

# Potlatch Corporation

Third Quarter 2012 Conference Call  
Supplemental Information

**Michael J. Covey**

Chairman, President & Chief Executive Officer

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October 22, 2012



[WWW.POTLATCHCORP.COM](http://WWW.POTLATCHCORP.COM)

# Forward-Looking Statements

This presentation contains certain forward-looking statements within the meaning of the Private Litigation Reform Act of 1995 as amended, including without limitation statements about our expectations regarding our outlook for future company performance, direction of sawlog, pulpwood, lumber and real estate markets, U.S. lumber manufacturing capacity, lumber inventory levels, 2012 harvest volume, ability to increase harvest levels, U.S. housing market recovery, improving outlook for commercial and industrial markets and repair and remodel, earnings and cashflows in our Resource and Wood Products segments, demand and pricing for sawlogs, pulpwood, lumber and plywood, Chinese demand for sawlogs and Wood Products, diminished lumber production in Canada due to mountain pine beetle epidemic and lower allowable cut in eastern Canadian province, future harvest levels, increased production from sawmills and plywood mill, expected sale of 7,000-8,000 acres of Real Estate in Q4, expected land basis for real estate sales in Q4, performance of our Resource, Wood Products and Real Estate segments in the fourth quarter of 2012 and beyond, expected seasonal weakness in Wood Products and Resource segments in Q4, quarterly dividend levels, the company's balance sheet, liquidity, price trends in real estate, the demand and interest in rural recreational real estate and HBU lands, book tax provision in Q4 2012, long-term debt maturities, and related matters. These forward-looking statements are based on current expectations, estimates, assumptions and projections that are subject to change, and actual results may differ materially from the forward-looking statements. Factors that could cause actual results to differ materially include, but are not limited to, changes in timberland values; changes in timber harvest levels on our lands; changes in timber prices; changes in lumber and plywood prices; changes in policy regarding governmental timber sales; changes in the United States and international economies; changes in the level of construction activity; changes in tariffs, quotas and trade agreements involving wood products; changes in demand for forest products; changes in production and production capacity in the forest products industry; competitive pricing pressures for our products; unanticipated manufacturing disruptions; changes in general and industry-specific environmental laws and regulations; unforeseen environmental liabilities or expenditures; weather conditions; pest infestation; changes in raw material, fuel and other costs; the ability to satisfy complex rules in order to remain qualified as a REIT; changes in tax laws that could reduce the benefits associated with REIT status; and other risks and uncertainties described from time to time in our public filings with the Securities and Exchange Commission. These forward-looking statements are made as of the date of this presentation and we do not undertake to update any forward-looking statements.



# Third Quarter 2012 Summary (unaudited)

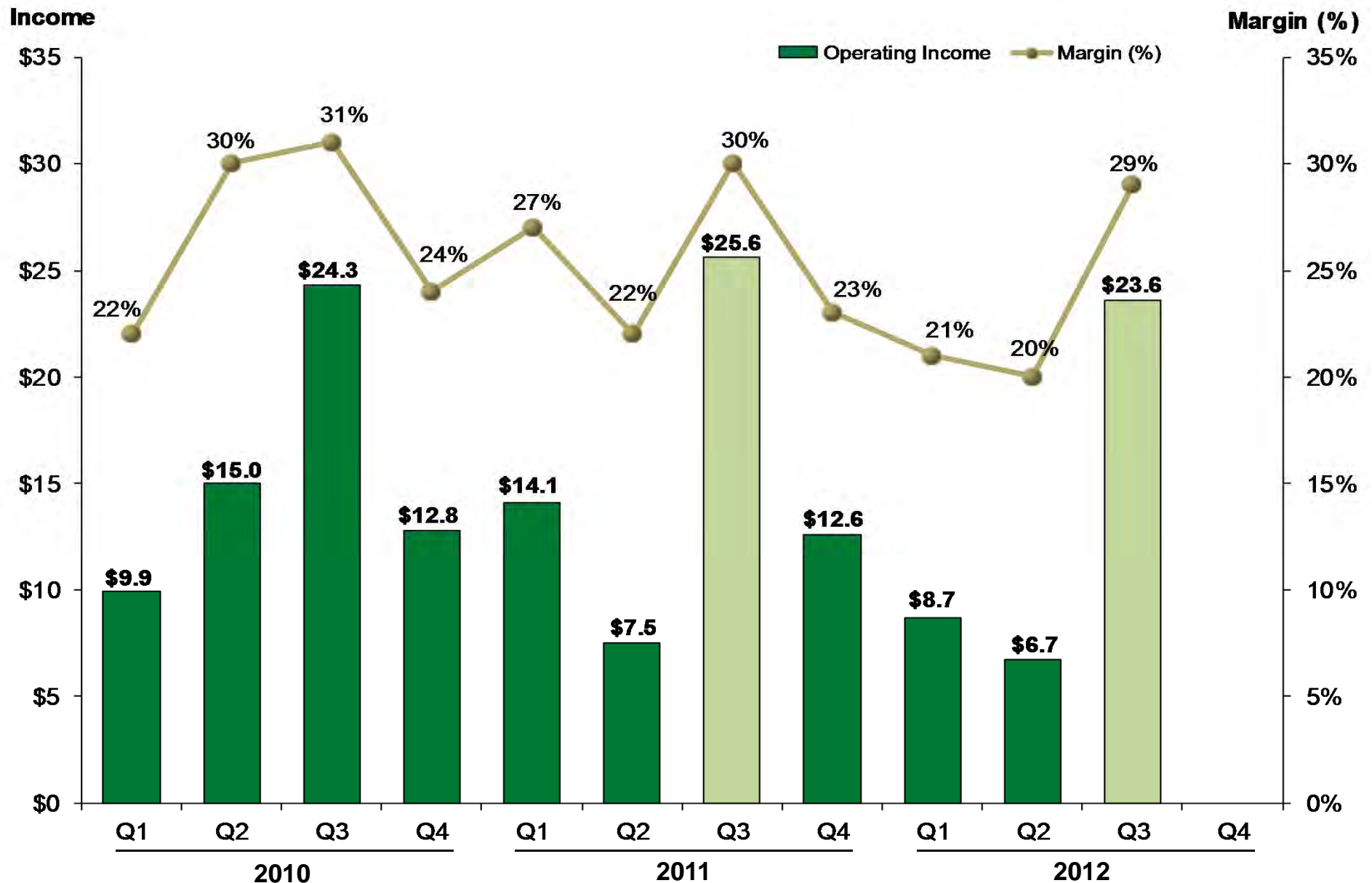
(\$ in thousands – except per-share amounts)

|  | 3rd Quarter<br>2012 | 2nd Quarter<br>2012 | 1st Quarter<br>2012 | 3rd Quarter<br>2011 | Nine Months<br>Ended<br>2012 | Nine Months<br>Ended<br>2011 |
|--|---------------------|---------------------|---------------------|---------------------|------------------------------|------------------------------|
| <b>Operating Income</b>                  |                     |                     |                     |                     |                              |                              |
| Resource                                 | \$ 23,631           | \$ 6,711            | \$ 8,669            | \$ 25,598           | \$ 39,011                    | \$ 47,208                    |
| Real Estate                              | 1,255               | 6,689               | 6,312               | 9,929               | 14,256                       | 29,295                       |
| Wood Products                            | 15,232              | 11,672              | 5,044               | 2,896               | 31,948                       | 8,548                        |
| Eliminations and adjustments             | (1,178)             | 762                 | 310                 | 1,634               | (106)                        | 4,160                        |
|  | 38,940              | 25,834              | 20,335              | 40,057              | 85,109                       | 89,211                       |
| Corporate                                | (10,609)            | (9,175)             | (8,250)             | (4,993)             | (28,034)                     | (21,251)                     |
| Net cash interest expense                | (5,848)             | (5,846)             | (6,052)             | (6,242)             | (17,746)                     | (18,711)                     |
| Income before taxes                      | 22,483              | 10,813              | 6,033               | 28,822              | 39,329                       | 49,249                       |
| Income tax provision                     | 3,884               | 5,733               | 982                 | 3,223               | 10,599                       | 7,505                        |
| <b>Net income</b>                        | <b>\$ 18,599</b>    | <b>\$ 5,080</b>     | <b>\$ 5,051</b>     | <b>\$ 25,599</b>    | <b>\$ 28,730</b>             | <b>\$ 41,744</b>             |
| plus: Net cash interest expense          | 5,848               | 5,846               | 6,052               | 6,242               | 17,746                       | 18,711                       |
| Income tax provision                     | 3,884               | 5,733               | 982                 | 3,223               | 10,599                       | 7,505                        |
| Depreciation, depletion & amortization   | 8,302               | 5,181               | 5,788               | 9,092               | 19,271                       | 22,916                       |
| Basis of real estate sold                | 397                 | 914                 | 495                 | 2,714               | 1,806                        | 13,287                       |
| Non-cash eliminations                    | (16)                | (116)               | (51)                | (2,054)             | (183)                        | (2,054)                      |
| <b>EBITDDA*</b>                          | <b>\$ 37,014</b>    | <b>\$ 22,638</b>    | <b>\$ 18,317</b>    | <b>\$ 44,816</b>    | <b>\$ 77,969</b>             | <b>\$ 102,109</b>            |
| <b>FFO*</b>                              | <b>\$ 27,282</b>    | <b>\$ 11,059</b>    | <b>\$ 11,283</b>    | <b>\$ 35,351</b>    | <b>\$ 49,624</b>             | <b>\$ 75,893</b>             |
| <b>Diluted earnings per common share</b> | <b>\$ 0.46</b>      | <b>\$ 0.13</b>      | <b>\$ 0.13</b>      | <b>\$ 0.63</b>      | <b>\$ 0.71</b>               | <b>\$ 1.03</b>               |

\*Non-GAAP measure – See pages 16-19 for reconciliation to GAAP and definition.

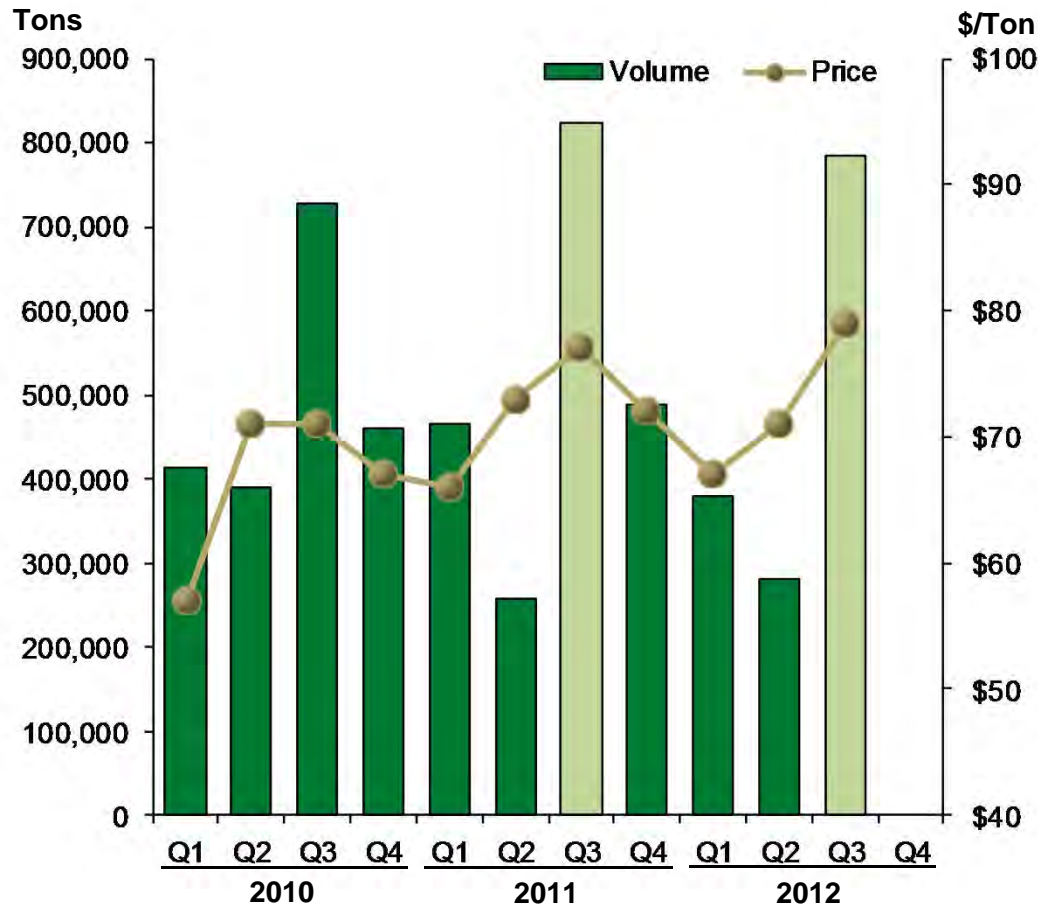
# Resource – Operating Income and Margin

(\$ in millions)

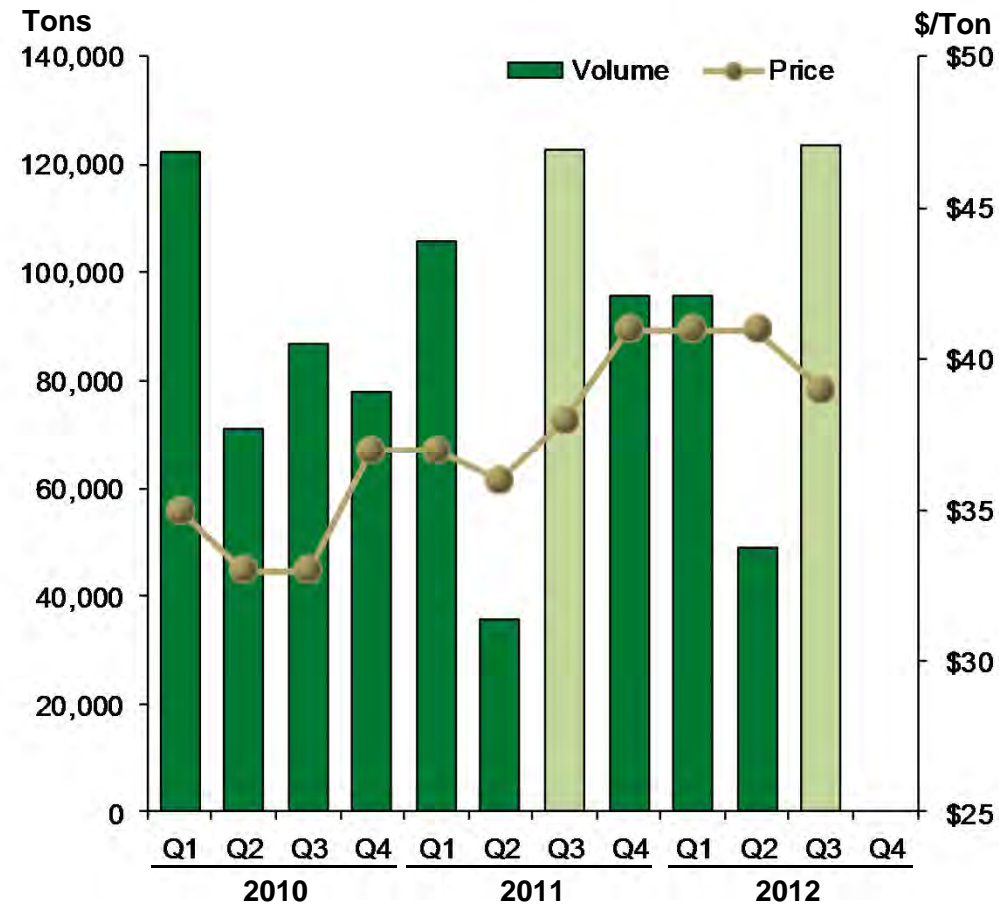


# Northern Region – Volume and Pricing

## Sawlog



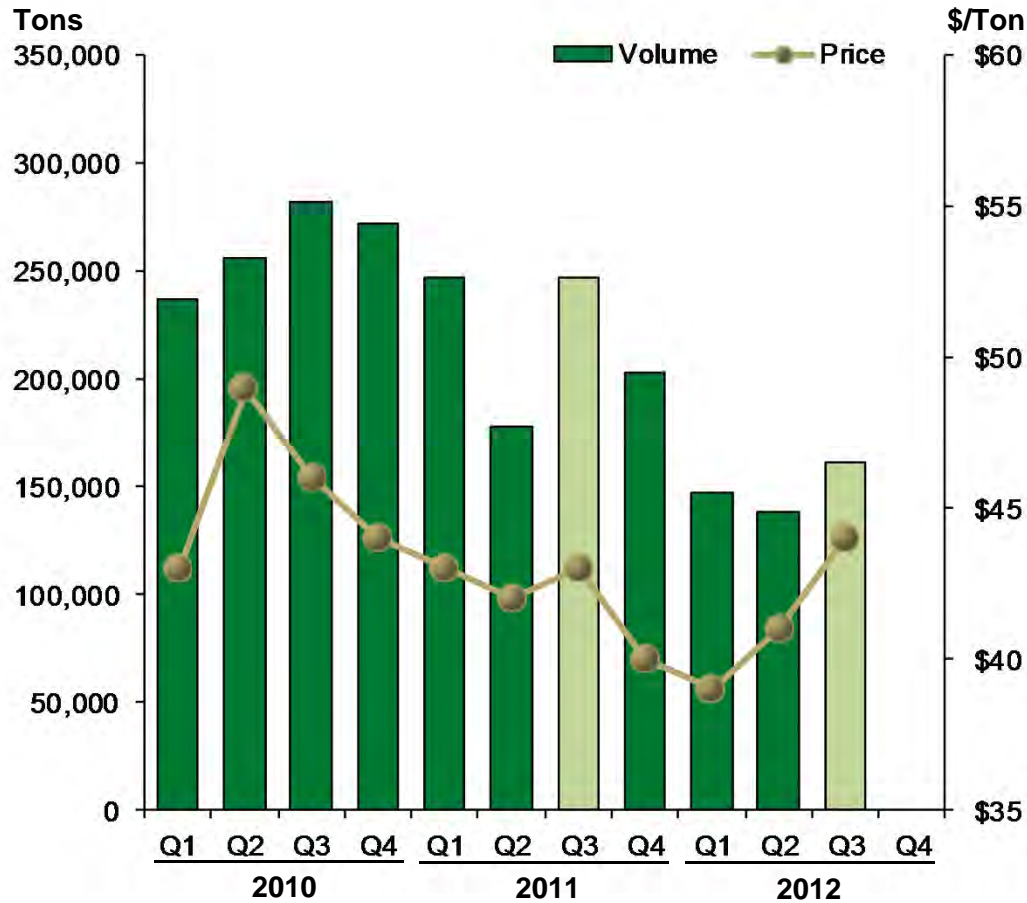
## Pulpwood



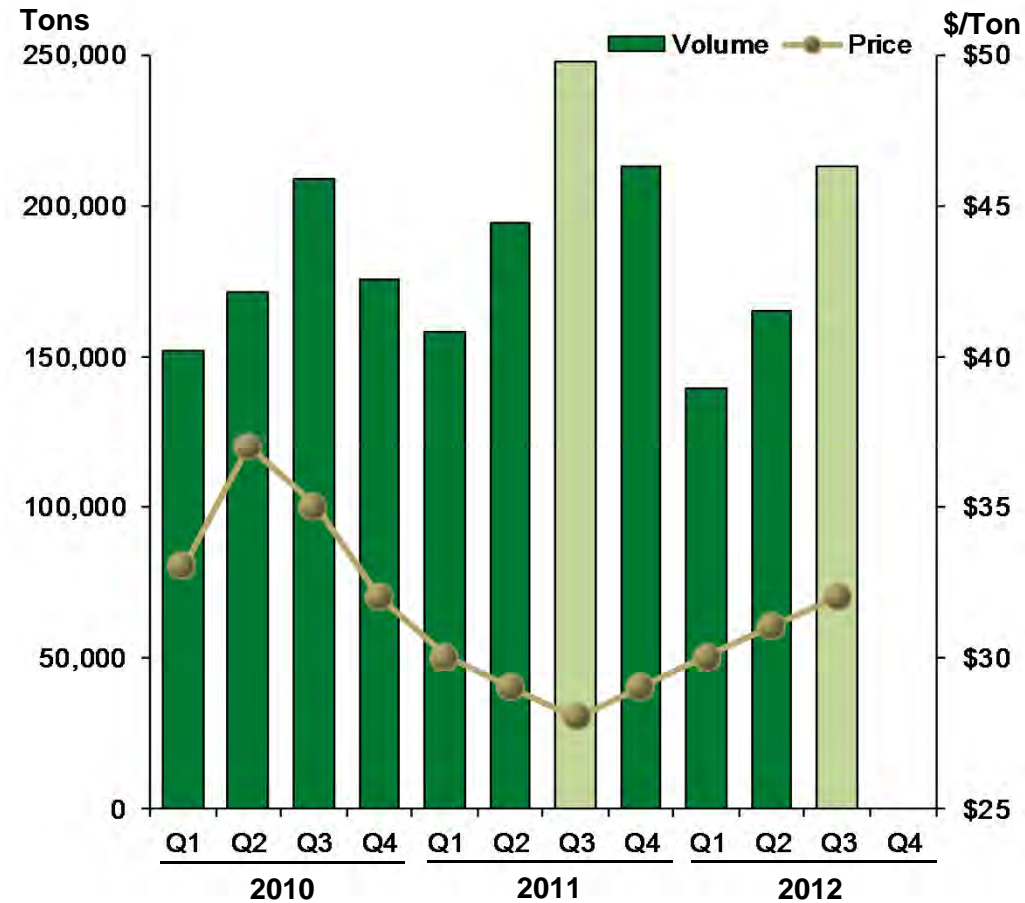
Note: Volumes include tonnage produced from company-owned fee land, while pricing data includes revenue generated from both company-owned fee land and non-fee stumpage purchased from third parties.

# Southern Region – Volume and Pricing

## Sawlog



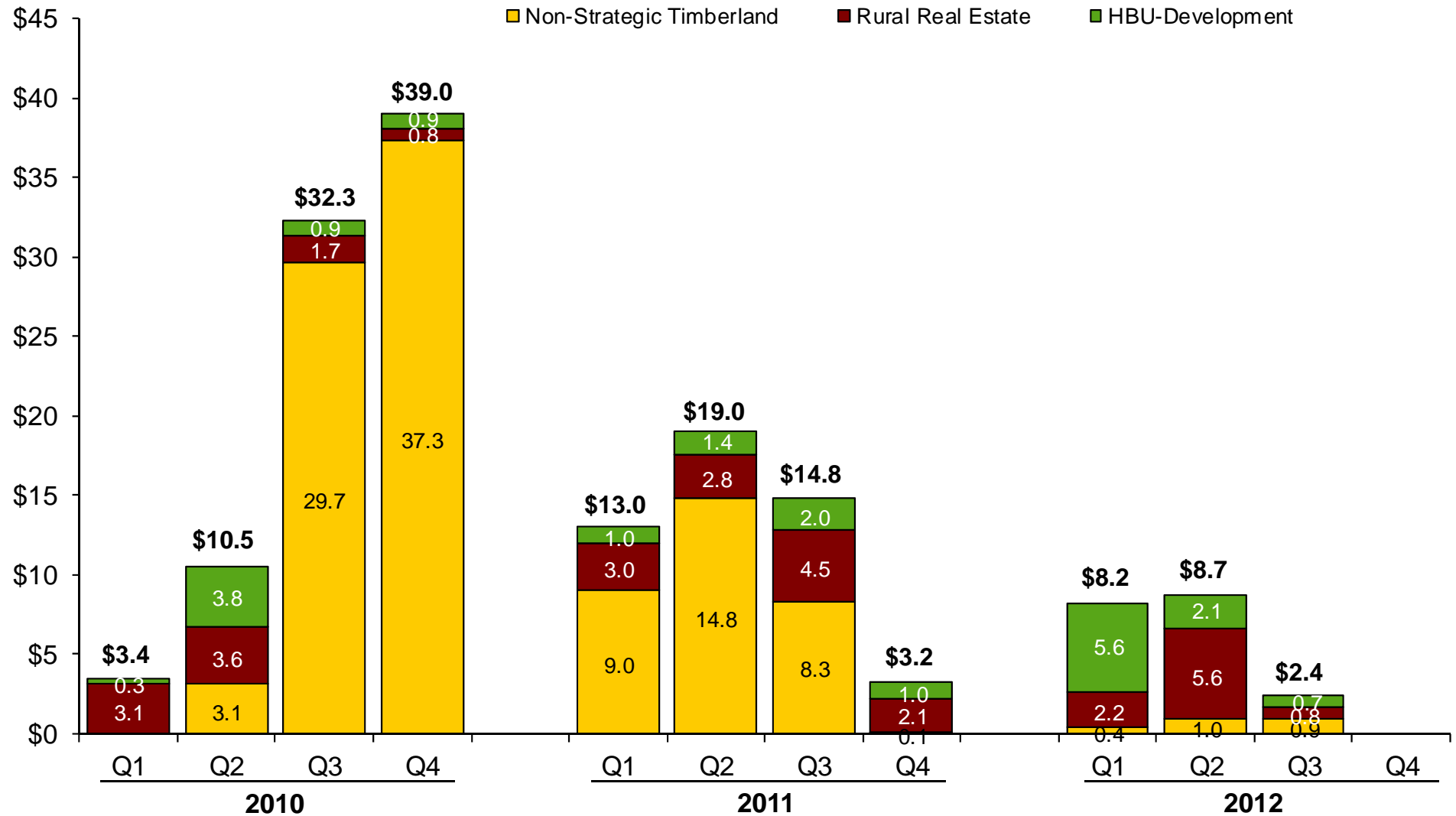
## Pulpwood



Note: Volumes include tonnage produced from company-owned fee land, while pricing data includes revenue generated from both company-owned fee land and non-fee stumpage purchased from third parties.

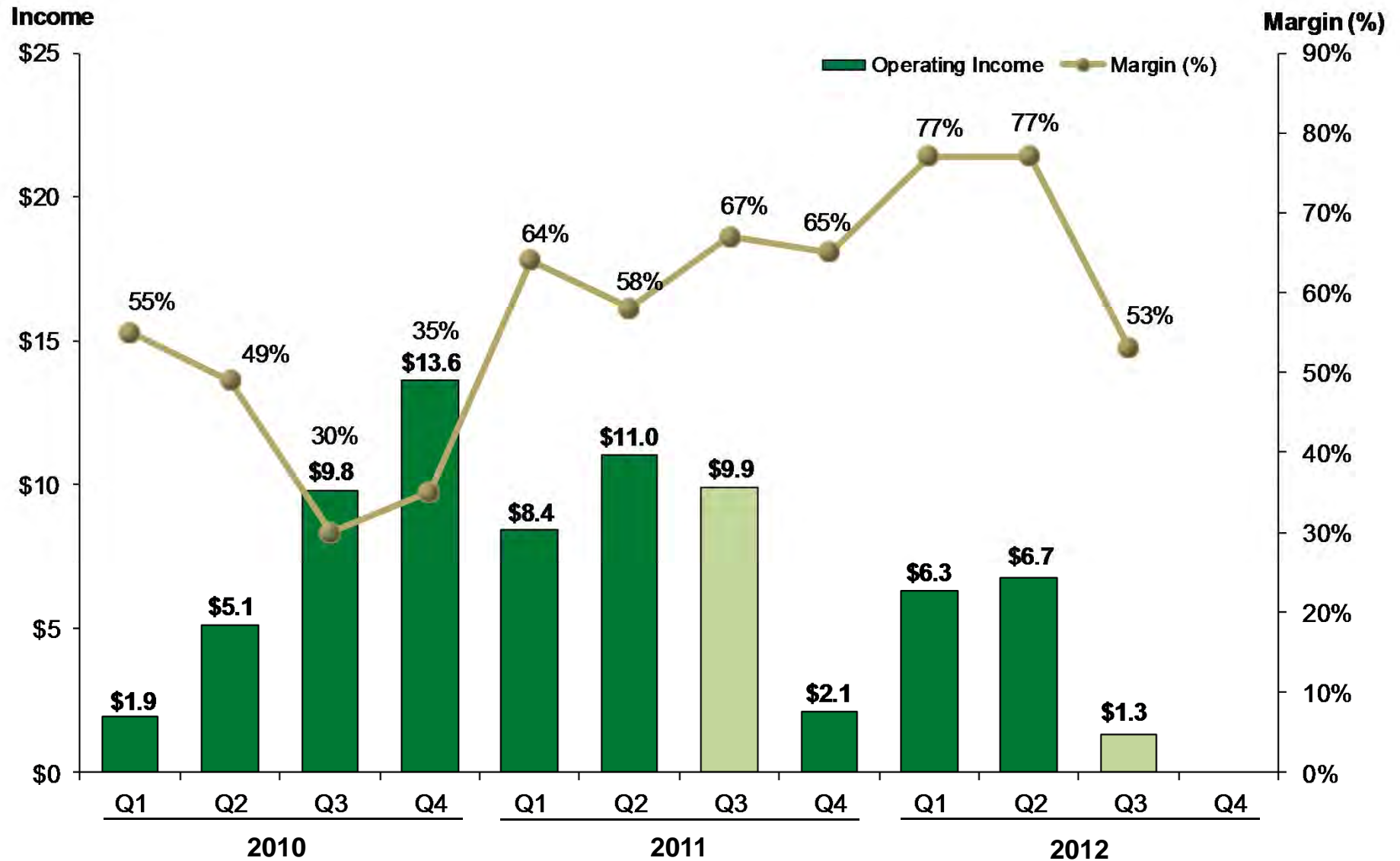
# Real Estate – Revenues

(\$ in millions)



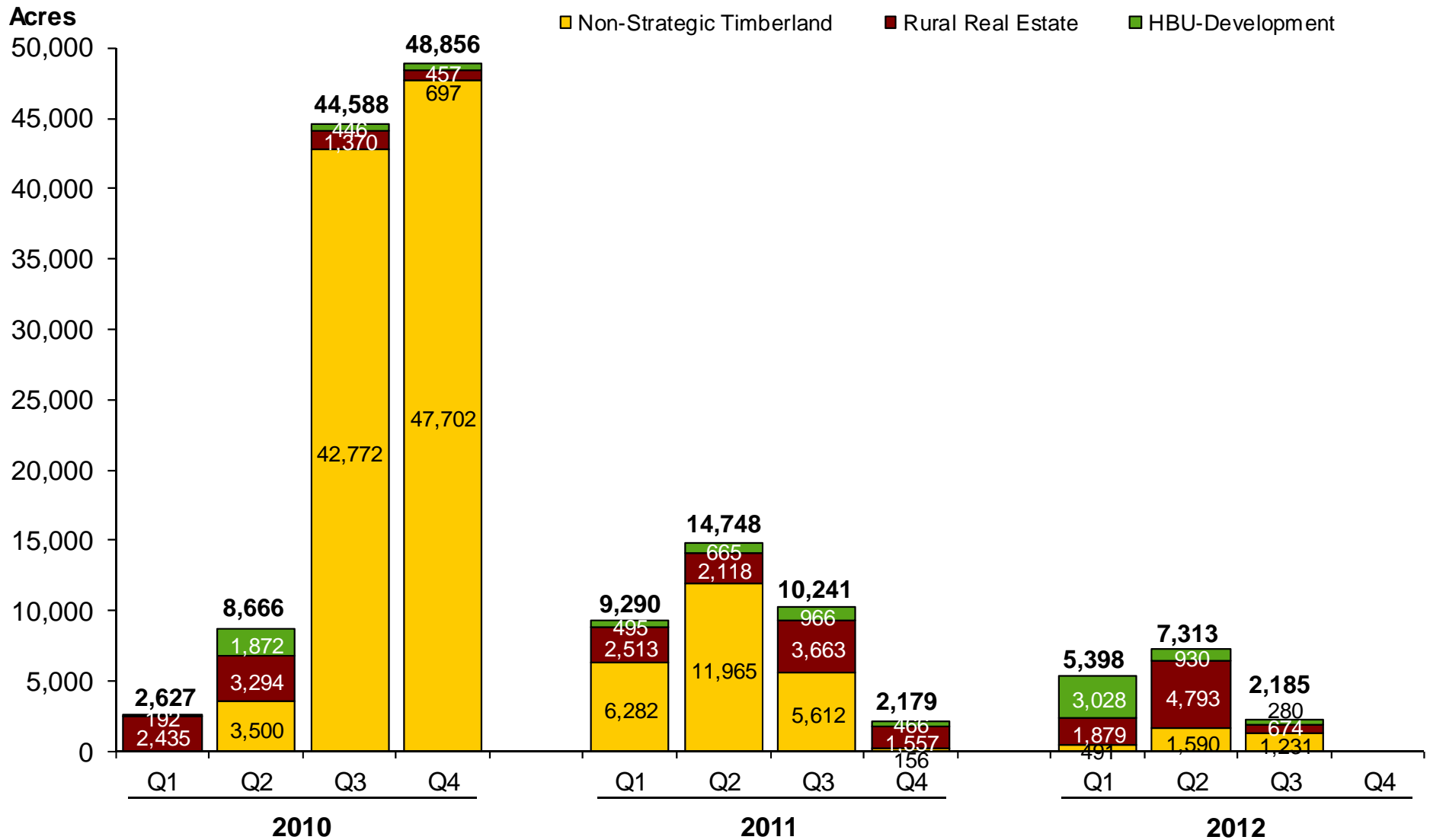
# Real Estate – Operating Income and Margin

(\$ in millions)

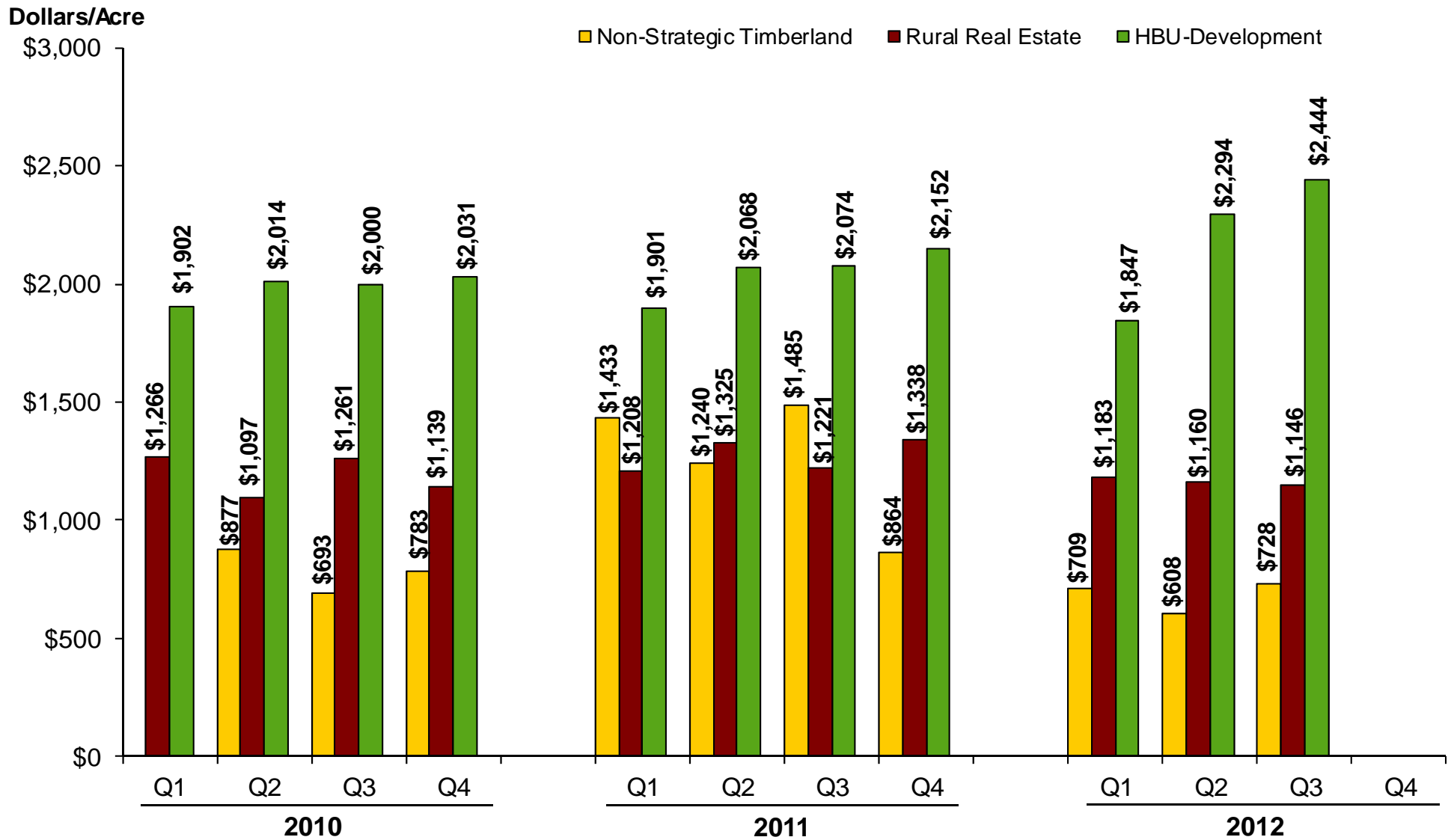




# Real Estate – Acres Sold

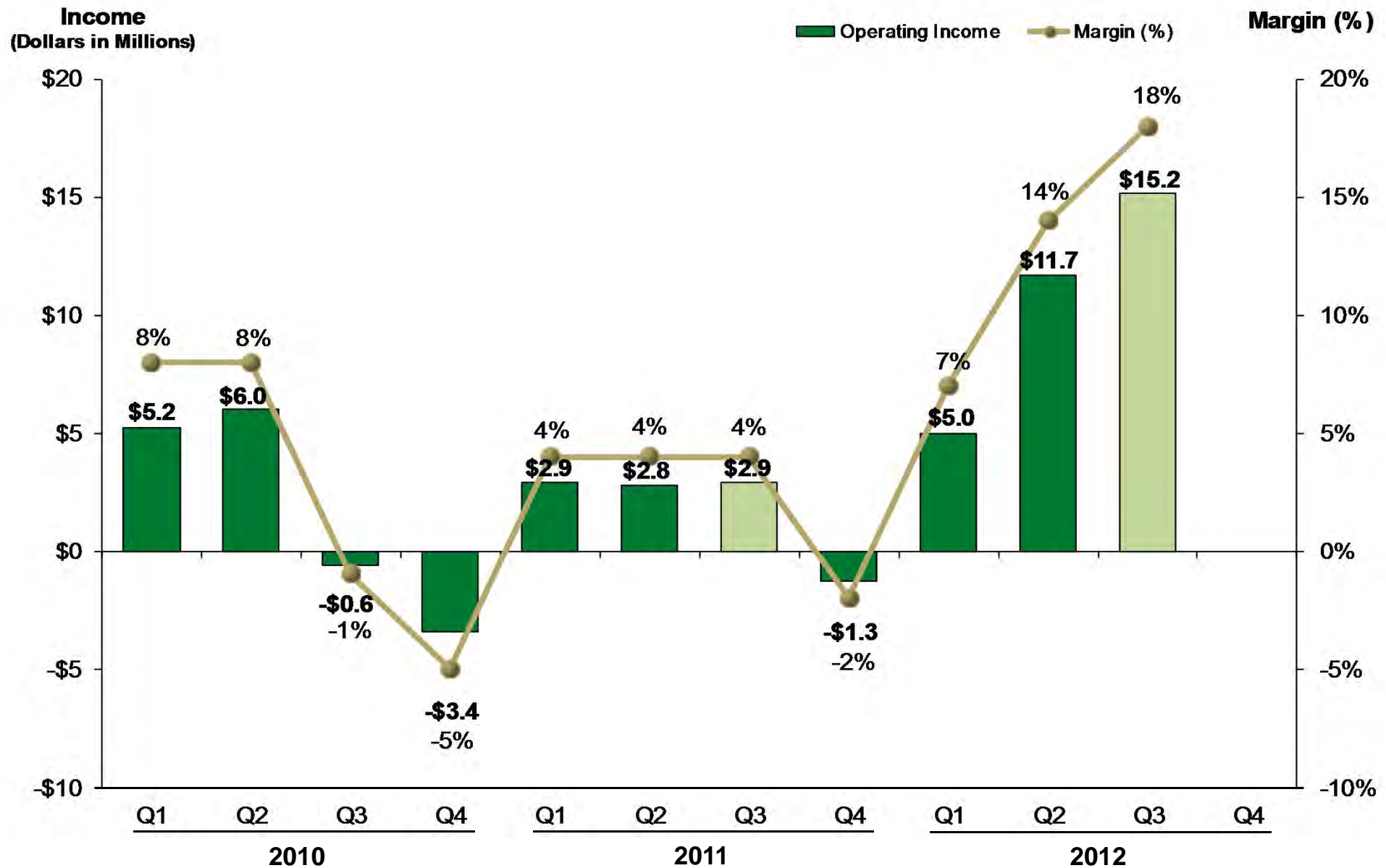


# Real Estate – Sales Prices Per Acre

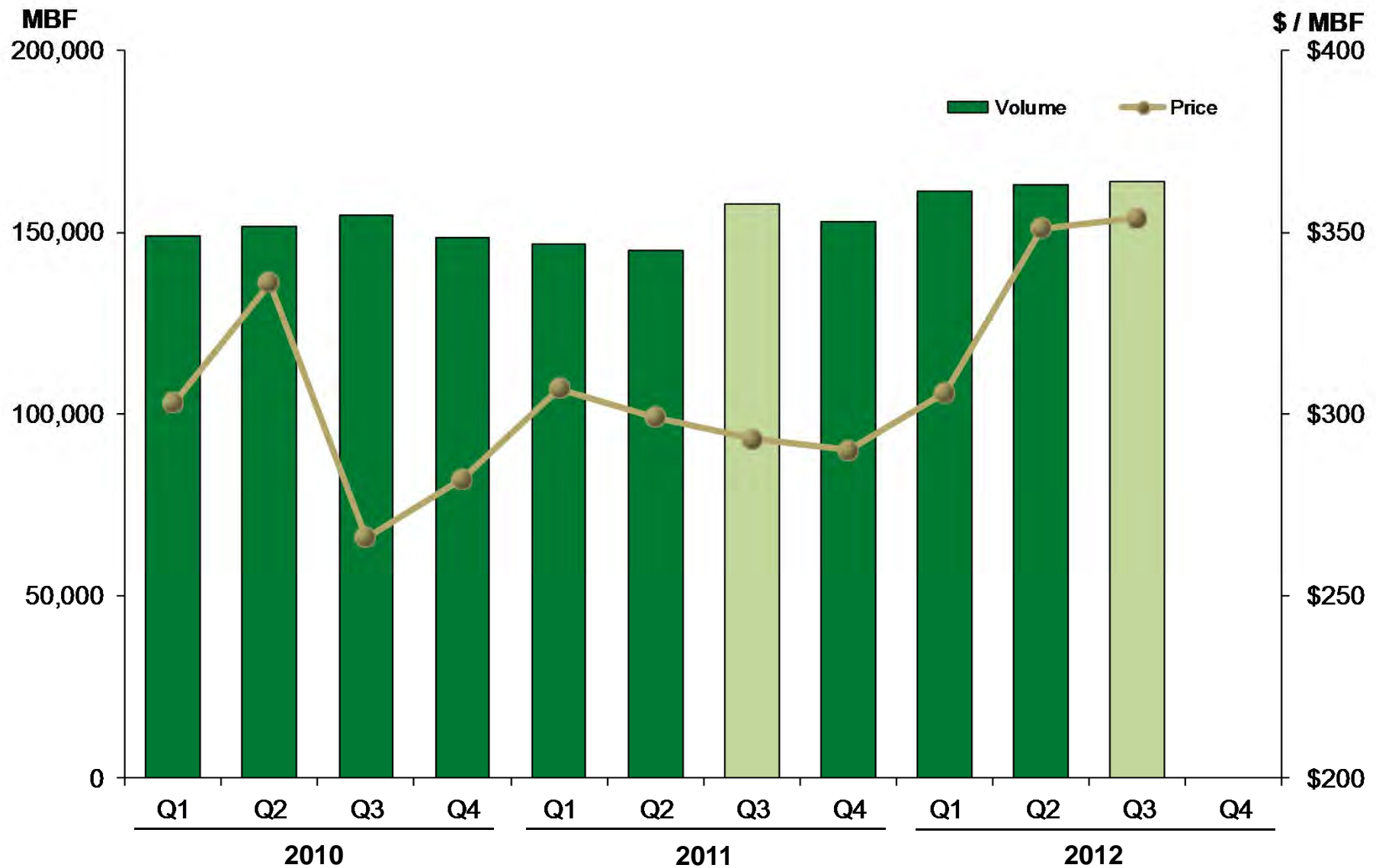


# Wood Products – Operating Income (Loss) and Margin

(\$ in millions)



# Lumber – Sales Prices and Shipments





# Volumes and Sales Prices Per Unit (unaudited)

|                                       | 3rd Quarter<br>2012 | 2nd Quarter<br>2012 | 1st Quarter<br>2012 | 3rd Quarter<br>2011 | Nine Months Ended<br>2012 | Nine Months Ended<br>2011 |
|---------------------------------------|---------------------|---------------------|---------------------|---------------------|---------------------------|---------------------------|
| <b>Resource</b>                       |                     |                     |                     |                     |                           |                           |
| <b>Fee Volume (tons)</b>              |                     |                     |                     |                     |                           |                           |
| Northern region                       |                     |                     |                     |                     |                           |                           |
| Sawlog                                | 785,240             | 281,265             | 379,267             | 824,483             | 1,445,772                 | 1,546,925                 |
| Pulpwood                              | 123,420             | 48,926              | 95,910              | 122,947             | 268,256                   | 264,532                   |
| Stumpage                              | 6,717               | 8,434               | 18,865              | 6,063               | 34,016                    | 38,619                    |
| Total                                 | <u>915,377</u>      | <u>338,625</u>      | <u>494,042</u>      | <u>953,493</u>      | <u>1,748,044</u>          | <u>1,850,076</u>          |
| Southern region                       |                     |                     |                     |                     |                           |                           |
| Sawlog                                | 161,274             | 137,838             | 146,722             | 247,253             | 445,834                   | 672,557                   |
| Pulpwood                              | 213,092             | 164,974             | 139,149             | 247,668             | 517,215                   | 600,043                   |
| Stumpage                              | -                   | -                   | -                   | 7,312               | -                         | 15,006                    |
| Total                                 | <u>374,366</u>      | <u>302,812</u>      | <u>285,871</u>      | <u>502,233</u>      | <u>963,049</u>            | <u>1,287,606</u>          |
| <b>Sales Prices/Unit (\$ per ton)</b> |                     |                     |                     |                     |                           |                           |
| Northern region                       |                     |                     |                     |                     |                           |                           |
| Sawlog                                | \$ 79               | \$ 71               | \$ 67               | \$ 77               | \$ 74                     | \$ 73                     |
| Pulpwood                              | 39                  | 41                  | 41                  | 38                  | 40                        | 37                        |
| Stumpage                              | 11                  | 9                   | 10                  | 11                  | 10                        | 10                        |
| Weighted Average                      | <u>\$ 73</u>        | <u>\$ 66</u>        | <u>\$ 60</u>        | <u>\$ 71</u>        | <u>\$ 68</u>              | <u>\$ 66</u>              |
| Southern region                       |                     |                     |                     |                     |                           |                           |
| Sawlog                                | \$ 44               | \$ 41               | \$ 39               | \$ 43               | \$ 41                     | \$ 43                     |
| Pulpwood                              | 32                  | 31                  | 30                  | 28                  | 31                        | 29                        |
| Stumpage                              | -                   | -                   | -                   | 7                   | -                         | 6                         |
| Weighted Average                      | <u>\$ 37</u>        | <u>\$ 35</u>        | <u>\$ 34</u>        | <u>\$ 35</u>        | <u>\$ 36</u>              | <u>\$ 36</u>              |
| <b>Wood Products</b>                  |                     |                     |                     |                     |                           |                           |
| Lumber Shipments (MBF)                | 163,935             | 163,215             | 161,506             | 157,849             | 488,656                   | 449,517                   |
| Lumber Sales Prices (\$ per MBF)      | \$ 354              | \$ 351              | \$ 306              | \$ 293              | \$ 337                    | \$ 299                    |

# Financial Highlights (unaudited)

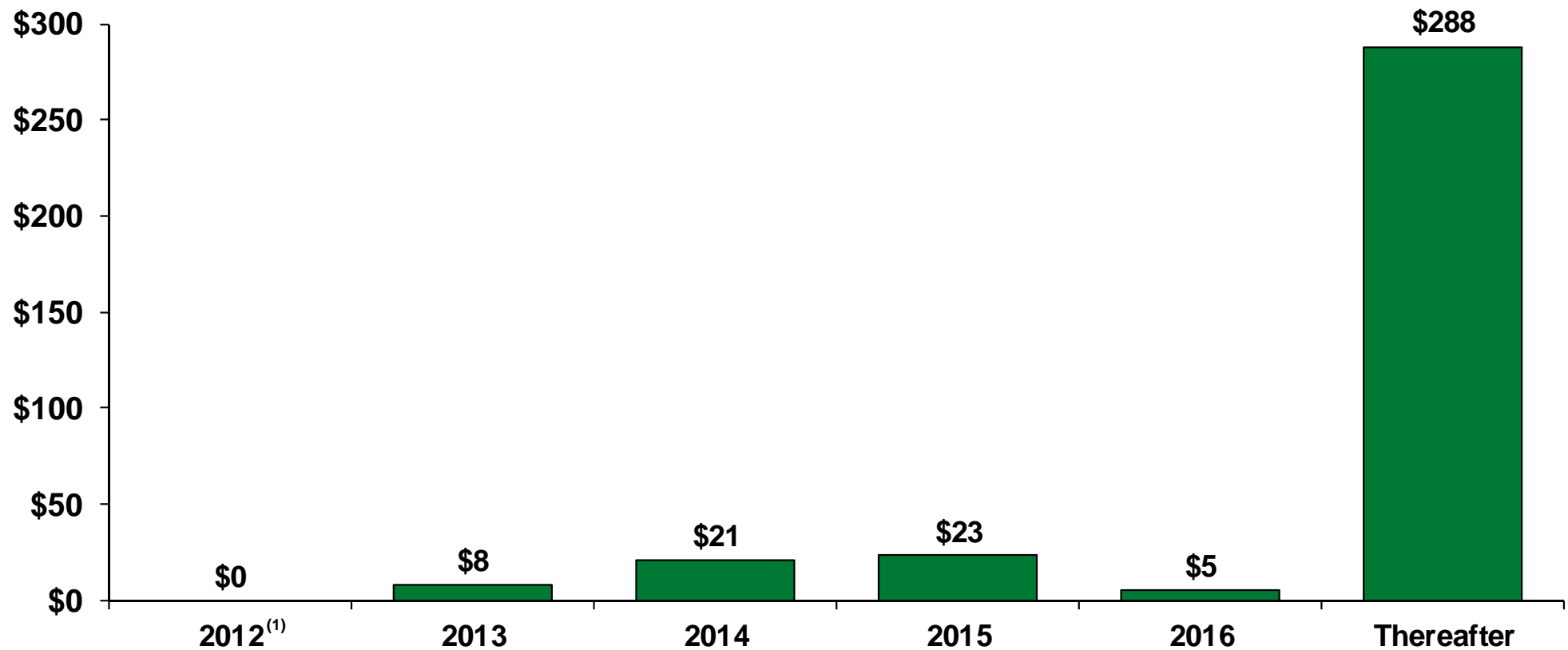
(\$ in thousands)

|  | <u>September 30,</u><br><u>2012</u>                   | <u>June 30,</u><br><u>2012</u> | <u>September 30,</u><br><u>2011</u> |
|--|---|--------------------------------|-------------------------------------|
| <b>Balance Sheet Highlights:</b>                     |   |                                |                                     |
| Working capital                                      | \$ 63,310   | \$ 54,144                      | \$ 72,636                           |
| Operating working capital                            | 9,261   | 3,963                          | 13,390                              |
| Total assets   | 708,716   | 691,605                        | 752,609                             |
| Long-term debt (including current portion)           | 345,721   | 345,360                        | 366,337                             |
| Stockholders' equity                                 | 139,885   | 130,570                        | 190,248                             |
| Long-term debt to stockholder's equity ratio         | 2.5 to 1  | 2.6 to 1                       | 1.9 to 1                            |
| <b>Cash Flow Highlights:</b>                         |   |                                |                                     |
|  | <u>Nine months ended September 30,</u><br><u>2012</u> | <u>2011</u>                    |                                     |
| Net cash provided by operating activities            | \$ 43,033   | \$ 72,106                      |                                     |
| Net cash provided by (used for) investing activities | 18,225  | (2,898)                        |                                     |
| Net cash used for financing activities               | (60,044)  | (68,584)                       |                                     |
| <b>Capital expenditures</b>                          | <b>(11,869)</b>                                       | <b>(12,078)</b>                |                                     |

\*Operating working capital is calculated as working capital excluding cash, short-term investments, and current installments on long-term debt.

# Conservative Capital Structure: Long-Term Debt Maturity Profile

(\$ in millions)



(1) Maturities of \$22 million were paid as of April 2012, with cash on hand.

# Reconciliation of Non-GAAP Measures (unaudited)

(\$ in thousands)

|  | <u>3rd Quarter<br/>2012</u> | <u>2nd Quarter<br/>2012</u> | <u>1st Quarter<br/>2012</u> | <u>3rd Quarter<br/>2011</u> | <u>Nine Months Ended<br/>2012</u> | <u>2011</u>              |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------------|--------------------------|
| <b>Earnings before interest, taxes, depreciation, depletion,<br/>and amortization (EBITDDA):</b> |                             |                             |                             |                             |                                   |                          |
| GAAP net income  | \$ 18,599                   | \$ 5,080                    | \$ 5,051                    | \$ 25,599                   | \$ 28,730                         | \$ 41,744                |
| Net cash interest expense  | 5,848                       | 5,846                       | 6,052                       | 6,242                       | 17,746                            | 18,711                   |
| Income tax provision   | 3,884                       | 5,733                       | 982                         | 3,223                       | 10,599                            | 7,505                    |
| Depreciation, depletion & amortization   | 8,302                       | 5,181                       | 5,788                       | 9,092                       | 19,271                            | 22,916                   |
| Basis of real estate sold  | 397                         | 914                         | 495                         | 2,714                       | 1,806                             | 13,287                   |
| Non-cash eliminations  | (16)                        | (116)                       | (51)                        | (2,054)                     | (183)                             | (2,054)                  |
| <b>EBITDDA*</b>  | <b><u>\$ 37,014</u></b>     | <b><u>\$ 22,638</u></b>     | <b><u>\$ 18,317</u></b>     | <b><u>\$ 44,816</u></b>     | <b><u>\$ 77,969</u></b>           | <b><u>\$ 102,109</u></b> |

\*Non-GAAP measure – See page 19 for definition.



## Reconciliation of Non-GAAP Measures (unaudited)

(\$ in thousands)

|  | <u>3rd Quarter<br/>2012</u> | <u>2nd Quarter<br/>2012</u> | <u>1st Quarter<br/>2012</u> | <u>3rd Quarter<br/>2011</u> | <u>Nine Months Ended<br/>2012</u> | <u>Nine Months Ended<br/>2011</u> |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------------|-----------------------------------|
| <b>Funds from Operations (FFO):</b>    |                             |                             |                             |                             |                                   |                                   |
| GAAP net income                        | \$ 18,599                   | \$ 5,080                    | \$ 5,051                    | \$ 25,599                   | \$ 28,730                         | \$ 41,744                         |
| Depreciation, depletion & amortization | 8,302                       | 5,181                       | 5,788                       | 9,092                       | 19,271                            | 22,916                            |
| Basis of real estate sold              | 397                         | 914                         | 495                         | 2,714                       | 1,806                             | 13,287                            |
| Non-cash eliminations                  | (16)                        | (116)                       | (51)                        | (2,054)                     | (183)                             | (2,054)                           |
| <b>FFO*</b>                            | <u><u>\$ 27,282</u></u>     | <u><u>\$ 11,059</u></u>     | <u><u>\$ 11,283</u></u>     | <u><u>\$ 35,351</u></u>     | <u><u>\$ 49,624</u></u>           | <u><u>\$ 75,893</u></u>           |

\*Non-GAAP measure – See page 19 for definition.

# Reconciliation of Non-GAAP Measures (unaudited)

(\$ in thousands)

|  | <u>3rd Quarter<br/>2012</u> | <u>2nd Quarter<br/>2012</u> | <u>1st Quarter<br/>2012</u> | <u>3rd Quarter<br/>2011</u> | <u>Nine Months Ended<br/>2012</u> | <u>Nine Months Ended<br/>2011</u> |
|--|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------------|-----------------------------------|
| <b>Funds Available for Distribution (FAD):</b> |                             |                             |                             |                             |                                   |                                   |
| GAAP Net Income                                | \$ 18,599                   | \$ 5,080                    | \$ 5,051                    | \$ 25,599                   | \$ 28,730                         | \$ 41,744                         |
| Depreciation, depletion & amortization         | 8,302                       | 5,181                       | 5,788                       | 9,092                       | 19,271                            | 22,916                            |
| Basis of real estate sold                      | 397                         | 914                         | 495                         | 2,714                       | 1,806                             | 13,287                            |
| Non-cash eliminations                          | (16)                        | (116)                       | (51)                        | (2,054)                     | (183)                             | (2,054)                           |
| Capital expenditures                           | (5,149)                     | (3,591)                     | (3,129)                     | (4,975)                     | (11,869)                          | (12,078)                          |
| <b>FAD*</b>                                    | <b><u>\$ 22,133</u></b>     | <b><u>\$ 7,468</u></b>      | <b><u>\$ 8,154</u></b>      | <b><u>\$ 30,376</u></b>     | <b><u>\$ 37,755</u></b>           | <b><u>\$ 63,815</u></b>           |

\*Non-GAAP measure – See page 19 for definition.

## Definition of Non-GAAP Measures

**EBITDDA** is a non-GAAP measure that management uses to evaluate the cash generating capacity of the company. The most directly comparable GAAP measure is net income. EBITDDA, as we define it, is net income adjusted for net cash interest expense, provision for income taxes, depreciation, depletion and amortization, basis of real estate sold and non-cash eliminations. It should not be considered as an alternative to net income computed under GAAP.

**Funds from Operations (FFO)** is a non-GAAP measure that is commonly used by REITs in the real estate industry. The most directly comparable GAAP measure is net income. FFO is presented as a supplemental financial measure. We do not use FFO as, nor should it be considered to be, an alternative to net income computed under GAAP as an indicator of our operating performance, or as an alternative to cash from operating activities computed under GAAP as an indicator of our ability to fund our cash needs. FFO, as we define it, may not be comparable with measures of similar titles reported by other companies. We define FFO as net income, plus depreciation, depletion and amortization, basis of real estate sold and non-cash eliminations. Management believes that FFO is a meaningful supplemental measure of our operating performance because historical cost accounting for assets such as our manufacturing facilities and timberlands assumes that the value of such assets diminishes predictably over time. However, the values of our manufacturing facilities and timberlands have historically risen and fallen based on market conditions for the products we manufacture and for timber and timberlands. Management also considers the FFO measure in determining, among other things, quarterly and annual distribution rates to recommend to our board of directors, future levels of capital spending and debt repayment. We disclose this supplemental financial measure to enable investors to align their analysis and evaluation of our operating results along the same lines as management uses in planning and executing our business strategy.

**Funds Available for Distribution (FAD)**, as we define it, is net income adjusted for depreciation, depletion and amortization, basis of real estate sold, non-cash eliminations and capital expenditures.

