POTLATCH CORP
Form 11-K
June 10, 2008
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 11-K

x **ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2007

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 Forest Products Corporation Salaried Employees Savings 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

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POTLATCH FOREST PRODUCTS CORPORATION

SALARIED EMPLOYEES SAVINGS PLAN

Financial Statements and Supplemental Schedule

December 31, 2007 and 2006

(With Report of Independent Registered Public Accounting Firm)

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EMPLOYEES SAVINGS PLAN

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Report of Independent Registered Public Accounting Firm

Potlatch Forest Products Corporation, Plan Administrator

Potlatch Forest Products Corporation Salaried Employees

Savings Plan:

We have audited the accompanying statements of net assets available for benefits of Potlatch Forest Products Corporation Salaried Employees Savings Plan (the Plan) as of December 31, 2007 and 2006, 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, 2007 and 2006, and the changes in net assets available for benefits for the years then ended, in conformity with U.S. generally accepted accounting principles.

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) is presented for purposes 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. This 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.

/S/ KPMG LLP

Portland, Oregon

June 9, 2008

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POTLATCH FOREST PRODUCTS CORPORATION SALARIED

EMPLOYEES SAVINGS PLAN

Statements of Net Assets Available for Benefits

December 31, 2007 and 2006

	2007	2006
Assets:		
Cash and cash equivalents	$ 45,265	$ 55,388
Investments, at fair value (note 2):		
Shares in registered investment companies:		
Lord Abbett Mid-Cap Value Fund	10,396,091	9,819,670
Royce Total Return Fund	10,014,593	9,769,362
Artisan Mid-Cap Fund	8,224,774	5,754,814
PIMCO Total Return Fund	5,999,252	4,929,618
Morgan Stanley Small Company Growth Fund	5,042,038	5,078,952
Putnam Voyager Fund	10,853,081	12,546,177
Putnam Fund for Growth and Income	10,207,261	11,648,279
George Putnam Fund of Boston	5,149,824	4,737,114
Putnam International Equity Fund	11,275,415	8,211,044
Common and collective trust:		
Putnam Stable Value Fund	43,173,883	38,719,645
Putnam S&P 500 Index Fund	8,615,761	8,379,394
Common stock:		
Potlatch Stock Fund	48,380,765	58,943,720
Investments, at cost:		
Participant loans	3,537,773	3,307,512
Total investments	180,870,511	181,845,301
Employer contribution receivable	87,812	35,037
Net assets available for benefits, at fair value	181,003,588	181,935,726
Adjustment from fair value to contract value for fully benefit-responsive investment contracts	(876,404)	49,360
Net assets available for benefits	$ 180,127,184	$ 181,985,086

See accompanying notes to financial statements.

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POTLATCH FOREST PRODUCTS CORPORATION SALARIED

EMPLOYEES SAVINGS PLAN

Statements of Changes in Net Assets Available for Benefits

Years ended December 31, 2007 and 2006

	2007	2006
Income on fund transactions:		
Interest income	$ 223,879	$ 191,720
Dividend and other income	13,244,120	26,018,239
	13,467,999	26,209,959
Contributions (note 1):		
Employee	7,121,713	7,076,823
Rollovers	178,888	369,404
Employer	3,008,764	2,981,930
	10,309,365	10,428,157
Net transfers from other plans	384,145	695,398
Total increases	24,161,509	37,333,514
Less distributions, fees and transfers to other accounts:		
Distributions to participating employees:		
Cash	18,785,362	16,370,711
Market value of shares distributed in settlement of employees accounts	3,144,725	828,066
Loan and administrative fees	7,972	8,710
Total decreases	21,938,059	17,207,487
Market value depreciation of assets (note 3)	4,081,352	2,804,459
Total decreases	26,019,411	20,011,946
Net increase (decrease)	(1,857,902)	17,321,568
Net assets available for benefits:		
Beginning of year	181,985,086	164,663,518
End of year	$ 180,127,184	$ 181,985,086

See accompanying notes to financial statements.

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POTLATCH FOREST PRODUCTS CORPORATION SALARIED

EMPLOYEES SAVINGS PLAN

Notes to Financial Statements

December 31, 2007 and 2006

(1) Description of Plan

The following description of the Potlatch Forest Products Corporation Salaried Employees Savings Plan (the Plan) is provided for general information. Participants should refer to the summary plan description for a more complete description of the Plan s provisions.

The Plan is sponsored and administered by Potlatch Forest Products Corporation (the Company). The Plan is a defined contribution plan 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.

The Plan provides that each eligible salaried employee (as defined by the Plan) may make a participating contribution up to 6% of his or her monthly earnings and a voluntary contribution up to 19% of such monthly earnings. The employee elects how much of his or her contribution is to be deferred (deducted before income taxes are withheld) and how much is to be nondeferred (deducted after income taxes are withheld). Participants can also make rollover contributions representing distributions from other qualified plans, subject to certain restrictions. Participants may direct their contributions to be invested in the shares of a variety of registered investment companies (mutual funds) and common collective investment trusts offered by Putnam Investment Management, Inc. (Putnam) and a Potlatch Stock Fund. Participants can change their investment elections on a daily basis, subject to restrictions imposed by mutual fund companies.

Regular status employees hired by the Company on or after April 1, 2007 are automatically enrolled in the Plan 30 days after employee becomes eligible. Newly eligible participants will be deemed to have elected to make elective deferral contributions to the Plan unless they indicate otherwise in accordance with the Plan s election process. If a participant does not make their own election or opts out of Plan participation before they are automatically enrolled, 3% of their eligible pay will be contributed to the Plan on a before-tax basis through payroll deductions and invested in the George Putnam Fund of Boston. This deferral percentage will be increased by 1% annually on each employee s anniversary of their automatic enrollment date until the percentage has reached 6%.

The Company makes matching contributions to the Plan equal to 70% of employee participating contributions for each plan year, provided, however, that the employer may fix a higher or lower rate. Beginning October 2006, participants may direct employer matching contributions into any of the investment options offered by the Plan. In addition, participants may diversify their employer matching contribution into any of the other investment options. Employee and employer contributions are limited by certain restrictions as defined by the IRC.

A separate account is maintained for each participant of the Plan. Each account is credited with the employee and employer contributions and earnings thereon.

A participant s interest in his or her deferred, non-deferred and rollover accounts is fully vested and nonforfeitable at all times. 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. A participant s matching account will become 100% vested without regard to the participant s years of service if the Plan terminates or if the participant attains age 65 as an employee of the Company or 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

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POTLATCH FOREST PRODUCTS CORPORATION SALARIED

EMPLOYEES SAVINGS PLAN

Notes to Financial Statements

December 31, 2007 and 2006

participant s employment terminates. As of the end of each year, forfeitures and the earnings of such forfeitures not used to restore the matching accounts of former participants rehired during the year will be credited against the amount of matching contributions for the following year or be used to pay plan expenses, or a combination thereof. At December 31, 2007 and 2006, forfeited nonvested accounts totaled approximately $29,400 and $132,400, respectively. During 2007 and 2006, forfeitures totaling approximately $41,700 and $84,800, respectively, were used to reduce employer contributions.

Participants may borrow from their fund accounts as provided by the Plan and defined in the Plan documents. 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 periodic payroll deductions. Loans outstanding at December 31, 2007 and 2006 bear interest at various rates ranging from 4.0% to 9.5% and mature at various times through April 2019.

On termination of employment, participants can 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 IRA or another employer s plan, or maintain their accounts in the Plan, subject to certain restrictions.

Plan expenses are generally paid by the Company except to the extent that 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.

(2) Summary of the Significant Accounting Policies

The financial statements of the Plan are prepared on the accrual basis of accounting. Purchases and sales of securities are recorded on the trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

The preparation of financial statements in conformity with U.S. generally accepted accounting principles 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.

As described in Financial Accounting Standards Board Staff Position (FSP) AAGINV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans* (the FSP), 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 the Putnam Stable Value Fund which invests in investment contracts through a collective trust. As required by the 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. The statement of changes in net assets available for benefits is prepared on a contract value basis.

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POTLATCH FOREST PRODUCTS CORPORATION SALARIED

EMPLOYEES SAVINGS PLAN

Notes to Financial Statements

December 31, 2007 and 2006

Investments in shares of registered investment companies are stated at fair value, based on the net asset value of the underlying investments and are valued daily. Investments in common and collective trusts are stated at fair value based on the value of the underlying investments and are expressed in units. The Plan s investments in common and collective trusts are valued using the audited financial statements of the collective trusts at year end. The contract value of the Putnam Stable Value Fund represents contributions made under the contracts, plus earnings, less withdrawals and administrative expenses. The average yield to maturity and crediting interest rate for that fund was approximately 3.4% and 4.9%, respectively, at December 31, 2007 and 4.6% and 4.6%, respectively, at December 31, 2006. The Potlatch Stock Fund is stated at fair value based on the quoted market price of the underlying shares of stock held at year end. Participant loans are recorded at cost, which approximates fair value.

Distributions to participants are recorded when paid.

The Plan invests in shares of registered investment companies, common and collective trusts and the Potlatch Stock Fund. The underlying investments of such funds, in general, are exposed to various risks such as interest rate, credit, and overall market volatility. Due to the level of risk associated with such investments, it is reasonably possible that changes in the values of underlying investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statements of net assets available for benefits.

The Plan invests in securities with contractual cash flows, such as asset backed securities, collateralized mortgage obligations and commercial mortgage backed securities, including securities backed by subprime mortgage loans. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate value, delinquencies or defaults, or both, and may be adversely affected by shifts in the market s perception of the issuers and changes in interest rates.

(3) Investments

The value of individual investments that represent 5% or more of the plan s net assets at December 31, 2007 or 2006 are as follows:

	December 31	
	2007	**2006**
Potlatch Stock Fund	$ 48,380,765	$ 58,943,720
Putnam Stable Value Fund	43,173,883	38,719,645
Putnam International Equity Fund	11,275,415	8,211,044
Putnam Voyager Fund	10,853,081	12,546,177
Lord Abbett Mid-Cap Value Fund	10,396,091	9,819,670
Putnam Fund for Growth and Income	10,207,261	11,648,279
Royce Total Return Fund	10,014,593	9,769,362
	144,301,089	149,657,897
Other investments	36,569,422	32,187,404
	$ 180,870,511	$ 181,845,301

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POTLATCH FOREST PRODUCTS CORPORATION SALARIED

EMPLOYEES SAVINGS PLAN

Notes to Financial Statements

December 31, 2007 and 2006

During the years ended December 31, 2007 and 2006, the Plan s investments appreciated (depreciated) (including gains and losses on investments sold during the year and unrealized gains and losses at the end of the year) as follows:

	Years ended December 31 2007	2006
Potlatch Stock Fund	$ 1,492,808	$ (6,088,962)
Common and collective trusts	442,866	1,037,462
Shares in registered investment companies	(6,017,026)	2,247,041
	$ (4,081,352)	$ (2,804,459)

Information about net assets and significant components of changes in net assets relating to the Potlatch Stock Fund below includes participant-directed investments. During 2006, the Potlatch Stock Fund became totally participant directed.

	December 31 2007	2006
Potlatch Stock Fund	$ 48,380,765	$ 58,943,720

Changes in net assets:

	Years ended December 31 2007	2006
Dividends, interest and other income	$ 2,246,811	$ 19,065,967
Net appreciation (depreciation)	1,492,808	(6,088,962)
Contributions	1,127,886	3,093,621
Transfers from other plans, net	128,212	256,670
Transfer to participant-directed investments, net	(7,941,497)	(7,425,797)
Benefit payments to participants	(7,536,494)	(3,598,513)
Fees and other	(80,681)	(66,914)
	$ (10,562,955)	$ 5,236,072

Potlatch Corporation common stock represented 27% and 32%, respectively, of net assets at December 31, 2007 and 2006. The fair value of Potlatch Corporation common stock at December 31, 2007 and 2006 was $44.44 and $43.82 per share, respectively.

(4) Plan Termination

Although the Company expects to continue the Plan indefinitely, inasmuch as future conditions cannot be foreseen, the Company reserves the right to amend or terminate the plan at any time subject to the rules of ERISA. In the event of plan termination, participants will become 100% vested in their employer accounts.

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POTLATCH FOREST PRODUCTS CORPORATION SALARIED

EMPLOYEES SAVINGS PLAN

Notes to Financial Statements

December 31, 2007 and 2006

(5) Tax Status

The Internal Revenue Service has determined by a letter dated April 16, 2003, that the Plan and related trust are designed in accordance with applicable sections of the IRC. The Plan has been amended since that date, however management believes that the Plan is designed and continues to operate in material compliance with the IRC.

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Schedule I

POTLATCH FOREST PRODUCTS CORPORATION SALARIED

EMPLOYEES SAVINGS PLAN

Schedule H, Line 4i Schedule of Assets (Held at End of Year)

December 31, 2007

	Identity of issue, borrower, lessor, or similar party	Description of investment including maturity date, rate of interest, collateral, par, or maturity value	Cost	Current value
		Shares in registered investment companies:		
	Lord Abbett Funds	Lord Abbett Mid-Cap Value Fund	$ 11,898,673	$ 10,396,091
	Royce Funds	Royce Total Return Fund	9,728,866	10,014,593
	Artisan Funds	Artisan Mid-Cap Fund	8,092,026	8,224,774
	Morgan Stanley Funds	Morgan Stanley Small Company Growth Fund	4,990,374	5,042,038
	PIMCO Funds	PIMCO Total Return Fund	5,901,308	5,999,252
	Putnam Investments	Putnam Voyager Fund	11,249,160	10,853,081
	Putnam Investments	Putnam Fund for Growth and Income	12,368,025	10,207,261
	Putnam Investments	Putnam International Equity Fund	11,838,588	11,275,415
	Putnam Investments	George Putnam Fund of Boston	5,608,727	5,149,824
		Common and collective trusts:		
	Putnam Investments	Putnam Stable Value Fund	42,297,479	43,173,883
	Putnam Investments	Putnam S&P 500 Index Fund	7,057,984	8,615,761
		Common stock:		
*	Potlatch Corporation	Potlatch Stock Fund	41,990,128	48,380,765
*	Plan participants	Participant loans with interest from 4.0% to 9.5% and mature at various times through April 2019.		3,537,773
		Total investments		$ 180,870,511

* Represents a party-in-interest at December 31, 2007.
See accompanying report of independent registered public accounting firm.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the administrator of the Plan has duly caused this annual report to be signed on its behalf by the undersigned thereunto duly authorized:

Potlatch Forest Products Corporation Salaried Employees Savings Plan

By /S/ Terry L. Carter
Terry L. Carter, Controller
on behalf of the administrator of the

Potlatch Forest Products Corporation

Salaried Employees Savings Plan

Date: June 9, 2008

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POTLATCH FOREST PRODUCTS CORPORATION

SALARIED EMPLOYEES SAVINGS PLAN

Exhibit Index

	Exhibit
Consent of Independent Registered Public Accounting Firm	(23)

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