or 40%, in harvest volume and 27% in the weighted-average realized log price.

Comparing YTD 2019 to YTD 2018. Log sale revenue in the first nine months of 2019 increased by $2.2 million, or 7%, from the first nine months of 2018, due to a 34% increase in harvest volume, that was partially offset by a 20% decrease in the weighted-average realized log price. Other revenue decreased by $70,000, or 4%, driven by decreases in mineral sale royalties and revenue from miscellaneous forest products.

Log Prices

Partnership Timber log prices for the quarters ended September 30, 2019, June 30, 2019, and September 30, 2018, and nine months ended September 30, 2019, and 2018, were as follows:

Average price realizations (per MBF)				Nine Months Ended	
	Q3 2019	Q2 2019	Q3 2018	Sep-19	Sep-18
Partnership					
Douglas-fir domestic	$ 630	$ 664	$ 791	$ 655	$ 822
Douglas-fir export	590	686	887	708	891
Whitewood domestic	533	486	669	519	603
Whitewood export	494	533	684	523	729
Cedar	974	997	1,150	985	1,329
Hardwood	605	546	749	611	724
Pulpwood	302	361	374	359	369
Overall log price	555	618	759	612	763

Comparing Q3 2019 to Q2 2019. Overall realized log prices in Q3 2019 were 10% lower than Q2 2019. Our overall average realized log price is influenced heavily by price movements for our two most prevalent species, Douglas-fir and whitewood, and the relative harvest volume mix of those two species. Realized Douglas-fir sawlog prices decreased by 5% for domestic sorts and by 14% for export sorts. Realized whitewood sawlog prices increased by 10% for domestic but decreased by 7% for export sorts. The increase in whitewood domestic log prices is due to a sort mix that contained higher quality logs sold to domestic markets that previously would have been diverted to the export market.

Comparing Q3 2019 to Q3 2018. From Q3 2018 to Q3 2019, our weighted-average realized log price decreased 27%. The supply-side response to the record-high log and lumber prices observed in the first half of 2018 resulted in over-supplied log yards in the second half of 2018, a condition that spilled over into 2019. Log prices have generally softened across all species and sorts in 2019 as demand for PNW logs has fallen due to excessive lumber inventories, forced curtailments among domestic lumber producers, and the reduction in log exports to China.

Comparing YTD 2019 to YTD 2018. Our weighted-average realized log price decreased by 20% during the first nine months of 2019, relative to the same period in 2018. Blended (domestic and export) Douglas-fir and whitewood realized log prices decreased 20% and 22%, respectively. Price changes for other species groups include: pulpwood (-3%), hardwood (-16%), and Cedar (-26%).

Log Volume

The Partnership harvested the following log volumes by species for the quarters ended September 30, 2019, June 30, 2019, and September 30, 2018, and the nine months ended September 30, 2019, and 2018:

Volume (in MMBF)							Nine Months Ended			
	Q3 2019		Q2 2019		Q3 2018		Sep-19		Sep-18	
Partnership										
Douglas-fir domestic	4.6	50%	12.9	59%	9.3	61%	30.0	55%	25.0	62%
Douglas-fir export	0.2	2%	3.4	15%	2.7	18%	8.5	16%	5.3	14%
Whitewood domestic	1.2	13%	0.7	3%	0.5	3%	2.3	4%	1.0	2%
Whitewood export	0.3	3%	0.5	2%	0.2	1%	1.0	2%	1.0	2%
Cedar	0.3	3%	0.6	3%	0.3	2%	1.3	2%	1.0	2%
Hardwood	0.8	9%	0.7	3%	0.4	3%	2.7	5%	1.4	3%
Pulpwood	1.8	20%	3.4	15%	1.9	12%	9.0	16%	6.3	15%
Log sale volume	9.2	100%	22.2	100%	15.3	100%	54.8	100%	41.0	100%
Timber deed sale volume	—		—		—		—		—	
Total volume	9.2		22.2		15.3		54.8		41.0	

Comparing Q3 2019 to Q2 2019. Harvest volume decreased 13.0 MMBF, or 59%, in Q3 2019 from Q2 2019. The relative volume mix decreased by 22% for Douglas-fir and increased by 11% for both whitewoods and our minor species (i.e. cedar, hardwoods and pulpwood). The changes in the relative product mix reflect the composition of the units harvested in a specific period.

Comparing Q3 2019 to Q3 2018. Harvest volume decreased 6.1 MMBF, or 40%, in Q3 2019 from Q3 2018. The lower Q3 2019 harvest volume relative to Q3 2018 reflects our decision to front-load planned harvest volume into the first half of 2019. The relative volume mix decreased 27% for Douglas-fir and increased 12% for whitewoods and 15% for our minor species (i.e. cedar, hardwoods, and pulpwood).

Comparing YTD 2019 to YTD 2018. Relative to the first nine months of 2018, YTD 2019 harvest volume increased by 13.8 MMBF, or 34%. This increase reflects a 10% rise in our annual sustainable harvest level at the beginning in 2019 and our decision to front-load harvest volume in 2019 in the face of weakening log markets. The relative volume mix was comparable between the two periods.

Cost of Sales

Cost of sales varies with harvest volume, and for the quarters ended September 30, 2019, June 30, 2019, and September 30, 2018, and the nine months ended September 30, 2019, and 2018, was 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)				Nine Months Ended	
	Q3 2019	Q2 2019	Q3 2018	Sep-19	Sep-18
Partnership					
Harvest, haul, and tax	$ 2,353	$ 5,049	$ 3,915	$ 12,988	$ 9,156
Depletion	667	1,701	1,057	3,967	2,830
Other	12	61	4	76	10
Total cost of sales	$ 3,032	$ 6,811	$ 4,976	$ 17,031	$ 11,996
Amounts per MBF *					
Harvest, haul, and tax	$ 256	$ 227	$ 256	$ 237	$ 223
Depletion	$ 73	$ 77	$ 69	$ 72	$ 69

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

Comparing Q3 2019 to Q2 2019. Cost of sales decreased $3.8 million, or 55%, in Q3 2019 from Q2 2019 due to a 59% decrease in harvest volume. On a per-MBF basis, the harvest, haul and tax rate increased by 13% due to the composition and location of specific harvest units, which contained more expensive cable-based logging units and longer haul distances in the current period.

Comparing Q3 2019 to Q3 2018. Cost of sales decreased $1.9 million, or 39%, in Q3 2019 from Q3 2018 due primarily to a 6.1 MMBF, or 40%, decrease in harvest volume.

Comparing YTD 2019 to YTD 2018. Year-to-date 2019 cost of sales increased $5.0 million, or 42%, relative to the same period in 2018, due primarily to a 34% increase in harvest volume. On a per-MBF basis, the harvest, haul and tax rate increased by 6% due to logging in more expensive cable-based units and longer average haul distances during the current year.

Operating Expenses

Operating expenses include the cost of maintaining existing roads and building temporary roads for harvesting, silviculture costs, and other management expenses. For the quarters ended September 30, 2019, June 30, 2019, and September 30, 2018, segment operating expenses were $1.3 million, $1.5 million, and $1.7 million, respectively, which is generally within the range that we have experienced over the last several years. The $264,000 decrease in operating expenses in Q3 2019 from Q2 2019 is attributable to lower management and roads expenses that were partially offset by higher silviculture expenses. The $415,000 decrease in operating expenses from Q3 2018 to Q3 2019 reflects lower road and management expenses, which were partially offset by higher silviculture expenses.

Year-to-date 2019 operating expenses decreased by $1.0 to $3.9 million from $4.9 million in 2018, due to lower management, roads and silviculture expenses.

Funds Timber

Funds Timber operating results for quarters ended September 30, 2019, June 30, 2019, and September 30, 2018, and nine months ended September 30, 2019, and 2018, were as follows:

				Nine Months Ended	
	Q3 2019	Q2 2019	Q3 2018	Sep-19	Sep-18
Funds					
Overall log price per MBF	$ 565	$ 585	$ 711	$ 592	$ 715
Total volume (MMBF)	16.7	20.3	18.9	50.8	60.6
(in thousands)					
Log sale revenue	$ 9,638	$ 11,417	$ 11,353	$ 29,915	$ 29,356
Timber deed sale revenue	23	194	1,640	217	10,504
Other revenue	42	1,139	260	1,761	851
Total revenue	9,703	12,750	13,253	31,893	40,711
Cost of sales	(9,352)	(13,237)	(9,932)	(31,728)	(28,754)
Operating expenses - internal	(3,030)	(2,749)	(2,435)	(8,268)	(6,766)
Operating income (loss) - internal	(2,679)	(3,236)	886	(8,103)	5,191
Eliminations *	1,339	1,430	1,212	4,080	3,376
Operating income (loss) - external	$ (1,340)	$ (1,806)	$ 2,098	$ (4,023)	$ 8,567

* Represents primarily 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

Comparing Q3 2019 to Q2 2019. Operating income increased by $466,000, or 26%, from Q2 2019, despite decreases of 18% in total volume and 3% in the weighted average realized log price between the periods. The reduced harvest volume, combined with a decline in the average depletion rate, led to a $3.9 million, or 29%, decrease in the cost of sales.

Comparing Q3 2019 to Q3 2018. Operating income declined $3.4 million, or 163%, from Q3 2018, driven primarily by a 12% decrease in total volume, a 21% lower average realized log prices, and a large decline in timber deed sales.

Comparing YTD 2019 to YTD 2018. Year-to-date operating income decreased $12.6 million, or 147%, from the first nine months of 2018. Log and timber deed sale revenue decreased by 24% due to a 16% reduction in total volume, a 17% decline in the weighted-average log price, and a 10% increase in cost of sales. The higher cost of sales is a result of a shift in the type of harvest volume with the current year consisting primarily of delivered log sales while the prior year harvest volumes consisted of 32% timber deed sales which are sold net of harvest and haul costs.

Revenue

Comparing Q3 2019 to Q2 2019. Total revenue in Q3 2019 was $3.0 million, or 24%, lower than Q2 2019 due to decreases of $1.8 million in delivered log sales and $1.3 million in other revenue. The lower log sale revenue was driven by decreases of 18% in delivered log volume and 3% in the weighted-average realized log price. The $1.3 million reduction in other revenue was driven primarily by decreases of $507,000 in commercial thinning, $286,000 in easement sales, $263,000 in fire-salvage timber sales, and $170,000 in timber deed sales.

Comparing Q3 2019 to Q3 2018. Total revenue in Q3 2019 declined $3.6 million, or 27%, from Q3 2018, driven by decreases of $1.7 million in delivered log sale revenue, $1.6 million in timber deed sale revenue, and $218,000 in other revenue. The decrease in delivered log sales and timber deed revenue was driven by a 21% lower weighted-average realized log price and a 12% reduction in total harvest volume. The $218,000 decrease in other revenue reflects primarily lower commercial thinning activity.

Comparing YTD 2019 to YTD 2018. Total revenue for the first nine months of 2019 decreased $8.8 million, or 22%, relative to the same period of 2018. This change was driven by a $10.3 million decrease in timber deed sales, and was only partially offset by increases of $559,000 in delivered log sales and $910,000 in other revenue. The increase in other revenue was driven by commercial thinning revenue and the salvage harvest of fire-damaged timber, for which there was no counterpart in the first nine months of 2018.

Log Prices

Funds Timber log prices for quarters ended September 30, 2019, June 30, 2019, and September 30, 2018, and the nine months ended September 30, 2019 and 2018, were as follows:

Average price realizations (per MBF)				Nine Months Ended	
	Q3 2019	Q2 2019	Q3 2018	Sep-19	Sep-18
Funds					
Douglas-fir domestic	$ 639	$ 639	$ 813	$ 643	$ 818
Douglas-fir export	671	702	874	708	899
Whitewood domestic	568	538	657	549	662
Whitewood export	461	555	683	548	706
Pine	434	433	565	433	543
Cedar	911	895	1,104	937	1,241
Hardwood	509	533	721	519	738
Pulpwood	275	356	354	332	366
Overall log price	565	585	711	592	715
Timber deed sales	123	645	570	123	539

Comparing Q3 2019 to Q2 2019. The weighted-average overall realized log price in Q3 2019 was 3% lower than Q2 2019 due to weakness in the export market to China and reduced demand from the domestic log market due to ample supply and reduced lumber take-away.

Comparing Q3 2019 to Q3 2018. The weighted-average realized log price decreased 21% from Q3 2018 to Q3 2019. Prices decreased across all species and sorts from Q3 2018 to Q3 2019.

Comparing YTD 2019 to YTD 2018. The weighted-average realized log price in the first nine months of 2019 declined 17% from the corresponding period in 2018. Prices decreased among all species and sorts during the period. Douglas-fir and whitewood volume-weighted blended (domestic and export) realized log prices decreased 22% and 18%, respectively. Price decreases for other species groups include: pine 20%, cedar 24%, hardwood 30%, and pulpwood 9%.

Log Volume

The Funds harvested the following log volumes by species for the quarters ended September 30, 2019, June 30, 2019, and September 30, 2018, and nine months ended September 30, 2019 and 2018:

Volume (in MMBF)							Nine Months Ended			
	Q3 2019		Q2 2019		Q3 2018		Sep-19		Sep-18	
Funds										
Douglas-fir domestic	6.9	42%	8.5	42%	5.7	35%	22.8	45%	13.0	32%
Douglas-fir export	1.3	8%	3.3	16%	1.4	9%	7.5	14%	5.4	13%
Whitewood domestic	4.2	25%	3.4	16%	4.3	27%	9.0	17%	11.3	28%
Whitewood export	0.1	1%	0.9	5%	1.0	6%	1.3	3%	2.6	6%
Pine	1.8	11%	1.1	6%	1.7	11%	2.9	6%	2.7	7%
Cedar	0.1	1%	0.2	1%	0.2	1%	0.8	2%	0.6	1%
Hardwood	0.7	4%	0.3	2%	0.5	3%	1.3	3%	1.0	2%
Pulpwood	1.4	8%	2.3	12%	1.2	8%	5.0	10%	4.5	11%
Log sale volume	16.5	100%	20.0	100%	16.0	100%	50.6	100%	41.1	100%
Timber deed sale volume	0.2		0.3		2.9		0.2		19.5	
Total volume	16.7		20.3		18.9		50.8		60.6	

Comparing Q3 2019 to Q2 2019. Total volume from delivered log and timber deed sales decreased by 3.6 MMBF, or 18%, in Q3 2019 versus Q2 2019. The changes in relative product mix reflect the species composition of the units harvested.

Comparing Q3 2019 to Q3 2018. Total volume from delivered log and timber deed sales decreased by 2.2 MMBF, or 12%, in Q3 2019 from Q3 2018. Delivered log sales in Q3 2019 increased by 0.5 MMBF, or 3%, relative to Q3 2018. Only 0.2 MMBF of volume was sold via timber deed sales in Q3 2019, which compares to 2.9 MMBF in Q3 2018. The changes in relative product mix reflect differences in the species composition of the units selected for harvest during the comparative quarters.

Comparing YTD 2019 to YTD 2018. Total volume from delivered log and timber deed sales during the first nine months of 2019 decreased by 9.8 MMBF, or 16%, relative to the same period of 2018. Only 0.2 MMBF of volume was sold via timber deed sales in the first nine months of 2019, which compares to 19.5 MMBF for the same period in 2018. The changes in relative product mix reflect an increase of 14% towards Douglas-fir volume and a 14% shift away from whitewood, which is indicative of the species composition of the harvest units.

Cost of Sales

Cost of sales vary with harvest volume. Because the Funds' tree farms were acquired more recently than those of the Partnership, the depletion rates for the Funds' tree farms are much higher than for the Partnership. For the quarters ended September 30, 2019, June 30, 2019, and September 30, 2018, and nine months ended September 30, 2019 and 2018, cost of sales were 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)	Q3 2019	Q2 2019	Q3 2018	Nine Months Ended Sep-19	Nine Months Ended Sep-18
Funds					
Harvest, haul, and tax	$ 4,674	$ 5,018	$ 3,913	$ 13,509	$ 10,354
Depletion	4,679	7,343	5,906	16,957	18,274
Other	(1)	876	113	1,262	126
Total cost of sales	$ 9,352	$ 13,237	$ 9,932	$ 31,728	$ 28,754
Amounts per MBF *					
Harvest, haul, and tax	$ 283	$ 251	$ 245	$ 267	$ 252
Depletion	$ 280	$ 362	$ 312	$ 334	$ 302

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

Comparing Q3 2019 to Q2 2019. Cost of sales decreased $3.9 million, or 29%, in Q3 2019 from Q2 2019, due to a 18% decrease in harvest volume and a 23% decrease in the average per-MBF depletion rate. The depletion rate decreased as the mix of harvest volume from the Funds' properties shifted to tree farms with lower depletion rates. The per-MBF harvest, haul, and tax rate increased 13% and reflects a higher proportion of steeper terrain that requires more expensive cable-logging systems and a longer average haul distance.

Comparing Q3 2019 to Q3 2018. Cost of sales decreased $580,000, or 6%, in Q3 2019 from Q3 2018, due to decreases of $1.2 million in depletion expense and $114,000 in other cost of sales, which were partially offset by a $761,000 rise in harvest, haul, and tax costs. The lower depletion expense reflects a 12% drop in total harvest volume and a 10% decrease in the average per-MBF depletion rate. The higher harvest, haul, and tax costs reflects 3% higher delivered log volume, for which we incur harvest and haul costs, as opposed to timber deed sales, for which we do not incur harvest and haul costs. The 16% rise in the per-MBF harvest, haul, and tax rate reflects a higher proportion of steeper terrain that requires more expensive cable-logging systems and longer average haul distance. The decline in the depletion rate reflects a shift in the mix of harvest volume to tree farms with relatively lower depletion rates.

Comparing YTD 2019 to YTD 2018. Cost of sales increased $3.0 million, or 10%, in the first nine months of 2019 relative to the same period in 2018, driven by a $3.2 million rise in harvest, haul, and tax costs and a $1.1 million increase in other cost of sales, which were partially offset by a $1.3 million decrease in depletion expense. The 6% increase in the per-MBF harvest, haul, and tax rate reflects a higher proportion of steeper terrain that requires more expensive cable-logging systems and a longer average haul distance. The 11% increase in the per-MBF depletion rate reflects a shift in the mix of harvest volume to tree farms with relatively higher depletion rates. The increase in other cost of sales during the first nine months of 2019 was driven by commercial thinning and the salvage harvest of fire-damaged timber, which had no counterparts during the same period of 2018.

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, and amounted to $1.4 million, $1.5 million, and $1.2 million in Q3 2019, Q2 2019, and Q3 2018, respectively, and $4.2 million and $3.4 million for the first nine months of 2019 and 2018, respectively. After elimination of these fees, Fund operating expenses were $1.7 million, $1.3 million, and $1.2 million for Q3 2019, Q2 2019, and Q3 2018, respectively, and $4.2 million and $3.4 million for the first nine months of 2019 and 2018, respectively.

The $372,000 increase in operating expenses for Q3 2019 from Q2 2019 is attributable to increases of $421,000 in silviculture and $66,000 in road maintenance expenses, which were partially offset by a $115,000 decline in management expenses.

Operating expenses increased by $468,000 in Q3 2019 from Q3 2018. Cost increases included $267,000 for roads, and $199,000 for silviculture, due in part to operating expenses incurred on the Fund IV properties which were acquired in Q4 2018 and Q1 2019.

Operating expenses increased by $798,000 to $4.2 million during the first nine months of 2019 compared to $3.4 million for the same period in 2018, again due in large part to operating expenses incurred on the Fund IV properties which were acquired in Q4 2018 and Q1 2019. Specific increases include $604,000 in road and $231,000 in management expenses, which were partially offset by a $37,000 decrease in silviculture expenses.

Other information

The table below reflects the Partnership's share 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 benefit we receive 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:

				Nine Months Ended	
	Q3 2019	Q2 2019	Q3 2018	Sep-19	Sep-18
Partnership's share of Funds					
Total volume (MMBF)	2.2	2.2	2.0	6.2	7.4
(in thousands)					
Log sale revenue	$ 1,324	$ 1,213	$ 1,161	$ 3,640	$ 3,459
Timber deed sale revenue	3	29	245	32	1,469
Other revenue	6	164	48	256	84
Cost of sales	(1,223)	(1,389)	(1,009)	(3,703)	(3,251)
Operating expenses - internal	(429)	(352)	(279)	(1,095)	(804)
Eliminations *	159	170	134	488	375

* Represents primarily 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.

<u>Timberland Investment Management</u>

The Timberland Investment Management (TIM) segment manages timberland portfolios on behalf of three private equity timber funds that own a combined 141,000 acres of commercial timberland in western Washington, northwestern Oregon, southwestern Oregon, and northern California as of September 30, 2019. Total assets under management are $545 million based on the most recent appraisals.

Fund Distributions and Fees Paid to the Partnership

Fund distributions are paid from available Fund cash, generated primarily from the harvest and sale of timber after paying all Fund expenses, management fees, and recurring capital costs. The Partnership received combined distributions from the Funds of $1.1 million and $1.6 million during the nine months ended September 30, 2019 and 2018, respectively.

The Partnership earned asset, investment, and timberland management fees from the Funds of $4.2 million and $3.4 million for the nine months ended September 30, 2019 and 2018, respectively. These fees, which represent a portion of the operating expenses in our Funds Timber segment (discussed above) are eliminated as the Funds are consolidated in our financial statements, as shown in the table below.

Revenue and Operating Loss

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

Revenue and operating loss for the TIM segment for the quarters ended September 30, 2019 and 2018 were as follows:

	Quarter Ended	
(in thousands, except invested capital, volume and acre data)	**Sep-19**	Sep-18
Revenue internal	**$ 1,393**	$ 1,212
Intersegment eliminations	**(1,393)**	(1,212)
Revenue external	**$ —**	$ —
Operating income internal	**$ 128**	$ 6
Intersegment eliminations	**(1,322)**	(1,061)
Operating loss external	**$ (1,194)**	$ (1,055)
Invested capital (in millions)	**$ 407**	$ 354
Acres owned by Funds	**141,000**	124,000
Harvest volume - Funds (MMBF), including timber deed sales	**16.7**	18.9

TIM generated management fee revenue of $1.4 million and $1.2 million from managing the Funds during Q3 2019 and Q3 2018, respectively. The increase in revenue resulted primarily from a rise in management fees associated with higher invested capital and acres owned following the acquisition of two properties by Fund IV since Q3 2018.

Operating expenses rose for the quarter ended September 30, 2019, versus the comparable period in 2018, totaling $1.2 million and $1.1 million, respectively, due to costs associated with managing the additional properties acquired by Fund IV.

Revenue and operating loss for the TIM segment for the nine months ended September 30, 2019 and 2018 were as follows:

	Nine Months Ended	
(in thousands, except invested capital, volume and acre data)	**Sep-19**	Sep-18
Revenue internal	**$ 4,235**	$ 3,376
Intersegment eliminations	**(4,235)**	(3,376)
Revenue external	**$ —**	$ —
Operating income (loss) internal	**$ 437**	$ 39
Intersegment eliminations	**(4,028)**	(2,957)
Operating loss external	**$ (3,591)**	$ (2,918)
Invested capital (in millions)	**$ 407**	$ 354
Acres owned by Funds	**141,000**	124,000
Harvest volume - Funds (MMBF), including timber deed sales	**50.8**	60.6

TIM generated management fee revenue of $4.2 million and $3.4 million from managing the Funds for the nine months ended September 30, 2019 and 2018, respectively. The increase in fee revenue resulted from the acquisition of two tree farms by Fund IV since Q3 2018.

Operating expenses incurred by the TIM segment for the nine months ended September 30, 2019 and 2018 totaled $3.6 million and $2.9 million, respectively. The increase in operating expenses resulted primarily from the costs associated with managing the additional properties acquired by Fund IV.

Real Estate

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 2,000-acre Real Estate 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 development on the property. In addition, we may acquire and develop other properties for sale, either on our own or by partnering with other experienced real estate developers in a joint venture. 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:

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

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

Those properties that are for sale, under contract, and we expect to sell within the next 12 months, are classified on our balance sheet as a current asset under "Land Held for Sale". The $384,000 amount currently in Land Held for Sale reflects a 122-acre residential parcel in Jefferson County, Washington that we expect to close in the fourth quarter of 2019.

Results from Real Estate operations may vary significantly from period to period 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.

Comparing Q3 2019 to Q3 2018. In Q3 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 whereas in Q3 2018 we closed on the sale of a parcel with a preliminary plat for 110 single-family residential lots in Bremerton, Washington for $1.4 million and two lots in Kitsap County for a total of $600,000. Rental and other revenue decreased from $541,000 in Q3 2018 to $387,000 in Q3 2019 due primarily to a consulting project that finished in Q2 2019. Real Estate operating expenses were $1.4 million during Q3 2019 compared to $1.2 million in Q3 2018. The increase in 2019 is due to higher professional fees in connection with planning and development for properties and our share of 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. These factors resulted in operating income of $2.3 million for Q3 2019 compared to an operating loss of $518,000 for Q3 2018.

Real Estate revenue and gross margin are summarized in the table below for the nine months ended September 30, 2019 and 2018:

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

For the nine months ended:

Description	**Revenue**	**Gross Margin**	**Units Sold**		**Revenue per unit**	**Gross Margin per unit**
Residential	**$ 12,795**	**$ 3,856**	**Lots:**	**72**	**177,708**	**53,556**
Unimproved land	**22**	**16**	**Acres:**	**3**	**7,333**	**5,333**
Total land	**12,817**	**3,872**				
Rentals and other	**1,176**	**168**				
September 30, 2019 total	**$ 13,993**	**$ 4,040**				
Development rights (CE)	$ 3,730	$ 3,485	Acres:	7,800	478	447
Residential land sales	2,126	539	Acres:	51	41,686	10,569
Unimproved land	125	104	Acres:	14	8,929	7,429
Total land	5,981	4,128				
Rentals and other	1,268	227				
September 30, 2018 total	$ 7,249	$ 4,355				

Comparing YTD 2019 to YTD 2018. In addition to the third quarter transactions noted above, the first nine months of 2019 included a sale of seven residential rural lots for $770,000 and an undeveloped parcel for $22,000. In addition to the third quarter 2018 transactions noted above, the first nine months of 2018 included the sale of a conservation easement covering 7,800 acres of timberland for $3.7 million, as well as a residential lot and a parcel of undeveloped land for $276,000. As with the quarterly amounts, the year-to-date decrease in rental and other income was due to a consulting project that finished in Q2 2019. Excluding the $2.9 million Q2 2018 environmental remediation expense, Real Estate operating expenses were $3.4 million and $3.2 million for each of the first nine months of 2019 and 2018, respectively. The increase in 2019 is due to higher professional fees in connection with planning and development for properties and our share of 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. These factors, combined with the $2.9 million environmental remediation expense in Q2 2018, resulted in operating income of $766,000 for the first nine months of 2019 compared to an operating loss of $1.8 million for the corresponding period of 2018. Excluding the $2.9 million environmental remediation expense, the Real Estate segment generated operating income of $1.1 million for the first nine months of 2018.

Environmental Remediation

As disclosed previously, we have a liability for environmental remediation at Port Gamble, Washington, due to contamination that we believe to have occurred in Port Gamble prior to our 1985 acquisition of the property at the time of our spinout from Pope & Talbot, Inc. (P&T), or between that acquisition and the time P&T ceased to operate the site. We have adjusted that liability from time to time based on evolving circumstances. The required remediation in Port Gamble Bay was completed in January 2017.

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 feasibility study (RI/FS) and drafted a cleanup action plan, or CAP. As with the in-water portion of the project, the CAP defines the scope of the remediation activity for the millsite.

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 known and alleged 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 have progressed to the point where management has identified a short list of restoration projects that may resolve the Trustees' NRD claims.

The RI/FS and CAP for the millsite will be reviewed by DOE prior to being finalized, and once approved and agreed by all parties, would ultimately be codified in a consent decree. For the NRD component of the project, discussions with the Trustees are continuing, and we expect those discussions will ultimately result in a settlement agreement. At present, we expect the CAP and consent decree for the millsite and the NRD settlement agreement to be finalized in in the first half of 2020. In both cases, it is reasonably possible that cost estimates could change as a result of changes to the millsite cleanup or the NRD restoration components of the liability, or both. We expect the millsite cleanup and NRD restoration projects to occur over the next two to three years.

Finally, there will be a monitoring period that is expected to be approximately 15 years during which we 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.

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 and Administrative (G&A)

G&A expenses were $3.2 million for the third quarter of 2019 compared to $1.9 million for the third quarter of 2018. G&A expenses increased to $6.8 million for the first nine months of 2019 from $5.0 million for the first nine months of 2018. The increase in G&A expenses is due to $1.7 million and $1.9 million of legal and professional fees for Q3 2019 and YTD 2019, respectively, related to the recently announced discussions regarding transactions that, if consummated, might result in a merger or acquisition of the Partnership as described under Recent Developments, above.

Interest Expense, Net

	Quarter ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2019**	2018	**2019**	2018
Interest income - Partnership	**$ 1**	$ 35	**$ 2**	$ 104
Interest expense - Partnership	**(883)**	(844)	**(2,870)**	(2,302)
Interest expense - Funds	**(564)**	(585)	**(1,681)**	(1,742)
Capitalized interest - Partnership	**26**	83	**164**	237
Interest expense, net	**$ (1,420)**	$ (1,311)	**$ (4,385)**	$ (3,703)

The decrease in interest income is due to interest on a note receivable that was repaid in the fourth quarter of 2018. The increase in interest expense is due to higher average debt balances in 2019 and higher interest rates on our variable-rate debt.

The Partnership's and Fund III's debt arrangements with Northwest Farm Credit Services (NWFCS) are included in the latter's patronage program, which rebates a portion of interest paid in the prior year back to the borrower. This NWFCS patronage program is a feature common to most of this lender's loan agreements. The patronage program reduced interest expense by $357,000 and $273,000 for Q3 2019 and Q3 2018, respectively, and by $1.0 million and $871,000 for the first nine months of 2019 and 2018, respectively. The increases in the patronage rebate are the result of higher debt balances and an increase in the patronage rebate percentage in the current year.

Income Tax

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

The Partnership and Funds recorded a consolidated income tax expense of $400,000 and $117,000 for Q3 2019 and Q3 2018, respectively, and expense of $435,000 and $243,000 for the first nine months of 2019 and 2018, respectively.

Noncontrolling interests

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

The line item “Net and comprehensive loss attributable to noncontrolling interests - Real Estate” represents two-thirds of the net income or loss from a Real Estate entity, Ferncliff Investors, that is attributable to third party owners. Ferncliff Investors holds a 50% interest in an unconsolidated real estate joint venture entity.

Off-Balance Sheet Arrangements

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

Liquidity and Capital Resources

We ordinarily finance our business activities using operating cash flows and, where appropriate in our assessment, commercial credit arrangements with banks or other financial institutions. We expect that funds generated internally from operations and externally through financing will provide the required resources for the Partnership’s operations and capital expenditures for at least the next twelve months.

The Partnership’s debt at September 30, 2019, consists of mortgage debt with fixed and variable interest rate tranches and operating lines of credit with Northwest Farm Credit Services (NWFCS). The mortgage debt includes a $71.8 million long-term 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. The delayed-draw facility matures in October 2028 and $7.0 million was outstanding at September 30, 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 within either the long-term or delayed-draw facility. The Partnership has a $30.0 million operating line of credit that matures in October 2023, and had $11.9 million outstanding as of September 30, 2019. The operating line of credit carries a variable interest rate that is based on 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 in 2023.

These debt agreements contain covenants that are measured either quarterly or 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 timberland, roads and timber; and
- a maximum loan-to-appraised value of timberland collateral of 50%.

The Partnership is in compliance with these covenants as of September 30, 2019, and expects to remain in compliance for at least the next twelve months.

Mortgage debt within our private equity timber 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 collateralized by a portion of Fund II’s timberland portfolio, with both tranches maturing 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. Fund III has a timberland mortgage comprised of two fixed-rate tranches totaling $32.4 million with NWFCS. The mortgage is non-amortizing and collateralized by a portion of Fund III’s timberland, with an $18.0 million tranche maturing in December 2023 and a $14.4 million tranche maturing in October 2024.

Fund II’s mortgage contains a requirement to maintain a loan-to-value ratio of less than 50%, with the denominator defined as fair market value. Fund III’s mortgage contains covenants, measured annually, that require Fund III to maintain an interest coverage ratio of 1.5:1, maintain working capital of $500,000, and not exceed a debt-to-appraised value of collateral of 50%. Fund II and Fund III are in compliance with these covenants as of September 30, 2019, and we expect they will remain in compliance for at least the next twelve months.

The $3.4 million decrease in cash and restricted cash generated for the nine months ended September 30, 2019 compared to September 30, 2018 is explained in the following table:

	Nine Months Ended September 30,		
(in thousands)	**2019**	Change	2018
Cash provided by operating activities	**$ 27,342**	$ (2,592)	$ 29,934
Investing activities			
Reforestation and roads	**(2,164)**	370	(2,534)
Capital expenditures	**(419)**	152	(571)
Proceeds from sale of property and equipment	**142**	132	10
Proceeds from insurance recovery	**365**	365	—
Deposit for acquisition of timberland - Partnership	**(4)**	(4)	—
Acquisition of timberland - Partnership	**(739)**	5,616	(6,355)
Acquisition of timberland - Funds	**(19,344)**	89,020	(108,364)
Cash used in investing activities	**(22,163)**	95,651	(117,814)
Financing activities			
Line of credit borrowings	**14,786**	(12,514)	27,300
Line of credit repayments	**(19,286)**	(11,486)	(7,800)
Repayment of long-term debt	**(95)**	(3)	(92)
Proceeds from issuance of long-term debt	**3,000**	3,000	—
Debt issuances costs	**(61)**	(61)	—
Units issued under distribution reinvestment plan	**42**	(86)	128
Unit repurchases	**(863)**	76	(939)
Proceeds from preferred stock issuance - ORM Timber Funds	**125**	125	—
Payroll taxes paid upon unit net settlements	**(79)**	23	(102)
Loss on early extinguishment of debt	**(64)**	(64)	—
Cash distributions to unitholders	**(13,080)**	(3,489)	(9,591)
Cash distributions from Real Estate joint venture	**136**	136	—
Cash distributions to fund investors, net of distributions to Partnership	**(8,265)**	2,952	(11,217)
Capital call - ORM Timber Funds, net of Partnership contribution	**17,259**	(75,021)	92,280
Cash provided by (used in) financing activities	**(6,445)**	(96,412)	89,967
Net increase (decrease) in cash and restricted cash	**$ (1,266)**	$ (3,353)	$ 2,087

The decrease in cash provided by operating activities of $2.6 million resulted primarily from a 19% decrease in average log price realizations, increased per MBF production costs, and higher Real Estate project expenditures of $1.0 million, offset partially by a 4%increase in total volume and greater Real Estate development sales in 2019.

Cash used in investing activities during 2019 decreased by $95.7 million compared to 2018 due primarily to the acquisition of two larger tree farms by the Fund IV in January 2018 and small-tract timberland acquisitions by the Partnership in Q1 2018 versus only one small tree farm acquisition by Fund IV in January 2019.

Cash provided by financing activities decreased in the current year by $96.4 million due primarily to lower capital calls for Fund IV's tree farm acquisitions and lower net borrowings under credit facilities.

Seasonality

Timber - Partnership and Funds. 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 strong log prices, when we may accelerate harvest volume, or soft log prices, when we may defer harvest volume. In addition, our quarterly harvest patterns may be impacted by severe weather or fire conditions.

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

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

Capital Expenditures and Commitments

Capital expenditures, excluding timberland acquisitions, for the full year 2019 are projected to be approximately $6.2 million. The following table presents our capital expenditures by major category on a year-to-date basis and what we expect for the remainder of the year:

	2019		
	Sept 30 YTD	**Remainder of Year**	**Total**
in millions			
Harbor Hill project development	$ 2.5	$ —	$ 2.5
Reforestation and roads - Partnership	0.9	0.2	1.1
Reforestation and roads - Funds	1.3	0.5	1.8
Other Real Estate development projects	0.1	0.2	0.3
Other	0.4	0.1	0.5
	$ 5.2	$ 1.0	$ 6.2

ACCOUNTING MATTERS

Critical Accounting Policies and Estimates

An accounting estimate is deemed to be critical if it requires us to make assumptions about matters that are highly uncertain at the time the accounting estimate is made, and also if different estimates that we reasonably could have used for the accounting estimate in the current period, or changes in the accounting estimate that are reasonably likely to occur from period to period, would have a material impact on the presentation of the Company’s financial condition, changes in financial condition, or results of operations. The preparation of financial statements and related disclosures in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain amounts reported in the financial statements and related disclosures. Actual results could differ from these estimates and assumptions. Management believes its most critical accounting policies and estimates relate to the cost allocation of purchased timberland, timber volume, and environmental remediation liabilities.

For a further discussion of our critical accounting estimates, see Accounting Matters in the Management Discussion and Analysis section of our Annual Report on Form 10-K for the year ended December 31, 2018. See also notes 2 and 3 to the condensed consolidated financial statements in this report.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The consolidated fixed-rate debt outstanding had a fair value of approximately $134.4 million and $126.3 million at September 30, 2019 and December 31, 2018, respectively, based on the prevailing interest rates for similar financial instruments. A change in interest rates will affect the fair value of fixed-rate debt, whereas a change in interest rates 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 fixed-rate long-term debt obligations by $4.0 million and result in a $249,000 change in annual interest expense for our variable-rate debt. We are not subject to material foreign currency risk, derivative risk, or similar uncertainties.

ITEM 4. CONTROLS AND PROCEDURES

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

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

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, the Partnership may be subject to legal proceedings and claims that may have a material adverse impact on its business. Management is not aware of any current legal proceedings or claims that are expected to have, individually or in the aggregate, a material adverse impact on our business, prospects, 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 Partnership is seeking to obtain a judgment against P&T and to enforce that judgment against any applicable insurance coverage available through P&T's carriers. 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 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. 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.

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

Although we have disclosed that we are considering one or more possible strategic transactions, we cannot offer assurances as to whether or when any such transaction might be consummated or, if so, at what price. On November 5, 2019, we announced that we are in discussions with parties regarding a potential transaction that, if consummated, might result in a merger of the Partnership or an acquisition of the Partnership's equity interests. As of the date of this Report, we have not entered into a definitive agreement with any parties regarding any such transaction, and we can offer no assurances that any such agreement can be negotiated, executed and delivered. Any such transaction would require the approval of our managing general partner and our limited partners, and would be subject to other closing conditions, and we can offer no certainty as to whether such a transaction could be consummated even if such an agreement is entered into and announced. Similarly, we cannot offer assurances as to the price or other terms, economic and otherwise, of any such transaction, nor can we predict the timing by which any such transaction could be announced or completed. Announcements of this nature are likely to spur an increase in the volatility of the trading price of our units, and if we later announce that we have abandoned or been unable to enter into such an agreement, the price of our limited partner units and the related depositary receipts can be expected to decline, in some cases precipitously. Further, these discussions tend to create distractions for management, and particularly during times of economic or market uncertainty such as those described in this report and in the coming quarters, these distractions can have a more pronounced effect than usual on our management team.

We have incurred, and we expect to continue incurring, higher than normal general and administrative expenses. The discussions of a possible strategic transaction described in the preceding paragraph 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 our board of directors determines that we should discontinue further discussions. Further, the announcement that we have abandoned a discussion of strategic transactions or that we have entered into a definitive agreement respecting such a transaction 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 $8.6 million remediation accrual as of September 30, 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 $92.9 million at September 30, 2019, of which $24.9 million bears interest at variable rates, with the remaining balance at fixed rates. The Funds' total debt outstanding was $57.4 million at September 30, 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 as interest rates have increased recently and may continue to increase in coming periods. In addition, generally speaking, an increase in our indebtedness may limit our ability to defer timber harvests and potentially restricts our flexibility to take advantage of other investment opportunities that might otherwise benefit our business. In extreme cases, we could be placed in a position in which we default under one or more of our credit arrangements, which could require us to pledge additional portions of our timberland as collateral for our indebtedness or which might require us to take other actions or expose us to other remedies that could have a material adverse effect upon our assets, operations, or business.

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

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

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. Further, we are simultaneously maintaining both a distribution reinvestment plan, which may have the effect of increasing the number of outstanding units, and a unit repurchase plan, which has had and may continue to have the effect of reducing the number of outstanding units. These factors together make it difficult to predict the effect, if any, on our liquidity or our market capitalization.

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 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

(a) - (e) None

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Period	*(a) Total Number of Units Purchased*	*(b) Average Price Paid per Unit*	*(c) Total Number of Units Purchased as Part of Publicly Announced Plans or Programs (1)*	*(d) Maximum Approximate Dollar Value of Units that May Yet Be Purchased Under the Plans or Programs*
July 2019	2,343	$70.80	2,343	$1,168,000
August 2019	445	$70.17	445	$1,137,000

(1) Units purchased pursuant to plan adopted under Rule 10b5-1 of the Securities Exchange Act of 1934 and announced publicly on March 4, 2019. The plan allows for the repurchase of units with an aggregate value of up to $2.0 million through March 7, 2020.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

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

ITEM 6. Exhibits

Exhibits.

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

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 6, 2019.

POPE RESOURCES,
A Delaware Limited Partnership

By: POPE MGP, Inc.
Managing General Partner

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

By: /s/ Daemon P. Repp
Daemon P. Repp
Vice President and Chief Financial Officer
(Principal Financial Officer)

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

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Thomas M. Ringo, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 6, 2019

/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 quarterly report on Form 10-Q of Pope Resources;

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

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

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

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

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

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

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

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

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

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

Date: November 6, 2019

/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 Quarterly Report of Pope Resources (the "Company") on Form 10-Q for the period ended September 30, 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

November 6, 2019

Exhibit 32.2

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

In connection with the Quarterly Report of Pope Resources (the “Company”) on Form 10-Q for the period ended September 30, 2019, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Daemon P. Repp, Director of Finance 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

November 6, 2019