



## Pope Resources Reports First Quarter Net Income of \$0.9 Million

May 3, 2007

POULSBO, Wash.--(BUSINESS WIRE)--May 3, 2007--Pope Resources (Nasdaq:POPEZ) reported net income of \$854,000, or \$0.18 per diluted ownership unit, on revenues of \$6.8 million for the first quarter ended March 31, 2007. This compares to net income of \$5.3 million, or \$1.11 per diluted ownership unit, on revenues of \$16.1 million for the comparable period in 2006.

Earnings before interest, taxes, depreciation, depletion, and amortization (EBITDDA) were \$1.8 million for the current quarter versus \$8.8 million for the comparable period in 2006.

"Our significant decline in first quarter earnings compared to 2006 was due primarily to a 54% drop in harvest volume coupled with a 5% decline in average realized log prices," said David L. Nunes, President and CEO. "This decline in harvest volume was a result of a decision to shift more of our planned annual harvest volume to later in the year as a response to significantly weakened market dynamics associated with a softer housing market. As a result, we harvested just 18% of our planned annual harvest volume in the first three months of this year, which compares with 40% of our annual harvest during the first quarter of 2006."

Operating income generated by our Fee Timber segment decreased to \$2.4 million from \$6.2 million in 2006, due to the aforementioned drop in harvest volume and decline in average realized log prices. Harvest volume for the first quarter of 2007 was 10 million board feet (MMBF) compared to 22 MMBF for the comparable quarter in 2006. Average log realizations declined by \$30 per thousand board feet (MBF), or 5%, from \$608 per MBF in the first quarter of 2006 to \$578 per MBF in the first quarter of 2007. While prices for our bellwether domestic Douglas-fir sawlogs were down 10% for the quarter, our overall average realized log price declined at only half that rate due to a substantial increase in pulp log prices. These prices were up due to a regional curtailment of sawmill production which in turn resulted in higher chip prices given reduced availability of residual chip volume in the market. We took advantage of this market dynamic and shifted our harvest mix to include a higher proportion of lower quality pulpwood stands.

Our Timberland Management & Consulting segment posted an operating loss of \$131,000 versus operating income of \$1.3 million for the comparable period in 2006. The primary factor contributing to this decline was a nonrecurring timberland disposition fee earned in the first quarter of 2006. We also had fewer acres under management in the current quarter compared to a year ago as a result of the disposition of client-owned property. This decline in acres under management was partially offset by the acquisition of 24,000 acres of timberland by ORM Timber Fund I, LP in the fourth quarter of 2006. On a positive note, we marked an important milestone this quarter with the first timber harvest coming from lands owned by the Fund. The financial results for Pope Resources' 20% ownership stake in the Fund are included in reported performance for our Fee Timber segment.

Our Real Estate segment generated a loss in the first quarter of 2007 of \$561,000 compared to an operating loss of \$339,000 in 2006's comparable period. On the heels of record results in 2006 we did not have any closings in the first quarter of 2007 and anticipate that most of the Real Estate revenue generated in 2007 will result from recognizing approximately \$8.6 million of deferred revenue from two transactions that closed last year.

### About Pope Resources

Pope Resources, a publicly traded limited partnership, and its subsidiaries Olympic Resource Management and Olympic Property Group, own or manage over 430,000 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](http://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; 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; 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.

Unaudited

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

	Three months ended March 31,	
	2007	2006
Revenues	\$ 6,787	\$ 16,083
Costs and expenses:		
Cost of sales	(2,837)	(6,425)
Operating expenses	(3,262)	(3,473)
Interest, net	9	(309)
Total expenses	(6,090)	(10,207)
Income before income taxes and minority interest	697	5,876
Income tax expense	(7)	(445)
Income before minority interest	690	5,431
Minority interest	164	(133)
Net income	\$ 854	\$ 5,298

Weighted average units outstanding - Basic (000's)	4,664	4,635
Weighted average units outstanding - Diluted (000's)	4,800	4,753
Basic net income per unit	\$ 0.18	\$ 1.14
Diluted net income per unit	\$ 0.18	\$ 1.11

CONSOLIDATED BALANCE SHEET DATA  
(All amounts in \$000's)  
March 31, 2007      December 31, 2006

Assets:			
Cash and short-term investments	\$	27,952	\$ 32,194
Other current assets		10,055	8,933
Roads and timber		97,674	98,110
Properties and equipment		39,584	39,026
Other assets		2,007	2,019
Total	\$	177,272	\$ 180,282
Liabilities and partners' capital:			
Current liabilities	\$	12,886	\$ 14,775
Long-term debt, excluding current portion		29,576	30,866
Other long-term liabilities		329	351
Total liabilities		42,791	45,992
Minority interest-ORM Timber Fund I, LP		46,521	46,685
Partners' capital		87,960	87,605

Total	\$	177,272	\$	180,282
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RECONCILIATION BETWEEN NET INCOME AND EBITDDA  
(all amounts in \$000's)

	Three months ended	
	31-Mar-07	31-Mar-06
Net income	\$ 854	\$ 5,298
Added back:		
Interest, net	(9)	309
Depletion	711	2,573
Depreciation and amortization	202	185
Income tax expense	7	445
EBITDDA	\$ 1,765	\$ 8,810
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RECONCILIATION BETWEEN CASH FROM OPERATIONS AND EBITDDA  
(all amounts in \$000's)

	Three months ended	
	31-Mar-07	31-Mar-06
Cash from operations	\$ (811)	\$ 4,725
Added back:		
Change in working capital	2,896	3,918
Minority interest	164	-
Interest	-	309
Income tax expense	7	445
Less:		
Deferred revenue	(192)	(275)
Interest	(9)	-
Deferred taxes	-	(17)
Minority interest	-	(133)
Cost of land sold	(32)	(13)
Unit compensation	(258)	(149)
EBITDDA	\$ 1,765	\$ 8,810
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SEGMENT INFORMATION  
(all amounts in \$000's)

	Three months ended	
	31-Mar-07	31-Mar-06
Revenues:		
Fee Timber	\$ 6,192	\$ 13,724
Timberland Management & Consulting (TM&C)	352	2,024
Real Estate	243	335
Total	6,787	16,083
EBITDDA:		

Fee Timber	3,363	8,877
TM&C	(110)	1,307
Real Estate	(517)	(305)
General & administrative	(971)	(1,069)
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Total	1,765	8,810
Depreciation, depletion and amortization:		
Fee Timber	794	2,645
TM&C	21	16
Real Estate	44	34
General & administrative	54	63
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Total	913	2,758
Operating income (loss):		
Fee Timber	2,405	6,232
TM&C	(131)	1,296
Real Estate	(561)	(339)
General & administrative	(1,025)	(1,004)
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Total	\$ 688	\$ 6,185
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SELECTED STATISTICS

Three months ended  
31-Mar-07 31-Mar-06

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Log sale volumes (thousand board feet):

Sawlogs

Douglas-fir 7,116 16,440

Whitewood 791 1,997

Cedar 60 359

Hardwood 129 562

Pulp

All species 1,944 2,675

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Total 10,040 22,033

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Three months ended  
31-Mar-07 31-Mar-06

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Average price realizations (per thousand board feet):

Sawlogs

Douglas-fir 611 681

Whitewood 492 439

Cedar 1,193 873

Hardwood 671 598

Pulp

All species 467 251

Overall 578 608

Three months ended  
31-Mar-07 31-Mar-06

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Owned timber acres(A)	137,708	114,513
Acres under management	292,773	291,925
Capital expenditures (\$000's)	1,309	1,435
Depletion (\$000's)	711	2,573
Depreciation (\$000's)	202	185
Debt to total capitalization	26%	31%

(A) Includes 24,000 acres owned by ORM Timber Fund I, LP (the Fund).

QUARTER TO QUARTER COMPARISONS  
(Amounts in \$000's)

Q1 2007 vs. Q1 2006    Q1 2007 vs. Q4 2006

	Total	Total
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Net income:		
1st Quarter 2007	\$           854	\$           854
4th Quarter 2006		7,793
1st Quarter 2006	5,298	
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Variance	\$           (4,444)	\$           (6,939)
	=====	=====
 Detail of earnings variance:		
Fee Timber:		
Log price realizations(B)	\$           (301)	\$           (412)
Log volumes(C)	(7,300)	3,923
Production costs	1,744	(1,324)
Depletion	1,862	(456)
Other Fee Timber	168	(110)
Timberland Management & Consulting:		
Management fee changes	(301)	(123)
Disposition fees	(1,343)	-
Other Timberland Mgmt & Consulting	217	92
Real Estate:		
Land sales	(96)	(9,106)
Other	(126)	596
General & administrative costs	(21)	25
Interest expense	117	(77)
Other (taxes, minority int., interest inc.)	936	33
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Total change in net income	\$           (4,444)	\$           (6,939)
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(B) Price variance calculated by applying the change in price to current period volume.

(C) Volume variance calculated by applying the change in sales volume to the average log sales price for the prior period.

CONTACT: Pope Resources  
Tom Ringo, VP & CFO, 360-697-6626  
Fax: 360-697-1156  
SOURCE: Pope Resources