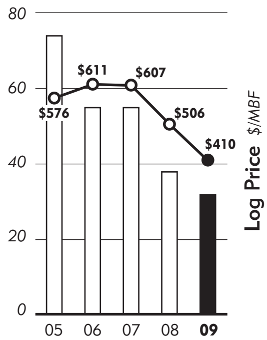
POPE RESOURCES 2009 ANNUAL REPORT

09

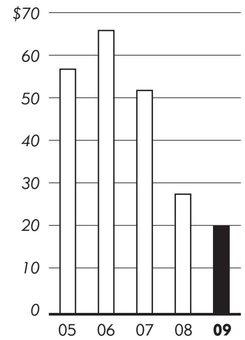
Financial Highlights

(thousands, except per unit data)	**2009**	2008	2007
Revenue			
Fee Timber	**$14,847**	$23,551	$35,514
Timberland Management & Consulting	**601**	944	1,344
Real Estate	**5,030**	3,683	15,037
Total revenue	**$20,478**	$28,178	$51,895
Income/(loss) from operations			
Fee Timber	**$3,724**	$6,294	$15,215
Timberland Management & Consulting	**(375)**	(543)	(883)
Real Estate	**1,663**	(1,111)	5,163
General and Administrative	**(3,733)**	(3,951)	(4,782)
Total income from operations	**$1,279**	$689	$14,713
Net income	**($272)**	$1,162	$15,508
Net income per fully diluted unit	**($0.07)**	$0.23	$3.22
Free cash flow	**($1,615)**	$1,957	$11,268
Free cash flow per fully diluted unit	**($0.36)**	$0.42	$2.36
Unit price at year-end	**$24.60**	$20.00	$42.75
Distribution per unit	**$0.70**	$1.60	$1.36
Units outstanding at year-end	**4,576**	4,665	4,720
Total assets	**$187,056**	$165,411	$179,325
Long-term debt, including current portion	**29,490**	29,586	30,727
Noncontrolling interests	**70,931**	44,354	45,803
Partners' capital	**83,126**	87,817	96,644
Partners' capital per unit	**$18.17**	$18.83	$20.48
Fee timber harvest (MMBF)	**32**	38	55

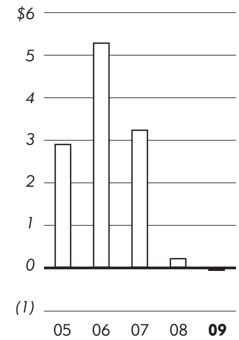
Harvest Volume
MMBF



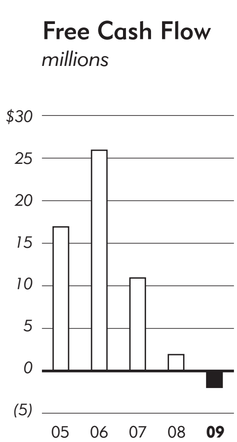
Total Revenue
millions

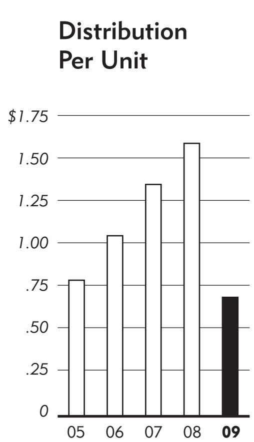


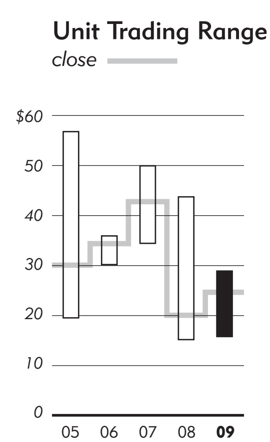
Earnings Per Diluted Unit



Dear Fellow Unitholders: There is no way of getting around the fact that 2009 was an extraordinarily challenging year. The numbers tell the story, with our total revenue of $20 million off 27% from 2008 and 69% lower than our high-water mark just three years ago in 2006. We have to go back 20 years to find the company's revenue levels this low. We also reported an annual net loss of $272,000, or $0.07 per diluted ownership unit, only the third time in our 24-year history we have failed to generate a profit.







There is a definite temptation to bemoan the difficult economic climate we have been operating in over the past year, and to focus on all the macroeconomic indicators responsible for the great recession that we seem to have just come through. Rather than rehash the origins of this recession and the resulting market conditions it created, I will focus instead on the proactive steps we have taken to add value to the company's assets and prepare for what we believe is a bright future.

As a small company that is thinly traded and enjoys only a limited following, we are not beholden to meeting analysts' earnings expectations. As such, we are able to behave more like a private company and make many decisions with an eye towards adding long-term value rather than focusing on short-term results. This past year was a good example of this principle, where we made a number of decisions that pulled down current earnings, but were nonetheless the right thing to do from a long-term perspective.

Foremost among these decisions was a move to conserve cash by cutting our quarterly distribution. Given how far log markets had declined and the uncertainty associated with the length of the housing downturn, we opted to cut our quarterly distribution twice during the year. We cut it from $0.40/unit in the fourth quarter of 2008 to $0.20/unit in the first quarter of 2009 and to $0.10/unit in the fourth quarter of 2009. Relative to 2008, this conserved $4.2 million of cash in 2009 and, at the current quarterly distribution level of $0.10/unit, $5.5 million on an annualized basis.

The reductions in our quarterly distribution, in concert with our relatively low level of debt, also afforded us greater flexibility to cut back our log harvest volume and thereby avoid pushing logs into a depressed market. As was the case in 2008, we decided to reduce our harvest to below our long-term sustainable level. We went into 2009 with the intention of harvesting 37 million board feet (MMBF), a reduction of nearly 30% from our sustainable harvest of 52 MMBF. As we moved into the year, log markets proved to be so weak that we dropped the target harvest by an additional 5 MMBF to 32 MMBF. These harvest deferrals of 2008 and 2009 will add value by allowing the trees to continue to grow while we wait for markets to improve. The mature merchantable timber on our tree farms grows by almost 4% per year, so it will not take much of a log price recovery for this deferral decision to make sense from a discounted cash flow standpoint. Including growth, we have deferred 37 MMBF of volume over the past two years. When markets recover, we plan to harvest this deferred volume as an increment to our sustainable harvest level.

With the collapse of the housing market and the uncertainty associated with how long the recovery will take, we recognized the need early in the year to tighten our belts. We moved to contain costs by letting go of some talented individuals, freezing salaries, and slashing discretionary spending across our operations. These measures led to a 25% reduction in our operating expenses across our three business segments and a 59% decline in discretionary capital spending relative to 2008, all of which helped to mitigate the impact of declining log prices and lower harvest levels. While this cost cutting effort entailed some difficult decisions, it left intact core competencies and will serve us well in 2010 and beyond as we foresee a slow recovery in our markets.

An additional response to the poor state of log markets in 2009 might have been to increase the harvest of higher valued logs to help compensate for declining log prices. Instead, we mirrored our 2008 log sort mix by emphasizing the harvest of lower valued stands with a higher component of pulpwood volume. We did this for two reasons. First, while all log grades declined in price during the year, pulpwood logs experienced the lowest percentage decline. In addition, weighting our harvest mix towards stands with a heavier component of pulpwood volume allowed stands with a higher proportion of more valuable logs to continue to grow. Accordingly, pulpwood volume, as a percent of our total mix, swelled to 23% and 21%, respectively, in 2009 and 2008. By comparison, pulpwood timber comprises only 14% of our total merchantable timber inventory. This bias towards more pulpwood in our harvest mix contributed to the 2009 decline in our total weighted average log price to $410 per thousand board feet (MBF), a drop of 19% from the average 2008 price of $506/MBF and 32% from the average 2007 price of $607/MBF. So again, while this decision to cut lower valued stands in 2009 served to further depress revenue and earnings, we believe it will add value to our remaining asset base.

Lastly, in 2009 we decided to refinance one of our two timber mortgages that, while improving downstream cash flows, reduced near-term earnings. Going into 2009, both our mortgages carried interest rates that were high relative to the current interest rate environment and also represented refinancing risk with both coming due in April 2011. To mitigate this refinancing risk and reduce future interest expense, we refinanced one of these mortgages and entered into a new 10-year, $9.8 million mortgage due in September 2019. The proceeds were used to retire the old mortgage and pay a $1.1 million make-whole premium, which was recognized as a one-time debt extinguishment cost. The interest rate on the new mortgage is fixed at 6.4% versus 9.65% for the refinanced mortgage.

In addition to some of the defensive moves described above, we also had the chance to play some offense during the year. Early in the year, we closed ORM Timber Fund II (Fund II), an $84 million fund focused on acquiring Pacific Northwest timberland properties. As with our first fund, Pope Resources has a 20% co-investment stake in Fund II. Early in the fourth quarter of 2009, Fund II invested $34 million in two separate properties in northwest Oregon totaling 12,000 acres. We are actively seeking attractive timberland acquisitions to fill out this fund's remaining $50 million of committed capital. Over time, as we are able to grow the size of this timber fund business, we expect that our unitholders will enjoy increased economies of scale, fee income from managing both the properties and the funds, and future carried interest participation fees for each fund that delivers returns to investors above pre-determined thresholds. We are excited to have fund capital available to put to work in the current timberland market, where indications suggest that prices may be moderating.

We have had to make some painful decisions during 2009 including reducing headcount, discretionary expenses, and unitholder distributions in order to conserve capital. These decisions, while difficult, heighten our resolve to not just survive the market downturn, but to continue making the forward-looking decisions that will position our portfolio to capitalize on an economic recovery that is still probably more than a year away. The balance of this letter will examine, in more detail, our capital allocation strategies as well as the actions we are taking in each of our segments to add long-term value to our asset base.

CAPITAL ALLOCATION

In last year's letter, we detailed the "harvest" of free cash flow from 2004 to 2007 totaling $65 million. Two years ago, at the beginning of 2008, we had cash and short-term investments on our balance sheet totaling $32 million. By the end of 2009, this total, excluding cash from our two timber funds, had declined to approximately $6 million. The table below details the most significant cash outflows during this two-year period and highlights our capital allocation priorities:

($ millions)	**2008–09**
Distributions to POPE unitholders	**$10.7**
Timber fund co-investment	**6.9**
Unit repurchases	**5.8**
Non-discretionary Real Estate project expenditures	**2.7**
Discretionary Real Estate project expenditures	**2.4**
Direct timberland purchases for Pope Resources	**0.9**
Total	**$29.4**

While the above table details the cash outflow over the past two years, it is not necessarily a prologue to the next few years. To a great extent, the aggregate amount directed toward these categories in the future will be a function of the strength of our desire to conserve cash as well as the characteristics of the economic recovery.

As described earlier, we reduced our quarterly distribution by 75% in conjunction with our curtailment in log harvest volume. Going forward, our distribution level will be heavily influenced by our harvest level, as that is our primary vehicle for cash flow generation. The amount we will spend to fulfill our timber fund co-investment commitments is difficult to predict as it is dependent on timberland deal flow matching up with attractive acquisition pricing. We have a $10 million co-investment obligation remaining for Fund II, which we anticipate fulfilling during the two-year drawdown period ending in March 2011. However, the drawdown period may be extended upon approval by Fund II's investors at that time if the fund is not fully invested. If we are able to place all the capital in Fund II during 2010, we anticipate having to tap our $35 million line of credit for a portion of this co-investment obligation. With our current emphasis on preserving cash, we have constrained our unit repurchase program since the middle of 2009. We have also ratcheted back our discretionary Real Estate project expenditures to align with lower anticipated sales velocity over the next few years.

BUSINESS SEGMENT STRATEGIES

Fee Timber

Our Fee Timber segment is the beneficiary of Pope Resources' strong balance sheet and relatively low level of debt. By cutting our quarterly distribution by 75%, refinancing one of our two timberland mortgages, and obtaining covenant relief during these depressed markets, we were able to do what many other timber companies could not "afford," namely to reduce both harvest volume and current cash flow during down markets. We have seen many companies being forced to sell into depressed markets due either to high absolute levels of debt or concerns over failing cash flow debt covenants. As described earlier, with our merchantable timber volume growing by almost 4%, it will not take much of a log price recovery for this deferral decision to make sense from a strictly financial standpoint. As markets begin to recover, we anticipate that we will be recouping this 37 MMBF of "banked" timber volume through stepped-up harvest beginning in the next year or two.

When log markets are as depressed as they were in 2009, we observe considerable price compression across both species and log sorts. To manage through this phenomenon, we work hard to retain harvest unit flexibility by maintaining a considerable volume of permitted harvest units. This allows our foresters maximum flexibility to switch harvest units to either capitalize on strong spot pricing or, as in a year like 2009, to sell harvest units that have a heavier mix of log sorts that have experienced a lower relative price decline. We believe this helps us to not only manage through these difficult times, but also positions us to emerge even stronger in the future as markets begin to recover.

We are also continuing work on maintaining our timber inventory system through the annual cruising of between 15% and 20% of our stands aged 20 and older. This statistical sampling effort measures not only volume, but species mix, site index, defect, and log grade. This helps us in three important ways. First, it improves our short-term forest and financial planning efforts by giving us greater confidence in accurately predicting realized harvest volumes. As a part of this process, we compare all harvest unit cutouts (the actual results of our harvest) to the volume estimates developed through our inventory system. Over the past five years, our cutout on 254 MMBF of actual harvests has exceeded our timber inventory by 2.25%. These annual cutout analyses help us to fine tune our growth and yield models, which gives us greater confidence in predicting long-term sustainable harvest levels. Finally, the extensive experience and expertise we have developed using our own personnel to conduct internal timber cruises helps us in assessing acquisition targets for our timber fund business, as we use those same personnel in our acquisition due diligence process.

Our long-term timberland ownership strategy is to diversify away from our traditional holdings in the Hood Canal region of Puget Sound that date from our 1985 formation in a spin-off by Pope & Talbot. Over the past decade, we have grown our timberland base from 72,000 acres to over 121,000 acres when including our 20% interest in ORM Timber Funds I and II. We've also diversified into other sub-regional logs markets by expanding into southwest Washington and northwest Oregon. In conjunction with both our timber fund and real estate strategies, we expect this trend to continue over time. We continue to see co-investments in our timber fund offerings as a means of converting a portion of our free cash flow into growing our land base over time. In addition to the fee income stream that will accrue to our Timberland Management & Consulting segment, we see our co-investments as a means of being in the timberland market on a continuous basis and managing this growth through dollar cost averaging. Our real estate strategies will help to fund this growth by capturing the value we have added to our 2,500-acre Real Estate portfolio and leveraging the relatively high timberland values of our Fee Timber portfolio associated with encroaching development pressures. Over time, we expect to continue to shrink our footprint in the Hood Canal region of Puget Sound while continuing to grow in southwest Washington and western Oregon.

Timberland Management & Consulting

When we launched our Olympic Resource Management (ORM) subsidiary in 1997, it signaled a new strategic intent to leverage our expertise in managing our own timberlands into providing that service to third parties. ORM's first decade was characterized by a succession of three large-scale timberland management contracts for clients that owned large blocks of Pacific Northwest timberland. During this period, we provided comprehensive management services on over 1.5 million acres of timberland stretching from British Columbia to California. Over time, we also recognized market demand for commingled timberland investment funds where outside investors could invest alongside Pope Resources.

In 1985, when Pope Resources was spun off from Pope & Talbot, most timberland was owned by forest product companies that saw the primary value of the land as a source of logs for their mills. At that time, timberland was just beginning to be "discovered" as an alternative investment with attractive return characteristics for institutional investors. As major integrated forest products companies gradually divested of their timberland holdings over the past 25 years, most were sold to large institutional investors through timberland investment management organizations (TIMOs). As we watched this TIMO market evolve over time, we saw four areas where we could offer a differentiated timberland investment fund while leveraging our timberland management expertise. Few, if any, TIMOs were co-investing alongside their third-party investors. We saw an opportunity for Pope Resources to invest its own capital alongside third-party investors while at the same time improving alignment with investors. We also saw a need to provide regional specialization in the Pacific Northwest rather than trying to be in all markets as is the case with many TIMOs. In terms of transaction sizes, we saw an opportunity to focus on middle-market transactions in the $10–$30 million range that were deemed too small for many large TIMOs to pursue. Finally, we observed that most large TIMOs were managing a mixture of large separate accounts and commingled funds, thus creating issues with acquisition queues for investors trying to get into the asset class.

These observations helped to shape our strategy for a differentiated timber fund offering. In 2005, we closed our first timber fund with a total capital commitment of $62 million, 20% of which came from Pope Resources. In late 2006, we placed $58 million of this capital through the purchase of 24,000 acres of western Washington timberland in two transactions. We closed our second fund in early 2009 with a total of $84 million of committed capital, with Pope Resources again providing 20% of the total. As mentioned earlier, we acquired two properties totaling 12,000 acres in northwest Oregon in the fourth quarter of 2009. This leaves another $50 million of committed capital to place sometime in the next year or two before the capital commitment expires. As cash flow generated from timberland investments declined during this current downturn in the housing market, we noted an increase in attractively priced acquisition opportunities. We believe we will be able to capitalize on these investment opportunities as a result of our timber fund business in a way that would not have been possible using only our own capital without significantly increasing leverage and corresponding risk.

There are a multitude of benefits to Pope Resources from being in the fund business that I have trumpeted in prior versions of this letter, including: the attraction and retention of talent to meet the service demands of a third-party business that also benefits Pope Resources' timberland; diversification of Pope Resources' core holdings; constant engagement with the market for timberland that keeps our timberland acquisition and disposition skills sharp; and, finally, the addition of a stable stream of fee income to augment the revenue generated from our timberland and real estate holdings.

Real Estate

Following the 2001 sale of our resort assets in Port Ludlow, we shifted the focus of our Real Estate segment away from resort operations and homebuilding to securing entitlements that will add value to our land. After years of operating as a vertically integrated real estate development company, we believe this is the part of the value chain where we can add the most value. This strategy is of particular importance to us as a large portion of the 71,000-acre Hood Canal tree farm is clearly in the path of development. The Pacific Northwest continues to be a desirable place for in-migration from other parts of the U.S. and we believe that is a trend that will continue to put upward pressure on demand for land for decades to come. During the recession of 2001–2002, we focused on developing a pipeline of product we could sell during the next cyclic upturn in the market. This strategy paid off handsomely at the top of the cycle in 2006–2007 when we generated total segment revenues of $40 million from the sale of an array of urban and rural residential lots as well as some very valuable commercial land in our Gig Harbor project.

While this current downturn in the housing market is far more severe than anyone projected and it will likely take a number of years to absorb excess supply of lot inventory, the recovery will eventually happen. In addition to the in-migration referenced earlier, there are strong underlying demographic characteristics that should translate to good long-term demand fundamentals for land in our regional market. We also recognize that many developers have cut staff in the area of lot development. When the market does come back, we believe this will translate to a constrained supply of permitted lots. So while we have cut back on a significant amount of our Real Estate discretionary capital spending, we continue to fund the long-term entitlement efforts that will translate to a supply of lots two to four years from now.

Foremost among these efforts are our residential plats in Gig Harbor and Kingston. In December 2008, we submitted a residential plat application for the 200-acre residential portion of our Gig Harbor project, which is located in a desirable suburb of Tacoma. This plat application, for which we expect to gain approval in 2010, calls for 558 single-family lots and 265 multi-family lots. Once approved, we will incur road infrastructure costs before we have finished lots ready to sell. However, most of the more capital-intensive infrastructure investments have already been completed in conjunction with the Costco sale in 2006. Our 356-acre Kingston project, which is one mile from the Kingston ferry terminal (providing service to the Seattle suburb of Edmonds), finally received plat approval in late 2009 after many years of delay. In February 2010, Kitsap County approved a 15-year development agreement for this project, which calls for 663 single-family lots and 88 multi-family lots. We expect both the Gig Harbor and Kingston projects to have product ready to sell in the next two to three years and we believe this timing should coincide with at least the beginnings of a recovery in the local housing market.

While we are encouraged by the future revenue generating capacity of our Real Estate assets, 2009 was a very slow year. We sold only 50 acres of raw land and rural residential real estate this past year, an all-time low for the company. Although we were satisfied with the $10,420 per acre average price of these sales, we did not see fit to push land sales in a soft market. In this sense, our actions in the Real Estate segment were similar to our decision to defer log harvest volume in our Fee Timber segment. To generate some revenue and cash during this period, we began providing consulting services to banks that now own developable land as a result of non-performing land loans. These consulting services provide a creative way of keeping our Real Estate team largely intact while continuing to work with our properties and still generate some revenue and cash during this time of weak land markets.

Although outright land sales activity has been slow during this market downturn, we have had notable success selling conservation easements over the past few years. These agreements, which typically preserve all our rights to intensively practice silviculture and harvest timber, allow us to monetize the real estate development rights. Nearly 65% of the Real Estate segment's 2009 revenue was generated by a $3.3 million conservation easement sale on 2,290 acres of our Hood Canal tree farm. Conservation easements such as this are structured to provide benefits to multiple constituencies. Conservation groups work to raise money to retire these development rights and in the process, preserve working forests that help protect soils, streams, and wildlife. We see these agreements as an important tool for extracting real estate value that would otherwise take many years to realize. While these agreements typically take several years to complete, the $6.6 million of conservation easement sales in the past three years have helped us during an otherwise slow period for land sales.

One of the central tenets of our Real Estate segment's efforts to add value to our lands is to look for win-win solutions with local communities. Since obtaining land entitlements is fundamentally a political process, we believe that seeking such win-win solutions is a key to success. Two of our long-term entitlement efforts are good examples of this principle, the "String of Pearls" strategy for our 8,000 acres of north Kitsap County lands and our "Ring of Fire" initiative for our 24,000 acres of Skamania County lands. In Kitsap County, we are exploring a partnership with the County to increase development densities on 1,000 acres near our historic mill town of Port Gamble in exchange for selling other portions of our 8,000-acre ownership to the public. We believe this will help create the necessary scale to make the re-development of Port Gamble economically viable, while at the same time providing the County with an increased tax revenue base. By allowing for public ownership on the balance of our lands, the broader community will benefit through the development of a regional trail system connecting many of the waterfront towns, or "pearls," in north Kitsap County. Our Skamania County initiative is based on selling a series of conservation easements over a number of years on 85% of our ownership in that county in exchange for obtaining entitlements on the remaining 15% to provide development opportunities for active recreation and services to support a regional tourism loop around Mt. St. Helens.

To provide for some downside protection should our entitlement efforts not be successful and to protect against the potential for down-zoning on both projects while we are working on each of these initiatives, we deployed a defensive strategy over the past two years of recording 20-acre legal parcels in conformance with current zoning in Kitsap and Skamania counties. We view this as a form of insurance to have saleable lots and lock in our existing rights while we continue to work with both counties and a number of conservation organizations on each of these initiatives. We still have considerable work to do on both projects, but feel the potential long-term return is worth the added effort.

LOOKING FORWARD

As the recession appears to be coming to an end, many economists report that the housing market has finally bottomed out and will begin to recover, albeit slowly. We are hopeful that the housing market will begin to improve this year, but are not counting on it. We remain concerned about the overhang of foreclosures and the impact that high unemployment and tight credit will have on this recovery. Accordingly, we are adopting a cautious operating posture and once more are holding back on our planned log harvest level. As previously announced, we intend to harvest 32 MMBF in 2010, a level similar to 2009 and 47% below our current sustainable harvest of 60 MMBF. If markets do improve faster than anticipated, our deferred harvest volume and large supply of permitted harvest units will allow us to capitalize on that situation.

In the meantime, we are not merely hunkered down in a totally defensive posture. We are growing our timber fund business, investing in our Real Estate portfolio, and actively positioning our land and timber assets to be ready for an expected recovery across our various markets. I am very proud of the fine work our Board, management team, and employees have done in staying focused on executing our strategies and managing through these challenging times. The steps we have taken leading up to and during this recession have maintained the strength of our balance sheet and our ability to raise debt capital if needed while still preserving our ability to capitalize on an economic recovery. I would like to thank our unitholders for your continued support of our strategies and team and, as always, I welcome your feedback.

David L. Nunes
President and CEO
March 15, 2010

Management's Discussion and Analysis of Financial Condition and Results of Operations

This report contains a number of projections and statements about our expected financial condition, operating results, and business plans and objectives. These statements reflect management's estimates based upon our current goals, in light of management's knowledge of existing circumstances and expectations about future developments. Statements about expectations and future performance are "forward looking statements" which describe our goals, objectives and anticipated performance. 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 that part of our 2009 10-K report entitled "Risk Factors." Other issues that may have an adverse and material impact on our business, operating results and financial condition include our ability to accurately estimate the potential for environmental remediation costs at Port Gamble; the impacts of climate change and natural disasters on our timberlands and on surrounding areas; credit and economic conditions that affect demand for our products; and environmental and land use regulations that limit our ability to harvest timber and develop property. 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 as of the date of the report, and we cannot undertake to update these statements as our business operations and environment change.

This discussion should be read in conjunction with the Partnership's audited consolidated financial statements included with this report.

EXECUTIVE OVERVIEW

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

As of December 31, 2009, we owned 114,000 acres of timberland in western Washington State, 36,000 acres of timberland for the Funds in Washington and Oregon, plus 2,500 acres of real estate held for sale or development. Our third-party Timberland Management & Consulting services have historically been conducted in Washington, Oregon, and California.

Net loss attributable to unitholders for the year ended December 31, 2009 totaled $272,000, or $0.07 per diluted ownership unit, on revenues of $20.5 million. For the corresponding period in 2008, net income attributable to unitholders totaled $1.2 million, or $0.23 per diluted ownership unit, on revenues of $28.2 million. For the year ended December 31, 2009, cash flow from operations was $662,000, compared to $4.0 million in 2008. Net loss attributable to unitholders for the quarter ended December 31, 2009 totaled $376,000, or $0.08 per diluted ownership unit, on revenues of $5.2 million. This compares to net loss attributable to unitholders of $1.4 million, or $0.32 per diluted ownership unit, on revenues of $3.2 million for the quarter ended December 31, 2008.

Our revenues, net income and cash flows are lower than in recent years owing largely to the well-publicized macroeconomic factors that have resulted in a dramatic reduction in housing starts in the United States. Credit markets also have a significant impact on our business as our customers rely on those markets for liquidity. Housing starts, interest rates, and credit markets reflect or influence the health of the U.S. housing market. Currency exchange rates influence the competitiveness of our domestic sawmill customers in relation to imported lumber from Canada, Europe, or the Southern Hemisphere and also the competitiveness of our logs in export markets in Asia. Our export logs are sold to domestic intermediaries who then export the logs. A favorable exchange rate can help these intermediaries compete in Asian markets with logs that originate from Canada, Russia, or the Southern Hemisphere, thus increasing the price that we are able to realize from these export log sales.

As an owner and manager of timberland, we focus keenly on three "product" markets: lumber, logs, and timberland. Each of these markets has unique and distinct attributes such that the respective product prices do not move up or down in lockstep with each other. Generally, the lumber market is the most volatile as it responds quickly (even daily) to changes in housing-driven demand and to changes in lumber inventories. Log markets will in turn be affected by what is happening in the spot lumber markets, but pricing shifts typically adjust monthly rather than daily. Log price volatility is also moderated because logs are used to produce products besides just lumber (especially pulp). The market for timberland tends to be less volatile with pricing that lags both lumber and log markets. This is a function of the longer time horizons utilized by timberland investors where the short-swing fluctuations of log or lumber prices are moderated in acquisition modeling. We watch the lumber market because activity there can presage log price changes. We are in the log market constantly as we negotiate delivery prices to our customers. The timberland market is important as we are constantly evaluating our own portfolio and its underlying value as well as the opportunities to adjust that portfolio through either the acquisition or disposition of such land.

Our current strategy for adding timberland acreage is centered on our timber fund business model. In March 2009, we completed the final closing for Fund II with $84 million of committed capital including Pope Resources' 20% co-investment. In early October 2009, Fund II closed on its first two timberland acquisitions representing 41% of its committed capital. Our 20% co-investment in the Funds affords us a share of the Funds' operations while allowing us to earn asset management and timberland management fees. Management also believes that this strategy allows us to maintain more sophisticated expertise in timberland acquisition, valuation, and management than could be cost-effectively maintained for the Partnership's timberlands alone. Our Real Estate challenges center around how and when to "harvest" a parcel of land and capture the optimum value increment by selling the property.

Our consolidated revenue in 2009, 2008, and 2007, on a percentage basis by segment, was as follows:

Segment	**2009**	2008	2007
Fee Timber	**72%**	84%	68%
Timberland Management & Consulting	**3%**	3%	3%
Real Estate	**25%**	13%	29%

Further segment financial information is presented in Note 12 to the Partnership's Consolidated Financial Statements included with this report.

Outlook

We expect 2010 performance to approximate 2009 due to an expected slow recovery of the new home construction sector, given the well-publicized challenges of high unemployment, growing inventory of foreclosed properties, and tight credit. All of these economic factors impact the Fee Timber and Real Estate segments. We believe that our strong balance sheet allows us to defer timber harvest and land sales until these markets improve, and management has announced an intention to take these actions again in 2010. We also plan to continue our search for additional opportunities to acquire timberland through Fund II at favorable prices during the current market weakness.

We plan to harvest 32 MMBF in 2010 which represents a 47% decline from our estimated sustainable harvest of 60 MMBF, which includes sustainable harvest of 16 MMBF related to the Funds. The decision to defer harvest was made in response to our expectation of continued weakness in log markets resulting from the slowdown in housing starts that is associated with widely publicized declines in the credit and housing markets. We plan to defer all harvest from tree farms owned by the Funds in 2010 and, as such, the planned 32 MMBF harvest will come from the Hood Canal and Columbia tree farms owned directly by the Partnership. Revenue generated by the Funds is consolidated into the Partnership's financial statements. On the Statement of Operations, the 80% interest in the Funds owned by third-party investors is reported beneath operating income and is labeled "Net loss attributable to non controlling interests." When speaking to inventory, volumes are expressed in millions of board feet, or "MMBF," while elsewhere in the document, volumes harvested are expressed in thousands of board feet, or "MBF."

We are also anticipating operating income results for our Real Estate segment will remain weak in 2010, as the market for developable land is expected to remain at extremely low levels in 2010. Until the market improves, we expect to concentrate our Real Estate activities primarily on securing entitlements to our properties while deferring spending on infrastructure improvements wherever possible.

General & Administrative costs in 2010 are expected to approximate 2009 as we continue to exercise restraint in discretionary spending across our lines of business in response to recessionary pressures.

RESULTS OF OPERATIONS

The following table reconciles net income (loss) attributable to unitholders for the years ended December 31, 2009 to 2008 and 2008 to 2007. In addition to the table's numeric analysis, the explanatory text that follows describes many of these changes by business segment.

Year-to-Year Comparisons *($ thousands)*	**2009 vs. 2008** **Total**	2008 vs. 2007 Total
Net income (loss) attributable to unitholders		
Year ended December 31, 2009	**($272)**	
Year ended December 31, 2008	**1,162**	$1,162
Year ended December 31, 2007	–	15,508
Variance	**($1,434)**	($14,346)

Year-to-Year Comparisons ($ thousands)	**2009 vs. 2008 Total**	2008 vs. 2007 Total
Detail of earnings variance		
Fee Timber		
Log price realizations [A]	**($3,116)**	($3,783)
Log volumes [B]	**(2,673)**	(10,600)
Harvest & haul	**1,469**	3,600
Depletion	**1,439**	1,355
Other Fee Timber	**311**	474
Timberland Management & Consulting		
Management fee changes	**(317)**	(176)
Other Timberland Management & Consulting	**485**	548
Real Estate		
Development property sales	**1,433**	(7,510)
Environmental remediation	**(30)**	1,878
Timber depletion on HBU sale	**478**	(478)
Other Real Estate	**893**	(164)
General & Administrative costs	**218**	831
Net interest expense	**(782)**	239
Debt extinguishment costs	**(1,137)**	–
Other (taxes, noncontrolling interests, impairment)	**(105)**	(560)
Total variance	**($1,434)**	($14,346)

(A) Price variance allocated based on changes in price using the current period volume.

(B) Volume variance allocated based on change in sales volume and the average log sales price for the prior period less variance in log production costs.

Fee Timber

Revenue and Operating Income

Fee Timber revenue is earned primarily from the harvest and sale of logs from the Partnership's 114,000 acres of fee timberland located in western Washington and, to a lesser extent, from the lease of cellular communication towers together with the sale of gravel and other forest products that result from timberland operations. Revenue from the sale of timberland tracts will also appear periodically in results for this segment. Our Fee Timber revenue is driven primarily by the volume of timber harvested and by the average prices realized on log sales. In late 2006, Fund I acquired 24,000 acres of timberland with operating activities from these properties beginning in 2007 and results from those operations consolidated into this discussion of operations. In the fourth quarter of 2009, Fund II acquired 12,000 acres in northwestern Oregon and its operating activities are also consolidated into this discussion of operations.

Revenue and operating income for the Fee Timber segment for each year in the three-year period ended December 31, 2009, are as follows:

Year ended *($ millions)*	Log Sale Revenue	Mineral, Cell Tower & Other Revenue	Total Fee Timber Revenue	Operating Income (Loss)	Harvest Volume (MBF)
Pope Resources Timber	**$13.3**	**$1.5**	**$14.8**	**$4.0**	**32,461**
Fund I	–	–	–	**(0.3)**	–
Total Fee Timber 2009	**$13.3**	**$1.5**	**$14.8**	**$3.7**	**32,461**
Pope Resources Timber	$16.7	$2.0	$18.7	$6.7	32,455
Fund I	2.4	2.4*	4.8	(0.4)	5,293
Total Fee Timber 2008	$19.1	$4.4	$23.5	$6.3	37,748
Pope Resources Timber	$30.5	$2.0	$32.5	$14.8	49,825
Fund I	3.0	–	3.0	0.4	5,336
Total Fee Timber 2007	$33.5	$2.0	$35.5	$15.2	55,161

**Conservation easement sale revenue*

Fiscal Year 2009 compared to 2008. Revenue and operating income decreased in 2009 from 2008 due to a 14% lower harvest volume and a $96 per MBF, or 19%, decline in log prices. The decrease in 2009 harvest volume from 2008 is due to continuing weak log markets which have caused us to reduce harvest levels in 2009 below our estimated long-term sustainable harvest level. We originally planned to harvest 37 MMBF in 2009 representing nearly a 30% volume deferral from our pre-Fund II long-term sustainable harvest level. But as 2009 progressed and log markets weakened below the levels that we had forecasted, we decided to defer additional harvested volume resulting in the 38% harvest deferral in 2009.

Fiscal Year 2008 compared to 2007. Revenue and operating income decreased in 2008 from 2007 due to a combination of less harvest volume and lower log prices partially offset by a $2.4 million conservation easement sale from Fund I. We planned to decrease our harvest volume in 2008 from 2007 in response to weak log markets. The decline in log prices is due to weak housing and credit markets experienced in 2008. Harvest volume in 2008 decreased 32% from 2007. Average log prices decreased $101 per MBF, or 17%, from log prices realized in 2007. Operating income in 2008 attributed to the Fee Timber segment decreased $8.9 million, or 59% from 2007.

The conservation easement sale completed by Fund I in 2008 is accounted for in the Fee Timber segment due to our policy of including all operations of the Funds in the Fee Timber segment. Conservation easement sales and land sales from the Hood Canal and Columbia tree farms made to buyers that plan to use the land for purposes other than timber production are accounted for in the Real Estate segment.

ORM Timber Funds. Fund II acquired its first properties in October 2009 and, as a result, had minimal impact on the consolidated segment performance. The Funds are consolidated into our financial statements and the 80% of these Funds owned by third parties is reflected in our Statement of Operations under the caption "Noncontrolling interests-ORM Timber Funds." Fund I generated $28,000 of revenue in 2009, compared with $4.8 million of revenue generated in 2008 and $3.0 million of revenue in 2007. Fund II generated $3,000 of revenue in the fourth quarter of 2009.

Log Volume

Log volume sold for each year in the three-year period ended December 31, 2009 was as follows:

Volume *(in MBF)*	**2009**	**% Total**	2008	% Total	2007	% Total
Sawlogs						
Douglas-fir	**22,383**	**69%**	24,913	66%	35,114	64%
Whitewood	**1,080**	**3%**	3,121	8%	6,492	12%
Cedar	**827**	**2%**	795	2%	2,238	4%
Hardwoods	**835**	**3%**	977	3%	2,733	5%
Pulp						
All Species	**7,336**	**23%**	7,942	21%	8,584	15%
Total	**32,461**	**100%**	37,748	100%	55,161	100%

Log volume decreased 14% in 2009 from the 2008 harvest as management sought to further reduce volume and preserve our asset value while log, lumber, and housing markets continued to decline throughout 2009. We would generally expect the proportion of harvest going to pulp markets to average between 10% and 15%. However, in 2009 and 2008 we concentrated our harvest on lower quality timber stands to sell logs into pulp markets which have not been as dramatically impacted as other log markets by the downturn in housing. As such, pulp logs represented a relatively higher-than-normal proportion of harvest volume for both 2009 and 2008. This shift in weighting of our sort mix lowered the average realized price per MBF below what it might otherwise have been, but we believe helps enhance asset value by allowing more valuable stands to continue to grow.

Log volume decreased 32% in 2008 from the 2007 harvest as management sought to reduce volume and preserve our asset value while log, lumber, and housing markets declined in 2008. Spot markets developed at times during the year for pulp and export quality Douglas-fir and white woods. We took advantage of these spot markets when available but most log markets were extremely weak during the year. Pulp prices also weakened as 2008 progressed due in part to a surge of available supply of whitewood pulp logs resulting from salvage logging of timber stands damaged in a December 2007 storm event.

Log Prices

We have categorized our sawlog volume by species, which is a significant driver of price realized as indicated by the table below. The average log price realized by species for each year in the three-year period ended December 31, 2009 was as follows:

Price *($/MBF)*	**2009**	**% Change**	2008	% Change	2007
Sawlogs					
Douglas-fir	**$435**	**-19%**	$537	-14%	$621
Whitewood	**309**	**-25%**	412	-11%	462
Cedar	**817**	**-34%**	1,245	-3%	1,280
Hardwoods	**446**	**-30%**	638	-31%	931
Pulp					
All Species	**296**	**-18%**	359	-6%	381
Overall					
All Species	**$410**	**-19%**	$506	-17%	$607

Douglas-fir: Douglas-fir is noted for its structural characteristics that make it preferable to other softwoods and hardwoods for the production of construction grade lumber and plywood. Demand and price for Douglas-fir sawlogs is very dependent upon the level of new home construction. Housing starts appear to have bottomed and have begun to show some signs of improvement as we ended the year. The export market was only slightly stronger than the domestic market as the 2009 recession has resulted in a global economic slow-down which has impacted demand for sawlogs in Asia as well as the U.S. We have experienced a $102/MBF, or 19%, drop in Douglas-fir sawlog prices in 2009 from 2008 on top of a 14% decline in 2008 from 2007.

Whitewood: "Whitewood" is a term used to describe several softwood species, but for us primarily refers to western hemlock. Whitewood is generally considered to have less strength and thus a lower quality than Douglas-fir. Nonetheless, these logs are also used for manufacturing construction grade lumber and plywood. The going price for whitewood sawlogs was so low in 2009 that we actively avoided harvest units with a large component of this product. As a result, the 25% drop in average price realized in 2009 versus 2008 is partially a mix statement as those whitewood sawlogs that were harvested were generally of lower quality.

Cedar: Cedar is a minor component in most upland timber stands and is generally used for outdoor applications such as fencing, siding and decking. Although there is a link between demand for these products and housing starts, this link is not as strong as with most other softwood species. Cedar prices have decreased in 2009 versus 2008 by 34% compared to a modest 3% decrease in 2008 over 2007. The decline in 2009 reflects the decrease in home remodeling activity in concert with weakened credit and real estate markets.

Hardwood: "Hardwood" can refer to many different species, but on our tree farms primarily consists of red alder. The local mills that process alder sawlogs are using the resource to manufacture lumber for use in furniture and cabinet construction. In past years, the price realized from the sale of red alder sawlogs increased in connection with relatively limited supply, coupled with increased demand as a result of new mills focused on hardwood lumber production in the Pacific Northwest. However, the demand for alder lumber has been blunted as users have substituted other species in the face of higher alder prices. The effect of this substitution, combined with weakness in demand for end-use products has translated to lower prices and explains why the year-over-year price realized for hardwood log prices decreased 30% from 2008 on top of a 31% decrease in 2008 from 2007. Hardwood represents a relatively minor species in our sales and timber inventory mix and produces a small impact on overall revenue and earnings.

Pulp: Pulp logs of any species represent logs that are not suitable for lumber production due to a defect that renders the log only fit for manufacture into wood chips. These chips are used primarily to make a full range of pulp and paper products from unbleached linerboard used in paper bags and cardboard boxes to fine paper and specialty products. The price realized from the sale of pulp logs is primarily driven by the supply of wood chips produced as a by-product from lumber mills and the demand for wood chips from manufacturers of market pulp, linerboard, and paper. Pulp log prices in 2009 were down 18% from 2008 resulting from a drop in demand for the end products in the face of overall economic weakness. Pulp log prices decreased 6% in 2008 from 2007. Pulp log prices were volatile during 2008 as chip shortages caused by a decline in lumber mill activities resulted in an increase in demand for pulp logs in early 2008 followed by a dramatic increase in supply in the latter half of the year as salvage logging of coastal timber stands brought to market logs damaged in a significant wind storm in December 2007.

Customers

Annual harvest volume and average price paid as of December 31 was as follows:

	2009		2008		2007	
Destination	**Volume**	**Price/MBF**	Volume	Price/MBF	Volume	Price/MBF
Domestic mills	**20,249**	**$410**	24,191	$531	43,258	$652
Export brokers	**4,876**	**581**	5,615	610	3,319	612
Pulp	**7,336**	**296**	7,942	359	8,584	382
Total	**32,461**	**$410**	37,748	$506	55,161	$607

Volumes by destination showed little relative change in 2009 compared with 2008. Domestic mills purchased 62% of harvest volumes in 2009 versus 64% in 2008. Export brokers represent those log buyers that purchase our logs and then resell them to customers in Japan, China, and Korea. Export brokers purchased 15% of both our 2009 and 2008 harvest. Pulp mills purchased 23% of our harvest volume in 2009 as compared to 21% of 2008.

The export market for logs in the Pacific Northwest has been migrating over the last couple years from a market highly focused on Japan to a market that includes China and Korea, as well as Japan. This change in the export market is expected to result in a decline in the premium earned from the sale of logs to the export market while at the same time increasing export market demand for logs sourced in the Pacific Northwest. Sawlogs sold to Korea and China are not of the high quality demanded by the Japanese market and, as a result, do not command the premium pricing generally attributed to the Japanese market. However, this new source of demand for sawlogs in the Pacific Northwest will impact pricing as domestic mills will now need to compete with this new and growing offshore source of demand for Pacific Northwest sawlogs. These new outlets for lower quality logs will also help to diversify our customer mix away from domestic mills that are more heavily dependent on the U.S. housing market.

Domestic mills purchased 64% of our harvest in 2008 versus 78% in 2007. The decline in the proportion of log volume sold to domestic mills resulted from an increase in volume sold to export brokers and pulp mills. Export brokers purchased 15% of our 2008 harvest, versus 6% in 2007. Pulp mills purchased 21% of our harvest volume in 2008 as compared to 16% of 2007.

Harvest Volumes and Seasonality

The Partnership's 114,000 acres of timberland consist of both the 70,000-acre Hood Canal tree farm and the 44,000-acre Columbia tree farm. The Hood Canal tree farm is located in the Hood Canal region of Washington State. Most of this tree farm acreage is at a relatively low elevation where harvest activities are possible year-round. As a result of this competitive advantage, we are often able to harvest and sell a greater portion of our annual harvest in the first and fourth quarters when the log supply in the marketplace tends to be lower due to seasonal shutdowns of higher elevation tree farms such as Columbia. Fund I owns 24,000 acres of timberland located at higher elevations in Washington State, similar to those of Columbia. Fund II's 12,000 acres of timberland in northwest Oregon, is at low elevations much like those seen on the Hood Canal tree farm.

The percentage of annual harvest volume by quarter for each year in the three-year period ended December 31, 2009 was as follows:

Year ended	Q1	Q2	Q3	Q4
2009	**27%**	**22%**	**20%**	**31%**
2008	25%	38%	31%	6%
2007	18%	41%	28%	13%

In 2009, our harvest was weighted to the first and fourth quarters to take advantage of higher seasonal prices. For 2009, we pushed more than the usual amount of our harvest into the fourth quarter to take advantage of an uptick in market demand and increased prices driven by depleted inventories throughout the supply chain. The absence of internal mills requiring volume and less concern with quarterly earnings fluctuations allows us to maximize value by making market timing adjustments. Furthermore, our practice of permitting excess harvest units provides maximum flexibility to make changes to harvest volumes.

Cost of Sales

Cost of sales for the Fee Timber segment consists of harvest costs and depletion expense. Harvest costs represent the direct cost incurred to convert trees into logs and deliver those logs to their point of sale and associated state excise taxes owed on the harvest of logs. Depletion expense represents the cost of acquiring or growing the timber harvested. Fee Timber cost of sales for each year in the three-year period ended December 31, 2009 was as follows:

Year ended *($ millions)*	Harvest, Haul and Other	Cost of Conservation Easement Sale	Depletion	Total Cost of Sales
2009	**$6.0**	–	**$2.0**	**$8.0**
2008	7.5	2.2	3.4	13.1
2007	11.0	–	4.8	15.8

Fee Timber cost of sales decreased $5.1 million in 2009 from 2008 and decreased $2.7 million in 2008 from 2007. The 5.3 MMBF decline in harvest volume in 2009 from 2008 and the non-recurring costs incurred in connection with the conservation easement sale in 2008 were the primary reasons for the year-over-year decline in Fee Timber cost of sales. The decrease in 2008 from 2007 is due to a decline in volume harvested partially offset by land basis expensed with the sale of a conservation easement by Fund I.

Fee Timber cost of sales, expressed on a per MBF basis for each year in the three-year period ended December 31, 2009, was as follows:

Year ended *($ millions)*	Harvest, Haul and Other	Depletion	Total Cost of Sales*
2009	**$184**	**$62**	**$246**
2008	198	91	289
2007	200	87	287

** Total excludes cost of conservation easement sale*

Harvest costs vary based upon the physical site characteristics of acreage harvested. Harvest units that are difficult to access, or that are located on steep hillsides requiring cable harvest systems, are more expensive to harvest. Haul costs vary based upon the distance between the harvest site and the customer's location. Per MBF harvest and haul costs were lower in 2009 relative to 2008 due to the selection of less expensive harvest units in the face of weak log pricing. Harvest and haul costs per MBF remained flat between 2008 relative to 2007.

The depletion rate is calculated by dividing the historical cost of the timber and related capitalized road expenditures by merchantable timber volume. That calculated rate is then applied to volume harvested. We used one depletion rate in 2009 for volume harvested from the Hood Canal and Columbia tree farms as we had no timber harvest from the Fund I or II tree farms. In 2008 and 2007, we used two separate depletion rates, with our primary pool used for volume harvested from the Hood Canal and Columbia tree farms and the second pool for volume harvested from tree farms owned by Fund I. Depletion expense is calculated by first deriving a depletion rate as follows:

$$\text{Depletion rate} = \frac{\text{Accumulated cost of timber and capitalized road expenditures}}{\text{Estimated volume of 35-year-and-older merchantable timber}}$$

Each year, the depletion rate is adjusted to account for "layers" of harvest volume exiting the pool and new "layers" of 35-year-old timber volume and cost entering the pool. The depletion rate is then applied to future volume harvested to calculate depletion expense. In 2008, we changed our definition of "merchantable" to 35-year-and-older timber from 40-year-and-older in previous years.

We harvested a total of 32,461 MBF from our pooled timberlands in 2009 compared with harvest of 37,748 MBF in 2008, with 5,293 MBF of the 2008 total attributable to the separate depletion pool created for the Fund I timberlands. The separate depletion pool for Fund I harvest is higher than the pooled rate used for the Partnership's harvest due to historical cost basis attributed to the respective timberlands. The majority of the pooled lands have been owned for decades and carry relatively low historical cost in comparison to the Fund I properties we purchased in late 2006. The depletion rate used in the Fund I separate pool under normal market conditions would approximate the net stumpage value realized (delivered log price less harvesting and transportation cost) on the sale of this particular timber. When Fund II begins harvesting, we will use a separate pool to calculate depletion expense.

Depletion expense is generated from the harvest and sale of timber and periodically from Real Estate sales when land is sold with standing timber. Depletion expense generated from Real Estate sales, as was the case in 2008, is excluded from the Fee Timber depletion analysis. Depletion expense resulting from timber harvest for each year in the three-year period ended December 31, 2009 was made up of the following:

	Year ended December 31, 2009	
	Pooled	**Total**
Volume harvested (MBF)	32,461	32,461
Rate/MBF	$62	$62
Depletion expense (000's)	$2,001	$2,001

	Year ended December 31, 2008		
	Pooled	Fund I	Total
Volume harvested (MBF)	32,455	5,293	37,748
Rate/MBF	$65	$254	$91
Depletion expense (000's)	$2,094	$1,343	$3,437

	Year ended December 31, 2007		
	Pooled	Fund I	Total
Volume harvested (MBF)	49,824	5,337	55,161
Rate/MBF	$70	$238	$87
Depletion expense (000's)	$3,503	$1,269	$4,772

OPERATING EXPENSES

Fee Timber operating expenses for each of the three years ended December 31, 2009, 2008, and 2007 were $3.1 million, $4.2 million, and $4.5 million, respectively.

Year ended *($ millions)*	**2009**	2008	2007
Operating expenses	**$3.1**	$4.2	$4.5
Average acres	**144,441**	137,780	137,321
$/Acre	**$22**	$30	$33

Operating expenses for Fee Timber include management, silviculture and the cost of both maintaining existing roads and building temporary roads required for harvest activities. Due to consolidation of the Funds into the Partnership's financial statements the fees generated from the management of these funds are eliminated from the Fee Timber operating expenses. The portion of these fees paid by noncontrolling interests was $699,000, $696,000, and $717,000 in 2009, 2008, and 2007, respectively. Operating costs declined in 2009 as a result of cost-cutting measures implemented in the first quarter of the year. Operating expenses on a per-acre basis declined by a slightly greater amount relative to the actual expenses due to the additional acres acquired by Fund II. Operating costs remained relatively consistent in 2007 and 2008 despite the addition of 24,000 acres owned by Fund I. This is due primarily to the benefits of scale we enjoy as a result of adding acreage to this segment.

Timberland Management & Consulting

Revenue and Operating Income

The Timberland Management & Consulting segment generates revenue by providing timberland management and forestry consulting services to timberland owners and managers. An additional aspect of this segment's activities is the development of timberland property investment portfolios on behalf of third-party clients and the Funds.

At the close of 2009, the Timberland Management & Consulting segment was managing 36,000 acres for the Funds. For the years 2008 and 2007, we managed approximately 267,000 and 292,000 acres, respectively, of timberland for Cascade Timberlands LLC (Cascade) and an additional 24,000 acres for Fund I in each of those years. Revenue and operating income for the Timberland Management & Consulting segment for each year in the three-year period ended December 31, 2009, were as follows (all dollar amounts in millions):

Year ended	Revenue	Operating loss
2009	**$0.6**	**$(0.4)**
2008	0.9	(0.5)
2007	1.3	(0.9)

Fiscal Year 2009 compared to 2008. Revenue and operating loss for 2009 were $343,000 and $168,000 lower, respectively, than in 2008. The decrease in revenue is due to the elimination of the Cascade contract in mid-2009. The reduction in operating loss is due primarily to a reduction in expenses associated with formation of Fund II as well as cost-cutting efforts within the segment.

Fiscal Year 2008 compared to 2007. Revenue and operating loss for 2008 were $400,000 and $340,000 lower, respectively, than in 2007. The decrease in revenue and operating loss is due primarily to the closure of our timberland consulting office in McCloud, California in December 2007. Revenue also declined due to a reduction in acres under management for Cascade.

Operating Expenses

Fiscal Year 2009 compared to 2008. Timberland Management & Consulting operating expenses decreased $511,000 in 2009 from 2008. This is attributed to elimination of costs following the mid-2009 termination of our Cascade management contract and the aforementioned reduction of expense associated with the formation of Fund II and cost-cutting efforts within the segment.

Fiscal Year 2008 compared to 2007. Timberland Management & Consulting operating expenses decreased $740,000 in 2008 from 2007. This is attributed to a decrease in organization costs associated with Fund II as well as the closure of the McCloud, California office in December 2007.

Real Estate

Revenue and Operating Income

The Partnership's Real Estate segment consists primarily of revenue from the sale of land and sales of conservation easements ("CE") from the Partnership's tree farms together with residential and commercial property rents. The Partnership's real estate holdings are located primarily in Pierce, Kitsap, and Jefferson Counties in Washington State.

Results from Real Estate operations are expected to vary significantly from year to year as we make multi-year investments in entitlements and infrastructure prior to selling entitled or developed land. Revenue and operating income for the Real Estate segment for each year in the three-year period ended December 31, 2009 were as follows (all dollar amounts in millions):

Year ended	Revenue	Environmental remediation expense	Operating income (loss)
2009	**$5.0**	**$ –**	**$1.7**
2008	3.7	–	(1.1)
2007	15.0	1.9	5.2

Revenue in the Real Estate segment is generated through the sale of land, the rental of homes and commercial properties at the Port Gamble townsite, and the sale of land development rights. Land sales include the sale of unimproved land which generally consists of larger acreage sales rather than single lot sales and are normally completed with very little capital investment prior to sale. Rural Lifestyles lot sales generally require some capital improvements such as zoning, road building, or utility access improvements prior to completing the sale. Commercial and residential plat land sales represent land sold after development rights have been obtained and are generally sold with certain infrastructure improvements. Sales of development rights can take different forms, but in 2009 reflected the sale of a CE on 2,290 acres of the Hood Canal tree farm that precludes future real estate development.

Real Estate segment revenue for each year in the three-year period ended December 31, 2009 consisted of the following (all dollar amounts in thousands, except per acre amounts):

Description	Revenue	Gross Margin	Acres Sold	Revenue/ Acre	Gross Margin/ Acre
Conservation easement	**$3,298**	**$3,108**	**2,290**	**$1,440**	**$1,357**
Rural residential	**521**	**328**	**50**	**10,420**	**6,566**
Rentals	**1,154**	**1,153**	**NA**		
Other	**57**	**49**	**NA**		
2009 Total	**$5,030**	**$4,638**	**2,340**		
Conservation easement	$830	$418	126	$6,587	$3,318
Rural residential	1,626	1,058	216	7,545	4,910
Rentals	1,158	1,157	NA		
Other	69	71	NA		
2008 Total	$3,683	$2,704	342		
Commercial/business park	$11,124	$7,155	15	$742,000	$477,000
Revenue recognized on % complete for 2006 closings	1,346	838	NA		
Unimproved land	1,018	964	91	11,188	10,598
Rural residential	553	458	50	11,060	9,161
Rentals	982	982	NA		
Other	14	15	NA		
2007 Total	$15,037	$10,412	156		

Fiscal Year 2009 compared to 2008. In 2009, revenue for the Real Estate segment increased by $1.3 million and operating income increased $2.8 million from 2008 results. The large increase in revenue and operating results is attributed to a 2,290-acre CE sale on our Hood Canal tree farm in the third quarter of 2009. The $3.3 million of conservation easement revenue is reported in the Real Estate segment as it was generated through the efforts of our Real Estate development segment. The CE sale was funded by the Federal Forest Legacy program and represents the culmination of five years of negotiation and discussions with Cascade Land Conservancy and the Washington State Department of Natural Resources. This CE will protect the land from development while allowing for continued growing and harvesting of timber. Cost-cutting measures in the Real Estate segment served to further increase operating income in 2009 over 2008.

In addition to the CE sale, there were 3 separate land transactions totaling 50 acres sold from the Rural Residential lot program. The Partnership's Rural Residential lot program typically produces lots from 5 to 80 acres in size, based on underlying zoning densities. This type of program entails an entitlement effort typically consisting of simple lot segregations and boundary line adjustments. Development activities include minor road building, surveying, and the extension of utilities. Demand for rural lots has dropped significantly since 2007 commensurate with decreased housing demand.

Management intends to offer a steady supply of rural residential lots to the market that will result in an ongoing revenue stream for the Real Estate segment. In normal markets we target 150 to 300 acres of rural residential lot sales annually. The market for these types of land sales is expected to remain extremely weak in 2010 and, as a result, we will likely not meet this target in 2010.

Fiscal Year 2008 compared to 2007. In 2008, revenue for the Real Estate segment decreased by $11.3 million and operating income decreased $6.3 million from 2007 results. The large decrease in revenue and operating results is attributed to a decline in relatively large commercial sales experienced in 2007 which were the direct result of multi-year investments made during and prior to 2007, and $1.3 million of non-recurring revenue recognized in 2007 related to sales closed in 2006.

Rural Residential revenue in 2008 consisted of seven separate transactions totaling 216 acres. The $830,000 of conservation easement revenue is reported in the Real Estate segment as it was generated from the sale of a conservation easement on 126 acres of development property. The conservation easement restricts us from harvesting 2,000 MBF of timber and does not allow building on the property but does create value on neighboring parcels of property that we own through the protected open space created by the conservation easement.

Cost of Sales

Real Estate cost of sales for each of the three years ended December 31, 2009, 2008, and 2007 was $392,000, $979,000, and $4.6 million, respectively. Cost of sales during the periods presented result from the aforementioned land sales. The decreases in cost of sale in 2009 relative to 2008, and in 2008 compared to 2007, were due primarily to a decline in acres sold.

Operating Expenses

Real Estate operating expenses for each of the three years ended December 31, 2009, 2008, and 2007 were $2.9 million, $3.8 million, and $3.4 million, respectively. Operating expenses decreased $870,000 in 2009 compared to 2008 due primarily to cost-cutting efforts that have been undertaken during this prolonged downturn in the market for raw and developed land. Operating expenses increased $444,000 in 2008 compared to 2007 due primarily to an increase in professional costs incurred in the pursuit of entitlements for the Port Gamble townsite.

Basis in Real Estate Projects

"Land Held for Development" on our Condensed Consolidated Balance Sheet represents the Partnership's cost basis in land that has been identified as having greater value as development property rather than as timberland. Our Real Estate segment personnel work with local officials to establish entitlements for further development of these parcels. Costs clearly associated with development or the construction of fully entitled projects are generally capitalized, whereas costs associated with projects that are in the entitlement phase are generally expensed. Those properties that are either for sale, under contract or the Partnership has an expectation they will sell within the next 12 months, are classified as a current asset under Land Held for Sale.

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

Environmental Remediation

The environmental remediation liability represents estimated payments to be made to monitor (and remedy if necessary) certain areas in and around the townsite and millsite of Port Gamble, Washington. Port Gamble is a historic milltown that was owned and operated by P&T until 1985 when the townsite and other assets were spun off to form the Partnership. P&T continued to operate the townsite until 1996 and leased the millsite at Port Gamble through January 2002, at which point P&T signed an agreement with the Partnership dividing the responsibility for environmental remediation of Port Gamble between the two parties. Under applicable law, both Pope Resources and P&T are "potentially liable persons" based on ownership and/or operation of the site. These laws provide for joint and several liability among parties owning or operating property on which contamination occurs, meaning that cleanup costs can be assessed against any or all such parties.

Following the bankruptcy of P&T in late 2007 and the pending liquidation of P&T's assets, we determined that P&T would no longer be able to meet any of its obligations under our settlement and remediation agreement. Accordingly, in the fourth quarter of 2007 we added $1.9 million to our remediation liability, based on what management believed to be the best estimate of the remaining cleanup cost and most likely outcome to various contingencies within the overall project. The Monte-Carlo simulation model by which we estimate this liability was updated at December 31, 2009 and indicated a range of potential liability from $145,000 to $2.9 million which represents a two standard deviation range from the mean of possible outcomes generated by the statistical modeling process used to estimate this liability. The balance of our estimated remediation liability as of December 31, 2009 is $1.3 million.

The environmental liability at December 31, 2009 includes $200,000 that the Partnership expects to expend in the next 12 months and $1.1 million thereafter. Activities at the site during 2009 included the completion of upland soil and groundwater sampling and analysis, gaining county approval of the aforementioned test results, the removal of all remaining sparged materials, completion of testing of the bay area, preparation of the final millsite remedial investigation report, and progress toward draft millsite and bay-wide feasibility study reports.

In 2001, the Partnership sold a resort community and its water and sewer utilities in the community of Port Ludlow. The buyer of the project believes some remediation is required for contamination discovered on the site, and we have agreed to participate in an investigation in 2010 regarding any liability the Partnership may have or may be alleged to have. While we have not concluded that we have an obligation to remediate, we recognized a $30,000 accrual as of December 31, 2009 which represents the maximum of the Partnership's agreed-upon investigative costs. Activity in the environmental remediation liability is detailed as follows:

Year ended December 31 *($ thousands)*	Balance at the Beginning of the Year	Additions to Accrual	Expenditures for Remediation	Balance at Year-end
2007	$242	$1,878	$126	$1,994
2008	1,994	–	440	1,554
2009	**1,554**	**30**	**315**	**1,269**

General & Administrative (G&A)

Fiscal Year 2009 compared to 2008. G&A costs decreased $218,000, or 6%, to $3.7 million from $4.0 million in 2008. The decrease in G&A expense is due to cost-cutting measures implemented in response to weak log and real estate markets. This decrease was offset by $248,000 of legal expenses incurred in connection with our October 2009 FINRA arbitration described further in Note 2 of our consolidated financial statements. G&A costs represented 18% of revenue in 2009.

Fiscal Year 2008 compared to 2007. G&A costs decreased $831,000, or 17%, to $4.0 million from $4.8 million in 2007. The decrease in G&A expense is due primarily to professional service fees incurred in 2007 to evaluate capital structuring alternatives with management and the Board of Directors of the General Partner that did not recur in 2008. G&A costs represented 14% of revenue in 2008.

Interest Income and Expense

Interest income for 2009 decreased to $219,000 from $965,000 in 2008 and $1.8 million in 2007. The decrease in interest income in 2009 is due primarily to a decrease in cash investments coupled with a decrease in average interest earned. During 2009, we have retained cash in excess of immediate operating cash requirements in our demand deposit accounts. At year end, we also had $1.9 million par value of student loan auction rate securities ("SLARS") with an estimated fair value of $1.5 million. SLARS are collateralized long-term debt instruments that were designed to provide liquidity through a Dutch auction process that reset the applicable interest rate at pre-determined intervals, typically every 28 days. Beginning in February 2008, auctions failed when sell orders exceeded buy orders. When these auctions failed to clear, default interest rates went into effect. The underlying assets of the SLARS we hold, including the securities for which auctions have failed, are student loans which are guaranteed by the U.S. Department of Education for 97% of the loan and interest due. Further student loan auction rate securities information is presented in "Liquidity and Capital Resources" below and in Note 2 to our consolidated financial statements included in this report.

Interest expense, net of interest capitalized to development projects, was $1.2 million for 2009 and 2008, and $1.4 million for 2007. The decrease in interest expense from 2007 to 2008 is attributable to regularly scheduled principal payments due on our timberland mortgage. The static expense from 2008 to 2009 was due to a decline in interest expense attributable to a decrease in borrowing rates offset by a decline in interest capitalized as a result of certain Real Estate projects no longer meeting interest capitalization requirements, whereas in 2008, we experienced an increase in capitalized interest related to increased basis on land projects under development. The Partnership's debt consists primarily of mortgage debt with fixed interest rates.

Debt Extinguishment Costs

In September 2009, the Partnership incurred $1.1 million of costs in connection with the early retirement of a timberland mortgage held with John Hancock Life Insurance Company (JHLIC), which was scheduled to mature in April 2011. The decision to refinance was motivated by the opportunity to reduce cash used for both principal and interest payments, lower borrowing costs and mitigate future refinance risk. The early debt extinguishment costs were funded using a new term loan from Northwest Farm Credit Services, PCA (NWFCS).

Income Taxes

Pope Resources is a limited partnership and is, therefore, not subject to income tax. Instead, taxable income/loss flows through and is reported to unitholders each year on a Form K-1 for inclusion in each unitholder's tax return. Pope Resources does, however, have corporate subsidiaries that are subject to income tax and this is why a line item for such tax appears on the statements of operations. The corporate tax-paying entities are utilized for our third-party service fee businesses.

Fiscal Year 2009 compared to 2008. We have recorded an income tax provision of $39,000 in 2009, whereas we recorded a $61,000 tax benefit in 2008. The tax provision recorded in 2009 resulted from the decline in loss from ORMLLC.

Fiscal Year 2008 compared to 2007. We recorded an income tax benefit of $61,000 in 2008 and a tax benefit of $69,000 in 2007. The tax benefits recorded in 2008 and 2007 resulted from losses incurred in ORMLLC as we worked on building the private equity timber fund business while management fees generated from the Cascade Timberlands management contract declined.

Noncontrolling interests-ORM Timber Funds

Noncontrolling interests-ORM Timber Funds represented the 80% portion of 2009 net loss of the Funds attributable to third-party owners of the Funds. The decrease in this amount from 2008 is due to the decrease in operating loss of the Funds in 2009 as cost-saving measures were implemented in response to weak log markets and the decision to defer all harvest.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

We ordinarily finance our business activities using funds from operations and, where appropriate in management's assessment, commercial credit arrangements with banks or other financial institutions. Funds generated internally from operations and externally through financing are expected to provide the required resources for the Partnership's future capital expenditures. The Partnership's debt-to-total-capitalization ratio, as measured by the book value of equity, excluding noncontrolling interests, was 26% at December 31, 2009 versus 25% as of December 31, 2008. The debt-to-total-capitalization ratio as of December 31, 2009 was impacted by an early extinguishment of debt cost of $1.1 million, which was rolled into a new lower cost mortgage and increased the size of the numerator, and expenditures of $1.8 million to repurchase our units in 2009 which reduced partners' capital and the ratio's denominator both of which serve to drive the ratio marginally higher.

At December 31, 2009, the Partnership held two Student Loan Auction Rate Securities ("SLARS") with a par value of $1.9 million and an estimated fair value, based on the methodology described in the notes to the audited financial statements included with this report, of $1.5 million. SLARS are collateralized long-term debt instruments that are intended to provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined intervals, typically every 28 days. Beginning in February 2008, auctions failed for approximately $17 million in par value of SLARS we held because sell orders exceeded buy orders.

Although default interest rates for SLARS went into effect upon failure of the auctions, the principal amount of the securities associated with failed auctions will not be accessible until the issuer calls all or portions of the security, a successful auction occurs, a buyer is found outside of the auction process, or the security matures. During 2008, we successfully liquidated $26.8 million of our SLARS portfolio at par. In 2009, we liquidated $1.8 million of our SLARS portfolio at prices ranging from 85% to 100% of par. We filed a claim with the Financial Industry Regulatory Authority (FINRA) in an attempt to recover lost value with respect to these SLARS, but the hearing panel rendered a decision in November 2009 that was unfavorable to us in that it offered no settlement for our outstanding position. In January 2010, we redeemed at par a small portion of one of the two remaining SLARS and within a week sold the remainder of this security at 78% of par. We have classified this particular SLARS as current on our balance sheet while the other SLARS we hold is classified as a non-current asset.

On September 25, 2009 the Partnership entered into a new $9.8 million term loan agreement with NWFCS reducing the interest rate to 6.4% for a ten-year term. This new term loan replaced a term loan from JHLIC with a higher interest rate of 9.65% due in April 2011 and funded an early extinguishment of debt charge of $1.1 million on retirement of that JHLIC timberland mortgage. The decision to retire the JHLIC term loan was made to reduce future refinancing risk and reduce our weighted average interest expense.

In connection with the new term loan, the limit on the Partnership's revolving line of credit with NFCS was reduced from $40 million to $35 million. Our unsecured revolving loan agreement with NFCS matures in August 2011 and requires that we not exceed a maximum debt-to-total capitalization ratio that the Partnership currently satisfies. As of December 31, 2009, there were no amounts outstanding on the line of credit. The Partnership is utilizing its cash balance to support operations in order to avoid selling timber and land into extremely weak markets. These actions are currently resulting in a draw-down of our cash balances. Management believes that the cash we hold in excess of our current operating needs together with the line of credit provide adequate liquidity for our near-term operating needs.

We reduced our 2009 harvest plan from the originally planned 37 MMBF due to log prices which weakened from the already-depressed levels in effect at the end of 2008.

The annual harvest target for 2010 is 32 MMBF which is consistent with our 2009 harvest. This represents a 47% reduction from our currently-estimated sustainable harvest volume of 60 MMBF. The decision to defer harvest was made in response to our expectation of continued weakness in the market for sawlogs resulting from the slowdown in housing starts. Consistent with 2009, we plan to defer all harvest from the tree farms owned by both Funds in 2010. We believe these actions will serve to increase the value of our Partnership units in the long-term. Management believes that the Partnership's working capital and available borrowing capacity will be sufficient to meet cash requirements.

During the year ended December 31, 2009, overall cash and cash equivalents decreased $10.8 million resulting primarily from the Fund II co-investment of $6.9 million and unit repurchases of $1.8 million. During the year ended December 31, 2008, overall cash and cash equivalents increased by $15.8 million primarily from the sale of short-term investments.

Operating cash activities. The table below provides the components of operating cash flows for each annual period ended December 31. Cash received from customers and paid to suppliers and employees results from the harvest and sale of forest products from our tree farms; timberland management, disposition, and consulting services provided to timberland owners; and sales of development properties. Capitalized development activities include investment in our Real Estate properties to build infrastructure and acquire the entitlements necessary to make further development of the properties possible.

Operating cash activities *($ thousands)*	**2009**	2008	2007
Cash received from customers	**$20,854**	$29,071	$47,667
Cash paid to suppliers and employees	**(16,533)**	(21,281)	(24,473)
Interest received	**280**	1,025	1,712
Interest paid	**(1,226)**	(1,401)	(2,585)
Debt extinguishment costs	**(1,137)**	–	–
Capitalized development activities, net of reimbursements	**(1,639)**	(3,451)	(9,868)
Income taxes refunded (paid)	**63**	(11)	(340)
Cash provided by operating activities	**$662**	$3,952	$12,113

Cash provided by operating activities decreased to $662,000 in 2009 from $4.0 million in 2008. The decrease in cash provided by operating activities resulted primarily from the decrease in timber harvest combined with a $745,000 reduction in interest received as a result of a decline in invested balances and $1.1 million of non-recurring extinguishment of debt costs from the early retirement of a timberland mortgage. These reductions to cash were offset by a $1.8 million decline in capitalized development activities. We incurred capital expenditures for development costs in 2009 for the following Real Estate properties: $238,000 at Gig Harbor, $122,000 at Kingston, $36,000 at Bremerton, $48,000 at Port Ludlow, $1.1 million of capitalized interest related to the Gig Harbor, Kingston and Port Ludlow projects, and $104,000 related to other miscellaneous projects.

Cash provided by operating activities decreased to $4.0 million in 2008 from $12.1 million in 2007. The decrease in cash provided by operating activities resulted primarily from the decrease in timber harvest and reduced land sales in response to weak markets for logs and land. These reductions are offset by a decline in interest paid and a decline in capitalized development activities. In 2008, we invested $3.5 million in development costs for the following Real Estate properties: $777,000 at Gig Harbor, $521,000 at Bremerton, $1.3 million of capitalized interest related to the Gig Harbor and Bremerton projects, $300,000 at Port Ludlow, $312,000 at Kingston and $290,000 related to other miscellaneous projects.

Investing cash activities. The table below reflects the annual components of cash used by year in investing activities for each annual period ended December 31. Recurring investing activities consist primarily of tree planting, road building, and activity within our SLARS portfolio.

Investing activities *($ thousands)*	**2009**	2008	2007
Buildings and equipment	**($617)**	($555)	($793)
Timber and roads	**(607)**	(1,160)	(1,501)
Timberland acquisitions	**(34,421)**	(904)	–
Redemption (purchase) of short-term investments	**1,815**	26,775	(5,775)
Proceeds from the sale of fixed assets	**50**	41	64
Cash provided by (used in) investing activities	**($33,780)**	$24,197	($8,005)

Cash used in investing activities was $33.8 million in 2009 compared with cash provided by investing activities of $24.2 million in 2008. The decrease in 2009 from 2008 is due primarily to the acquisition of Fund II properties and a decline in redemption of SLARS. In 2009, we liquidated $1.8 million in SLARS versus 2008 when we liquidated $26.8 million in SLARS. During 2009, we invested $607,000 in timber and roads and approximately $617,000 in other capital expenditures.

Cash provided by investing activities increased to $24.2 million in 2008 from cash used in investing activities of $8.0 million in 2007. The increase in 2008 from 2007 is due primarily to the redemption of SLARS. In 2008, we liquidated $26.8 million in SLARS versus 2007 when we purchased $5.8 million in SLARS. During 2008, we invested $1.2 million in timber and roads and approximately $555,000 in other capital expenditures compared with $1.5 million invested in timber and roads and $793,000 in other capital expenditures in 2007.

Financing activities. The table below summarizes the components of cash used in financing activities for each year of the three-year period ended December 31, 2009. Our financing activities primarily reflect payments made on timber mortgages and other debt plus unitholder distributions. These payments and outflows are partially offset by cash received from the exercise of unit options issued to employees and directors, and capital contributions by third-party investors in the Funds.

Financing activities *($ thousands)*	**2009**	2008	2007
Cash distributions to unitholders	**($3,219)**	($7,444)	($6,449)
ORM Timber Fund II, Inc. capital call	**27,527**	370	–
ORM Timber Fund I, LP distributions	**–**	(800)	(480)
Unit repurchase	**(1,838)**	(3,940)	(1,374)
Mortgage/LID payments	**(1,418)**	(1,342)	(1,481)
Extinguishment of long-term debt	**(8,478)**	–	–
Proceeds from issuance of long-term debt	**9,800**	–	–
Debt issuance costs	**(71)**	–	–
Cash received from unit option exercises	**–**	644	730
Excess tax benefit from equity-based compensation	**17**	167	–
Noncontrolling interest distribution	**–**	–	(74)
Cash provided by (used in) financing activities	**$22,320**	($12,345)	($9,128)

Cash provided by financing activities was $22.3 million in 2009 as compared to cash used in financing activities of $12.3 million in 2008. This change is due primarily to the capital call of $27.5 million by Fund II investors for the acquisition of timberland properties. This was in addition to the $4.2 million reduction in cash distribution to unitholders and the $2.1 million reduction in unit repurchases from 2008. Cash distributions went from $1.60 per unit in 2008 to $0.70 per unit in 2009. The unit repurchases made in 2009 were part of a program which was extended in May 2009 and concludes in December 2010.

Cash used by financing activities was $12.3 million in 2008 as compared to $9.1 million used by financing activities in 2007. This change is due primarily to the use of $3.9 million to acquire Partnership units under two separate unit repurchase plans. The first was announced in November 2007 and was completed in April 2008 with purchases totaling $5.0 million in Partnership units. The second plan was announced in December 2008 for the purchase of $2.5 million and was still active as of December 2008. Cash distributions were $1.0 million higher in 2008 than 2007 due to the increase in the quarterly distribution rate from $0.28 per unit for the first half of 2007 to $0.40 per unit for the remainder of 2007 and all of 2008.

Expected future changes to cash flows

Operating activities. As discussed above, we plan to maintain our harvest level in 2010 at 32 MMBF in 2010 representing a 47% reduction from our estimated sustainable harvest. This reduction is in response to expected flat log prices at historically depressed levels as the decline in housing starts has curtailed demand for solid wood products. Capital infrastructure expenditures for our Gig Harbor, Kingston and Port Ludlow projects are expected to total $951,000, $163,000, and $92,000, respectively, in 2010. The majority of Gig Harbor capital expenditures in 2010 are expected to reflect work pursuant to the development agreement, capitalized interest and infrastructure on the property. Capital expenditures on the Kingston project are expected to be dominated by capitalized interest. Activities include collaborating with the county in procuring a grant and some infrastructure work. Capitalized interest will make up more than half the expenditures on the Port Ludlow property in 2010 where activities will primarily relate to continuation of entitlement efforts and planning for future construction.

Investing activities. Management is working on identifying additional properties for acquisition by Fund II in 2010. We will have a 20% co-investment obligation in connection with these transactions if successful.

Financing activities. Management is currently projecting that cash on hand, availability of drawing on the operating line of credit, and cash generated from operating activities will be sufficient to bridge the front-loading of the capital needs for development properties and co-investments in future timber funds. In July 2008, we secured a 3-year commitment for a $40 million line of credit from Northwest Farm Credit Services, which was reduced to $35 million following the closing of a term loan with Northwest Farm Credit Services.

Our debt-to-total-capitalization ratio as of December 31, 2009, as measured by the book and market value of our equity, was 26% and 21%, respectively. Should a financing need arise, management is comfortable that there is room to take on additional debt with the ratios at these levels, since our most restrictive loan covenant which limits debt-to-total-capitalization to 50% is measured against the lower of these two calculations. Our new timberland mortgage uses a different set of computations to limit debt-to-total-capitalization ratios that is more generous than the foregoing. The Hood Canal and Columbia tree farms secure the Partnership's current timberland mortgages. To date, the Partnership's strong financial position has enabled fairly easy access to credit at reasonable terms when needed.

Seasonality

Fee Timber. The Partnership owns 114,000 acres and Fund I owns 24,000 acres of timberland in Washington State. Fund II owns 12,000 acres of timberland in northwestern Oregon. Partnership timber acreage is concentrated in two non-contiguous tree farms: the 70,000-acre Hood Canal tree farm located on the eastern side of Washington's Olympic Peninsula, and the 44,000-acre Columbia tree farm located on the western side of Washington's Cascade mountain range between Seattle and Portland. Fund I's 24,000 acres are similarly located on the western side of the Cascade mountain range.

The Hood Canal tree farm and the properties acquired by Fund II are concentrated at low elevations, which permits us to conduct year-round harvest activities. Generally, we concentrate our harvests from the Hood Canal tree farm in the winter and spring when supply, and thus competition, is typically lower and, accordingly, when we can expect to receive higher prices. With the acquisition of the Columbia tree farm in 2001, and the timberlands acquired by Fund I in 2006, management expected a decrease in the seasonality of Fee Timber operations as the Columbia tree farm and timberlands owned by Fund I are at higher elevations where harvest activities are not possible during the winter months when snow precludes access to the lands.

Timberland Management & Consulting. Timberland Management & Consulting operations are not significantly seasonal.

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

Contractual Obligations, Commercial Commitments and Contingencies

Our commitments at December 31, 2009 consist of operating leases, and purchase obligations entered into in the normal course of business.

		Payments Due By Period /Commitment Expiration Date			
Obligation or Commitment *($ thousands)*	**Total**	**Less than 1 year**	**1–3 years**	**4–5 years**	**After 5 years**
Total debt	$29,490	$831	$18,856	$3	$9,800
Operating leases	119	59	60	–	–
Interest on debt	9,052	2,179	2,483	1,254	3,136
Environmental remediation	1,269	200	1,069	–	–
Other long-term obligations	205	25	50	50	80
Total contractual obligations or commitments	$40,135	$3,294	$22,518	$1,307	$13,016

Environmental remediation represents our estimate of potential liability associated with environmental contamination at Port Gamble. Other long-term obligations consist of a $205,000 liability for a supplemental employment retirement plan.

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

Off-Balance Sheet Arrangements

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

Capital Expenditures and Commitments

Projected capital expenditures in 2010 are $2.4 million, of which $870,000 is capitalized interest costs. Projected capital expenditures are currently expected to include $951,000 for the Gig Harbor site and $163,000 for the Kingston site. These expenditures could be increased or decreased as a consequence of future economic conditions. Projected capital expenditures are subject to permitting timetables and progress towards closing on specific land sale transactions. In addition, we have $9.9 million of remaining co-investment capital commitment by the Partnership in Fund II.

Government Regulation

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

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

ACCOUNTING MATTERS

Accounting Standards Not Yet Implemented

There are no accounting standards not yet implemented that are expected to materially impact the Partnership.

Critical Accounting Policies and Estimates

Management believes its most critical accounting policies and estimates relate to calculations of timber depletion and liabilities for matters such as environmental remediation, and potential asset impairments. In relation to liabilities, potential impairments and other estimated charges, it is management's policy to conduct ongoing reviews of significant accounting policies and assumptions used in the preparation of the financial results of the Partnership. The assumptions used are tested against available and relevant information and reviewed with subject-matter experts for consistency and reliability. During the preparation of financial results, tests are conducted to ascertain that the net book carrying values of assets are not in excess of estimated future cash flows. These tests use current market information, if available, or other generally accepted valuation methods, such as future cash flows. When the use of estimates is necessary, an exact answer is unlikely, and therefore, the range of likely outcomes is used in the preparation of the financial statements. Tests are also applied in order to be reasonably assured that liabilities are properly reflected on the records of the Partnership and that the notes to the financial statements are prepared in a fashion that informs readers of possible outcomes and risks associated with the conduct of business.

Purchased timberland cost allocation. When the Partnership acquires timberlands, a purchase price allocation is performed that allocates cost between the categories of merchantable timber, pre-merchantable timber, and land based upon the relative fair values pertaining to each of the categories. When timberland is acquired the land is separately evaluated for current value. Land value may include uses other than timberland including potential conservation easement sales and development opportunities.

Depletion. Depletion represents the cost of timber harvested and the cost of the permanent road system and is charged to operations by applying a depletion rate to volume harvested during the period. The depletion rate is calculated on January 1st of each year by dividing the Partnership's cost of merchantable timber and the cost of the permanent road system by the volume of merchantable timber. For purposes of the depletion calculation in 2009, merchantable timber is defined as timber that is equal to or greater than 35 years of age. Prior to 2008, we defined merchantable timber in our depletion calculation as equal to, or older than 40 years of age.

To calculate the depletion rate, the Partnership uses a combined pool when the characteristics of the acquired timber are not significantly different from the Partnership's existing timberlands. The depletion cost on recently acquired timber, such as timber harvested from Fund I timberland, under normal market conditions would approximate the net stumpage realized on the sale, however in current market conditions net stumpage realized is less than the depletion rate resulting in a loss from timber harvest.

Timber inventory volumes take into account the applicable state and Federal regulatory limits on timber harvests as applied to the Partnership's properties. Washington State's forest practice regulations provide for expanded riparian management zones, wildlife leave trees, and other harvest restrictions to protect various fish and other wildlife species. Timber inventory volume is accounted for by the Partnership's standing timber inventory system, which utilizes annual statistical sampling of the timber (cruising) together with adjustments made for estimated annual growth and the depletion of areas harvested.

The standing inventory system is subject to two processes each year to monitor accuracy. The first is the annual cruise process and the second is a comparison of (a) volume actually extracted by harvest to (b) inventory in the standing inventory system at the time of the harvest. A "cruise," which utilizes statistical sampling techniques, represents a physical measurement of timber on a specific set of acres. The cruise process is completed when the physical measurement totals are compared to the volume captured in the standing inventory system. Only productive acres with timber that is at least 20 years old are selected as subject to a cruise. The Partnership cruises 15-20% of its productive acres with 20-year-old or greater timber annually. Specific acres are first selected for cruising with a bias towards those acres that have gone the longest without a cruise and, second, with a bias towards those acres that have been growing the longest. As the cruise is being performed, only those trees with a breast height diameter (approximately 4.5 feet from the ground) of at least 6 inches are measured for inclusion in the inventory.

A hypothetical 5% change in estimated timber inventory volume would have changed 2009 depletion expense by $101,000.

Environmental remediation. The environmental remediation liability represents estimated payments to be made to monitor (and remedy if necessary) certain areas in and around the townsite and millsite of Port Gamble, Washington. Port Gamble is a historic town that was owned and operated by P&T, formerly a related party, until 1985 when the townsite and other assets were spun off to the Partnership. P&T continued to operate the townsite until 1996 and leased the millsite at Port Gamble through January 2002, at which point P&T signed an agreement with the Partnership dividing the responsibility for environmental remediation of Port Gamble between the two parties. Under Washington law, both Pope Resources and P&T are "potentially liable persons" based on ownership and/or operation of the site. These laws provide for joint and several liability among parties owning or operating property on which contamination occurs, meaning that cleanup costs can be assessed against any or all such parties. Our agreement with P&T was intended to apportion responsibility based on this principle, with P&T bearing the larger share of responsibility based upon their role in operating the site and upon their relatively lengthy ownership.

Following the bankruptcy of P&T in late 2007 and the pending liquidation of P&T's assets, we determined that P&T would no longer be able to meet any of its obligations under our settlement and remediation agreement. Accordingly, in the fourth quarter of 2007 we added $1.9 million to our remediation liability, based on what management believed to be the best estimate of the remaining cleanup cost and most likely outcome to various contingencies within the overall project. The Monte-Carlo simulation model by which we estimate this liability was updated at December 31, 2009 and indicated a range of potential liability from $145,000 to $2.9 million which represents a two standard deviation range from the mean of possible outcomes generated by the statistical modeling process used to estimate this liability. These estimates are based upon a number of assumptions and contingencies that may or may not come to pass. As a result, the actual cost of this project may vary materially from our current estimates. As of December 31, 2009 the balance in the liability account related to the Port Gamble remediation project is $1.3 million which represents our best estimate of the remaining cost to complete this project.

In 2001, the Partnership sold a resort community and its water and sewer utilities in the community of Port Ludlow. The buyer of the project believes some remediation is required for contamination discovered on the site, and we have agreed to participate in an investigation in 2010 regarding any liability the Partnership may have or may be alleged to have. While we have not concluded that we have an obligation to remediate, we recognized a $30,000 accrual as of December 31, 2009 which represents the maximum of the Partnership's agreed-upon investigative costs.

Property development costs: The Partnership is developing several master planned communities with the Gig Harbor, Kingston, and Port Ludlow projects being the most notable currently. Costs of development, including interest, are capitalized for these projects and allocated to individual lots based upon their relative preconstruction value. This allocation of basis supports, in turn, the computation of those amounts reported as a current vs. long-term asset ("Land Held for Sale" and "Land Held for Development," respectively). As lot sales occur, the allocation of these costs becomes part of cost of sales attributed to individual lot sales.

Costs associated with land including acquisition, project design, architectural costs, road construction, capitalized interest and utility installation are accounted for as operating activities on our statement of cash flows. During the third quarter of 2009, the Partnership changed its classification of cash flows to include real estate development capital expenditures within cash flows from operating activities. Prior to the quarter ended September 30, 2009, these expenditures were reported within investing activities within the Partnership's statement of cash flows. We concluded that this change is preferable because the cash inflows and cash outflows associated with land held for sale and land held for development should be classified in a consistent manner and that classification within operating activities better reflects the fact that these cash outflows are directly related to the Partnership's operations of developing and selling real estate. Furthermore, this change makes our reporting consistent with that of other companies that similarly conduct both timberland and real estate development activities. Certain accounts in the prior year statement of cash flows have been revised for comparative purposes to conform to the presentation in the current year financial statements. Cash generated from the sale of these properties is classified as an operating activity on our cash flow statement as the sale of these properties is the main operating activity of our Real Estate segment.

Percentage of Completion Revenue Recognition: The partnership accounts for revenue recognized from development sales consistent with the accounting standards relating to the sales of real estate. When a real estate transaction is closed with significant outstanding obligations to complete infrastructure or other construction, revenue is recognized on a percentage of completion method by calculating a ratio of costs incurred to total costs expected. Revenue is deferred proportionately based on the remaining costs to complete the project.

Impairment of Long Lived Assets: The Partnership evaluates its long lived assets for impairment in accordance with accounting standards. The standards require recognition of an impairment loss in connection with long-lived assets used in a business when the carrying value exceeds the estimated future undiscounted cash flows attributable to those assets over the expected useful life. The Partnership obtains annual appraisals of its timberlands and compares the appraised value of those properties to the carrying value to determine if an asset impairment is necessary. The long-term holding period of timberland properties makes an asset impairment unlikely as the undiscounted expected cash flows from a timberland property would need to decrease very significantly to not total in excess of the carrying value of a timber property. When facts and circumstances indicate the carrying value of properties may be impaired, an evaluation of recoverability is performed by comparing the carrying value of the property to the projected future undiscounted cash flows. Upon indication that the carrying value of such assets may not be recoverable, the Partnership would recognize an impairment loss, determined on the basis of fair market value, and charge this amount against current operations. The land basis associated with most of our development properties is well below current market value; therefore, an asset impairment charge on one of our development projects is not likely.

Consolidation of ORM Timber Fund I, LP (Fund I) and ORM Timber Fund II, Inc. (Fund II): Fund I and Fund II are owned 19% by Pope Resources, A Delaware Limited Partnership, 1% by Olympic Resource Management LLC (a wholly owned subsidiary of the Partnership), and 80% by third-party investors. Olympic Resource Management LLC is the general partner of Fund I and the manager of Fund II. Third-party investors do not have the right to dissolve these Funds or otherwise remove the general partner/manager without cause nor do they have substantive participating rights in major decisions of Fund I or Fund II. Based upon this governance structure, Olympic Resource Management LLC has presumptive control of Fund I and Fund II and, as a result, under accounting rules Fund I and Fund II must be consolidated into the Partnership's financial statements.

Consolidated Balance Sheets

Years ended December 31 (in thousands)	**2009**	2008
ASSETS		
Current assets		
Pope cash and cash equivalents	**$6,035**	$15,931
ORM Timber Funds cash and cash equivalents	**1,145**	2,047
Cash and cash equivalents	**7,180**	17,978
Student loan auction rate securities, current	**690**	–
Accounts receivable, net	**261**	500
Land held for sale	**367**	596
Current portion of contracts receivable	**320**	477
Prepaid expenses and other	**444**	295
Total current assets	**9,262**	19,846
Properties and equipment, at cost		
Land held for development	**25,872**	23,931
Land	**25,072**	20,449
Roads and timber, net of accumulated depletion of $54,743, and $52,552	**120,787**	92,753
Buildings and equipment, net of accumulated depreciation of $7,652, and $7,360	**3,637**	3,565
Total properties and equipment, at cost	**175,368**	140,698
Other assets		
Contracts receivable, net of current portion	**1,140**	994
Student loan auction rate securities, non-current	**796**	3,619
Other	**490**	254
Total other assets	**2,426**	4,867
Total assets	**$187,056**	$165,411
LIABILITIES AND PARTNERS' CAPITAL		
Current Liabilities		
Accounts payable	**$586**	$635
Accrued liabilities	**784**	863
Current portion of environmental remediation	**200**	300
Current portion of long-term debt	**831**	1,417
Deferred revenue	**469**	205
Other current liabilities	**196**	161
Total current liabilities	**3,066**	3,581
Long-term debt, net of current portion	**28,659**	28,169
Environmental remediation, net of current portion	**1,069**	1,254
Other long-term liabilities	205	236
Commitments and contingencies		
Partners' capital (units outstanding: 4,520 and 4,599)	**83,126**	87,817
Noncontrolling interests	**70,931**	44,354
Total partners' capital and noncontrolling interests	**154,057**	132,171
Total liabilities, partners' capital, and noncontrolling interests	**$187,056**	$165,411

See accompanying notes to consolidated financial statements.

Consolidated Statements of Operations

Years ended December 31 (in thousands, except per unit information)	**2009**	2008	2007
Revenue			
Fee Timber	**$14,847**	$23,551	$35,514
Timberland Management & Consulting	**601**	944	1,344
Real Estate	**5,030**	3,683	15,037
Total revenue	**20,478**	28,178	51,895
Costs and expenses			
Cost of sales			
Fee Timber	**(7,980)**	(13,092)	(15,837)
Real Estate	**(392)**	(979)	(4,625)
Total cost of sales	**(8,372)**	(14,071)	(20,462)
Operating expenses			
Fee Timber	**(3,143)**	(4,165)	(4,462)
Timberland Management & Consulting	**(976)**	(1,487)	(2,227)
Real Estate	**(2,945)**	(3,815)	(3,371)
Real Estate environmental remediation	**(30)**	–	(1,878)
General & Administrative (G&A)	**(3,733)**	(3,951)	(4,782)
Total operating expenses	**(10,827)**	(13,418)	(16,720)
Operating income (loss)			
Fee Timber	**3,724**	6,294	15,215
Timberland Management & Consulting	**(375)**	(543)	(883)
Real Estate	**1,663**	(1,111)	5,163
General & Administrative (G&A)	**(3,733)**	(3,951)	(4,782)
Total operating income	**1,279**	689	14,713
Other income (expense)			
Interest expense	**(2,317)**	(2,469)	(2,574)
Interest capitalized to development projects	**1,091**	1,279	1,145
Interest income	**219**	965	1,753
Net loss on student loan auction rate securities dispositions	**(66)**	–	–
Impairment of student loan auction rate securities	**(252)**	(381)	–
Total other income (expense)	**(1,325)**	(606)	324
Debt extinguishment costs	**(1,137)**	–	–
Income (loss) before income taxes	**(1,183)**	83	15,037
Income tax benefit (expense)	**(39)**	61	69
Net income (loss)	**(1,222)**	144	15,106
Net loss attributable to noncontrolling interests			
ORM Timber Funds	**950**	1,018	402
Net income (loss) attributable to unitholders	**($272)**	$1,162	$15,508
Allocable to general partners	**(4)**	15	199
Allocable to limited partners	**(268)**	1,147	15,309
Earnings (loss) per unit attributable to unitholders			
Basic	**($0.07)**	$0.23	$3.28
Diluted	**($0.07)**	$0.23	$3.22
Distributions per unit	**$0.70**	$1.60	$1.36

See accompanying notes to consolidated financial statements.

Consolidated Statements of Partners' Capital and Comprehensive Income

Years ended December 31 (in thousands)

	Attributable to Pope Resources			
	General Partners	**Limited Partners**	**Noncontrolling Interests**	**Total**
December 31, 2006	$1,386	$86,219	$46,685	$134,290
Net income and comprehensive income	199	15,309	(402)	15,106
Distributions	(83)	(6,366)	(480)	(6,929)
Equity-based compensation	–	624	–	624
Unit repurchases	–	(1,374)	–	(1,374)
Proceeds from option exercises	–	730	–	730
December 31, 2007	$1,502	$95,142	$45,803	$142,447
Net income and comprehensive income	15	1,147	(1,018)	144
Distributions	(97)	(7,347)	(800)	(8,244)
Capital contributions	–	–	369	369
Excess tax benefit from equity-based compensation	–	167	–	167
Equity-based compensation	–	584	–	584
Unit repurchases	–	(3,940)	–	(3,940)
Proceeds from option exercises	–	644	–	644
December 31, 2008	$1,420	$86,397	$44,354	$132,171
Net loss and comprehensive loss	**(4)**	**(268)**	**(950)**	**(1,222)**
Distributions	**(43)**	**(3,176)**	**–**	**(3,219)**
Capital contributions	**–**	**–**	**27,527**	**27,527**
Excess tax benefit from equity-based compensation	**–**	**17**	**–**	**17**
Equity-based compensation	**–**	**621**	**–**	**621**
Unit repurchases	**–**	**(1,838)**	**–**	**(1,838)**
December 31, 2009	**$1,373**	**$81,753**	**$70,931**	**$154,057**

Weighted average units outstanding	**12/31/09**	12/31/08	12/31/07
Basic	**4,539**	4,597	4,680
Diluted	**4,539**	4,660	4,769

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31 (in thousands, except per unit information)	**2009**	2008	2007
Cash flows from operating activities		(Revised)	(Revised)
Cash received from customers	**$20,854**	$29,071	$47,667
Cash paid to suppliers and employees	**(16,533)**	(21,281)	(24,473)
Interest received	**280**	1,025	1,712
Interest paid, net of amounts capitalized	**(1,226)**	(1,401)	(2,585)
Debt extinguishment costs	**(1,137)**	–	–
Capitalized development activities	**(1,639)**	(3,451)	(9,868)
Income taxes received (paid)	**63**	(11)	(340)
Net cash provided by operating activities	**662**	3,952	12,113
Cash flows from investing activities			
Capital expenditures	**(1,224)**	(1,715)	(2,294)
Proceeds from sale of fixed assets	**50**	41	64
Redemption (purchase) of short-term investments	**1,815**	26,775	(5,775)
Timberland acquisition	**(34,421)**	(904)	–
Net cash provided by (used in) investing activities	**(33,780)**	24,197	(8,005)
Cash flows from financing activities			
Cash distributions to unitholders	**(3,219)**	(7,444)	(6,449)
ORM Timber Fund II, Inc. capital contributions	**27,527**	370	–
ORM Timber Fund I, LP distributions	**–**	(800)	(480)
Unit repurchases	**(1,838)**	(3,940)	(1,374)
Repayment of long-term debt	**(1,418)**	(1,342)	(1,481)
Extinguishment of long-term debt	**(8,478)**	–	–
Proceeds from issuance of long-term debt	**9,800**	–	–
Debt issuance cost	**(71)**	–	–
Proceeds from option exercises	**–**	644	730
Excess tax benefit from equity-based compensation	**17**	167	–
Noncontrolling interests distribution	**–**	–	(74)
Net cash provided by (used in) financing activities	**22,320**	(12,345)	(9,128)
Net increase (decrease) in cash and cash equivalents	**(10,798)**	15,804	(5,020)
Cash and cash equivalents			
Beginning of year	**17,978**	2,174	7,194
End of year	**$7,180**	$17,978	$2,174

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Years ended December 31 (in thousands, except per unit information)	**2009**	2008	2007
Reconciliation of net income (loss) to net cash provided by operating activities		(Revised)	(Revised)
Net income (loss)	**($1,222)**	$144	$15,106
Depletion	**2,001**	3,915	4,772
Equity-based compensation	**621**	584	624
Excess tax benefit from equity-based compensation	**(17)**	(167)	–
Depreciation and amortization	**810**	774	777
Impairment of student loan auction rate securities	**252**	381	–
Net loss on student loan auction rate securities dispositions	**66**	–	–
Deferred tax expense (benefit)	**(222)**	(143)	13
Cost of land sold	**127**	2,614	3,854
Capitalized development activities	**(1,639)**	(3,451)	(9,868)
Increase (decrease) in cash from changes in operating accounts			
Deferred revenue	**126**	(63)	(8,570)
Accounts receivable	**239**	385	676
Contracts receivable	**11**	571	3,666
Prepaid expenses and other current assets	**(138)**	5	247
Accounts payable and accrued liabilities	**(45)**	(1,526)	(551)
Other current liabilities	**35**	53	20
Environmental remediation	**(285)**	(440)	1,753
Other long-term liabilities	**(31)**	(62)	(47)
Other long-term assets	**(6)**	384	(360)
Other, net	**(21)**	(6)	1
Net cash provided by operating activities	**$662**	$3,952	$12,113

Notes to Consolidated Financial Statements

Pope Resources, A Delaware Limited Partnership

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations

Pope Resources, A Delaware Limited Partnership (the "Partnership") is a publicly traded limited partnership engaged primarily in managing timber resources on its own properties as well as those owned by others. Pope Resources' active subsidiaries include ORM, Inc., which is responsible for managing Pope Resources' timber properties; Olympic Resource Management LLC, which provides timberland management and consulting activities and is responsible for developing the timber fund business; Olympic Property Group I, LLC, which manages the Port Gamble townsite and millsite and land that is held as development property; and OPG Properties LLC, which owns land that is held as development property. These consolidated financial statements also include the Funds. With respect to Fund I, Olympic Resource Management LLC is the general partner and owns 1% while Pope Resources owns 19%. Olympic Resource Management LLC is the manager of Fund II and owns 1% while Pope Resources owns 19%. The purpose of both Funds is to invest in timberlands. See Note 3 for additional information.

The Partnership operates in three business segments: Fee Timber, Timberland Management & Consulting, and Real Estate. Fee Timber represents the growing and harvesting of trees from owned properties. Timberland Management & Consulting represents management, acquisition, disposition, and consulting services provided to third-party owners of timberland and provides management services to Fund I and Fund II once timberland is acquired. Real Estate consists of obtaining entitlements for properties that have been identified as having value as developed residential or commercial property and operating the Partnership's existing commercial property in Kitsap County, Washington.

Principles of consolidation

The consolidated financial statements include the accounts of the Partnership, its subsidiaries, and the Funds. Intercompany balances and transactions have been eliminated in consolidation.

General partner

The Partnership has two general partners: Pope MGP, Inc. and Pope EGP, Inc. In total, these two entities own 60,000 partnership units. The allocation of distributions and income between the general and limited partners is pro rata among all units outstanding. The managing general partner of the Partnership is Pope MGP, Inc. and it receives an annual management fee of $150,000 as compensation for performing its duties as managing general partner.

Noncontrolling interests

Noncontrolling interests represents the 80% interest in Fund I and Fund II owned by third-party investors. These Funds are consolidated into Pope Resources' financial statements due to our control over these Funds (see Note 3).

Significant estimates and concentrations in financial statements

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

Cost of sales

For statement of operations presentation, cost of sales consists of the Partnership's cost basis in timber, real estate, and other inventory sold, and direct costs incurred to make those assets saleable. Those direct costs include the expenditures associated with the harvesting and transporting of timber and closing costs incurred in land and lot sale transactions.

Concentration of credit risk

Financial instruments that potentially subject the Partnership to concentrations of credit risk consist principally of accounts and contracts receivable and student loan auction rate securities (SLARS). The Partnership limits its credit exposure by considering the creditworthiness of potential customers. The Partnership's allowance for doubtful accounts is $8,779 and $257,094 at December 31, 2009 and 2008, respectively.

The Partnership owned $1.9 million par value of SLARS as of December 31, 2009 with a fair value of $1.5 million. These securities were designed to provide liquidity through a monthly auction process. The auction process stopped functioning in the first quarter of 2008 and as a result $690,000 of this portfolio represents a current asset due to the redemption of this security in January of 2010 for an amount that approximated the fair value as recorded at December 31, 2009, while the remaining $796,000 is a non-current asset. The Partnership is receiving monthly interest payments on these securities but there is little market activity in the securities themselves. See Note 2 for additional information.

Contracts receivable

The Partnership sells land parcels under contracts requiring minimum cash down payments of 20% to 25% at interest rates between 7% and 8.75% per annum. While one contract has a repayment term of 15 years, loans are typically structured with repayments based on a 20-year amortization schedule culminating in a balloon payment within 5 to 7 years. The Partnership reduces credit risk on contracts through down payment requirements and utilizing the underlying land as collateral.

At December 31, 2009, minimum principal payments on contracts receivable for the next five years and thereafter are due as follows (in thousands):

2010	$320
2011	33
2012	423
2013	196
2014	311
Thereafter	177
Total	$1,460

Income taxes

Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Operating loss and tax credit carryforwards are also factored into the calculation of deferred tax assets and liabilities. Deferred tax assets and liabilities are measured using enacted tax rates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Property, equipment, and roads

Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which range from 3 to 39 years. The Partnership capitalizes the cost of building permanent roads on the tree farms and expenses temporary roads and road maintenance. Capitalized roads are depleted as timber is harvested. The road depletion rate is calculated by dividing the cost of capitalized roads at the beginning of the year by merchantable timber inventory. The resulting rate is applied to timber harvested during the year to determine road depletion expense.

When facts and circumstances indicate the carrying value of properties may be impaired, an evaluation of recoverability is performed by comparing the carrying value of the property to the projected future undiscounted cash flows. Upon indication that the carrying value of such assets may not be recoverable, the Partnership would recognize an impairment loss, determined on the basis of fair market value, and charge this amount against current operations.

Buildings and equipment consisted of the following as of December 31, 2009 and 2008 (in thousands):

Description	**12/31/2009**	12/31/2008
Buildings	**$7,996**	$7,444
Equipment	**2,676**	2,880
Furniture and fixtures	**617**	601
Total	**$11,289**	$10,925
Accumulated depreciation	**(7,652)**	(7,360)
Net buildings and equipment	**$3,637**	$3,565

Timber

The depletion rate is calculated by dividing estimated merchantable timber inventory into the cost basis of merchantable inventory as of the beginning of the year. To calculate the depletion rate the Partnership uses a combined pool when the characteristics of the acquired timber are not significantly different from the Partnership's existing timberlands. Timber harvested by the Funds is accounted for in separate depletion pools due to the third-party owners in the Funds.

Land held for development or sale

Land held for development represents the Partnership's cost basis in land that has been identified as having greater value as development than timber property. Our Real Estate segment works with these properties to establish entitlements with city and county officials that allow for further development. Project costs clearly associated with development or construction of these properties are capitalized. Indirect costs that do not clearly relate to projects under development or construction are expensed as incurred. Those properties that are either under contract or the Partnership has an expectation they will sell within the next 12 months are classified as a current asset under Land Held for Sale.

Deferred revenue

Deferred revenue represents the unearned portion of revenue collected. The balance at December 31, 2009 of $469,000 and December 31, 2008 of $205,000 primarily represents the unearned portion of the amounts received on cell tower leases and to a lesser extent deferred revenue on land sales.

Revenue recognition

Revenue on timber sales is recorded when title and risk of loss passes to the buyer. Revenue on real estate sales is recorded on the date the sale closes, upon receipt of adequate down payment, and receipt of the buyer's obligation to make sufficient continuing payments towards the purchase of the property. The Partnership normally does not sell real estate with less than a 20% down payment. Management fees and consulting service revenues are recognized as the related services are provided.

Land and conservation easement sales

The Partnership considers the sale of land and conservation easements to be part of its normal operations and therefore recognizes revenue from such sales and cost of sales for the Partnership's basis in the property sold. Cash generated from these sales is included in cash flow from operations on the Partnership's statements of cash flows. Similarly, investments to acquire land to be held for sale or development, as well as costs incurred to develop those properties, are also included in the cash flow from operations within the statements of cash flows. Additional information concerning the revised prior year presentation can be found at Note 1 under "Statements of cash flows."

Equity-based compensation

The Partnership issues restricted units to certain employees as part of their annual compensation. Restricted units are valued on the grant date at the market closing price of the partnership units on that date. The value of the restricted units is amortized to compensation expense during the vesting period which can range from two to four years.

On the date of grant, these restricted units are owned by the employee subject to a trading restriction that is in effect during the vesting period. As of December 31, 2009, total compensation expense related to non-vested awards not yet recognized was $608,000 with a weighted average 16 months remaining to vest.

Comprehensive income (loss)

Comprehensive income (loss) consists solely of net income (loss).

Income per partnership unit

Basic net earnings (loss) per unit is based on the weighted average number of units outstanding during the period. Diluted net earnings per unit is calculated by dividing net income (loss) attributable to unitholders, adjusted for non-forfeitable distributions paid out to unvested restricted unitholders, by the weighted average units outstanding during the year plus additional units that would have been outstanding assuming the exercise of in-the-money unit equivalents using the treasury stock method. Unit equivalents are excluded from the computation if their effect is anti-dilutive, as is the case when the company has a net loss for the period. When computing the dilutive effect of unit options for the year ended December 31, 2009 there were no unit equivalents included in the calculation of fully diluted units outstanding compared with 64 and 89 unit equivalents included in the calculation of fully diluted units outstanding for the years ended December 31, 2008, and 2007, respectively.

For 2009, options to purchase 41,323 units at prices ranging from $21.35 to $37.73 were not included in the calculation of earnings per partnership units as they were anti-dilutive. This is compared with 2008, when options to purchase 4,869 units at prices ranging from $27.88 to $37.73 were not included in the calculation of earnings per partnership units as they were anti-dilutive. In 2007 there were no anti-dilutive unit options outstanding.

	Year Ended December 31,		
	2009	2008	2007
Net income (loss) attributable to Pope Resources' unitholders	**($272)**	$1,162	$15,508
Nonforfeitable distributions paid to unvested restricted unitholders	**(39)**	(99)	(175)
Net income (loss) attributable to outstanding unitholders	**($311)**	$1,063	$15,333
Weighted average units outstanding (in thousands)			
Basic	**4,539**	4,597	4,680
Dilutive effect of unit equivalents	**–**	64	89
Diluted	**4,539**	4,661	4,769
Earnings (loss) per unit: Basic	**($0.07)**	$0.23	$3.28
Earnings (loss) per unit: Diluted	**($0.07)**	$0.23	$3.22

Statements of cash flows

The Partnership considers all highly liquid debt instruments with maturity of three months or less when purchased to be cash equivalents. Non-cash investing and financing activities included the following:

- $596,000 held in trust by an IRC Section 1031 exchange facilitator as of December 31, 2007 used to acquire timberlands as of March 31, 2008.
- $443,000 reclassified to accounts receivable for a cost reimbursement related to a 2007 pond construction at the Bremerton project.
- $360,000 for capital improvements accrued in 2007 and paid in 2008. This amount is partially offset by $70,000 of accrued investing activity in 2008 to be paid in 2009.
- $203,000 of long-term debt incurred in 2008 relating to a cost-share reimbursement to the City of Tacoma for bridge construction ensuring continued access to Fund I property.

During the quarter ended September 30, 2009, the Partnership changed its classification of cash flows to include real estate development capital expenditures within cash flows from operating activities. Prior to the quarter ended September 30, 2009, these expenditures were reported as investing activities within the Partnership's statement of cash flows. We concluded that this change is preferable because the cash inflows and cash outflows associated with land held for sale and land held for development should be classified in a consistent manner and that classification within operating activities better reflects the fact that these cash outflows are directly related to the Partnership's operations of developing and selling real estate. Furthermore, this change makes our reporting consistent with that of other companies that similarly conduct both timberland and real estate development activities. Certain accounts in the prior year statement of cash flows have been revised for comparative purposes to conform to the presentation in the current year financial statements. The table below details the changes made to the 2007 and 2008 statements of cash flows.

($ thousands)	2008 As Originally Reported	2008 Adjustments	2008 As Revised
Cash flows from operating activities			
Capitalized development activities	–	(3,451)	(3,451)
Net cash provided by operating activities	7,403	(3,451)	3,952
Cash flows from investing activities			
Capitalized development activities	(3,451)	3,451	–
Net cash provided by investing activities	20,746	3,451	24,197

($ thousands)	2007 As Originally Reported	2007 Adjustments	2007 As Revised
Cash flows from operating activities			
Capitalized development activities	–	(9,868)	(9,868)
Net cash provided by operating activities	21,981	(9,868)	12,113
Cash flows from investing activities			
Capitalized development activities	(9,868)	9,868	–
Net cash provided by investing activities	(17,873)	9,868	(8,005)

Accounting pronouncements adopted in 2009

In December 2007, the Financial Accounting Standards Board (FASB) issued new guidance on noncontrolling interests which requires noncontrolling interests (previously referred to as minority interests) in consolidated subsidiaries to be reported as a component of equity, which changes the accounting for transactions involving a noncontrolling interest. In the balance sheet, noncontrolling interests for all periods presented are now classified in the equity section, below Partners' Capital. In the statement of operations, net income (loss) is presented excluding the impact of net loss attributable to noncontrolling interests to arrive at net income (loss) attributable to the Partnership's unitholders. The Partnership adopted the standard in the first quarter of 2009.

In June 2008, the FASB issued a staff position providing additional guidance in determining whether share-based payments are participating securities for earnings-per-share calculations. The guidance, adopted by the Partnership in the first quarter of 2009, requires unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents to be considered participating securities. Earnings (loss) per unit for all prior periods presented have been revised to the extent necessary based on this new guidance.

In April 2009, the FASB issued a staff position which requires disclosures about fair value of financial instruments for interim reporting periods as well as in annual financial statements. This standard is effective for interim reporting periods ending after June 15, 2009. The Partnership adopted this standard in the second quarter of 2009. The implementation of the standard did not have a material impact on the Partnership's financial position or results of operations.

In April 2009, the FASB issued a staff position which amends the other-than-temporary impairment guidance for debt securities to make the guidance more operational and to improve the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This guidance is effective for interim reporting periods ending after June 15, 2009. The Partnership adopted this standard in the second quarter of 2009. The adoption of the standard did not have a material impact on the Company's financial position or results of operations.

Also in April 2009, the FASB issued a staff position providing additional guidance for estimating fair value when the volume and level of activity for the asset or liability have significantly decreased. This standard also includes guidance on identifying circumstances that indicate a transaction is not orderly. This standard is effective for reporting periods ending after June 15, 2009. The Partnership adopted this standard in the second quarter of 2009, which did not have a material impact on the Company's financial position or results of operations.

In June 2009, the FASB Accounting Standards Codification (Codification) was issued. The pronouncement establishes the Codification as the source of authoritative guidance for non-governmental entities on U.S. generally accepted accounting principles. The third quarter 2009 adoption of the pronouncement did not have a material impact on the Company's financial position or results of operations.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2009 presentation.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash, cash equivalents, and investments held at December 31, 2009 and 2008 were as follows:

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

		December 31, 2008	
($ thousands)	Amortized Cost	Gross Unrealized Loss	Estimated Fair Value
Cash and cash equivalents	$17,978	$ –	$17,978
Securities maturing after ten years			
Auction rate securities, non-current	4,000	(381)	3,619

There was a realized net loss of $66,000 in 2009 compared with no realized gain or loss for the comparable period in 2008.

At December 31, 2009, Pope Resources held SLARS with a par value of $1.9 million and an estimated fair value of $1.5 million. SLARS are collateralized long-term debt instruments that were designed to provide liquidity through a Dutch auction process that reset the applicable interest rate at pre-determined intervals, typically every 28 days. Beginning in February 2008, auctions failed when sell orders exceeded buy orders. When these auctions failed to clear, default interest rates went into effect. The underlying assets of the SLARS we hold, including the securities for which auctions have failed, are student loans which are guaranteed by the U.S. Department of Education for 97% of the loan and interest due. We filed a claim with the Financial Industry Regulatory Authority (FINRA) in an attempt to recover lost value with respect to these SLARS, but the hearing panel rendered a decision in November 2009 that was unfavorable to us in that it offered no settlement for our outstanding position.

ASC 820 *Fair Value Measurements and Disclosures* was followed to determine the fair value of the Partnership's investments. ASC 820 defines a hierarchy of three levels of evidence used to determine fair value:

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

Under current credit market conditions, there is limited market data for SLARS, thus available Level 1 inputs for use in determining a market value are not available. Specific securities under the general description of SLARS are unique and there are no actively traded markets that one can observe to determine a value for a specific security unless a transaction is identified for the security held within our portfolio. We sold one security during the fourth quarter of 2009 and used that transaction as a Level 2 indicator of value for the rest of the portfolio. The following table provides the fair value measurements of applicable Partnership financial assets according to the levels defined in ASC 820 as of December 31, 2009 and 2008:

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

		December 31, 2008		
($ thousands)	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$17,978	$ –	$ –	$17,978
Auction rate securities, non-current	–	–	3,619	3,619
Total financial assets at fair value	$17,978	$ –	$3,619	$21,597

In 2008, we identified market interest rates for similar securities, performed a discounted cash flow calculation using these alternative interest rates and considered the impact of illiquidity as well as the "invitation to offer" on the value of the securities. This method represented a Level 3 input, and was the best evidence we had to indicate value under market conditions as of December 31, 2008. The table below summarizes the change in the consolidated balance sheet carrying value associated with Level 3 financial assets for the annual period ended December 31, 2009:

Activity for Securities Valued Using Level 3 Inputs *($ thousands)*	**2009**	2008
Balance at beginning of period	**$3,619**	$ –
Transfers into Level 3	**–**	15,850
Transfers out of Level 3	**(1,486)**	–
Dispositions	**(1,815)**	(11,850)
Unrealized losses	**(252)**	(381)
Realized losses on dispositions	**(66)**	–
Balance at end of period	**$ –**	$3,619

3. ORM TIMBER FUND I, LP (FUND I) AND ORM TIMBER FUND II, INC. (FUND II)

The Funds were formed by Olympic Resource Management LLC (ORMLLC) for the purpose of attracting investor 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. Both Funds will operate for a term of ten years from the end of the drawdown period. The drawdown period for Fund I ended on August 1, 2007 and the drawdown period for Fund II will end in March 2011 or after Fund II is fully invested, whichever occurs sooner.

Pope Resources and ORMLLC together own 20% of each Fund and both are consolidated into the Partnership's financial statements. The Funds' statements of operations for the years ended December 31, 2009, 2008, and 2007 reflect losses of $1.2 million, $1.3 million, and $516,000, respectively. These losses include management fees paid to ORMLLC of $891,000, $869,000, and $896,000 for 2009, 2008, and 2007, respectively, which are eliminated in consolidation.

As of December 31, 2009 Fund II has $49.5 million of capital commitments remaining, including Pope Resources' 19% and ORMLLC's 1% commitments.

The Partnership's consolidated financial statements included Fund I and Fund II assets and liabilities at December 31, 2009 and 2008 which were as follows:

($ thousands)	**2009**	2008
Cash	**$1,145**	$2,047
Current assets	**38**	–
Timber, land, and roads (net of $2,612 accumulated depletion in 2008 and 2009)	**88,342**	53,789
Other long-term assets	**6**	–
Total assets	**$89,531**	$55,836
Current liabilities	**$741**	$191
Current portion of long-term debt	**29**	76
Total current liabilities	**770**	267
Long-term debt	**98**	127
Funds' equity	**88,663**	55,442
Total liabilities and equity	**$89,531**	$55,836

4. LONG-TERM DEBT

Long-term debt *(in thousands)*	at December 31 **2009**	2008
Mortgage payable to Northwest Farm Credit Services (NWFCS), interest at 6.4%, collateralized by timberlands with monthly interest-only payments. Matures in September 2019.	**$9,800**	$ –
Mortgage payable to John Hancock Life Insurance Company (JHLIC), interest at 9.65%, collateralized by timberlands with monthly interest payments and annual principal payments. Repaid in 2009.	–	9,019
Mortgage payable to JHLIC, interest at 7.63%, collateralized by timberlands with monthly interest payments and annual principal payments. Matures in April 2011.	**19,303**	20,053
Local improvement district assessments, with interest ranging from 5.03% to 6.5%, due through 2013.	**260**	312
Fund I note payable to the City of Tacoma, with interest at 4.5%, with monthly principal and interest payments maturing January 2014.	**127**	202
Total debt	**29,490**	29,586
Less current portion	**(831)**	(1,417)
Long-term debt, net of current portion	**$28,659**	$28,169

The Partnership's debt agreements contain a covenant which requires the Partnership not to exceed a maximum debt-to-market-capitalization ratio. The Partnership is in compliance with this covenant as of December 31, 2009. One of the consequences of our planned reduction in harvest is that we have fallen below the minimum threshold for our cash flow covenant. We alerted our mortgage lender to this and in October 2008 we received a waiver of the cash flow coverage ratio beginning with the fourth quarter of 2008, through and including the fourth quarter of 2010.

At December 31, 2009, principal payments on long-term debt for the next five years and thereafter are due as follows (in thousands):

2010	$831
2011	18,635
2012	188
2013	33
2014	3
Thereafter	9,800

The Partnership entered into a $40 million revolving line of credit with NWFCS in July 2008. On September 25, 2009 the Partnership entered into a new $9.8 million term loan agreement with NWFCS. This new term loan was used to retire a term loan from JHLIC due in April 2011 and fund an early extinguishment of debt charge of $1.1 million on retirement of that timberland mortgage. In connection with the new term loan, the limit on the Partnership's revolving line of credit with Northwest Farm Credit Services was reduced from $40 million to $35 million. This unsecured revolving loan agreement matures in August 2011 and imposes maintenance of a maximum debt-to-total capitalization ratio that the Partnership passes at December 31, 2009. At December 31, 2009 there were no amounts owed under this credit facility. The interest rate under this credit facility uses LIBOR as a benchmark. The spread above the benchmark rate is variable depending on the interest coverage ratio but ranges from 125 to 165 basis points.

5. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Partnership's financial instruments include cash and cash equivalents, short-term investments, accounts receivable, and contracts receivable, for which the carrying amount of each represents fair value based on current market interest rates or their short-term nature. The fair value of fixed rate debt having a carrying value of $29.1 million and $29.6 million has been estimated based on current interest rates for similar financial instruments to be approximately $30.5 million and $31.4 million as of December 31, 2009 and 2008, respectively.

6. INCOME TAXES

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

($ thousands)	**2009**	2008	2007
Income (loss) before income taxes	**($1,183)**	$83	$15,037
Less: Income/(loss) earned in entities that pass-through pre-tax earnings to the partners	**(1,263)**	144	15,465
Income (loss) subject to income taxes	**$80**	($61)	($428)

The provision for income taxes relating to taxable subsidiaries of the Partnership consists of the following income tax benefit (expense) for the years ended December 31:

($ thousands)	**2009**	2008	2007
Current	**($200)**	($249)	$82
Deferred	**222**	143	(13)
Paid in capital	**17**	167	0
Total	**($39)**	$61	$69

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

	2009	2008	2007
Statutory tax on income	**34%**	34%	34%
Income earned in entities that pass-through pre-tax earnings to the partners	**(37%)**	(107%)	(34%)
Effective income tax rate	**(3%)**	(73%)	–%

The net deferred income tax assets include the following components as of December 31:

($ thousands)	**2009**	2008
Current (included in prepaid expenses and other)	**$111**	$100
Non current (included in other assets)	**373**	162
Total	**$484**	$262

The deferred tax assets are comprised of the following:

($ thousands)	**2009**	2008
Employee-related accruals	**$403**	$205
Depreciation	**25**	7
Other	**56**	50
Total	**$484**	$262

The Partnership has concluded that it is more likely than not that its deferred tax assets will be realizable and thus no valuation allowance has been recorded as of December 31, 2009. This conclusion is based on anticipated future taxable income and tax planning strategies to generate taxable income, if needed. The partnership will continue to reassess the need for a valuation allowance during each future reporting period.

7. UNIT INCENTIVE PLAN

The Partnership's 2005 Unit Incentive Plan (the Plan) authorized the granting of nonqualified equity compensation to employees, officers, and directors of the Partnership. A total of 1,105,815 units have been reserved for issuance under the the Plan of which there are 1,028,744 units authorized but unissued as of December 31, 2009. The Partnership issued 11,695 restricted units in three grants under the Plan in 2009. Two of the 2009 unit grants vest over four years with 50% vesting on the third anniversary and the remaining 50% vesting on the fourth, provided the grantee remains an employee as of the vesting date. One of the 2009 unit grants vests over two years with 50% vesting after one year and the remaining 50% vesting after the second year from the grant date provided the grantee is still an employee as of the vesting date. The 2008 unit grants vest over four years with 50% vesting on the third anniversary and the remaining 50% vesting on the fourth, again provided the grantee remains an employee as of the vesting date. The grantee may not transfer restricted units until the holder fulfills the vesting requirements.

Restricted Units

The Human Resources Committee makes awards of restricted units to directors and senior managers of the Partnership and its subsidiaries. The restricted unit grants vest over two to four years and are compensatory in nature. Restricted unit awards entitle the recipient to full distribution rights during the vesting period but are restricted from disposition and may be forfeited until the units vest. The fair value, which equals the market price at date of grant, is charged to income on a straight line basis over the vesting period.

Restricted unit activity for the three years ended December 31, 2009 was as follows:

	Units	Weighted Avg Grant Date Fair Value ($)
Outstanding December 31, 2007	53,250	37.27
Grants	19,500	32.99
Delivered	(8,896)	33.87
Surrendered for withholding taxes	(479)	37.13
Forefeited	(1,500)	37.15
Outstanding December 31, 2008	61,875	36.42
Grants	**11,695**	**20.52**
Delivered	**(16,196)**	**34.32**
Surrendered for withholding taxes	**(1,179)**	**33.98**
Outstanding December 31, 2009	**56,195**	**33.76**

Unit Options

There were 1,028,744, 1,037,918, and 1,055,439 units available for issuance under the 2005 Unit Incentive Plan as of December 31, 2009, 2008, and 2007 respectively. Unit options have not been granted since December 2005. Units options granted prior to January 1, 2005 were non-qualified options granted at an exercise price not less than 100% of the fair value on the grant date. Unit options granted to employees vested over four or five years. Board members had the option of receiving their annual retainer in the form of unit options and those options vested immediately as they were granted monthly for services rendered during the month. Options granted have a life of ten years.

	Options	Exercise Price ($)
Vested December 31, 2007	199,856	15.97
Unvested December 31, 2007	6,200	15.96
Outstanding December 31, 2007	206,056	15.97
Exercised	(40,003)	16.08
Vested	6,200	15.96
Outstanding and Vested December 31, 2008	166,053	16.08
Expired	**(3,000)**	**27.88**
Outstanding and Vested December 31, 2009	**163,053**	**15.86**

There are no unvested unit options at December 31, 2009.

The aggregate spread between the option exercise price and unit market price (intrinsic value) of all options outstanding with a positive intrinsic value at December 31, 2009 was $925,000. There were no options exercised during 2009. The weighted average remaining contractual term for all outstanding and exercisable options at December 31, 2009 was 2.3 years.

8. PARTNERSHIP UNIT REPURCHASE PLANS

The Partnership adopted a unit repurchase plan in December 2008 pursuant to which was authorized to repurchase limited partner units with an aggregate value of up to $2.5 million. Since that time, we have increased the aggregate value of units authorized for repurchase to $5 million and extended the repurchase plan to allow for repurchases through December 2010. As of December 31, 2009, there remained an unutilized authorization for unit repurchases of $2.9 million.

9. EMPLOYEE BENEFITS

As of December 31, 2009 all employees of the Partnership and its subsidiaries are eligible to receive benefits under a defined contribution plan. During the years 2007 through 2009 the Partnership matched 50% of employees' contributions up to 8% of an individual's compensation. The Partnership's contributions to the plan amounted to $131,000, $150,000, $151,000, for the years ended December 31, 2009, 2008, and 2007, respectively.

10. COMMITMENTS AND CONTINGENCIES

Environmental remediation

The Partnership has an accrual for estimated environmental remediation costs of $1.3 million and $1.6 million as of December 31, 2009 and 2008, respectively. The environmental remediation liability represents estimated payments to be made to monitor (and remedy if necessary) certain areas in and around the townsite and millsite of Port Gamble, Washington. Port Gamble is a historic town that was owned and operated by P&T until 1985 when the townsite and other assets were spun off to form the Partnership. P&T continued to operate the townsite until 1996 and leased the millsite at Port Gamble through January 2002, at which point P&T signed an agreement with the Partnership dividing the responsibility for environmental remediation of Port Gamble between the two parties. Under applicable law, both Pope Resources and P&T are "potentially liable persons" based on ownership and/or operation of the site. These laws provide for joint and several liability among parties owning or operating property on which contamination occurs, meaning that cleanup costs can be assessed against any or all such parties.

Following the bankruptcy of P&T in late 2007 and the pending liquidation of P&T's assets, we determined that P&T would no longer be able to meet any of its obligations under our settlement and remediation agreement. Accordingly, in the fourth quarter of 2007 we added $1.9 million to our remediation liability, based on what management believed to be the best estimate of the remaining cleanup cost and most likely outcome to various contingencies within the overall project. It is the Partnership's policy to include legal costs in the estimate of the environmental liability. The Monte-Carlo simulation model by which we estimate this liability indicated a range of potential liability from $816,000 to $4.5 million which represents a two standard deviation range from the mean of possible outcomes generated by the statistical modeling process used to estimate this liability as of December 31, 2009. The balance is based upon a number of estimates and judgments that may change as the project progresses.

In 2001, the Partnership sold a resort community and its water and sewer utilities in the community of Port Ludlow. The buyer of the project believes some remediation is required for contamination discovered on the site, and we have agreed to participate in an investigation in 2010 regarding any liability the Partnership may have or may be alleged to have. While we have not concluded that we have an obligation to remediate, we recognized a $30,000 accrual as of December 31, 2009 which represents the maximum of the Partnership's agreed-upon investigative costs.

Performance bonds

In the ordinary course of business, and as part of the entitlement and development process, the Partnership is required to provide performance bonds to ensure completion of certain public facilities. The Partnership had performance bonds of $428,000 and $1,067,000 outstanding at December 31, 2009 and 2008, respectively.

Operating leases

The Partnership has non-cancelable operating leases for automobiles, office space, and computer equipment. The lease terms are from 12 to 48 months. Rent expense under the operating leases totaled $105,000, $127,000, and $124,000 for the years ended December 31, 2009, 2008 and 2007, respectively.

At December 31, 2009 future annual minimum rental payments under non-cancelable operating leases were as follows:

Year	Amount
2010	59,000
2011	45,000
2012	15,000
2013	–

Supplemental Employee Retirement Plan

The Partnership has a supplemental employee retirement plan for a retired key employee. The plan provides for a retirement income of 70% of his base salary at retirement after taking into account both 401(k) and Social Security benefits with a fixed payment set at $25,013 annually. The Partnership accrued $43,000 and $7,000 in 2009 and 2008, respectively, for this benefit based on an approximation of the cost of purchasing a life annuity paying the aforementioned benefit amount. The balance of the projected liability as of December 31, 2009 and 2008 was $205,000 and $186,000, respectively.

Contingencies

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

11. RELATED PARTY TRANSACTIONS AND NONCONTROLLING INTEREST

Pope MGP, Inc. is the managing general partner of the Partnership and receives an annual management fee of $150,000.

12. SEGMENT AND MAJOR CUSTOMER INFORMATION

The Partnership's operations are classified into three segments: Fee Timber, Timberland Management & Consulting, and Real Estate. The Fee Timber segment consists of the harvest and sale of timber from the Partnership's 114,000 acres of fee timberland in Washington State.

The Timberland Management & Consulting segment provides management, disposition, and technical forestry services in connection with 24,000 acres for Fund I and 12,000 acres for Fund II.

The Real Estate segment's operations consist of management of development properties and the rental of residential and commercial properties in Port Gamble and Kingston, Washington. Real Estate is working with approximately 2,500 acres of early stage development properties as of December 31, 2009. All of the Partnership's real estate activities are in Washington State.

For the year ended December 31, 2009, the Partnership had two customers that represented 22% and 14% of consolidated revenue, or $3.3 million and $2.1 million, respectively. The revenues from both customers were generated by the Fee Timber Segment. For the year ended December 31, 2008, the Partnership had no major customers that represented 10% or more of consolidated revenue.

Identifiable assets are those used exclusively in the operations of each industry segment or those allocated when used jointly. The Partnership does not allocate cash, accounts receivable, certain prepaid expenses, or the cost basis of the Partnership's administrative office for purposes of evaluating segment performance. Intersegment transactions are valued at prices that approximate the price that would be charged to a major third-party customer. Details of the Partnership's operations by business segment for the years ended December 31 were as follows (in thousands):

	2009	2008	2007
Revenue			
Pope Resources Fee Timber	**14,977**	19,282	32,678
Timber Funds	**31**	4,845	3,008
Total Fee Timber	**15,008**	24,127	35,686
Timberland Management & Consulting	**1,509**	1,890	2,260
Real Estate	**5,078**	3,723	15,076
Total Revenue (Internal)	**21,595**	29,740	53,022
Elimination of Intersegment Revenue	**(1,117)**	(1,562)	(1,127)
Total Revenue (External)	**20,478**	28,178	51,895

	2009	2008	2007
Intersegment Revenue or Transfers			
Pope Resources Fee Timber	**(161)**	(577)	(172)
Timber Funds	**–**	–	–
Total Fee Timber	**(161)**	(577)	(172)
Timberland Management & Consulting	**(908)**	(946)	(916)
Real Estate	**(48)**	(39)	(39)
Total Intersegment Eliminations	**(1,117)**	(1,562)	(1,127)
Operating Income (Loss)			
Pope Resources Fee Timber	**4,131**	7,217	14,957
Timber Funds	**(1,185)**	(1,278)	(490)
Total Fee Timber	**2,946**	5,939	14,467
Timberland Management & Consulting	**355**	138	(174)
Real Estate	**1,711**	(1,437)	5,202
G&A	**(3,733)**	(3,951)	(4,782)
Total Operating Income (Internal)	**1,279**	689	14,713
Intersegment Charges or Transfers			
Pope Resources Fee Timber	**(113)**	(538)	(133)
Timber Funds	**891**	893	882
Total Fee Timber	**778**	355	749
Timberland Management & Consulting	**(730)**	(681)	(787)
Real Estate	**(48)**	326	39
G&A	**–**	–	(1)
Total Intersegment Charges or Transfers	**–**	–	–
Total Operating Income (External)	**1,279**	689	14,713
Depreciation, Amortization and Depletion			
Pope Resources Fee Timber	**2,413**	2,381	3,835
Timber Funds	**–**	1,341	1,269
Total Fee Timber	**2,413**	3,722	5,104
Timberland Management & Consulting	**17**	127	81
Real Estate	**190**	684	201
G&A	**191**	156	185
Total Depreciation, Amortization and Depletion	**2,811**	4,689	5,571

	2009	2008	2007
Assets			
Pope Resources Fee Timber	**57,982**	59,911	60,597
Timber Fund I LP	**54,716**	55,380	57,412
Timber Fund II Inc	**34,791**	456	-
Total Fee Timber	**147,489**	115,747	118,009
Timberland Management & Consulting	**38**	54	189
Real Estate	**30,604**	28,752	26,375
G&A	**8,925**	20,858	34,752
Total Assets	**187,056**	165,411	179,325
Capital and Land Expenditures			
Pope Resources Fee Timber	**532**	1,795	1,172
Timber Funds	**34,553**	269	329
Total Fee Timber	**35,085**	2,064	1,501
Timberland Management & Consulting	**–**	3	105
Real Estate-development activities	**1,639**	3,451	9,868
Real Estate-other	**537**	–	296
G&A	**23**	552	392
Total Capital and Land Expenditures	**37,284**	6,070	12,162
Revenue by Product/Service			
Domestic forest products	**12,016**	15,691	31,908
Export forest products, indirect	**2,831**	3,427	1,584
Conservation easements	**3,298**	3,257	–
Fees for service	**632**	4,108	4,348
Homes, lots, and undeveloped acreage	**1,701**	1,695	14,055
Total Revenue by Product/Service	**20,478**	28,178	51,895

13. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

($ thousands, except per unit amounts)	**Revenue**	**Income (Loss) from Operations**	**Net Income (Loss)**	**Earnings (Loss) Per Partnership Unit Basic**	**Earnings (Loss) Per Partnership Unit Diluted**
2009					
First quarter	**$4,979**	**($41)**	**($123)**	**($0.03)**	**($0.03)**
Second quarter	**3,666**	**(724)**	**(693)**	**(0.16)**	**(0.16)**
Third quarter	**6,615**	**2,118**	**920**	**0.20**	**0.20**
Fourth quarter	**5,218**	**(74)**	**(376)**	**(0.08)**	**(0.08)**
2008					
First quarter	$6,340	$705	$941	$0.20	$0.19
Second quarter	11,252	1,615	1,683	0.36	0.36
Third quarter	7,436	(289)	(23)	(0.01)	(0.01)
Fourth quarter	3,150	(1,342)	(1,439)	(0.32)	(0.32)

Report of Independent Registered Public Accounting Firm

The Board of Directors and Unitholders
Pope Resources, A Delaware Limited Partnership

We have audited the accompanying consolidated balance sheets of Pope Resources, A Delaware Limited Partnership, and subsidiaries (collectively, the Partnership) as of December 31, 2009 and 2008, and the related consolidated statements of operations, partners' capital and comprehensive income (loss), and cash flows for each of the years in the three year period ended December 31, 2009. These consolidated financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Pope Resources, A Delaware Limited Partnership, and subsidiaries as of December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the years in the three year period ended December 31, 2009, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1 to the consolidated financial statements, the Partnership adopted Financial Accounting Standards Board (FASB) Statement No. 160, "Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51" (codified in ASC 810, Consolidation), and FASB Staff Position EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities" (codified in ASC 260, Earnings Per Share), effective January 1, 2009, and revised prior years to conform to the new pronouncements.

As discussed in Note 1 to the consolidated financial statements, during 2009, the Partnership elected to change, on a retroactive basis, its method of classifying cash outflows associated with real estate development activities consistent with cash inflows from sales of real estate within cash flows from operating activities.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Partnership's internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee for Sponsoring Organizations of the Treadway Commission (COSO), and our report dated March 9, 2010 expressed an unqualified opinion on the effectiveness of internal control over financial reporting.

/s/ KPMG LLP
Seattle, Washington
March 9, 2010

Report of Independent Registered Public Accounting Firm

The Board of Directors and Unitholders
Pope Resources, A Delaware Limited Partnership

We have audited Pope Resources, A Delaware Limited Partnership, internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Partnership's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control Over Financial Reporting in the Company's annual report on Form 10-K. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

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

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

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

In our opinion, Pope Resources, A Delaware Limited Partnership, maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Pope Resources, A Delaware Limited Partnership, and subsidiaries as of December 31, 2009 and 2008, and the related consolidated statements of operations, partners' capital and comprehensive income (loss), and cash flows for each of the years in the three-year period ended December 31, 2009, and our report dated March 9, 2010, expressed an unqualified opinion on those consolidated financial statements.

/s/ **KPMG LLP**
Seattle, Washington
March 9, 2010

Results of Operations

(Dollar amounts are in thousands except per unit data)	**2009**	2008	2007	2006
Revenue				
Fee Timber	**$14,847**	$23,551	$35,514	$35,260
Timberland Management & Consulting	**601**	944	1,344	3,670
Real Estate	**5,030**	3,683	15,037	27,320
Total revenue	**20,478**	28,178	51,895	66,250
Operating income/(loss)				
Fee Timber	**3,724**	6,294	15,215	14,592
Timberland Management & Consulting	**(375)**	(543)	(883)	1,266
Real Estate	**1,663**	(1,111)	5,163	13,864
General & Administrative	**(3,733)**	(3,951)	(4,782)	(3,817)
Total operating income/(loss)	**1,279**	689	14,713	25,905
Depreciation, depletion, and amortization	**2,811**	4,689	5,549	7,017
Net interest expense/(income)	**1,007**	225	(324)	625
Income tax expense/(benefit)	**39**	(61)	(69)	439
Debt extinguishment costs	**1,137**	–	–	–
SLARS impairment and loss on dispositions	**318**	381	–	–
Noncontrolling interests	**(950)**	(1,018)	(402)	(69)
Net income/(loss)	**(272)**	1,162	15,508	24,910
PER UNIT RESULTS				
Net income/(loss)	**($0.07)**	$0.23	$3.22	$5.22
Distributions	**0.70**	1.60	1.36	1.06
Partners' capital	**18.17**	18.83	20.48	18.70
Weighted average units outstanding (000)	**4,539**	4,660	4,769	4,762
CASH FLOW				
Net cash provided by operating activities	**$662**	$3,952	$12,113	$33,114
Distributions to unitholders	**3,219**	7,444	6,449	4,961
Unit repurchases	**1,838**	3,940	1,374	–
Payment/(issuance) of long-term debt	**97**	1,342	1,481	1,675
Free cash flow#*	**(1,615)**	1,957	11,268	25,784
FINANCIAL POSITION				
Land and timber, net of depletion	**$171,731**	$137,133	$138,112	$133,731
Total assets	**187,056**	165,411	179,325	180,282
Long-term debt, including current portion	**29,490**	29,586	30,727	32,208
Partners' capital	**83,126**	87,817	96,644	87,605
FINANCIAL RATIOS#				
Total Debt to Total Capitalization	**26%**	25%	24%	27%
Return on Equity	**0%**	1%	17%	32%
Enterprise value / EBITDDA	**50**	33	11	6
UNIT TRADING PRICES#				
High	**$28.98**	$43.81	$50.01	$36.00
Low	**15.61**	15.00	34.25	30.00
Year-end close	**24.60**	20.00	42.75	34.32
Market capitalization (year end – $millions)	**113**	93	202	161
Enterprise value (year end – $millions)	**206**	149	245	208
Fee timber harvest (MMBF)	**32**	38	55	55
Average per MBF log revenue	**410**	506	607	611
Employees at December 31 (full time equivalent)#	**42**	51	58	60

Footnotes

* *Timberland acquisitions and timber fund co-investments are excluded from the calculation of free cash flow.*

\# *Unaudited*

2005	2004	2003	2002	2001	2000	1999
$44,424	$33,571	$22,916	$23,298	$24,999	$21,444	$23,467
7,764	1,601	2,386	7,295	9,703	11,011	11,705
4,818	4,476	1,734	1,599	13,143	18,202	15,681
57,006	39,648	27,036	32,192	47,845	50,657	50,853
16,320	15,126	9,669	10,199	9,190	12,113	13,020
3,540	(598)	272	919	1,685	152	1,877
1,270	1,586	(476)	(1,667)	(2,709)	(10,888)	(95)
(3,651)	(2,986)	(2,842)	(3,864)	(5,110)	(7,254)	(8,122)
17,479	13,128	6,623	5,587	3,056	(5,877)	6,680
11,252	5,752	3,546	3,864	7,698	2,899	2,683
2,477	2,952	2,806	2,894	2,961	700	1,039
997	0	242	(788)	356	(326)	259
–	–	–	–	–	–	–
–	–	–	–	–	–	–
321	0	47	147	171	0	316
13,684	10,176	3,528	3,334	(432)	(6,251)	5,066
$2.88	$2.22	$0.78	$0.74	($0.10)	($1.38)	$1.11
0.80	0.44	0.24	0.10	-	0.40	0.40
14.29	12.01	10.19	9.65	8.98	9.12	10.91
4,753	4,594	4,522	4,520	4,526	4,528	4,548
$23,950	$16,485	$8,029	$8,900	$11,235	$9,362	$8,347
3,701	1,989	1,084	452	0	1,811	1,810
1,883	1,979	1,662	1,110	(26,540)	424	497
16,731	10,898	3,595	4,119	2,588	(6,603)	5,983
$78,222	$87,517	$69,003	$70,495	$71,549	$25,411	$28,002
106,358	94,868	86,308	86,788	84,187	60,857	66,880
33,883	35,766	37,745	39,239	39,667	13,127	13,688
66,405	54,533	46,036	43,598	40,673	41,280	49,302
34%	40%	45%	47%	49%	24%	22%
23%	20%	8%	8%	-1%	-14%	11%
5	7	9	10	10	(43)	17
$56.85	$25.25	$15.99	$15.50	$24.50	$25.75	$35.00
19.35	15.00	7.00	9.30	14.00	18.88	27.88
31.02	25.00	15.43	10.11	14.75	24.50	29.25
144	113	70	46	67	111	132
160	149	97	78	106	114	141
74	60	45	45	36	37	42
576	529	476	488	503	549	542
65	49	48	79	123	241	257

Definitions

Free cash flow = net income plus depreciation, depletion, and cost of land sold less principal payments and capital expenditures excluding timberland acquisitions.

Enterprise value = market capitalization less cash plus both total debt outstanding and noncontrolling interests.

UNITHOLDER INFORMATION

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J. Thurston Roach
Private Investor

Seattle, Washington

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David L. Nunes
President and Chief Executive Officer

Thomas M. Ringo
Vice President and Chief Financial Officer

STOCK EXCHANGE LISTING

Pope Resources' units trade on the NASDAQ Capital Market® under the symbol POPE.

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ANNUAL MEETING

No annual meeting is required for the partnership.

FORM 10-K

This report and Pope Resources' Report on Form 10-K are available on the Partnership's website (www.poperesources.com) by clicking on "Investor Relations" and then scrolling to either "Financial Information" or "SEC Filings" on the left-side navigation bar. Additionally, copies of this report and the Form 10-K are available without charge upon request to:

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