



Pope Resources Reports Third Quarter Earnings of \$8.3 Million

October 25, 2006

POULSBO, Wash.--(BUSINESS WIRE)--Oct. 25, 2006--Pope Resources (Nasdaq:POPEZ) reported net income of \$8.3 million, or \$1.74 per diluted ownership unit, on revenues of \$18.0 million for the third quarter ended September 30, 2006. This compares to net income of \$4.1 million, or 87 cents per diluted ownership unit, on revenues of \$15.3 million, for the same period in 2005.

Net income for the nine months ended September 30, 2006 totaled \$17.1 million, or \$3.60 per diluted ownership unit, on revenues of \$49.7 million. Net income for the corresponding period in 2005 totaled \$12.8 million, or \$2.70 per diluted ownership unit, on revenues of \$48.1 million.

Earnings before interest, income tax, depreciation, depletion, and amortization (EBITDDA) for the quarter ended September 30, 2006 was \$9.9 million, compared to \$7.6 million for the third quarter of 2005. For the nine months ended September 30, 2006, EBITDDA was \$24.7 million, compared to \$25.5 million for year-to-date 2005 results.

"Operating results for the third quarter, which represent the strongest quarter in the partnership's history, were dominated by our Real Estate segment's sale of a 17-acre commercial tract located in our Harbor Hill project in Gig Harbor, Washington to Costco Wholesale Corporation," said David L. Nunes, President and CEO. "This income reflects the culmination of years of work and investment to realize value from former timberlands now located in the path of development. While we expect continued value realization from these types of sales from time to time in the future, both the timing and the amount of revenue and corresponding operating income from our Real Estate segment depend on a variety of factors beyond our control and these amounts are, as such, far more variable than those of the Partnership's Fee Timber operations."

Harvest volumes for each of the last two years (2004 and 2005) were higher than our long-term harvest plan as a result of harvest activities stemming from two timberland acquisitions in 2004. Residual volume from these 2004 acquisitions also influenced the harvest levels for 2006, but at a reduced level compared to 2004 and 2005. Our Fee Timber segment generated \$3.6 million of operating income in the third quarter, a decrease of 25% from the \$4.8 million in the third quarter of last year. This decline in operating income reflects both the aforementioned reduction from 2005 to 2006 in annual harvest volume and the fact that we produced a lower proportional harvest of 12 MMBF, or 21% of the planned annual harvest volume, in the third quarter of 2006 as compared to 21 MMBF, or 28% of the planned annual harvest in the corresponding quarter in 2005. The reduced harvest volume was partially offset by both higher log price realizations and lower per-unit depletion expense. During the quarter, log prices were up \$43 per thousand board feet (MBF), or 7%, compared to last year.

On a year-to-date basis, Fee Timber operating income fell to \$13.8 million in 2006 from \$14.7 million in 2005, representing a decrease of 6%. This decline was a result of harvest volumes that decreased 23% from 66 MMBF in 2005 to 51 MMBF in 2006, offset partially by log prices that increased 5%, or \$31 per MBF, and lower per-unit depletion expense. Fourth quarter 2006 results for the Fee Timber segment will be modest as we have harvested over 90% of our planned annual harvest volume through the first three quarters.

Largely as a result of the aforementioned Costco sale, the Real Estate segment generated \$5.7 million of operating income in the third quarter of 2006 versus \$496,000 in the prior year's third quarter. Remaining property in the Harbor Hill project includes an additional 64 acres of property zoned for commercial and business park use that we are currently marketing for sale, and nearly 220 additional acres that are zoned for residential use. Again, based largely on the strength of the Harbor Hill project in Gig Harbor, year-to-date operating income for the Real Estate segment increased to \$5.9 million from \$1.3 million in 2005.

Our Timberland Management & Consulting segment posted year-to-date operating income of \$1.4 million in 2006 compared to \$2.1 million for the first nine months of 2005. Operating results for the quarter declined to \$33,000 from \$393,000 in the prior year. The decline in operating income from this segment is the result of fewer assets under management in 2006 offset only in part by earned property disposition fees.

The financial and statistical schedules attached to this earnings release provide selected detail on individual segment results and operating statistics.

About Pope Resources

Pope Resources, a publicly traded limited partnership, and its subsidiaries Olympic Resource Management and Olympic Property Group, own or manage over 400,000 acres of timberland and development property in Washington and Oregon. In addition, we provide forestry consulting and timberland investment management services to third-party owners and managers of timberland in Washington, Oregon, and California. The company and its predecessor companies have owned and managed timberlands and development properties for more than 150 years. Additional information on the company can be found at www.orm.com. The contents of our website are not incorporated into this release or into our filings with the Securities and Exchange Commission.

A Note About Forward Looking Information

This press release contains a number of projections and statements about our expected financial condition, operating results, business plans and objectives. These statements reflect management's estimates based on current goals and its expectations about future developments. Because these statements describe our goals, objectives, and anticipated performance, they are inherently uncertain, and some or all of these statements may not come to pass. Accordingly, they should not be interpreted as promises of future management actions or assurances of financial performance. Our future actions and actual performance will vary from current expectations and under various circumstances the results of these variations may be material and adverse. Some of the factors that may cause actual operating results and financial condition to fall short of expectations include factors that affect our ability to anticipate and respond adequately to fluctuations in the market prices for our products; environmental and land use regulations that limit our ability to harvest timber and develop property; labor, equipment and transportation costs that affect our net income; and economic

conditions that affect consumer demand for our products and the prices we receive for them. Other factors are set forth in that part of our Annual Report on Form 10-K Item 1A entitled "Risk Factors." Other issues that may have an adverse and material impact on our business, operating results, and financial condition include those risks and uncertainties discussed in our other filings with the Securities and Exchange Commission. Forward-looking statements in this release are made only as of the date shown above, and we cannot undertake to update these statements.

About Our Financial Measures

Management considers earnings (net income or loss) before interest expense, income taxes, depreciation, depletion and amortization (EBITDDA) to be a relevant and meaningful indicator of liquidity and earnings performance commonly used by investors, financial analysts and others in evaluating companies in its industry and, as such, has provided this information in addition to the generally accepted accounting principle-based presentation of net income or loss and cash from operations. With different companies employing various calculation methodologies, disclosure of EBITDDA can make it easier for the reader to make meaningful comparisons between the operating results and cash-generating capabilities of different timber companies. EBITDDA is not a Generally Accepted Accounting Principles measure and does not include depreciation and depletion expense. This may be deemed a limitation to using EBITDDA for evaluating operating performance.

Pope Resources, A Delaware Limited Partnership
Unaudited

CONSOLIDATED STATEMENTS OF OPERATIONS
(all amounts in \$000's, except per
unit amounts)

| | Three months ended | | Nine months ended | |
|---|--------------------|-------------|-------------------|-------------|
| | September 30, | | September 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| Revenues | \$18,024 | \$15,312 | \$ 49,717 | \$ 48,099 |
| Costs and expenses: | | | | |
| Cost of sales | (6,198) | (6,631) | (21,037) | (21,845) |
| Operating expenses | (3,423) | (3,860) | (10,357) | (10,667) |
| | ----- | ----- | ----- | ----- |
| Operating income | 8,403 | 4,821 | 18,323 | 15,587 |
| Interest, net | (115) | (586) | (641) | (1,938) |
| | ----- | ----- | ----- | ----- |
| Income before income taxes and minority interest | 8,288 | 4,235 | 17,682 | 13,649 |
| Income tax provision | (16) | (52) | (453) | (562) |
| | ----- | ----- | ----- | ----- |
| Income before minority interest | 8,272 | 4,183 | 17,229 | 13,087 |
| Minority interest | 7 | (46) | (112) | (275) |
| | ----- | ----- | ----- | ----- |
| Net income | \$ 8,279 | \$ 4,137 | \$ 17,117 | \$ 12,812 |
| | ===== | ===== | ===== | ===== |
| Average units outstanding - Basic | 4,645 | 4,621 | 4,641 | 4,593 |
| | ===== | ===== | ===== | ===== |
| Average units outstanding - Diluted | 4,769 | 4,773 | 4,760 | 4,742 |
| | ===== | ===== | ===== | ===== |
| Basic net income per unit | \$ 1.78 | \$ 0.90 | \$ 3.69 | \$ 2.79 |
| | ===== | ===== | ===== | ===== |
| Diluted net income per unit | \$ 1.74 | \$ 0.87 | \$ 3.60 | \$ 2.70 |
| | ===== | ===== | ===== | ===== |

CONSOLIDATED BALANCE SHEETS
(all amounts in \$000's)

| | September 30, | |
|------------------------|---------------|----------|
| | 2006 | 2005 |
| | ----- | |
| Assets: | | |
| Cash | \$ 3,663 | \$ 3,009 |
| Short term investments | 29,000 | 14,000 |
| Other current assets | 4,758 | 6,772 |
| Roads and timber | 47,467 | 53,779 |

| | | |
|---|------------|------------|
| Properties and equipment | 31,386 | 25,735 |
| Other assets | 1,308 | 877 |
| | ----- | ----- |
| Total | \$ 117,582 | \$ 104,172 |
| | ===== | ===== |
| Liabilities and partners' capital: | | |
| Current liabilities | \$ 5,885 | \$ 5,045 |
| Long-term debt, excluding current portion | 30,866 | 32,308 |
| Other long-term liabilities | 324 | 211 |
| | ----- | ----- |
| Total liabilities | 37,075 | 37,564 |
| Partners' capital | 80,507 | 66,608 |
| | ----- | ----- |
| Total | \$ 117,582 | \$ 104,172 |
| | ===== | ===== |

RECONCILIATION BETWEEN NET INCOME AND
EBITDDA

(all amounts in \$000's)

| | Three months ended | | Nine months ended | |
|-------------------------------|--------------------|----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| Net income | \$ 8,279 | \$ 4,137 | \$ 17,117 | \$ 12,812 |
| Added back: | | | | |
| Interest, net | 115 | 586 | 641 | 1,938 |
| Depletion | 1,278 | 2,623 | 5,970 | 9,689 |
| Depreciation and amortization | 175 | 163 | 534 | 482 |
| Income tax expense | 16 | 52 | 453 | 562 |
| | ----- | ----- | ----- | ----- |
| EBITDDA | \$ 9,863 | \$ 7,561 | \$ 24,715 | \$ 25,483 |
| | ===== | ===== | ===== | ===== |

RECONCILIATION BETWEEN CASH FROM
OPERATIONS AND EBITDDA

(all amounts in \$000's)

| | Three months ended | | Nine months ended | |
|---------------------------|--------------------|----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| Cash from operations | \$ 15,868 | \$ 9,454 | \$ 28,423 | \$ 22,268 |
| Added back: | | | | |
| Change in working capital | - | - | 1,435 | 1,249 |
| Interest | 115 | 586 | 641 | 1,938 |
| Deferred revenue | - | 10 | - | 695 |
| Minority interest | 7 | - | - | - |
| Deferred taxes | - | - | 11 | - |
| Income tax provision | 16 | 52 | 453 | 562 |
| Less: | | | | |
| Change in working capital | (4,005) | (2,217) | - | - |
| Deferred revenue | (90) | (84) | (1,031) | - |
| Cost of land sold | (1,968) | (178) | (4,837) | (344) |
| Deferred taxes | (7) | - | - | (594) |
| Equity based compensation | (73) | (14) | (267) | (14) |
| Minority interest | - | (46) | (112) | (275) |
| Other | - | (2) | (1) | (2) |
| | ----- | ----- | ----- | ----- |
| EBITDDA | \$ 9,863 | \$ 7,561 | \$ 24,715 | \$ 25,483 |
| | ===== | ===== | ===== | ===== |

SEGMENT INFORMATION
(all amounts in \$000's)

| | Three months ended | | Nine months ended | |
|---|--------------------|-----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2006 | 2005 | 2006 | 2005 |
| Revenues: | | | | |
| Fee Timber | \$ 8,114 | \$ 12,347 | \$ 32,287 | \$ 39,230 |
| Timberland Management & Consulting (TM&C) | 578 | 1,666 | 3,146 | 5,123 |
| Real Estate | 9,332 | 1,299 | 14,284 | 3,746 |
| Total | 18,024 | 15,312 | 49,717 | 48,099 |
| EBITDDA: | | | | |
| Fee Timber | 4,686 | 7,489 | 19,757 | 24,490 |
| TM&C | 58 | 373 | 1,308 | 1,854 |
| Real Estate | 5,913 | 457 | 6,237 | 1,458 |
| General & administrative | (794) | (758) | (2,587) | (2,319) |
| Total | 9,863 | 7,561 | 24,715 | 25,483 |
| Depreciation, depletion and amortization: | | | | |
| Fee Timber | 1,123 | 2,735 | 5,948 | 9,764 |
| TM&C | 18 | 26 | 54 | 74 |
| Real Estate | 245 | (39) | 322 | 135 |
| General & administrative | 67 | 64 | 180 | 198 |
| Total | 1,453 | 2,786 | 6,504 | 10,171 |
| Operating income/(loss): | | | | |
| Fee Timber | 3,563 | 4,754 | 13,809 | 14,726 |
| TM&C | 33 | 393 | 1,366 | 2,055 |
| Real Estate | 5,668 | 496 | 5,915 | 1,323 |
| General & administrative | (861) | (822) | (2,767) | (2,517) |
| Total | \$ 8,403 | \$ 4,821 | \$ 18,323 | \$ 15,587 |
| | ===== | ===== | ===== | ===== |

SELECTED STATISTICS

| | Three months ended | | Nine months ended | |
|---|--------------------|-----------|-------------------|-----------|
| | 30-Sep-06 | 30-Sep-05 | 30-Sep-06 | 30-Sep-05 |
| Log sale volumes (thousand board feet): | | | | |
| Sawlogs | | | | |
| Douglas-fir | 8,626 | 12,921 | 36,908 | 38,797 |
| Whitewood | 483 | 2,309 | 3,628 | 9,837 |
| Cedar | 188 | 1,010 | 774 | 4,218 |
| Hardwood | 1,464 | 1,656 | 3,170 | 4,444 |
| Pulp | | | | |
| All species | 1,386 | 2,646 | 6,350 | 8,609 |
| Total | 12,147 | 20,542 | 50,830 | 65,905 |
| | ===== | ===== | ===== | ===== |
| Average price realizations (per thousand board feet): | | | | |
| Sawlogs | | | | |
| Douglas-fir | 662 | 640 | 672 | 643 |
| Whitewood | 462 | 457 | 446 | 475 |
| Cedar | 1,260 | 948 | 1,058 | 944 |
| Hardwood | 683 | 643 | 663 | 614 |
| Pulp | | | | |
| All species | 281 | 210 | 261 | 211 |
| Overall | 623 | 580 | 610 | 579 |

| | | | | |
|--------------------------------|----------|---------|----------|---------|
| Owned timber acres | 114,196 | 117,585 | 114,196 | 117,585 |
| Acres under management | 291,925 | 527,316 | 291,925 | 527,316 |
| Capital expenditures (\$000's) | \$ 4,851 | 932 | \$ 8,999 | 2,624 |
| Depletion (\$000's) | 1,278 | 2,623 | 5,970 | 9,689 |
| Depreciation (\$000's) | 175 | 163 | 534 | 482 |
| Debt to total capitalization | 29% | 34% | 29% | 34% |

QUARTER TO QUARTER COMPARISONS
(Amounts in \$000's except per
unit data)

| | Q3 2006 vs. Q3 2005 | Q3 2006 vs. Q2 2006 |
|------------------|------------------------|------------------------|
| | Total | Total |
| Net income: | | |
| 3rd Quarter 2006 | \$ 8,279 | \$ 8,284 |
| 2nd Quarter 2006 | | 3,540 |
| 3rd Quarter 2005 | 4,137 | |
| | ----- | ----- |
| Variance | \$ 4,142 | \$ 4,744 |

Detail of earnings variance:

| | | |
|--|----------|----------|
| Fee Timber | | |
| Log price realizations (A) | \$ 522 | \$ 243 |
| Log volumes (B) | (4,869) | (2,715) |
| Depletion | 1,641 | 1,061 |
| Production costs | 1,456 | 891 |
| Other Fee Timber | 54 | 69 |
| Timberland Management & Consulting | | |
| Management fee changes | (672) | 1 |
| Disposition fee changes | - | - |
| Other Timberland Mgmt & Consulting | 317 | - |
| Real Estate | | |
| Environmental remediation liability | (6) | (114) |
| Land sales | 5,332 | 4,898 |
| Other Real Estate | (154) | 298 |
| General & administrative costs | (39) | 41 |
| Interest expense | 261 | 20 |
| Other (taxes, minority int., interest inc.) | 299 | 51 |
| | ----- | ----- |
| Total change in earnings | \$ 4,142 | \$ 4,744 |
| | ===== | ===== |

(A) Price variance calculated by extending the change in average realized price by current period volume.

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

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