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, 2010

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)

19245 10th Avenue NE, Poulsbo, WA 98370
Telephone: **(360) 697-6626**
(Address of principal executive offices including zip code)
(Registrant's telephone number including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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 o 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
Non-accelerated Filer o	Smaller Reporting Company o

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

Partnership units outstanding at November 3, 2010: 4,635,076

Pope Resources
Index to Form 10-Q Filing
For the Quarter Ended September 30, 2010

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P A R T I – FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
Pope Resources, a Delaware Limited Partnership
September 30, 2010 and December 31, 2009
(Thousands)

	2010	2009
ASSETS		
Current assets:		
Pope cash and cash equivalents	$ 412	$ 6,035
ORM Timber Funds cash and cash equivalents	3,082	1,145
Cash and cash equivalents	3,494	7,180
Student loan auction rate securities, current	-	690
Accounts receivable, net	969	261
Land held for sale	3	367
Current portion of contracts receivable	31	320
Prepaid expenses and other	603	444
Total current assets	5,100	9,262
Properties and equipment, at cost:		
Land held for development	26,990	25,872
Land	33,979	25,072
Roads and timber, net of accumulated depletion of $58,751, and $54,743	166,011	120,457
Buildings and equipment, net of accumulated depreciation of $7,649, and $7,321	3,842	3,967
Total properties and equipment, at cost	230,822	175,368
Other assets:		
Contracts receivable, net of current portion	1,272	1,140
Student loan auction rate securities, non-current	-	796
Other	645	490
Total other assets	1,917	2,426
Total assets	$ 237,839	$ 187,056
LIABILITIES AND PARTNERS' CAPITAL		
Current liabilities:		
Accounts payable	$ 1,024	$ 586
Accrued liabilities	1,980	784
Current portion of environmental remediation	119	200
Current portion of long-term debt	30	831
Deferred revenue	529	469
Other current liabilities	216	196
Total current liabilities	3,898	3,066
Long-term liabilities:		
Long-term debt, net of current portion	40,875	28,659
Environmental remediation, net of current portion	1,528	1,069
Other long-term liabilities	180	205
Partners' capital and noncontrolling interests:		
Partners' capital:		
General partners' capital (units outstanding 60 and 60)	1,081	1,103
Limited partners' capital (units outstanding 4,508 and 4,460)	81,229	82,023
Noncontrolling interests	109,048	70,931
Total partners' capital and noncontrolling interests	191,358	154,057
Total liabilities, partners' capital, and noncontrolling interests	$ 237,839	$ 187,056

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (Unaudited)

Pope Resources, a Delaware Limited Partnership
For the Three Months and Nine Months Ended September 30, 2010 and 2009
(Thousands, except per unit data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	**2010**	2009
Revenue	**$ 8,591**	$ 6,615	**$ 22,646**	$ 15,260
Cost of timber and land sold	**(4,566)**	(1,946)	**(10,997)**	(6,026)
Operating expenses	**(2,127)**	(1,761)	**(6,092)**	(5,346)
Real estate environmental remediation	**(5)**	-	**(568)**	-
General and administrative expenses	**(1,004)**	(790)	**(3,397)**	(2,535)
Income from operations	**889**	2,118	**1,592**	1,353
Other income (expense):				
Interest expense	**(493)**	(555)	**(1,355)**	(1,765)
Capitalized interest	**142**	235	**460**	853
Debt extinguishment costs	**-**	(1,137)	**(1,250)**	(1,137)
Interest income	**30**	35	**91**	167
Realized gain on investments	**-**	-	**11**	3
Unrealized loss on investments	**-**	(15)	**-**	(75)
Total other expense	**(321)**	(1,437)	**(2,043)**	(1,954)
Income (loss) before income taxes	**568**	681	**(451)**	(601)
Income tax benefit (expense)	**37**	(1)	**25**	(6)
Net income (loss)	**605**	680	**(426)**	(607)
Net loss attributable to noncontrolling interests:				
ORM Timber Funds	**445**	240	**801**	711
Net income attributable to unitholders	**$ 1,050**	$ 920	**$ 375**	$ 104
Allocable to general partners	**$ 14**	$ 12	**$ 5**	$ 1
Allocable to limited partners	**1,036**	908	**370**	103
Net income attributable to unitholders	**$ 1,050**	$ 920	**$ 375**	$ 104
Income per unit attributable to unitholders:				
Basic	**$ 0.23**	$ 0.20	**$ 0.07**	$ 0.02
Diluted	**$ 0.22**	$ 0.20	**$ 0.07**	$ 0.02
Weighted average units outstanding:				
Basic	**4,567**	4,515	**4,546**	4,545
Diluted	**4,603**	4,566	**4,583**	4,585
Distributions per unit	**$ 0.25**	$ 0.20	**$ 0.45**	$ 0.60

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)
Pope Resources, a Delaware Limited Partnership
Nine Months Ended September 30, 2010 and 2009
(Thousands)

	2010	2009
Net loss	$ (426)	$ (607)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depletion	3,909	1,449
Capitalized development activities, net of reimbursements	(743)	(1,225)
Equity-based compensation	568	467
Excess tax benefit from equity-based compensation	(104)	-
Depreciation and amortization	485	615
(Gain) loss on investments	(11)	72
Deferred taxes	(183)	(140)
Cost of land sold	67	119
Write-off of debt issuance costs	32	-
Gain on fixed asset sales	-	(19)
Increase (decrease) in cash from changes in operating accounts:		
Deferred revenue	60	90
Accounts receivable, net	(708)	(312)
Contracts receivable	157	61
Prepaid expenses and other current assets	89	(87)
Accounts payable and accrued liabilities	1,742	(204)
Other current liabilities	20	(145)
Environmental remediation	378	(251)
Other long-term liabilities	(25)	(74)
Other, net	(1)	-
Net cash provided by (used in) operating activities	5,306	(191)
Cash flows from investing activities:		
Redemption of investments	1,497	25
Reforestation and roads	(339)	(395)
Other capital expenditures	(235)	(571)
Proceeds from fixed asset sale	-	50
Timberland acquisitions	(58,206)	-
Acquisition deposit	-	(1,927)
Net cash used in investing activities	(57,283)	(2,818)
Cash flows from financing activities:		
Repayment of long-term debt	(1,031)	(1,410)
Extinguishment of long-term debt	(18,554)	(8,479)
Proceeds from issuance of long-term debt	31,000	9,800
Debt issuance costs	(283)	(48)
Unit repurchases	(355)	(1,824)
Proceeds from option exercises	573	-
Cash distributions to unitholders	(2,080)	(2,761)
Excess tax benefit from equity-based compensation	104	-
Capital call- ORM Timber Fund II, Inc.	38,800	27,445
Preferred stock issuance- ORM Timber Fund II, Inc.	125	-
Preferred stock distribution- ORM Timber Fund II, Inc.	(8)	-
Net cash provided by financing activities	48,291	22,723
Net increase (decrease) in cash and cash equivalents	(3,686)	19,714
Cash and cash equivalents at beginning of period	7,180	17,978
Cash and cash equivalents at the end of the nine-month period	$ 3,494	$ 37,692

See accompanying notes to condensed consolidated financial statements.

1. The condensed consolidated financial statements as of September 30, 2010 and December 31, 2009 and for the three-month periods (quarters) and nine-month periods ended September 30, 2010 and 2009 have been prepared by Pope Resources, A Delaware Limited Partnership (the "Partnership") pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). The condensed consolidated financial statements are unaudited, but, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments and accruals) necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. The financial information as of December 31, 2009, is derived from the Partnership's audited consolidated financial statements and notes thereto for the year ended December 31, 2009, and should be read in conjunct ion with such financial statements. The results of operations for the interim periods are not indicative of the results of operations that may be achieved for the entire fiscal year ending December 31, 2010.

2. The financial statements in the Partnership's 2009 annual report on Form 10-K include a summary of significant accounting policies of the Partnership and should be read in conjunction with this Quarterly Report on Form 10-Q.

3. Basic net earnings per unit are based on the weighted average number of units outstanding during the period. Diluted net earnings per unit are calculated by dividing net income attributable to unitholders, adjusted for non-forfeitable distributions paid out to unvested restricted unitholders, by the weighted average units outstanding during the year plus additional units that would have been outstanding assuming the exercise of in-the-money unit equivalents using the treasury stock method.

   The table below displays how we arrived at options used to calculate dilutive unit equivalents and subsequent treatment of dilutive unit equivalents based on net income for the period:

	Quarter Ended September 30, 2010	Quarter Ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Average trading price	**$ 25.75**	$ 23.58	**$ 26.13**	$ 20.54
Total options outstanding	**102,810**	163,053	**102,810**	163,053
Less: options with strike price above average trading price (not in-the-money)	**(1,869)**	(11,056)	**(1,869)**	(42,469)
Options used in calculation of dilutive unit equivalents	**100,941**	151,997	**100,941**	120,584
Net income attributable to Pope Resources' unitholders	**$ 1,050**	$ 920	**$ 375**	$ 104
Dilutive unit equivalents	**36,487**	50,835	**37,250**	39,896
Less: unit equivalents considered anti-dilutive due to net loss in period	**-**	-	**-**	-
Dilutive unit equivalents used to calculate dilutive EPS	**36,487**	50,835	**37,250**	39,896

The following table shows how we arrived at basic and diluted income per unit:

	Quarter Ended September 30, 2010	Quarter Ended September 30, 2009	Nine months ended September 30, 2010	Nine months ended September 30, 2009
Net income attributable to Pope Resources' unitholders	**$ 1,050**	$ 920	**$ 375**	$ 104
Nonforfeitable distributions paid to unvested restricted unitholders	**(16)**	(11)	**(29)**	(34)
Preferred dividends paid to Fund II preferred shareholders	**(4)**	-	**(8)**	-
Adjusted net income attributable to unitholders	**$ 1,030**	$ 909	**$ 338**	$ 70
Weighted average units outstanding (in thousands):				
Basic	**4,567**	4,515	**4,546**	4,545
Dilutive effect of unit equivalents	**36**	51	**37**	40
Diluted	**4,603**	4,566	**4,583**	4,585
Income per unit: Basic	**$ 0.23**	$ 0.20	**$ 0.07**	$ 0.02
Income per unit: Diluted	**$ 0.22**	$ 0.20	**$ 0.07**	$ 0.02

Options to purchase 102,810 and 163,053 units at prices ranging from $9.30 to $37.73 per unit were outstanding as of September 30, 2010 and 2009, respectively.

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

Restricted Units
As of September 30, 2010, total compensation expense not yet recognized related to non-vested restricted unit awards was $660,000 with a weighted average 14 months remaining to vest.

Restricted units	September 30, 2010
Number outstanding	64,673
Aggregate value	$1,753,000

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

Options Outstanding and Exercisable	September 30, 2010
Number outstanding	102,810
Weighted average exercise price	$15.93
Aggregate intrinsic value	$1,160,000
Weighted average remaining contractual term (yrs)	1.90

5. Supplemental disclosure of cash flow information: interest paid, net of amounts capitalized, totaled $898,000 and $912,000 for the nine months ended September 30, 2010 and 2009, respectively. Neither of these interest paid amounts include debt extinguishment costs. Income taxes paid in the first nine months of 2010 was $5,000 compared to an income tax refund received of $63,000, net of income taxes paid of $7,000 in the first nine months of 2009.

6. The fair values of cash and cash equivalents and investments held at September 30, 2010 and December 31, 2009 were as follows (in thousands):

	September 30, 2010		
	Amortized Cost	**Gross Unrealized Loss**	**Estimated Fair Value**
Cash and cash equivalents	**$ 3,494**	**$ -**	**$ 3,494**

	December 31, 2009		
	Amortized Cost	Gross Unrealized Loss	Estimated Fair Value
Cash and cash equivalents	$ 7,180	$ -	$ 7,180
Securities maturing after ten years:			
Auction rate securities, current	925	(235)	690
Auction rate securities, non-current	1,000	(204)	796

During the nine-month period ended September 30, 2010, we liquidated the remaining $1.5 million of auction rate securities held as of December 31, 2009 resulting in a realized gain of $11,000. This realized gain resulted from the following three transactions:

Date	*Description*	*Proceeds*	*Basis*	*Gain/(Loss)*
Jan 21st	Pennsylvania Higher Education	$ 25,000	$ 18,653	$ 6,347
Jan 28th	Pennsylvania Higher Education	702,000	671,490	30,510
Mar 5th	Brazos	770,000	796,100	(26,100)
	Total	$ 1,497,000	$ 1,486,243	$ 10,757

For the same period in 2009, we reported an unrealized loss of $75,000 offset by a $3,000 realized gain. The realized gain for the nine-month period ended September 30, 2009 resulted from a redemption at par for a $25,000 portion of one of the auction rate securities during the second quarter of 2009. The gain represents the amount by which the redemption proceeds exceeded the basis, as adjusted for previous impairments.

7. ASC 820 *Fair Value Measurements and Disclosures* (FASB Statement No. 157 Fair Value Measurement (SFAS No. 157) was followed to determine the fair value of the Partnership's investments. ASC 820 defines a hierarchy of three levels of evidence used to determine fair value:

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

The following table provides the fair value measurements of applicable Partnership financial assets according to the levels defined in ASC 820 as of September 30, 2010 and December 31, 2009:

	September 30, 2010			
	Level 1	**Level 2**	**Level 3**	**Total**
Cash and cash equivalents	**$ 3,494**	**$ -**	**$ -**	**$ 3,494**

	December 31, 2009			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 7,180	$ -	$ -	$ 7,180
Auction rate securities, current	-	690	-	690
Auction rate securities, non-current	-	796	-	796
Total financial assets at fair value	$ 7,180	$ 1,486	$ -	$ 8,666

8. Total comprehensive income for the three- and nine-month periods ended September 30, 2010 is $1.1 million and $375,000, respectively, which is solely net income for the periods presented. Total comprehensive income for the three-month period ended September 30, 2009 was $648,000 which includes net income for the quarter offset by an unrealized loss of $32,000 on auction rate securities. Total comprehensive loss for the nine-month period ended September 30, 2009 was $498,000 which consists of net loss of $607,000 offset by an unrealized gain of $109,000 on auction rate securities.

9. The Partnership has two general partners: Pope MGP, Inc. and Pope EGP, Inc. In total, these two entities own 60,000 partnership units. The allocation of distributions and loss between the general and limited partners is pro rata among all units outstanding.

10. In the presentation of the Partnership's revenue and operating income (loss) by segment all intersegment revenue and expense is eliminated to determine externally reported operating income (loss) by business segment. The tables that follow reconcile internally reported income (loss) from operations to externally reported income (loss) from operations by business segment, for the quarters and nine-month periods ended September 30, 2010 and 2009:

Three Months Ended September 30, (Thousands)	Fee Timber: Pope Resources Timber	Fee Timber: Timber Funds	Fee Timber: Total Fee Timber	Timberland Management & Consulting	Real Estate	General & Adminstrative	Consolidated
2010							
Revenue internal	**$ 6,581**	**$ 1,721**	**$ 8,302**	**$ 412**	**$ 340**	**$ -**	**$ 9,054**
Eliminations	**(54)**	**-**	**(54)**	**(397)**	**(12)**	**-**	**(463)**
Revenue external	**6,527**	**1,721**	**8,248**	**15**	**328**	**-**	**8,591**
Cost of timber and land sold	**(2,915)**	**(1,648)**	**(4,563)**	**-**	**(3)**	**-**	**(4,566)**
Operating, general and administrative expenses internal	**(845)**	**(566)**	**(1,411)**	**(361)**	**(823)**	**(1,004)**	**(3,599)**
Eliminations	**12**	**394**	**406**	**57**	**-**	**-**	**463**
Operating, general and administrative expenses external	**(833)**	**(172)**	**(1,005)**	**(304)**	**(823)**	**(1,004)**	**(3,136)**
Income (loss) from operations internal	**2,821**	**(493)**	**2,328**	**51**	**(486)**	**(1,004)**	**889**
Eliminations	**(42)**	**394**	**352**	**(340)**	**(12)**	**-**	**-**
Income (loss) from operations external	**$ 2,779**	**$ (99)**	**$ 2,680**	**$ (289)**	**$ (498)**	**$ (1,004)**	**$ 889**
2009							
Revenue internal	$ 2,905	$ 3	$ 2,908	$ 269	$ 3,726	$ -	$ 6,903
Eliminations	(46)	-	(46)	(230)	(12)	-	(288)
Revenue external	2,859	3	2,862	39	3,714	-	6,615
Cost of timber and land sold external	(1,752)	-	(1,752)	-	(194)	-	(1,946)
Operating, general and administrative expenses internal	(689)	(302)	(991)	(252)	(806)	(790)	(2,839)
Eliminations	12	221	233	55	-	-	288
Operating, general and administrative expenses external	(677)	(81)	(758)	(197)	(806)	(790)	(2,551)
Income (loss) from operations internal	464	(299)	165	17	2,726	(790)	2,118
Eliminations	(34)	221	187	(175)	(12)	-	-
Income (loss) from operations external	$ 430	$ (78)	$ 352	$ (158)	$ 2,714	$ (790)	$ 2,118

Nine Months Ended September 30, (Thousands)	Fee Timber: Pope Resources Timber	Fee Timber: Timber Funds	Fee Timber: Total Fee Timber	Timberland Management & Consulting	Real Estate	General & Adminstrative	Consolidated
2010							
Revenue internal	**$ 18,504**	**$ 3,427**	**$ 21,931**	**$ 1,002**	**$ 844**	**$ -**	**$ 23,777**
Eliminations	**(108)**	**-**	**(108)**	**(987)**	**(36)**	**-**	**(1,131)**
Revenue external	**18,396**	**3,427**	**21,823**	**15**	**808**	**-**	**22,646**
Cost of timber and land sold	**(8,014)**	**(2,977)**	**(10,991)**	**-**	**(6)**	**-**	**(10,997)**
Operating, general and administrative expenses internal	**(2,443)**	**(1,385)**	**(3,828)**	**(1,041)**	**(2,922)**	**(3,397)**	**(11,188)**
Eliminations	**39**	**971**	**1,010**	**121**	**-**	**-**	**1,131**
Operating, general and administrative expenses external	**(2,404)**	**(414)**	**(2,818)**	**(920)**	**(2,922) ***	**(3,397)**	**(10,057)**
Income (loss) from operations internal	**8,047**	**(935)**	**7,112**	**(39)**	**(2,084)**	**(3,397)**	**1,592**
Eliminations	**(69)**	**971**	**902**	**(866)**	**(36)**	**-**	**-**
Income (loss) from operations external	**$ 7,978**	**$ 36**	**$ 8,014**	**$ (905)**	**$ (2,120)**	**$ (3,397)**	**$ 1,592**
***Includes $563,000 of non-recurring environmental remediation expense**							
2009							
Revenue internal	$ 10,254	$ 4	$ 10,258	$ 1,182	$ 4,609	$ -	$ 16,049
Eliminations	(121)	-	(121)	(632)	(36)	-	(789)
Revenue external	10,133	4	10,137	550	4,573	-	15,260
Cost of timber and land sold external	(5,672)	-	(5,672)	-	(354)	-	(6,026)
Operating, general and administrative expenses internal	(2,203)	(891)	(3,094)	(883)	(2,158)	(2,535)	(8,670)
Eliminations	36	623	659	130	-	-	789
Operating, general and administrative expenses external	(2,167)	(268)	(2,435)	(753)	(2,158)	(2,535)	(7,881)
Income (loss) from operations internal	2,379	(887)	1,492	299	2,097	(2,535)	1,353
Eliminations	(85)	623	538	(502)	(36)	-	-
Income (loss) from operations external	$ 2,294	$ (264)	$ 2,030	$ (203)	$ 2,061	$ (2,535)	$ 1,353

11. On June 10, 2010, the Partnership entered into a new $20.0 million term loan agreement with Northwest Farm Credit Services (NWFCS). Proceeds from this new term loan were used to retire a term loan from John Hancock Life Insurance Company (JHLIC) due in April 2011 and fund a make-whole premium of $1.2 million due on retirement of that timberland mortgage. On September 1, 2010, ORM Timber Fund II (Fund II) entered into an $11.0 million term loan agreement with Metropolitan Life Insurance Company (MetLife) due in August 2020. Proceeds from this loan were used to acquire 25,000 acres of timberlands on behalf of Fund II during the third quarter of 2010. The MetLife loan has a maximum loan to value ratio of 40%, measured as of December 31st of each year.&# 160; Following funding of the new term loans and retirement of the final JHLIC term loan, the Partnership had the following long-term debt outstanding as of September 30, 2010 with staggered maturity dates as follows:

(Amounts in thousands:)		**Sep-10**		Dec-09
Pope Resources debt:				
Mortgage payable to NWFCS, collateralized by timberlands, comprised of three tranches as follows:				
Five-year tranche, interest at 4.10% with monthly interest-only payments. Matures in July 2015.	**$**	**5,000**	$	-
Seven-year tranche, interest at 4.85% with monthly interest-only payments. Matures in July 2017.		**5,000**		-
Fifteen-year tranche, interest at 6.05% with monthly interest-only payments. Matures in July 2025.		**10,000**		-
		20,000		-
Mortgage payable to NWFCS, interest at 6.4%, collateralized by timberlands with monthly interest-only payments. Matures in September 2019.		**9,800**		9,800
Mortgage payable to JHLIC, interest at 7.63%, collateralized by timberlands with monthly interest payments and annual principal payments. Matures in April 2011.		-		19,303
Local improvement district assessments, with interest ranging from 5.03% to 6.5%.		-		260
Total Partnership debt		**29,800**		**29,363**
ORM Timber Funds debt:				
Fund I note payable to the City of Tacoma, with interest at 4.5%, with monthly principal and interest payments maturing January 2014.		**105**		127
Fund II mortgage payable to MetLife, interest at 4.85%, collateralized by Fund II timberlands with quarterly interest payments maturing August 2020.		**11,000**		-
Total ORM Timber Funds debt		**11,105**		**127**
Consolidated debt	**$**	**40,905**	**$**	**29,490**

The Partnership's long-term debt is not actively traded and, as such, fair values were estimated using discounted cash flow analyses, based on the Partnership's current estimated incremental borrowing rates for similar types of borrowing arrangements, which are considered level 3 inputs. As of September 30, 2010 and December 31, 2009, consolidated fixed-rate debt outstanding had a fair value of approximately $44.3 million and $30.5 million, respectively.

In connection with the new term loan, the Partnership's revolving line of credit with NWFCS was extended from August 2011 to August 2013 and reduced from $35 million to $20 million. Unamortized loan fees of approximately $32,000 were written off in connection with the second quarter mortgage refinancing.

12. The Partnership has an accrual for estimated environmental remediation costs of $1.6 million and $1.3 million as of September 30, 2010 and December 31, 2009, respectively. The environmental remediation liability represents estimated payments to be made to monitor and remedy certain areas in and around the townsite and millsite of Port Gamble, Washington. A draft Sawmill Site Feasibility Study Report was completed during the quarter ended June 30, 2010 that suggested changes in remediation alternatives such that we considered an increase in our accrual for estimated remediation costs necessary. As such, during the quarter ended June 30, 2010 we modified the cost assumptions used in the statistical modeling process resulting in an increase in the reserve for environmental remediation of $563,000. The Monte-C arlo simulation model by which we estimate this liability indicated a range of potential liability from $463,000 to $3.3 million compared to a range of $145,000 to $2.9 million the last time we ran this model at December 31, 2009. This represents a two-standard-deviation range from the mean of possible outcomes generated by the modeling process used to estimate this liability. Review of the draft Sawmill Site Feasibility Study Report by the Washington State Department of Ecology (Ecology) and certain other stakeholders was delayed during the third quarter of 2010. We estimate this delay will further defer the Cleanup Action Process by at least a quarter.

In addition, approximately $6,000 of the environmental remediation accrual represents the maximum portion of the agreed-upon investigative costs yet to be paid by the Partnership in connection with the Port Ludlow Resort Community. While we have not concluded that we have an obligation to remediate, the investigation is intended to inform our evaluation of the buyer's belief that remediation is necessary for contamination found on the site and whether or not the Partnership has liability.

13. ORM Timber Fund II, Inc. (Fund II), acquired 25,000 acres of timberland in two separate transactions during the third quarter of 2010 for $58.2 million. These acquisitions were funded with $47.2 million of equity capital and an $11 million timberland mortgage from MetLife. The Partnership's co-investment in these acquisitions was approximately $9.7 million which includes 20% of the equity capital called to fund the acquisitions plus working capital.

14. On January 4, 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2010-06, Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements (ASU 2010-06). ASU 2010-06 requires additional disclosure within the roll forward activity for assets and liabilities measured at fair value on a recurring basis, including transfers of assets and liabilities between Level 1 and Level 2 of the fair value hierarchy and the separate presentation of purchases, sales, issuances and settlements of assets and liabilities within Level 3 of the fair value hierarchy. In addition, ASU 2010-06 requires enhanced disclosures of the valuation techniques and inputs used in the fair value measurements within Level 2 and Level 3. ASU 2010-06 was adopted for the Partnership's f irst quarter ending June 30, 2010, except for the disclosure of purchases, sales, issuances and settlements of Level 3 measurements, for which disclosures are not required until the Partnership's first quarter of fiscal 2011. During the third quarter of fiscal 2010, the Partnership did not have any transfers of assets or liabilities between Level 1 and Level 2 of the fair value hierarchy. The adoption of the additional disclosures for Level 1 and Level 2 fair value measurements did not have an impact on the Partnership's financial position, results of operations or cash flows. The Partnership is currently evaluating the potential impact of the disclosures regarding Level 3 fair value measurements.

Recently, the FASB has issued a number of proposed Accounting Standards Updates (ASUs). Those proposed ASUs are as follows:

Proposed ASU – *Comprehensive Income* – was issued in May 2010 and will change the way comprehensive income is reported in the financial statements. The new standard will require a continuous statement of comprehensive income be reported combining the Company’s current statement of operations with comprehensive income. Comprehensive income or loss will be removed from the statement of shareholder’s equity.

• Proposed ASU – *Revenue Recognition* – was issued in June 2010. This proposed standard will completely replace all existing revenue recognition accounting literature. Generally, the proposed standard would require an entity to identify separate performance obligations under a contract, determine the transaction price, allocate that price to the separate components based on relative fair value, and recognize revenue when each performance obligation is satisfied. Management believes this standard may have an impact on the Company’s results of operations and disclosures, although the significance of that impact cannot be estimated at this time.

• Proposed ASU – *Fair Value Measurements and Disclosures* – was issued in June 2010. This proposed standard changes how fair value is determined for certain assets and liabilities and requires additional disclosures about fair value instruments. Management is currently evaluating the impact of this new standard on the Company’s financial position, results of operations, cash flows, and disclosures.

• Proposed ASU – *Disclosure of Certain Loss Contingencies* – was issued in July 2010. This proposed standard enhances financial statement disclosure surrounding certain loss contingencies such as legal disputes, environmental remediation liabilities, self-insurance liabilities, among others. The proposed standard primarily focuses on asserted claims and assessments and will require more robust disclosure of amounts, court or agency where legal proceedings are pending, principal parties, and other details not historically required. As the proposed standard impacts disclosure only, management does not expect this proposed standard to impact the Company’s financial position or results of operations.

These proposed ASUs are currently in comment period and are subject to change. There are no effective dates assigned to these proposals.

In July 2010, the FASB also issued an initial draft of new financial statement presentation requirements. These new requirements, as currently drafted, would substantially change the way financial statements are presented by disaggregating information in financial statements to explain the components of its financial position and financial performance. These changes will impact the presentation of the financial statements only and are not expected to impact the Company’s overall financial position, results of operations, or cash flows.

15. In 2010, the Human Resources Committee adopted a new incentive compensation program to reward selected management employees who provide services to the Partnership that builds long-term unitholder value. The Committee believes this new program offers enhanced transparency, simplified administration, and improved alignment with unitholders compared to the program it replaced. The program has two components – the Performance Restricted Unit (“PRU”) plan and the Long-Term Incentive Plan (“LTIP”). Both components have a long-term emphasis, with the PRU plan focused on annual decision making and performance, and the LTIP focused on 3-year performance of the Partnership’s publicly traded units relative to a group of peer companies. For the three- and nine- month periods ended September 30, 2010, we accrued $234,000 and $948,000, respectively, which represent estimates of the cash payout component of the program as of the end of 2010’s third quarter. Compensation expense relating to the performance restricted units will be recognized over the four year future service period. No equity grants pursuant to this new program have yet been made and, as such, no equity compensation expense related to this program has been recognized in 2010. A program summary has been filed as part of this Form 10-Q (Exhibit 32.3).

The new incentive compensation program does not affect the existence or availability of the 2005 Unit Incentive Plan (See Note 4) or change its terms. The 2005 Unit Incentive Plan provides a one-way linkage to the new program because it (2005 Plan) has already established the formal framework by which unit grants, options, etc., can be issued. More specifically, the 2005 Plan has an impact on the mechanics of how that portion of the new program that awards equity is implemented.

ITEM 2.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This report contains a number of projections and statements about our expected financial condition, operating results, and business plans and objectives. These statements reflect our management's estimates and present intentions based on our current goals, in light of currently known circumstances and management's expectations about future developments. Statements about expectations, plans and future performance are "forward looking statements" within the meaning of applicable securities laws. Because these statements describe our goals, objectives and anticipated performance, they are inherently uncertain, and some or all of these statements may not come to pass. Accordingly, you should not interpret these statements as promises that we will perform at a given level or that we will take any or all of the ac tions we currently expect to take. Our future actions, as well as our actual performance, will vary from our current expectations, and under various circumstances these variations may be material and adverse. Some of the factors that may cause our actual operating results and financial condition to fall short of our expectations are set forth in the part of this report entitled "Item 1A: Risk Factors" below and other factors discussed elsewhere in this report or in our annual report on Form 10-K for the fiscal year ended December 31, 2009. Some of the issues that may have an adverse and material impact on our business, operating results and financial condition include economic conditions that affect consumer demand for our products and the prices we receive for them; the implications of significant indirect sales to overseas customers, including currency translation, regulatory and tax matters; the effect of financial market conditions on our investment portfolio and related liquidity; environmen tal and land use regulations that limit our ability to harvest timber and develop property; access to debt financing by our customers as well as ourselves; risks associated with our credit refinancing plans and objectives and the attendant potential for impacts on our liquidity; and other risks and uncertainties which are discussed in our other filings with the Securities and Exchange Commission. The forward-looking statements in this report reflect our estimates as of the date of the report, and we cannot undertake to update these statements as our business operations and environment change.

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

EXECUTIVE OVERVIEW

Pope Resources, A Delaware Limited Partnership ("we" or the "Partnership"), was organized in late 1985 as a result of a spin-off by Pope & Talbot, Inc. ("P&T"). We are engaged in three primary businesses. The first, and by far most significant segment in terms of owned assets, revenues, income and operations, is the Fee Timber segment. This segment includes timberlands owned directly by the Partnership and operations of both ORM Timber Fund I, LP ("Fund I") and ORM Timber Fund II, Inc. ("Fund II" and collectively the "Funds"). Operations in this segment consist of growing timber to be harvested as logs for sale to domestic manufacturers and export brokers. The second most significant business in terms of total assets owned is the development and sale of real estate. Real Estate activities primarily take the form of securing permits, entitlements, and, in some cases, installing infrastructure for raw land development and then realizing that land's value through the sale of larger parcels to buyers who will take the land further up the value chain, either to home buyers or to operators and lessors of commercial property. Since these land projects span multiple years, the Real Estate segment may incur losses for multiple years while a project is developed until that project is sold resulting in operating income. Our third business segment, Timberland Management & Consulting, consists of raising investment capital from third parties for investment in timberland through private equity investment vehicles like the Funds. An additional aspect of this segment's activities is the provision of timberland management and related services for a fee to both the Funds and other third-party owners of timberland.

Our current strategy for adding timberland acreage is centered on our private equity timber fund business model, which consists of raising investment capital from third-party investors and investing that capital in timberland for a fee. We have raised two timber funds and have $150 million in assets under management. Our 20% co-investment in the Funds, which totals $28 million, affords us a share of the Funds' operating cash flows while allowing us to earn annual asset management and timberland management fees as well as incentive fees based upon the overall success of each fund. Management also believes that this strategy allows us to maintain more sophisticated expertise in timberland acquisition, valuation, and management than could be cost-effectively maintained for the Partnership's timberlands alone.

During periods in which the U.S. and, to a much lesser extent, Asian residential real estate markets perform poorly, we tend to experience diminishing financial performance in both our Fee Timber and Real Estate segments. In Fee Timber, declines in building construction affect log prices and volumes directly. As discussed below in greater detail, we may choose to reduce our harvest during these periods so as to avoid liquidating our timber assets at low prices, an opportunity afforded to us by our relatively low leverage and our relatively low-cost operating model.

Land held for sale in western Washington by our Real Estate segment is suitable primarily for residential and commercial building sites. The markets for these products have recently suffered along with regional and national markets, producing a decline in our sales. Our Real Estate challenges center around how and when to "harvest" a parcel of land and capture the optimum value increment by selling the property, balancing the long-term risks of carrying and developing a property against the potential for income and positive cash flows upon sale.

We have a unit repurchase program which permits repurchases through December 2010. As of September 30, 2010, we have repurchased approximately 125,000 units with a weighted average unit purchase price of $19.98 and we have an unutilized authorization for unit repurchases of $2.5 million.

RESULTS OF OPERATIONS

The following table reconciles and compares key revenue and cost elements that impacted our net income for the respective quarter and year-to-date periods ended September 30, 2010 and September 30, 2009. In addition to the table's numerical analysis, the explanatory text that follows the table describes certain of these changes by business segment.

	Quarter Ended September 30, Total	Nine Months Ended September 30, Total
Net income attributable to unitholders:		
2010 period	$ 1,050	$ 375
2009 period	920	104
Variance	$ 130	$ 271
Detail of earnings variance:		
Fee Timber		
Log price realizations (A)	$ 1,666	$ 3,354
Log volumes (B)	3,676	8,001
Depletion	(1,304)	(2,460)
Production costs	(1,507)	(2,860)
Other Fee Timber	(203)	(51)
Timberland Management & Consulting		
Management fee changes	(20)	(531)
Other Timberland Management & Consulting	(111)	(171)
Real Estate		
Environmental remediation liability	(5)	(568)
Land sales	(3,120)	(3,262)
Other Real Estate	(87)	(351)
General & administrative costs	(214)	(862)
Net interest expense	1,101	1,078
Debt extinguishment costs	-	(1,250)
Other (taxes, noncontrolling interest, unrealized loss)	258	204
Total variance	$ 130	$ 271

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

Fee Timber

Fee Timber results include operations from 114,000 acres of timberland owned by the Partnership and 61,000 acres of timberland owned by the Funds. Fee Timber revenue is earned primarily from the harvest and sale of logs from these timberlands which are located in western Washington and northwestern Oregon and, to a lesser extent, from leasing cellular communication towers and selling gravel and other resources from our timberlands. Revenue from the sale of timberland tracts will also appear in this segment's results on the relatively infrequent occasions when those transactions occur. Our Fee Timber revenue is driven primarily by the volume of timber harvested which is generally expressed in thousand board feet (MBF) or million board feet (MMBF). Fee Timber expenses, which consist predominantly of depletion, harvest and transportation costs, vary directly and roughly proportionately with harvest volume and the resulting revenues. Revenue and costs related to harvest activities on timberland owned by the Funds are consolidated into this discussion of operations.

Planned Harvest for 2010. We began 2010 with a plan to harvest 32 MMBF, representing a 47% harvest volume deferral from our estimate of long-term sustainable harvest of 60 MMBF, as calculated prior to the recent Fund II acquisitions. As the first quarter progressed, we responded to improved domestic and export market conditions by moving more of our planned harvest volume forward and, given the improvement in log markets, we have harvested more volume in the first nine months of 2010 than originally planned for the entire year. Our harvest volume for the year is now expected to total approximately 53 MMBF. While this constitutes a significant increase over the harvest volume for 2009, it will still be considerably less than our sustainable harvest le vel following the recent additions to the Fund II portfolio.

When discussing our Fee Timber operations, we compare current results to both the previous quarter and the corresponding quarter of the prior year. These comparisons offer an understanding of trends in market price and patterns of harvest volumes that affect Fee Timber operating results. Revenue and operating income for the Fee Timber segment for the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009 were as follows:

($ Million) Quarter Ended	Log Sale Revenue	Mineral, Cell Tower & Other Revenue	Total Fee Timber Revenue	Operating Income/(loss)	Harvest Volume (MBF)
Pope Resources Timber	**$ 6.1**	**$ 0.4**	**$ 6.5**	**$ 2.8**	**12,226**
Timber Funds	**1.7**	**0.0**	**1.7**	**(0.1)**	**3,645**
Total Fee Timber September 30, 2010	**$ 7.8**	**$ 0.4**	**$ 8.2**	**$ 2.7**	**15,871**
Pope Resources Timber	$ 6.1	$ 0.3	$ 6.4	$ 3.0	11,654
Timber Funds	1.4	-	1.4	0.1	2,803
Total Fee Timber June 30, 2010	$ 7.5	$ 0.3	$ 7.8	$ 3.1	14,457
Pope Resources Timber	$ 2.5	$ 0.4	$ 2.9	$ 0.4	6,396
Timber Funds	-	-	-	(0.1)	-
Total Fee Timber September 30, 2009	$ 2.5	$ 0.4	$ 2.9	$ 0.3	6,396

Comparing Q3 2010 to Q2 2010. Fee Timber revenue for the third quarter of 2010 increased $435,000, or 6%, from the second quarter of 2010. Revenue increased due to a 1.4 MMBF, or 10%, increase in volume harvested partially offset by a $24/MBF, or 5%, decrease in average log price realized. In spite of higher revenue, operating income for the third quarter 2010 was $374,000 lower than the period ended June 30, 2010. This is a result of third quarter’s harvest units carrying higher logging and haul costs as well as a higher proportion of volume from the Funds, which carry a higher depletion rate.

Comparing Q3 2010 to Q3 2009. Fee Timber revenue and operating income for the third quarter of 2010 were $5.3 million and $2.4 million higher, respectively, than the comparable period in the prior year. The increase in revenue and operating income is due to a 9.5 MMBF, or 148%, increase in harvest volume coupled with a $105/MBF, or 27%, increase in average log price realized. Harvest volume increased in the third quarter of 2010 over 2009 to take advantage of strengthening log markets experienced in 2010. This log price increase, while slightly off from the second quarter of 2010, reflects continued strength in log markets that began in the first quarter of 2010 over 2009. Another factor that contributed to improved quarterly log price comparisons wa s the lower quality pulpwood stands harvested in 2009 which acted to pull down the 2009 average log price compared when compared to third quarter 2010.

Revenue and operating income for the Fee Timber segment for the year-to-date periods ended September 30, 2010, June 30, 2010 and September 30, 2009 were as follows:

($ Million) Nine Months Ended	**Log Sale Revenue**	**Mineral, Cell Tower & Other Revenue**	**Total Fee Timber Revenue**	**Operating Income/(loss)**	**Harvest Volume (MBF)**
Pope Resources Timber	**$ 17.3**	**$ 1.1**	**$ 18.4**	**$ 8.0**	**35,472**
Timber Funds	**3.1**	**0.3**	**3.4**	**-**	**6,448**
Total Fee Timber September 30, 2010	**$ 20.4**	**$ 1.4**	**$ 21.8**	**$ 8.0**	**41,920**
Pope Resources Timber	$ 9.1	$ 1.0	$ 10.1	$ 2.3	22,261
Timber Funds	-	-	-	(0.3)	-
Total Fee Timber September 30, 2009	$ 9.1	$ 1.0	$ 10.1	$ 2.0	22,261

Comparing YTD 2010 to YTD 2009. Fee Timber revenue and operating income for the first nine months of 2010 were $11.7 million and $6.0 million higher, respectively, than the same period in 2009. This is a result of a 19.7 MMBF, or 88%, increase in harvest volume combined with a $80/MBF, or 20%, increase in average log price realized. Harvest volume was increased as log markets strengthened relative to 2009.

ORM Timber Funds. The Funds are consolidated into our financial statements, with the 80% of these Funds owned by third parties reflected in our Statement of Operations under the caption "Net loss attributable to noncontrolling interest-ORM Timber Funds." We deferred harvesting from each of the Funds' tree farms in the first quarter of 2010 in anticipation of weak log markets. However, given improvements in domestic and export log markets in the first quarter, we began harvesting from the Funds' tree farms during the second quarter to take advantage of higher prices. The Funds generated $1.7 million of revenue in the third quarter of 2010 compared with revenue of $1.4 million in the second quarter of 2010. The Funds generated n o revenue in the third quarter of 2009. The Funds generated an operating loss of $99,000 for the quarter ended September 30, 2010, compared to operating income of $64,000 in the second quarter of 2010 and an operating loss of $78,000 in the third quarter of 2009. The increase in the third quarter operating loss is a result of an increase in depletion expense in the Funds in connection with increased harvest levels. The Funds have a higher basis and, as a result, higher depletion expense than the Partnership's timberlands.

Revenue generated by the Funds for the nine months ended September 30, 2010 was $3.4 million compared to $4,000 for the prior year's first three quarters. The Funds had operating income of $36,000 in the period ended September 30, 2010 compared to an operating loss of $264,000 for the three quarters of 2009. The increase in year-to-date 2010 operating income is primarily a result of the small Fund I land sale in the first quarter of 2010.

Log Volume

The Partnership harvested the following log volumes by species from its timberlands for the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009:

Log sale volumes (MBF):		Quarter Ended					
		Sep-10	**% Total**	Jun-10	% Total	Sep-09	% Total
Sawlogs	Douglas-fir	**10,804**	**68%**	10,734	74%	2,527	40%
	Whitewood	**1,527**	**9%**	1,323	9%	282	4%
	Cedar	**175**	**1%**	130	1%	434	7%
	Hardwood	**275**	**2%**	218	2%	310	5%
Pulpwood	All Species	**3,090**	**20%**	2,052	14%	2,843	44%
Total		**15,871**	**100%**	14,457	100%	6,396	100%

Comparing Q3 2010 to Q2 2010. Harvest volume for the quarter ended September 30, 2010 represents approximately 30% of our revised harvest expectation for 2010 of 53 MMBF, and is roughly 10% higher than the harvest volume in the quarter ended June 30, 2010. Demand for logs from China throughout 2010 has helped to support overall log prices despite a weakening domestic market. This market strength versus 2009 led us to add incremental harvest units in order to secure favorable log prices into the third quarter of 2010.

Comparing Q3 2010 to Q3 2009. In comparing the third quarter 2010 harvest volumes against the comparable period in 2009, we harvested approximately 30% of our revised harvest expectation for 2010 of 53 MMBF, as compared to third quarter 2009 when we harvested 20% of a lower actual annual volume of 32 MMBF for that year. The increase in harvest activity between quarters was due to our decision to accelerate harvest in 2010 in response to unexpected market strength due to active export buying. Pulpwood volume represented 44% of total volume in the third quarter of 2009 versus 20% for the current quarter. This mix variance reflected the historic low prices for sawlogs we saw in 2009 and our decision in response to conserve higher value sawlogs for later harvest an d emphasize instead the harvest in 2009 of units with a high proportion of low- quality pulpwood.

The Partnership harvested the following log volumes by species from its timberlands for the nine months ended September 30, 2010 and September 30, 2009:

Log sale volumes (MBF):		Nine Months Ended			
		Sep-10	**% Total**	Sep-09	% Total
Sawlogs	Douglas-fir	**30,561**	**73%**	15,010	67%
	Whitewood	**3,337**	**8%**	554	3%
	Cedar	**451**	**1%**	678	3%
	Hardwood	**582**	**1%**	700	3%
Pulpwood	All Species	**6,989**	**17%**	5,319	24%
Total		**41,920**	**100%**	22,261	100%

Comparing YTD 2010 to YTD 2009. The 42 MMBF harvested during the nine months ended September 30, 2010 is nearly 80% of our revised full-year harvest expectation for 2010 of 53 MMBF, compared to the first nine months of 2009, when we harvested 70% of the total actual annual harvest of 32 MMBF. Strong Chinese export markets, and to a lesser extent Korean markets, prompted our decision to increase harvest volume above 2009's level. This strong export market has helped support sawlog prices despite a weakening domestic market as domestic sawmills have had to increase log prices to compete for volume diverted to export markets. Log volumes harvested in 2009 included a higher proportion of pulpwood due to our decision to focus harvest on lower qualit y timber stands to conserve higher value sawlog volume for better market conditions.

Log Prices

Logs from the Partnership's tree farms serve a number of different domestic and export markets, with domestic mills historically representing our largest market segment. Throughout 2010, the relative strength of the Chinese export market has been a driving force for much of our log pricing. In contrast to the Japanese export market that has historically only diverted logs to Asia at the top end of the quality spectrum, the Chinese market accepts a log quality that is comparable to that which typically goes to the domestic market. Logs flowing from the Pacific Northwest to China through the first nine months of 2010 increased almost ten-fold from volumes shipped in the comparable period in 2009. Notwithstanding the low level of domestic housing starts, this increased export demand helped to keep upwa rd pressure on domestic log prices throughout 2010.

While we experienced significant strengthening of log prices in the first half of 2010 relative to 2009, we saw a slight drop in log prices in the third quarter. Notwithstanding this price dip, prices remain substantially higher than 2009. We realized the following log prices for the quarters ended September 30, 2010, June 30, 2010, and September 30, 2009 and the nine-month periods ended September 30, 2010 and 2009:

		Quarter Ended		
		Sep-10	Jun-10	Sep-09
Sawlogs	Douglas-fir	**$ 549**	$ 556	$ 393
	Whitewood	**439**	483	279
	Cedar	**1,045**	950	832
	Hardwood	**487**	503	439
Pulpwood	All Species	**296**	311	321
Overall		**493**	517	388

		Change to September 2010			
		Jun-10		Sep-09	
		$/MBF	%	$/MBF	%
Sawlogs	Douglas-fir	$ (7)	-1 %	$ 156	40 %
	Whitewood	(44)	-9 %	160	57 %
	Cedar	95	10 %	213	26 %
	Hardwood	(16)	-3 %	48	11 %
Pulpwood	All Species	(15)	-5 %	(25)	-8 %
Overall		(24)	-5 %	105	27 %

The overall log price realized in the third quarter of 2010 dropped $24/MBF, or 5%, from the second quarter of 2010, as supply caught up to demand and some customers put suppliers on quotas to control inventory. In addition, our slightly higher pulpwood weighting, which increased from 14% in the second quarter to 20% in the third quarter, helped to pull down the overall log price realization. The $105/MBF, or 27% increase in overall log price from the third quarter of 2009 to the third quarter of 2010 is attributable to strong Chinese export markets competing with a domestic market that had come off cyclical lows in 2009. In addition, the third quarter 2009 log price average reflected a high percentage of low value pulpwood compared to that seen in the third quarter of 2010, 44% vs. 20%, respectively.

		Nine Months Ended			
		Sep-10	Δ from Sep-10 to Sep-09		Sep-09
			$/MBF	%	
Sawlogs	Douglas-fir	**$ 527**	$ 93	21%	$ 434
	Whitewood	**446**	160	56%	286
	Cedar	**936**	97	12%	839
	Hardwood	**495**	53	12%	442
Pulpwood	All Species	**302**	19	7%	283
Overall		**487**	80	20%	407

The overall log price realized year-to-date in 2010 increase $80/MBF, or 20%, from the comparable period in 2009, primarily due to the same export/domestic market dynamics mentioned above. In addition, the 2009 year-to-date log price average reflected a high percentage of low value pulpwood compared to that seen in the 2010's year-to-date totals, 24% vs. 17%, respectively.

Douglas-fir: Douglas-fir is noted for its structural characteristics that make it generally preferable to other softwoods and hardwoods for the production of construction grade lumber and plywood. Demand and price for Douglas-fir sawlogs has historically been very dependent upon the level of new home construction in the U.S. Douglas-fir log prices realized in 2010 reflect some softening of this direct link between Douglas-fir sawlog prices and domestic housing starts with a dramatic increase in demand from China for Douglas-fir sawlogs sourced from the Pacific Northwest.

The rally in Douglas-fir sawlogs began in early 2010 with participants in the domestic supply chain for lumber increasing demand for logs in response to declining inventories. This increase in domestic demand coincided with an increase in export market demand from China, and to a lesser extent Korea. Single-family home starts remained at approximately 500,000 units during 2010, compared to approximately 1.7 million at its peak in 2005. The aforementioned inventory issue was largely addressed by domestic producers in the first quarter of 2010 and with continued paucity of housing starts, we saw sawmills quickly return in the second quarter to production levels sufficient to meet anemic domestic demand. In the absence of strong export market demand this would have caused a decline in log prices; however, there was continued strength in the export market to China which created competition for Douglas-fir sawlogs. This competition resulted in a $156/MBF, or 40%, increase in Douglas-fir log prices for the current quarter compared to the comparable period in 2009. Although Douglas-fir log prices retreated $7/MBF, or 1%, from the second quarter of 2010 as a result of softening domestic sawlog markets, prices are still considerably stronger than 2009. For the nine-month period ended September 30, 2010 the price realized on Douglas-fir sawlogs was up $93/MBF, or 21%, from the comparable period in 2009 as a result of the aforementioned competition between domestic mills and export markets.

Whitewood: "Whitewood" is a term used to describe several softwood species, but for us primarily refers to western hemlock. Though generally considered to be of a lower quality than Douglas-fir, these logs are also used for manufacturing lumber and plywood. In addition, there is a modest export market for whitewood logs, with most of this volume going to Korea. Similar to Douglas-Fir, whitewood prices declined in the third quarter of 2010 by $44/MBF, or 9%, over the second quarter of 2010 as a result of a softening in the domestic and export markets. Whitewood prices increased $160/MBF, or 57%, in the third quarter of 2010 compared to the third quarter of 2009 primarily as a result of stronger export log markets in 2010. For the nine months ended September 30, 2010 the price realized on whitewood sawlogs was up $160/MBF, or 56%, versus the nine months ended September 30, 2009, driven by the relative strength in the export log markets in 2010 from 2009.

Cedar: Cedar is a minor component in most upland timber stands and is generally used for outdoor applications such as fencing, siding and decking. Although there is a link between demand for these products and housing starts, this link is not as strong as with most other softwood species. A small spike in demand from buyers helped drive a 10% increase in cedar prices in the third quarter of 2010 when compared to the second quarter of 2010 and a 26% increase from the third quarter of 2009. This same spike in demand caused cedar prices to increase $97/MBF, or 12%, in the nine-month period ended September 30, 2010 versus the comparable period in 2009.

Hardwood: "Hardwood" can refer to many different species, but on our tree farms primarily consists of red alder. The local mills that process red alder sawlogs are using the resource to manufacture lumber for use in furniture and cabinet construction. Hardwood prices dropped 3% from the second to the third quarter of 2010, but increased 11% when compared to the third quarter of 2009. This reflects continued modest demand for lumber, which came at a time when some mills had relatively low inventories. For the nine months ended September 30, 2010, hardwood sawlog prices increased $53/MBF, or 12%, when compared with the same period in 2009 in response to the aforementioned lumber demand in 2010.

Pulpwood: Pulpwood is a lower quality log of any species that is manufactured into wood chips. These chips are used primarily to make a full range of pulp and paper products from unbleached linerboard, used in paper bags and cardboard boxes, to fine paper and specialty products. The pulpwood market has enjoyed relative strength over the last couple of years as a direct result of sawmills taking significant downtime in response to the slowdown in housing starts. Sawmills typically provide the bulk of the chips used by pulp manufacturers, so curtailed sawmill production helped to push up the price of pulpwood sold directly to pulp mills. For the quarter ended September 30, 2010, pulpwood prices were down 5% from the second quarter of 2010 and 8% from the same period in 200 9. For the nine months ended September 30, 2010, pulpwood prices were up $19/MBF, or 7%, when compared to the comparable period in 2009.

Customers

The table below categorizes timber sold by customer type for the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009:

	Q3 2010			Q2 2010			Q3 2009		
	Volume			Volume			Volume		
Destination	**MBF**	**%**	**Price**	MBF	%	Price	MBF	%	Price
Domestic mills	**8,135**	**51%**	**$ 536**	8,279	57%	$ 553	3,387	53%	$ 436
Export brokers	**4,646**	**29%**	**549**	4,126	29%	549	166	3%	551
Pulpwood	**3,090**	**20%**	**296**	2,052	14%	311	2,843	44%	321
Total	**15,871**	**100%**	**$ 493**	14,457	100%	$ 517	6,396	100%	$ 388

Comparing Q3 2010 to Q2 2010. Volume sold to domestic mills declined to 51% of total volume for Q3 2010 from 57% in Q2 2010. This shift in volume, due to the variability of the timber stands being harvested, went instead to the pulpwood market which increased from 14% of volume in Q2 to 20% of volume in Q3. Volume sold to the export market represented 29% of total volume in both Q2 and Q3 indicating the relative strength of the export market to China in the face of weak domestic demand. Log prices declined in Q3 relative to Q2 by 3% for volume sold to domestic mills and remained flat to export brokers. The largest decline in price came from pulp mills where log prices dropped nearly 5% in concert with higher pulpwood inventories as harvest volumes in the Pacific Northwest broadly increased over the summer months in response to strengthening log prices.

Overall average log price declined 5% in the third quarter of 2010 from the second quarter of 2010 due to the impact of slack domestic demand for logs. Log exporters bid for log volume to divert those logs from the domestic market, but weaker domestic market demand reduced the price pressure needed for export brokers to secure log volume. As such, export demand helped to maintain log prices when domestic markets softened in response to weak demand for lumber.

Comparing Q3 2010 to Q3 2009. Volume sold to export brokers as a percentage of total harvest increased to 29% in Q3 2010 from 3% for the comparable period in the prior year. When comparing the third quarter of 2010 to the same period in 2009, increased log sales to the Chinese and Korean export markets in 2010 account for a notable shift in volume away from domestic mills to export brokers. Our relatively low volume percentage sold to the export market in 2009 reflects logs destined for Japan where we were realizing higher prices for higher quality wood. By contrast, logs sold to the Chinese and Korean markets in 2010 were of a lower quality and, accordingly, represented a lower-priced export product. Notwithstanding the drop in log quality, our real ized export prices remained flat, decreasing only $2/MBF from third quarter 2009 to third quarter 2010, but the reader should not draw too many conclusions from the very low volume produced for the export market in 2009's third quarter. In 2009, we focused harvest generally on lower quality timber with a higher proportion of pulpwood to preserve higher quality sawlogs for a later time when markets improved. This tactic served to inflate the percentage of our overall volume sold into the pulpwood market to 44% in the third quarter of 2009. As the domestic markets have strengthened in 2010, volumes sold to pulpwood customers have declined to 20% in the third quarter of 2010, with pulpwood prices down $25/MBF, or 8%.

Overall average log price increased 27% in the third quarter of 2010 from the third quarter of 2009 in response to a dramatic increase in demand from China. Logs exported from the Pacific Northwest have generally represented the highest quality sawlogs exported to Japan. This situation changed dramatically in 2010 when China began importing average quality sawlogs from the Pacific Northwest that would otherwise be sold to the domestic market. This source of additional demand has had a significant impact on log prices at a time when domestic log markets are weak as a result of historically low domestic housing starts.

The table below categorizes timber sold by customer type for the year-to-date periods ended September 30, 2010 and September 30, 2009:

	Nine Months Ended					
	30-Sep-10			30-Sep-09		
	Volume			Volume		
Destination	**MBF**	**%**	**Price**	MBF	%	Price
Domestic mills	**22,590**	**54%**	**$ 521**	14,511	65%	$ 412
Export brokers	**12,341**	**29%**	**529**	2,431	11%	647
Pulpwood	**6,989**	**17%**	**302**	5,319	24%	283
Total	**41,920**	**100%**	**$ 487**	22,261	100%	$ 407

Comparing YTD 2010 to YTD 2009. For the nine months ended September 30, 2010, volume sold to domestic mills was down to 54% of production compared to 65% of production in the comparable period of 2009. This is a direct result of volume diverted to the Chinese and Korean export markets. Logs sold to domestic mills increased in price by $109/MBF, or 27%, as domestic mills competed for log volume with the Chinese and Korean export markets. Export brokers received 29% of our production in the first nine months of 2010, compared with 11% in the first three quarters of 2009. Export volumes generated a $118/MBF, or 18%, price decrease as a result of the shift from high-quality and high-priced logs sold to Japan in the first nine months of 2009 versus lower quality logs sold into the Chinese and Korean markets in 2010's comparable period. As a percentage of overall volume, we directed fewer logs to the pulpwood market in the first nine months of 2010 compared to the same period in 2009, although prices increased $19/MBF, or 7%. As discussed earlier, this was a result of harvesting lower quality timber in 2009 with a higher proportion of pulpwood to preserve higher quality sawlogs for a later time when markets improved.

Cost of Sales

Cost of sales for the Fee Timber segment consists of harvest and haul costs and depletion expense. Harvest and haul costs represent the direct cost incurred to convert trees into logs and deliver those logs to their point of sale. Depletion expense represents the cost of acquiring or growing the harvested timber. Harvest, haul, and depletion all vary directly with actual harvest volume. The applicable depletion rate is derived by dividing the aggregate cost of timber, together with capitalized road expenditures, by the estimated volume of merchantable timber available for harvest at the beginning of that year. The depletion rate is then applied to the volume harvested in a given period to calculate depletion expense for that period.

Fee Timber cost of sales for the quarters ended September 30, 2010, June 30, 2010 and September 30, 2009, respectively, are as follows, with the first table expressing these costs in total dollars and the second table expressing the costs on a per unit of production basis:

($ Million) Quarter Ended:	Harvest, Haul and Other	Depletion	Total Cost of Sales	Harvest Volume (MBF)
September 30, 2010	**$ 2.9**	**$ 1.7**	**$ 4.6**	**15,871**
June 30, 2010	2.3	1.5	3.8	14,457
September 30, 2009	1.3	0.4	1.7	6,396

(amounts per MBF) Quarter Ended:	Harvest, Haul and Other	Depletion	Total Cost of Sales
September 30, 2010	**$ 180**	**$ 108**	**$ 288**
June 30, 2010	163	101	264
September 30, 2009	209	65	274

Comparing Q3 2010 to Q2 2010. Cost of sales increased by $740,000, or 19%, in the third quarter of 2010 relative to the second quarter of 2010. Roughly one-third of this increase is due to a $7/MBF increase in depletion as a result of harvest from the Funds' tree farms, which have a combined depletion rate of $263/MBF, compared to the depletion rate on Pope's directly owned tree farms of $62/MBF. The depletion rates are discussed in further detail below. The balance of the increase in cost of sales results from the harvest of units requiring higher-cost logging methods and increased haul and other costs associated with a 10% harvest volume increase.

Comparing Q3 2010 to Q3 2009. Cost of sales increased $2.9 million, or 171%, in the third quarter of 2010 from the comparable period in 2009 as a result of a 148% increase in harvest volume from 6.4 MMBF in the third quarter of 2009 to 15.9 MMBF in the third quarter of 2010. Depletion increased $43/MBF in the third quarter of 2010 relative to the third quarter of 2009 due to Fund harvests that did not occur in 2009. Average harvest, haul and other costs declined $29/MBF in the current quarter when compared to the same period in 2009. This savings results from a lower proportion of pulpwood harvest, which carries a higher harvesting cost per MBF.

Fee Timber cost of sales for the nine months ended September 30, 2010 and September 30, 2009, respectively, are as follows, with the first table expressing these costs in total dollars and the second table expressing the costs on a per unit of production basis:

($ Million) Nine Months Ended:	Harvest, Haul and Other	Depletion	Total Cost of Sales	Harvest Volume (MBF)
September 30, 2010	**$ 7.1**	**$ 3.9**	**$ 11.0**	**41,920**
September 30, 2009	4.2	1.5	5.7	22,261

(amounts per MBF) Nine Months Ended:	Harvest, Haul and Other	Depletion	Total Cost of Sales
September 30, 2010	**$ 169**	**$ 93**	**$ 262**
September 30, 2009	190	65	255

Comparing YTD 2010 to YTD 2009. Cost of sales increased $5.3 million, or 93%, in the first nine months of 2010 relative to the same period in 2009 primarily as a result of an 88% harvest volume increase from 22.3 MMBF in the first nine months of 2009 to 41.9 MMBF in the first nine months of 2010. Depletion expense increased $28/MBF in the first nine months of 2010 relative to the same period in 2009 due to Fund harvests that did not occur in 2009. Harvest, haul, and other costs per MBF decreased $21/MBF in the nine months ended September 30, 2010 relative to the same period in 2009. This reduction is attributable to a decrease in pulpwood volume harvested which carries a higher harvest cost per MBF than sawlogs.

Depletion expense for the quarters ended September 30, 2010, June 30, 2010, and September 30, 2009 and the nine months ended September 30, 2010 and September 30, 2009 was calculated as follows:

	Quarter Ended September 30, 2010		
	Pooled	**Timber Funds**	**Combined**
Volume harvested (MBF)	**12,226**	**3,645**	**15,871**
Rate/MBF	**$ 62**	**$ 263**	**$ 108**
Depletion expense ($000's)	**$ 763**	**$ 957**	**$ 1,720**

	Quarter Ended June 30, 2010		
	Pooled	Timber Funds	Combined
Volume harvested (MBF)	11,654	2,803	14,457
Rate/MBF	$ 62	$ 263	$ 101
Depletion expense ($000's)	$ 728	$ 737	$ 1,465

Quarter Ended September 30, 2009	
	Pooled
Volume harvested (MBF)	6,396
Rate/MBF	$ 65
Depletion expense ($000's)	$ 416

	Nine Months Ended September 30, 2010		
	Pooled	**Timber Funds**	**Combined**
Volume harvested (MBF)	**35,472**	**6,448**	**41,920**
Rate/MBF	**$ 62**	**$ 263**	**$ 93**
Depletion expense ($000's)	**$ 2,215**	**$ 1,694**	**$ 3,909**

Nine Months Ended September 30, 2009	
	Pooled
Volume harvested (MBF)	22,261
Rate/MBF	$ 65
Depletion expense ($000's)	$ 1,449

The Funds' depletion expense in 2010 represents harvest from timberlands owned by the Funds and reflects a higher depletion rate than our combined pool of depletion costs for the Hood Canal and Columbia tree farms. The "Pooled" depletion consists primarily of historical timber cost that has been owned by the Partnership for many decades, as well as the Columbia tree farm property that was acquired in 2001. Depletion for the Funds' timber volume is derived from the cost of timber acquired more recently at a higher overall cost and, therefore, carries a higher depletion rate.

Operating Expenses

Fee Timber operating expenses for the quarter ended September 30, 2010 were $1.0 million compared to $936,000 and $758,000 for the quarters ended June 30, 2010, and September 30, 2009, respectively. Operating expenses for the nine months ended September 30, 2010 and 2009 were $2.8 million and $2.4 million, respectively. Operating expenses include management, silviculture and the cost of both maintaining existing roads and building temporary roads required for harvest activities for the 114,000 acres owned by the Partnership and the 61,000 acres owned by the Funds. The increase in operating expense in the third quarter of 2010 over the third quarter of 2009 is due to the increase in activities to prepare tree farms for the increase of harvest volume in 2010 over 2009. O perating expenses for the first three quarters of 2010 reflect costs associated with the 88% increase in harvest volume, start-up costs associated with an increase in timberland acres under management following timberland acquisitions by Fund II totaling 37,000 acres in the 4th quarter of 2009 and the third quarter of 2010, less the elimination of Fund management fees of $987,000 for the nine months ended September 30, 2010 versus $632,000 for the comparable period in 2009.

Timberland Management & Consulting

The Timberland Management & Consulting (TM&C) segment develops timberland property investment portfolios on behalf of the Funds. In addition, we provide our timberland management services to third-party owners of timberland. As of September 30, 2010, the TM&C segment managed two private equity timber funds representing $150 million of assets under management.

Revenue and expense generated through the management of the Funds is accounted for within the TM&C segment but eliminated as a result of consolidation of the Funds into the Partnership's financial statements. The revenue generated from management of these Funds represents an expense to the Fee Timber segment which is eliminated when the Funds are consolidated into the Partnership's financial statements. Each fund is owned 20% by the Partnership and, as a result, 80% of these management fees are paid by third-party investors. We generated $397,000 and $230,000 of such management fee revenue in the quarters ended September 30, 2010 and 2009, respectively, that was eliminated in consolidation along with a corresponding decrease in operating expenses for the Fee Timber segment. For the nine-month periods ended September 30, 2010 and 2009, revenue of $987,000 and $632,000, respectively, were also eliminated along with a corresponding reduction in operating expense for the Fee Timber segment.

Revenue and operating loss for the TM&C segment for the quarters ended September 30, 2010 and 2009 were as follows:

($ Thousands) Quarter Ended	Revenue	Operating loss
September 30, 2010	**$ 15**	**$ (289)**
September 30, 2009	39	(158)

Comparing Q3 2010 to Q3 2009. Following elimination of fees generated from managing the Funds, TM&C revenue totaled only $15,000 and $39,000 of miscellaneous consulting revenue for the quarters ended September 30, 2010 and 2009, respectively. Operating loss increased in the third quarter of 2010 when compared to the third quarter of 2009 due in large part to an increase in operating expense following the placement of $58 million of capital with the acquisition of 25,000 acres of timberland by Fund II during the current quarter.

Revenue and operating loss for the TM&C segment for the year-to-date periods ended September 30, 2010 and 2009 were as follows:

($ Thousands) Nine Months Ended	Revenue	Operating loss
September 30, 2010	**$ 15**	**$ (905)**
September 30, 2009	550	(203)

Comparing YTD 2010 to YTD 2009. After elimination of revenue generated from managing the Funds, revenue declined $535,000 and operating loss increased $702,000 for the nine-month period ending September 30, 2010 from the comparable period in 2009. This decline in revenue and increase in operating loss resulted primarily from the termination of our management contract with Cascade Timberlands LLC in July of 2009 and secondarily from an increase in segment operating expenses following the acquisition by Fund II of nearly 37,000 acres of timberland since September 2009.

Fund II closed in March 2009 with $84 million of committed capital, which includes our co-investment commitment of $16.9 million. During the fourth quarter of 2009, $34.4 million, or 41% of Fund II's capital, was invested in two acquisitions totaling 12,000 acres. During the third quarter of 2010, $47.2 million, or 56% of Fund II's remaining capital, was invested in two acquisitions totaling $58.2 million for 25,000 acres. The balance of the purchase price for third quarter 2010 acquisitions was funded with a $11 million timber mortgage. Fund II's two-year drawdown period ends in March 2011.

Operating Expenses

TM&C operating expenses for the quarters ended September 30, 2010, and September 30, 2009 were $304,000, and $197,000, respectively. The increase in operating expense results from a $92.5 million increase in assets under management following the acquisition of four tree farms representing 37,000 acres by Fund II. Operating expenses for the nine-month periods ended September 30, 2010 and 2009 were $920,000 and $753,000, respectively, and increased year over year for the same aforementioned reasons.

Real Estate

The Partnership's Real Estate segment consists primarily of revenue from the sale of land and sales of conservation easements from the Partnership's timberland portfolio, together with residential and commercial property rents. The Partnership's Real Estate holdings are located primarily in Pierce, Kitsap, and Jefferson Counties in Washington State. Revenue in the Real Estate segment is generated through the sale of land, the rental of homes and commercial properties at the Port Gamble townsite, and the sale of land development rights. Land sales include the sale of unimproved land which generally consists of larger acreage sales rather than single lot sales and are normally completed with very little capital investment prior to sale.   Rural residential lot sales generally require some capital improvements such as zoning, road building, or utility access improvements prior to completing the sale. Commercial and residential plat land sales represent land sold after development rights have been obtained and are generally sold with certain infrastructure improvements.

Revenue and operating income (loss) for the Real Estate segment for the quarters ended September 30, 2010 and 2009 were as follows:

($ Thousands) Quarter Ended	Revenue	Operating income (loss)
September 30, 2010	**$ 328**	**$ (498)**
September 30, 2009	3,714	2,714

Real estate revenue and gross margin detail for the quarters ended September 30, 2010 and 2009 is displayed in the table below:

For the three months ended:	Thousands				
Description	Revenue	Gross margin	Acres sold	Revenue per acre	Gross margin per acre
Rentals	**$ 319**	**$ 319**	**NA**		
Other	**9**	**6**	**NA**		
September 30, 2010 Total	**$ 328**	**$ 325**	**NA**		
Conservation easement	$ 3,298	$ 3,108	2,290	$ 1,440	$ 1,357
Rentals	400	400	NA		
Other	16	12	NA		
September 30, 2009 Total	$ 3,714	$ 3,520	2,290		

Comparing Q3 2010 to Q3 2009. In the absence of land sales, revenue in the third quarter of 2010 for the Real Estate segment consisted primarily of residential and commercial property rents compared to a 2,290-acre conservation easement sale on our Hood Canal tree farm during the same period in 2009. Revenue was further lowered in the third quarter of 2010 versus the comparable period in 2009 as a result of a reduction in commercial rental revenue. The millsite at Port Gamble had been leased in 2009 to the Washington State Department of Transportation (WSDOT) in support of a long-term project to replace a portion of the Hood Canal Bridge. This lease ended late in 2009 resulting in a decline in commerc ial lease revenue.

Revenue and operating income (loss) for the Real Estate segment for the nine-month periods ended September 30, 2010 and 2009 were as follows:

($ Thousands) Nine Months Ended	Revenue	Operating income (loss)
September 30, 2010	**$ 808**	**$ (2,120)**
September 30, 2009	4,573	2,061

Real estate revenue and gross margin detail for the nine-month periods ended September 30, 2010 and 2009 is displayed in the table below:

For the nine months ended:	Thousands				
Description	Revenue	Gross margin	Acres sold	Revenue per acre	Gross margin per acre
Rentals	**$ 767**	**$ 767**	**NA**		
Other	**41**	**35**	**NA**		
September 30, 2010 Total	**$ 808**	**$ 802**	**NA**		
Conservation easement	$ 3,298	$ 3,108	2,290	$ 1,440	$ 1,357
Rural residential	296	138	29	10,207	4,759
Rentals	949	948	NA		
Other	30	25	NA		
September 30, 2009 Total	$ 4,573	$ 4,219	2,319		

Comparing YTD 2010 to YTD 2009. Revenue for the Real Estate segment declined in the first nine months of 2010 compared to the same period in 2009 due to the absence of a 2010 counterpart to the 2009 conservation easement and rural residential land sales, and the termination in 2009 of the WSDOT commercial lease. Operating loss in the first nine months of 2010 increased $4.2 million over the operating income for the nine months ended September 30, 2009. This is due in large part to the $563,000 increase to the environmental remediation accrual mentioned in Note 12 to the financial statements and the absence of 2010 counterparts to 2009's conservation easement and other land sales.

Cost of Sales

Real Estate cost of sales for the quarter and nine months ended September 30, 2010 was $3,000 and $6,000, respectively. Real Estate cost of sales for the quarter and nine months ended September 30, 2009 was $194,000 and $354,000, respectively. Cost of sales for these periods represents costs incurred on sales of rural residential lots and consists of the historical cost basis of the land sold, commissions, taxes, and title fees. The cost basis of our land varies widely since most of our land has been continuously owned by us for decades while other portions of our land portfolio have been acquired within the last few years or have undergone some level of improvement prior to sale. As a result, gross margin generated from a land sale will often vary dramatically between different transactions.

Operating Expenses

At $823,000, Real Estate operating expenses for the quarter ended September 30, 2010 increased $17,000, or 2%, over the segment's operating expenses for the same period in 2009. Operating expenses for the first nine months of 2010 were $2.4 million, excluding environmental remediation expense, versus $2.2 million for comparable period of 2009 due to an increase in property taxes following the cessation of capitalizing interest, property taxes and insurance to several long-term development projects.

Environmental Remediation

In response to suggested changes in remediation alternatives outlined in a draft Sawmill Site Feasibility Study Report for Port Gamble, we added $563,000 to the environmental remediation liability during the second quarter of 2010. This resulted in an increase in operating loss in the real estate segment for the nine months ended September 30, 2010. During the third quarter of 2010, we added $5,000 to the environmental remediation liability in connection with the Port Ludlow Resort Community for agreed-upon investigative costs to be paid by the Partnership.

Basis in Real Estate Projects

"Land Held for Development" on our Condensed Consolidated Balance Sheet represents the Partnership's cost basis in land that has been identified as having greater value as development property rather than as timberland. Our Real Estate segment personnel work with local officials to establish entitlements for further development of these parcels. Costs clearly associated with development or the construction of fully entitled projects are generally capitalized, whereas costs associated with projects that are in the entitlement phase are generally expensed. Those properties that are either for sale, under contract, or the Partnership has an expectation they will sell within the next 12 months, are classified on our balance sheet as a current asset under "Land Held for Sale". During the third quarter, we moved $364,000 from Land Held for Sale under Current Assets into Land Held for Development, which reflects our expectation of continued weakness in the real estate market in 2011.

When facts and circumstances indicate that the carrying value of properties may be impaired, an evaluation of recoverability is performed by comparing the currently recorded carrying value of such property or properties to the projected future undiscounted cash flows of the same property or properties. If it is determined that the carrying value of such assets may not be fully recoverable, we would recognize an impairment loss, adjusting for changes in estimated fair market value, and would charge this amount against current operations. We have continuously owned most of our land for decades. As a result, the land basis associated with most of our development properties is well below even the weakened current market values prevalent today. As such, we do not anticipate an asset impairment charge on our developmen t projects.

Environmental Remediation

The environmental remediation liability represents estimated payments to be made to monitor and remedy certain areas in and around the townsite and millsite of Port Gamble, Washington. P&T operated a sawmill at Port Gamble from 1853 to 1995. Starting in 2002, management worked both directly and indirectly through P&T to remedy environmental contamination at the townsite and millsite and to monitor results of the cleanup efforts. After contamination was discovered at the townsite, millsite, and in the adjacent bay, the Partnership entered into a settlement and remediation agreement with P&T pursuant to which both parties allocated responsibility for cleanup costs. Under Washington State law, both Pope Resources and P&T were "potentially liable persons" based on historic ownership and/or operation of the site. These laws provide for joint and several liability among parties owning or operating property on which contamination occurs, meaning that cleanup costs can be assessed against any or all such parties. Following a series of actions under the U.S. Bankruptcy Code that began in 2007, P&T has been liquidated, leaving the Partnership as one of few potentially liable persons.

Review of the draft Sawmill Site Feasibility Study Report by the Washington State Department of Ecology (Ecology) and certain other stakeholders was delayed during the third quarter of 2010. We estimate this delay will further defer the Cleanup Action Process by at least a quarter. The Monte-Carlo simulation model by which we estimate this liability indicated a range of potential liability from $463,000 to $3.3 million compared to a range of $145,000 to $2.9 million the last time we ran this model at December 31, 2009. This represents a two-standard-deviation range from the mean of possible outcomes generated by the modeling process used to estimate this liability. The environmental liability at September 30, 2010 is comprised of $119,000 that the Partnership expects to expend in the next 12 months and $1 .5 million thereafter.

In 2001, the Partnership sold a resort community and its water and sewer utilities in the community of Port Ludlow. The buyer of the project believes some remediation is required for contamination discovered on a portion of the site and we have agreed to participate in, and to bear a portion of the cost of, an investigation in 2010 regarding any liability the Partnership may have or may be alleged to have. During the quarter, we added $5,000 to the environmental remediation accrual to cover our portion of increased investigative costs. While we have not concluded that we have an obligation to remediate, our September 30, 2010 environmental remediation accrual contains $6,000 which represents the maximum portion of the agreed-upon investigative costs yet to be paid by the Partnership.

Activity in the environmental remediation liability is detailed as follows:

($ Thousands)	Balance at the beginning of the period	Additions to accrual	Expenditures for remediation	Balance at the end of the period
Year ended December 31, 2009	$ 1,554	$ 30	$ 315	$ 1,269
Quarter ended March 31, 2010	1,269	-	84	1,185
Quarter ended June 30, 2010	1,185	563	50	1,698
Quarter ended September 30, 2010	**1,698**	**5**	**56**	**1,647**

General and Administrative (G&A)

G&A expenses for the quarters ended September 30, 2010 and 2009 were $1.0 million and $790,000, respectively. This increase in G&A expense in 2010 is due to development and adoption of a new incentive compensation plan. The accrual for incentive compensation was zero in Q3 2009 versus $121,000 in Q3 2010. In addition, professional fees associated with developing this plan totaled $128,000 during the current quarter. G&A expenses for the first nine months of 2010 were $3.4 million compared to $2.5 million for the first nine months of 2009. This increase includes a "catch-up" accrual of $527,000 relating to the implementation of this same incentive compensation plan and $220,000 of professional service costs related to the development of this plan. These profess ional service costs are not expected to recur in future years. The plan is expected to reflect performance beginning in 2010 but, because it includes a three-year performance period, the accrual includes projected payouts for portions of three different three-year performance cycles beginning in 2008. Payments under this plan are expected to be made in the first quarter of 2011 based upon the Partnership's relative total shareholder return compared to a group of peer companies over the previous three-year period.

Interest Income and Expense

Interest income for the quarter ended September 30, 2010 was $30,000 compared to $35,000 for the corresponding period of 2009. For the nine months ended September 30, 2010 interest income decreased to $91,000 from $167,000 in the prior year. The decrease in interest income is due to lower cash and investment balances and a decline in average interest rates earned on the portfolio.

Interest expense for the three-month periods ended September 30, 2010 and 2009 was $493,000 and $555,000, respectively. This decline results from a drop in the Partnership's weighted average cost of debt to 5.7% for the third quarter of 2010 compared to approximately 6.1% for the same period in 2009 offset by the additional interest expense of approximately $45,000 from the Fund II timberland mortgage. Interest expense decreased to $1.4 million for the nine months ended September 30, 2010 from $1.8 million from the comparable period in 2009 for the same reasons. The Partnership's debt consists primarily of mortgage debt with fixed interest rates. In April 2010, we paid off an $18.6 million mortgage, with a 7.63% fixed interest rate, one year ahead of its scheduled maturity. This was funded with an advance on our line of credi t at rates between 1.91% and 2.75%. The early retirement of this debt resulted in a $1.2 million debt extinguishment charge. In June 2010, we entered into a new $20.0 million term loan agreement with three tranches of varying maturities and weighted average interest rate of 5.26%. We financed the aforementioned debt extinguishment charge as part of this new term loan and paid our line of credit down to zero.

For the quarter ended September 30, 2010, $142,000 of interest expense was capitalized, primarily to the long-term Gig Harbor development project. A small amount was also capitalized to one other long-term project. In the third quarter of 2009, we capitalized $235,000 of interest expense to the Gig Harbor project and small amounts capitalized to two other long-term projects. For the nine months ended September 30, 2010, capitalized interest declined to $460,000 compared to $853,000 for the comparable period in 2009 primarily due to the aforementioned decline in weighted average cost of debt and to a lesser extent, the cessation of interest capitalization on projects considered substantially complete.

Income Tax

Pope Resources is a limited partnership and is, therefore, not subject to federal income tax. Taxable income/loss is instead reported to unitholders each year on a Form K-1 for inclusion in each unitholder's tax return. Pope Resources does have corporate subsidiaries, however, that are subject to income tax liability.

The Partnership recorded a tax benefit of $37,000 for the quarter ended September 30, 2010. For the third quarter of 2009, the Partnership recorded a $1,000 tax provision. On a year-to-date basis, the benefit from income taxes was $25,000 compared to a tax provision of $6,000 for the periods ended September 30, 2010 and 2009, respectively. The tax benefit results from an expected loss in the corporate subsidiaries in 2010.

Noncontrolling interests-ORM Timber Funds

Noncontrolling interests-ORM Timber Funds represented the 80% portion of the Funds' 2010 net loss attributable to third-party owners of the Funds. The decrease in this amount from second quarter of 2009 is due to the decrease in operating loss of the Funds in 2010 due to commencing harvest on Fund properties in 2010.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements other than immaterial operating leases.

Liquidity and Capital Resources

We ordinarily finance our business activities using funds from operations and, where appropriate in management's assessment, commercial credit arrangements with banks or other financial institutions. Funds generated internally from operations and externally through financing are expected to provide the required resources for the Partnership's future capital expenditures. The Partnership's debt-to-total-capitalization ratio (excluding debt of the Funds) as of September 30, 2010 and December 31, 2009 was 27% and 26%, respectively, calculated as follows:

	9/30/2010			12/31/2009	
Total long-term debt on balance sheet, excluding debt of the Funds	29,800		(a)	29,363	
Divided by the sum of:					
Partners' capital on balance sheet	82,310			83,126	
Total long-term debt on balance sheet, including current portion	29,800			29,363	
	112,110		(b)	112,489	
Debt-to-total-capitalization ratio	27	%	(a)/(b)	26	%

As of September 30, 2010 and December 31, 2009, the Partnership fixed-rate debt outstanding, excluding debt of the Funds, had a fair value of approximately $33.1 million and $30.4 million, respectively.

The Partnership's debt agreements have covenants which are measured quarterly. Among the covenants measured, is a requirement that the Partnership not exceed a maximum debt-to-total-capitalization ratio of 30%, with total capitalization calculated using fair market value of timberland. The Partnership is in compliance with this covenant as of September 30, 2010 and expects to remain in compliance for at least the next twelve months. As such, all long-term debt agreements are appropriately classified on the balance sheet.

On April 16, 2010 we used existing cash balances along with proceeds from our operating line of credit to retire the $18.6 million, 7.63% timberland mortgage due in April 2011 held by JHLIC. The early retirement of this mortgage triggered $1.2 million of debt extinguishment costs. In June 2010, we entered into a new $20.0 million term loan agreement with the NWFCS. The new term loan is comprised of three tranches of varying maturities and weighted average interest rate of 5.26%. In addition to paying off the old loan held by JHLIC, proceeds from the new loan were used to finance the aforementioned debt extinguishment charge and add approximately $200,000 to working capital.

In connection with the new term loan, we elected to extend the Partnership's revolving line of credit with NWFCS from August 2011 to August 2013 and to reduce the maximum borrowing limit from $35 million to $20 million. The line of credit had no amounts owing until the aforementioned draw in April and was returned to a zero balance prior to September 30, 2010. This unsecured revolving loan agreement has a debt covenant that requires maintenance of a maximum debt-to-total-capitalization ratio of 30% that the Partnership passed at September 30, 2010. The interest rate under this credit facility uses LIBOR as a benchmark. The spread above the benchmark rate is variable depending on the interest coverage ratio but ranges from 225 to 325 basis points.

Simultaneous with a timberland acquisition during the third quarter of 2010, Fund II closed on an $11 million timberland mortgage with MetLife. The mortgage is a non-amortizing 10-year loan with an interest rate of 4.85%. The agreement allows for, but does not require, annual principal payments of up to 10% without incurring a make-whole premium.

For the nine months ended September 30, 2010, overall cash and cash equivalents decreased $3.7 million versus an increase of $19.7 million for the corresponding period in the prior year. Late in the third quarter of 2009, Fund II called $27 million of capital in advance of an October acquisition, driving up the September 30, 2009 ending cash balance. The $23.4 million variance in cash flow for the nine-month periods ended September 30, 2010 to September 30, 2009 is due primarily to the following:

Change from September 30, 2010 to September 30, 2009 ($ thousands)	*Amount*
Increase in cash provided by operations	$ 5,497
Timberland acquisitions	(56,279)
Proceeds from Fund II capital call	11,355
Issuance of long-term debt, net of principal payments	11,269
Partnership units repurchased	1,469
Liquidation of auction rate securities portfolio in 2010	1,472
Cash from option exercises	573
Decrease in unitholder distributions ($0.45/unit in 2010 from $0.60/unit in 2009)	681
Other	563
Total	$ (23,400)

Cash provided by operating activities was $5.3 million for the nine months ended September 30, 2010 versus cash used in operations of $191,000 for the corresponding period in 2009. The increase in cash provided by operating activities primarily results from a 19.7 MMBF increase in timber volume harvested in the first nine months of 2010 versus 2009.

Cash used in investing activities was $57.3 million for the first nine months of 2010 versus cash used in investing activities of $2.8 million for the corresponding period in 2009. The increase in cash used in financing activities is due primarily to the Fund II timberland acquisitions in the third quarter of 2010.

Capital expenditures for the first nine months of 2010 consisted of the following:

(Thousands) **For the nine months ended:**	**September 30, 2010**	
Capitalized interest:		
Gig Harbor	$ 411	
Kingston	30	
Port Ludlow	19	
Total capitalized interest		460
Capitalized development projects:		
Gig Harbor	223	
Kingston	30	
Port Ludlow	30	
Bremerton-reimbursement	(21)	
Other sites	21	
Capitalized development projects before capitalized interest		283
Total capitalized development costs		743
Port Gamble capital improvements		138
Reforestation and roads		339
Miscellaneous		97
Total capital expenditures		$ 1,317

Cash provided by financing activities increased to $48.3 million for the first nine months of 2010 from $22.7 million for the comparable period in prior year. This increase is due primarily to the issuance of long-term debt and an increase in Fund II capital calls.

Seasonality

Fee Timber. The Partnership owns 114,000 acres of timberland in western Washington and the Funds own collectively 61,000 acres of timberland in western Washington and western Oregon. We are able to conduct year-round harvest activities on the Hood Canal tree farm and 12,000 acres of the Funds' properties because these properties are concentrated at low elevations. Generally, we concentrate our harvests from the Hood Canal tree farm in the winter and spring when supply, and thus competition, is typically lower and, accordingly, when we can expect to receive higher prices. With the acquisition of the Columbia tree farm in 2001, management expected a decrease in the seasonality of Fee Timber operations as the C olumbia tree farm and a portion of the timberlands owned by the Funds are at higher elevations where harvest activities are generally not possible during the winter months when snow precludes access to the lands. This year's mild winter in western Washington enabled a level of first quarter operating activity on the Columbia tree farm that we do not typically enjoy.

Timberland Management & Consulting. Management revenue generated by this segment is made up of asset management and timberland management fees. These fees, which primarily relate to management of the Funds, and are eliminated in consolidation, vary based upon the amount of capital managed, the number of acres managed, and the volume of timber harvested from properties owned by the Funds and are not expected to be significantly seasonal.

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

Capital Expenditures and Commitments

Projected capital expenditures for the full year 2010 will approximate $2.3 million. Projected capital expenditures for the remainder of 2010 are $972,000 and are currently expected to include the following:

(Thousands) **Projected capital expenditures**		**Q4 2010**
Capitalized interest:		
Gig Harbor	$ 107	
Port Ludlow	8	
Total capitalized interest		115
Capitalized development projects:		
Gig Harbor	353	
Port Ludlow	11	
Other sites	84	
Capitalized development projects before capitalized interest		448
Total capitalized development costs		563
Port Gamble capital improvements		33
Reforestation and roads		306
General and Adminstrative projects		70
Total capital expenditures		$ 972

These expenditures could be increased or decreased as a result of future economic conditions. Projected capital expenditures are subject to permitting timetables and progress towards closing on specific land sale transactions.

ACCOUNTING MATTERS

Fund II Issuance of Preferred Stock

During the nine months ended September 30, 2010, Fund II, a consolidated subsidiary of the Partnership, issued 125 par $0.01 shares of its 12.5% Series A Cumulative Non-Voting Preferred Stock (Series A Preferred Stock) at $1,000 per share for total proceeds of $125,000. Each holder of the Series A Preferred Stock is entitled to a liquidation preference of $1,000 per share. Dividends on each share of Series A Preferred Stock will accrue on a daily basis at the rate of 12.5% per annum. Upon redemption, the Series A Preferred Shares will be settled in cash and are not convertible into any other class or series of shares or Partnership units. Redemption timing is controlled by Fund II. The maximum amount that the consolidated subsidiary could be required to pay to redeem the instruments upon settlement is $125,000 plus accrued but unpaid dividends. The Series A Preferred Stock is recorded within noncontrolling interests on the consolidated balance sheet and are considered participating securities for purposes of calculating earnings per share.

Critical Accounting Policies and Estimates

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

In March 2010, the Patient Protection and Affordable Care Act and the Health Care and Education Act of 2010 (the “Acts”) became law. Based on our preliminary review, the Acts do not appear to create any substantial, immediate costs. Because we do not subsidize our retiree medical plans and do not provide retirees with post-65 medical coverage, the elimination of the tax deduction related to the Medicare Part D subsidy in the Patient Protection and Affordable Care Act will not impact our financial statements. We are continuing to evaluate the impact, if any, of the Acts on our financial position and results of operations. Given the scope and complexity of the legislation and the fact that extensive implementing regulations remain to be promulgated, it is difficult to predict future impacts of t he passage of this legislation.

For a further discussion of our critical accounting policies and estimates see Accounting Matters in the Management Discussion and Analysis section of our Annual Report on Form 10-K for the year ended December 31, 2009.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

As of September 30, 2010, the consolidated fixed-rate debt outstanding had a fair value of approximately $44.3 million based on the current interest rates for similar financial instruments. A change in the interest rate on fixed-rate debt will affect the fair value of the debt, whereas a change in the interest rate on variable-rate debt will affect interest expense and cash flows. A hypothetical 1% change in prevailing interest rates would change the fair value of the Partnership's fixed-rate long-term debt obligations by $2.1 million. We are not subject to material foreign currency risk, derivative risk, or similar uncertainties.

ITEM 4. CONTROLS AND PROCEDURES

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

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

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

PART II- OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

ITEM 1A. RISK FACTORS

Our business is subject to a number of risks and uncertainties, any one or more of which could impact our operating results and financial condition materially and adversely. Some of these risks are discussed in greater detail below, arranged according to business segment. In addition, we face a number of risks that affect our business generally. We compete against much larger companies in each of our business segments. These larger competitors may have access to larger amounts of capital and significantly greater economies of scale. Land ownership carries with it the risk of incurring liabilities due to accidents that take place on the land and previously undiscovered environmental contamination. The Partnership endeavors to maintain adequate accruals to reflect the cost of remediating known environmental contamination and other liabilit ies resulting from land ownership. However these estimates may prove to be inadequate as additional information is discovered. A more thorough discussion of these and other risks and uncertainties that may affect our business is contained in the Annual Report on Form 10-K for the fiscal year ended December 31, 2009, and from time to time in our various other filings with the Securities and Exchange Commission. Readers should review these risks in deciding whether to invest in Partnership units, and should recognize that those factors are not an exhaustive list of risks that could cause us to deviate from management's plans or expectations. Readers also are cautioned that, in reviewing these risk factors, the factors contained in this report and in our other SEC filings are effective as of the date the filing was made, and we cannot undertake to update those disclosures.

Fee Timber

Fee Timber revenue is generated primarily through the sale of softwood logs to both domestic mills and third-party intermediaries that resell to the export market. The domestic market for logs in the Puget Sound region of Washington State has been impacted by imported lumber from Canada and decreased demand for lumber as engineered wood products have gained market acceptance in the U.S. These factors have had the effect of concentrating mill ownership with larger mill operators and decreasing the number of mills operating in the Puget Sound region. If this trend continues, decreases in local demand for logs may decrease our profitability. Over the last few years the Partnership has seen the price of logs erode in the Japanese market as competing logs and lumber from regions outside of the U.S. and engineered wood products have gradually gained market acceptance. These export markets for Pacific Northwest logs are significantly affected by fluctuations in U.S. and other Pacific Rim economies, as well as by the relative strength of the U.S. dollar. Moreover, during periods in which we sell a greater volume of logs into foreign markets, such as China, Korea and Japan, we may face greater exposure to risks associated with foreign governmental laws and regulations, a reduction in volumes of higher-value logs, and other risks associated with significant offshore operations.

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

Timberland Management & Consulting

Management is working to expand our fee-for-service business through the expansion of the timber fund business, which includes the primary source of revenue within our Timberland Management & Consulting segment. To date we have acquired timberlands on behalf of the Funds, including full deployment of Fund I and, beginning in October 2009, nearly full deployment of Fund II. Unlike other components of our business, which relate solely or primarily to real estate and timber operations, this line of business carries risks relating to the offer and sale of securities, and to the management of investment operations. Among other risks, this line of business includes potential liability to investors if we are determined to have made material misstatements or omissions to those investors, potential accusations that we have breached fiduciary duties to other limited partners, and similar types of investor action. Moreover, litigation of shareholder-related matters can be expensive and time consuming, and if brought, would likely distract management from their focus on ordinary operating activities.

Real Estate

Similar to our Fee Timber business, real estate markets are keenly sensitive to the diminished housing market and tightened credit markets. In a contracted housing and credit market, such as the one we are currently experiencing, the demand for real estate declines with a resultant drop in sales. The value of our real estate investments is subject to changes in the economic and regulatory environment, as well as various land use regulations and development risks, including the ability to obtain the necessary permits and zoning variances that would allow us to maximize our revenue from our real estate investments. Our real estate investments are long-term in nature, which raises the risk that unforeseen changes in the economy or laws surrounding development activities may have an adverse aff ect on our investments. Moreover, these investments often are highly illiquid and thus may not generate cash flow if and when needed to support our other operations.

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

(a) – (e) None

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

(a) None

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

ITEM 6. EXHIBITS

Exhibits.

31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a).

31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a).

32.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350 (furnished with this report in accordance with SEC Rel. No. 33-8238).

32.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(b) and 18 U.S.C. Section 1350 (furnished with this report in accordance with SEC Rel. No. 33-8238).

32.3 Incentive Compensation Program Summary

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 5, 2010.

POPE RESOURCES,
A Delaware Limited Partnership

By: POPE MGP, Inc.
Managing General Partner

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

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

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, David L. Nunes, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 5, 2010

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

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Thomas M. Ringo, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 5, 2010

/s/ Thomas M. Ringo
Thomas M. Ringo
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, 2010, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David L. Nunes, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company as of, and for, the periods presented in the Report.

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

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

November 5, 2010

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, 2010, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Thomas M. Ringo, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company as of, and for, the periods presented in the Report.

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

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

November 5, 2010

POPE RESOURCES
INCENTIVE COMPENSATION PROGRAM SUMMARY
October 2010

GENERAL PROGRAM INFORMATION

In 2010 Pope Resources ("POPE") implemented a new incentive compensation program (the "Program") to reward selected management employees who provide services to POPE and certain related entities for performance that builds long-term unitholder value. While POPE had a previous incentive compensation program that was also focused on building long-term unitholder value, this new Program improves both transparency and alignment with POPE's unitholders, while simplifying the administration of the Program.

POPE's Managing General Partner, Pope MGP, Inc. (the "General Partner"), intends that the Program be continuing and permanent for participants but can suspend and or terminate the Program at any time, as long as previously earned awards are not forfeited. The Human Resources Committee of the Board of Directors of the General Partner (the "HR Committee") will act as the manager of the Program and, as such, has the authority, in its discretion, to determine all matters relating to Awards to be granted hereunder. With respect to the Program, the HR Committee has the sole authority to interpret its provisions and any applicable rule or regulation. The HR Committee's interpretation shall be conclusive and binding on all interested p arties. It is anticipated that the HR Committee will present Awards to participants in individualized annual letters that spell out POPE's obligations and participant's rights under the Award. Subsequent to the grant of any Award, however, the HR Committee may not unilaterally modify any of a participant's rights under previously tendered Award letters, except as spelled out in the Award letter.

The Program has two components – the Performance Restricted Unit ("PRU") plan and the Long-Term Incentive Plan ("LTIP"). Both components have a long-term emphasis, with the PRU plan focused on annual decision making and performance, and the LTIP focused on 3-year performance of POPE's publicly traded units relative to a group of peer companies to be determined at the beginning of each plan cycle. The Program was developed after considerable deliberation by the HR Committee and its compensation consultant. This Program is unusual in its exclusive emphasis on long-term decision making. The HR Committee believes this focus is appropriate for the nature of POPE's assets and for strengthening the alignment with unitholders. Each of these two Program components is described in more detail below. Participants in the Program may obtain additional information about the Program from either POPE's CEO or CFO.

PERFORMANCE RESTRICTED UNIT PLAN ("PRU")

Key Design Features of PRU

- The sum of target awards for participants will form a target award pool with the initial target awards (starting in 2010) set at:
  - 6,000 PRU's for the CEO
  - 20,000 PRU's for all other plan participants combined
  - The pool may be adjusted upward or downward if participants move in or out of the plan during the year

- PRU targets will generally be held constant over time, and recalibrated only infrequently based on significant capital or talent market changes
- Most participants will earn 100% of PRU targets most years, however, participants will earn:
  - 0% when a notable negative situation occurs due to either:
    - Poor decisions and/or performance which leave POPE vulnerable to erosion of long-term value (internal factors), or
    - Financial challenges, despite good decisions, that put POPE in a vulnerable position (external factors)
  - Up to 200% only when exceptional value has been added, which is directly attributable to game-changing ideas generated and/or implemented by an individual or group of individuals

Mechanics of the PRU

- Immediately following the end of each year:
  - The HR Committee will determine:
    - The size of the PRU pool based on their assessment of the quality of decision-making and performance for the year
    - If there are any game changer events that merit a special award for either individuals or groups and, if so, decide who to make awards to and in what amount and form (up to 1x each individual's target PRU grant paid either in POPE units or cash)
  - Each participant's award is converted into a value based on a 60-trading-day (ending at December 31) average POPE unit price with actual award values fluctuating from year to year with the unit price
- Some participants will receive their payout entirely in POPE restricted units, some entirely in cash and others a blend of the two with the mix predetermined by participant position
- PRUs that are paid in POPE units will vest 25% per year over 4 years
- For PRUs paid in POPE units, a grant agreement executed by POPE and the participant will set forth the terms and conditions of vesting

Specific drivers of PRU grants by business unit

The determination of PRU grants to individuals within each business unit will reference different metrics for gauging performance across POPE's business lines. The following is a summary of those key metrics grouped by business unit:

Corporate Increase in net asset value, debt-to-total-capital ratio, working capital optimization, growth in distributions, profit, and free cash flow.

Fee Timber Allowable cut, stumpage realizations ($ per MBF), cost/MBF harvested (harvest, haul and other), SFI audit results, and segment free cash flow.

TM&C Total committed (and not placed) capital at end of year, capital placed during year, cumulative assets under management, IRR of funds, and operating income for segment.

Real Estate Estimated impact of entitlements and/or land improvements on market value, sales price as a percent of book value, and segment free cash flow.

Participants in the PRU

Participants in the PRU include the following: CEO and direct management reports, Tree Farm Managers, Acquisitions Manager, Planning Manager, Investment Analyst, VP OPG, Gig Harbor and Port Gamble Project Managers, Port Gamble Property Manager, Controller, Financial Reporting Manager, and IT Manager. As titles and/or job descriptions change, this list of participants may be modified by the HR Committee.

3-YEAR CASH LONG-TERM INCENTIVE PLAN ("LTIP")

Key Design Features of the LTIP

- POPE's total shareholder return (TSR) is calculated for rolling 3-year increments starting with the period 2008 – 2010 and each succeeding year the TSR for POPE is calculated for the next 3-year period (2009 - 2011, 2010 – 2012, et seq.)
- Essentially, TSR is a computation that measures unit price appreciation over the relevant return period (in this case, three years) and factors in unitholder distributions as an additional component of return
- The beginning and end-of-period unit price used to calculate POPE's TSR is a 60-trading-day average unit price as of each of those dates
- POPE's TSR is then compared to the TSR's of a group of "peer" companies, identified at the beginning of each performance cycle, for the same period, each calculated in the same way as POPE, using a 60-trading-day average share price as of the beginning and end of the period
- The peer companies for the 2008-10 2009-11 and 2010-12 periods (with trading symbols so indicated) include a mix of timber REITs, other forest products, real estate, agriculture, and metals & mining as detailed below:

Forest Products	**Real Estate**	**Agriculture**	**Metals & Mining**
Deltic (DEL)	Amer. Realty Inv. (ARL)	Alico (ALCO)	China Direct (CDII)
Plum Creek (PCL)	Amer. Spectrum (AQQ)	Griffin Land (GRIF)	Jaguar Mining (JAG)
Potlatch (PCH)	Avatar Holdings (AVTR)	Limoneira (LMNR)	Royal Gold (RGLD)
Rayonier (RYN)	EastGroup Properties (EGP)		
St. Joe (JOE)	First Potomac (FPO)		
Weyerhaeuser (WY)	InterGroup Corp. (INTG)		
	Maui Land & Pineapple (MLP)		
	Monmouth RE Investment (MNR)		
	NTS Realty (NLP)		
	Tejon Ranch (TRC)		
	Thomas Properties Group (TPGI)		

- POPE's TSR is expressed as a percentile of the range of TSRs within the other peer companies with "target performance level" pegged at the 50th percentile
- At target performance (50th percentile) the LTIP award payout is 100% of target
- Maximum LTIP award payout of 200% of target for any single 3-year performance period is reached if POPE's relative TSR is at the 80th percentile or higher
- Below the 20th percentile, there is no LTIP award payout
- If POPE's relative TSR ranking vs. the peer group is between the 20th and 80th percentiles, the award payout is derived by interpolation between discrete points on the 0-200% of target payout
- The target LTIP award for each year is expressed in a cash amount that varies by participant
- Awards, if performance warrants, will be paid out in cash early in the year following the close of each 3-year performance cycle
- Award levels may be altered by +/- 20% at the discretion of the HR Committee

Participants in the LTIP
Participation in the LTIP is comprised of the CEO and his direct management reports.

PARTICPANTS ENTERING AND EXITING THE PRU AND THE LTIP

The following table outlines the treatment for varying entries and exits to the incentive plans.

Situation	PRU [(1)]	LTIP
General conditions for awards	Participant needs to be employed by POPE through the last day of the calendar year and be an employee in good standing in order to receive an award (except as provided below)	Participant needs to be employed by POPE through the last day of the performance cycle and be an employee in good standing in order to receive an award (except as provided below)
New hire	- If person joins prior to September 30, participant receives a pro-rated annual PRU award opportunity - If person joins after September 30, participant receives PRU award opportunity when next year begins	- If person joins prior to September 30, participant receives a pro-rated award opportunity for percentage of year employed for current cycle - If person joins after September 30, participant will receive an award opportunity for cycle which begins in following year (2)
Promotion into plan	Same as new hire	Same as new hire
Demotion out of plan	HR Committee may make a downward adjustment to annual PRU award on a subjective basis at year-end	Participant's cash opportunity is pro-rated for time in eligible position
Termination for normal retirement	PRU award at end of year is pro-rated for time served, with any PRU grant delivered in units vesting immediately upon grant	Participant's cash opportunity is pro-rated for time in performance cycle
Voluntary termination	Participant forfeits PRU award opportunity	Participant forfeits cash opportunity

Involuntary termination for cause (including non-performance)	Participant forfeits PRU award opportunity	Participant forfeits cash opportunity
Change in control (CIC)	- No change if plan is continued and participant is not terminated within one year of the CIC - If plan is discontinued and/or if participant is terminated within one year of the CIC, the participant earns target PRU award and immediately vests in all outstanding PRU grants - No gross ups	- No change if plan is continued and participant is not terminated within one year of the CIC - If plan is discontinued and/or if participant is terminated within one year of the CIC, the participant is paid cash award at accrued performance level at time of termination, prorated for length of cycle completed - No gross ups
Leave of absence	PRU grant can be prorated for time on leave during each year at discretion of HR Committee or CEO	Participant's cash opportunity is prorated for time on leave during cycle, as long as participant is in cycle for at least two of the three years; otherwise forfeited
Death	Prorated PRU award is paid to estate at time of death, based on most recent quarter-end unit price	Prorated cash award is paid to estate at time of death, based on accrued relative TSR performance through most recently competed quarter
Termination due to permanent disability	-Prorated PRU award paid based on year-end unit price - Payout occurs at normal time at end of year	-Participant's cash opportunity is prorated for time served during cycle - Payout occurs at normal time at end of cycle

(1) Once PRUs are granted, any grants of restricted units will vest 25% per year on the anniversary date of the grant

(2) In select situation, RUs may be granted as part of recruitment package to recognize that participant will only be eligible for performance cycles that begin in the year of hire

FEDERAL INCOME TAX CONSEQUENCES

As discussed above, Awards paid under the Program may be in the form of cash and/or POPE units. Cash awards are taxable upon receipt and the participant's employer will withhold the appropriate taxes from any cash compensation so due.

Grants of POPE units as part of the PRU will be subject to a vesting schedule and, as such, the tax consequences are delayed until the units vest, at which time the fair market value of the vested units (determined at the time of vesting) constitutes taxable income to the recipient. The HR Committee will institute procedures to ensure that sufficient funds are available for POPE (or the participant's employer) to satisfy its tax withholding obligations.

Recipients of unit grants will receive distributions paid by POPE in connection with the units. Distributions paid in connection with unvested units will be paid to the participant and treated as compensation, taxed at ordinary income rates and subject to income tax withholding. When the participant satisfies the applicable vesting schedule, from that point forward distributions in connection with the units will have the same treatment as that afforded to other limited partners receiving distributions.

CLAWBACKS

The HR Committee acknowledges that POPE's incentive compensation program will be subject to the clawback provisions of the recently passed Dodd-Frank Act. Given the current uncertainty about how the provisions of the Dodd-Frank Act will be applied and interpreted, the Committee elects to wait and define how it will administer clawback provisions until such time as there is greater clarity around this subject. In the meantime, the HR Committee reserves the right and option to require the return of incentive compensation paid pursuant to this program in any instances of employee misconduct or a restatement of the company financial reports affecting the calculation of the payout amounts and whenever the Committee determines, in its discretion and judgment, that clawback of prior payments is appropriate, just, and equitable under the circumstances.