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RIO TINTO PLC  
Form 425  
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and BHP Billiton Limited

Pursuant to Rule 425 under the Securities Act of 1933

Subject Company: Rio Tinto plc

Commission File No.: 001-10533

The following are slides comprising a presentation that was given on June 12, 2008 and subsequently amended. The amended version of this presentation has been posted to [www.bhpbilliton.com](http://www.bhpbilliton.com), replacing the version that was originally posted there.

UBS Sharing Insights -  
Resources  
Marius Kloppers, Chief Executive Officer  
12 June 2008  
BHP Billiton: Resourcing the Future

Slide 2

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solicitation  
of  
any  
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sale  
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unlawful  
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registration  
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qualification  
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requirements).

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comes  
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themselves  
about,  
and  
observe,  
any  
such  
restrictions.

Information about Rio Tinto is based on public information which  
has not been independently verified.

This presentation is directed only at persons who (i) are persons falling within Article 49(2)(a) to (d) ("high net worth companies") under the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended) (the "Order") or (ii) have professional

falling within Article 19(5) of the Order or (iii) are outside the United Kingdom (all such persons being referred to as "relevant persons" or relied on by persons who are not relevant persons).

Certain statements in this presentation are forward-looking statements. The forward-looking statements include statements regarding reserves, savings, the cost and timing of development projects, future production volumes, increases in production and infrastructure capital expenditures, and

Reserves

and

Resources

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project

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statements

typically

containing

words

such

as

"intends",

"expects",

"anticipates",

"targets",

"plans",

"estimates" and words of similar import. These forward-looking statements speak only as at the date of this presentation. These statements and beliefs and, by their nature, are subject to a number of known and unknown risks and uncertainties that could cause actual results to differ materially from any expected future results, performance or achievements expressed or implied by such forward-looking statements. These statements are based on numerous assumptions regarding BHP Billiton's present and future business strategies and the environments in which BHP Billiton operates. Such assumptions may or may not prove to be correct.

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in  
the  
forward-looking  
statements.

Factors  
that

could cause actual results or performance to differ materially from those described in the forward-looking statements include, but not limited to, the ability to successfully combine the businesses of BHP Billiton and Rio Tinto and to realise expected synergies from that combination, the presence of a competitive proposal in relation to Rio Tinto, satisfaction of any conditions to any proposed transaction, including the receipt of required regulatory and anti-trust approvals for the proposed transaction, the successful completion of any transaction, as well as additional factors such as changes in global, political and regulatory forces, future exchange and interest rates, changes in tax rates, future business combinations or dispositions and the like. Additional risks and factors that could cause BHP Billiton results to differ materially from those described in the forward-looking statements include:

with  
the

US  
Securities  
and

Exchange  
Commission

(the  
"SEC"),

including  
BHP

Billiton's  
Annual  
Report

on  
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20-F

for  
the  
fiscal  
year-ended

June  
30,  
2007,

and  
Rio

Tinto's  
filings  
with

the  
SEC,  
including

Rio  
Tinto's  
Annual

Report  
on



Form  
20-F  
for  
the  
fiscal  
year-ended  
December  
31,  
2007,  
which  
are  
available  
at  
the  
SEC's  
website  
(<http://www.sec.gov>). Other unknown or unpredictable factors could cause actual results to differ materially from those in the  
opinions  
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BHP  
Billiton  
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disclaims  
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or  
the  
rules  
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UK

Listing Authority and the London Stock Exchange, the UK Takeover  
Panel, or the listing rules of ASX Limited) or undertaking to disseminate any updates or revisions to any  
forward-looking  
statements

contained  
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Billiton's  
expectations with  
regard  
thereto  
or any  
change  
in  
events,  
conditions  
or  
circumstances  
on  
which any such statement is based.

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Disclaimer

(continued)

No statement concerning expected cost savings, revenue benefits (and resulting incremental EBITDA) and EPS accretion in the future that the future earnings per share of the enlarged BHP Billiton group for current and future financial years will necessarily match the earnings per share of BHP Billiton, and the actual estimated cost savings

and revenue benefits (and resulting EBITDA enhancement) may be materially greater or less than estimated.

Information Relating to the US Offer for Rio Tinto plc

BHP Billiton plans to register the offer and sale of securities it would issue to Rio Tinto plc US shareholders and Rio Tinto plc Registration Statement (the Registration Statement ), which will contain a prospectus (the Prospectus ), as well as other re been filed. This communication is not a substitute for any Registration Statement or Prospectus that BHP Billiton may file with the SEC.

U.S.

INVESTORS

AND

U.S.

HOLDERS

OF

RIO

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SECURITIES

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STATEMENT, PROSPECTUS AND ANY OTHER DOCUMENTS MADE AVAILABLE TO THEM AND/OR FILED WITH THIS TRANSACTION, AS WELL AS ANY AMENDMENTS AND SUPPLEMENTS TO THOSE DOCUMENTS, WHEN THEY CONTAIN IMPORTANT INFORMATION.

Investors and security holders will be able to obtain a free copy of the Registration Statement and the Prospectus as well as other documents filed with the SEC's

website (<http://www.sec.gov>), once such documents are filed with the SEC. Copies of such documents may also be obtained from the SEC's website once they are filed with the SEC.

Information for US Holders of Rio Tinto Limited Shares

BHP Billiton Limited is not required to, and does not plan to, prepare and file with the SEC a registration statement in respect of the Rio Tinto Limited Offer. Accordingly, Rio

Tinto Limited shareholders should carefully consider the following:

The Rio Tinto Limited Offer will be an exchange offer made for the securities of a foreign company. Such offer is subject to differences

different

from

those

of

the

United

States.

Financial  
statements  
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e comparable to the financial statements of United States companies.

Information Relating to the US Offer for Rio Tinto plc and the Rio Tinto Limited Offer for Rio Tinto shareholders located in the US

It  
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officers  
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directors  
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foreign

court for violations of the U.S. securities laws. It may be difficult to compel a foreign company and its affiliates to subject themselves to such litigation. You should be aware that BHP Billiton may purchase securities of either Rio Tinto plc or Rio Tinto Limited otherwise than under the exchange offer, such as in open market or privately negotiated purchases.

References in this presentation to \$ are to United States dollars unless otherwise specified.

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BHP Billiton: Resourcing the future

Today: The world's leading diversified resources company

Our past: A proven track record

Our future: The outlook is exciting

The offer for Rio Tinto



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With a diversified global portfolio

Aluminium

Base Metals

Diamonds & Specialty Products

Energy Coal

Iron Ore

Manganese

Metallurgical Coal

Petroleum

Stainless Steel Materials

Offices

Note: Location of dots indicative only

Stainless Steel Materials

#3 global nickel producer

Iron Ore

#3 global supplier

of seaborne iron ore

Manganese

#1 global supplier of

seaborne manganese ore

Metallurgical Coal

#1 global supplier of seaborne

traded metallurgical coal

Base Metals

#3 global producer of copper, silver and lead

Aluminium

#4 global producer of bauxite and #4 aluminium

company

based

on

net

third

party

sales

Energy Coal

#4 global supplier of seaborne

export thermal coal

Petroleum

A significant oil and gas exploration

and production business

Diamonds & Specialty Products

EKATI Diamond Mine is one of the world's

largest gem quality diamond producers.

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The world's largest diversified resources company

Sources: Bloomberg, Datastream.

a)

Rio Tinto undisturbed market cap as at 31-Oct-2007.

Top 10 metals and mining companies

(Market capitalisation as at 30-May-2008, US\$bn)

Vale

China

Shenhua

Anglo

American

Xstrata

Norilsk

Nickel

Freeport

McMoRan

Anglo

Platinum

Barrick

Gold

Rio Tinto

BHP Billiton

0

60

120

180

240

Australian head office

Non-Australian head office

Undisturbed (a)

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Led by an experienced senior management team

Notes:

a)

Andrew Mackenzie's appointment to BHP Billiton was announced on 20-Nov-2007, he has not yet commenced his new role at Rio Tinto where he was Chief Executive, Diamonds and Industrial Minerals.

Chairman and Chief Executive Officer

Group Management Committee

Don Argus

Chairman

Chairman of BHP Billiton

Group since June 2001

Chairman of BHP Limited

since April 1999

Marius Kloppers

Chief Executive Officer

15 years resources  
experience

15 years at BHP Billiton

Marcus Randolph

Chief Executive Ferrous and Coal

31 years resources experience

9 years at BHP Billiton

Previously worked at Rio Tinto

Alex Vanselow

Chief Financial Officer

19 years resources experience

19 years at BHP Billiton

Karen Wood

Chief People Officer

7 years resources experience

7 years at BHP Billiton

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The federal income tax treatment of holders of our stock depends in some instances on determinations of fact and interpretations of complex

**Material Federal Income Tax Consequences of the Special E&P Distribution (See page 110)**

Generally, the special E&P distribution will be a taxable distribution to you to the extent that the special E&P distribution is made out of your s

**Taxation of Potlatch (See page 111)**

We became a REIT for federal income tax purposes effective for our taxable year commencing January 1, 2006 and ending December 31, 2

**Table of Contents**

**Recommendation of the Board of Directors (See page 35)**

Your board of directors believes that the merger is advisable for Potlatch and its stockholders and unanimously recommends that you vote F

**Date, Time, Place and Purpose of Special Meeting (See page 35)**

The special meeting will be held at Hotel Lusso, North One Post Street, Spokane, Washington, on February 3, 2006 at 10:00 a.m., local time

**Stockholders Entitled to Vote (See page 35)**

The board of directors has fixed the close of business on December 30, 2005 as the record date for the determination of stockholders entitled

**Vote Required; No Dissenters Rights (See pages 37 and 45)**

The affirmative vote of a majority of the shares of Potlatch common stock entitled to vote at the special meeting is required to adopt the merger

Potlatch reserves the right to cancel or defer the merger even if its stockholders vote to adopt the merger agreement and the other conditions



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**Historical Market Price and Dividend Data of Potlatch Common Stock**

Potlatch common stock is listed on the New York Stock Exchange, or NYSE, the Chicago Stock Exchange and the Pacific Stock Exchange U

The following table presents the reported high and low sale prices of Potlatch common stock on the NYSE and dividend data, in each case f

**Year Ending December 31, 2005**

Fourth Quarter

Third Quarter

Second Quarter

First Quarter

**Year Ended December 31, 2004**

Fourth Quarter\*

Third Quarter

Second Quarter

First Quarter

**Year Ended December 31, 2003**

Fourth Quarter

Third Quarter

Second Quarter

First Quarter

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\*

In addition to th

It is expected that, upon consummation of the merger, the Potlatch Holdings common stock will be listed and traded on the NYSE, the Chica

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The following table presents selected financial data from the unaudited pro forma consolidated statement of operations for the year ended D

Potlatch expects to make a special E&P distribution of between \$440 million and \$480 million, comprised of a combination of cash and Potla

**Statement of Operations**

Net sales

Costs and expenses

Income from operations

Interest expense, net

Debt retirement costs

Interest income

Provision (benefit) for taxes

Income from continuing operations

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**Balance Sheet**

Cash and short-term investments
Receivables, net of allowance for doubtful accounts
Inventories
Total current assets
Plant and equipment, at cost less accumulated depreciation
Timber, timberlands and related logging facilities
Total assets
Total current liabilities
Long-term debt
Other long-term obligations
Total stockholders' equity

**Comparative Historical and Pro Forma Per Share Data**

The following tables set forth selected historical per share data for Potlatch and selected unaudited pro forma per share data after giving effect to the

**Historical Data Per Share**

The historical book value per share data presented below is computed by dividing total stockholders' equity of \$671.4 million and \$692.0 million by the number of shares outstanding at the end of the period.

Income from continuing operations per share:
Basic
Diluted
Dividends
Book value per share

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**Unaudited Pro Forma Per Share Data**

The range of pro forma book value per share data is computed by dividing pro forma total stockholders' equity of \$741.4 million and \$649.4 million by the number of shares outstanding.

Income from continuing operations per share:

Basic

Diluted

Dividends(1)

Book value per share(2)

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(1)

Pro forma resu

(2)

Pro forma book

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*In addition to the other information in this proxy statement/prospectus, you should carefully consider the following risk factors relating to the*

**Risks and Effects of the Merger and the REIT Conversion**

*If we fail to remain qualified as a REIT, we will have reduced funds available for distribution to our stockholders and our income will be subject to*

Our board of directors authorized us to take the steps necessary to be taxed as a REIT, effective for our taxable year commencing January 1, 2011.

Although we do not intend to request a ruling from the Internal Revenue Service, or IRS, as to our qualification as a REIT, we have received

Furthermore, both the validity of the opinion of Skadden, Arps and our qualification as a REIT will depend on our satisfaction of certain asset

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If in any taxable year we fail to qualify as a REIT,

Any such corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders, which

*Our cash distributions are not guaranteed and may be less than the expected distribution rate.*

Because of the expected nature of our income from our REIT operations, we may not be required to distribute material amounts of cash to q

Our board of directors has indicated its current intention to make distributions at an aggregate quarterly rate of approximately \$19 million, or

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*As a REIT, we will be limited in our ability to fund distributions using cash generated through Potlatch TRS.*

Our ability to receive dividends from Potlatch TRS is limited by the rules with which we must comply to maintain our status as a REIT. In part

*The market price of our common stock prior to the REIT conversion may not be indicative of the market price of our common stock following*

Our share price prior to the REIT conversion may not be indicative of how the market will value our common stock following the REIT conver

*There are uncertainties relating to the estimate of our special E&P distribution, which could result in our disqualification as a REIT.*

In order to remain qualified as a REIT, we will be required to distribute to our stockholders all of our accumulated non-REIT tax earnings and

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*We intend that the special E&P distribution will be a taxable dividend, notwithstanding any elections by stockholders to receive all or part of t*

We intend that the entire amount of the special E&P distribution to be received by each stockholder will be treated for federal income tax purp

*The extent of our use of Potlatch TRS may affect the price of our common stock relative to the share price of other REITs.*

We conduct our wood products, pulp and paperboard and tissue businesses through Potlatch TRS. We transferred to Potlatch TRS the asse

Our use of Potlatch TRS will enable us to engage in the non-REIT qualifying business activities described above. However, under the Code,

*Our current management has never operated a REIT and our future returns could be lower as a result.*

No member of our current management team has prior experience managing or operating a REIT. The federal income tax laws impose num

*Certain of our business activities are potentially subject to prohibited transactions tax on 100% of our net income, which would reduce our ca*

REITs are generally intended to be passive entities and can thus only engage in those activities permitted by the Code, which for us general



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growing timber; and selling standing timber. Accordingly, the manufacture and sale by us of wood products, pulp and paperboard, tissue products

By conducting our business in this manner, we believe we will satisfy the REIT requirements of the Code and avoid the 100% tax that could be

*We will have potential deferred and contingent tax liabilities, which could limit, delay or impede future sales of our properties.*

Under regulations promulgated by the U.S. Department of the Treasury, referred to in this proxy statement/prospectus as Treasury regulations

In addition, the IRS may assert liabilities against us for corporate income taxes for taxable years prior to the time we qualified as a REIT, in which

*Legislative or other actions affecting REITs could have a negative effect on our business and our stock price.*

The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and

*We may face other tax liabilities as a REIT that reduce our cash flow.*

Even if we remain qualified for taxation as a REIT, we may be subject to certain federal, state and local taxes on our income and assets, including

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products or sales of logs, we hold some of our assets through Potlatch TRS. Potlatch TRS is a corporation that will be subject to corporate-le

*State tax laws may not conform to federal tax law and may result in less favorable tax treatment.*

Though we expect to remain qualified as a REIT for federal income tax purposes, our qualification as a REIT under the laws of each individua

*Distributions to non-U.S. stockholders generally are subject to federal income tax withholding.*

Ordinary dividends received by non-U.S. stockholders that are not effectively connected with the conduct of a U.S. trade or business general

*Since the total cash payable to stockholders in the special E&P distribution will be limited, your receipt of cash is dependent on the election o*

We plan to limit the total amount of cash to be distributed in connection with the special E&P distribution to 20% of the special E&P distributio

*We cannot assure you that we will have access to funds to meet our distribution and tax obligations.*

In addition to the special E&P distribution requirement, we will be subject to a 4% nondeductible excise tax on the amount of our undistribute

*Any future acquisitions may harm our results of operations and cash flow.*

Among the reasons for the REIT conversion is that Potlatch Holdings will be better able to compete for acquisitions of timberlands against ot

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consummated will enhance our results of operations or cash flow. In addition, acquisitions typically involve many risks, including:

*Complying with REIT requirements may cause us to forego otherwise attractive opportunities.*

To remain qualified as a REIT for federal income tax purposes, we must continually satisfy tests concerning, among other things, the sources

*An investment in Potlatch common stock is subject to different risks than other REIT investments.*

Stockholders of Potlatch are subject to certain risks that are not applicable to an investment in REITs focused on other types of property, bec

**Risks Related to Our Business**

*Fluctuating timber prices could harm our results of operations and cash flow.*

Unlike many other REITs, which are parties to leases and other contracts providing for relatively stable payments, our results of operations a

Our results of operations and cash flow are also affected by changes in timber availability at the local and national level. Increases in timber

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prices have often resulted in substantial increases in harvesting on private timberlands, including lands not previously made available for con

Due to the foregoing factors, timber prices have historically been subject to quarterly fluctuations. Our results of operations and cash flow are

*Cyclical industry conditions have and may continue to adversely affect the operating results and cash flow of our manufacturing operations.*

The operating results of our manufacturing operations reflect the general cyclical pattern of the forest products industry. Historical prices for c

Tariffs, quotas or trade agreements can also affect the markets for our products, particularly our wood products. For example, in 2002, the U

*Changes in raw material and production costs, such as wood fiber and energy costs, may adversely affect our results of operations and cash*

Production costs for our wood and pulp-based products can be affected by increases or decreases in raw material prices, particularly for raw

**Table of Contents**

particularly high, exacerbated by petroleum and natural gas supply curtailments in the wake of recent Gulf Coast hurricanes. In periods of high

Another significant expense is the cost of wood fiber needed to supply our manufacturing facilities. The cost of various types of wood fiber th

On occasion, our results of operations have been, and may in the future be, adversely affected if we are unable to pass cost increases throu

*Intense competition in the forest products industry could prevent us from increasing or sustaining our net sales and from sustaining profitabil*

The markets for our products are highly competitive, and companies that have substantially greater financial resources than we do compete

Our manufacturing operations are capital intensive, which leads to high fixed costs and generally results in continued production as long as p

*The market for hybrid poplar lumber is uncertain and we may not successfully generate significant sales revenue from our hybrid poplar plan*

Beginning in the fourth quarter of 2005, our 17,000 acre hybrid poplar plantation transitioned from a development stage to an operating stage

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generating significant additional sales revenue from our hybrid poplar plantation, or we may not meet our cash flow objectives from our invest

*We are subject to significant environmental regulation and environmental compliance expenditures, which could increase our costs and subj*

Our manufacturing businesses are subject to a wide range of general and industry-specific environmental laws and regulations, particularly v

Our failure to comply with applicable environmental laws and regulations and permit requirements could result in civil or criminal fines or pen

We believe that our manufacturing facilities are currently in substantial compliance with applicable environmental laws and regulations. We c

*Forestry regulations, including regulations intended to protect threatened and endangered species, restrict timber harvesting and may otherw*

Our timberland operations are subject to numerous federal, state and local laws and regulations, including those relating to the environment,

*We are exposed to the risk of casualty loss because we do not insure against losses of timber from any causes, including fire and other natu*

The volume and value of timber that can be harvested from our lands, and therefore, our operating results and cash flow, may be adversely a

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infestation, disease, ice storms, windstorms, flooding and other weather conditions, and other causes. As is typical in the industry, we do not

*Our business and financial performance may be harmed by future labor disruptions.*

As of September 30, 2005, approximately 2,130 employees, or 52% of our workforce, are unionized. As a result, there is a risk of work stopp

**Other Risks Affecting Our Business and Operations**

*We are dependent upon key personnel and our failure to retain them could adversely affect our financial condition or results of operations.*

We believe that our success depends, to a significant extent, upon the efforts and abilities of our senior operating management team, compr

*Certain provisions of Potlatch Holdings' charter and bylaws could hinder, delay or prevent a change in control of Potlatch Holdings.*

Certain provisions of Delaware law and Potlatch Holdings' charter and bylaws could have the effect of discouraging, delaying or preventing

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All statements, other than statements of historical fact, contained within this proxy statement/prospectus constitute forward-looking statements.

These forward-looking statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties.

Factors that could cause actual results to differ materially from those expressed or implied by the forward-looking statements include, but are not limited to, the following:

Except for our ongoing obligation to disclose material information as required by federal securities laws, we do not intend to update you concerning any of the forward-looking statements contained in this proxy statement/prospectus.

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This proxy statement/prospectus contains market data, industry statistics and other data that have been obtained from, or compiled from, inf

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This proxy statement/prospectus is being furnished to you in connection with the solicitation of proxies by Potlatch's board of directors for use

**Date, Time and Place of the Special Meeting**

The special meeting will be held on February 3, 2006, at 10:00 a.m., local time, at Hotel Lusso, North One Post Street, Spokane, Washington

**Purpose of the Special Meeting**

At the special meeting, holders of Potlatch common stock of record as of the record date will be eligible to vote upon a proposal to adopt and

**Recommendation of the Board of Directors**

Our board of directors has unanimously approved the merger agreement and has determined that the merger is advisable and in the best int

**Who may vote**

Stockholders who owned common stock at the close of business on December 30, 2005, the record date for the special meeting, may vote a

**Proxy solicitation and tabulation of votes**

The board of directors of Potlatch has sent you this proxy statement in connection with our solicitation of proxies for use at the special meetin

**Voting**

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

*Shares registered with Potlatch (in your name):*

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*Shares registered in the Potlatch 401(k) Savings Plan (through Mercer Trust Company)*

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

If you return your proxy by mail or vote via the Internet or by telephone but do not select a voting preference, the individuals named as proxies

**Revoking your proxy**

If you are a stockholder of record, you may revoke your proxy at any time before the special meeting by giving the corporate secretary written

**Quorum**

On the record date for the special meeting, there were 29,363,498 shares of Potlatch common stock outstanding. Voting can take place at the

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**Votes Needed**

The affirmative vote of a majority of the outstanding shares of Potlatch common stock is required for adoption and approval of the merger agreement.

**Special meeting attendance**

All stockholders are invited to attend the meeting. Persons who are not stockholders may attend only if invited by Potlatch. If you own shares of Potlatch common stock, you are invited to attend the meeting.

**Adjournment; Other matters**

A quorum of Potlatch stockholders is necessary to hold a valid meeting. If there are insufficient shares of Potlatch common stock to constitute a quorum, the meeting may be adjourned.

Under the bylaws of Potlatch, the business to be transacted at the special meeting is limited to those matters identified in the notice of the meeting.

**You should not send any stock certificates with your proxy cards. A letter of transmittal containing instructions for the surrender of stock certificates should be sent to the transfer agent.**

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As part of their ongoing strategic review of our businesses, Potlatch's board and management have regularly given consideration to potential

This review has been prompted by changes in the nature of timberland ownership in the United States in recent periods. Beginning in the early

Until recently, however, the composition of Potlatch's assets had been an impediment to a REIT conversion. While timberlands have remained

During meetings in 2002, 2003 and 2004, as part of its strategic review of Potlatch's business, the board reviewed the rationale for conversion

In May 2005, the Potlatch board met with management and representatives of Goldman Sachs and received a report from management on the

On September 16, 2005, the board met to consider the REIT conversion. Also present at the meeting were each of Potlatch's executive officers

**Table of Contents**

Sachs also calculated a range of implied equity values for Potlatch TRS from ranges of various enterprise values for each of Potlatch TRS

On December 1, 2005, the board again met with management and its advisors to review the proposed REIT conversion. Goldman Sachs ma

On December 20, 2005, the board met with management and its advisors to make a final decision with respect to the REIT conversion. Gold

The Potlatch board unanimously recommends that Potlatch stockholders vote **FOR** the adoption of the merger agreement.



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In reaching its determination to proceed with the REIT conversion and recommend the adoption of the merger agreement, the Potlatch board

The Potlatch board also considered the following drawbacks or risks relating to the REIT conversion and the merger:

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*The following is a summary of the material terms of the merger agreement. For a complete description of all of the terms of the merger, you should refer to the merger agreement.*

**Structure and Completion of the Merger**

Potlatch Holdings is presently a wholly owned subsidiary of Potlatch. The Operating Subsidiary is a wholly owned subsidiary of Potlatch Holdings.

On December 30, 2005, Potlatch transferred to its wholly owned subsidiary, Potlatch TRS, Potlatch's 14 manufacturing facilities engaged in the production of wood products.

The board of directors of Potlatch, the board of directors of Potlatch Holdings and the board of directors of the Operating Subsidiary have approved the merger.

**Surrender of Stock Certificates for Book-Entry Shares**

Surrender of Certificates. Computershare Investor Services, LLC will act as exchange agent for the merger. As soon as reasonably practicable after the merger, Computershare will provide instructions to the holders of Potlatch stock certificates regarding the surrender of their certificates and the issuance of book-entry shares.

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cheaper and more convenient for stockholders than dealing with stock certificates. The surrendered certificates will be cancelled. Upon the e

Lost Certificates. If any Potlatch certificate is lost, stolen or destroyed, the owner of the certificate must provide an appropriate affidavit of th

Stock Transfer Books. At the completion of the merger, Potlatch will close its stock transfer books, and no subsequent transfers of Potlatch

**Other Effects of the Merger**

We expect the following to occur in connection with the merger:

**Conditions to Completion of the Merger**

Potlatch has the right to cancel or defer the merger even if stockholders of Potlatch vote to adopt the merger agreement and the other condi

**Table of Contents**

**Termination of the Merger Agreement**

The merger agreement provides that it may be terminated and the merger abandoned at any time prior to its completion, before or after approval by the stockholders.

We have no current intention of abandoning the merger subsequent to the special meeting if stockholder approval is obtained and the other conditions to the merger are satisfied.

**Regulatory Approvals**

We are not aware of any federal, state or local regulatory requirements that must be complied with or approvals that must be obtained prior to the completion of the merger.

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**Absence of Dissenters' Rights**

Pursuant to Section 262(b)(1) of the Delaware Corporate Law, the stockholders of Potlatch will not be entitled to dissenters' rights of appraisal.

**Restrictions on Sales of Potlatch Holdings Common Stock Issued Pursuant to the Merger**

All shares of Potlatch Holdings common stock that current Potlatch stockholders will receive pursuant to the merger will be freely transferable.

Persons who may be deemed affiliates for this purpose generally include individuals or entities that control, are controlled by, or are under common control with Potlatch.

For a description of the restrictions on ownership of Potlatch Holdings common stock, see Description of Potlatch Holdings Capital Stock.

**Accounting Treatment of the Merger**

For accounting purposes, the merger and related transactions will be treated as a recapitalization of Potlatch with Potlatch as the acquirer.

With respect to adjustments to the outstanding options to purchase Potlatch common stock, Potlatch considers the REIT conversion to be an equity transaction.

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We effected certain structural changes and became a REIT effective January 1, 2006. These restructuring transactions were designed to en

REITs are generally intended to be passive entities and can thus only engage in those activities permitted by the Code, which for us general

Accordingly, we transferred to Potlatch TRS our 14 manufacturing facilities engaged in the manufacturing of wood products, pulp and paperb

In addition, in order to maintain our status as a REIT under the Code, the aggregate value of all securities of Potlatch TRS held by us may no

**Table of Contents**

We expect to make regular, aggregate quarterly distributions, beginning in the first quarter of 2006, of approximately \$19 million, or \$0.65 per

The actual amount of the distributions will be as determined and declared by the board of directors and will depend on our financial condition

We may not be required to distribute material amounts of cash to remain qualified as a REIT. Unlike most REITs, we anticipate that our income

Our ability to receive dividends from Potlatch TRS is limited by the rules with which we must comply to maintain our status as a REIT. In part

We anticipate that distributions will generally be paid during March, June, September and December of each year, although we expect the fir



**Table of Contents**

through bank borrowings is subject to our continued compliance with debt covenants, as well as the availability of borrowing capacity under o

The anticipated initial distribution rate is based in part on the estimated cash available for distribution from REIT operations for the twelve mo

**Table of Contents**

The following table describes our estimated cash from continuing operations for the twelve months ended September 30, 2005, and the adjusted

**Pro forma income from continuing operations for the year ended December 31, 2004**

Add: Depreciation, amortization and cost of fee timber harvested

Add: Deferred taxes

**Estimated cash from continuing operations for the year ended December 31, 2004**

Less: Estimated cash from continuing operations for the nine months ended September 30, 2004 (1)

Add: Estimated cash from continuing operations for the nine months ended September 30, 2005

**Estimated cash from continuing operations for the twelve months ended September 30, 2005**

**Adjustments to reconcile estimated cash from continuing operations for the twelve months ended September 30, 2005 to estimated cash available for distribution from REIT operations for the twelve months ended September 30, 2005 (2)**

Add: Potlatch TRS loss from continuing operations (3)

Less: Potlatch TRS depreciation and amortization

Less: Potlatch TRS deferred taxes (4)

**Estimated cash available for distribution from REIT operations for the twelve months ended September 30, 2005**

Estimated cash flows from investing activities for the twelve months ended September 30, 2006

Add: Reduction in short-term investments used to partially fund cash portion of special E&P distribution

Less: Capital expenditures relating to REIT operations (5)

Less: Principal payments on indebtedness by REIT operations (6)

Total estimated cash flows provided by investing activities for the twelve months ended September 30, 2006

Estimated cash flows from financing activities for the twelve months ended September 30, 2006

Add: Borrowings under revolving credit facility to fund remaining cash portion of special E&P distribution

Less: Cash portion of special E&P distribution

Total estimated cash flows used in financing activities for the twelve months ended September 30, 2006

**Estimated cash available for distribution from REIT operations for the twelve months ended September 30, 2006 (7)**

Expected initial annual distribution to stockholders (8)

Ratio of expected initial annual distribution to stockholders to estimated cash available for distribution from REIT operations for the twelve months ended September 30, 2006

(1)

The following table reflects our unaudited pro forma

**Table of Contents**

Net Sales

Cost and Expenses:

Depreciation, amortization and cost of fee timber harvested

Materials, labor and other operating expenses

Selling, general and administrative expenses

Restructuring charges

Income from operations

Interest expense

Interest income

Income (loss) before taxes

Provision (benefit) for taxes

Income from continuing operations

Add back: Depreciation, amortization and cost of fee timber harvested

Estimated cash from continuing operations for the nine months ended September 30, 2004

(2)	Estimated cash available for distribution from F
(3)	This loss included a non-recurring charge for o
(4)	Of this amount, \$22.8 million resulted from a \$
(5)	Represents estimated capital expenditures cor
(6)	In connection with the REIT conversion, princip
(7)	The estimated cash available for distribution fr
(8)	Any shortfall between cash available for distrib

**Table of Contents**

Through December 31, 2005, Potlatch operated as a taxable C corporation for federal tax purposes. As a C corporation, Potlatch generated

We estimate that the aggregate value of the special E&P distribution will be between \$440 million and \$480 million. We will limit the total amount

The value attributable to the Potlatch Holdings common stock in the special E&P distribution will be the average of the closing sales price of

Based on the number of shares of Potlatch common stock outstanding on November 30, 2005 and a \$460 million aggregate special E&P distribution

**Table of Contents**

Potlatch Holdings common stock. In this case and using the assumptions in the previous example, each stockholder would receive \$3.04 in

The special E&P distribution will be payable to stockholders, at each stockholder's election, in the form of cash, shares of Potlatch Holdings

We expect that the election will be available on a per-share basis and that, once made, stockholders' elections will be irrevocable. Stockholders

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**Table of Contents**

**General**

Potlatch, incorporated in 1903, is a vertically integrated and diversified forest products company. We own and manage approximately 1.5 million acres of timberland.

The REIT conversion resulted in the separation of the current Resource segment into two reportable business segments. The new REIT segment is Potlatch REIT, which is a publicly traded REIT.

**Raw Materials**

The principal raw material used by our manufacturing operations is wood fiber, which is obtained from our own timberlands and purchased from third parties.

Information regarding 2004 fee harvests, purchases of wood fiber from third parties and sales of wood fiber to third parties are contained in the following table:

**Timberland Base**

Fee Timber Harvested\*\* (tons)  
Purchased Fiber (tons)

Total

Tons sold to Third Parties

---

\*  
\*\*

After the sale of  
The term Fee

**Table of Contents**

In 2004, 537,000 tons of the total 4,789,000 tons of purchased sawtimber, OSB logs and pulpwood were acquired directly from timberlands o

Timber from our lands, together with outside purchases, is presently adequate to support our manufacturing operations. For more than a dec

The volume and value of timber that can be harvested from our lands may be affected by natural disasters such as fire, insect infestation, dis

**Resource Segment**

The Resource segment manages our 1.5 million acres of timberlands located in Arkansas, Idaho and Minnesota, and a 17,000 acre hybrid p

The segment sells wood fiber at market prices to our manufacturing facilities, as well as to third parties. We believe this maximizes our timbe

In addition to sales to our manufacturing facilities, which accounted for 60% of the segment's net sales in 2004, the Resource segment sells

The segment also sells land in the normal course of business, the majority of which is comprised of small parcels of timberland. We have int

Beginning in the fourth quarter of 2005, our 17,000 acre hybrid poplar plantation transitioned from a development stage to an operating stage

**Table of Contents**

2001, due to declining wood chip prices, we altered our strategy for the plantation toward the production of high-quality logs for conversion in

The amount of timber harvested in any year from company-owned lands varies according to the requirements of sustainable forest management

In 2003, our Idaho region elected to be the sole industry participant in a certification system comparison project conducted by the Pinchot Ins

The FSC, SFI and ISO certifications will aid us in marketing our products to customers who require that products they purchase for resale co

Since late 2002, we have also worked with the Trust for Public Land to establish working-forest conservation easements on a portion of our l



**Table of Contents**

Idaho timberlands have been conveyed to the IDL. We expect to grant additional conservation easements in 2006 and subsequent years. The

**Wood Products Segment**

The Wood Products segment manufactures and markets lumber, plywood and particleboard. These products are sold through our sales offices

To produce these solid wood products, we own and operate eight manufacturing facilities in Arkansas, Idaho, Minnesota and Michigan. A description of

In September 2004, Ainsworth Lumber Co. Ltd. purchased our three oriented strand board facilities located in Minnesota. Financial data relating to

The forest products industry is highly competitive, and we compete with both smaller and substantially larger forest products companies, as well as

**Pulp and Paperboard Segment**

The Pulp and Paperboard segment produces and markets bleached paperboard and bleached pulp. A description of the facilities used to produce

We are a major producer of bleached paperboard in the United States, with approximately 10% of the available capacity. We compete with a number of

**Table of Contents**

Bleached paperboard is a product used in the high-end segment of the packaging industry due to its strength, brightness and favorable printing characteristics.

We also produce and sell bleached softwood market pulp, which is used as the basis for many paper products. We do not consider ourselves a paper producer.

We utilize various methods for the sale and distribution of our paperboard and softwood pulp. In general, we sell paperboard to packaging converters.

**Consumer Products Segment**

The Consumer Products segment produces and markets household tissue products. A description of the facilities used to produce these products is provided below.

Our tissue products are manufactured on three machines at our facility in Lewiston, Idaho, as well as one machine at our facility in Las Vegas, Nevada.

We are a leading producer of private label household tissue products in the United States. In the year ended September 25, 2005, we produced approximately 1.5 billion pounds of tissue products.

We sell tissue products to major retail outlets, primarily through brokers. Our principal methods of competing are product quality, customer service and price.

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**Manufacturing Facilities**

Our principal manufacturing facilities at December 31, 2004, which are owned by Potlatch TRS except as noted, together with their respective

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(A)	msf stands for
(B)	In May 2005, P
(C)	3/8 inch panel f
(D)	3/4 inch panel f
(E)	This facility cor
(F)	This facility cor
(G)	The building lo

**Table of Contents**

**Discontinued Operations**

In May 2002, we completed the sale of our Cloquet, Minnesota, pulp and printing papers facilities and certain associated assets to a domestic

In June 2002, we announced the closure of our Bradley hardwood sawmill in Warren, Arkansas, and exit from the hardwood lumber business

In September 2004, we sold our oriented strand board facilities and related assets in Bemidji, Cook and Grand Rapids, Minnesota, to Ainsworth

**Environment**

We are subject to extensive federal and state environmental regulations at our operating facilities and timberlands, particularly with respect to

Our timberlands in Idaho, Arkansas and Minnesota are certified by independent third parties to be in compliance with FSC standards, the SF

In early 1998 the Environmental Protection Agency, or EPA, published regulations specifically applicable to the pulp and paper industry. The

The EPA has developed Maximum Achievable Control Technology, or MACT, standards for pulp and paper facilities, plywood and composite

**Table of Contents**

We believe that our facilities are currently in substantial compliance with applicable environmental laws and regulations. We cannot assure, h

**Legal Proceedings**

In January 2004, we voluntarily reported to the Minnesota Pollution Control Agency, or MPCA, a potential air permit violation at our oriented

In September 2004, we sold three oriented strand board mills located in Minnesota to Ainsworth Lumber Co. Ltd. for approximately \$452 mill

We believe there is no pending or threatened litigation that would have a material adverse effect on our financial position, operations or liqui

**Employees**

As of September 30, 2005, we had approximately 4,100 full-time employees. The workforce consisted of approximately 900 salaried, 3,100 h

**Table of Contents**

The following is a discussion of the anticipated policies with respect to distributions, investments, financing, lending and certain other activities.

**Distribution Policy**

We intend to make regularly quarterly distributions. For a discussion of our distribution policy, see [Distribution Policy](#).

**Investment Policies**

Following the merger, the Operating Subsidiary will hold our timberlands and Potlatch TRS will hold our other business and assets, consisting of:

Our existing portfolio of timberlands is comprised of a total of approximately 1.5 million acres in Arkansas, Idaho, Minnesota and Oregon. Our

We focus on long-term equity investments in timberlands. However, we may purchase or lease properties for long-term or short-term investment.

Except for the REIT tax rules, there are currently no limitations on (i) the percentage of our assets that may be invested in any one property,

**Table of Contents**

**Financing Policies**

Generally, we will determine all of our financing policies in light of then-current economic conditions and timber prices, relative costs of debt a

We have authority to offer common stock or other equity or debt securities in exchange for property and to repurchase or otherwise reacquire

On December 22, 2005, we entered into an amended and restated credit facility, which replaced our prior credit facility effective January 3, 2

In the future, we may seek to extend, expand, reduce or renew our amended and restated credit facility or obtain new credit facilities or lines

**Lending Policies**

We may make loans to the Operating Subsidiary and other entities in which we or the Operating Subsidiary have an equity interest. We may

**Table of Contents**

**Reports to Stockholders**

We make available to our stockholders our annual reports, including our audited financial statements. We are subject to the information reporting requirements of the Securities Exchange Act of 1934, as amended, and the Securities and Exchange Commission's rules thereunder.

**Policies With Respect to Other Activities**

At all times, we intend to operate and to make investments in such a manner as to be consistent with the requirements of the Internal Revenue Code and applicable state and local laws.



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The following tables present selected financial data from the unaudited pro forma consolidated statement of operations for the year ended D

The unaudited pro forma consolidated statement of operations does not reflect additional transaction costs related to the REIT conversion, c

The pro forma financial results assume that all relevant REIT qualifying tests, as dictated by Internal Revenue Service rules, were met for the

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Net Sales

Costs and Expenses:

Depreciation, amortization and cost of fee timber harvested

Materials, labor and other operating expenses

Selling, general and administrative expenses

Restructuring charges

Income from operations

Interest expense, net

Debt retirement costs

Interest income

Income (loss) before taxes

Provision (benefit) for taxes

Income from continuing operations

Income per common share from continuing operations:

Basic

Diluted

Average shares outstanding:

Basic

Diluted

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**Table of Contents**

Net Sales

Costs and Expenses:

Depreciation, amortization and cost of fee timber harvested

Materials, labor and other operating expenses

Selling, general and administrative expenses

Income from operations

Interest expense, net

Interest income

Income (loss) before taxes

Provision (benefit) for taxes

Income from continuing operations

Income per common share from continuing operations:

Basic

Diluted

Average shares outstanding:

Basic

Diluted

**Table of Contents****ASSETS**

## Current assets:

Cash and short-term investments

Receivables, net

Inventories

Prepaid expenses

Total current assets

Land, other than timberlands

Plant and equipment, at cost less accumulated depreciation

Timber, timberlands and related logging facilities, net

Other assets

**LIABILITIES AND  
STOCKHOLDERS EQUITY**

## Current liabilities:

Current installments on long-term debt

Accounts payable and accrued liabilities

Total current liabilities

Long-term debt

Other long-term obligations

Deferred taxes

Stockholders' equity:

Common stock, \$1 par value, 40,000,000 and 32,721,980 shares authorized and issued actual, respectively; 100,000,000 and 38,022,121 or 36,256,964 shares authorized and issued pro forma, respectively

Additional paid-in capital

Retained earnings

Accumulated other comprehensive loss

Common shares in treasury

Total stockholders' equity



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*(A) Special E&P Distribution*

In conjunction with the REIT conversion, Potlatch expects to make a special E&P distribution in an amount between \$440 million and \$480 million.

At the date of the merger in connection with the REIT conversion, the shares held as treasury stock will return to unissued status, with a corresponding increase in the number of shares of common stock.

The following table outlines the range of potential scenarios that exist, based on 29,196,335 shares of Potlatch common stock issued and outstanding.

Cash portion of special E&P distribution
Stock portion of special E&P distribution

The effect of the stock portion of the special E&P distribution has been reflected as a decrease in retained earnings and an increase to common stock.

Should Potlatch require more cash than is on hand as of the date of the special E&P distribution, additional funds will be borrowed to furnish the cash.

*(B) Adjustment to Options Outstanding due to Special E&P Distribution*

The special E&P distribution noted above will require us to adjust outstanding stock options by reducing the exercise price per share of stock.

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will be calculated in accordance with FASB Interpretation No. 44, or FIN 44, to achieve equal intrinsic values to option holders and the same

Average exercise price per share at September 30, 2005
Shares of common stock subject to options outstanding at September 30, 2005
Hypothetical cash proceeds
Shares purchased at September 30, 2005 at assumed market value of \$52.12/\$36.36 share***
Dilutive shares
Change in dilutive effect

*	Fair market value
**	(\$52.12 - \$36.36)
***	September 30, 2005

(C) *Income Taxes*

As a result of the assumed REIT election on January 1, 2004, income taxes would no longer have been payable on certain of our activities. The

The following activities were considered to be part of a taxable REIT subsidiary. The income from these activities was assumed taxed at 39.4%

The result is a reduction in income tax expense from continuing operations of \$19.3 million and \$17.6 million for the year ended December 3



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Pre-tax loss from continuing operations generated by the above activities of the taxable REIT subsidiary, assuming a January 1, 2004 REIT conversion

*(D) Interest Expense and Interest Income*

The potential range of cash used for the special E&P distribution noted in footnote (A) above would have the following estimated effects on the REIT's cash balance:

Lower interest income from lower cash balance\*  
Higher interest expense from additional borrowing\*\*

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*	Lower cash balance
**	Additional \$40 million

*(E) Deferred Taxes*

The REIT conversion would create a one-time reversal of net deferred tax liabilities for assets no longer subject to income taxes at the REIT conversion date.

*(F) Reclassifications*

Miscellaneous revenue-generating activities that are incidental to the management of our timberlands as a C corporation have historically been reported as other income.

Additionally, the conversion to a REIT organization requires a distinction between fee lands and non-fee lands with respect to management costs.

*(G) Estimated Transaction Costs*

This figure represents our current estimate of transaction costs relating to the REIT conversion.



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To the Board of Directors and Sole Stockholder

Potlatch Holdings, Inc.

We have audited the accompanying balance sheet of Potlatch Holdings, Inc. as of September 16, 2005. This financial statement is the respo

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standa

In our opinion, the balance sheet presents fairly, in all material respects, the financial position of Potlatch Holdings, Inc. as of September 16,

/s/ KPMG LLP

Seattle, Washington

September 16, 2005

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**Table of Contents**

**Assets:**

Cash

Total Assets

**Liabilities and stockholder s equity:**

Liabilities

Stockholder s equity:

Common stock, \$1.00 par value per share, 1,000 shares authorized, 1,000 shares issued and outstanding

Total stockholder s equity

Total liabilities and stockholder s equity

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1. Organization

Potlatch Holdings, Inc., or Potlatch Holdings, was incorporated on September 9, 2005, under the laws of the State of Delaware and was authorized to do business in the State of Delaware.

Prior to the merger, Potlatch Holdings will conduct no business other than incident to the merger. In the merger, Potlatch Corporation will merge with and into Potlatch Holdings, Inc., and Potlatch Holdings, Inc. will survive the merger as a wholly owned subsidiary of Potlatch Corporation.

Also effective at the time of the merger, Potlatch Holdings will change its name to Potlatch Corporation and its certificate of incorporation will be amended to reflect such change.

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The following tables present a summary of historical consolidated financial data as of the dates and for the periods indicated for Potlatch, wh

The selected statement of operations presented below for the nine months ended September 30, 2005 and 2004 and the selected balance s

The following information does not provide all of the information contained in Potlatch's financial statements, including the related notes. It is

Net sales

Costs and expenses:

Depreciation, amortization and cost of fee timber harvested

Materials, labor and other operating expenses

Selling, general and administrative expense

Restructuring charges

Income (loss) from operations

Interest expense, net

Debt retirement costs

Interest income

Income (loss) before taxes

Provision (benefit) for taxes

**Table of Contents**

Income (loss) from continuing operations

Discontinued operations:

Income (loss) from discontinued operations

Income tax provision (benefit)

Net income (loss)

Income (loss) per common share from continuing operations:

Basic

Diluted

Income (loss) per common share from discontinued operations:

Basic

Diluted

Net income (loss) per common share:

Basic

Diluted

Cash dividends per common share(1)

(1)

Cash dividends for 2004 included a special div

**Balance Sheet Data**

Total current assets

Plant and equipment, at cost less accumulated depreciation

Timber, timberland and related logging facilities

Total assets

Long-term debt and other long-term obligations

Deferred taxes

Total stockholders' equity

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*Because of the impact of taxes, distributions and the change in business focus following the merger and the REIT conversion, our historical*

**Overview**

We are a vertically integrated and diversified forest products company. We own approximately 1.5 million acres of timberland in Arkansas, Id

Amounts reported for Discontinued operations in the Statements of Operations and Comprehensive Income for the nine months ended Se

**Effect of REIT structure on our operations**

The REIT conversion resulted in the separation of the current Resource segment into two reportable business segments for financial reporting



**Table of Contents**

previous Resource segment operating activities that were not transferred to Potlatch TRS: managing our timberland to optimize stumpage sa

Information concerning significant financial effects of the REIT conversion is contained in the section titled Pro Forma Financial Information

The businesses and assets that were transferred by us to Potlatch TRS primarily included the assets and operations of our Wood Products s

**Factors influencing our results of operations**

The operating results of our manufacturing businesses have been and will continue to be influenced by a variety of factors, including the cycl

**Table of Contents**

competition, international trade agreements or disputes, the efficiency and level of capacity utilization of our manufacturing operations, change

Our operating results generally reflect the cyclical pattern of the forest products industry. Historical prices for our manufactured products have

The markets for our products are highly competitive and companies that have substantially greater financial resources than we do compete w

Tariffs, quotas or trade agreements can also affect the markets for our products, particularly our wood products. For example, in 2002, the U

Our manufacturing businesses are capital intensive, which leads to high fixed costs and generally results in continued production as long as

Energy costs, which have become one of our most volatile operating expenses over the past several years, impact almost every aspect of ou

**Table of Contents**

through price increases, and therefore such increased costs could adversely affect our operating results. For example, energy costs for the t

Another significant expense is the cost of wood fiber needed to supply our manufacturing facilities. The cost of various types of wood fiber th

Changes in timber harvest levels also may have a significant impact on our results of operations, due in part to the low cost basis of our timb

Beginning in the fourth quarter of 2005, our 17,000 acre hybrid poplar plantation transitioned from a development stage to an operating stag

**Table of Contents**

amount of cash flows that we will generate from our hybrid poplar plantation will depend primarily on our ability to develop new markets for p

The disparity between cost of wood fiber harvested from our timberlands and the cost of wood fiber purchased on the open market is due to

Finally, changes in our manufacturing capacity, primarily as a result of capital spending programs or asset purchases and dispositions, have

**Critical Accounting Policies**

Our principal accounting policies are discussed on pages 44-48 of our Annual Report on Form 10-K for the year ended December 31, 2004,

*Long-lived assets.* Due to the capital-intensive nature of our industry, a significant portion of our total assets are invested in our manufactur

**Table of Contents**

*Timber and timberlands.* Timber and timberlands are recorded at cost, net of fee timber harvested. Expenditures for reforestation, including

There are currently no authoritative accounting rules relating to costs to be capitalized for timber and timberlands. We have used relevant po

Different assumptions for either the cost or volume estimates, or both, could have a significant effect upon amounts reported in our statement

*Restructuring charges and discontinued operations.* In 2002, we completed the sale of a majority of the assets of our printing papers segm

*Environmental liabilities.* We record accruals for estimated environmental liabilities in accordance with SFAS No. 5, Accounting for Comm

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judgments, and changes in governmental regulations and environmental technologies, our accruals are subject to substantial uncertainties a

*Pension and postretirement benefits.* The determination of pension plan expense and the requirements for funding our pension plans are b

Note 11 to the consolidated financial statements contained in our Form 10-K for the year ended December 31, 2004, which is incorporated b

The discount rate used in the determination of pension benefit obligations and pension expense is based on high-quality fixed income invest

Total periodic pension plan income in 2004 was \$11.5 million. An increase in the discount rate or the expected return on plan assets, all othe

No minimum pension contributions are required for 2005 due to the funded status of our pension plans at December 31, 2004. Contributions

For our OPEB plans, expense for 2004 was \$25.2 million. The discount rate used to calculate OPEB obligations was 5.90% at December 31

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As an indication of the sensitivity that OPEB expense has to the discount rate assumption, a 0.25% change in the discount rate would affect

Periodic pension and OPEB expense are included in Materials, labor and other operating expenses and Selling, general and administrative

*Recent Accounting Pronouncements.* In December 2004 the Financial Accounting Standards Board, or the FASB, issued a revision of SFAS

In March 2005, the FASB issued FASB Interpretation No. 47, or FIN 47, Accounting for Conditional Asset Retirement Obligations, which s

In May 2005, the FASB issued SFAS No. 154, Accounting Changes and Error Corrections a replacement of APB Opinion No. 20 and FASB

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*Employees*

Hourly union labor contracts expiring in 2006 are set forth below.

	<b>Contract Expiration Date</b>
May 1	<u>                    </u>
September 1	
September 1	

*Results of Operations*

As noted above, prior to the REIT conversion our business was organized into four reporting segments: Resource; Wood Products; Pulp and Paper; and Other.

A summary of period-to-period changes in items included in the Statements of Operations is presented on page 30 of our Form 10-Q for the quarter ended September 30, 2005.

As a result of our decision in August 2004 to sell our oriented strand board operations and associated assets, those operations have been classified as discontinued operations.

**Nine Months Ended September 30, 2005 Compared to Nine Months Ended September 30, 2004**

*Net sales.* Net sales increased 8% to \$1,108.5 million for the nine months ended September 30, 2005, from \$1,029.9 million for the same period in 2004.

*Depreciation, amortization and cost of fee timber harvested.* For the nine months ended September 30, 2005, depreciation, amortization and cost of fee timber harvested was \$118.5 million, compared to \$115.5 million for the same period in 2004.



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a \$2.6 million decrease compared to \$66.8 million recorded in the first nine months of 2004. The decrease was due to lower depletion expenses.

*Materials, labor and other operating expenses.* Materials, labor and other operating expenses increased to \$924.9 million for the nine months ended September 30, 2005, compared to \$832.4 million for the same period in 2004.

*Selling, general and administrative expenses.* Selling, general and administrative expenses were \$62.4 million for the first nine months of 2005, compared to \$61.1 million for the same period in 2004.

*Restructuring charge.* A pre-tax charge of \$1.3 million was recorded in January 2004 for a workforce reduction at our Consumer Products segment.

*Interest expense, net of capitalized interest.* Interest expense totaled \$21.7 million for the nine months ended September 30, 2005, compared to \$20.4 million for the same period in 2004.

*Interest income.* For the nine months ended September 30, 2005, interest income was \$1.8 million, compared to \$1.7 million for the same period in 2004.

*Provision for taxes.* For the nine months ended September 30, 2005, we recorded an income tax provision of \$14.1 million on income from continuing operations, compared to \$13.8 million for the same period in 2004.

*Income from continuing operations.* We recorded income from continuing operations of \$23.0 million for the nine months ended September 30, 2005, compared to \$23.0 million for the same period in 2004.

*Discontinued operations.* Discontinued operations for the nine months ended September 30, 2004, consisted of the results of our OSB operations.

*Other comprehensive loss, net of tax.* For the nine months ended September 30, 2004, we recorded a net derivative loss due to cash flow hedges of \$1.3 million.

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*Discussion of business segments.* The Resource segment reported operating income of \$50.9 million for the first nine months of 2005, compared to

The Wood Products segment reported operating income of \$28.8 million for the first nine months of 2005, compared to income of \$62.0 million for

The Pulp and Paperboard segment reported operating income for the first nine months of 2005 of \$3.7 million, compared to \$10.3 million for

The Consumer Products segment reported operating income of \$4.1 million for the first nine months of 2005, compared to a loss of \$10.0 million for

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higher packaging, transportation and outside converting costs contributed to the increase. Segment expenses for the first nine months of 200

**Year Ended December 31, 2004 Compared to Year Ended December 31, 2003**

*Net sales.* Consolidated net sales of \$1.35 billion for the year ended December 31, 2004 increased 13% compared to net sales of \$1.19 bil

*Depreciation, amortization and cost of fee timber harvested.* Expenses for depreciation, amortization and cost of fee timber harvested were

*Materials, labor and other operating expenses.* For the year ended December 31, 2004, materials, labor and other operating expenses incr

*Selling, general and administrative expenses.* Selling, general and administrative expenses were \$85.6 million for the year ended Decemb

*Restructuring charge.* The following items were included in the Restructuring charges line in the Statements of Operations:

*Interest expense, net of capitalized interest.* Interest expense, net of capitalized interest, was \$45.9 million for the year ended December 3

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senior subordinated notes and medium-term notes mentioned above. These debt retirement costs consisted of premium-related costs of \$44

*Interest income.* Interest income for the year ended December 31, 2004, was \$3.6 million, compared to \$14.1 million for 2003. The 2003 an

*Provision for taxes.* For the year ended December 31, 2004, we recorded an income tax provision of \$10.0 million on income from continu

*Income from continuing operations.* We recorded income from continuing operations of \$15.3 million for the year ended December 31, 200

*Discontinued operations.* For the year ended December 31, 2004, we recorded after-tax income from discontinued operations of \$255.9 mi

*Net income, including discontinued operations.* Our net income, including discontinued operations, for 2004 was \$271.2 million, compared

*Other comprehensive loss, net of tax.* Items recorded in Other comprehensive gain (loss), net of tax for 2004 included a \$32.2 million, at

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*Discussion of business segments.* See Note 14, Segment Information, on pages 62-64 of our Form 10-K for the year ended December 31, 2004.

The Resource segment reported operating income of \$69.9 million for the year ended December 31, 2004, an increase of \$4.4 million from the year ended December 31, 2003.

The Wood Products segment's operating income of \$68.3 million for the year ended December 31, 2004, was a significant improvement over the year ended December 31, 2003.

The Pulp and Paperboard segment reported operating income of \$11.0 million in 2004, versus a loss of \$15.1 million in 2003. Segment net sales for 2004 were \$1,000.0 million, versus \$980.0 million in 2003.

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\$482.0 million in 2003. Paperboard net sales were \$463.6 million in 2004, compared to \$420.8 million in 2003. Paperboard shipments increa

The Consumer Products segment incurred an operating loss of \$10.2 million in 2004, compared to operating income of \$1.3 million in 2003.

**Year Ended December 31, 2003 Compared to Year Ended December 31, 2002**

*Net sales.* Net sales of \$1.19 billion for the year ended December 31, 2003, increased 8% compared to net sales of \$1.11 billion recorded

*Depreciation, amortization and cost of fee timber harvested.* Expenses for depreciation, amortization and cost of fee timber harvested were

*Materials, labor and other operating expenses.* For the year ended December 31, 2003, materials, labor and other operating expenses rose

*Selling, general and administrative expenses.* Selling, general and administrative expenses were \$75.8 million for the year ended Decemb

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*Restructuring charge.* The following items were included in the Restructuring charges line in the Statements of Operations:

*Interest expense, net of capitalized interest.* Interest expense, net of capitalized interest, was \$48.2 million for the year ended December 31, 2003, compared to \$48.2 million recorded in 2002.

*Interest income.* Interest income for the year ended December 31, 2003, was \$14.1 million, compared to \$1.9 million recorded in 2002. The interest income was recorded in the Other income line in the Statements of Operations.

*Provision for taxes.* For the year ended December 31, 2003, we recorded an income tax benefit of \$9.1 million on our loss from continuing operations, compared to an income tax expense of \$1.1 million recorded in 2002.

*Income (loss) from continuing operations.* We recorded a loss from continuing operations for the year ended December 31, 2003 of \$3.8 million, compared to a loss from continuing operations of \$1.1 million recorded in 2002.

*Discontinued operations.* We recorded after-tax income from our discontinued operations of \$54.6 million in 2003, compared to an after-tax loss of \$1.1 million recorded in 2002.

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included our OSB operations, our former Printing Papers segment and a hardwood sawmill. The income from discontinued operations in 2003

*Net income, including discontinued operations.* Our net income, including discontinued operations, for 2003 was \$50.7 million, compared to

*Other comprehensive loss, net of tax.* Items recorded in Other comprehensive loss, net of tax for 2003 included a \$0.4 million, after-tax loss

*Discussion of business segments.* The Resource segment reported operating income of \$65.5 million for the year ended December 31, 2003

The Wood Products segment's operating income of \$4.1 million for the year ended December 31, 2003, was a significant improvement over



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Particleboard shipments increased 14% in 2003, due to the absence of market-related downtime taken in 2002. Net sales of particleboard w

The Pulp and Paperboard segment incurred an operating loss of \$15.1 million in 2003, versus a loss of \$42.8 million in 2002. Segment net s

The Consumer Products segment reported operating income of \$1.3 million in 2003, significantly less than the \$42.8 million earned in 2002.

**Liquidity and Capital Resources**

At September 30, 2005, our financial position included long-term debt of \$335.4 million, including current installments on long-term debt of \$

Scheduled payments due on long-term debt during each of the five years subsequent to December 31, 2005, are as follows:

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Working capital totaled \$237.2 million at September 30, 2005, a decrease of \$17.8 million from December 31, 2004. The significant changes

Net cash provided by continuing operations for the first nine months of 2005 totaled \$44.1 million, compared with \$131.2 million for the same

For the nine months ended September 30, 2005, net cash used for investing was \$36.7 million, compared to \$741.8 million for the first nine m

Net cash used for financing totaled \$4.1 million for the nine months ended September 30, 2005, compared with cash provided by financing o

Cash generated from discontinued operations in the first nine months of 2004 totaled \$586.5 million, which was largely related to operating r

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We expect to increase our regular annual distribution rate from an aggregate amount of approximately \$17.5 million in 2005 to approximately

In addition, the rules with which we must comply to maintain our status as a REIT will limit our ability to use dividends from our manufacturing

On December 22, 2005, we entered into an amended and restated credit facility, which replaced our prior credit facility effective January 3, 2005

The agreement governing our amended and restated credit facility contains certain covenants that, among other things, limit to a certain deg

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facility also contains financial maintenance covenants establishing a maximum funded indebtedness to capitalization ratio, a minimum consoli

Maximum Funded Indebtedness to Capitalization Ratio

Minimum Net Worth

Minimum Interest Coverage Ratio

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(1) The requiremen

Events of default under the amended and restated credit facility include, but are not limited to, payment defaults, covenant defaults, breaches

Potlatch, Potlatch Holdings, Potlatch TRS and the Operating Subsidiary are parties to the amended and restated credit agreement and are e

We believe that our cash, cash flows from continuing operations and available borrowings under our amended and restated credit facility will

On October 27, 2005, Standard & Poor's Ratings Services (S&P) downgraded our senior unsecured debt from BB+ to BB. Since the first qu

It is our practice to periodically review strategic and operational alternatives to improve our operating results and financial position. In this reg

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among other things, adjustments to our capital expenditures and overall spending, the expanding or restructuring of our operations to achieve

**Contractual Obligations**

The following table summarizes our contractual obligations as of December 31, 2004. Portions of the amounts shown are reflected in our con

Long-term debt(1)
Operating leases(2)
Purchase obligations
Other long-term obligations(3)

<b>Total</b>
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(1)  
(2)  
(3)

See Note 7, De  
See Note 12, C  
Payments on q

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*The following is a summary description of the material terms of Potlatch Holdings common stock and undesignated preferred stock as will be*

**Authorized Capital**

Potlatch Holdings will possess a greater number of authorized but unissued shares of common stock than Potlatch. The Potlatch Holdings C

**Potlatch Holdings Common Stock**

When issued as contemplated in the merger agreement, the Potlatch Holdings common stock will be validly issued, fully paid and non-asses

*Distributions.* Subject to any preferential rights of any outstanding series of preferred stock designated by the board of directors, and to the

*Voting Rights.* Subject to the provisions of the Potlatch Holdings Charter restricting ownership and transfer of capital stock, as a holder of F

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*Other Rights.* Subject to the provisions of the Potlatch Holdings Charter restricting ownership and transfer of capital stock, each share of P

*Transfer Agent.* The transfer agent and registrar for Potlatch Holdings common stock is Computershare Investor Services, LLC.

**Preferred Stock**

Pursuant to the Potlatch Holdings Charter, the board of directors is empowered, without any approval of the stockholders, to issue shares of

The board of directors cannot issue any preferred stock which has voting rights, other than the right to elect directors in the event of a default

For a description of additional provisions of the Potlatch Holdings Charter that may have the effect of delaying, deferring or preventing a char

**Restrictions on Ownership and Transfer**

*Ownership Limit.* Among the requirements that Potlatch Holdings must meet to remain qualified as a REIT under the Internal Revenue Co

The ownership limit provisions provide, subject to certain exceptions, that no person (defined as an individual or an entity other than certain v

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capital stock. Under the Potlatch Holdings Charter, a person generally beneficially owns shares if (a) such person has direct ownership of su

*Ownership Limit for Certain Mutual Funds.* The Potlatch Holdings Charter provides for a different ownership limitation for certain widely hel

*Waiver of Ownership Limits by the Board of Directors.* The ownership limitation provisions will not apply if the board of directors determines

*Transfers in Violation of Our Transfer Restrictions.* In the event of any purported transfer of shares of capital stock or any other event that v

In the case of an automatic transfer to a trust, the beneficiary will be a qualified charitable organization selected by the board of directors of P

In addition, shares of stock of Potlatch Holdings held in the trust will be deemed to have been offered for sale to Potlatch Holdings, or its des



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price per share in the transaction that resulted in such transfer to the trust (or, in the case of a gift or other transaction not for value, the market

The ownership limitation provisions may have the effect of precluding acquisition of control of Potlatch Holdings.

*Disclosure of Stock Ownership by Our Stockholders.* All persons who own more than 5% of Potlatch Holdings stock, or any lower percentage

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*The following section of the proxy statement/prospectus describes some of the differences between the current rights of holders of Potlatch*

**General**

If the merger is completed, you will receive one share of Potlatch Holdings common stock in exchange for each share of Potlatch common stock.

Generally, the Potlatch Holdings Charter and the Potlatch Holdings Bylaws will be the same in all material respects as the current Potlatch Holdings Charter and Bylaws.

The Potlatch Holdings Charter and Potlatch Holdings Bylaws will contain provisions that could have the effect of delaying, deferring or preventing a change of control.

**Amendment of Charter and Bylaws**

*Potlatch.* The Potlatch Charter may be amended in the manner prescribed by Delaware Corporate Law, provided, however, that the affirmative vote of a majority of the Potlatch common stock is required.

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*Potlatch Holdings.* The provisions of the Potlatch Holdings Charter and the Potlatch Holdings Bylaws with respect to the amendment of the

**Meeting of Stockholders; Right to Call Special Meetings; No Action by Written Consent**

*Potlatch.* Under the Potlatch Bylaws, annual and special meetings of stockholders are to be held at a date and time as determined by the b

*Potlatch Holdings.* The provisions of the Potlatch Holdings Bylaws and the Potlatch Holdings Charter with respect to the meetings of stockh

**Advance Notice Requirement of Stockholder Proposals and Director Nominations**

*Potlatch.* The Potlatch Bylaws establish an advance notice procedure for stockholders to make nominations of candidates for directors or b

The stockholder must also comply with all applicable requirements of the Securities Exchange Act of 1934, and the rules and regulations the

*Potlatch Holdings.* The provisions of the Potlatch Holdings Bylaws with respect to the advance notice requirement of stockholder proposals

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**Number and Election of Directors; Vacancies; Removal**

*Potlatch.* The Potlatch Charter provides that the business of the corporation shall be managed by the board of directors, which shall consist of

*Potlatch Holdings.* The provisions of the Potlatch Holdings Charter with respect to the number and election of directors, vacancies and removal of directors

**Interested Party Transactions**

*Potlatch.* The Potlatch Charter provides that if any person owns or controls 5% or more of Potlatch's common stock as of the record date for the

(i)

(ii)

(iii)

(iv)

The requirement for the vote of 80% of the outstanding shares does not apply to any of the transactions listed above if Potlatch's board of directors

*Potlatch Holdings.* The provisions of the Potlatch Holdings Charter with respect to interested party transactions are identical in all material respects to

**Anti-Takeover Effect of Certain Provisions of the Potlatch Holdings Charter and Bylaws**

Certain provisions of the Potlatch Holdings Charter, described below, as well as the ability of the board of directors to issue shares of preferred stock

**Size of the Board of Directors; Filling of Vacancies**

The Potlatch Holdings Charter provides that the board of directors of Potlatch Holdings shall consist of not less than seven and not more than ten



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majority of the entire board of directors and not by our stockholders. The Potlatch Holdings Charter provides that any vacancy on the board of

**Classified Board**

Potlatch Holdings board of directors will be divided into three classes with staggered terms of office of three years each. The classification of

**Removal of Directors Only for Cause**

The Potlatch Holdings Charter provides that any or all of the directors may be removed at any time only for cause. This provision may prevent

**Special Meeting of Stockholders; No Action by Written Consent**

The Potlatch Holdings Charter provide that special meetings of stockholders may be called by the chairman of the board of directors, a majority

**Evaluation of Certain Factors in Change in Control Transactions**

The Potlatch Holdings Charter requires the board of directors, when evaluating potential change in control transactions involving Potlatch Holdings,

**Advance Notice of Director Nominations and Stockholder Proposals**

The Potlatch Holdings Bylaws include advance notice and informational requirements and time limitations on any director nomination or proposal.

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**Ownership Limitations**

Primarily to protect us against the risk of losing our status as a REIT, the Potlatch Holdings Charter contains provisions that limit the ownership

**Procedures for Certain Transactions with Interested Parties**

In order for Potlatch Holdings to engage in or enter into certain business combinations involving persons that own 5% or more of Potlatch Holdings

**Amendment of the Potlatch Holdings Charter**

As required by Delaware law, any amendment to the Potlatch Holdings Charter must first be approved by a majority of the board of directors

**Amendment of the Potlatch Holdings Bylaws**

The Potlatch Holdings Charter provides that the Potlatch Holdings Bylaws may be made, amended, altered or repealed by the affirmative vote

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*Delaware Corporate Law.* Under Delaware Corporate Law, directors may be indemnified for liabilities incurred in connection with specified

*Potlatch Holdings Charter.* The provisions of the Potlatch Holdings Charter described below are identical in all material respects to the prov

*Indemnification Agreements.* If the merger occurs, Potlatch Holdings will assume Potlatch's obligations under the existing indemnification



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*Directors and Officers Insurance.* Potlatch Holdings will maintain directors and officers liability insurance coverage for its directors and o

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The following is a summary of the material federal income tax consequences relating to the acquisition, holding, and disposition of our stock

This summary assumes that you will hold our stock as a capital asset, which generally means as property held for investment.

The federal income tax treatment of holders of our stock depends in some instances on determinations of fact and interpretations of complex

**Federal Income Tax Consequences of the Merger**

The merger of Potlatch with and into the Operating Subsidiary, which for federal income tax purposes is an entity disregarded as separate from

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Skadden, Arps, Slate, Meagher & Flom LLP, to the effect that the merger will be treated for federal income tax purposes as a reorganization

Neither Potlatch nor Potlatch Holdings will recognize any gain or loss as a result of the merger. Stockholders will not recognize any gain or loss

Certain Potlatch stockholders who are non-U.S. persons could recognize gain or loss pursuant to the merger. To the extent that we do not qualify

Potlatch Holdings will acquire all of the assets of Potlatch as a result of the merger. Potlatch Holdings will own substantially all of such assets

**Taxation of the Special E&P Distribution**

The special E&P distribution is intended to assist us in meeting the requirement that we distribute to our stockholders our accumulated non-F

*Treatment of Taxable Stock Dividends*

We have received a ruling from the IRS that any and all of the cash and stock distributed in the special E&P distribution will be treated as a tax

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such stock equal to the fair market value of such stock on the day we pay the special E&P distribution, and the holding period in such stock w

The special E&P distribution will be taxable to individual stockholders at the 15% qualified dividend rate to the extent that the special E&P

Because the special E&P distribution will be made after January 1, 2006 when we qualified for taxation as a REIT, the special E&P distributi

Corporate stockholders should also consider the effect of the corporate alternative minimum tax, which imposes a maximum tax rate of 20%

For certain U.S. stockholders, the special E&P distribution may be an extraordinary dividend. An extraordinary dividend is a dividend th

**Taxation of Potlatch**

Our board of directors authorized us to take the steps necessary to be taxed as a REIT, effective for our taxable year commencing January 1

Although we do not intend to request a ruling from the IRS as to our qualification as a REIT, we have received an opinion of Skadden, Arps t

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future conduct of our business operations. Given the highly complex nature of the rules governing REITs, the ongoing importance of factual c

Furthermore, both the validity of the opinion of Skadden, Arps and our qualification as a REIT will depend on our satisfaction of certain asset

*Taxation of REITs in General*

As indicated above, qualification and taxation as a REIT depends upon our ability to meet, on a continuing basis, various qualification require

Provided that we remain qualified as a REIT, we will generally be entitled to a deduction for dividends that we pay and therefore will not be s

Net operating losses, foreign tax credits and other tax attributes of a REIT generally do not pass through to the stockholders of the REIT, sub

If we remain qualified as a REIT, we will nonetheless be subject to federal tax in the following circumstances:

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In addition, we and any subsidiaries may be subject to a variety of taxes, including payroll taxes and state, local, and foreign income, property

*Requirements for Qualification General*

The Code defines a REIT as a corporation, trust or association:

(1)

(2)

(3)

(4)

(5)

(6)

(7)

The Code provides that conditions (1) through (4) must be met during the entire taxable year, and that condition (5) must be met during at least

To monitor compliance with the share ownership requirements imposed on REITs, we will be required by the Code and Treasury regulations to

In addition, a corporation generally may not elect to become a REIT unless its taxable year is the calendar year. As our taxable year is the calendar

The Code provides relief from violations of the REIT gross income requirements, as described below under **Income Tests**, in cases where

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REIT asset requirements and other REIT requirements, again provided that the violation is due to reasonable cause and not willful neglect, a

*Effect of Subsidiary Entities*

*Ownership of Partnership Interests.* In the case of a REIT that is a partner in a partnership, the Treasury regulations provide that the REIT

*Disregarded Subsidiaries.* If a REIT owns a corporate subsidiary that is a qualified REIT subsidiary, that subsidiary is generally disregarded

In the event that a disregarded subsidiary ceases to be wholly owned, for example, if any equity interest in the subsidiary is acquired by a pe

*Taxable Subsidiaries.* A REIT, in general, may jointly elect with another corporation, whether or not wholly owned, to treat the corporation a

A parent REIT is not treated as holding the assets of a TRS or as receiving any income that the TRS earns. Rather, the stock of the TRS is a



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REIT requirements, such entities may be used by the parent REIT to indirectly undertake activities that the REIT rules might otherwise preclude.

We own all of the outstanding stock of Potlatch TRS, which is engaged in the business of purchasing and harvesting timber and manufacturing wood products.

*Income Tests*

In order to maintain REIT status, we must satisfy two gross income requirements on an annual basis. First, at least 75% of our gross income must be derived from real property.

We expect that the gains we will derive from timber cutting contracts or lump-sum sales of standing timber will be deemed derived from the sale of real property.

Rents that we receive will qualify as rents from real property in satisfying the gross income requirements for a REIT only if several conditions are met.

We may receive distributions from Potlatch TRS or other corporations that are not REITs or qualified REIT subsidiaries. These distributions will be treated as dividends if they are not qualified dividends.

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Any income or gain we or any pass-through subsidiaries derive from instruments that hedge certain risks, such as the risk of changes in interest rates.

If we fail to satisfy one or both of the 75% or 95% gross income tests for any taxable year, we may still qualify as a REIT for the year if we are able to satisfy the requirements of Section 856(b)(7)(C).

*Asset Tests*

To remain qualified as a REIT, at the close of each calendar quarter, we must satisfy four tests relating to the nature of our assets. First, at least 75% of our gross income must be derived from the following sources:

Second, the aggregate value of all securities of TRSs held by a REIT may not exceed 20% of the value of the REIT's total assets.

Third, the value of any one issuer's securities owned by us may not exceed 5% of the value of our total assets.

Fourth, we may not own more than 10% of any one issuer's outstanding securities, as measured by either voting power or value. The 5% and 10% tests apply to the value of the securities owned by the REIT, not the value of the securities owned by the REIT's subsidiaries.

The 2004 Act contains a number of provisions applicable to REITs, including relief provisions that make it easier for REITs to satisfy the asset tests.

A second relief provision contained in the 2004 Act applies to de minimis violations of the 10% and 5% asset tests. A REIT may maintain its status as a REIT if it is able to satisfy the requirements of Section 856(b)(7)(D).

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(a) the value of the assets causing the violation do not exceed the lesser of 1% of the REIT's total assets and \$10,000,000, and (b) the REIT

The 2004 Act also provides that certain securities will not cause a violation of the 10% value test described above. Such securities include in

We will not seek a ruling from the IRS to the effect that we have satisfied the REIT asset tests. Under Treasury regulations, the value of the T

We believe the proposed composition of our assets will enable us to comply with the foregoing REIT asset requirements in 2006, and we inte

If we should fail to satisfy the asset tests at the end of a calendar quarter, such a failure would not cause us to lose REIT status if we (1) satis

*Annual Distribution Requirements*

REITs generally are required to distribute 90% of their ordinary taxable income and not their net capital gains income. The IRS has ruled tha

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such timber cutting contracts will be our principal source of income, we expect that, for the foreseeable future, our income will consist primarily

To the extent that we have ordinary taxable income, we are required to make distributions to our stockholders in an amount at least equal to:

(1) the sum of

(a) 90% of our REIT taxable income, computed without regard to the dividends paid deduction and our net capital gain, and

(b) 90% of the net income after tax, if any, from foreclosure property, minus

(2) the sum of specified items of non-cash income.

These distributions must be paid in the taxable year to which they relate, or in the following taxable year if declared before we timely file our tax return.

To the extent that we do not distribute or we are not treated as having distributed all of our capital gain or we distribute or we are treated as having distributed less than all of our capital gain, we will be required to distribute the remaining capital gain in the following taxable year.

As a REIT, our distributions must be paid in the taxable year to which they relate, or in the following taxable year if they are declared in October of that year.

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the first regular dividend payment after such declaration, provided such payment is made during the 12-month period following the close of s

To the extent that a REIT has available net operating losses carried forward from prior tax years, such losses may reduce the amount of dist

We may be able to rectify a failure to meet the distribution requirements for a year by paying deficiency dividends to stockholders in a late

*Failure to Qualify*

If we fail to satisfy one or more requirements for REIT qualification during our 2006 or subsequent taxable years, other than the gross income

If we fail to qualify for taxation as a REIT in any taxable year, and the relief provisions described above do not apply, we would be subject to

*Prohibited Transactions*

Net income derived from a prohibited transaction is subject to a 100% excise tax. The term prohibited transaction generally includes a sale

Recently enacted legislation is generally expected to reduce the risk that we would be subject to the prohibited transaction tax with respect to

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sales of timberlands that satisfy certain requirements specified in the Code would not constitute prohibited transactions. The principal require

*Hedging Transactions*

We and any subsidiaries may from time to time enter into hedging transactions with respect to interest rate exposure on one or more of our a

The 2004 Act exempts from the 95% REIT income test, income of a REIT, including income from a pass-through subsidiary, arising from cl

We intend to structure any hedging transactions in a manner that does not jeopardize our ability to qualify as a REIT. We may conduct some

**Taxation of Stockholders**

*Taxation of Taxable Domestic Stockholders*

*Distributions.* Provided that we remain qualified as a REIT, distributions from us that are designated as capital gain dividends will generally

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Distributions made to our taxable domestic stockholders out of current or accumulated earnings and profits, and not designated as capital gain

Distributions in excess of current and accumulated earnings and profits will generally represent a return of capital and will not be taxable to a

*Dispositions of Potlatch Stock.* In general, a domestic stockholder will realize gain or loss upon the sale, redemption, or other taxable disposition

If an investor recognizes a loss upon a subsequent disposition of our stock in an amount that exceeds a prescribed threshold, it is possible that

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undertaken directly or indirectly by us. Moreover, you should be aware that we and other participants in the transactions involving us, including

*Passive Activity Losses and Investment Interest Limitations.* Distributions made by us and gain arising from the sale or exchange by a domestic

*Taxation of Foreign Stockholders*

The following is a summary of certain U.S. federal income and estate tax consequences of the ownership and disposition of our stock applicable to

(a)

(b)

(c)

(d)

If the partnership, including for this purpose any entity that is treated as a partnership for U.S. federal income tax purposes, holds our common

The discussion is based on current law and is for general information only. It addresses only selected, and not all, aspects of U.S. federal income

*Capital Gain Dividends.* A capital gain dividend by us that is attributable to gain from the disposition of our standing timber or a United States

For all other non-U.S. holders, such a distribution will be considered effectively connected with a U.S. trade or business of the non-U.S. holder



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was present in the United States for 183 days or more during the taxable year and has a tax home in the United States, in which case the

*Ordinary Dividends.* The special E&P distribution and the portion of other dividends received by non-U.S. holders payable out of our earnings

In general, non-U.S. holders will not be considered to be engaged in a U.S. trade or business solely as a result of their ownership of our stock

*Non-Dividend Distributions.* Unless our stock constitutes a USRPI, distributions by us which are not dividends out of our earnings and profits

*Dispositions of Potlatch Stock.* Unless our stock constitutes a USRPI, a sale of the stock by a non-U.S. holder generally will not be subject

Moreover, a non-U.S. holder's sale of stock will generally not be subject to tax under FIRPTA as a sale of a USRPI, provided that (1) the stock

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by applicable Treasury Department regulations, on an established securities market, and (2) the selling non-U.S. holder held 5% or less of our

If gain on the sale of our stock were subject to taxation under FIRPTA, the non-U.S. holder would be required to file a U.S. Federal income tax

Gain from the sale of our stock that would not otherwise be subject to FIRPTA will nonetheless be taxable in the United States to a non-U.S.

*Estate Tax.* Potlatch stock owned or treated as owned by an individual who is not a citizen or resident, as specially defined for U.S. federal

*Taxation of Tax-Exempt Stockholders*

Tax-exempt entities, including qualified employee pension and profit sharing trusts and individual retirement accounts, generally are exempt

Tax-exempt stockholders that are social clubs, voluntary employee benefit associations, supplemental unemployment benefit trusts, and qua

In certain circumstances, a pension trust that owns more than 10% of our stock could be required to treat a percentage of the dividends from

Tax-exempt stockholders are urged to consult their tax advisors regarding the federal, state, local and foreign tax consequences of owning o

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**Other Tax Considerations**

*Legislative or Other Actions Affecting REITs*

The rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and

*State, Local and Foreign Taxes*

We and any subsidiaries and stockholders may be subject to state, local or foreign taxation in various jurisdictions, including those in which v

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The validity of the Potlatch Holdings common stock to be issued to Potlatch stockholders pursuant to the merger and the special E&P distrib

The consolidated financial statements and schedule of Potlatch Corporation and consolidated subsidiaries as of December 31, 2004 and 200

Pursuant to Rule 14a-8 under the Securities and Exchange Act of 1934, stockholders may present proper proposals for inclusion in a compa

Proposals submitted for inclusion in Potlatch s proxy statement for the 2006 annual meeting of stockholders pursuant to Rule 14a-8 of the S

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AGREEMENT AND PLAN OF MERGER (this Agreement ), dated as of September 19, 2005, among Potlatch Corporation, a Delaware corporation,

WHEREAS, Potlatch has adopted an overall plan (the REIT Conversion ) to restructure its business operations so that it will qualify as a real estate investment trust,

WHEREAS, the REIT Conversion contemplates, among other things, the merger of Potlatch with and into the Operating Subsidiary (the Merger),

WHEREAS, following the Merger, Potlatch Holdings will be renamed Potlatch Corporation and will succeed to and continue to operate the business of Potlatch Holdings,

WHEREAS, for federal income tax purposes it is intended that the Merger (as hereinafter defined) qualify as a tax-free reorganization within the meaning of Section 368(a)(1)(B) of the Internal Revenue Code,

WHEREAS, the Board of Directors of Potlatch, the Board of Directors of Potlatch Holdings and the Board of Directors of the Operating Subsidiary have approved the Merger,

NOW, THEREFORE, in consideration of the foregoing, the parties hereto hereby agree as follows:

1.1 The Merger. Subject to the terms and conditions of this Agreement, at the Effective Time (as defined in Section 1.3) and in accordance with the terms of the Merger Agreement, Potlatch shall merge with and into the Operating Subsidiary, with Potlatch surviving as Potlatch Corporation.

1.2 The Closing. Subject to the terms and conditions of this Agreement, the closing of the Merger (the Closing ) shall take place at such time and place as shall be determined by the parties.



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1.3 Effective Time. Subject to the terms and conditions of this Agreement, following the Closing, the parties hereto shall, at such time as the

1.4 Effects of Merger. The Merger shall have the effects specified in the DGCL and this Agreement.

2.1 Effect on Capital Stock. At the Effective Time, by virtue of the Merger and without any further action on the part of Potlatch, Potlatch Ho

(a) Each share of common stock, par value \$1.00 per share, of Potlatch ( Potlatch Common Stock ) issued and outstanding immediately prior

(b) All shares of Potlatch Common Stock shall no longer be outstanding and shall be canceled and retired and shall cease to exist. At the Eff

(c) Each share of Potlatch Common Stock held in Potlatch s treasury at the Effective Time shall, by virtue of the Merger and without any act

(d) Each share of Potlatch Holdings Common Stock issued and outstanding immediately prior to the Effective Time shall, by virtue of the Mer

2.2 Dividends Declared Prior to the Effective Time. Potlatch s obligations with respect to any dividends or other distributions to the stockho

2.3 Potlatch Stock Incentive Plans. At the Effective Time, each option granted by Potlatch to purchase shares of Potlatch Common Stock (

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evidencing the grant thereunder of such Assumed Option; provided, however, that (i) the number of shares of Potlatch Holdings Common Stock

2.4 Surrender of Certificates for Book-Entry Shares.

(a) As of the Effective Time, Potlatch Holdings shall deposit, or shall cause to be deposited, with Computershare Investor Services, LLC, the

(b) As soon as reasonably practicable after the Effective Time, Potlatch Holdings shall cause the Exchange Agent to mail to each holder of r

(c) No dividends or other distributions declared by Potlatch Holdings in respect of Potlatch Holdings Common Stock, the record date for which



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Potlatch Holdings Common Stock with a record date after the Effective Time but with a payment date subsequent to surrender.

(d) At and after the Effective Time, there shall be no transfers on the stock transfer books of Potlatch of shares of Potlatch Common Stock with

(e) No fractional shares of Potlatch Holdings Common Stock shall be issued pursuant hereto.

(f) Any former stockholders of Potlatch who have not complied with this Article II within one year after the Effective Time shall thereafter look

(g) In the event any Certificate shall have been lost, stolen or destroyed, upon the making of an affidavit of that fact by the person claiming su

(h) None of Potlatch, Potlatch Holdings, the Operating Subsidiary, the Exchange Agent or any other person shall be liable to any former hold

3.1 Conditions as to Each Party's Obligation to Effect the Merger. The respective obligations of each party to consummate the transaction

(a) This Agreement shall have been duly adopted by the requisite vote of the stockholders of Potlatch, Potlatch Holdings and the Operating S

(b) Potlatch's Board of Directors shall have determined that the transactions constituting the REIT Conversion that have an impact on Potlat

(c) Potlatch Holdings shall have amended its Certificate of Incorporation to read substantially in the form attached hereto as Exhibit A.

(d) Potlatch Holdings shall have amended its bylaws to read substantially in the form attached hereto as Exhibit B.

(e) Potlatch shall have received from its tax counsel an opinion to the effect that the Merger qualifies as a tax-free reorganization within the m

(f) The directors of Potlatch Holdings shall be the directors of Potlatch immediately prior to the Closing.

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(g) The shares of Potlatch Holdings Common Stock issuable to stockholders of Potlatch pursuant to this Agreement shall have been approved

(h) The Registration Statement on Form S-4 to be filed with the Securities and Exchange Commission by Potlatch Holdings in connection with

(i) Potlatch's Board of Directors shall have determined, in its sole discretion, that no legislation, or proposed legislation with a reasonable probability

(j) Potlatch shall have received all governmental approvals and third party consents required to be obtained by Potlatch or its subsidiaries in

4.1 Termination of Agreement. This Agreement may be terminated and the Merger may be abandoned at any time prior to the Effective Time

4.2 Effect of Termination and Abandonment. In the event of termination of this Agreement and abandonment of the Merger pursuant to this

5.1 Further Assurances. Each of Potlatch, Potlatch Holdings, and the Operating Subsidiary shall use its best efforts to take all such actions

5.2 No Appraisal Rights. The holders of shares of Potlatch Common Stock are not entitled under applicable law to dissenters' or appraisal

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5.3 Entire Agreement. This Agreement, the Exhibits hereto and any documents delivered by the parties in connection herewith constitute the

5.4 Amendment. This Agreement may be amended by the parties hereto at any time before or after approval of the Agreement by the stock

5.5 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Delaware.

5.6 Counterparts. This Agreement may be executed by the parties hereto in separate counterparts, each of which when so executed and d

5.7 Headings. Headings of the Articles and Sections of this Agreement are for the convenience of the parties only, and shall be given no su

5.8 Incorporation. All Exhibits attached hereto and referred to herein are hereby incorporated herein and made a part hereof for all purpose

5.9 Severability. Any term or provision of this Agreement which is invalid or unenforceable in any jurisdiction shall, as to that jurisdiction, be

5.10 Waiver of Conditions. The conditions to each of the parties' obligations to consummate the Merger are for the sole benefit of such pa

5.11 No Third-Party Beneficiaries. This Agreement is not intended to confer upon any person other than the parties hereto any rights or re

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IN WITNESS WHEREOF, the parties have executed this Agreement and caused the same to be duly delivered on their behalf on the day and

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Potlatch Holdings, Inc., a corporation organized and existing under the laws of the State of Delaware, hereby certifies as follows:

1. The date of the filing of the original Certificate of Incorporation of Potlatch Holdings, Inc. with the Secretary of State of the State of Delaware
2. This Restated Certificate of Incorporation (this Restated Certificate of Incorporation ), amends, restates and integrates the provisions of
3. The text of the Original Certificate of Incorporation is hereby amended and restated in its entirety to provide as herein set forth in full.

**First:** The name of the corporation is Potlatch Corporation.

**Second:** The registered office of the corporation in the State of Delaware is located at Corporation Trust Center, 1209 Orange Street, City

**Third:** The nature of the business, or objects or purposes to be transacted, promoted or carried on are:

To engage in, do and transact a lumber, plywood, building materials, pulp, paper and forest products business in any and all its branches; to

**Fourth:** The total number of shares of stock which the corporation shall have authority to issue is one hundred four million (104,000,000). (

The Board of Directors is hereby expressly authorized, within the limitations and restrictions stated herein from time to time, by resolution:

a.

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Each series of preferred stock shall have such preferences as to dividends and assets and amounts distributable on liquidation, dissolution or

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b.



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b.

1. *DEFINITIONS.* For the purpose of this Section VI and Article Thirteenth, the following terms shall have the following meanings (reference

Aggregate Stock Ownership Limit means not more than nine and eight-tenths percent (9.80%) of the aggregate value of the outstanding s

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such percentage being subject to adjustment pursuant to Sections 2.7(c) and (d). In applying this Section VI, any questions as to value shall

**Beneficial Owner** means, with respect to any shares of Capital Stock, (i) any Person who owns such shares, whether directly or indirectly,

**Business Day** means any day, other than a Saturday or Sunday, that is neither a legal holiday nor a day on which banking institutions in N

**Capital Stock** shall mean all classes or series of stock of the corporation, including, without limitation, common stock and preferred stock.

**Charitable Beneficiary** means one or more beneficiaries of a Trust as determined pursuant to Section 3, provided that each such organiza

**Code** means the Internal Revenue Code of 1986, as amended from time to time, or any successor thereto. References herein to particula

**Constructive Ownership** means ownership of Capital Stock by a Person, whether the interest in the shares of Capital Stock is held directly

**Event** shall have the meaning set forth in Section 2.1(b)(1).

**Excepted Holder** means any Beneficial Owner or Constructive Owner of Capital Stock for whom an Excepted Holder Limit is created by th

**Excepted Holder Limit** means the limit established by the Board of Directors pursuant to Section 2.7, provided that the affected Excepted l

**Initial Date** shall mean the effective time of the merger of Potlatch Corporation with and into Potlatch Operating Company pursuant to that

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September 19, 2005, by and among Potlatch Corporation, Potlatch Holdings, Inc. and Potlatch Operating Company.

Market Price on any date means, with respect to any class or series of outstanding shares of Capital Stock, the Closing Price for such Cap

NYSE means the New York Stock Exchange.

Person means an individual, corporation, partnership, limited liability company, estate, trust (including a trust qualified under Sections 401

Prohibited Owner means, with respect to any purported Transfer or Event, any Person who, but for the provisions of Section 2.1, would Be

REIT means a real estate investment trust within the meaning of Section 856 of the Code.

Restriction Termination Date means the first day after the Initial Date on which the Board of Directors determines pursuant to Article Thirte

Transfer means any direct or indirect sale, transfer, conveyance, gift, assignment, devise or other disposition by a Person, other than the e

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Delaware as in effect from time to time ( Delaware Law ). The terms Transferring and Transferred shall have the correlative meanings

Treasury Regulations means the regulations promulgated by the Secretary of the Treasury under the Code.

Trust means any charitable trust to which Sections 2.1(b) and 3 refer.

Trustee means a Person unaffiliated with the corporation and a Prohibited Owner, that is appointed by the corporation to serve as trustee

Widely Held Investment Company means (i) a corporation (a) that is a publicly offered regulated investment company within the definiti

Widely Held Investment Company Ownership Limit means not more than twenty percent (20%) of the aggregate value of the outstanding

**2. RESTRICTIONS ON OWNERSHIP OF CAPITAL STOCK.**

**2.1 Ownership Limitations.** During the period commencing on the Initial Date and ending on the Restriction Termination Date:

(a) *Basic Restrictions.*

(1) No Person other than an Excepted Holder or a Widely Held Investment Company shall Beneficially Own shares of Capital Stock equal to

(2) No Widely Held Investment Company that is not an Excepted Holder shall Beneficially Own shares of Capital Stock equal to or in excess

(3) No Person shall Beneficially Own shares of Capital Stock to the extent that such Beneficial Ownership of Capital Stock would result in the

(4) No Person shall Constructively Own shares of Capital Stock to the extent that such Constructive Ownership would result in the corporati

(5) No Person shall Transfer any Beneficial Ownership or Constructive Ownership of Capital Stock, if, as a result of such Transfer, the Capita

(6) No Person shall Constructively Own shares of Capital Stock to the extent such Constructive Ownership of Capital Stock would result in the

(7) No Person shall Beneficially Own shares of Capital Stock to the extent such Beneficial Ownership of Capital Stock would result in the cor

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(b) *Transfer in Trust.*

(1) If any Transfer of shares of Capital Stock (whether or not such Transfer is the result of a transaction entered into through the facilities of t

(2) In determining which shares of Capital Stock are to be transferred to a Trust in accordance with this Section 2.1(b) and Section 3, shares

(3) To the extent that, upon a transfer of shares of Capital Stock pursuant to this Section 2.1(b), a violation of any provision of Section 2.1(a)

*2.2 Remedies for Breach.* If the Board of Directors shall at any time determine in good faith that a Transfer or Event has taken place that re

*2.3 Notice of Restricted Transfer.* Any Person who, by way of either a Transfer or an Event, acquires or attempts or intends to acquire Ben

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*2.4 Owners Required to Provide Information.* From the Initial Date and prior to the Restriction Termination Date:

- (a) every Beneficial Owner of more than five percent (5%) (or such lower percentage as required by the Code or the Treasury Regulations) of
- (b) each Person who is a Beneficial or Constructive Owner of Capital Stock and each Person (including the stockholder of record) who is holder

*2.5 Remedies Not Limited.* Subject to Article Thirteenth and except as provided in Section 2.7(d), nothing contained in this Section 2 shall limit

*2.6 Ambiguity.* In the case of an ambiguity in the interpretation of any of the provisions of this Section VI, the Board of Directors shall have

*2.7 Exceptions.*

- (a) The Board of Directors may, subject to such terms, conditions, representations and undertakings as it shall determine in its sole discretion,
- (b) Prior to granting any exception pursuant to Section 2.7(a), the Board of Directors may require a ruling from the Internal Revenue Service,

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(c) Except as otherwise provided in Section 2.7(d), the Board of Directors may only reduce the Excepted Holder Limit for an Excepted Holder

(d) The Board of Directors may, in its sole discretion, (i) establish an Excepted Holder Limit applicable to one or more particular Excepted Holder

*2.8 Written Notice or Legend.*

(a) Except as provided in the next sentence, within a reasonable time after the issuance or transfer of uncertificated stock of the corporation,

The shares held in book-entry form evidenced by this statement are subject to certain ownership limitations and restrictions on transfer, as provided in the

Instead of the foregoing statement, the written notice may state that the corporation will furnish a full statement about certain restrictions on ownership

(b) Except as provided in the next sentence, each certificate issued after the Initial Date for shares of Capital Stock shall bear substantially the following

The shares represented by this certificate are subject to certain ownership limitations and restrictions on transfer, as provided in the Certificate

Instead of the foregoing legend, the certificate may state that the corporation will furnish a full statement about certain restrictions on ownership



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3. TRANSFER OF CAPITAL STOCK IN TRUST.

3.1 *Ownership in Trust.* Upon any purported Transfer or Event described in Section 2.1(b) that would result in a transfer of shares of Capital

3.2 *Status of Shares Held by the Trustee.* Shares of Capital Stock held by the Trustee shall be issued and outstanding shares of Capital S

3.3 *Dividend and Voting Rights.* The Trustee shall have all voting rights and rights to dividends or other distributions with respect to shares

3.4 *Sale of Shares by Trustee.* Within 90 days of receiving notice from the corporation that shares of Capital Stock have been transferred t

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then (i) such shares shall be deemed to have been sold on behalf of the Trust and (ii) to the extent that the Prohibited Owner received an amount

3.5 *Purchase Right in Stock Transferred to the Trustee.* Shares of Capital Stock transferred to the Trustee shall be deemed to have been owned

3.6 *Designation of Charitable Beneficiaries.* By written notice to the Trustee, the corporation shall designate one or more nonprofit organizations

4. *NYSE TRANSACTIONS.* Nothing in this Section VI shall preclude the settlement of any transaction entered into through the facilities of the New York

5. *ENFORCEMENT.* The corporation is authorized specifically to seek equitable relief, including injunctive relief, to enforce the provisions of the

6. *NON-WAIVER.* No delay or failure on the part of the corporation or the Board of Directors in exercising any right hereunder shall operate as a

***Fifth:*** Election of Directors need not be by written ballot unless the By-Laws of the corporation shall so provide.

***Sixth:*** In furtherance and not in limitation of the powers conferred by statute, the Board of Directors is expressly authorized to make, alter, amend, repeal, modify, suspend, or

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***Seventh:***

A. A director of the corporation shall not be liable to the corporation or its stockholders for monetary damages for breach of fiduciary duty as

B.

i.

ii.

iii.

C. Any repeal or modification of the foregoing provisions of this Article Seventh shall not adversely affect any right or protection of any director

D. The amendment or repeal of this Article Seventh shall require the approval of the holders of shares representing at least eighty percent (80%)

***Eighth:***

A. The affirmative vote of not less than eighty percent (80%) of the outstanding shares of the corporation entitled to vote shall be required, except

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iv.

B. The vote of stockholders specified in paragraph A of this Article Eighth shall not apply to any action or transaction described in such paragraph.

C. For the purpose of this Article Eighth and guidance to the Board of Directors for the purpose of paragraph D hereof, (a) Prior Holder shall

D. The Board of Directors of the corporation shall have the power and duty to determine for the purposes of this Article Eighth, on the basis of

***Ninth:***

A. The business and affairs of the corporation shall be managed by a Board of Directors consisting of not less than seven (7) nor more than

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at the time of such meeting (or, if less, the number of directors properly nominated and qualified for election) shall be elected to hold office until

B. Subject to the rights of the holders of any series of preferred stock then outstanding, newly created directorships resulting from any increase in the number of directors shall be filled by the Board of Directors.

C. Any director or the entire Board of Directors may be removed only for cause.

**Tenth:** No action required or permitted to be taken at any annual or special meeting of the stockholders of the corporation may be taken with respect to the election or removal of directors.

**Eleventh:** The Board of Directors of the corporation, when evaluating any offer of another party to (a) make a tender or exchange offer for the corporation's securities, shall have the authority to accept or reject such offer.

**Twelfth:** The amendment or repeal of Articles Sixth, Eighth, Ninth, Tenth and Eleventh of this Restated Certificate of Incorporation shall require the affirmative vote of a majority of the Board of Directors.

**Thirteenth:** The corporation shall seek to elect and maintain status as a REIT under Sections 856-860 of the Code (as defined in Section V of this Restated Certificate of Incorporation).

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IN WITNESS WHEREOF, the corporation has caused this certificate to be signed by L. Pendleton Siegel, its Chief Executive Officer, and att

ATTEST:

**Malcolm A. Ryerse**  
**Corporate Secretary**