

POTLATCH CORP  
Form 10-Q  
July 30, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Form 10-Q**

(Mark One)

**Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended June 30, 2007

Or

**Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-32729

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**POTLATCH CORPORATION**

(Exact name of registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**82-0156045**  
(I.R.S. Employer  
Identification No.)

601 West Riverside Ave., Suite 1100

**Spokane, Washington**  
(Address of principal executive offices)

**99201**  
(Zip Code)

(509) 835-1500

Registrant's telephone number, including area code

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Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of common stock of the registrant outstanding as of June 30, 2007 was 39,033,538.

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**POTLATCH CORPORATION AND CONSOLIDATED SUBSIDIARIES**

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## ITEM 1.

**Financial Statements**

Potlatch Corporation and Consolidated Subsidiaries

Statements of Operations and Comprehensive Income

Unaudited (Dollars in thousands - except per-share amounts)

	Quarter Ended		Six Months Ended	
	June 30		June 30	
	2007	2006	2007	2006
Revenues	\$ 414,714	\$ 413,293	\$ 800,920	\$ 814,517
Costs and expenses:				
Depreciation, depletion and amortization	19,320	19,327	38,672	38,979
Materials, labor and other operating expenses	325,985	358,815	661,730	691,731
Selling, general and administrative expenses	20,987	21,673	41,878	44,995
Restructuring charge (Note 5)	35		2,832	
	366,327	399,815	745,112	775,705
Earnings from continuing operations before interest and taxes	48,387	13,478	55,808	38,812
Interest expense	(7,340)	(7,323)	(14,891)	(14,682)
Interest income	596	295	897	1,097
Earnings from continuing operations before taxes	41,643	6,450	41,814	25,227
Provision (benefit) for taxes (Note 4)	6,250	(1,795)	983	(52,332)
Earnings from continuing operations	35,393	8,245	40,831	77,559
Discontinued operations (Note 6):				
Loss from discontinued operations (including gain (loss) on disposal of \$55, \$-, \$(35,774), and \$-)	(1,396)	(6,346)	(39,443)	(10,406)
Income tax provision (benefit)	47	(507)	(2,786)	(977)
	(1,443)	(5,839)	(36,657)	(9,429)
Net earnings	\$ 33,950	\$ 2,406	\$ 4,174	\$ 68,130
Other comprehensive income, net of tax				
Defined benefit pension and other postretirement benefit plans:				
Amortization of actuarial loss included in net periodic cost, net of tax of \$899, \$-, \$2,015, and \$-	\$ 1,407	\$	\$ 3,153	\$
Amortization of prior service credit included in net periodic cost, net of tax of \$(230), \$-, \$(268), and \$-	(360)		(419)	
Other comprehensive income, net of tax	1,047		2,734	

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Comprehensive income	\$ 34,997	\$ 2,406	\$ 6,908	\$ 68,130
Earnings per common share from continuing operations (Note 8):				
Basic	\$ 0.91	\$ 0.21	\$ 1.05	\$ 2.27
Diluted	0.90	0.21	1.04	2.26
Loss per common share from discontinued operations:				
Basic	\$ (0.04)	\$ (0.15)	\$ (0.94)	\$ (0.28)
Diluted	(0.04)	(0.15)	(0.93)	(0.27)
Net earnings per common share:				
Basic	\$ 0.87	\$ 0.06	\$ 0.11	\$ 1.99
Diluted	0.87	0.06	0.11	1.98
Distributions per common share (annual rate) <sup>(1)</sup>	1.96	1.96	1.96	1.96
Average shares outstanding (in thousands):				
Basic	39,027	38,681	38,989	34,159
Diluted	39,242	38,819	39,232	34,336

(1) Distributions for 2006 reflect the annualized rate of our first quarter 2006 distribution, after adjusting for the issuance of approximately 9.1 million shares of common stock in connection with a special earnings and profits distribution of \$15.15 per common share paid on March 31, 2006. Actual distributions per common share were \$0.49, \$0.49, \$0.98 and \$1.14 for the quarters ended June 30, 2007 and 2006, and six months ended June 30, 2007 and 2006, respectively.

Certain 2006 amounts have been reclassified to conform to the 2007 presentation.

The accompanying notes are an integral part of these financial statements.

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Potlatch Corporation and Consolidated Subsidiaries

Condensed Balance Sheets

Unaudited (Dollars in thousands - except per-share amounts)

	June 30,	December 31,
	2007	2006
<b>ASSETS</b>		
Current assets:		
Cash	\$ 6,754	\$ 7,759
Restricted cash (Note 7)		6,673
Short-term investments	31,394	21,564
Receivables, net	108,638	135,105
Inventories (Note 10)	165,906	168,816
Prepaid expenses	18,653	16,602
<b>Total current assets</b>	<b>331,345</b>	<b>356,519</b>
Land, other than timberlands	8,549	8,554
Plant and equipment, at cost less accumulated depreciation	523,759	562,387
Timber, timberlands and related deposits, net	382,579	391,577
Pension assets	127,140	118,355
Other assets (Note 7)	35,496	20,215
	<b>\$ 1,408,868</b>	<b>\$ 1,457,607</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Current installments on long-term debt	\$ 3,209	\$ 6,157
Accounts payable and accrued liabilities	179,699	190,107
<b>Total current liabilities</b>	<b>182,908</b>	<b>196,264</b>
Long-term debt	321,285	321,474
Liability for pensions and other postretirement benefits	287,257	289,791
Other long-term obligations	16,777	19,059
Deferred taxes	48,627	53,160
Stockholders' equity	552,014	577,859
	<b>\$ 1,408,868</b>	<b>\$ 1,457,607</b>
Stockholders' equity per common share	\$ 14.14	\$ 14.88
Working capital	\$ 148,437	\$ 160,255
Current ratio	1.8:1	1.8:1

The accompanying notes are an integral part of these financial statements.

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Potlatch Corporation and Consolidated Subsidiaries

Condensed Statements of Cash Flows

Unaudited (Dollars in thousands)

	Six Months Ended June 30,	
	2007	2006
<b>CASH FLOWS FROM CONTINUING OPERATIONS</b>		
Net earnings	\$ 4,174	\$ 68,130
Adjustments to reconcile net earnings to net operating cash flows:		
Loss from discontinued operations	3,674	9,429
Loss on disposal of discontinued operations	32,983	
Depreciation, depletion and amortization	38,672	38,979
Proceeds from sales deposited with a like-kind exchange intermediary	(14,829)	
Non-cash cost of real estate sold	403	110
Deferred taxes	(3,495)	(53,331)
Equity-based compensation expense	2,839	1,942
Employee benefit plans	(7,565)	(1,464)
Other	385	2,215
Working capital changes	17,099	42,011
Excess tax benefit from share-based payment arrangements	(2,192)	(528)
Income tax benefit related to stock issued in conjunction with stock compensation plans	958	1,086
Net cash provided by operating activities from continuing operations	73,106	108,579
<b>CASH FLOWS FROM INVESTING</b>		
Decrease (increase) in short-term investments	(9,830)	43,240
Additions to plant and properties	(33,097)	(25,806)
Deposits on timberlands	(54,021)	
Other, net	(173)	(3,813)
Net cash provided by (used for) investing activities from continuing operations	(97,121)	13,621
<b>CASH FLOWS FROM FINANCING</b>		
Change in book overdrafts	(3,319)	5,564
Issuance of common stock	3,654	5,479
Issuance of treasury stock		513
Repayment of long-term debt	(3,137)	(2,336)
Distributions to common stockholders	(38,244)	(127,133)
Excess tax benefit from share-based payment arrangements	2,192	528
Other, net	(1,654)	(196)
Net cash used for financing activities from continuing operations	(40,508)	(117,581)
Cash flows from continuing operations	(64,523)	4,619
Cash flows of discontinued operations:		
Operating cash flows	153	(3,271)