



Potlatch Reports First Quarter 2009 Results

SPOKANE, Wash.--(BUSINESS WIRE)--Apr. 28, 2009-- **Potlatch Corporation (NYSE:PCH)** today reported financial results for the first quarter ended March 31, 2009.

Q1 2009 Financial Summary

- Earnings from continuing operations for the quarter were \$28.8 million, or \$0.72 per diluted common share, compared to \$23.3 million, or \$0.59 per diluted common share for Q1 2008.
- Net earnings for the quarter, including discontinued operations, were \$24.8 million, or \$0.62 per diluted common share, compared to \$10.3 million, or \$0.26 per diluted common share for Q1 2008.
 - Discontinued operations for both periods included the effects of the spin-off of the Clearwater Paper operations and the closure of our Prescott, Arkansas lumber mill.
 - Q1 2009 discontinued operations results also included a pre-tax charge of \$5.75 million for a tentative legal settlement related to the sale of our oriented strand board, or OSB, manufacturing facilities in 2004.
 - Q1 2008 discontinued operations results also included a pre-tax charge of \$2.7 million related to a settlement with the direct purchaser class in the OSB antitrust lawsuit.
- Cash provided by operating activities from continuing operations was \$41.6 million for Q1 2009 compared to \$13.5 million for Q1 2008.

“The Resource segment had lower earnings in Q1 2009, primarily due to decreased pricing in both the southern and northern regions and lower harvest levels in the northern region during the quarter,” said Michael J. Covey, chairman, president and chief executive officer. “Compared to Q1 2008, sawlog pricing was approximately 25 percent lower in the northern region and approximately 15 percent lower in the southern region, while pulpwood pricing increased slightly in the northern region and decreased 12 percent in the southern region.

“The Real Estate segment had excellent results in Q1 2009 compared to Q1 2008 primarily due to a large sale of land in Arkansas in January 2009.

“The Wood Products segment continued to experience extremely weak market conditions, with an operating loss of \$11.2 million in Q1 2009 compared to a loss of \$6.5 million in Q1 2008. Most of our wood products mills ran at reduced production levels since the beginning of this year as we took steps to mitigate losses. Since January, monthly results have improved and the operating loss has been cut in half with continued improvement expected,” concluded Covey.

Q1 2009 Business Performance

Resource

- Operating income for the segment was \$10.8 million, compared to \$17.2 million earned in Q1 2008.

Southern Region

- Fee harvest levels increased 34 percent in Q1 2009 compared to Q1 2008, primarily due to excellent logging conditions and stable demand from customers which allowed us to accelerate harvesting planned for later in the year.
- Sawlog pricing was lower by 15 percent, while pulpwood pricing was lower by 12 percent in Q1 2009 compared to Q1 2008.

Northern Region

- Fee harvest levels decreased 20 percent in Q1 2009 compared to Q1 2008 primarily to match log production with weaker demand caused by lumber mill curtailments.
- Sawlog pricing was lower by 25 percent, while pulpwood pricing increased 1 percent in Q1 2009 compared to Q1 2008.

Real Estate

- Operating income for the segment was \$41.5 million in Q1 2009, compared to \$16.7 million in Q1 2008.
 - We sold approximately 24,500 acres of timberland in Arkansas in January 2009 for approximately \$43.3 million, or \$1,760 per acre. Other lands sales in Q1 2009 totaled approximately 5,500 acres at an overall average price of approximately \$880 per acre.
 - We sold approximately 23,500 acres of land in Minnesota in Q1 2008 at an average price of approximately \$370 per acre. Other lands sales in Q1 2008 totaled approximately 5,500 acres at an average price of nearly \$2,250 per acre.

Wood Products

- The segment reported an operating loss of \$11.2 million for Q1 2009, compared to a loss of \$6.5 million for Q1 2008.
 - Lumber results were negatively impacted by the continued downturn in the housing market, resulting in lower net sales prices and shipments.
 - Most of our mills were operating with reduced production schedules during Q1 2009.

Dividend Distribution

During the first quarter, Potlatch paid a regular quarterly cash distribution on the company's common stock of \$0.51 per share.

Outlook

"Looking ahead, the second quarter is our weakest of the year due to seasonal harvest curtailments in the Northern region caused by load weight restrictions on roads and spring breakup conditions that limit access to logging sites," Covey said. "Harvest levels for the remainder of 2009 are dependent to a large degree on pricing and demand. A number of sawmills in Idaho have curtailed or closed due to weak lumber pricing, and it is uncertain when they will resume full operation. Regarding our Real Estate segment, demand and interest in non-strategic timberland and rural recreational real estate continues to be relatively stable, although the demand for HBU lands remains soft. We expect continued weakness from our Wood Products business through much of 2009, but we are starting to see improvement in monthly results and expect the mills to perform at cash breakeven levels during the second quarter."

Conference Call Information

A live webcast and conference call will be held today, April 28, 2009, at 8 a.m. Pacific time (11 a.m. Eastern). Those interested may access the webcast at www.potlatchcorp.com

and conference call by dialing 866-393-8403 for U.S./Canada and 973-638-3465 for international callers. Participants will be asked to provide conference I.D. number 90566563. Supplemental materials discussed during the call are available on our Web site.

For those unable to participate in the call, an archived recording will be available through the Potlatch Corporation Web site at www.potlatchcorp.com for approximately one year following the conference call. A telephone replay of the conference call will be available until May 5, 2009, by calling 800-642-1687 for U.S./Canada or 706-645-9291 for international callers and entering passcode number 90566563.

About Potlatch

Potlatch is a Real Estate Investment Trust (REIT) with approximately 1.6 million acres of timberland in Arkansas, Idaho, Minnesota and Wisconsin. Potlatch, a verified forest practices leader, is committed to providing superior returns to stockholders through long-term stewardship of its forest resources. The company also conducts a land sales and development business and operates wood products manufacturing facilities through its taxable REIT subsidiary.

Forward-Looking Statements

This press release contains certain forward-looking statements within the meaning of the Private Litigation Reform Act of 1995 as amended, including without limitation statements about future company performance, direction of markets, facility shutdowns, log pricing, future harvest levels, demand for real estate, lumber pricing and lumber mill closures, and the results of efforts to minimize losses in our Wood Products segment. 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 the company's lands; changes in timber 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 our 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; changes in raw material 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 the company's public filings with the Securities and Exchange Commission. The company does not undertake to update any forward-looking statements.

Potlatch Corporation and Consolidated Subsidiaries
 Statements of Operations and Comprehensive Income
 Unaudited (Dollars in thousands - except per-share amounts)

| | Three Months Ended | |
|--|--------------------|-----------|
| | March 31, | |
| | 2009 | 2008 |
| Revenues | \$129,593 | \$112,559 |
| Costs and expenses: | | |
| Depreciation, depletion and amortization | 6,612 | 7,407 |
| Materials, labor and other operating expenses | 77,893 | 71,468 |
| Selling, general and administrative expenses | 9,177 | 12,656 |
| | 93,682 | 91,531 |
| Earnings from continuing operations before interest and taxes | 35,911 | 21,028 |
| Interest expense | (4,834) | (5,281) |
| Interest income | 30 | 328 |
| Earnings from continuing operations before taxes | 31,107 | 16,075 |
| Income tax (provision) benefit | (2,336) | 7,212 |
| Earnings from continuing operations | 28,771 | 23,287 |
| Discontinued operations: | | |
| Loss from discontinued operations (including losses on disposal of \$- and \$(19,100)) | (6,554) | (22,060) |
| Income tax benefit | 2,603 | 9,032 |
| | (3,951) | (13,028) |
| Net earnings | \$ 24,820 | \$ 10,259 |
| Other comprehensive income, net of tax | \$ 955 | \$ 2,038 |
| Comprehensive income | \$ 25,775 | \$ 12,297 |
| Earnings per common share from continuing operations | | |
| Basic | \$ 0.72 | \$ 0.59 |
| Diluted | 0.72 | 0.59 |
| Loss per common share from discontinued operations | | |
| Basic | (0.10) | (0.33) |
| Diluted | (0.10) | (0.33) |
| Net earnings per common share: | | |
| Basic | 0.62 | 0.26 |
| Diluted | 0.62 | 0.26 |
| Average shares outstanding (in thousands): | | |
| Basic | 39,742 | 39,316 |
| Diluted | 39,848 | 39,536 |

Certain 2008 amounts have been reclassified to conform to the 2009 presentation.

Potlatch Corporation and Consolidated Subsidiaries
Condensed Balance Sheets
Unaudited (Dollars in thousands - except per-share amounts)

| | March 31, | December 31, |
|---|------------|--------------|
| | 2009 | 2008 |
| <hr/> | | |
| Assets | | |
| Current assets: | | |
| Cash | \$ 1,117 | \$ 885 |
| Short-term investments | 5,725 | 3,034 |
| Receivables, net | 18,435 | 38,750 |
| Note receivable | 100,000 | 100,000 |
| Inventories | 29,970 | 36,686 |
| Other assets | 16,863 | 16,423 |
| Total current assets | 172,110 | 195,778 |
| Land, other than timberlands | 3,521 | 3,521 |
| Plant and equipment, at cost less accumulated depreciation | 81,079 | 82,613 |
| Timber, timberlands and related deposits, net | 548,041 | 553,913 |
| Deferred tax assets | 85,864 | 74,653 |
| Other assets | 27,279 | 27,843 |
| | <hr/> | <hr/> |
| | \$917,894 | \$ 938,321 |
| <hr/> | | |
| Liabilities and Stockholders' Equity | | |
| Current liabilities: | | |
| Current installments on long-term debt | \$100,010 | \$ 100,410 |
| Current notes payable | 96,000 | 129,100 |
| Accounts payable and accrued liabilities | 66,839 | 57,635 |
| Total current liabilities | 262,849 | 287,145 |
| Long-term debt | 220,936 | 220,927 |
| Liability for pensions and other postretirement employee benefits | 215,051 | 216,926 |
| Other long-term obligations | 14,423 | 15,089 |
| Stockholders' equity | 204,635 | 198,234 |
| | <hr/> | <hr/> |
| | \$917,894 | \$ 938,321 |
| <hr/> | | |
| Stockholders' equity per common share | \$ 5.15 | \$ 4.99 |
| Working capital | \$(90,739) | \$(91,367) |
| Current ratio | 0.7:1 | 0.7:1 |
| | <hr/> | <hr/> |

Potlatch Corporation and Consolidated Subsidiaries
Condensed Statements of Cash Flows
Unaudited (Dollars in thousands)

| | Three Months Ended | |
|---|--------------------|-----------|
| | March 31, | |
| | 2009 | 2008 |
| Cash Flows From Continuing Operations | | |
| Net earnings | \$ 24,820 | \$ 10,259 |
| Adjustments to reconcile net earnings to net operating cash flows from continuing operations: | | |
| Loss from discontinued operations | 3,951 | 1,377 |
| Loss on disposal of discontinued operations | - | 11,651 |
| Depreciation, depletion and amortization | 6,612 | 7,407 |
| Proceeds from sales deposited with a like-kind exchange intermediary | (2,030) | (19,042) |
| Basis of real estate sold | 5,148 | 3,134 |
| Deferred taxes | (9,219) | (514) |
| Equity-based compensation expense | 847 | 893 |
| Employee benefit plans | (1,242) | 94 |
| Other | - | 54 |
| Working capital changes | 12,713 | (1,860) |
| Net cash provided by operating activities from continuing operations | 41,600 | 13,453 |
| Cash Flows From Investing | | |
| Change in short-term investments | 15,549 | 13,462 |
| Additions to plant and properties | (2,462) | (18,523) |
| Deposits on timberlands | - | (27,328) |
| Other, net | (532) | (703) |
| Net cash provided by (used for) investing activities from continuing operations | 12,555 | (33,092) |
| Cash Flows From Financing | | |
| Change in book overdrafts | 576 | (4,464) |
| Increase (decrease) in notes payable | (33,100) | 29,700 |
| Issuance of common stock | 48 | 316 |
| Repayment of long-term debt | (391) | (191) |
| Distributions to common stockholders | (20,269) | (20,087) |
| Other, net | (53) | (2,460) |
| Net cash provided by (used for) financing activities from continuing operations | (53,189) | 2,814 |
| Cash flows provided by (used for) continuing operations | 966 | (16,825) |
| Cash flows of discontinued operations: | | |
| Operating cash flows | (734) | 16,414 |
| Investing cash flows | - | (2,243) |
| Financing cash flows | - | (18) |
| Increase (decrease) in cash | 232 | (2,672) |
| Cash at beginning of period | 885 | 9,047 |
| Cash at end of period | \$ 1,117 | \$ 6,375 |

Certain 2008 amounts have been reclassified to conform to the 2009 presentation.

Potlatch Corporation and Consolidated Subsidiaries
Highlights
Unaudited (Dollars in thousands - except per-share amounts)

| | Three Months Ended | |
|-------------------------------------|--------------------|---------|
| | March 31, | |
| | 2009 | 2008 |
| Cash distributions per common share | \$ 0.51 | \$ 0.51 |

Segment Information
Unaudited (Dollars in thousands)

| | Three Months Ended | |
|---|--------------------|-------------------|
| | March 31, | |
| | 2009 | 2008 |
| Revenues | | |
| Resource | \$ 47,206 | \$ 60,755 |
| Real Estate | 48,036 | 21,140 |
| Wood Products | | |
| Lumber | 27,865 | 36,057 |
| Plywood | 6,073 | 14,085 |
| Particleboard | 2,449 | 4,428 |
| Other | 8,442 | 10,647 |
| | 44,829 | 65,217 |
| | 140,071 | 147,112 |
| Intersegment revenues | (10,478) | (34,553) |
| Total consolidated revenues | \$ 129,593 | \$ 112,559 |
| Operating income (loss) | | |
| Resource | \$ 10,846 | \$ 17,195 |
| Real Estate | 41,512 | 16,651 |
| Wood Products | (11,183) | (6,450) |
| Eliminations and adjustments | | 1,673 |
| | 751 | |
| | 41,926 | 29,069 |
| Corporate | (10,819) | (12,994) |
| Earnings from continuing operations before taxes | \$ 31,107 | \$ 16,075 |

Certain 2008 amounts have been reclassified to conform to the 2009 presentation.

Source: Potlatch Corporation

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