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, 2017

OR

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

Commission File Number **1-9035**

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

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

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

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

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

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

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

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

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

Partnership units outstanding at October 31, 2017: 4,356,049

Pope Resources
Index to Form 10-Q Filing
For the Nine Months Ended September 30, 2017

PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)
Pope Resources, a Delaware Limited Partnership
September 30, 2017 and December 31, 2016
(in thousands)

	2017	2016
ASSETS		
Current assets		
Partnership cash	**$ 1,345**	$ 1,871
ORM Timber Funds cash	**2,960**	1,066
Cash	**4,305**	2,937
Accounts receivable, net	**4,027**	4,381
Land and timber held for sale	**9,513**	20,503
Prepaid expenses and other current assets	**482**	4,385
Total current assets	**18,327**	32,206
Properties and equipment, at cost		
Timber and roads, net of accumulated depletion (2017 - $123,239; 2016 - $110,533)	**272,829**	279,793
Timberland	**55,131**	54,369
Land held for development	**25,965**	24,390
Buildings and equipment, net of accumulated depreciation (2017 - $8,038; 2016 - $7,713)	**5,396**	5,628
Total property and equipment, at cost	**359,321**	364,180
Other assets		
Deferred tax and other assets	**1,134**	2,664
Total assets	**$ 378,782**	$ 399,050
LIABILITIES, PARTNERS' CAPITAL AND NONCONTROLLING INTERESTS		
Current liabilities		
Accounts payable	**$ 1,498**	$ 2,620
Accrued liabilities	**3,513**	3,843
Current portion of long-term debt	**122**	5,119
Deferred revenue	**254**	418
Current portion of environmental remediation liability	**3,419**	8,650
Other current liabilities	**502**	398
Total current liabilities	**9,308**	21,048
Long-term debt, net of unamortized debt issuance costs and current portion	**140,142**	125,291
Environmental remediation and other long-term liabilities	**3,287**	4,247
Partners' capital and noncontrolling interests		
General partners' capital (units issued and outstanding 2017 - 60; 2016 - 60)	**891**	934
Limited partners' capital (units issued and outstanding 2017 - 4,260; 2016 - 4,255)	**54,472**	58,199
Noncontrolling interests	**170,682**	189,331
Total partners' capital and noncontrolling interests	**226,045**	248,464
Total liabilities, partners' capital and noncontrolling interests	**$ 378,782**	$ 399,050

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)
Pope Resources, a Delaware Limited Partnership
For the Three and Nine Months Ended September 30, 2017 and 2016
(in thousands, except per unit data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	**2017**	2016
Revenue	**$ 18,803**	$ 13,178	**$ 52,039**	$ 36,960
Cost of sales	**(11,388)**	(6,211)	**(31,568)**	(20,822)
Operating expenses	**(4,520)**	(3,831)	**(13,296)**	(11,245)
General and administrative expenses	**(1,134)**	(1,151)	**(4,240)**	(3,814)
Gain on sale of timberland	**44**	—	**12,547**	226
Income from operations	**1,805**	1,985	**15,482**	1,305
Interest expense, net	**(1,179)**	(953)	**(3,306)**	(2,358)
Income (loss) before income taxes	**626**	1,032	**12,176**	(1,053)
Income tax expense	**(46)**	(116)	**(105)**	(166)
Net income (loss)	**580**	916	**12,071**	(1,219)
Net and comprehensive (income) loss attributable to noncontrolling interests - ORM Timber Funds	**1,078**	1,054	**(6,885)**	2,590
Net and comprehensive income attributable to unitholders	**$ 1,658**	$ 1,970	**$ 5,186**	$ 1,371
Allocable to general partners	**$ 23**	$ 27	**$ 72**	$ 19
Allocable to limited partners	**1,635**	1,943	**5,114**	1,352
Net and comprehensive income attributable to unitholders	**$ 1,658**	$ 1,970	**$ 5,186**	$ 1,371
Basic and diluted earnings per unit attributable to unitholders	**$ 0.38**	$ 0.45	**$ 1.17**	$ 0.30
Basic and diluted weighted average units outstanding	**4,324**	4,312	**4,325**	4,312
Distributions per unit	**$ 0.70**	$ 0.70	**$ 2.10**	$ 2.10

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF PARTNERS' CAPITAL AND NONCONTROLLING INTERESTS (Unaudited)
Pope Resources, a Delaware Limited Partnership
Nine Months Ended September 30, 2017
(in thousands)

	Attributable to Pope Resources			
	General Partners	Limited Partners	Noncontrolling Interests	Total
December 31, 2016	$ 934	$ 58,199	$ 189,331	$ 248,464
Net income	72	5,114	6,885	12,071
Cash distributions	(127)	(9,041)	(26,359)	(35,527)
Capital call	—	—	825	825
Equity-based compensation	13	937	—	950
Units issued under Distribution Reinvestment Plan	—	4	—	4
Unit repurchases	—	(648)	—	(648)
Payroll taxes paid on unit net settlements	(1)	(93)	—	(94)
September 30, 2017	$ 891	$ 54,472	$ 170,682	$ 226,045

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, 2017 and 2016 (in thousands)

	2017	2016
Net income (loss)	**$ 12,071**	$ (1,219)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities		
Depletion	**12,737**	6,101
Equity-based compensation	**950**	756
Depreciation and amortization	**393**	554
Deferred taxes and other	**10**	49
Cost of land sold	**1,970**	1,139
Gain on sale of timberland - Funds	**(12,547)**	(226)
Gain on disposal of property and equipment	**(3)**	(24)
Cash flows from changes in operating accounts		
Accounts receivable, net	**354**	(18)
Prepaid expenses and other assets	**5,673**	(1,484)
Real estate project expenditures	**(6,496)**	(10,598)
Accounts payable and accrued liabilities	**(1,452)**	1,250
Deferred revenue	**(164)**	(49)
Environmental remediation	**(6,182)**	(5,280)
Other current and long-term liabilities	**94**	92
Net cash provided by (used in) operating activities	**7,408**	(8,957)
Cash flows from investing activities		
Reforestation and roads	**(1,665)**	(1,276)
Capital expenditures	**(162)**	(159)
Proceeds from sale of property and equipment	**30**	—
Investment in unconsolidated real estate joint venture	**(250)**	—
Acquisition of timberland - Partnership	**(4,951)**	(33,324)
Proceeds from sale of timberland - Funds	**26,590**	724
Net cash provided by (used in) investing activities	**19,592**	(34,035)
Cash flows from financing activities		
Line of credit borrowings	**23,000**	20,026
Line of credit repayments	**(8,000)**	(2,700)
Proceeds from issuance of long-term debt	**—**	32,000
Repayment of long-term debt	**(5,088)**	(85)
Debt issuance costs	**(104)**	(163)
Proceeds from units issued under Distribution Reinvestment Plan	**4**	—
Unit repurchases	**(648)**	—
Payroll taxes paid on unit net settlements	**(94)**	(152)
Cash distributions to unitholders	**(9,168)**	(9,133)
Cash distributions - ORM Timber Funds, net of distributions to Partnership	**(26,359)**	(3,053)
Capital call - ORM Timber Funds, net of Partnership contribution	**825**	—
Net cash provided by (used in) financing activities	**(25,632)**	36,740
Net increase (decrease) in cash	**1,368**	(6,252)
Cash at beginning of period	**2,937**	9,706
Cash at end of period	**$ 4,305**	$ 3,454

See accompanying notes to condensed consolidated financial statements.

1. The condensed consolidated balance sheets as of September 30, 2017 and December 31, 2016 and the related condensed consolidated statements of comprehensive income for the three- and nine-month periods, and cash flows for nine-month periods ended September 30, 2017 and 2016, and partners' capital and noncontrolling interests for the nine-month period ended September 30, 2017, have been prepared by Pope Resources, A Delaware Limited Partnership (the "Partnership"), pursuant to the rules and regulations of the Securities and Exchange Commission. The condensed consolidated financial statements are unaudited but, in the opinion of management, reflect all adjustments (consisting only of normal recurring adjustments and accruals) necessary for a fair presentation of the financial position, results of operations and cash flows for the interim periods. The financial information as of December 31, 2016 is derived from the Partnership's audited consolidated financial statements and notes thereto for the year ended December 31, 2016, and should be read in conjunction with such financial statements and notes. The results of operations for the interim periods are not indicative of the results of operations that may be achieved for the entire fiscal year ending December 31, 2017.

2. The financial statements in the Partnership's 2016 annual report on Form 10-K include a summary of significant accounting policies of the Partnership and should be read in conjunction with this Quarterly Report on Form 10-Q.

   On May 28, 2014, the Financial Accounting Standards Board (FASB) issued ASU No. 2014-09, *Revenue from Contracts with Customers*, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective on January 1, 2018. The Partnership will adopt this standard using the cumulative effect transition method applied to uncompleted contracts as of the date of adoption. Under this method, the cumulative effect of initially applying the standard is recorded as an adjustment to partners' capital. For most revenue from the Fee Timber segment, which consists of logs, timber deed sales, and commercial thinning, we expect there will be no change to the timing or amount of revenue recognized because our contracts are legally enforceable, the transaction price is fixed and performance is completed at a point in time, typically when risk of loss and title passes to the customer. We are continuing to assess the effect on our other revenue, which includes primarily royalties from gravel mines and quarries and land use permits. For our Real Estate segment, this new standard may result in accelerating the recognition of revenue for performance obligations that are satisfied over time, which generally consist of construction and landscaping activity in common areas completed after transaction closing. Management does not expect, however, that the impact will be material to the Partnership's financial reporting.

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

   Effective January 1, 2017, the Partnership adopted ASU 2016-09, which simplifies several aspects of accounting for share-based payment transactions, including income tax consequences, award classification, cash flows reporting, and forfeiture rate application. The adoption of this standard did not have a material impact on the Partnership's consolidated financial statements.

3. Prepaid expenses and other current assets included $850,000 held by Internal Revenue Code Section 1031 like-kind exchange intermediaries at December 31, 2016. Deferred tax and other assets included $1.9 million held by like-kind exchange intermediaries at December 31, 2016. There were no amounts held by like-kind exchange intermediaries at September 30, 2017.

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

5. ORM Timber Fund II, Inc. (Fund II), ORM Timber Fund III (REIT) Inc. (Fund III), and ORM Timber Fund IV LLC (Fund IV), collectively "the Funds", were formed by Olympic Resource Management LLC (ORMLLC), a wholly owned subsidiary of the Partnership, for the purpose of raising capital to purchase timberlands. The objective of these Funds is to

generate a return on investments through the acquisition, management, value enhancement, and sale of timberland properties. Each fund is organized to operate for a specific term from the end of its respective investment period; ten years for each of Fund II and Fund III and fifteen years for Fund IV. Fund II and Fund III are scheduled to terminate in March 2021 and December 2025, respectively. Fund IV will terminate on the fifteenth anniversary of its investment period. Fund IV's investment period will end on the earlier of placement of all committed capital or December 31, 2019, subject to certain extension provisions.

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

In January 2017, Fund II closed on the sale of one of its tree farms, located on the Oregon coast, for $26.5 million. The carrying value of this tree farm, consisting of $11.1 million for timber and roads and $2.8 million for land, is reflected in land and timber held for sale on the consolidated balance sheets as of December 31, 2016. The consolidated pretax results generated by this tree farm were losses of $24,000 and $89,000 for the quarter and nine months ended September 30, 2016, respectively, and a gain on sale of $12.5 million for the nine months ended September 30, 2017. The Partnership's share of these pretax results were losses of $5,000 and $18,000 for the quarter and nine months ended September 30, 2016, respectively, and a gain on sale of $2.5 million for the nine months ended September 30, 2017.

The Partnership's condensed consolidated balance sheets include assets and liabilities of the Funds as of September 30, 2017 and December 31, 2016, which were as follows:

(in thousands)	**September 30, 2017**	December 31, 2016
Assets:		
Cash	**$ 2,960**	$ 1,066
Land and timber held for sale	**—**	13,941
Other current assets	**1,489**	2,195
Total current assets	**4,449**	17,202
Properties and equipment, net of accumulated depletion and depreciation (2017 - $48,238; 2016 - $38,306)	**240,019**	249,197
Total assets	**$ 244,468**	$ 266,399
Liabilities and equity:		
Current liabilities	**$ 2,437**	$ 2,256
Long-term debt, net of unamortized debt issuance costs	**57,285**	57,268
Total liabilities	**59,722**	59,524
Funds' equity	**184,746**	206,875
Total liabilities and equity	**$ 244,468**	$ 266,399

6. In the presentation of the Partnership's revenue and operating income (loss) by segment, all intersegment revenue and expense is eliminated to determine operating income (loss) reported externally. The following tables reconcile internally reported income (loss) from operations to externally reported income (loss) from operations by business segment, for the three and nine months ended September 30, 2017 and 2016:

Three Months Ended September 30, (in thousands)	Fee Timber: Pope Resources	Fee Timber: ORM Timber Funds	Fee Timber: Total Fee Timber	Timberland Investment Management	Real Estate	Other	Consolidated
2017							
Revenue - internal	**$ 8,981**	**$ 7,082**	**$ 16,063**	**$ 829**	**$ 2,920**	**$ —**	**$ 19,812**
Eliminations	**(83)**	**—**	**(83)**	**(829)**	**(97)**	**—**	**(1,009)**
Revenue - external	**8,898**	**7,082**	**15,980**	**—**	**2,823**	**—**	**18,803**
Cost of sales	**(3,552)**	**(5,717)**	**(9,269)**	**—**	**(2,119)**	**—**	**(11,388)**
Operating, general and administrative expenses - internal	**(1,576)**	**(1,937)**	**(3,513)**	**(780)**	**(1,213)**	**(1,157)**	**(6,663)**
Eliminations	**38**	**829**	**867**	**101**	**18**	**23**	**1,009**
Operating, general and administrative expenses - external	**(1,538)**	**(1,108)**	**(2,646)**	**(679)**	**(1,195)**	**(1,134)**	**(5,654)**
Gain on sale of timberland	**—**	**44**	**44**	**—**	**—**	**—**	**44**
Income (loss) from operations - internal	**3,853**	**(528)**	**3,325**	**49**	**(412)**	**(1,157)**	**1,805**
Eliminations	**(45)**	**829**	**784**	**(728)**	**(79)**	**23**	**—**
Income (loss) from operations - external	**$ 3,808**	**$ 301**	**$ 4,109**	**$ (679)**	**$ (491)**	**$ (1,134)**	**$ 1,805**
2016							
Revenue - internal	$ 7,882	$ 3,231	$ 11,113	$ 772	$ 2,194	$ —	$ 14,079
Eliminations	(48)	—	(48)	(772)	(81)	—	(901)
Revenue - external	7,834	3,231	11,065	—	2,113	—	13,178
Cost of sales	(3,321)	(2,282)	(5,603)	—	(608)	—	(6,211)
Operating, general and administrative expenses - internal	(1,546)	(1,401)	(2,947)	(708)	(1,052)	(1,176)	(5,883)
Eliminations	36	766	802	64	10	25	901
Operating, general and administrative expenses -external	(1,510)	(635)	(2,145)	(644)	(1,042)	(1,151)	(4,982)
Income (loss) from operations - internal	3,015	(452)	2,563	64	534	(1,176)	1,985
Eliminations	(12)	766	754	(708)	(71)	25	—
Income (loss) from operations - external	$ 3,003	$ 314	$ 3,317	$ (644)	$ 463	$ (1,151)	$ 1,985

Nine Months Ended September 30, (in thousands)	Fee Timber: Pope Resources	Fee Timber: ORM Timber Funds	Fee Timber: Total Fee Timber	Timberland Investment Management	Real Estate	Other	Consolidated
2017							
Revenue - internal	**$ 26,425**	**$ 22,061**	**$ 48,486**	**$ 2,494**	**$ 4,136**	$ —	**$ 55,116**
Eliminations	**(252)**	—	**(252)**	**(2,494)**	**(331)**	**—**	**(3,077)**
Revenue - external	**26,173**	**22,061**	**48,234**	**—**	**3,805**	**—**	**52,039**
Cost of sales	**(10,430)**	**(18,000)**	**(28,430)**	—	**(3,138)**	—	**(31,568)**
Operating, general and administrative expenses - internal	**(4,286)**	**(5,372)**	**(9,658)**	**(2,705)**	**(3,929)**	**(4,321)**	**(20,613)**
Eliminations	135	**2,494**	**2,629**	**309**	**58**	**81**	**3,077**
Operating, general and administrative expenses - external	**(4,151)**	**(2,878)**	**(7,029)**	**(2,396)**	**(3,871)**	**(4,240)**	**(17,536)**
Gain on sale of timberland	**—**	**12,547**	**12,547**	**—**	**—**	**—**	**12,547**
Income (loss) from operations - internal	**11,709**	**11,236**	**22,945**	**(211)**	**(2,931)**	**(4,321)**	**15,482**
Eliminations	**(117)**	**2,494**	**2,377**	**(2,185)**	**(273)**	**81**	**—**
Income (loss) from operations - external	**$ 11,592**	**$ 13,730**	**$ 25,322**	**$ (2,396)**	**$ (3,204)**	**$ (4,240)**	**$ 15,482**
2016							
Revenue - internal	$ 20,506	$ 12,729	$ 33,235	$ 2,383	$ 4,094	$ —	$ 39,712
Eliminations	(148)	—	(148)	(2,375)	(229)	—	(2,752)
Revenue - external	20,358	12,729	33,087	8	3,865	—	36,960
Cost of sales	(8,718)	(9,764)	(18,482)	—	(2,340)	—	(20,822)
Operating, general and administrative expenses - internal	(4,343)	(4,188)	(8,531)	(2,114)	(3,293)	(3,873)	(17,811)
Eliminations	95	2,375	2,470	193	30	59	2,752
Operating, general and administrative expenses - external	(4,248)	(1,813)	(6,061)	(1,921)	(3,263)	(3,814)	(15,059)
Gain on sale of timberland	—	226	226	—	—	—	226
Income (loss) from operations - internal	7,445	(997)	6,448	269	(1,539)	(3,873)	1,305
Eliminations	(53)	2,375	2,322	(2,182)	(199)	59	—
Income (loss) from operations - external	$ 7,392	$ 1,378	$ 8,770	$ (1,913)	$ (1,738)	$ (3,814)	$ 1,305

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

	Quarter Ended September 30,		Nine Months Ended September 30,	
(in thousands, except per unit amounts)	**2017**	2016	**2017**	2016
Net and comprehensive income attributable to Pope Resources' unitholders	**$ 1,658**	$ 1,970	**$ 5,186**	$ 1,371
Less:				
Net and comprehensive income attributable to unvested restricted unitholders	**(25)**	(25)	**(84)**	(74)
Preferred share dividends - ORM Timber Funds	**(8)**	(8)	**(23)**	(23)
Net and comprehensive income for calculation of earnings per unit	**$ 1,625**	$ 1,937	**$ 5,079**	$ 1,274
Basic and diluted weighted average units outstanding	**4,324**	4,312	**4,325**	4,312
Basic and diluted earnings per unit	**$ 0.38**	$ 0.45	**$ 1.17**	$ 0.30

8. In the first quarter of 2017, the Partnership issued 14,860 restricted units pursuant to the management incentive compensation program and 3,820 restricted units to members of the Board of Directors. These restricted units vest ratably over four years with the grant date fair value equal to the market price on the date of grant. During the nine months ended September 30, 2017, 1,648 units were granted with no restrictions to certain board members who elected to receive their quarterly board compensation in the form of units rather than cash. Units granted to directors are included in the calculation of total equity compensation expense which is recognized over the vesting period, for restricted units, or immediately for unrestricted units. Grants to retirement-eligible individuals on the date of grant are expensed immediately. The Partnership recognized $166,000 and $163,000 of equity compensation expense in the third quarter of 2017 and 2016, respectively, related to these compensation programs and $950,000 and $756,000 for the nine months ended September 30, 2017 and 2016, respectively,

9. In May 2017, the Partnership adopted a unit repurchase plan under Rule 10b5-1 of the Securities Exchange Act of 1934. The plan allows for the repurchase of units with an aggregate value of up to $1.2 million through June 1, 2018. The Partnership repurchased units with an aggregate value of $649,000 during the nine months ended September 30, 2017.

   In June 2017, the Partnership adopted a Distribution Reinvestment Plan (DRP) under which unitholders may elect to reinvest their cash distributions to acquire newly issued units. The Partnership has registered 225,000 units for issuance under the DRP. The Partnership issued 61 units under the DRP during the nine months ended September 30, 2017.

10. Supplemental disclosure of cash flow information: interest paid, net of amounts capitalized, totaled $3.2 million and $2.0 million during the first nine months of 2017 and 2016, respectively. Income taxes paid totaled $65,000 and $187,000 during the first nine months of 2017 and 2016, respectively.

11. During the first quarter of 2017, the Partnership closed on acquisitions of timberland in western Washington totaling 1,648 acres for $5.0 million. The aggregate purchase price was allocated $783,000 to land and $4.2 million to timber and roads.

12. In June 2017, the Partnership amended its $21.0 million credit facility with Northwest Farm Credit Services to increase the borrowing capacity to $31.0 million and restructure the facility to a revolving line of credit through December 31, 2019, at which time it may be repaid or converted to a term loan facility with multiple tranches that have an ultimate maturity in July 2027. Advances under the loan require quarterly interest-only payments with principal due at maturity. These advances bear interest at a variable rate based on the one-month LIBOR plus a margin of 1.85% (base rate loan segment) or at fixed rates based on the lender's rate pricing index, for terms of one through ten years, plus a margin of 1.95% (fixed rate loan segment). In addition, base rate loan segments may be converted to fixed rate loan segments, though no more than six fixed rate loan segments may be outstanding at any time. The Partnership had $9.0 million and $6.0 million outstanding under this facility as a base rate loan segment at September 30, 2017 and December 31, 2016, respectively.

13. The Partnership's financial instruments include cash and accounts receivable, for which the carrying amount of each represents fair value based on current market interest rates or their short-term nature.

    Collectively, the Partnership's and the Funds' fixed-rate debt has a carrying value of $101.7 million as of September 30, 2017 and December 31, 2016. The estimated fair value of this debt, based on current interest rates for similar instruments (Level 2 inputs in the Fair Value Hierarchy), is approximately $105.8 million and $111.0 million as of September 30, 2017 and December 31, 2016, respectively.

14. The Partnership had an accrual for estimated environmental remediation costs of $6.6 million and $12.8 million as of September 30, 2017 and December 31, 2016, respectively. The environmental remediation liability represents management's estimate of payments to be made to remediate and monitor certain areas in and around Port Gamble Bay, Washington.

    In December 2013, a consent decree and Clean-up Action Plan (CAP) related to Port Gamble were finalized with the Washington State Department of Ecology (DOE) and filed with Kitsap County Superior Court. In the third quarter of 2015, the Partnership selected a contractor to complete the remediation work. Remediation activity began in late September 2015. The required in-water portion of the cleanup was completed in January 2017 and the dredged sediments were removed by the end of September 2017, with the bulk of the sediments being relocated to property owned by the Partnership a short distance from the town of Port Gamble. This will be followed by cleanup activity on the millsite and by a monitoring period. Management's cost estimates for the remainder of the project are based on amounts included in construction contracts, bids from contractors, and estimates for project management and other professional fees.

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

    The environmental liability at September 30, 2017 is comprised of $3.4 million that management expects to expend in the next 12 months and $3.2 million thereafter.

    Activity in the environmental liability is as follows:

(in thousands)	Balance at Beginning of the Period	Additions to Accrual	Expenditures for Remediation	Balance at Period-end
Year ended December 31, 2015	$ 21,651	$ —	$ 4,890	$ 16,761
Year ended December 31, 2016	16,761	7,700	11,691	12,770
Quarter ended March 31, 2017	12,770	—	3,329	9,441
Quarter ended June 30, 2017	9,441	—	951	8,490
Quarter ended September 30, 2017	**$ 8,490**	**$ —**	**$ 1,900**	**$ 6,590**

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

This report contains a number of projections and statements about our expected financial condition, operating results, and business plans and objectives. These statements reflect management's estimates based upon our current expectations, in light of management's knowledge of existing circumstances and expectations about future developments. Statements about expectations and future performance are "forward looking statements" within the meaning of applicable securities laws, which describe our goals, objectives and anticipated performance. These statements can be identified by words such as "anticipate," "believe," "expect," "intend" and similar expressions. These statements are inherently uncertain, and some or all of these statements may not come to pass. Accordingly, you should

not interpret these statements as promises that we will perform at a given level or that we will take any or all of the actions we currently expect to take. Our future actions, as well as our actual performance, will vary from our current expectations, and under various circumstances these variations may be material and adverse. Some of the factors that may cause our actual operating results and financial condition to fall short of our expectations are set forth in the part of this report entitled "Risk Factors" in Part II, Item 1A below. From time to time we identify other risks and uncertainties in our other filings with the Securities and Exchange Commission. The forward-looking statements in this report reflect our estimates and expectations as of the date of the report, and unless required by law, we do not undertake to update these statements as our business operations and environment change.

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

EXECUTIVE OVERVIEW

Pope Resources, A Delaware Limited Partnership ("we" or the "Partnership"), is engaged in three primary businesses; Fee Timber, Timberland Investment Management, and Real Estate.

By far the most significant segment, in terms of owned assets and operations, is our Fee Timber segment. This segment includes timberlands owned directly by the Partnership and three private equity funds ("Fund II", "Fund III" and "Fund IV", collectively, the "Funds"). When we refer to the timberland owned by the Partnership, we describe it as the Partnership's tree farms. We refer to timberland owned by the Funds as the Funds' tree farms. When referring collectively to the Partnership's and Funds' timberland we refer to them as the Combined tree farms. Operations in this segment consist of growing timber and manufacturing logs for sale to domestic wood products manufacturers and log export brokers.

Our Timberland Investment Management segment is engaged in organizing and managing private equity timber funds using capital invested by third parties and the Partnership. The Funds are consolidated into our financial statements, but then income or loss attributable to equity owned by third parties is subtracted from consolidated results in our Condensed Consolidated Statements of Comprehensive Income under the caption "Net and comprehensive (income) loss attributable to non-controlling interests-ORM Timber Funds" to arrive at "Net and comprehensive income attributable to unitholders".

Our current strategy for adding timberland acreage is centered primarily on our private equity timber fund business model. However, we acquire smaller timberland parcels from time to time to add on to the Partnership's existing tree farms. In addition, during periods when the Funds' committed capital is fully invested, we may look to acquire larger timberland properties for the Partnership. Our three active timber funds have assets under management totaling approximately $357 million as of September 30, 2017 based on the most recent appraisals. Through our 20% co-investment in Fund II, our 5% co-investment in Fund III and our 15% co-investment in Fund IV, we have deployed $26 million of Partnership capital. Fund IV, launched in December 2016, has not yet deployed any capital to acquire timberland properties. Our co-investment affords us a share of the Funds' operating cash flows while also allowing us to earn asset management and timberland management fees, as well as potential future incentive fees, based upon the overall success of each fund. We also believe that this strategy allows us to maintain more sophisticated expertise in timberland acquisition, valuation, and management on a more cost-effective basis than we could for the Partnership's timberlands alone. We believe our co-investment strategy also enhances our credibility with existing and prospective Fund investors by demonstrating that we have both an operational and a financial commitment to the Funds' success.

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

Third quarter highlights

- Harvest volume was 21.3 million board feet (MMBF) in Q3 2017 compared to 17.0 MMBF in Q3 2016, a 25% increase. Harvest volume for the first nine months of 2017 was 71.9 MMBF compared to 53.6 MMBF for the corresponding period of 2016, a 34% increase. These harvest volume figures do not include timber deed sales of 3.6 MMBF and 6.0 MMBF for the quarter and nine months ended September 30, 2017, respectively, and 1.3 MMBF for both the quarter and nine months ended September 30, 2016. The harvest volume and log price realization metrics cited below also exclude these timber deed sales, except as noted otherwise.
- The average realized log price was $657 per thousand board feet (MBF) in Q3 2017, a 15% increase compared to $573 per MBF in Q3 2016. For the first nine months of 2017, the average realized log price was $621 per MBF compared to $574 per MBF for the corresponding period of 2016, an 8% increase.
- As a percentage of total harvest, volume sold to domestic markets in Q3 2017 decreased to 62% from 65% in Q3 2016, while the mix of volume sold to export markets increased to 24% in Q3 2017 from 16% in Q3 2016. For the first nine months of 2017, the relative percentages of volume sold to domestic and export markets were 60% and 23%, respectively, compared to 64% and 16%, respectively, in the corresponding period of 2016. Hardwood and pulpwood log sales make up the balance of harvest volume.
- During the quarter, our Real Estate segment sold 15 lots from our Harbor Hill development in Gig Harbor, Washington, as well as six other residential lots for total revenue of $2.5 million.
- During the quarter, the Partnership repurchased 8,171 units at an average price of $72.40 per unit under our unit repurchase plan. Through the first nine months of 2017, the Partnership has repurchased 8,915 units at an average price of $72.75, leaving $551,000 remaining under the plan through June 2018.

Outlook

We expect our total 2017 harvest volume to be between 111 and 115 MMBF, including timber deed sales. In our Real Estate segment, we expect to close on the sale of up to 78 additional single-family lots from our Harbor Hill project in the fourth quarter, up to four additional residential lots from other properties, and a potential conservation easement sale.

RESULTS OF OPERATIONS

The following table reconciles and compares key revenue and cost elements that impacted our net income (loss) attributable to unitholders for the respective quarters and nine months ended September 30, 2017 and 2016. The explanatory text that follows the table describes in detail certain of these changes by business segment.

(in thousands)	Quarter Ended September 30,	Nine Months Ended September 30,
Net income attributable to Pope Resources' unitholders:		
2017 period	$ 1,658	$ 5,186
2016 period	1,970	1,371
Variance	$ (312)	$ 3,815
Detail of variance:		
Fee Timber		
Log volumes (A)	$ 2,464	$ 10,504
Log price realizations (B)	1,789	3,379
Gain on sale of timberland	44	12,321
Timber deed sales	750	1,460
Production costs	(1,322)	(3,312)
Depletion	(2,344)	(6,636)
Other Fee Timber	(589)	(1,164)
Timberland Investment Management	(35)	(483)
Real Estate		
Land sales	(757)	(780)
Other Real Estate	(197)	(686)
General and administrative costs	17	(426)
Net interest expense	(226)	(948)
Income taxes	70	61
Noncontrolling interests	24	(9,475)
Total variances	$ (312)	$ 3,815

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

Fee Timber

Fee Timber results include operations on 120,000 acres of timberland owned by the Partnership and 88,000 acres of timberland owned by the Funds. Fee Timber revenue is earned primarily from the harvest and sale of logs from these timberlands which are located in western Washington, northwestern Oregon, and northern California. Revenue is driven primarily by the volume of timber harvested and the average log price realized on the sale of that timber. Our harvest volume is based typically on manufactured log sales to domestic mills and log export brokers. We also occasionally sell rights to harvest timber (timber deed sale) from the Combined tree farms. The metrics used to calculate volumes sold and average price realized during the reporting periods exclude timber deed sales, except where stated otherwise. Harvest volumes are generally expressed in million board feet (MMBF) increments while harvest revenue and related costs are generally expressed in terms of revenue or cost per thousand board feet (MBF).

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

Revenue and operating income for the Fee Timber segment for the quarters ended September 30, 2017, June 30, 2017, and September 30, 2016 were as follows:

(in millions) Quarter ended	Log Sale Revenue	Other Revenue	Total Fee Timber Revenue	Gain on Sale of Timberland	Operating Income	Harvest Volume (MMBF)	Timber Deed Sale Volume (MMBF)
Partnership	**$ 8.3**	**$ 0.6**	**$ 8.9**	**$ —**	**$ 3.8**	**12.1**	**—**
Funds	**5.7**	**1.4**	**7.1**	**—**	**0.3**	**9.2**	**3.6**
Total September 2017	**$ 14.0**	**$ 2.0**	**$ 16.0**	**$ —**	**$ 4.1**	**21.3**	**3.6**
Partnership	$ 7.7	$ 0.5	$ 8.2	$ —	$ 3.4	12.5	—
Funds	6.6	0.6	7.2	—	1.2	10.8	2.1
Total June 2017	$ 14.3	$ 1.1	$ 15.4	$ —	$ 4.6	23.3	2.1
Partnership	$ 6.8	$ 1.1	$ 7.9	$ —	$ 3.0	11.6	0.7
Funds	3.1	0.1	3.2	—	0.3	5.4	0.6
Total September 2016	$ 9.9	$ 1.2	$ 11.1	$ —	$ 3.3	17.0	1.3

Operating Income

Comparing Q3 2017 to Q2 2017. Operating income decreased $536,000, or 11%, from Q2 2017. Although the average realized log price rose 7%, a 9% decline in delivered log volume resulted in a 2% decrease in log sale revenue. Other revenue increased by $898,000. Also contributing to the lower operating income were 9% and 16% increases in cost of sales and operating expenses, respectively.

Comparing Q3 2017 to Q3 2016. Operating income increased $792,000, or 24%, from Q3 2016, driven by a 25% increase in delivered log volume and a 15% rise in average realized log prices.

Revenue

Comparing Q3 2017 to Q2 2017. Log sale revenue in Q3 2017 decreased $360,000, or 2%, from Q2 2017 due primarily to the offsetting effect of a 9% decline in harvest volume and a 7% rise in average realized log prices. The decrease in harvest volume was related to fire concerns and tight capacity in the contractor logging force. The $898,000 increase in other revenue is mainly attributable to the following: timber deed sales from Fund timberlands on volume of 3.6 MMBF, compared to 2.1 MMBF in Q2 2017; higher mineral royalties; and commercial thinning that had no counterpart during Q2 2017.

Comparing Q3 2017 to Q3 2016. Log sale revenue in Q3 2017 increased $4.1 million, or 41%, from Q3 2016, primarily because of a 25% increase in harvest volume and a 15% rise in average realized log prices. In 2016, we deferred a large portion of our annual harvest volume to the fourth quarter, which suppressed volume during Q3 2016. Log markets were stronger in Q3 2017 relative to Q3 2016 due to increased demand in both domestic and export markets, and a reduced supply of logs. On the demand side, we are benefiting from a second production line that came on-line at a new mill in Shelton, Washington. On the supply side, reduced harvest volumes from our local competitors and lower Canadian production are creating pricing tension in the market. The increase in other revenue was due to a 2.3 MMBF increase in timber deed sales and to commercial thinning activity that had no counterpart in Q3 2016.

Revenue and operating income for the Fee Timber segment for the nine months ended September 30, 2017 and 2016 were as follows:

(in millions) Nine Months Ended	Log Sale Revenue	Other Revenue	Total Fee Timber Revenue	Gain on Sale of Timberland	Operating Income	Harvest Volume (MMBF)	Timber Deed Sale Volume (MMBF)
Partnership	**$ 24.7**	**$ 1.5**	**$ 26.2**	**$ —**	**$ 11.6**	**38.8**	**—**
Funds	**19.9**	**2.1**	**22.0**	**12.5**	**13.7**	**33.1**	**6.0**
Total September 2017	**$ 44.6**	**$ 3.6**	**$ 48.2**	**$ 12.5**	**$ 25.3**	**71.9**	**6.0**
Partnership	$ 18.4	$ 2.0	$ 20.4	$ —	$ 7.4	31.6	0.7
Funds	12.4	0.3	12.7	**0.2**	1.4	22.0	0.6
Total September 2016	$ 30.8	$ 2.3	$ 33.1	$ 0.2	$ 8.8	53.6	1.3

Operating Income

Comparing YTD 2017 to YTD 2016. Operating income in the first nine months of 2017 increased by $16.5 million, or almost three-fold, from the corresponding period of 2016. Our 2017 results reflect a $12.5 million gain on the January 2017 sale by Fund II of a 6,500-acre tree farm on the Oregon coast, whereas our 2016 results include a $226,000 gain on the sale of 205 acres of Fund timberland. Excluding the gains from these timberland sales, Fee Timber operating income increased $4.2 million, or 49%, to $12.8 million in 2017 from $8.6 million in 2016. This improvement resulted from a 34% rise in delivered log volume, 8% higher average realized log prices, and a $1.3 million increase in other revenue from 6.0 MMBF of timber deed sales in 2017, compared to 1.3 MMBF of such sales in 2016. These factors were offset partially by a 54% increase in cost of sales (tied to the volume increase), a higher average depletion rate, and a 16% rise in operating expenses.

Revenue

Comparing YTD 2017 to YTD 2016. Log sale revenue in the first nine months of 2017 increased $13.8 million, or 45%, from the corresponding period of 2016. The higher revenue was the result of a 34% increase in delivered log volume and 8% higher average realized log prices. In 2016, we deferred a large portion of our annual harvest volume to the fourth quarter, which resulted in lower volume during the first nine months of the year. By contrast, we have spread our 2017 harvest more evenly across the quarters. Other revenue increased $1.3 million due to timber deed sales on 6.0 MMBF of volume, compared to 1.3 MMBF from such sales in 2016.

Log Volume

We harvested the following log volumes by species from the Combined tree farms, exclusive of timber deed sales, for the quarters ended September 30, 2017, June 30, 2017, and September 30, 2016:

Volume (in MMBF)		Quarter Ended					
		Sep-17	**% Total**	Jun-17	% Total	Sep-16	% Total
Sawlogs	Douglas-fir	**11.0**	**52%**	13.7	59%	9.8	57%
	Whitewood	**6.2**	**29%**	3.3	14%	3.0	18%
	Pine	**1.1**	**5%**	1.3	5%	0.5	3%
	Cedar	**0.1**	**—%**	0.4	2%	0.5	3%
	Hardwood	**0.4**	**2%**	0.9	4%	0.8	5%
Pulpwood	All Species	**2.5**	**12%**	3.7	16%	2.4	14%
Total		**21.3**	**100%**	23.3	100%	17.0	100%

Comparing Q3 2017 to Q2 2017. Harvest volume declined 2.0 MMBF, or 9%, in Q3 2017 from Q2 2017. The 15% increase in whitewood's relative share of harvest volume is the result of greater harvest operations during Q3 2017 at higher elevations where whitewood is more prevalent. Snow, or the anticipation of snow, often limits access to the higher elevations during other parts of the year.

Comparing Q3 2017 to Q3 2016. Harvest volume increased 4.3 MMBF, or 25%, in Q3 2017 from Q3 2016. Both domestic and export log markets were stronger in Q3 2017 than in Q3 2016. The Q3 2017 increase in the proportion of whitewood in our species mix relative to Q3 2016 reflects a 29% improvement in whitewood pricing compared to a year ago.

We harvested the following log volumes by species from the Combined tree farms, exclusive of timber deed sales, for the nine months ended September 30, 2017 and 2016:

Volume (in MMBF)		Nine Months Ended			
		Sep-17	**% Total**	Sep-16	% Total
Sawlogs:	Douglas-fir	**40.8**	**57%**	27.9	51%
	Whitewood	**15.0**	**21%**	11.1	21%
	Pine	**2.4**	**3%**	1.7	3%
	Cedar	**1.2**	**2%**	2.5	5%
	Hardwood	**1.8**	**2%**	2.0	4%
Pulpwood:	All Species	**10.7**	**15%**	8.4	16%
Total		**71.9**	**100%**	53.6	100%

Comparing YTD 2017 to YTD 2016. Harvest volume increased 18.3 MMBF, or 34%, in the first nine months of 2017 compared to the corresponding period of 2016. In 2016, we planned our harvest to defer significant volume until the fourth quarter in anticipation of better log prices. In 2017, we have benefited throughout the year from higher demand from both the domestic and export markets, as well as reduced supply from our competitors, and so have spread our harvest more evenly over the year. Relative to 2016, our 2017 species mix reflects a 6% increase in Douglas-fir and modest decreases in cedar and hardwood sawlog volumes.

Log Prices

We realized the following log prices by species for the quarters ended September 30, 2017, June 30, 2017, and September 30, 2016:

		Quarter Ended		
		Sep-17	Jun-17	Sep-16
Average price realizations (per MBF):				
Sawlogs:	Douglas-fir	**$ 749**	$ 694	$ 629
	Whitewood	**651**	602	506
	Pine	**472**	486	418
	Cedar	**1,306**	1,414	1,321
	Hardwood	**685**	685	640
Pulpwood:	All Species	**303**	297	284
Overall		**657**	616	573

The following table compares the dollar and percentage change in log prices from each of Q2 2017 and Q3 2016 to Q3 2017:

		Change to Q3 2017 from Quarter Ended			
		Jun-17		Sep-16	
		$/MBF	%	$/MBF	%
Sawlogs:	Douglas-fir	$ 55	8%	$ 120	19%
	Whitewood	49	8%	145	29%
	Pine	(14)	(3%)	54	13%
	Cedar	(108)	(8%)	(15)	(1%)
	Hardwood	—	—%	45	7%
Pulpwood:	All Species	6	2%	19	7%
Overall		41	7%	84	15%

Overall realized log prices in Q3 2017 were 7% higher than Q2 2017. Our overall average realized log price is influenced heavily by price movements for our two most prevalent species, Douglas-fir and whitewood, and the relative mix of harvest volume of those two species. From Q2 2017 to Q3 2017, realized log prices increased by 8% for both Douglas-fir and whitewood. Prices for both species rose due to higher demand in the domestic and export markets as well as reduced supply of logs from competitors.

From Q3 2016 to Q3 2017, average realized log prices increased 15%. The favorable change was attributable to increases in Douglas-fir and whitewood realized log prices of 19% and 29%, respectively. The outsized price increase for whitewood was driven by higher demand from China. Prices for pine and hardwood sawlogs, and all pulpwood species, showed healthy increases relative to Q3 2016.

The following table compares realized log prices by species for the first nine months of 2017 and 2016, as well as the dollar and percentage change in log prices between the two periods:

		Nine Months Ended			
		Sep-17	Δ from Sep -17 to Sep -16		Sep-16
			$/MBF	%	
Sawlogs:	Douglas-fir	**$ 697**	$ 82	13%	$ 615
	Whitewood	**602**	78	15%	524
	Pine	**488**	10	2%	478
	Cedar	**1,376**	6	—%	1,370
	Hardwood	**665**	94	16%	571
Pulpwood:	All species	**295**	(1)	—%	296
Overall		**621**	47	8%	574

Overall realized log prices increased 8% in the first nine months of 2017 compared to the corresponding period of 2016. The overall average is influenced heavily by Douglas-fir and whitewood prices, which were up 13% and 15%, respectively, on higher demand in the domestic and export markets and reduced log supply from our competitors. Hardwood prices rose 16% on greater competition among our customers.

Customers

Logs from the Combined tree farms serve a number of different domestic and export markets, with domestic mills historically representing our largest market destination. Export customers consist of log brokers who sell the logs primarily to Japan, China and, to a lesser degree, Korea. The ultimate decision of whether to sell our logs to the domestic or export market is based on the net proceeds we receive after taking into account both the delivered log prices and the cost to deliver logs to the customer. As such, our reported log price realizations will reflect our properties' proximity to customers as well as the broader log market.

The table below categorizes logs sold by customer type for the quarters ended September 30, 2017, June 30, 2017, and September 30, 2016:

	Q3 2017			Q2 2017			Q3 2016		
	Volume			Volume			Volume		
Destination	**MMBF**	**%**	**Price**	MMBF	%	Price	MMBF	%	Price
Domestic mills	**13.3**	**62%**	**$ 679**	13.7	59%	$ 657	11.0	65%	$ 621
Export brokers	**5.1**	**24%**	**767**	5.0	21%	731	2.8	16%	621
Hardwood	**0.4**	**2%**	**685**	0.9	4%	685	0.8	5%	640
Pulpwood	**2.5**	**12%**	**303**	3.7	16%	297	2.4	14%	284
Total	**21.3**	**100%**	**657**	23.3	100%	616	17.0	100%	573
Timber deed sale	**3.6**		**343**	2.1		301	1.3		381
Total	**24.9**			25.4			18.3		

Comparing Q3 2017 to Q2 2017. The relative volume sold to export brokers rose modestly as the export market continued to strengthen. The relative volume sold as pulpwood declined as volume was diverted from pulp mills to sawmills with improved demand in the market for sawlogs. Timber deed sales in both quarters came from one of Fund III’s tree farms.

Comparing Q3 2017 to Q3 2016. Volume sold to the export market increased to 24% of Q3 2017 volume from 16% of Q3 2016 volume, while volume sold to the domestic market decreased to 62% of Q3 2017 volume from 65% of Q3 2016 volume. Average realized export prices were at a premium to prices from domestic mills during Q3 2017, whereas during Q3 2016 there was no such export premium, which resulted in less log volume sold to export log brokers in 2016.

The table below categorizes logs sold by customer type for the nine-month periods ended September 30, 2017 and 2016:

	Nine Months Ended					
	September 2017			September 2016		
	Volume			Volume		
Destination	**MMBF**	**%**	**Price**	MMBF	%	Price
Domestic mills	**43.1**	**60%**	**$ 663**	34.3	64%	$ 629
Export brokers	**16.2**	**23%**	**720**	8.9	16%	631
Hardwood	**1.8**	**2%**	**665**	2.0	4%	571
Pulpwood	**10.8**	**15%**	**295**	8.4	16%	296
Subtotal	**71.9**	**100%**	**621**	53.6	100%	574
Timber deed sale	**6.0**		**322**	1.3		381
Total	**77.9**			54.9		

Comparing YTD 2017 to YTD 2016. In the first nine months of 2017, the relative amounts of volume sold to our domestic customers decreased to 60% from 64% during the corresponding period of 2016, while volume sold to export customers increased to 23% in the current year versus 16% last year. This shift in customer mix reflects the premium prices paid by export log markets in 2017 compared to domestic log markets. The timber deed sale volumes during the first nine months of 2017 came from one of Fund III’s tree farms. The 2016 timber deed sale volumes cam from both the Partnership (0.7 MMBF) and the Funds (0.6 MMBF).

Cost of Sales

Fee Timber cost of sales, which consists predominantly of harvest, haul, tax and depletion costs, vary with harvest volume.

Fee Timber cost of sales for the quarters ended September 30, 2017, June 30, 2017, and September 30, 2016, was as follows, with the first table expressing these costs in total dollars and the second table expressing those costs that are driven by volume on a per MBF basis:

(in thousands) Quarter Ended	Harvest, Haul and Tax	Depletion	Other	Total Fee Timber Cost of Sales	Harvest Volume (MMBF)	Timber Deed Sale Volume (MMBF)
Partnership	**$ 2,675**	**$ 877**	**$ —**	**$ 3,552**	**12.1**	**—**
Funds	**2,245**	**3,375**	**97**	**5,717**	**9.2**	**3.6**
Total September 2017	**$ 4,920**	**$ 4,252**	**$ 97**	**$ 9,269**	**21.3**	**3.6**
Partnership	$ 2,428	$ 908	$ —	$ 3,336	12.5	—
Funds	2,535	2,655	—	5,190	10.8	2.1
Total June 2017	$ 4,963	$ 3,563	$ —	$ 8,526	23.3	2.1
Partnership	$ 2,486	$ 820	$ 15	$ 3,321	11.6	0.7
Funds	1,194	1,088	—	2,282	5.4	0.6
Total September 2016	$ 3,680	$ 1,908	$ 15	$ 5,603	17.0	1.3

(Amounts per MBF) Quarter Ended	Harvest, Haul and Tax *	Depletion *
Partnership	**$ 221**	**$ 72**
Funds	**244**	**264**
Total September 2017	**$ 231**	**$ 171**
Partnership	$ 194	$ 72
Funds	235	206
Total June 2017	$ 213	$ 140
Partnership	$ 214	$ 67
Funds	221	181
Total September 2016	$ 216	$ 104

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

Comparing Q3 2017 to Q2 2017. Cost of sales increased $743,000, or 9%, in Q3 2017 from Q2 2017, despite a slight decline in harvest volume, when timber deed sales are included. The higher costs are primarily attributable to a 25% rise in the Funds' average depletion rate, as the mix of harvest volume from the Funds' properties shifted to tree farms with higher depletion rates. Additionally, the per-MBF harvest, haul and tax rates increased 8% in Q3 2017, driven by 16% higher harvest costs on a per-MBF basis relative to Q2 2017.

Comparing Q3 2017 to Q3 2016. Cost of sales increased $3.7 million, or 65%, in Q3 2017 from Q3 2016, as a result of a 38% increase in harvest volume (including timber deed sales). The Combined depletion rate increased 63% in Q3 2017 from Q3 2016, which was the product of two separate factors:

- The Funds' share of relative harvest volume (including timber deed sales) increased to 52% in Q3 2017 from 33% in Q3 2016. Depletion rates are higher for the Funds' tree farms because they were purchased more recently than the Partnership's tree farms and thus have a higher cost basis.

- The mix of harvest volume from among the Funds' shifted to tree farms with higher depletion rates. Unlike the Partnership's tree farms that all use the same pooled depletion rate, each of the Funds' tree farms carries its own depletion rate. Accordingly, the average depletion rate for the Funds may vary depending on the relative volume harvested from their tree farms in a given period.

Fee Timber cost of sales for the nine months ended September 30, 2017 and 2016 was as follows, with the first table expressing these costs in total dollars and the second table expressing those costs that are driven by volume on a per MBF basis:

(in thousands) Nine Months Ended	Harvest, Haul and Tax	Depletion	Other	Total Fee Timber Cost of Sales	Harvest Volume (MMBF)	Timber Deed Sale Volume (MMBF)
Partnership	**$ 7,623**	**$ 2,807**	**$ —**	**$ 10,430**	**38.8**	**—**
Funds	**7,973**	**9,930**	**97**	**18,000**	**33.1**	**6.0**
Total September 2017	**$ 15,596**	**$ 12,737**	**$ 97**	**$ 28,430**	**71.9**	**6.0**
Partnership	$ 6,997	$ 1,677	$ 44	$ 8,718	31.6	0.7
Funds	5,340	4,424	—	9,764	22	0.6
Total September 2016	$ 12,337	$ 6,101	$ 44	$ 18,482	53.6	1.3

(Amounts per MBF) Nine Months Ended	Harvest, Haul and Tax *	Depletion *
Partnership	**$ 196**	**$ 72**
Funds	**241**	**254**
Total September 2017	**$ 217**	**$ 164**
Partnership	$ 221	$ 52
Funds	243	196
Total September 2016	$ 230	$ 111

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

Comparing YTD 2017 to YTD 2016. Cost of sales increased $9.9 million, or 54%, in the first nine months of 2017 compared to the corresponding period in 2016, primarily due to a 42% increase in harvest volume (including timber deed sales). Two other factors had opposite impacts on cost of sales. First, harvest, haul, and tax costs decreased 6% on a per MBF basis in 2017 from 2016 as a result of more competitive bidding for our business by logging contractors, a higher proportion of volume from harvest units utilizing lower-cost, ground-based logging systems, and shorter haul distances. Second, the Combined depletion rate increased 48% in 2017 from 2016, which was the product of three separate factors:

- The Fund's share of relative harvest volume (including timber deed sales) increased to 50% in 2017 from 41% in 2016.
- The mix of harvest volume among the Funds' tree farms shifted to tree farms with higher depletion rates.
- The Partnership's pooled depletion rate increased 38% due to the Q3 2016 purchase of the Carbon River tree farm.

Operating Expenses

Fee Timber operating expenses include the cost of maintaining existing roads and building temporary roads for harvesting, silviculture costs, and other management expenses. For the quarters ended September 30, 2017, June 30, 2017, and September 30, 2016, operating expenses were $2.6 million, $2.3 million, and $2.1 million, respectively. The $375,000 increase in operating expenses in Q3 2017 from Q2 2017 is attributable to a seasonal rise in road maintenance activity. Operating expenses increased by $501,000 between Q3 2017 and Q3 2016 due to higher road maintenance and silviculture expenses resulting from the higher harvest volume.

Fee Timber operating expenses for the nine months ended September 30, 2017 and 2016 were $7.0 million and $6.1 million, respectively. The increase is attributable to higher road maintenance and silviculture expenses related to the higher harvest volume and professional fees associated with the formation of Fund IV.

Gain on Sale of Timberland

The $12.5 million gain on sale of timberland in the first nine months of 2017 resulted from the Q1 2017 sale of a 6,500-acre tree farm by Fund II for $26.5 million as well as the sale of a small parcel by Fund III. The $226,000 gain on sale of timberland in the first six months of 2016 resulted from sales of two parcels owned by the Funds during Q1 2016.

Timberland Investment Management

The Timberland Investment Management (TIM) segment manages timberland portfolios on behalf of three private equity timber funds that currently own a combined 88,000 acres of commercial timberland in western Washington, northwestern Oregon, and northern California. Total assets under management are $357 million based on the most recent appraisals.

Fund Distributions and Fees Paid to the Partnership

Fund distributions are paid from available Fund cash, generated primarily from the harvest and sale of timber after paying all Fund expenses, management fees, and recurring capital costs. The Partnership received combined distributions from the Funds of $6.1 million and $282,000 during the nine months ended September 30, 2017 and 2016, respectively. The 2017 distributions included $5.5 million from Fund II's sale of a 6,500-acre tree farm. The Partnership earned asset, investment, and timberland management fees from the Funds of $2.5 million and $2.4 million for the nine months ended September 30, 2017 and 2016, respectively. These fees are eliminated as the Funds are consolidated in our financial statements, as shown in the table below.

Revenue and Operating Loss

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

Revenue and operating loss for the TIM segment for the quarters ended September 30, 2017 and 2016 were as follows:

(in thousands, except invested capital, volume and acre data)	Quarter Ended	
	Sep-17	Sep-16
Revenue internal	**$ 829**	$ 772
Intersegment eliminations	**(829)**	(772)
Revenue external	**$ —**	$ —
Operating income internal	**$ 49**	$ 64
Intersegment eliminations	**(728)**	(708)
Operating loss external	**$ (679)**	$ (644)
Invested capital (in millions)	**$ 240**	$ 258
Acres owned by Funds	**88,000**	94,000
Harvest volume - Funds (MMBF), including timber deed sales	**12.8**	6.0

Comparing Q3 2017 to Q3 2016. TIM generated management fee revenue of $829,000 and $772,000 from managing the Funds during Q3 2017 and Q3 2016, respectively. The increased harvest volume during Q3 2017 served to boost revenue generated from fees based on harvest volume, though this was offset partially by a decline in revenue generated from fees based on invested capital and acres owned resulting from Fund II's tree farm sale in Q1 2017.

Operating expenses incurred for the quarters ended September 30, 2017, and 2016 totaled $679,000 and $644,000, respectively. The increase in operating expenses is attributable to costs associated with the launch of our fourth timber fund, which occurred at the tail end of 2016, as well as additional personnel costs to manage our expanding timber fund portfolio.

Revenue and operating loss for the TIM segment for the nine months ended September 30, 2017 and 2016 were as follows:

(in thousands, except invested capital, volume and acre data)	Nine Months Ended	
	Sep-17	Sep-16
Revenue internal	**$ 2,494**	$ 2,383
Intersegment eliminations	**(2,494)**	(2,375)
Revenue external	**$ —**	$ 8
Operating income (loss) internal	**$ (211)**	$ 269
Intersegment eliminations	**(2,185)**	(2,182)
Operating loss external	**$ (2,396)**	$ (1,913)
Invested capital (in millions)	**$ 240**	$ 258
Acres owned by Funds	**88,000**	94,000
Harvest volume - Funds (MMBF), including timber deed sales	**39.1**	22.6

Comparing YTD 2017 to YTD 2016. TIM generated management fee revenue of $2.5 million and $2.4 million from managing the Funds for the nine months ended September 30, 2017 and 2016, respectively. The increased harvest volume during 2017 served to boost revenue generated from fees based on harvest volume, though this was offset partially by a decline in revenue generated from fees based on invested capital and acres owned resulting from Fund II's tree farm sale in Q1 2017.

Operating expenses incurred by the TIM segment for the nine months ended September 30, 2017 and 2016 totaled $2.4 million and $1.9 million, respectively. The increase in operating expenses is attributable to costs associated with the launch of our fourth timber fund, which occurred at the tail end of 2016, as well as additional personnel costs to manage our expanding timber fund portfolio.

Real Estate

The Partnership's Real Estate segment produces its revenue primarily from the sale of land within its 2,200-acre portfolio. Additional sources of revenue include sales of development rights and tracts of land from the Partnership's timberland portfolio, together with residential and commercial property rents earned from our Port Gamble and Poulsbo properties. Real Estate holdings are located in the Washington counties of Pierce, Kitsap, and Jefferson with sales of land for this segment typically falling into one of three general types:

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

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

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

Those properties that are for sale, under contract, and management expects to sell within the next 12 months, are classified on our balance sheet as a current asset under “Land and Timber Held for Sale”. The $9.5 million amount currently in Land and Timber Held for Sale reflects properties that are under contract and expected to close between now and the end of the third quarter of 2018, comprising 78 single-family residential lots from our Harbor Hill project and four single-family lot sales from a separate project.

Project costs that are associated directly with the development and construction of a real estate project are capitalized and then included in cost of sales when the property is sold, along with our original basis in the underlying land and the closing costs associated with the sale transaction.

Results from Real Estate operations often vary significantly from period-to-period as we make multi-year investments in entitlements and infrastructure prior to selling entitled or developed land.

Comparing Q3 2017 to Q3 2016. We closed on the sale of 15 residential lots from our Harbor Hill project and six residential lots from other properties for $2.5 million during Q3 2017, whereas during Q3 2016 we closed on the sale of two parcels of undeveloped land comprising 265 acres for $1.7 million. The gross margin from the 2016 sales was $774,000 higher than the 2017 transactions as the properties sold in 2016 had a lower cost basis as undeveloped land. Real Estate operating expenses were $1.2 million and $1.0 million during Q3 2017 and Q3 2016, respectively. The increase in operating expenses is due primarily to legal and professional fees in connection with planning and development for a number of properties, as well as for pursuing potential insurance recoveries for our Port Gamble environmental remediation costs. These factors resulted in an operating loss of $491,000 for Q3 2017 compared to operating income of $463,000 for Q3 2016.

Comparing YTD 2017 to YTD 2016. In the first nine months of 2017, we closed on the sale of 15 residential lots from our Harbor Hill project and seven residential lots from other properties for $2.7 million, and recognized the remaining revenue on a percentage-of-completion basis on parcels sold in Q4 2016 from our Harbor Hill development for $285,000. In the first nine months of 2016, we closed on the sale of 9 residential lots from Harbor Hill and recognized the remaining revenue on a percentage-of-completion basis on parcels sold in previous periods for a combined total of $1.2 million, as well as the sale of the two parcels of undeveloped land described above. Real Estate operating expenses increased from $3.3 million to $3.9 million for the first nine months of 2016 and 2017, respectively, due primarily to legal and professional fees in connection with planning and development for a number of properties as well as for pursuing potential insurance recoveries for our Port Gamble environmental remediation costs. These factors resulted in an operating loss of $3.2 million for the first nine months of 2017 compared to an operating loss of $1.7 million for the corresponding period of 2016.

Real Estate revenue and gross margin are summarized in the table below for the nine months ended September 30, 2017 and 2016:

(in thousands, except units sold and per unit amounts)
For the nine months ended:

Description		Revenue		Gross Margin		Units Sold		Revenue per unit	Gross Margin per unit
Residential	**$**	**2,942**	**$**	**833**	*****	**Lots:**	**22**	**133,727**	**37,864**
Total land		**2,942**		**833**					
Rentals and other		**863**		**(196)**					
September 30, 2017 total	**$**	**3,805**	**$**	**637**					
Residential	$	1,220	$	154	*	Lots:	9	135,556	17,111
Unimproved land		1,749		1,459		Acres:	265	6,600	5,506
Total land		2,969		1,613					
Rentals and other		896		(88)					
September 30, 2016 total	$	3,865	$	1,525					

* Includes revenue recognized on a percentage-of-completion basis on lots sold in previous periods.

Environmental Remediation

As disclosed previously, we have a liability for environmental remediation at Port Gamble, Washington, due to contamination that occurred in Port Gamble prior to our 1985 acquisition of the property from Pope & Talbot, Inc. We have adjusted that liability from time to time based on evolving circumstances. The required remediation in Port Gamble Bay was completed in January 2017. Dredged sediments associated with the remediation were stockpiled on the millsite so they could be rinsed with fresh water and characterized for removal. This work was completed in the third quarter of 2017. By the end of September, all stockpiles were removed, with the bulk of the sediments being relocated to property we own a short distance from the town of Port Gamble.

We anticipate some cleanup activity to occur on the millsite in 2018. The scope of this activity will depend on the results of testing that will be conducted in this area now that the dredged sediments from Port Gamble Bay have been removed. Our liability includes an estimate of the costs for this activity.

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

Uncertainty with respect to the millsite cleanup: As noted earlier, the scope and nature of remediation activity on the millsite will be determined by the results of testing to be conducted in the coming months. Until these testing results are known, our ability to accurately estimate the cost associated with this phase of the project is limited.

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

Unforeseen conditions: As we transition to the maintenance and monitoring phases of the project, conditions may arise that require corrective action, which could result in additional costs. Likewise, we cannot accurately predict the impacts, if any, of the alleged NRD claims.

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

General and Administrative (G&A)

G&A expenses were relatively flat at $1.1 million and $1.2 million in the third quarters of 2017 and 2016, respectively. G&A expenses increased to $4.2 million for the first nine months of 2017 from $3.8 million for the first nine months of 2016. The increase is primarily due to higher personnel costs, particularly equity-based compensation, and professional fees.

Interest Expense, Net

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in thousands)	**2017**	2016	**2017**	2016
Interest income	**$ —**	$ 2	**$ 3**	$ 8
Interest expense	**(1,284)**	(1,158)	**(3,664)**	(2,902)
Capitalized interest	**105**	203	**355**	536
Interest expense, net	**$ (1,179)**	$ (953)	**$ (3,306)**	$ (2,358)

The Partnership's and Fund III's debt arrangements with Northwest Farm Credit Services (NWFCS) are included in the latter's patronage program, which rebates a portion of interest paid in the prior year back to the borrower. This NWFCS patronage program is a feature common to most of this lender's loan agreements. The patronage program reduced interest expense by $230,000 and $190,000 for Q3 2017 and Q3 2016, respectively, and by $778,000 and $585,000 for the first nine months of 2017 and 2016, respectively. The increases in both interest expense and patronage are due to higher debt balances in 2017.

Capitalized interest decreased from 2016 to 2017 due to the reduction in basis from 2016 due to completed construction activity at Harbor Hill.

Income Tax

The Partnership recorded income tax expense of $46,000 and $116,000 for Q3 2017 and Q3 2016, respectively, and $105,000 and $166,000 for the first nine months of 2017 and 2016, respectively.

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

Noncontrolling interests-ORM Timber Funds

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

Off-Balance Sheet Arrangements

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

Liquidity and Capital Resources

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

The Partnership's debt consists of mortgage debt with fixed and variable interest rate tranches and operating lines of credit with Northwest Farm Credit Services (NWFCS). The mortgage debt at September 30, 2017 includes $51.8 million in term loans with NWFCS structured in five tranches that mature from 2019 through 2028 and is collateralized by portions of the Partnership's timberland. In addition, our commercial office building in Poulsbo, Washington is collateral for a $2.5 million loan from NWFCS that matures in 2023. We also have available a $31.0 million facility with NWFCS structured as a line of credit through December 31, 2019, after which it converts to a term loan with multiple tranches that have an ultimate maturity in July 2027. At September 30, 2017, $9.0 million was outstanding under this facility at a variable rate based on the one-month LIBOR rate plus 1.85%. Our $20.0 million operating line of credit matures April 1, 2020, and we had $20.0 million drawn as of September 30, 2017. The line of credit carries a variable interest rate that is based on the one-month LIBOR rate plus 1.50%.

These debt agreements contain covenants that are measured quarterly. Among the covenants measured is a requirement that the Partnership maintain an interest coverage ratio of 3:1, and not exceed a maximum debt-to-total-capitalization ratio of 30%, with total capitalization calculated using fair market (vs. carrying) value of timberland, roads and timber. The Partnership is in compliance with these covenants as of September 30, 2017, and expects to remain in compliance for at least the next twelve months.

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

The $7.6 million increase in cash generated for the nine months ended September 30, 2017 compared to September 30, 2016 is explained in the following table:

	Nine Months Ended September 30,		
(in thousands)	**2017**	Change	2016
Cash provided by (used in) operating activities	**$ 7,408**	$ 16,365	$ (8,957)
Investing activities			
Reforestation and roads	**(1,665)**	(389)	(1,276)
Capital expenditures	**(162)**	(3)	(159)
Proceeds from sale of property and equipment	**30**	30	—
Investment in unconsolidated real estate joint venture	**(250)**	(250)	—
Acquisition of timberland - Partnership	**(4,951)**	28,373	(33,324)
Proceeds from sale of timberland - Funds	**26,590**	25,866	724
Cash provided by (used in) investing activities	**19,592**	53,627	(34,035)
Financing activities			
Line of credit borrowings	**23,000**	2,974	20,026
Line of credit repayments	**(8,000)**	(5,300)	(2,700)
Repayment of long-term debt	**(5,088)**	(5,003)	(85)
Proceeds from issuance of long-term debt	**—**	(32,000)	32,000
Debt issuances costs	**(104)**	59	(163)
Units issued under Distribution Reinvestment Plan	**4**	4	—
Unit repurchases	**(648)**	(648)	—
Payroll taxes paid upon unit net settlements	**(94)**	58	(152)
Cash distributions to unitholders	**(9,168)**	(35)	(9,133)
Cash distributions to fund investors, net of distributions to Partnership	**(26,359)**	(23,306)	(3,053)
Capital call - ORM Timber Funds, net of Partnership contribution	**825**	825	—
Cash provided by (used in) financing activities	**(25,632)**	(62,372)	36,740
Net increase (decrease) in cash	**$ 1,368**	$ 7,620	$ (6,252)

The increase in cash from operating activities of $16.4 million resulted primarily from a 34% increase in timber harvest volume, an 8% rise in average log price realizations, and lower Real Estate project expenditures.

Cash from investing activities during 2017 increased by $53.6 million compared to 2016 due primarily to the sale of one of Fund II's tree farms in January 2017 and the acquisition of a tree farm by the Partnership in Q3 2016.

Cash from financing activities decreased in the current year by $62.4 million due primarily to the distribution of the net proceeds from the sale of one of Fund II's tree farms to that fund's investors, net repayments of debt in 2017, and borrowings in 2016 to fund the acquisition of a tree farm by the Partnership that had no counterpart in 2017.

Seasonality

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

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

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

Capital Expenditures and Commitments

Capital expenditures, excluding timberland acquisitions, for the full year 2017 are projected to be approximately $11.1 million. The most significant expenditures relate to finishing residential lots for sale to merchant homebuilders in our Harbor Hill project, reforestation and roads, and the installation of a new wastewater treatment plant for the town of Port Gamble. The following table presents our capital expenditures by major category on a year-to-date basis and what we expect for the remainder of the year:

	2017		
	Sept 30 YTD	**Remainder of Year**	**Total**
in millions			
Harbor Hill project development	$ 4.4	$ 1.3	$ 5.7
Port Gamble wastewater treatment plant	1.6	0.1	1.7
Reforestation and roads	1.7	0.7	2.4
Other	0.6	0.7	1.3
	$ 8.3	$ 2.8	$ 11.1

ACCOUNTING MATTERS

Critical Accounting Policies and Estimates

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

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, 2016. See also note 2 to the condensed consolidated financial statements.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

The consolidated fixed-rate debt outstanding had a fair value of approximately $105.8 million and $111.0 million at September 30, 2017 and December 31, 2016, respectively, based on the prevailing interest rates for similar financial instruments. A change in interest rate on fixed-rate debt will affect the fair value of debt, whereas a change in the interest rate on variable-rate debt will affect interest expense and cash flows payable by the Partnership. A hypothetical 1% change in prevailing interest rates would change the fair value of fixed-rate long-term debt obligations by $3.1 million and result in a $390,000 change in interest expense from our variable-rate debt. We are not subject to material foreign currency risk, derivative risk, or similar uncertainties.

ITEM 4. CONTROLS AND PROCEDURES

The Partnership’s management maintains a system of internal controls over financial reporting, which management views as adequate to promote the timely identification and reporting of material, relevant information. Those controls include (1) requiring executive management and all managers in accounting roles to sign and adhere to a Code of Conduct and (2) implementation of a confidential hotline for employees to contact the Audit Committee directly with financial reporting concerns. Additionally, the Partnership’s senior management team meets regularly to discuss significant transactions and events affecting the Partnership’s operations and to assess the effectiveness of the Partnership’s internal control over financial reporting. The Partnership’s principal executive and principal financial officers lead these meetings and consider whether topics discussed represent information that should be disclosed under generally accepted accounting principles and the rules of the SEC. The Board of Directors of the Partnership’s 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, including regularly scheduled executive sessions outside the presence of management.

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

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

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

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

As we have disclosed previously, we have filed suit against the Washington State Department of Natural Resources (DNR) seeking contribution to cleanup costs for the environmental remediation of the Port Gamble site. On May 2, 2017, the Washington State Supreme Court granted review of the Court of Appeals' December 2016 ruling in our favor that holds DNR liable under Washington's Model Toxics Control Act as an owner or operator of the site. Oral arguments were presented on September 26, 2017. The Supreme Court's ruling is anticipated in early 2018.

ITEM 1A. RISK FACTORS

Risks Related to Our Industry and Our Markets

We are sensitive to demand and price issues relating to our sales of logs in both domestic and foreign markets. We generate Fee Timber revenue primarily by selling softwood logs to domestic mills and to third-party intermediaries who resell them to the export market. The domestic market for logs in our operating area depends heavily on U.S. housing starts. Recently, the U.S. housing market has started to improve but, to the extent the recovery in the housing market should stall, such a turn of events could have a negative impact on our operating results. For example, interest rates are widely expected to rise in the coming periods. Should this occur, it could have a negative impact on the U.S. housing market. Demand from export markets for Pacific Northwest logs are affected by fluctuations in United States, Japanese and, increasingly, Chinese and Korean economies, the foreign currency exchange rate between these Asian currencies and the U.S. dollar, as well as by ocean transportation costs. Further, the prices we realize for our logs depend in part upon competition, including the supply of logs from Canada that can be impacted by fluctuations in currency exchange rates and trade relations between the U.S. and Canada. The U.S. recently announced tariffs on lumber imported from Canada, with the intention of making U.S.-sourced lumber more competitive. An indirect effect of the tariffs could be support for U.S. Log prices, though uncertainty around the timing and level of tariffs could lead to volatility in lumber and log prices.

Our Fee Timber and Timberland Investment Management segments are highly dependent upon sales of commodity products. Revenue from our forestry businesses, which comprise our Fee Timber and our Timberland Investment Management segments, are widely available from producers in other regions of the United States, as well as Canada and a number of other countries. We do not normally hedge against the financial risks associated with this condition. We are therefore subject to risks associated with the production of commonly available products, such that an increase in supply from abroad as a result of overproduction by competitors in other nations or as a result of changes in currency exchange rates, may reduce the demand for our products in some or all of the markets in which we do business. A bilateral agreement between the United States and Canada, called the Softwood Lumber agreement, had been intended to help manage potentially harmful effects of international competition between our countries, but that agreement expired in October 2015 and has not yet been renewed. The competitive effects of this expiration are likely to impact our business in the future, although management cannot predict accurately the precise effects. Similarly, we have seen or may experience an increase in supply or a reduction in demand as a result of international tensions or competition that are beyond our control and that may not be predictable.

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

Environmental and other activist groups may have an adverse impact on the value of our assets or on our ability to generate revenues from our timberlands. In recent years we have seen an increase in activities by environmental groups, Native American tribes, and other activists in the legislative, administrative and judicial processes that govern all aspects of our operations. For example, on more than one occasion the Washington Department of Ecology applied more stringent regulatory standards to our existing environmental remediation operations at Port Gamble, Washington, after soliciting or receiving input from tribal representatives. These revisions substantially increased the cost associated with our pre-existing remediation plans, and we cannot offer assurances that similar actions will not further protract the process or increase remediation costs. In an ongoing example of this activism, various citizens' and tribal groups are asserting in their capacities as alleged trustees under the Natural Resources Damages Act that we are liable for damages to the environment on the basis of our now largely remediated property at Port Gamble, Washington. Similarly, citizens' and environmental groups have significant influence in the entitlement and zoning processes that affect our Real Estate operations. These activities are not likely to diminish in the foreseeable future, and in some instances may have a material impact upon the revenues we can generate from our properties or upon the costs of generating those revenues.

Our businesses are highly dependent upon domestic and international macroeconomic factors. Both our timberland operations and our real estate operations are highly influenced by housing markets. Our Fee Timber and Timberland Investment Management segments depend upon housing and construction markets in the United States and in other Pacific Rim countries, and our geographic concentration in the Pacific Northwest increases our exposure to economic, labor and shipping risks that are tied to this particular area. Similarly, our Real Estate segment depends upon a highly localized demand in the Puget Sound region of western Washington. Factors that affect these markets will have a disproportionate impact on our business, and may be difficult or impossible to predict or estimate accurately.

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

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

Risks Relating to Our Operations

We have certain environmental remediation liabilities associated with our Port Gamble property, and that liability may increase. We currently own certain real estate at Port Gamble on the Kitsap Peninsula in western Washington. Sediments adjacent to these properties were alleged to have been impacted by operations of the former owner of the property, Pope & Talbot, Inc. However, as current owner of Port Gamble, we have environmental liability for these properties under Washington State's Model Toxics Control Act (MTCA). In December 2013, we reached an agreement with the Washington State Department of Ecology ("DOE") in the form of a consent decree ("CD") and clean-up action plan ("CAP") that provides for the cleanup of Port Gamble Bay. Together, these documents outline the terms under which the Partnership will conduct environmental remediation as well as the specific clean-up activities to be performed. The CD and CAP were filed with the Kitsap County Superior Court in December 2013. On June 8, 2015, Kitsap County Superior Court ruled on summary judgment that Washington's Department of Natural Resources (DNR) did not qualify as an owner or operator of the site and therefore did not have liability under the MTCA. We appealed the Superior Court's ruling and ten public and/or private entities, including DOE, filed or joined in amicus briefs in support of our position, arguing that DNR is liable as an owner or operator of the site. On December 28, 2016, The Washington State Court of Appeals (Division II) reversed the superior court's summary judgment order, ruling that DNR is liable under MTCA as an owner or operator of the site. DNR has appealed this ruling to the Washington State Supreme Court. Oral arguments in this case were presented on September 26, 2017. There can be no assurance that we will prevail in this matter or that we can reach an acceptable settlement with DNR. The recorded liability reflects the estimated cost of the entire project, without any contribution by DNR. Additionally, certain environmental laws allow state, federal, and tribal trustees (collectively, the Trustees) to bring suit against property owners to recover damages for injuries to natural resources (NRD). Like the liability that attaches to current property owners in the cleanup context, liability for natural resource damages can attach to a property owner simply because an injury to natural resources resulted from releases of hazardous substances on that owner's property, regardless of culpability for the release. The Trustees are alleging that Pope Resources has NRD liability because of releases that occurred on its property. We have been in discussions with the Trustees regarding their claims, and the alleged conditions in Port Gamble Bay. We have also been discussing restoration alternatives that might address the damages the Trustees allege. Discussions with the Trustees may result in an obligation for us to fund NRD assessment and restoration activities that are greater than we have estimated. The outcome of this matter is too uncertain for us to determine the likelihood or potential amount of any such obligation at this time.

Management continues to monitor the Port Gamble cleanup processes closely. The $6.6 million remediation accrual as of September 30, 2017 represents our current estimate of the remaining cleanup cost and most likely outcome to various contingencies. These estimates are predicated upon a variety of factors, including the actual amount of the ultimate cleanup costs. The liability is based upon a number of estimates and judgments that are subject to change as the project progresses. There may be additional litigation costs if we cannot reach a settlement with DNR, and the outcome of any such litigation is uncertain. The filing of the CD limits our legal exposure for matters covered by the decree, but does not eliminate it entirely. DOE reserves the right to reopen the CD if new information regarding factors previously unknown to the agency requires further remedial action. While unlikely, a reopening of the CD may result in adverse financial impacts and may have the effect of distracting management and other key personnel from the day to day operation of our business. These factors, alone or in combination with other challenges, may have a material adverse effect upon our assets, income and operations.

Our leverage may give rise to additional risks. The Partnership's total outstanding debt was $83.3 million at September 30, 2017, of which $39.0 million bears interest at variable rates, with the balance at fixed rates. This debt, particularly that portion that carries variable interest rates, exposes us to certain additional risks, including the possibility that we may face additional interest expense, particularly in an economic environment that includes rising interest rates, as are expected in the United States in coming periods. In addition, generally speaking, an increase in our indebtedness may limit our ability to defer timber harvests and potentially restricts our flexibility to take advantage of other investment opportunities that might otherwise benefit our business. In extreme cases, we could be placed in a position in which we default under one or more of our credit arrangements, which could require us to pledge additional portions of our timberland as collateral for our indebtedness or which might require us to take other actions or expose us to other remedies that could have a material adverse effect upon our assets, operations or business.

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

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

Consolidation of sawmills in our geographic operating area may reduce competition among our customers, which could adversely affect our log prices. In the past we have experienced, and may continue to experience, consolidation of sawmills and other wood products manufacturing facilities in the Pacific Northwest. Because a portion of our cost of sales in our Fee Timber segment, which encompasses the Combined tree farms, consists of transportation costs for delivery of logs to domestic sawmills, it becomes increasingly expensive to transport logs over longer distances for sales in domestic markets. As a result, a reduction in the number of sawmills, or in the number of sawmill operators, may reduce competition for our logs, increase transportation costs, or both. These consolidations thus may have a material adverse impact upon our Fee Timber revenue or income and, as that segment has traditionally represented our largest business unit, upon our results of operation and financial condition as a whole. Any such material adverse impact on timber revenue and income as a result of regional mill consolidations will also indirectly affect our Timberland Investment Management segment in the context of raising capital for investment in Pacific Northwest-based timber funds.

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

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

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

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

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

Risks Relating to Ownership of Our Securities

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

We have a limited market capitalization and a relatively low historic trading volume, as a result of which the trading prices of our units may be more volatile than would an investment in a more liquid security. Our relatively small public float and our limited trading volume may, in some instances, make trading in our units more volatile, as a result of which our price may deviate more significantly, and opportunities to buy or sell our units may be more limited, than investors might experience with a more liquid market. This circumstance may be magnified during times of significant or prolonged selling pressure on our securities. Further, we are simultaneously maintaining both a distribution reinvestment plan, which may have the effect of increasing the number of outstanding units, and a unit repurchase plan, which has had and may continue to have the effect of reducing the number of outstanding units. These factors together make it difficult to predict the effect, if any, on our liquidity or our market capitalization.

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

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

(a) - (e) None

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Period	*(a) Total Number of Units Purchased*	*(b) Average Price Paid per Unit*	*(c) Total Number of Units Purchased as Part of Publicly Announced Plans or Programs (1)*	*(d) Maximum Approximate Dollar Value of Units that May Yet Be Purchased Under the Plans or Programs*
July 2017	2,020	$74.96	2,020	$992,000
August 2017	3,236	$71.91	3,236	$759,000
September 2017	2,915	$71.18	2,915	$552,000

(1) Units purchased pursuant to plan adopted under Rule 10b5-1 of the Securities Exchange Act of 1934 and announced publicly on May 30, 2017. The plan allows for the repurchase of units with an aggregate value of up to $1.2 million through July 1, 2018.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None

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

None

ITEM 5. OTHER INFORMATION

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

ITEM 6. Exhibits

Exhibits.

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

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

SIGNATURES

Pursuant to the requirement of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on November 6, 2017.

POPE RESOURCES,
A Delaware Limited Partnership

By: POPE MGP, Inc.
Managing General Partner

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

By: /s/ Daemon P. Repp
Daemon P. Repp
Director of Finance
(Principal Financial Officer)

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

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Thomas M. Ringo, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 6, 2017

/s/Thomas M. Ringo

Thomas M. Ringo
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER

I, Daemon P. Repp, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: November 6, 2017

/s/ Daemon P. Repp
Daemon P. Repp
Director of Finance

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, 2017, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas M. Ringo, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

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

November 6, 2017

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, 2017, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Daemon P. Repp, Director of Finance of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

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

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

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

/s/ Daemon P. Repp
Daemon P. Repp
Director of Finance

November 6, 2017