

POTLATCH CORP
Form 11-K
June 19, 2012

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 11-K

(Mark One)

Annual Report Pursuant to Section 15(d) of the Securities Exchange Act of 1934
For the fiscal year ended December 31, 2011

Or

Transition Report Pursuant to Section 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____
Commission File Number 1-32729

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Potlatch Salaried 401(k) Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

Potlatch Corporation
601 West First Avenue, Suite 1600
Spokane, Washington 99201

Report of Independent Registered Public
Accounting Firm and Financial Statements
with Supplemental Schedule for

Potlatch Salaried 401(k) Plan

December 31, 2011 and 2010

TABLE OF CONTENTS

	PAGE
<u>REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM</u>	1
FINANCIAL STATEMENTS	
<u>Statements of net assets available for benefits</u>	2
<u>Statements of changes in net assets available for benefits</u>	3
<u>Notes to financial statements</u>	4-12
SUPPLEMENTAL SCHEDULE REQUIRED BY THE DEPARTMENT OF LABOR	
<u>Schedule H, Line 4i - Schedule of assets (held at end of year)</u>	13
<u>SIGNATURES</u>	14
EXHIBIT 23	
Consent of Independent Registered Public Accounting Firm	

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Plan Administrator
Potlatch Salaried 401(k) Plan

We have audited the accompanying statements of net assets available for benefits of Potlatch Salaried 401(k) Plan (the Plan) as of December 31, 2011 and 2010, and the related statements of changes in net assets available for benefits for the years then ended. These financial statements are the responsibility of the Plan's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the net assets available for benefits of the Plan as of December 31, 2011 and 2010, and the changes in net assets available for benefits for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule H, Line 4i - Schedule of assets (held at end of year) as of December 31, 2011, is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan's management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Spokane, Washington
June 19, 2012

Potlatch Salaried 401(k) Plan
Statements of Net Assets Available for Benefits

	December 31,	
	2011	2010
Assets		
Participants directed investments at fair value		
Registered investment company funds:		
Vanguard Institutional Index Fund	\$7,567,932	\$—
Vanguard Total International Stock Index Fund Institutional Class	6,829,962	—
Vanguard Total Bond Market Index Fund Institutional Shares	5,011,553	—
Vanguard Extended Market Index Fund Institutional Shares	3,858,116	—
PIMCO Total Return Fund	3,728,658	4,259,501
Dodge & Cox Stock Fund	2,673,532	3,756,660
Mainstay Large Cap Growth Fund	2,377,242	4,672,300
Artisan Mid-Cap Value Fund	1,769,039	2,354,322
Artisan Mid-Cap Fund Institutional	1,603,877	—
Dodge & Cox International Fund	1,040,690	1,615,889
Timesquare Mid-Cap Growth Fund	1,028,555	2,143,658
TWC Small Cap Growth Class I	721,054	—
Artisan International Fund Institutional	567,967	—
T. Rowe Price Emerging Market Stock Fund	251,930	799
Artisan Mid-Cap Fund	—	2,723,710
Artisan International Fund	—	1,438,675
Morgan Stanley Small Company Growth Fund	—	1,630,645
Vanguard Extended Market Index Fund	—	451,952
Vanguard Total Bond Market Index Fund	—	310,496
Vanguard International Index Fund	—	211,334
T. Rowe Price Retirement Income Fund	246	348
T. Rowe Price Retirement 2005 Fund	26,188	85,870
T. Rowe Price Retirement 2010 Fund	265,336	454,057
T. Rowe Price Retirement 2015 Fund	947,216	1,963,562
T. Rowe Price Retirement 2020 Fund	829,905	1,384,419
T. Rowe Price Retirement 2025 Fund	734,902	1,219,102
T. Rowe Price Retirement 2030 Fund	402,465	585,521
T. Rowe Price Retirement 2035 Fund	202,502	613,199
T. Rowe Price Retirement 2040 Fund	155,243	359,258
T. Rowe Price Retirement 2045 Fund	61,380	48,361
T. Rowe Price Retirement 2050 Fund	59,896	40,416
T. Rowe Price Retirement 2055 Fund	1,444	1,220
Common and collective trusts:		
Putnam Stable Value Fund	18,127,441	23,581,914
Putnam S&P 500 Index Fund	—	2,711,388
Common stock:		
Potlatch Stock Fund	7,568,773	14,811,725
Total	68,413,044	73,430,301
Notes receivable from participants	641,483	838,413
Cash and cash equivalents	9,897	67,886
Employer contribution receivable	19,666	27,443
Assets available for benefits	69,084,090	74,364,043

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Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(598,148)	(1,276,673)
Net assets available for benefits	\$68,485,942	\$73,087,370
See accompanying notes.		

2

Potlatch Salaried 401(k) Plan
 Statements of Changes in Net Assets Available for Benefits

	Years Ended December 31,	
	2011	2010
Investment income:		
Interest income	\$701,426	\$890,029
Dividend income	1,556,941	1,571,135
Net appreciation (depreciation) of fair value investments	(1,840,084)	4,654,138
Net investment income	418,283	7,115,302
Interest income on notes receivable from participants	27,226	32,698
Contributions:		
Participant	1,846,775	2,000,940
Employer	819,184	806,765
Total contributions	2,665,959	2,807,705
Less distributions, fees, and transfers to other accounts:		
Distributions to participating employees:		
Cash	(7,547,463)	(10,545,863)
Market value of shares distributed in settlement of participants' accounts	(82,460)	(1,140,577)
Loan and administrative fees	(67,016)	(23,187)
	(7,696,939)	(11,709,627)
Net decrease prior to transfers	(4,585,471)	(1,753,922)
Transfers of Plan assets to Potlatch Hourly 401(k) Plan	(15,957)	(2,307)
Transfers of Plan assets to Clearwater Paper Salaried 401(k) Plan	—	(244,350)
Net decrease	(4,601,428)	(2,000,579)
Net assets available for benefits:		
Beginning of year	73,087,370	75,087,949
End of year	\$68,485,942	\$73,087,370
See accompanying notes.		

Potlatch Salaried 401(k) Plan
Notes to Financial Statements

Note 1 - Description of Plan

The following description of the Potlatch Salaried 401(k) Plan (the Plan) is provided for general information. Participants should refer to the summary Plan description for the appropriate participating unit for a more complete description of the Plan's provisions.

General - The Plan is a defined contribution plan established under the provisions of Section 401(a) of the Internal Revenue Code (IRC), which includes a cash or deferred arrangement under 401(k) of the IRC, and is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA), as amended.

Plan sponsor, administration, and spin-off - On December 16, 2008, Potlatch Forest Products Corporation was renamed Clearwater Paper Corporation (Clearwater Paper) and was spun-off from Potlatch Corporation as a publicly traded corporation. Accordingly, as of that date, the Potlatch Forest Products Corporation Savings Plan for Salaried Employees was renamed the Clearwater Paper Salaried 401(k) Plan (Clearwater Paper Plan) and Clearwater Paper assumed responsibility as the Plan sponsor.

Coincident with the spin-off, Potlatch Corporation (the Company) established this Plan, the Potlatch Salaried 401(k) Plan. Effective December 17, 2008 (the transfer date), the participant account balances and assets related to participating Potlatch salaried employees were transferred to the Plan.

The Plan is administered by the Potlatch Benefits Committee. Mercer Trust Company and Mercer HR Services (collectively Mercer) serve as the Trustee and record keeper, respectively.

Eligibility and contributions - Employees are eligible to participate in the Plan on the first of the month following their hire date.

The Plan provides that each eligible salaried employee may elect a deferred contribution up to 25% of his or her monthly earnings on a pre-tax or after-tax basis. Participants may also make rollover contributions representing distributions from other qualified plans. Eligible participants age 50 or older may elect additional catch-up contributions.

Regular status employees hired by the Company are automatically enrolled in the Plan at a 3% deferral rate 30 days after the employee becomes eligible unless they elect otherwise. This deferral percentage is increased by 1% annually until the percentage has reached 6% unless the participant elects otherwise.

The Company makes matching contributions to the Plan equal to 70% of participating contributions, not in excess of 6%, although the Company may approve a higher or lower rate.

For employees hired after January 1, 2011, the Company makes a nonelective base contribution of 3% of their eligible compensation to their respective 401(k) plans. The new benefit vests on the same schedule as his or her employer matching account as described below.

Note 1 - Description of Plan (continued)

Eligibility and contributions (continued) - All contributions are limited by certain restrictions as defined by the IRC.

Participant accounts - A separate account is maintained for each participant of the Plan. Each account is credited with the participant and employer contributions and earnings thereon. Participant accounts are valued daily based on quoted market prices.

Investment options - Participants may direct their account balance in any amount equal to any whole percentage increment into the investment options offered under the Plan, including registered investment company funds, common and collective trusts, and the Potlatch Stock Fund. Participants with an investment in the Clearwater Paper Stock Fund as of the transfer date could maintain their balances, but were not able to direct future contributions into a Clearwater Paper Stock Fund. On June 30, 2010, the Plan closed the Clearwater Paper Stock Fund. Unless otherwise directed, participant balances in the Clearwater Paper Stock Fund were transferred into T. Rowe Price age-appropriate Retirement Funds at that time. Participants may change their investment elections and make transfers between investment options daily subject to restrictions imposed by the registered investment companies.

The accounts of participants automatically enrolled in the Plan and not electing otherwise are invested in the T. Rowe Price Retirement Fund with the target date closest to the year in which the participant will reach age 65, which is the Plan's normal retirement age. Any contributions or other payments made to the Plan without investment instructions will be invested in the age-appropriate T. Rowe Price Retirement Fund until such time as the participant chooses to reinvest them.

Contributions may be temporarily held as cash prior to the execution of the investment according to the participants' direction.

Vesting and forfeitures - A participant's interest in all participant contribution accounts is fully vested and not forfeitable at any time. A participant's interest in his or her matching account becomes vested based on the participant's years of service as defined in the Plan as follows:

Years of Service	% Vested	
Less than 2	0	%
2 or more	100	%

A participant's interest in his or her matching account becomes 100% vested if the Plan terminates, or if the participant attains age 65 as an employee of the Company, becomes totally and permanently disabled, or dies while an employee. The portion of a participant's matching account not vested will be forfeited when the participant's employment terminates.

Note 1 - Description of Plan (continued)

Vesting and forfeitures (continued) - As of the end of each year, forfeitures and the earnings of such forfeitures not used to restore the matching accounts of former participants re-hired during the year may be credited against matching contributions for the following year, used to pay Plan expenses, or a combination thereof. Forfeitures for the years ended December 31, 2011 and 2010 totaled \$31,637 and \$53,797, respectively. Forfeitures used for the years ended December 31, 2011 and 2010 totaled \$57,745 and \$10,139, respectively.

Notes receivable from participants - Participants may borrow up to 50% of their vested account balance up to a maximum of \$50,000 as provided by the Plan. The loans are secured by the balance in the participant's account and bear interest at market rate, which has been determined for the applicable loans during the applicable periods to be the prime rate in effect at the beginning of the month in which the loan is taken. Repayment of principal and interest is paid ratably through payroll deductions. Loans outstanding at December 31, 2011 and 2010, bear interest at various rates ranging from 3.25% to 8.50% and mature at various times through October 2016 and December 2015, respectively.

Distributions and benefits - On termination of employment, participants may elect to receive payment in a lump sum equal to the participant's vested interest in his or her account, roll their account balances into an individual retirement account (IRA) or another employer's plan, or maintain their accounts in the Plan, subject to certain restrictions. If a terminated participant's vested account balance is \$5,000 or less, they are generally not permitted to leave their account balance in the Plan. Therefore, depending on the value of the vested account balance, one of the following will occur:

If the vested value is \$5,000 or less, but greater than \$1,000, a participant's account will be automatically rolled over to a Putnam Automatic Rollover IRA unless they elect otherwise.

If the vested value is less than \$1,000 and the participant does not elect to have such distribution paid to an eligible retirement plan in a direct rollover, the participant will receive the distribution directly in a single lump sum in cash, less associated taxes and penalties.

Participants are permitted to receive hardship distributions while still employed by the Company under certain conditions specified under the Plan, including the purchase of a primary residence, tuition payments, medical and funeral expenses, and disabilities. A participant's right to contribute to the Plan is suspended for six months upon receiving a hardship distribution.

Plan and administrative fees - Plan expenses are generally paid by the Company except to the extent those expenses are paid from participant forfeitures of employer matching contributions. Loan service fees and fees associated with processing of qualified domestic relations orders are paid by the participant.

Note 1 - Description of Plan (continued)

Party in interest and related party transactions - Certain Plan investments are managed by Mercer. These transactions and transactions within the Company Common Stock Fund are considered party in interest transactions.

Note 2 - Summary of the Significant Accounting Policies

The financial statements of the Plan are prepared on the accrual basis of accounting. Distributions to participants are recorded when paid.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Plan sponsor to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of increases and decreases in net assets available for benefits during the reporting period. Actual results could differ from those estimates and assumptions.

Investment valuation - Investment contracts held by a defined contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the Plan.

The Plan invests in the Putnam Stable Value Fund, a common and collective trust that invests in investment contracts through a collective trust. As required by the Financial Accounting Standards Board Staff Position (FSP), the statement of net assets available for benefits presents the fair value of the investment in the collective trust as well as the adjustment of the investment in the collective trust from fair value to contract value relating to the investment contracts. Guaranteed Investment Contracts are fully benefit-responsive and are recorded at contract value, which approximates fair value. Fair value is calculated by discounting the related cash flows based on current yields and similar investments. The statement of changes in net assets available for benefits is prepared on a contract value basis. The contract value of the Putnam Stable Value Fund represents contributions made under the contracts, plus earnings, less withdrawals and administrative expenses on an annualized basis. The average yield and crediting interest rate for the Putnam Stable Value Fund was approximately 3.11% and 3.23%, respectively, at December 31, 2011, and 4.02% and 4.15%, respectively, at December 31, 2010.

Investments in shares of the stock funds and mutual funds are stated at fair value, based on quoted market prices. Investments in common and collective trusts are stated at fair value based on the quoted value of the underlying investments and are expressed in units.

Note 2 - Summary of the Significant Accounting Policies (continued)

Income recognition - Net appreciation (depreciation) in fair value of investments represents realized gains and losses and the change in fair value of investments from one period to the next. Interest is recorded when earned. Dividends are recorded on the ex-dividend date. Purchases and sales of securities are recorded on a trade date basis.

Notes receivable from participants - Notes receivable from participants are measured at amortized cost, which represents the unpaid principal balance plus accrued but unpaid interest, and are classified as notes receivable.

Recent accounting pronouncements - In May 2011, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2011-04, Fair Value Measurement (Topic 820) - Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. ASU No. 2011-04 requires disclosure of valuation techniques for Level 2 and Level 3 measurements and for Level 3 measurements requires disclosure of valuation processes used by the reporting entity and quantitative information about significant unobservable inputs. ASU No. 2011-04 requires information about all transfers between levels 1 and 2, not just significant transfers, as well as additional disclosure for Level 3 measurements regarding the sensitivity of fair value to changes in unobservable inputs and any interrelationships between those inputs. It also requires disclosure of the categorization by level for items that are not measured at fair value in the statement of net assets available for benefits but are disclosed at fair value. The new guidance is effective for reporting periods beginning after December 15, 2011. Plan management does not expect the adoption of ASU No. 2011-04 to have a material effect on the statements of net assets available for benefits and statements of changes in net assets available for benefits.

Note 3 - Investments

During the years ended December 31, the Plan's investments appreciated (depreciated) (including gains and losses on investments sold during the period and the change in unrealized gains and losses at the end of the year) as follows:

	2011	2010
Potlatch Stock Fund	\$163,303	\$567,764
Common and collective trusts	133,249	364,148
Clearwater Paper Stock Fund	—	(47,697)
Registered investment company funds	(2,136,636)	3,769,923
	\$(1,840,084)	\$4,654,138

Note 3 - Investments (continued)

Fair value measurements - The Plan classifies its investments based upon an established fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three levels of the fair value hierarchy are described below:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets the Plan has the ability to access.

Level 2 Inputs to the valuation methodology include:

Quoted prices for similar assets or liabilities in active markets;

Quoted prices for identical or similar assets or liabilities in inactive markets;

Inputs other than quoted prices that are observable for the asset or liability;

Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value:

Registered investment company funds and Company stock are valued at the net asset value (NAV) of shares held by the Plan at year end.

Investments in common and collective trusts (Putnam Stable Value Fund and Putnam S&P 500 Index Fund) are recorded at fair value and adjusted to contract value. See Note 2, Investment Valuation, under Summary of Significant Accounting Policies for further discussion.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while Plan management believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Note 3 - Investments (continued)

Fair value measurements (continued) - The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value as of December 31:

	Assets at Fair Value as of December 31, 2011			Total
	Level 1	Level 2	Level 3	
Registered investment company funds:				
Index funds	\$16,437,602	\$—	\$—	\$16,437,602
Balanced funds	3,686,722	—	—	3,686,722
Growth funds	8,404,260	—	—	8,404,260
Fixed income funds	3,728,659	—	—	3,728,659
International funds	8,438,619	—	—	8,438,619
Other funds	2,020,968	—	—	2,020,968
Total registered investment company funds	42,716,830	—	—	42,716,830
Common stocks:				
REIT-Industrial	7,568,773	—	—	7,568,773
Total common stocks	7,568,773	—	—	7,568,773
Common and collective trusts:				
Putnam Stable Value Fund	—	18,127,441	—	18,127,441
Total common and collective trusts	—	18,127,441	—	18,127,441
Total assets at fair value	\$50,285,603	\$18,127,441	\$—	\$68,413,044
	Assets at Fair Value as of December 31, 2010			Total
	Level 1	Level 2	Level 3	
Registered investment company funds:				
Index funds	\$973,782	\$—	\$—	\$973,782
Balanced funds	6,755,333	—	—	6,755,333
Growth funds	14,926,973	—	—	14,926,973
Fixed income funds	4,259,501	—	—	4,259,501
International funds	3,054,564	—	—	3,054,564
Other funds	2,355,121	—	—	2,355,121
Total registered investment company funds	32,325,274	—	—	32,325,274
Common stocks:				
REIT-Industrial	14,811,725	—	—	14,811,725
Total common stocks	14,811,725	—	—	14,811,725
Common and collective trusts:				
Putnam Stable Value Fund	—	23,581,914	—	23,581,914
Putnam S&P 500 Index Fund	—	2,711,388	—	2,711,388
Total common and collective trusts	—	26,293,302	—	26,293,302