

History of Pope Resources

Company Perspectives:

At Pope Resources we have worked hard over many years to cultivate a reputation for honesty, fairness, and integrity. We are known for our stewardship of the land, respect for the communities in which we do business, and the straightforward transparency with which we communicate to the investment marketplace. Collectively, such actions and behaviors as these generate a public trust that we view as critical for us to maintain in support of our value-building enterprise. As one means of upholding that cultivated trust, we have set for ourselves high standards of ethical conduct.

Key Dates:

- **1985:** Pope & Talbot spins off its timber and real estate assets in Washington as a master limited partnership named Pope Resources.
- **1996:** Gary F. Tucker is named president and chief executive officer, beginning a period of expansion for Pope Resources.
- **1997:** Olympic Resource Management is formed, marking Pope Resources' entry in the forestry consulting business.
- **1998:** Pope Resources acquires Simons Reid Collins, a Canadian timber consulting business.
- **2000:** Allen Symington replaces Tucker, touching off a divestiture program aimed at narrowing Pope Resources' strategic focus.
- **2001:** The acquisition of 44,500 acres of timberland in Washington increases Pope Resources' timber assets by 60 percent.
- **2002:** David L. Nunes replaces Symington and sells the company's Canadian consulting business.
- **2004:** Pope Resources acquires 1,339 acres of timberland in Jefferson County, Washington.

Pope Resources Company History: Pope Resources LP

Incorporated: 1985

NAIC: 113110 Timber Tract Operations; 236115 New Single-Family Housing Construction (Except Operative Builders)

Pope Resources LP owns and manages timberland and real estate in Washington state. The company operates through two primary subsidiaries, Olympic Resource Management and Olympic Property Group. Olympic Resource Management owns approximately 115,000 acres of timberland in western Washington and manages timberland for other owners, serving as a forestry consultant. Olympic Property Group owns a 2,600-acre portfolio of residential and commercial development lands, including the town site of Port Gamble, Washington.

Pope Resources sprang from one of the oldest timber companies in the Pacific Northwest, making its debut as a separate company nearly 150 years after its progenitor was established. The

company was formed from certain assets controlled by Pope & Talbot, Inc., a lumber company that started in the barging business in 1849 in San Francisco. Founders Andrew Jackson Pope and Frederic Talbot diversified into the lumber business several months after starting their company, and arrived in the Pacific Northwest three years later, establishing a company named Puget Mill Company on the Puget Sound in what later became the town of Port Gamble. Puget Mill quickly became the largest business on the Puget Sound, establishing a presence in nearby Port Ludlow shortly after the Civil War. Both Port Gamble and Port Ludlow figured as prominent components of Pope Resources' business more than a century later.

The assets inherited by Pope Resources drew their origins from Pope & Talbot's timber holdings, which by the beginning of the 1880s totaled 150,000 acres. The other aspect of Pope Resources' business--real estate development--had its roots in Pope & Talbot's holdings in Port Gamble and Port Ludlow. The company first began to build a real estate development business, which initially produced lackluster results, in the years preceding World War I. Pope & Talbot, the name adopted by Puget Mill in 1940, later renewed its involvement in real estate development, but its timber assets experienced growth decade after decade, representing the mainstay of the company's business. By the 1950s, Pope & Talbot owned more than one billion board feet of timber, possessing more than an ample supply of wood to warrant its diversification into an integrated wood products company. The company began to shape itself into a manufacturer as well as a harvester during the 1950s, either acquiring or building facilities to manufacture timber-derivative products. Pope & Talbot added a particleboard plant, a veneer mill, a wood treatment facility, and a plywood plant. During the 1970s, the company entered the pulp and paper business, followed by further diversification during the 1980s, when it entered the consumer products market by adding tissue and diaper plants.

As Pope & Talbot flowered into a vertically integrated wood products company, it also delved into other, nontimber-related businesses. It began dabbling in real estate ventures again during the 1960s, undertaking its most ambitious development project in Port Ludlow, on land purchased by the company in 1878. Pope & Talbot began development at Port Ludlow in 1968, constructing a new marina, restaurant, beach club, condominiums, sports facilities, and a championship golf course. The company wanted to make the development a vacation-home resort, initially anticipating a community with 1,200 homes. Although the company sold the lots for all the home sites, the project fell well short of becoming the vacation-home paradise envisioned by its creators. Construction costs soared as the rate of inflation escalated during the late 1960s and early 1970s, exacerbating the underlying problem with the project: the market did not contain a sufficient number of recreational home buyers. In the end, only 450 homes were built.

Pope Resources was born from a strategic decision by executives at Pope & Talbot. By the 1980s, growing concern over the environmental impact of logging was reducing logging activity and increasing the cost of timber, prompting officials to take action. They decided to reduce the company's exposure to the timber market in the Pacific Northwest, a decision that led Pope & Talbot to spin off its real estate and timber holdings in Washington to the company's shareholders. A master limited partnership was created in 1985 named Pope Resources, a company given more than 70,000 acres of timberland on the Olympic Peninsula, the resort in Port Ludlow, ownership of the historic section of Port Gamble, and other assets. The company's

annual sales upon its release from Pope & Talbot were less than \$20 million, the starting-off point for a collection of assets that were more than a century old.

One of the first projects undertaken by Pope Resources involved a return to the vacation-home resort project in Port Ludlow. The growing population in the Puget Sound area had created a potentially larger market for recreational homebuyers, but the company wanted to be sure, wishing to avoid the miscalculation of the late 1960s. A marketing study was commissioned from a national research firm in 1984, while Pope & Talbot still oversaw the real estate development operations, the first of three studies commissioned to determine the viability of further developing the site located near the head of Hood Canal. The last study was completed in 1988, revealing that the company should target those in or close to retirement rather than vacation-home buyers. With a potential customer base identified, the company pressed ahead with the project, a development that would become known as New Port Ludlow. To gain approval for the project and appease the Protect Ludlow Bay Committee, Pope Resources spent \$2 million to improve waste treatment facilities at Port Ludlow built under the aegis of Pope & Talbot, which residents complained were inadequate. Next, the company built the amenities for the New Port Ludlow project before constructing the homes. "They're not buying future promises," Pope Resources vice-president of development remarked in a June 18, 1990 interview with *Puget Sound Business Journal*. Pope Resources constructed a \$2 million, 16,000-square-foot recreation center with an auditorium and workshop areas, a pool and spa, and other fitness facilities before beginning work on the \$100 million, 800-home adult community.

The New Port Ludlow development was the most conspicuous demonstration of Pope Resources' existence during its first decade in business. The company achieved nominal growth, but it kept a low profile, characterized as a "caretaker" company by a major shareholder in the April 30, 1999, issue of the *Puget Sound Business Journal*. The company remained in the shadows until its president and chief executive officer, George Folquet, retired in December 1995. When Folquet retired, two of the company's board members decided to recruit a new leader to invigorate the Pope Resources organization. Peter T. Pope, the president and chief executive officer of Pope & Talbot, and his cousin's husband, Adolphus Andrews, Jr., whose families owned one-fifth of Pope Resources, began looking for a new leader and found a veteran timber executive named Gary F. Tucker.

Tucker spearheaded a dramatic makeover of Pope Resources, ushering in a period of accelerated growth that marked the company's first expression of independence from Pope & Talbot. Pope Resources was no longer a "caretaker" company, but it took roughly a decade for the company to assert its own personality. The credit, for better or worse, went to Tucker, who arrived in January 1996 after twice retiring from a lengthy career in the timber industry. Tucker spent years working for Seattle-based Plum Creek Timber Co., the former timber arm of Burlington Northern. He retired as the company's vice-president of resources in 1989, but emerged from retirement in a matter of months to found his own company, Trees Inc., a consulting firm that managed 2.1 million acres of private forest for the Hancock Timber Resource Group, an investment component of John Hancock Financial Services. Tucker, who was 60 years old when he joined Pope Resources, approached his new job with the zeal of a rising executive, promising wholesale changes that would change the company's corporate culture and trigger unprecedented growth in new directions. "Gary has taken a totally different tack," a colleague explained in an

April 30, 1999 interview with *Puget Sound Business Journal*. "Almost from day one, Gary seemed to be an exceedingly ambitious fellow."

Tucker stamped the beginning of a new Pope Resources era with pervasive changes. He hired new executives from high-profile companies such as Boise Cascade Corp., Weyerhaeuser Co., and MacCaw Cellular Communications Inc. He instilled a new workplace environment that was more tolerant of risk, more creative, and more collaborative. After examining the company's operations, Tucker sought to expand on the company's two traditional lines of business. The company made most of its money by logging and selling trees from its 76,000 acres of forest on the Olympic Peninsula. A smaller portion of its revenue was derived from the real estate division, which owned 4,000 acres in the Puget Sound area, as well as the Port Ludlow development and the town site of historic Port Gamble. Tucker, a year after his arrival, began adding to the operations he inherited, executing what he considered to be his masterstroke in 1997, when Olympic Resource Management LLC (ORM) was formed as a new subsidiary. ORM was formed to manage forests owned by other companies, marking a new line of business for Pope Resources that Tucker believed could carry the company toward much greater heights. "Our goals for Olympic Resource Management are ambitious," he explained in a March 17, 1997 interview with *Business Wire*. "We expect significant growth within two years. If we meet our targets, ORM could be managing in excess of \$1 billion in investments within five years."

ORM was the centerpiece of Tucker's makeover, but not the only significant change to the company's organizational structure during his tenure. The new subsidiary gained a considerable foothold in its new business in 1998, winning a contract to manage more than 500,000 acres of forest in Washington, Oregon, California, and British Columbia owned by Tucker's former employer, Hancock Timber Resource Group. At roughly the same time, Tucker made further organizational changes, reorganizing Pope Resources' real estate, real estate development, and utilities assets into separate companies. Olympic Property Group L.L.C. was formed as a holding company for subsidiaries Olympic Resorts L.L.C., Olympic Real Estate and Development, Inc., and Olympic Water and Sewer, Inc. Olympic Resorts was given ownership of the 27-hole golf course at Port Ludlow, a commercial development called Village Center, and a recreational vehicle park, which were to be managed, along with a 300-slip marina, by Olympic Real Estate and Development. The water and sewer utilities serving Port Ludlow were bundled under the control of Olympic Water and Sewer. Before the end of what had been a busy year for Pope Resources, Tucker made a final addition to the company's operations. In December, he acquired Simons Reid Collins, a timber consultant that managed approximately 60,000 acres of forest on Vancouver Island.

Tucker's sweeping changes helped reverse a two-year decline in sales and earnings, sparking a 43 percent increase in sales in 1998 to a record \$43 million, but his era ended abruptly. The "exceedingly ambitious" Tucker had proved to be just that, at least in the minds of some Pope Resources officials. Tucker resigned in May 2000 after increasing the company's workforce from 56 in 1996 to 257 in 1999. His replacement, Allen Symington, was hired in September 2000 as Pope Resources' chairman and chief executive officer, and immediately announced measures to reverse some of Tucker's actions. "There needs to be efforts undertaken to get this thing back on track," said Bruce Sherman, the chairman of Private Capital Management Inc., which owned 38 percent of Pope Resources, in a December 15, 2000 interview with *Puget Sound Business*

Journal. Symington, a former executive at U.S. Timberlands Co. LP, which owned 670,000 acres of timberland in Oregon and Washington, announced a strategic makeover of his own, designed to narrow the company's focus on growing and managing timberlands.

Symington's overhaul focused on divesting some of the Tucker-inspired additions to Pope Resources, but ORM, the centerpiece of Tucker's makeover, was retained. Before Symington began to whittle down the company's interests, however, he completed the first timberland acquisition in Pope Resources' history. In February 2001, the company agreed to buy 44,500 acres of forest in Washington's Skamania and Lewis counties from Plum Creek Timber Co. for \$54 million. The acquisition increased Pope Resources' timberland by 60 percent, giving the company 118,500 acres, but the deal offered more than just an increase in assets. Most of Pope Resources' trees at the time were either young or ready to be logged, whereas the Plum Creek timberland contained many trees in the mid-range age classes, thereby by balancing Pope Resources' timber assets.

The divestitures began not long after the Plum Creek deal was announced. In August 2001, the company sold the Port Ludlow development for \$16.7 million. Next, a planned transition in leadership took place. Symington was replaced as chief executive officer in January 2002 by David L. Nunes, who had been promoted to president concurrent with Symington's appointment as chief executive officer in September 2000. Nunes, who spent nine years working for Weyerhaeuser Co. before joining Pope Resources in 1997, continued pursuing Symington's objective of creating a slimmed-down Pope Resources. In November 2002, he announced plans to exit the forestry consulting business in Canada, which had developed from the 1998 acquisition of Simons Reid Collins. "We have come to recognize that this business provides only limited synergy with our core timberland management business and has additionally suffered due to the protracted softwood lumber dispute between the United States and Canada," Nunes explained in a November 5, 2002 interview with *Canadian Corporate News*.

The contrasting philosophies of the Tucker and the Symington/Nunes leadership tenures created equally contrasting financial results. Pope Resources collected \$50.6 million in revenue in 2000, the year Tucker resigned. By 2004, the company's revenue volume had shrunk to \$39.6 million. Growth was achieved in profitability between the two periods, however, encouraging Nunes to press forward with the company's more focused strategic approach. In 2000, Pope Resources registered a net loss of \$6.2 million. In 2004, the company posted a net profit of \$10.1 million. As Nunes prepared for the future, he was expected to pursue growth but only within the narrowed scope of the company's focus. An acquisition announced in late 2004 conformed to the strategic vision of the company, offering a blueprint for the future. In October 2004, the company announced it was acquiring 1,339 acres of timberland interspersed among acreage it already owned in Jefferson County. "This property includes a significant volume of high-quality merchantable timber, which we expect to harvest over the next few years," said Nunes, in a statement quoted by *UPI NewsTrack* on October 25, 2004. The acquisition was the company's last major deal before celebrations of its 20th anniversary began, a milestone that had its roots in a more than century-old business.

Principal Subsidiaries

ORM, Inc.; OPG Properties LLC; OPG Port Gamble LLC; Olympic Resource Management LLC; Olympic International LLC; Olympic Resource Management CP LLC; Olympic Property Group I LLC; Olympic Real Estate Development LLC; Harbor Hill LLC.

Principal Competitors

Hampton Affiliates; Pacific Fiber Company LP; Simpson Investment Company.

Further Reading

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— Jeffrey L. Covell