

POTLATCH CORP
Form DEF 14A
April 09, 2007
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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant

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Check the appropriate box:

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POTLATCH CORPORATION

(Name of Registrant as Specified In Its Charter)

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POTLATCH CORPORATION
ANNUAL MEETING OF STOCKHOLDERS
May 7, 2007

NOTICE OF ANNUAL MEETING
AND
PROXY STATEMENT

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**Potlatch
Corporation**

601 West
Riverside Ave.,
Suite 1100
Spokane,
Washington
99201

April 6, 2007

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

The Annual Meeting of Stockholders of Potlatch Corporation will be held at the Hotel Lusso, North One Post Street, Spokane, Washington, on Monday, May 7, 2007, at 9:00 a.m. local time.

We are holding this meeting to:

elect three directors to the Potlatch Corporation Board of Directors;

ratify the selection of KPMG LLP as Potlatch Corporation's independent auditor for 2007; and

transact any other business that properly comes before the meeting.

Your Board of Directors has selected March 30, 2007, as the record date for determining stockholders entitled to notice of the meeting and to vote at the meeting and at any adjournment or postponement.

Potlatch's proxy statement, proxy card or voting instruction form and 2006 Annual Report are being distributed to stockholders on or about April 9, 2007. Your vote is important, so please vote your shares promptly. **To vote your shares, please refer to the instructions on the enclosed proxy card or voting instruction form, or review the section titled "Voting" beginning on page one of the accompanying proxy statement.**

By Order of the Board of Directors,

PAMELA A. MULL

Corporate Secretary

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PROXY STATEMENT

This proxy statement and the enclosed proxy card are being furnished to stockholders of Potlatch Corporation in connection with the solicitation of proxies by our Board of Directors for use at the 2007 Annual Meeting of Stockholders, which is described below. We expect to mail this proxy statement, the Notice of Meeting, and the form of proxy enclosed, on or about April 9, 2007.

ANNUAL MEETING INFORMATION

Date, time and place of the meeting

The 2007 Annual Meeting of Stockholders will be held on Monday, May 7, 2007, at 9:00 a.m., local time, at Hotel Lusso, North One Post Street, Spokane, Washington.

Purpose of the meeting

The purpose of the meeting is to vote upon the election of three directors to our Board and the ratification of the appointment of KPMG LLP as our independent auditor for 2007.

Recommendation of the Board of Directors

Our Board unanimously recommends that you vote **FOR** both proposals contained in this proxy statement.

Who may vote

Stockholders who owned common stock at the close of business on March 30, 2007, the record date for the Annual Meeting, may vote at the meeting. For each share of common stock held, stockholders are entitled to one vote for as many separate nominees as there are directors to be elected and one vote on any other matter presented.

Proxy solicitation

Certain of our directors, officers and employees and our proxy solicitor, D.F. King & Co., also may solicit proxies on our behalf by mail, phone, fax, e-mail, or in person. We will bear the cost of the solicitation of proxies, including D.F. King's fee of \$8,500 plus out-of-pocket expenses, and we will reimburse banks, brokers, custodians, nominees and fiduciaries for their reasonable charges and expenses to forward our proxy materials to the beneficial owners of Potlatch stock. No additional compensation will be paid to our directors, officers or employees who may be involved in the solicitation of proxies.

Tabulation of votes Inspector of Election

Our transfer agent, Computershare Investor Services, will act as the inspector of election at the Annual Meeting and we will reimburse reasonable charges and expenses related to the tabulation of votes.

Voting

You may vote your shares in one of several ways, depending upon how you own your shares.

Shares registered directly with Potlatch (in your name):

Via Internet: Go to www.investorvote.com and follow the instructions. You will need to enter the Holder Account Number and Proxy Access Number printed on the enclosed proxy card.

By Telephone: Call toll-free 1-800-652-8683 and follow the instructions. You will need to enter the Holder Account Number and Proxy Access Number printed on the enclosed proxy card.

In Writing: Complete, sign, date, and return the enclosed proxy card in the envelope provided, or provide it or a ballot distributed at the Annual Meeting directly to the Inspector of Election at the Annual Meeting when instructed.

Shares held in a Potlatch 401(k) Savings Plan (through Mercer Trust Company):

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Via Internet: If you are a participant in the Potlatch Savings Plan for Hourly Employees, go to www.investorvote.com and follow the instructions. If you are a participant in the Potlatch Salaried Employees Savings Plan, go to www.investorvote.com and follow the instructions. You will need to enter the Control Number printed on the enclosed voting instruction form.

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By Telephone: Call toll free 1-800-652-8683 and follow the instructions. You will need to enter the Control Number printed on the enclosed voting instruction form.

In Writing: Complete, sign, date, and return the enclosed proxy card in the envelope provided. To vote in person at the Annual Meeting, you must obtain a proxy, executed in your favor, from the holder of record.

Shares held in street or nominee name (through a bank, broker or other nominee):

You may receive a separate voting instruction form with this proxy statement from your bank, broker or nominee, or you may need to contact your bank, broker or nominee to determine whether you will be able to vote electronically using the Internet or telephone. To vote in person at the Annual Meeting, you must obtain a proxy, executed in your favor, from the holder of record.

If you are the beneficial owner of shares held in street name by a broker, then the broker, as the record holder of the shares, must vote those shares in accordance with your instructions. If you do not give instructions to the broker, then your broker can vote your shares for discretionary items, but cannot vote your shares for non-discretionary items. On non-discretionary items for which you do not give voting instructions, the shares will be treated as broker non-votes. The election of directors and the ratification of the selection of our independent auditor are both considered routine and therefore discretionary items. This means that both proposals may be voted upon by your broker if you do not give voting instructions for the shares held on your behalf.

If you return your proxy card by mail or vote via the Internet or by telephone but do not select a voting preference, the individuals named as proxies on the enclosed proxy card or voting instruction form will vote your shares **FOR** the election of the three nominees for director identified in this proxy statement and **FOR** Proposal 2. If you have any questions or need assistance in voting your shares, please contact D.F. King & Co., toll-free at 1-800-207-3158.

Revoking your proxy

If you are a stockholder of record, you may revoke your proxy at any time before the Annual Meeting by giving our Corporate Secretary written notice of your revocation or by submitting a later-dated proxy, and you may revoke your proxy at the Annual Meeting by voting by ballot. Attendance at the meeting, by itself, will not revoke a proxy. If shares are registered in your name, you may revoke your proxy by telephone by calling 1-800-652-8683 and following the instructions or via the Internet by going to www.investorvote.com and following the instructions.

If your shares are held in a Potlatch 401(k) Savings Plan (through Mercer Trust Company), you may revoke your proxy by telephone by calling 1-800-652-8683 and following the instructions or via the Internet by going to www.investorvote.com if you are a participant in the Potlatch Savings Plan for Hourly Employees or if you are a participant in the Potlatch Corporation Salaried Employees Savings Plan, and following the instructions.

If you are a stockholder in street or nominee name, you may revoke your voting instructions by informing the bank, broker or other nominee in accordance with that entity's procedures for revoking your voting instructions.

Quorum

On March 30, 2007, the record date, we had 39,022,410 shares of common stock outstanding. Voting can take place at the Annual Meeting only if stockholders owning a majority of the total number of shares outstanding on the record date are present either in person or by proxy. Abstentions and broker non-votes will both be counted towards a quorum.

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Votes needed

The affirmative vote of a majority of the common stock present in person or by proxy at the Annual Meeting is required to elect each of the nominees for director listed in Proposal 1 and to approve Proposal 2. The inspector of election will tabulate affirmative and negative votes, abstentions and broker non-votes. Withheld votes and abstentions will have the same effect as negative votes. Broker non-votes will not be counted in determining the number of shares entitled to vote.

Annual Meeting attendance

We cordially invite and encourage all of our stockholders to attend the meeting. Persons who are not stockholders may attend only if invited by us. If you own shares in street or nominee name, you must bring proof of ownership (e.g., a current broker's statement) in order to be admitted to the meeting.

Other matters presented at Annual Meeting

We do not expect any matters, other than those included in this proxy statement, to be presented at the 2007 Annual Meeting. If other matters are presented, the individuals named as proxies on the enclosed proxy card will have discretionary authority to vote your shares on the matter.

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CORPORATE GOVERNANCE

Corporate Governance Guidelines; Corporate Conduct and Ethics Code

Our Board of Directors and management operate within our comprehensive plan of corporate governance that defines our Board's and executives responsibilities, sets high standards for their professional and personal conduct, and provides for monitoring of their compliance with those responsibilities and other legal standards. Our Board has adopted Corporate Governance Guidelines, or Governance Guidelines, which provide standards and practices of corporate governance that we have designed to help contribute to our success and to assure public confidence in our Company. In addition, all committees of the Board operate under charters that describe the responsibilities and practices of each committee.

We have adopted a Corporate Conduct and Ethics Code, or Ethics Code, which provides ethical standards and policies that apply to all of our officers, employees and directors, including our chief executive officer and chief financial officer. Our Ethics Code requires that our officers, employees and directors avoid conflicts of interest, comply with laws and other legal requirements, conduct business honestly and ethically, provide full and accurate reporting to us, and otherwise act with integrity and in our best interests. We have also established procedures so that complaints regarding our accounting and auditing matters, conflicts of interests, securities violations and other matters can be submitted confidentially and anonymously. See *Communications with Directors* below. Copies of the Ethics Code and the Governance Guidelines are available for downloading or printing by going to our web site at www.potlatchcorp.com, and selecting Investor Resources and Corporate Governance, and then selecting the appropriate link.

Director Independence

The role of our Board is to oversee and provide policy guidance on our business and affairs. The Board believes that it will best serve our stockholders if the majority of its members are independent. As of March 30, 2007, our Board had eleven members, ten of whom are outside (non-employee) directors. With the exception of Michael J. Covey, who serves as Chairman of the Board, President and Chief Executive Officer, the Board has determined that none of our directors or their immediate family members have a material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with us), and none of our directors or their immediate family members are employees of our external auditor, KPMG LLP. All are independent within the meaning of the New York Stock Exchange, or NYSE, listing standards and our Director Independence Policy, a copy of which can be found on our web site by going to www.potlatchcorp.com, and selecting Investor Resources and Corporate Governance, and then Board of Directors.

At each of its in-person meetings, the Board meets in executive session without members of management present, and William T. Weyerhaeuser, Vice Chair of the Board, presides over these executive sessions. Each committee of the Board, except for the Finance Committee, also meets in executive session at every in-person meeting without members of management present.

Board Meetings

During 2006, the Board met eight times. Each Director attended 75% or more of the meetings of the Board and its Committees, with the exception of William L. Driscoll, who was deployed overseas with his United States Marine Corps reserve unit for approximately nine months. During his leave of absence from the Board, Mr. Driscoll was not compensated by us. Since his return, he has attended all Board meetings. The Board does not have a policy requiring director attendance at annual meetings of the stockholders and we do not expect any of our outside (non-employee) directors to attend the 2007 Annual Meeting. Two of our directors attended the 2006 Annual Meeting of Stockholders.

Communications with Directors

We have established procedures for stockholders and other interested parties to contact one or more of our non-management directors by e-mail or mail. These procedures can be viewed by going to our public web site at

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www.potlatchcorp.com, and selecting Investor Resources and Corporate Governance, and then Board of Directors. We forward all communications with a proper business purpose to the intended non-management director or directors.

Our Audit Committee has established procedures to address complaints and concerns about our accounting, internal controls and auditing matters for two different groups: (1) employees, who receive confidential and anonymous treatment; and (2) third parties (such as competitors, vendors and consumers), who are not entitled to confidential and anonymous treatment. All complaints and concerns are directed through an independent, third-party hotline provider and are routed directly to the Chair of the Audit Committee. The procedures and hotline number are available by going to our public web site at *www.potlatchcorp.com*, and selecting Investor Resources and Corporate Governance, and then Hotlines.

Nominees for Director

Our Nominating and Corporate Governance Committee, or Nominating Committee, has the responsibility to identify, evaluate, recruit and recommend qualified candidates to our Board for nomination or election. The Board then nominates directors for election at each annual meeting of stockholders and elects new directors to fill vacancies when they occur.

Our Board strives to find directors who are experienced and dedicated individuals with diverse backgrounds, perspectives and skills. Our Governance Guidelines contain membership criteria that call for candidates to be selected for their character, judgment, diversity of experience, business acumen and ability to act on behalf of all stockholders. In addition, we expect each director to be committed to enhancing stockholder value and to have sufficient time to effectively carry out his or her duties as a director. Our Nominating Committee also makes certain a majority of our Board members are independent under NYSE rules, as required by our Governance Guidelines, and makes certain that at least one Board member meets the criteria for an audit committee financial expert under Securities and Exchange Commission, or SEC, rules.

Prior to each annual meeting of stockholders, our Nominating Committee identifies director nominees first by evaluating the current directors whose terms will expire at the annual meeting and who are willing to continue in service. These candidates are evaluated based on the criteria described above, the candidate's prior service as a director, and the needs of the Board for any particular talents and experience of its directors. If a director no longer wants to continue in service or the Nominating Committee decides not to re-nominate the director, or if a vacancy is created on the Board because of a resignation or an increase in the size of the Board or other event, then the Nominating Committee considers various candidates for Board membership, including those suggested by the Nominating Committee members, by other Board members, by any director search firm engaged by the Nominating Committee, and by our stockholders.

A stockholder who wishes to recommend a prospective nominee to the Board for consideration by the Nominating Committee should notify our Corporate Secretary in writing at our principal office. Each notice must include the full name, age, business and residence addresses, principal occupation or employment of the nominee, the number of shares of Potlatch common stock beneficially owned by the nominee, if any, and the skills, qualifications, background and other attributes of the nominee that the stockholder believes are pertinent. In addition, any other information about the nominee that must be disclosed in proxy solicitations under Rule 14(a) of the Securities Exchange Act of 1934, as amended, must be included, as well as the following: (i) the nominee's written consent to serve, if elected; and (ii) a written statement whether the nominee, if elected, will provide, promptly after his or her election as a director, an irrevocable resignation effective upon (a) the nominee's failure to receive the required vote for re-election at the next meeting of stockholders at which the nominee would face re-election, and (b) acceptance of such resignation by the Board, pursuant to our Bylaws or our Governance Guidelines. A written notice of the nomination must be sent to our offices within the time requirements set forth in this proxy statement under *General Information Stockholder Proposals for 2008*.

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Our Board currently has four standing committees, as described below. The current charters of each of these committees are available on our public web site at www.potlatchcorp.com, and by selecting Investor Resources and Corporate Governance, and then Board of Directors Committees. The following table shows the membership of each Committee as of March 30, 2007:

Name	Audit Committee	Executive Compensation and Personnel Policies Committee	Finance Committee	Nominating and Corporate Governance Committee
Michael J. Covey			x	
Boh A. Dickey	x(Chair)		x(Chair)	
William L. Driscoll			x	x
Ruth Ann M. Gillis	x		x	
Jerome C. Knoll	x	x		
John S. Moody		x	x	
Lawrence S. Peiros		x		x
Gregory L. Quesnel	x	x		x
Michael T. Riordan		x		x
Judith M. Runstad		x		x(Chair)
William T. Weyerhaeuser		x(Chair)	x	

The Audit Committee

Our Audit Committee consists of four outside (non-employee) directors, and is responsible for assisting the Board in its oversight of our accounting, financial reporting and internal control matters, including monitoring our compliance with the tax and other rules pertaining to real estate investment trusts (REITs). The Audit Committee also has sole authority to retain, compensate and terminate our independent auditor and our Internal Audit Director. In addition, the Audit Committee oversees and enforces our Related Person Transactions Policy. *See also Transactions with Related Persons* below. The current Audit Committee Charter is attached to this proxy statement as Appendix A. The Committee has appointed KPMG LLP as our independent auditor and pre-approved its audit fees and non-audit services and fees for 2007 in accordance with criteria adopted by our Audit Committee.

Our Board has determined that all members of our Audit Committee are independent within the meaning of the NYSE listing standards and our Director Independence Policy, and are financially literate. The Board also has determined that Committee Chair Boh A. Dickey is an audit committee financial expert as defined by the SEC rules.

Our Audit Committee met eight times in 2006. *See Audit Committee Report* in this proxy statement for a description of the Committee's activities during 2006.

The Executive Compensation and Personnel Policies Committee

Our Executive Compensation and Personnel Policies Committee, or Compensation Committee, consists of seven outside (non-employee) directors, all of whom meet the NYSE listing standards for director independence. The Compensation Committee oversees our executive compensation and benefits programs and general personnel policies and practices for our executives. It also helps determine our management succession planning, and annually reviews the performance of our Chief Executive Officer. In addition, the Compensation Committee reviews the Compensation Discussion and Analysis contained in this proxy statement and recommends its inclusion to the full Board for approval.

Our Compensation Committee met five times in 2006.

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The Finance Committee

Our Finance Committee reviews and makes recommendations on financings and other financial matters, and consists of six directors five outside (non-employee) directors and our Chairman of the Board, Michael J. Covey, who is an employee of the Company.

Our Finance Committee met once in 2006.

The Nominating and Corporate Governance Committee

Our Nominating Committee is responsible for identifying, evaluating, recruiting and recommending to the Board nominees for election as directors, and for developing and recommending to the Board a set of corporate governance principles and related policies. It also oversees our compensation and benefits paid to our directors.

The Board has determined that all five members of our Nominating Committee are independent within the meaning of the NYSE listing standards and our Director Independence Policy.

Our Nominating Committee met four times in 2006.

Compensation of Directors and Named Executive Officers

See Compensation Discussion and Analysis in this proxy statement.

Stock Ownership Guidelines of Directors and Officers

See Compensation Discussion and Analysis Overview; Officer Stock Ownership Guidelines and Compensation of Non Employee Directors; Director Stock Ownership Guidelines in this proxy statement.

Compensation Committee Interlocks and Insider Participation

William T. Weyerhaeuser, Jerome C. Knoll, Lawrence S. Peiros, Gregory L. Quesnel, Michael T. Riordan and Judith M. Runstad served as members of our Compensation Committee during 2006. John S. Moody was appointed to the Compensation Committee in December 2006. All are outside (non-employee) directors, and none of our named executive officers served as a director or as a member of a compensation committee of any business entity employing any of our directors during 2006.

Transactions with Related Persons

Securities laws require us to disclose certain business transactions that are considered related person transactions. In order to clearly comply with these requirements, our Audit Committee has adopted a Related Person Transactions Policy that applies to any director or executive officer of the Company, any beneficial owner of more than 5% of our voting stock, any immediate family member of any of the foregoing persons, and any entity that employs any of the foregoing persons, or Related Person, or in which a Related Person is a general partner, principal or 10% or greater beneficial owner. Transactions covered by this policy are those in which (i) we or any of our subsidiaries participate, (ii) the amount involved exceeds \$120,000, and (iii) any Related Person had, has or will have a direct or indirect material interest, as defined in the policy.

Any proposed Related Person transaction is reviewed by our Audit Committee at its next regularly scheduled meeting, unless our Corporate Secretary determines that it is not practicable or desirable to wait until the next scheduled meeting for a particular transaction, in which case the Chair of the Audit Committee has the authority to review and consider the proposed transaction. Only those transactions determined to be fair and in our best interests are approved, after taking into account all factors deemed relevant by the Audit Committee, or its Chair, as the case may be. If the Chair approves any Related Person transaction, then that approval is reported to the Audit Committee at its next regularly scheduled meeting. The entire policy can be viewed by going to our public web site at www.potlatchcorp.com, and selecting Investor Resources and Corporate Governance, then Board of Directors.

We did not conduct any transactions with related persons in 2006 that would require disclosure in this proxy statement or approval by the Audit Committee pursuant to the policy described above.

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BOARD OF DIRECTORS

Our Board of Directors is divided into three classes serving staggered three-year terms. At the Annual Meeting, you and the other stockholders will elect three individuals to serve as directors until the 2010 Annual Meeting. *See Proposal No. 1 Election of Directors.* Our Bylaws require our directors to be elected by a majority vote of the outstanding shares.

Below are the names and ages of our eleven directors of as the date of this proxy statement, the years they became Directors, their principal occupations or employment for at least the past five years, and certain of their other directorships. Unless authority is withheld, the persons named as proxies in the accompanying proxy will vote for the election of the nominees listed below. We have no reason to believe that any of these nominees will be unable to serve as a director. If any of the nominees becomes unavailable to serve, however, the persons named as proxies will have discretionary authority to vote for a substitute nominee. Our former Chairman of the Board, L. Pendleton Siegel, served as a director and Chairman during the entire 2006 year and retired effective December 31, 2006.

Nominees for Election at this Meeting for a Term Expiring in 2010 (Class II)

Michael J. Covey (age 49) has been a director since February 2006. Our President and Chief Executive Officer since February 2006, Mr. Covey has been Chairman of the Board since January 1, 2007. Prior to coming to Potlatch, he was employed for 23 years by Plum Creek Timber Company, Inc., a real estate investment trust, where he had served most recently as Executive Vice President since August 2001.

Gregory L. Quesnel (age 58) has been a director since September 2000. Mr. Quesnel retired as President, Chief Executive Officer and a Director of CNF, Inc., a supply chain logistics management company, in 2004, positions he had held since May 1998. He also serves as a director of Synnex Corporation (NYSE: SNX), an information technology product supplies services company.

Michael T. Riordan (age 56) has been a director since December 2002. From May 2000, until his retirement in 2002, Mr. Riordan was the Chairman, Chief Executive Officer and President of Paragon Trade Brands, a manufacturer of private label disposable diapers and related products. Prior to that time, he was the President of two large manufacturers of tissue and paper products. Mr. Riordan also serves as a director of R.R. Donnelley & Sons Company (NYSE: RRD), a publication, catalog and commercial printing company.

Directors Continuing in Office until 2008 (Class III)

Jerome C. Knoll (age 64) has been a director since December 2001. Mr. Knoll has been Vice President of Genie Industries, Inc., a manufacturer of aerial work platforms, since 1989, and served as its Chief Financial Officer from 1989 through April 2001. Since January 2000, he has also been Chairman and Chief Executive Officer of Marathon Industries, Inc., a manufacturer of polyurethane products.

Lawrence S. Peiros (age 51) has been a director since February 2003. In January 2007, Mr. Peiros was named Executive Vice President and Chief Operating Officer for North America of The Clorox Company (NYSE: CLX), a household consumer products company. Previously, he served as Group Vice President of The Clorox Company, a position he had held since February 1999.

William T. Weyerhaeuser (age 63) has been a director since February 1990 and has served as Vice Chairman of our Board since January 1, 2004. Currently, Mr. Weyerhaeuser is Chairman of Columbia Banking System, Inc. (NASDAQ: COLB), a position he has held since January 2001. He served as its Interim Chief Executive Officer from June 2002 until February 2003. In addition, Mr. Weyerhaeuser has been Chairman of Eden Bioscience Corp. (NASDAQ: EDEN) since November 2001.

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John S. Moody (age 58) has been a director since September 2006. Mr. Moody is President of Proterra Management LLC in Houston, which is the general partner and manager of Proterra Realty Fund, LTD., a Texas real estate private equity firm. From 2004 through 2005 he served as President and Chief Executive Officer of HRO Asset Management, LLC, a real estate advisory business. Prior to that, from 2001 to 2004, Mr. Moody was President of Marsh & McLennan Real Estate Advisors, Inc., a business that directed real estate projects and transactions for Marsh & McLennan. He also serves as a director of Huron Consulting Group (NASDAQ: HURN), a publicly held integrated strategic services provider.

Directors Continuing in Office until 2009 (Class I)

Boh A. Dickey (age 62) has been a director since July 2000. Until his retirement in 2001, Mr. Dickey was the President, Chief Operating Officer and a director of SAFECO Corporation (NYSE: SAF), an insurance and financial services company.

William L. Driscoll (age 44) has been a director since January 2004. He is currently a partner with Pointe Group Management Company, a private commercial real estate and management company that he joined in January 2007. Mr. Driscoll spent approximately nine months in 2006 serving in Iraq with the United States Marine Corps. Prior to that time, he was a marketing and business consultant for ID Micro, a radio frequency technology company with which he had been associated since January 2005. Before then, Mr. Driscoll was Vice President of Strategic Accounts for PACCESS, a packaging solutions company, from December 2002 to December 2004, and Vice President Global Packaging Solutions for that company, from June 2001 to December 2002.

Ruth Ann M. Gillis (age 52) has been a director since November 2003. Currently, Ms. Gillis is Senior Vice President of Exelon Corporation (NYSE: EXC), a publicly held energy company, and President of Exelon Business Services Company, a subsidiary of Exelon Corporation, a position she has held since October 2005. From August 2004 to October 2005 she served as Executive Vice President of Commonwealth Edison, another subsidiary of Exelon Corporation, and was President of Exelon Business Services Company from November 2002 to August 2004. She was the Chief Financial Officer of Exelon Corporation from October 2000 to November 2002. Ms. Gillis also serves as a trustee of Archstone-Smith Trust (NYSE: ASN), a real estate investment trust.

Judith M. Runstad (age 62) has been a director since March 1999. Ms. Runstad is an attorney who is Of Counsel to Foster Pepper PLLC, a law firm where she has held that position since January 1998, having previously served as partner and co-managing partner since joining the firm in 1978. She also serves as a director of Wells Fargo & Co. (NYSE: WFC), a bank holding company, and SAFECO Corporation (NYSE: SAF), an insurance and financial services company.

THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS A VOTE FOR THE ELECTION OF THE THREE NOMINEES FOR DIRECTOR.

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**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL
OWNERS AND MANAGEMENT**

This table shows the number of shares beneficially owned as of March 15, 2007, by each owner of more than 5% of our common stock, each of our directors, each executive officer for whom compensation is reported in this proxy statement, and all directors and executive officers as a group. The number of shares reported is based on data provided to us by the beneficial owners of the shares. The percentage ownership data is based on 39,020,174 shares of our common stock outstanding as of March 15, 2007, unless otherwise noted. Under SEC rules, beneficial ownership includes shares over which the indicated beneficial owner exercises voting and/or investment power. Except as noted, and subject to applicable community property laws, each owner has sole voting and investment power over the shares shown in this table.

	Amount and Nature of				
	Common Stock Beneficially Owned		Percent of	Common	Stock
	Number of Shares	Right to			
	Beneficially Owned	Acquire (1)	Class	Units (2)	
Stockholders Owning More than 5%					
Franklin Mutual Advisors, LLC. 101 John F. Kennedy Parkway Short Hills, NJ 07078	5,666,731	(3)	n/a	14.6%	n/a
Southeastern Asset Management, Inc 6410 Poplar Ave. Ste 900 Memphis, TN 38119	3,758,567	(4)	n/a	9.7%	n/a
T. Rowe Price Associates, Inc 100 E. Pratt Street Baltimore, MD 21202	3,464,208	(5)	n/a	8.9%	n/a
Barclays Global Fund Advisors 45 Fremont Street San Francisco, CA 94105	2,043,314	(6)	n/a	5.27%	n/a
Directors and Named Executive Officers					
Michael J. Covey	15,109	(7)	6,942(7)	*	0
Boh A. Dickey	5,500	(8)	18,791	*	2,838
William L. Driscoll	269,676	(9)	0	*	3,699
Ruth Ann M. Gillis	3,038		1,466	*	6,857
Jerome C. Knoll	16,019	(10)	0	*	2,838
John S. Moody	10,000		0	*	1,108
Lawrence S. Peiros	3,750	(11)	7,517	*	2,838
Gregory L. Quesnel	2,888		18,791	*	2,838
Michael T. Riordan	1,525		11,275	*	2,838
Judith M. Runstad	12,161	(12)	1,879	*	2,838
L. Pendleton Siegel	94,888	(13)	234,804	*	57,915
William T. Weyerhaeuser	667,337	(14)	21,046	1.73%	45,776
Richard K. Kelly	20,709	(15)	6,459	*	0
Brent L. Stinnett	0	(16)	0	*	1,545
Harry D. Seamans	20,187	(17)	17,434	*	0
Gerald L. Zuehlke	14,848	(18)	9,931	*	0
Directors and all Executive Officers as a group					
(21 persons, including those named above)	1,182,321		400,929	3.90%	133,928

* Less than 1%.

[Footnotes to this table appear on the following pages.]

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- (1) Represents shares the directors and executive officers (other than Mr. Covey) have the right to acquire with stock options exercisable within 60 days of March 15, 2007. Mr. Covey's amount represents shares of common stock issuable under restricted stock units that are currently vested or vest within 60 days of March 15, 2007.
- (2) Represents common stock units as of March 15, 2007. These stock units are not actual shares of common stock and have no voting power, but are credited, along with accrued dividend equivalents, on a one-for-one basis with our common stock pursuant to our Deferred Compensation Plan for Directors II (*see Compensation Discussion and Analysis Compensation of Non-Employee Directors*). For directors other than Mr. Covey and former director Mr. Siegel, the units represent deferred directors' fees (for Mr. Weyerhaeuser and Ms. Gillis), and deferred annual awards granted in December 2004, 2005 and 2006 to all the outside directors. For Mr. Weyerhaeuser, the units also represent common stock units received and deferred when our directors' retirement plan was terminated in 1996. For Mr. Siegel and Mr. Stinnett, the units represent deferred Management Performance Award Plan incentive payments (*see Compensation Discussion and Analysis Executive Compensation Tables; Narrative Regarding Summary Compensation and Plan Based Award Grants Table*). For all the units, we convert them into cash and pay the person according to an election the person makes prior to deferring fees or incentives, except for the directors' annual deferred awards granted to the outside directors, which will be converted to cash and paid upon separation from service as a director.
- (3) Based on the stockholder's Schedule 13G/A filed January 31, 2007 with the SEC, the stockholder has sole voting and dispositive power over all these shares in its capacity as an investment adviser registered under the Investment Company Act of 1940, or the Act. Franklin Mutual Advisers, LLC disclaims beneficial ownership of all the shares.
- (4) Based on the stockholder's Schedule 13G filed February 12, 2007 with the SEC, the stockholder has shared voting and dispositive power over 3,702,022 of these shares in its capacity as an investment adviser registered under the Act and has sole dispositive power but no voting power over 56,545 of these shares. Southeastern Asset Management, Inc. disclaims beneficial ownership of all the shares.
- (5) Based on the stockholder's Schedule 13GA filed on February 14, 2007 with the SEC, the stockholder serves as an investment advisor registered under the Act, with sole dispositive power over all these shares and sole voting power over 847,675 of these shares. T. Rowe Price Associates, Inc. disclaims beneficial ownership of all the shares.
- (6) Based on the stockholders' Schedule 13G filed on January 23, 2007 with the SEC, Barclays Global Fund Advisors has sole voting and dispositive power over 1,093,098 of these shares. The filing also indicates that Barclays Global Investors, NA has sole voting power over 785,556 of these shares and sole dispositive power over 950,216 of these shares.
- (7) Represents the following: (i) 15,000 shares of common stock held in a trust, of which Mr. Covey has sole voting and investment power; (ii) 109 shares of common stock held for Mr. Covey's individual account under our 401(k) employee savings plan; and (iii) 6,942 shares of common stock currently vested and issuable under Restricted Stock Units (RSUs) granted to Mr. Covey upon his employment with us on February 6, 2006. A total of 24,401 RSUs were awarded to Mr. Covey, which accrue dividend equivalents and vest in 3 years. *See Compensation Discussion and Analysis Long Term Incentives; Restricted Stock Units* in this proxy statement.
- (8) These shares are held in the name of Mr. Dickey and his spouse; therefore, Mr. Dickey shares voting and investment power for these shares with his spouse.
- (9) Includes 131,072 shares held directly by Mr. Driscoll, and 136,022 shares held by trusts of which Mr. Driscoll is a trustee and shares voting power but has no dispositive power. Also includes 2,582 shares held by trusts of which Mr. Driscoll is a trustee and shares both voting and dispositive powers. Mr. Driscoll disclaims beneficial ownership of all shares except those held directly by him.

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- (10) These shares are held in the name of Mr. Knoll and his spouse; therefore, Mr. Knoll shares voting and investment power for these shares with his spouse.
- (11) These shares are held in a trust under which Mr. Peiros shares voting and investment power with his spouse.
- (12) Includes 5,986 shares owned by Ms. Runstad's spouse, of which Ms. Runstad disclaims beneficial ownership.
- (13) Mr. Siegel served as our Chairman and CEO through February 5, 2006, and as Chairman of the Board through December 31, 2006.
- (14) Includes the following: (i) 2,209 shares owned directly; (ii) 597,640 shares held by trusts or nonprofit entities of which Mr. Weyerhaeuser is either a trustee or director, 45,345 shares over which he has sole voting and investment power, 552,205 shares over which he has shared voting power, and 73,649 shares over which he has shared investment power; and (iii) 64,055 shares held by a trust of which Mr. Weyerhaeuser is a trustee and has sole voting and investment power. Also includes 3,433 shares held in the name of his spouse, of which Mr. Weyerhaeuser disclaims beneficial ownership. A total of 101,706 shares of common stock held in trust are currently pledged as collateral for bank loans by two of the trusts. Mr. Weyerhaeuser disclaims beneficial ownership of all shares except for the 2,209 shares he owns directly and 64,055 shares held in a trust for his benefit for which he is also trustee.
- (15) Includes 13,778 shares of common stock held for Mr. Kelly's individual account under our 401(k) employee savings plan.
- (16) Upon his employment with the Company on August 1, 2006, Mr. Stinnett was granted 4,000 RSUs that vest in three years, accrue dividend equivalents, and convert into shares of common stock on a one-for-one basis. Mr. Stinnett, however, has deferred receipt of these shares. See *Compensation Discussion and Analysis - Long Term Incentives; Restricted Stock Units* in this proxy statement.
- (17) Includes 15,783 shares of common stock held for Mr. Seamans' individual account under our 401(k) employee savings plan.
- (18) Includes 10,323 shares of common stock held for Mr. Zuehlke's individual account under our 401(k) employee savings plan.

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**REPORT OF THE EXECUTIVE COMPENSATION AND PERSONNEL POLICIES
COMMITTEE**

The Executive Compensation and Personnel Policies Committee of the Board of Directors has reviewed and discussed the Compensation Discussion and Analysis (CD&A) required by Item 402(b) of Regulation S-K with management and, based on such review and discussions, the Committee recommended to the Board that the Compensation Discussion and Analysis be included in this Proxy Statement.

The Committee Members:

William T. Weyerhaeuser, Chair

Jerome C. Knoll

John S. Moody

Lawrence S. Peiros

Gregory L. Quesnel

Michael T. Riordan

Judith M. Runstad

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COMPENSATION DISCUSSION AND ANALYSIS

Overview

Philosophy and Objectives

Our compensation philosophy is to provide all of our executives a fair and competitive incentive-based compensation package that is tied to the performance of both the individual and the company. Our compensation objectives are to recruit and retain the best executives that we can, ensure our compensation incentives are aligned with short-term and long-term company performance, and align our employees' interests with those of our stockholders. In pursuit of this philosophy and to help achieve our objectives, we balance our executives' compensation packages among three components: base salary, short-term incentives and long-term incentives. We target our compensation levels to be at the median of compensation paid by other companies in the paper and forest products industry, which we refer to as our peer group, and other general industry companies of similar size. We currently deem our peer group to be the companies listed on the inside back cover of our Annual Report sent to our stockholders along with this Proxy Statement. The peer group is also used for purposes of the Performance Graph contained in the Annual Report. We use this broad base of companies for comparison because we believe that we compete for executive talent against a wider spectrum of companies than those solely in the paper and forest products industry, and because we believe it provides us with better and more complete information as to executive compensation in general. We adjust compensation against the median level for individual executives, as appropriate, based upon variables such as job performance, long-term potential and tenure.

We compensate executives with higher levels of responsibility with a higher proportion of at-risk compensation and a larger proportion of equity compensation, so their interests are more closely aligned with those of our stockholders. The short-term and long-term incentive portions of our compensation package are intended to link compensation to company performance as well as individual performance. Our short-term incentives are based upon annual returns on invested capital and equity. Our long-term incentives are based upon relative total stockholder return, which is stock price appreciation plus cash distributions. We measure performance by corporate, operating division and individual accomplishments, described in more detail below. Additionally, we consider internal equity in compensation among our executives. *See Compensation Components.* We set threshold performance levels below which no incentive payments are to be made and set caps on the aggregate amount of short-term incentive compensation that we can pay.

Compensation Oversight

Our Executive Compensation and Personnel Policies Committee, which we refer to in this Compensation Discussion and Analysis, or CD&A, as the Compensation Committee or simply the Committee, periodically reviews the three components of our executive compensation program. The Compensation Committee, pursuant to the authority granted it under its charter, engages Deloitte Consulting LLP to advise the Committee on executive compensation matters. Deloitte does not advise any of our executive officers as to their individual compensation, and does not perform other services for us. With input from Deloitte and management, the Compensation Committee analyzes each component of our compensation package at least every two years to assess the proper balance and competitiveness of the components and the compensation tools used to accomplish the objective of each component. As part of this analysis, Deloitte performs a review and assessment of each of the components for our officers and reports to the Committee its findings and recommendations based on those findings. This assessment is comprised of information on our competitive position with respect to base salary, short-term and long-term incentive compensation, and total direct compensation for executives within our peer group and among certain general industry companies of similar size. Total direct compensation is the sum of base salary, short-term incentives, and long-term incentives. The Compensation Committee reviews and discusses the assessment with Deloitte and our management, and then further evaluates and, as necessary, incorporates the findings of the assessment into the Committee's annual compensation review and decision making. In November 2006, Deloitte presented its assessment of our executive compensation packages to the Committee, which the Committee took into consideration in connection with its approval of awards under our short-term and long-term

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incentive plans, made in February 2007 and December 2006, respectively, and in setting base salaries for our named executive officers for 2007.

The Committee reviews and approves the following:

individual base salary increases for our named executive officers and certain other executive officers;

any awards made under our short-term and long-term incentive plans for our executive officers and certain senior employees; and

the grant guidelines and aggregate grants made under the long-term incentive plans for approximately 90 other key employees.

In determining whether to approve awards under our short-term and long-term incentive programs, the Committee considers recommendations from management and input from Deloitte. As part of this annual review, the Committee also establishes the performance measures to be used to measure relative performance of the company for purposes of the short-term and long-term incentive programs and establishes the peer group of companies to be used for purposes of comparison under the short-term and long-term incentive programs.

Also, as part of the Compensation Committee's annual evaluation of our CEO, the Committee reviews and establishes the CEO's base salary, annual bonus award and long-term incentive grant after reviewing competitive data provided by Deloitte. As part of the review of our CEO's compensation, the Committee analyzes tally sheets prepared by Deloitte that affix dollar amounts to all components of the CEO's compensation consisting of base salary and bonuses, outstanding equity awards, benefits, and potential termination of employment and change-in-control severance payments under several different scenarios. Because Mike Covey, our current CEO, began his employment with us in February 2006, the Committee did not have a wealth accumulation analysis performed in establishing his compensation. The Committee did have Deloitte perform such an analysis in the first quarter of 2007, and intends to have such an analysis performed on a periodic basis.

Section 162(m) of the Internal Revenue Code, or the Code, generally disallows a tax deduction to public companies for annual compensation in excess of \$1 million paid to the CEO and the other named executive officers. Companies may deduct compensation above \$1 million, however, if it is performance-based compensation within the meaning of the Code. While the Compensation Committee considers the effect of this rule in developing and implementing our compensation program, in order to preserve the Committee's flexibility, we have not adopted a policy that all compensation must qualify as deductible under Section 162(m). Our long-term incentive programs are intended to qualify as performance-based compensation. The Committee believes that amounts paid under our short-term incentive program through our Management Performance Award Plan II are deductible because a participant must defer any payment that would cause the participant's compensation to be nondeductible.

Compensation Components

The following discussion and analysis contains statements regarding future individual and company performance targets and goals. These targets and goals are disclosed in the limited context of our compensation programs and should not be understood to be statements of management's expectations or estimates of results or other guidance. We specifically caution investors not to apply these statements to other contexts.

Base Salary

Consistent with our compensation philosophy and objectives, the Compensation Committee targets executive base salaries at the median of competitive practice, with such adjustments as management and the Committee deem necessary based upon the individual executive's performance and other individual factors, such as job performance, long-term potential and tenure. We have base salary ranges for each level, or pay grades, for all of our salaried employees, including our CEO. Salary ranges are determined through an evaluation process conducted by our human resources department, which focuses primarily on the principal duties and

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responsibilities of each position, competitor pay levels within our industry and regional and local markets, as well as internal equity (comparing similar positions within the company to make sure they are in line with each other). The Committee periodically reviews these salary ranges for our executive officers and approves updates to the ranges when appropriate. The placement of an executive's rate of pay within the salary range for a given position corresponds to the executive's level of experience and performance relative to his or her individual written performance plan. The performance plan contains operational, financial and customer-oriented objectives determined by the executive together with his or her supervisor. Although an initial salary range for our CEO is determined as described above, our CEO's base salary is set by the Committee.

Following the process outlined above, changes in base salary historically have been decided in February and take effect in March of each year. Individual base salary increases for our continuing, named executive officers for 2007 were 8% for Mr. Covey, 2.99% for Mr. Zuehlke, and 3.5% for Mr. Seamans. Mr. Kelly's and Mr. Stinnett's base salaries were not increased.

Short-Term Incentives

Our short-term incentive program is intended to link compensation to company performance by awarding cash bonuses for achieving certain financial performance targets set by the Compensation Committee.

Management Performance Award Plan II. Our Management Performance Award Plan II, or MPAP, allows for annual incentive awards tied directly to individual and company performance. The MPAP is designed to create an incentive for our senior employees, including our CEO and the other named executive officers, who are in a position to contribute to and influence our financial performance as measured by our pre-tax return on equity, or ROE, and pre-tax return on invested capital, or ROIC. Recipients receive their awards in cash unless they elect to defer awards earned into either common stock units or an account bearing interest at the higher of 70% of either the prime rate or the corporate A long-term bond rate. The target MPAP award for an executive is calculated as a percentage of the executive's base salary. These percentage amounts are periodically reviewed and reset, if necessary, by the Compensation Committee, based in part on the recommendations and input of management and Deloitte after a review of competitive practice. Although any target MPAP award to be made to our CEO is initially calculated as a percentage of base salary based in part on input from Deloitte, ultimately the Committee establishes the actual MPAP award for our CEO.

The Compensation Committee periodically reviews the types and mix of performance measures used for our short-term incentive program, such as ROE or ROIC, to gauge the effectiveness of these measures for aligning our executives' interests with those of the company and our stockholders. In 2005, for example, Deloitte prepared an analysis for the Committee of the performance criteria used for incentive plan purposes within the paper and forest products industry. The Committee believes that relative ROE and budgeted ROIC are appropriate performance criteria for purposes of creating short-term incentives because they measure performance against peers during up and down cycles and help reinforce the need for our operating divisions to attain an acceptable return on the assets that they are responsible for managing. We have historically used an after-tax 5% ROE and a pre-tax 8% ROIC, subject to the Committee's discretion, as the base or threshold numbers under the MPAP because performance at those levels generally translates into an acceptable level of return to our stockholders. In connection with our conversion to a real estate investment trust, or REIT, we began using a pre-tax ROE for comparison to our peer group. Pre-tax ROE is calculated using before tax earnings for the current year, as shown on the consolidated statements of operations and comprehensive income, divided by the beginning of the year total stockholders' equity, as shown on the consolidated balance sheets. We believe a pre-tax ROE provides a better apples-to-apples comparison of C corporations, which are subject to corporate taxation, and REITs, which are not subject to corporate taxation on certain qualified income.

Awards under the MPAP are paid from a Corporate Performance Fund, an Operating Division Performance Fund or both. Target awards are subject to adjustment based on ROE and ROIC performance modifiers, as applicable, and then further adjusted based on an individual employee's annual performance review.

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Corporate Performance Fund Award - CEO and CFO.

Short-term incentive bonuses paid to corporate employees, including our CEO and CFO, are based upon our pre-tax ROE performance as compared against the performance of our peer group and are paid from the Corporate Performance Fund. If the performance goals are met, awards are paid in cash, except for an executive officer who does not meet his or her stock ownership requirement, in which case awards are paid 50% in cash and 50% in stock. The actual amount of any award is determined by our pre-tax ROE, on a percentile basis, relative to our peer group over the same period. The current performance scale for threshold, target and maximum payments based on percentile rank vis-à-vis our peer group and corresponding awards as a percentage of target, is as follows:

	Pre-Tax ROE	
	Percentile Rank	Award Earned
Performance	(Versus Peer Group)	(Percent of Target)
Threshold	33 rd Percentile	25% of Target
Target	57 th Percentile	100% of Target
Maximum	97 th Percentile	200% of Target

Subject to the maximum of 200% of target, the percentage of target award proportionately increases in relation to an increase in the percentile rank levels set forth in the table above. No payments are made from the Corporate Performance Fund if we rank in the bottom 32% of the companies in our peer group in terms of pre-tax ROE.

Operating Division Performance Fund - Other Named Executive Officers.

MPAP awards to our five operating division vice presidents, which include three of our named executive officers, consist of two components weighted at 50% for corporate pre-tax ROE performance and 50% for their respective operating division's pre-tax ROIC. Awards earned with respect to corporate pre-tax ROE performance are paid from the Corporate Performance Fund, and awards earned with respect to an operating division's pre-tax ROIC are paid from the Operating Division Performance Fund.

Annually, the Committee reviews and approves a scale for each operating division setting forth the awards to be paid depending on the division's pre-tax ROIC performance. The scales are based upon the division's operating budget for that year relative to its invested capital at the beginning of the year. Invested capital is defined as total segment assets minus current liabilities. At the end of the year, actual ROIC is calculated and the result is compared to the Committee's pre-approved scale to determine a modifier, which traditionally has ranged from 0.1 to 2.0, with 2.0 being the maximum allowed under the MPAP. For the corporate performance target, pre-tax ROE is calculated as described above. For the division performance ROIC target, each operating division's budgeted earnings are divided by the beginning of the year operating division invested capital.

Subject to the Committee's discretion, under the terms of the MPAP, no awards can be paid from the Operating Division Performance Fund to eligible operating division employees if the employee's respective operating division does not achieve an ROIC equal to or greater than 8%. Absent special circumstances, such as dramatic improvement in an operating division's performance, achievement of an 8% ROIC results in a multiplier of 0.1 being applied to the portion of an eligible employee's award to be paid from the Operating Division Performance Fund.

¹ As an example, in a given year if one of our operating division vice presidents had a target MPAP award of \$100,000, there was an 8% ROIC threshold in place for his operating division, the actual ROIC for that division was 8% and our pre-tax ROE performance vis-à-vis our peer group put us in the 55th percentile, then he would receive a \$5,000 bonus from the Operating Division Performance Fund portion of his target bonus (($\$100,000 \times 50\%$) \times 0.1) plus a \$50,000 bonus from the Corporate Performance Award portion of his target bonus (($\$100,000 \times 50\%$) \times 1.0), for a total bonus of \$55,000, subject to the individual's personal performance modifier and to approval by the Committee.

² For 2007, the Compensation Committee approved scales establishing an ROIC threshold of 8.0% for our Pulp and Paperboard, Consumer Products, Resource and Land Sales and Development divisions. For our Wood Products division, the Committee established an ROIC of 5.20% as both the threshold and target, which means that the division would receive 100% of target for achieving its threshold, and would not be entitled to an award under the MPAP otherwise. This was done to recognize current market factors within the wood products industry.

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Limitations on and Adjustments to MPAP Awards.

Under the terms of the MPAP, the aggregate pool of the Corporate Performance Fund and the Operating Division Performance Fund from which any awards are paid may not exceed 6% of our pre-tax income. If the aggregate pool of funds exceeds 6% of our pre-tax income, the Compensation Committee has discretionary authority to limit the amount and alter the time and form of payment of MPAP awards.

Once set by the Compensation Committee, MPAP target performance measures are not generally changed. However, upon the completion of the calculations for all eligible corporate and operating division employees, the Committee is provided discretion under the MPAP to modify individual short-term incentive awards, or awards to all eligible employees as a group, after considering an individual's performance, operating division's performance, or the company's overall performance. The Committee may also consider safety performance, environmental performance, or other factors when considering awards to be approved.

Subject to the Compensation Committee's discretion, under the terms of the MPAP, no awards can be paid from the Corporate Performance Fund to any employee if we do not achieve an ROE in excess of 5%, on an after-tax basis.

Long-Term Incentives

Our long-term incentive program is intended to link compensation to long-term company performance by granting equity based awards, such as performance shares, tied to total stockholder return over a three-year period, or other types of equity based awards, such as restricted stock units, to align the interests of newly hired executives with those of our stockholders.

Performance Shares. In 2003, after an assessment of the long-term incentive component of our compensation portfolio, the Compensation Committee began granting a mix of performance shares and nonqualified stock options to eligible senior employees as long-term incentives. In December of 2005, prior to and because of our conversion to a REIT, the Committee began granting performance shares as the sole form of long-term incentive to our senior employees. Performance shares are less dilutive to stockholders, and the Committee believes they provide a superior incentive compared to stock options for REIT employees. The Committee believes that by using performance shares, executives will be focused on total stockholder return, or stock price appreciation plus distributions, and not just stock price appreciation alone.

Performance shares are granted in accordance with the terms of our stockholder-approved 2000 Stock Incentive Plan and 2005 Stock Incentive Plan, referred to in this CD&A collectively as the Stock Plan. The Stock Plan provides the opportunity to create incentives for employees to use, and rewards them for using, their judgment, initiative and efforts to increase stockholder value over the long term. Awards under the Stock Plan are intended to reward employees for high performance theirs and ours, to encourage them to focus on enhancing long-term stockholder value, and to align management's interests with those of our stockholders. In addition, we believe long-term incentives promote the retention of our senior employees.

Based on an assessment of competitive long-term incentive opportunities by Deloitte, and an evaluation of those levels by the Committee, guideline long-term incentive values are developed for each base salary grade. The guideline long-term incentive values, which are based upon the median of competitive practice, are then converted to a guideline number of shares based on the average ten-day closing price for our common stock (based on a timeframe within thirty days of when the grants are made to employees). The actual number of performance shares granted to certain senior employees is further subject to an increase or decrease at the Committee's discretion based upon management's assessment of an individual employee's past and potential contributions to the company (aside from the CEO). For the CEO, the Committee identifies a proposed number of performance shares to be awarded based on a review by Deloitte of competitive long-term incentive opportunities and an evaluation of our CEO's performance. Each award granted under the long-term incentive plan is based on target performance, and may be adjusted up or down based on our performance during the three-year performance period.

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The performance shares awarded have no value unless our total stockholder return, or stock price appreciation plus distributions to stockholders, exceeds pre-determined levels relative to our peer group over the performance period. For performance share awards granted in December 2006, the performance scale for threshold, target and maximum awards based on percentile rank vis-à-vis our peer group and corresponding awards as a percentage of target, is as follows:

Performance	Total Stockholder Return Percentile Rank (Versus Peer Group)(1)	Award Earned (Percent of Target)
Threshold	33 rd Percentile	25% of Target
Target	57 th Percentile	100% of Target
Maximum	97 th Percentile	200% of Target

(1) As initially approved, the Total Stockholder Return Percentile Rankings for the Threshold and Target were 32nd and 55th, respectively. One company, which was taken private, has been removed from our peer group, resulting in a recalculation of the percentile rankings. Subject to the maximum of 200% of target, the percentage of target award proportionately increases in relation to an increase in the percentile rank levels set forth in the table above. No awards are made if we rank in the bottom 32% of the companies in our peer group in terms of total stockholder return.

The Compensation Committee reserves the right to reduce or eliminate any award that may become payable to an employee, or to all senior employees as a group, if it determines that the total stockholder return has been insufficient, or if our financial or operational performance has been inadequate. If awards are paid out at the end of the three-year performance measurement period, the recipients will receive distribution equivalents at the time of payment equal to the cash distributions that would have been paid on the shares earned had the recipient owned the shares during the three-year period. These distribution equivalents are commonly referred to as dividend equivalents when discussing compensation plans. We also use that term in this document, although as a REIT, cash distributions made to our stockholders are generally referred to as distributions rather than dividends. The award and the dividend equivalents are paid in the form of shares of common stock, and the shares and dividend equivalents have no voting rights unless and until they are paid at the end of the three-year performance period.

Restricted Stock Units. Under our Stock Plan, we may grant other types of equity awards, including restricted stock units, or RSUs, to attract or retain key employees and to align the interests of newly hired executives with those of our stockholders. In 2006, for the first time, the Compensation Committee granted RSUs, including 24,401 RSUs to Mike Covey, our CEO and President, and 4,000 RSUs to Brent Stinnett, our Vice President, Resource. These RSUs vest 20% on the first anniversary of the date of grant, 20% on the second anniversary of the date of grant and 60% on the third anniversary of the date of grant. The RSU awards to Messrs. Covey and Stinnett were made in connection with their being hired by us and were deemed necessary to attract and retain them. Those awards were also intended to replace the value of equity awards that were forfeited by Messrs. Covey and Stinnett when they left their prior employer. See *Executive Compensation Tables Summary Compensation Table and Outstanding Equity Awards at Fiscal Year-End Table*.

Officer Stock Ownership Guidelines

In the interest of promoting and increasing equity ownership by our senior executives and to further align our executives' long-term interests with those of our stockholders, we have adopted stock ownership guidelines. The guidelines, which are provided below, were adjusted in 2006 to reflect the special distribution made in connection with our conversion to a REIT:

Chief Executive Officer	75,000 shares
Division Vice President	15,000 shares
Staff Vice President	9,500 shares

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Each executive must acquire by January 1, 2009, or within 5 years of his or her becoming an executive officer subject to the guidelines, at least the number of shares shown above. To meet the requirements, an executive must increase his or her share holdings each year by at least 20% of the required amount until the minimum number is acquired. Shares held in a brokerage account or in our 401(k) Plan, common stock units owned as a result of deferred awards paid under our short-term incentive program, and any vested RSUs all count towards the ownership requirement. Shares subject to unexercised stock options or unearned performance shares, however, do not count toward the ownership guidelines. The stock ownership of our named executive officers as of December 31, 2006 is presented elsewhere. See *Security Ownership of Certain Beneficial Owners and Management*.

If an executive does not meet the incremental ownership requirement in any of the five years, or the ownership requirement is not maintained after it is initially met, incentive awards under the MPAP will be paid 50% in cash and 50% in stock, and any performance share award that is earned, on an after-tax basis, must be retained to the extent necessary to meet the stock ownership guidelines.

As of March 15, 2007, all of our named executive officers, with the exception of Mr. Stinnett, have met the guidelines on an incremental basis, as required under the guidelines. Mr. Stinnett has until the first anniversary of his hire to meet his incremental ownership requirement. A copy of our officers' stock ownership guidelines is available by going to our web site at www.potlatchcorp.com, and selecting Investor Resources and Corporate Governance, then Management.

Personal Benefits

Except for certain relocation expenses described below, we do not provide perquisites or other personal benefits to our officers or senior employees, such as reserved parking spaces, company cars, country club memberships or separate dining facilities. We do not own or lease aircraft for our executives' personal use. Our health care and other medical insurance programs, as well as our Salaried Employees' Savings Plan, or 401(k) Plan, are the same for all salaried employees, including officers, with the exception that highly compensated employees pay a larger percentage of their insurance premiums than other employees. Under our relocation plan, we reimburse newly hired and current employees for moving and relocation expenses incurred in connection with the physical move of their permanent domicile to their new location of work for us. There are approximately 630 employees eligible for coverage under this program in the event of a company-initiated relocation. Reimbursement is provided primarily for expenses incurred by the employee in connection with searching for a new home, commissions on the sale or purchase of property, costs of temporary living arrangements, moving expenses, return trips home and insurance on household items during the moving process. If any relocation reimbursements are considered compensation includible in gross income, we make a gross-up payment that seeks to put the employee in the same financial position after the payment of taxes with respect to such includible amounts as the employee would have been if none of the reimbursement amounts had been includible in gross income.

We maintain a supplemental benefit plan that is available to all of our salaried employees, but we do not have any supplemental retirement plans solely for our executive officers. See *Executive Compensation Tables Post-Employment Compensation; Pension Benefits Table and Nonqualified Deferred Compensation Table*. We do, however, have a special agreement with Mr. Covey to provide him with retirement benefits equal to the retirement benefits at age 55 to which he would have been entitled at age 55 had he remained with his former employer. We also have provided Mr. Stinnett with immediate vesting and eligibility under certain of our benefit plans to place him in a similar benefits accrual position to that in which he would have been had he remained with his previous employer. These arrangements were necessary in order to secure the services of Mr. Covey and Mr. Stinnett. See narrative following *Summary Compensation Table and Grants of Plan-Based Awards Table*, and narrative following *Post-Employment Compensation*.

Employment Agreements and Other Benefits Available to Named Executive Officers

With the exception of Mr. Covey, we have not entered into employment agreements with our named executive officers. Mr. Covey's employment agreement is described in detail on pages 26 and 27. In addition to

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the short-term and long-term incentive programs described, our named executive officers are eligible to participate in our Supplemental Benefit Plans and Severance Program for Executive Employees.

Supplemental Benefit Plans. Our supplemental benefit plans provide retirement benefits to our senior salaried employees, including our named executive officers, based upon the benefit formulas of our Salaried Employees Retirement Plan and 401(k) Plan. These plans also restore certain benefits limited by, and remove certain compensation limitations otherwise imposed under, the Internal Revenue Code. These benefits are calculated based on the qualified plan formulas and do not otherwise augment the normal benefit formula applicable to salaried employees. These plans are discussed in detail on pages 30-34.

Severance Program for Executive Employees. Under our Severance Program for Executive Employees, executives who are terminated for reasons other than misconduct, who resign within two years after a material diminution in compensation, benefits, assigned duties, responsibilities or privileges, or who resign rather than relocate at our request will receive severance pay of up to 12 months base salary and benefits for the same period under our medical, dental and life insurance plans. They are also entitled to benefits upon a change of control of up to 30 to 36 months base salary, target bonus and benefits. Severance benefits are discussed in detail on pages 34-40.

Other Benefits

401(k) Plan. Our 401(k) Plan permits substantially all of our employees, including our named executive officers, to make voluntary pre-tax and after-tax contributions to the plan, subject to applicable tax limitations. We make matching contributions equal to 70% of a salaried employee's contributions that do not exceed 6% of his or her annual compensation, subject to applicable tax limitations. Eligible employees who elect to participate in the plan are 100% vested in the matching contributions upon completion of two years of service. The plan is intended to be tax-qualified under the Internal Revenue Code so that contributions to the plan, and income earned on any plan contributions, are not taxable to employees until withdrawn from the plan, and so that contributions to the plan will be deductible when made.

Health and Welfare Benefits. All full-time employees, including our named executive officers, may participate in our health and welfare benefit programs, including medical, dental and vision care coverage, disability insurance and life insurance.

Table of Contents**Executive Compensation Tables****Summary Compensation Table**

Name and Principal Position	Year	Salary (\$)	Bonus (\$)	Stock Awards (\$)(1)	Option Awards (\$)(2)	Non-Equity Incentive Plan Compensation (\$)(3)	Change in Pension	Value and Nonqualified Deferred Compensation Earnings (\$)(4)	All Other Compensation (\$)	Total (\$)
Michael J. Covey Chairman of the Board, President and Chief Executive Officer(5) L. Pendleton Siegel	2006	\$ 566,124	\$ 477,085(6)	\$ 1,326,039(7)	N/A	\$ 700,000	\$ 308,783	\$ 198,052(8)	\$ 3,576,083	
Gerald L. Zuehlke Chairman of the Board and Former Chief Executive Officer(5)	2006	\$ 650,040	\$ 250,000(9)	\$ 257,904	N/A	\$ 141,754	\$ 19,320(10)	\$ 1,319,018		
Harry D. Seamans Vice President, Finance and Chief Financial Officer	2006	\$ 289,660		\$ 137,676	N/A	\$ 169,500	\$ 236,480	\$ 11,945(11)	\$ 845,261	
Richard K. Kelly Vice President, Pulp and Paperboard Division	2006	\$ 276,890		\$ 144,576	N/A	\$ 189,900	\$ 161,352	\$ 38,134(12)	\$ 810,852	
Brent L. Stinnett Vice President, Wood Products Division	2006	\$ 303,230		\$ 144,576	N/A	\$ 88,700	\$ 164,474	\$ 9,320(13)	\$ 710,300	
Division Vice President, Resource Management	2006	\$ 127,100	\$ 155,420(14)	\$ 64,235(15)	N/A	\$ 72,100	\$ 17,077	\$ 111,610(16)	\$ 547,542	

(1) Unless otherwise noted for an individual named executive officer, this column shows the values for performance shares granted in December 2003, 2004 and 2005 for three-year performance periods beginning 2004, 2005 and 2006, respectively, pursuant to our long-term incentive plan. The amounts shown reflect the compensation expense taken by us for 2006 in accordance with Statement of Financial Accounting Standard No. 123 (Revised 2004) *Share Based Payment*, or FAS 123R. The assumptions underlying FAS 123R valuations performed are discussed in footnote 14 to our Financial Statements included in our Annual Report on Form 10-K, filed on February 23, 2007, which we refer to as our 10-K.

(2) No Option Awards were granted in 2006.

- (3) This column shows cash bonuses earned under the MPAP relating to performance in 2006. The bonuses were actually paid in 2007.
- (4) No portion of the amounts shown in this column is attributable to above market or preferential earnings on deferred compensation.
- (5) Mr. Covey began serving as CEO and President on February 6, 2006, and as Chairman of the Board on January 1, 2007. His annual salary for 2006 was \$625,000. Mr. Siegel served as Chairman and CEO through February 5, 2006, and as Chairman of the Board through December 31, 2006.

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- (6) Comprised of a cash hiring bonus of \$425,000 and a cash moving bonus of \$52,085.
- (7) Includes the expensed FAS 123R value of RSUs and performance shares granted as part of Mr. Covey's initial employment package. The method for determining the expensed FAS 123R value of RSUs is discussed in footnote 14 to our 10-K.
- (8) Includes \$192,796 for payment and reimbursement of relocation expenses (including a tax gross-up of \$33,111 relating to reimbursed amounts includible in gross income); 401(k) company match; and premiums paid for accidental death & dismemberment insurance. The relocation expenses were paid as part of our salaried employee relocation program, which is available to all employees above a specific salary level (approximately 630 employees), including the named executive officers. Because the grant date fair value under FAS 123R for the RSUs granted to Mr. Covey reflects a fair value measurement, distributions accrued on the unvested RSUs are not reported separately in this column. The distributions for 2006 amounted to \$451,709, which includes \$378,132 from the special earnings and profit distribution paid to stockholders as part of our REIT conversion and regular quarterly distributions paid during 2006. These amounts have been converted to additional stock units and are reported in the Outstanding Equity Awards at Fiscal Year-End Table. These additional stock units will be paid in common stock at the same time the underlying RSUs are.
- (9) Mr. Siegel was paid a special, discretionary bonus of \$250,000 for overseeing our successful REIT conversion and assisting in the successful CEO transition.
- (10) Includes a charitable donation in the amount of \$10,000 to Gonzaga Preparatory School, a private high school located in Spokane, Washington, made by the company on behalf of Mr. Siegel in recognition of his years of service to the company; 401(k) company match; and premiums paid for accidental death & dismemberment insurance.
- (11) Includes 401(k) company match and premiums paid for accidental death & dismemberment insurance.
- (12) Includes \$31,735 for payment and reimbursement of relocation expenses; 401(k) company match; and premiums paid for accidental death & dismemberment insurance. The relocation expenses portion was paid as part of our salaried employee relocation program.
- (13) Includes 401(k) company match and premiums paid for accidental death & dismemberment insurance.
- (14) Comprised of a cash hiring bonus of \$130,000 and a cash moving bonus of \$25,420.
- (15) Includes the grant date fair value of RSUs and performance shares granted as part of Mr. Stinnett's initial employment package. The amounts shown reflect the compensation expense taken by us for 2006 in accordance with FAS 123R. The method for determining the expensed FAS 123R value of RSUs is discussed in footnote 14 to our 10-K.
- (16) Includes \$111,577 for payment and reimbursement of relocation expenses (including a tax gross-up of \$16,679 relating to reimbursed amounts includible in gross income) and premiums paid for accidental death & dismemberment insurance. The relocation expenses were paid as part of our salaried employee relocation program.

Table of ContentsGrants of Plan-Based Awards Table

Name	Grant Date (1)	Estimated Future Payouts Under Non-Equity Incentive Plan Awards (1)			Estimated Future Payouts Under Equity Incentive Plan Awards (2)			All Other Stock Awards: Number of Shares of Stock or Units (#)	Grant Date Fair Value of Stock and Option Awards (\$)(3)
		Threshold	Target	Maximum	Threshold	Target	Maximum		
		(\$)	(\$)	(\$)	(#)	(#)	(#)		
Michael J Covey		\$ 101,600	\$ 406,300	\$ 812,500					
Michael J Covey	2/06/06(4)						24,401	\$ 1,293,253	
Michael J Covey	2/06/06(5)				3,882	15,528	31,056	\$ 1,108,078	
Michael J Covey	2/06/06(6)				5,200	20,800	41,600	\$ 1,275,664	
Michael J Covey	12/01/06				6,725	26,900	53,800	\$ 1,288,510	
Gerald L. Zuehlke		\$ 32,600	\$ 130,300	\$ 260,700					
Gerald L. Zuehlke	12/01/06				631	2,525	5,050	\$ 120,948	
Harry D. Seamans		\$ 77,900	\$ 124,600	\$ 249,200					
Harry D. Seamans	12/01/06				1,250	5,000	10,000	\$ 239,500	
Richard K. Kelly		\$ 85,300	\$ 136,500	\$ 272,900					
Richard K. Kelly	12/01/06				1,250	5,000	10,000	\$ 239,500	
Brent L. Stinnett		\$ 10,000	\$ 57,200	\$ 114,400				1,545(7)	