



Pope Resources Reports Second Quarter Net Income of \$3.5 Million

July 26, 2006

POULSBO, Wash.--(BUSINESS WIRE)--July 26, 2006--Pope Resources (Nasdaq:POPEZ) reported net income of \$3.5 million, or 74 cents per diluted ownership unit, on revenues of \$15.6 million for the second quarter ended June 30, 2006. This compares to net income of \$4.1 million, or 86 cents per diluted ownership unit, on revenues of \$16.1 million for the comparable period in 2005.

Net income for the six months ended June 30, 2006, totaled \$8.8 million, or \$1.86 per diluted ownership unit, on revenues of \$31.7 million. Net income for the corresponding period in 2005 totaled \$8.7 million, or \$1.83 per diluted ownership unit, on revenues of \$32.8 million.

Earnings before interest, taxes, depreciation, depletion, and amortization (EBITDDA) for the quarter ended June 30, 2006, were \$6.0 million, compared to \$8.4 million for the second quarter of 2005. For the six months ended June 30, 2006, EBITDDA was \$14.9 million, compared to \$17.9 million for year-to-date 2005 results.

"Our second quarter 2006 results were lower based primarily on our planned reduction in harvest volume for 2006, as a result of which we experienced a 26% lower harvest volume compared to last year," said David L. Nunes, President and CEO. "Notwithstanding the impact to earnings from this reduction in harvest volume, second quarter results were buoyed by a 5% increase in log prices over the same period last year, and by \$4.4 million of real estate sales which contributed \$0.6 million of operating income."

For the first six months of 2006 log sales volumes for our Fee Timber segment decreased 15% compared to the same period in 2005, from 45 million board feet (MMBF) in 2005 to 39 MMBF in 2006. This decline is in line with our previously announced reduction in annual harvest volume, from 74 MMBF in 2005 to 57 MMBF for 2006. Comparing the same six-month periods, average log prices were up \$28 per thousand board feet (MBF), or 5%, compared to last year. Year-to-date Fee Timber operating income increased slightly in 2006 inasmuch as the 2005 results included a heavier component of harvest from high depletion rate lands acquired in late-2004.

Our Timberland Management & Consulting segment posted year-to-date operating income of \$1.3 million in 2006, compared to \$1.7 million for the first six months of 2005. 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.

Operating income for our Real Estate segment declined from \$0.8 million for the first six months of 2005 to \$0.2 million for the comparable period in 2006 due to higher cost basis in lands sold in 2006 versus 2005. Over the balance of 2006, we anticipate closings from both our Gig Harbor and Bremerton projects that will cause this segment's operating income to exceed 2005 levels.

About Pope Resources

Pope Resources, a publicly traded limited partnership, and its subsidiaries Olympic Resource Management and Olympic Property Group, own or manage nearly 410,000 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.poperesources.com. The contents of our website are not incorporated into this release or into our filings with the Securities and Exchange Commission.

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 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; factors that affect the amount, timing and certainty of our expected real estate sales; environmental and land use regulations that limit our ability to harvest timber and develop property; labor, equipment and transportation costs that affect our fee timber income; our ability to discover and to accurately estimate liabilities associated with our properties; 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 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.

Management considers earnings (net income or loss) before interest expense, income taxes, depreciation, depletion and amortization (EBITDDA) to be an important measure of operating profitability, particularly when comparing results between different timber-owning companies because there are varying methods of calculating depletion expense under GAAP. With different issuers 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.

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Revenues	\$15,610	\$ 16,131	\$ 31,693	\$ 32,787
Costs and expenses:				
Cost of sales	(8,414)	(7,410)	(14,839)	(15,214)
Operating expenses	(3,461)	(3,626)	(6,934)	(6,807)
	-----	-----	-----	-----
Operating income	3,735	5,095	9,920	10,766
Interest, net	(217)	(635)	(526)	(1,352)
	-----	-----	-----	-----
Income before income taxes and minority interest	3,518	4,460	9,394	9,414
Income tax provision	8	(263)	(437)	(510)
	-----	-----	-----	-----
Income before minority interest	3,526	4,197	8,957	8,904
Minority interest	14	(128)	(119)	(229)
	-----	-----	-----	-----
Net income	\$ 3,540	\$ 4,069	\$ 8,838	\$ 8,675
	=====	=====	=====	=====
 Average units outstanding --				
Basic	4,641	4,596	4,638	4,578
	=====	=====	=====	=====
Average units outstanding --				
Diluted	4,753	4,757	4,750	4,740
	=====	=====	=====	=====
 Basic net income per unit	\$ 0.76	\$ 0.89	\$ 1.91	\$ 1.89
	=====	=====	=====	=====
Diluted net income per unit	\$ 0.74	\$ 0.86	\$ 1.86	\$ 1.83
	=====	=====	=====	=====

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

	June 30,	
	2006	2005
	-----	-----
Assets:		
Cash	\$ 2,679	\$ 1,574
Short term investments	20,000	8,007
Other current assets	6,948	4,517
Roads and timber	48,714	57,977
Properties and equipment	30,559	26,981
Other assets	1,124	989
	-----	-----
Total	\$110,024	\$100,045
	=====	=====
Liabilities and partners' capital:		
Current liabilities	\$ 5,404	\$ 3,976
Long-term debt, excluding current portion	30,919	32,497
Other long-term liabilities	321	211
Total liabilities	36,644	36,684
Partners' capital	73,380	63,361
	-----	-----
Total	\$110,024	\$100,045
	=====	=====

RECONCILIATION BETWEEN NET INCOME AND EBITDDA
(all amounts in \$000's)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Net income	\$ 3,540	\$ 4,069	\$ 8,838	\$ 8,675
Added back:				
Interest, net	217	635	526	1,352
Depletion	2,119	3,223	4,692	7,066
Depreciation and amortization	175	167	359	319
Income tax expense	(8)	263	437	510
	-----	-----	-----	-----
EBITDDA	\$ 6,043	\$ 8,357	\$14,852	\$17,922
	=====	=====	=====	=====

RECONCILIATION BETWEEN CASH FROM OPERATIONS AND EBITDDA
(all amounts in \$000's)

	Three months ended		Six months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Cash from operations	\$ 7,858	\$ 5,921	\$12,313	\$12,814
Added back:				
Change in working capital	1,522	734	5,682	2,727
Interest	217	635	526	1,352
Deferred profit	-	837	-	685
Minority interest	13	-	-	-
Deferred taxes	36	-	19	-
Income tax provision	-	263	437	510
Less:				
Deferred profit	(666)	-	(941)	-
Cost of land sold	(2,856)	(32)	(2,869)	(166)
Equity based compensation	(72)	-	(195)	-
Minority interest	-	-	(120)	-
Income tax provision	(8)	(1)	-	-
Other	(1)	-	-	-
	-----	-----	-----	-----
EBITDDA	\$ 6,043	\$ 8,357	\$14,852	\$17,922
	=====	=====	=====	=====

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

	Three months ended		Six months ended	
	June 30,		June 30,	
	2006	2005	2006	2005
Revenues:				
Fee Timber	\$10,449	\$13,220	\$24,173	\$26,883
Timberland Management & Consulting (TM&C)	544	1,843	2,568	3,457
Real Estate	4,617	1,068	4,952	2,447
	-----	-----	-----	-----
Total	15,610	16,131	31,693	32,787
EBITDDA:				
Fee Timber	6,195	8,090	15,071	17,001
TM&C	71	719	1,250	1,481
Real Estate	629	330	324	1,001
General & administrative	(852)	(782)	(1,793)	(1,561)
	-----	-----	-----	-----

Total	6,043	8,357	14,852	17,922
Depreciation, depletion and amortization:				
Fee Timber	2,181	3,160	4,825	7,029
TM&C	20	27	36	48
Real Estate	43	138	77	174
General & administrative	50	65	113	134
	-----	-----	-----	-----
Total	2,294	3,390	5,051	7,385
Operating income/(loss):				
Fee Timber	4,014	4,930	10,246	9,972
TM&C	37	820	1,333	1,662
Real Estate	586	192	247	827
General & administrative	(902)	(847)	(1,906)	(1,695)
	-----	-----	-----	-----
Total	\$ 3,735	\$ 5,095	\$ 9,920	\$10,766
	=====	=====	=====	=====

SELECTED STATISTICS

	Three months ended		Six months ended	
	30-Jun-06	30-Jun-05	30-Jun-06	30-Jun-05
Log sale volumes (thousand board feet):				
Sawlogs				
Douglas-fir	11,842	12,195	28,282	25,876
Whitewood	1,149	4,113	3,145	7,528
Cedar	227	1,730	586	3,208
Hardwood	1,144	1,299	1,706	2,788
Pulp				
All species	2,288	3,026	4,964	5,963
	-----	-----	-----	-----
Total	16,650	22,363	38,683	45,363
	=====	=====	=====	=====
Average price realizations (per thousand board feet):				
Sawlogs				
Douglas-fir	665	644	675	644
Whitewood	452	487	410	480
Cedar	1,182	981	993	943
Hardwood	670	563	646	597
Pulp				
All species	260	205	255	212
Overall	603	577	606	578
Owned timber acres	114,440	115,103	114,440	115,103
Acres under management	291,925	527,316	291,925	527,316
Capital expenditures (\$000's)	\$ 2,713	\$ 744	\$ 4,148	\$ 1,691
Depletion (\$000's)	\$ 2,119	\$ 3,223	\$ 4,692	\$ 7,066
Depreciation (\$000's)	\$ 175	\$ 167	\$ 359	\$ 319
Debt to total capitalization	31%	35%	31%	35%

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

Q2 2006	Q2 2006
vs.	vs.
Q2 2005	Q1 2006
Total	Total

Net income:

2nd Quarter 2006	\$ 3,540	\$ 3,540
1st Quarter 2006		5,298
2nd Quarter 2005	4,069	
	-----	-----
Variance	\$ (529)	\$(1,758)

Detail of earnings variance:

Fee Timber		
Log price realizations (A)	\$ 433	\$ (83)
Log volumes (B)	(3,296)	(3,273)
Depletion	1,005	454
Production costs	862	579
Other Fee Timber	80	105
Timberland Management & Consulting		
Management fee changes	(673)	(314)
Disposition fee changes	-	(1,343)
Other Timberland Mgmt & Consulting	(110)	398
Real Estate		
Environmental remediation liability	108	-
Land sales	707	1,274
Depletion	99	-
Other Real Estate	(520)	(349)
General & administrative costs	(55)	102
Interest expense	240	59
Other (taxes, minority int., interest inc.)	591	633
	-----	-----
Total change in earnings	\$ (529)	\$(1,758)
	=====	=====

(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.

CONTACT: Pope Resources, Poulsbo
Tom Ringo, 360-697-6626
Fax: 360-697-1156
SOURCE: Pope Resources