POTLATCH CORP
Form 10-K
February 14, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 10-K

(Mark One)	x	ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
		For the fiscal year ended December 31, 2013
	o	TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
		For the transition period from to .

Commission File Number 1-32729
POTLATCH CORPORATION
(Exact name of registrant as specified in its charter)

Delaware	82-0156045
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)
601 West 1st Ave., Suite 1600	
Spokane, Washington	99201
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (509) 835-1500
Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock ($1 par value)	The Nasdaq Global Select Market

Securities registered pursuant to Section 12(g) of the Act: None
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. x Yes ¨ No
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act ¨ Yes x No
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes ¨ No
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes ¨ No
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting

company” in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer ¨ Non-accelerated filer (Do not check if a smaller reporting company) ¨ Smaller reporting company ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). ¨ Yes x No
The aggregate market value of the common stock held by non-affiliates of the registrant at June 30, 2013, was approximately $1,638.9 million, based on the closing price of $40.44.
As of January 31, 2014, 40,536,879 shares of the registrant's common stock, par value $1 per share, were outstanding.
DOCUMENTS INCORPORATED BY REFERENCE
Portions of the definitive proxy statement expected to be filed on or about April 1, 2014, with the Commission in connection with the 2014 annual meeting of stockholders are incorporated by reference in Part III hereof.

POTLATCH CORPORATION AND CONSOLIDATED SUBSIDIARIES
Table of Contents

EXPLANATORY NOTE

For purposes of this report, any references to "the company," “us,” “we,” and “our” include Potlatch Corporation and its consolidated subsidiaries.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING INFORMATION

This report contains, in addition to historical information, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including without limitation, statements regarding:

- timber inventory;
- payments under timber cutting contracts;
- increasing lumber demand and pricing in North America in 2014;
- increased North American housing starts and repair and remodel activity;
- the expected positive effect on timber prices of increased lumber demand and higher lumber prices;
- expected sawlog prices in 2014;
- expected 2014 overall timber harvest of 4.8 million tons;
- expected sales of 110,000 to 120,000 acres of HBU property, 80,000 to 90,000 acres of rural real estate property and 10,000 to 20,000 acres of non-strategic timberland over the next 10 years;
- funding of our dividend distributions in 2014;
- compliance with REIT tax rules;
- FSC certification of our timberlands;
- expectations regarding premium prices for FSC-certified logs and FSC-certified lumber;
- realization of deferred tax assets;
- expected capital expenditures in 2014;
- expectations regarding funding of our pension plans in 2014;
- estimated future benefit payments;
- estimated future payments under operating leases; and
- expected liquidity in 2014 to fund our operations, regular stockholder distributions, capital expenditures and debt service obligations and related matters.

Words such as “anticipate,” “expect,” “will,” “intend,” “plan,” “target,” “project,” “believe,” “seek,” “schedule,” “estimate,” “c and similar expressions are intended to identify such forward-looking statements. These forward-looking statements reflect our current views regarding future events based on estimates and assumptions, and are therefore subject to known and unknown risks and uncertainties and are not guarantees of future performance.

Our actual results of operations could differ materially from our historical results or those expressed or implied by forward-looking statements contained in this report. Important factors that could cause or contribute to such differences include, but are not limited to, the following:

- changes in timber growth rates;
- changes in silviculture;
- timber cruising variables;
- changes in state forest acts or best management practices;
- changes in timber harvest levels on our lands;
- changes in timber prices;
- changes in timberland values;
- changes in policy regarding governmental timber sales;
- changes in the United States and international economies;
- changes in interest rates and discount rates;
- changes in requirements for FSC certification;
- changes in the level of residential and commercial construction and remodeling activity;
- changes in tariffs, quotas and trade agreements involving wood products;
- changes in demand for our products;

- changes in production and production capacity in the forest products industry;
- competitive pricing pressures for our products;
- unanticipated manufacturing disruptions;
- changes in general and industry-specific environmental laws and regulations;

- unforeseen environmental liabilities or expenditures;
- weather conditions;
- changes in raw material and other costs;
- collectability of amounts owed by customers;
- changes in federal and state tax laws;
- the ability to satisfy complex rules in order to remain qualified as a REIT; and
- changes in tax laws that could reduce the benefits associated with REIT status.

For a discussion of some of the factors that may affect our business, results and prospects, see Part 1 - Item 1A. Risk Factors.

Forward-looking statements contained in this report present our views only as of the date of this report. Except as required under applicable law, we do not intend to issue updates concerning any future revisions of our views to reflect events or circumstances occurring after the date of this report.

Part I

ITEM 1. BUSINESS

General

Potlatch Corporation is a real estate investment trust (REIT) with approximately 1.4 million acres of timberlands in Arkansas, Idaho and Minnesota. We derive much of our income from investments in real estate, including the sale of standing timber. Through wholly owned taxable REIT subsidiaries, which we refer to collectively in this report as Potlatch TRS, we operate a real estate sales and development business and five wood products manufacturing facilities that produce lumber and plywood.

Our businesses are organized into three operating segments:

- Resource: Our Resource segment manages our timberlands to optimize revenue producing opportunities while adhering to our strict stewardship standards. Management activities include planting and harvesting trees and building and maintaining roads. The Resource segment also generates revenues from non-timber resources such as hunting leases, recreation permits and leases, mineral rights leases, biomass production, carbon sequestration and other leasing opportunities.
- Wood Products: Our Wood Products segment manufactures and markets lumber and plywood.
- Real Estate: The business of our Real Estate segment consists primarily of the sale of land holdings deemed non-strategic or identified as having higher and better use alternatives. The Real Estate segment engages in real estate sales, subdivision and development activities through Potlatch TRS.

Additional information regarding each of our operating segments is included in this section, as well as in Management's Discussion and Analysis of Financial Condition and Results of Operations and Note 17: Segment Information in the Notes to Consolidated Financial Statements.

We are focused on the ownership of timberland, which we view as a unique and attractive asset due to the renewable nature of timber resources and timber’s long-term history of price appreciation in excess of inflation. Our primary objectives include using our timberland investments to generate income and maximizing the long-term value of our assets. We pursue these objectives by adhering to the following strategies:

- Managing our timberlands to improve their long-term sustainable yield. We manage our timberlands in a manner designed to optimize the balance among timber growth, prudent environmental management and current cash flow, in order to achieve increasing levels of sustainable yield over the long term. We may choose to harvest timber at levels above or below our then-current estimate of sustainability for various reasons from time to time, including improving the long-term productivity of certain timber stands or in response to market conditions. In addition, we focus on optimizing timber returns by continually improving productivity and yields through advanced silvicultural practices that take into account soil, climate and biological considerations.
- Pursuing attractive acquisitions. We actively pursue timberland acquisitions that meet our financial and strategic criteria. The critical elements of our acquisition strategy generally include acquiring properties that complement our existing land base, are immediately cash flow accretive and have attractive timber or higher and better use (HBU) values.
- Maximizing the value of our non-core timberland real estate. A portion of our acreage is more valuable for development or recreational purposes than for growing timber. We continually assess the potential uses of our lands to manage them proactively for the highest value. We have identified approximately 15% of our timberlands as having values that are potentially greater than timberland values.
- Practicing sound environmental stewardship. We pursue a program of environmental stewardship and active involvement in federal, state and local policymaking to maximize our assets’ long-term value. We manage our timberlands in a manner consistent with the principles set forth by the Forest Stewardship Council (FSC).

Potlatch Corporation, formerly known as Potlatch Holdings, Inc., was incorporated in Delaware in September 2005 to facilitate a restructuring to qualify for treatment as a REIT for federal income tax purposes. It is the successor to the business of the original Potlatch Corporation, which was incorporated in Delaware in 1903.

Effective January 1, 2006, we restructured our operations to qualify for treatment as a REIT for federal income tax purposes. As a REIT, if we meet certain requirements we generally are not subject to federal and state corporate income taxes on our income from investments in real estate that we distribute to our stockholders, including the income derived from the sale of standing timber. We are, however, subject to corporate taxes on certain built-in gains (the excess of fair market value at January 1, 2006 over tax basis on that date) on sales of real property (other than timber) held by the REIT during the first ten years following our conversion to a REIT, except for sales that occurred in 2011, 2012 and 2013. The Small Business Jobs Act of 2010 modified the built-in gains provisions to exempt sales of real properties by a REIT in 2011, if five years of the recognition period had elapsed before January 1, 2011. The American Taxpayer Relief Act of 2012, enacted on January 2, 2013, extended the reduced five-year holding period for sales that occurred in 2012 and 2013. If applicable, the built-in gains tax is eliminated or deferred if sale proceeds are reinvested in accordance with the like-kind exchange provisions of the Internal Revenue Code. The built-in gains tax is not applicable to the sale of timber pursuant to a stumpage sale agreement or timber deed. We are required to pay federal corporate income taxes on income from our non-real estate investments, principally the operations of Potlatch TRS.

The REIT tax rules require that we derive most of our income, other than income generated by a taxable REIT subsidiary, from investments in real estate, which for us primarily consists of income from the sale of our standing timber. Accordingly, we restructured to create a new parent company that holds our timberlands through a REIT subsidiary and substantially all of our non-timberland assets, consisting primarily of our manufacturing facilities, assets used for the harvesting of timber and the sale of logs, and selected land parcels that we expect to be sold or developed for higher and better use purposes, through Potlatch TRS. Our use of Potlatch TRS, which is taxed as a C corporation, enables us to continue to engage in these non-REIT qualifying businesses while complying with the REIT requirements.

Available Information

We make available on or through our website, www.potlatchcorp.com (under “Investor Resources – SEC Filings”), our periodic and current reports that we file with, or furnish to, the Securities and Exchange Commission, or SEC, at no charge as soon as reasonably practicable after we electronically file the information with, or furnish it to, the SEC. Information on our website is not part of this report. In addition, the reports and materials that we file with the SEC are available at the SEC’s website (http://www.sec.gov) and at the SEC’s Public Reference Room at 100 F Street N.E., Washington DC 20549. Interested parties may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Business Segments

Resource Segment

Industry Background. The demand for timber depends primarily upon the markets for wood related products, including lumber, panel products, paper and other pulp-based products. The end uses for timber vary widely, depending on species, size and quality. Historically, timber demand has experienced cyclical fluctuations, although sometimes at different times and rates within the markets for sawlogs and pulpwood. The demand for sawlogs, lumber and other manufactured wood products is significantly dependent upon the level of new residential construction and remodeling activity, which, in turn, is affected by general economic and demographic factors, including population growth, new household formations, interest rates for home mortgages and construction loans, and credit availability. Reductions in residential construction and remodeling activities are generally followed by declining lumber prices, which are usually followed by declining log prices within a fairly short period of time. The demand for pulpwood is dependent on the paper and pulp-based manufacturing industries, which are affected by domestic and international economic conditions, global population growth and other demographic factors, industry capacity and the value of the U.S. dollar in relation to foreign currencies. Locally, timber demand also fluctuates due to the expansion or closure of individual wood products and pulp-based manufacturing facilities.

Over the past two decades, timber supplies have tightened relative to demand. Particularly in the western United States, the supply of timber has been significantly affected by reductions in timber sales by the United States government and by state governments. These reductions have been caused primarily by increasingly stringent environmental and endangered species laws and by a change in the emphasis of domestic governmental policy toward habitat preservation, conservation and recreation, and away from timber management. Because most timberlands in the southeastern United States are privately owned, changes in sales of publicly owned timber affect local timber supplies and prices in the Southeast less immediately than in the western United States and other regions with large proportions of public timber ownership. Timber supplies can fluctuate depending upon factors such as changes in weather conditions and harvest strategies of local forest products industry participants, as well as occasionally high timber salvage efforts due to storm damage, unusual pest infestations such as the mountain pine beetle, or fires. Local timber supplies also change in response to prevailing timber prices. Rising timber prices often lead to increased harvesting on private timberlands, including lands not previously made available for commercial timber operations. Currently, the supply of timber generally is adequate to meet demand.

Operations. The Resource segment manages approximately 1.4 million acres of timberlands we own in two regions of the United States: the Northern region, consisting of our Idaho and Minnesota timberlands; and the Southern region, consisting of our Arkansas timberlands. We are the largest private landowner in Idaho. The following table provides additional information on our timberlands.

REGION	STATE	DESCRIPTION	ACRES (thousands)
Northern region	Idaho	Variety of commercially viable softwood species, such as grand fir, Douglas fir, inland red cedar and other associated softwoods	805
	Minnesota	Primarily aspen, pine and other mixed hardwoods	197
		Total Northern region	1,002
Southern region	Arkansas	Primarily southern yellow pine and other hardwoods	410
		Total	1,412

Our timberlands include a wide diversity of softwood and hardwood species and are certified by the FSC. As a participant in this program, we adhere to principles that include commitments to sustainable forestry, responsible practices, forest health and productivity, and protection of special sites. We are generally able to sell FSC-certified logs at premium prices.

As of the end of 2013, our estimated standing timber inventory is approximately 56 million tons. This estimate is derived using methods consistent with industry practice and is based on statistical methods and field sampling. Efforts are made to periodically update this estimate for growth, harvest, acquisitions and disposals. The estimated inventory volume includes timber from environmentally sensitive areas where the timberlands are managed in a manner consistent with best management practices, state forest practice acts and the FSC forest management standard.

The aggregate estimated volume of current standing timber inventory is updated at least annually to reflect increases in merchantable timber due to reclassification of young growth to merchantable timber, the annual growth rates of merchantable timber and the acquisition of additional merchantable timber, and to reflect decreases due to timber harvests and land sales. Timber volumes are estimated from cruises of the timber tracts, which are completed on our timberlands on approximately a five to ten year cycle. Since the individual cruises collect field data at different times for specific sites, the growth model projects standing inventory from the cruise date to a common reporting date. Annual growth rates for the merchantable inventory have historically been in the range of 2%-5%.

The primary business of the Resource segment is the management of our timberlands to optimize the value of all possible revenue producing opportunities while adhering to our strict stewardship standards. Management activities include planting and harvesting trees and building and maintaining roads. The segment also seeks to increase our revenues from non-timber resources such as from hunting leases, recreation permits and leases, mineral rights leases, biomass production, carbon sequestration and various other leasing opportunities.

Our strategic focus involves increasing harvest levels in ways that ensure long-term sustainability while maintaining high stewardship standards, increasing timber harvest levels in times of strong market demand and decreasing harvest levels in times of weak demand, and seeking accretive acquisitions that complement our existing timberland base. Because timber is a renewable resource, our objective is to maximize cash flow over the long term by managing our timberlands on a sustainable yield basis, reflecting a balance between timber growth and harvesting. From time to time, however, we may choose, consistent with our environmental commitments, to harvest timber at levels above or below our estimate of sustainability for various reasons. To maximize our timberlands' long-term value, we manage them intensively, based upon timber species and local growing conditions. Our harvest plans take into account changing market conditions, are designed to contribute to the growth of the remaining timber, and reflect our policy of environmental stewardship. We reforest our acreage in a timely fashion to enhance its long-term value. We employ silvicultural techniques to improve timber growth rates, including vegetation control, fertilization and thinning. In deciding whether to implement any silvicultural practice, we analyze the associated costs and long-term benefits, with the goal of achieving an attractive return over time.

Our short-term and long-term harvest plans are critical factors in our long-term management process. Each year, we prepare a harvest plan designating the timber tracts and volumes to be harvested during that particular year. We also update our long-term harvest plan annually. Each harvest plan reflects our analysis of the age, size and species distribution of our timber, as well as our expectations about harvest methods, growth rates, the volume of each species to be harvested, anticipated acquisitions and dispositions, thinning operations, regulatory constraints and other relevant information. Among other things, the optimal harvest cycles, or rotations, for timber vary by location and species and tend to change over time as a result of silvicultural advances, changes in the markets for different sizes and ages of timber and other factors. Since harvest plans are based on projections of weather, timber growth rates, regulatory constraints and other assumptions, many of which are beyond our control, there can be no assurance that we will be able to harvest the volumes projected or the specific timber stands designated in our harvest plans. Detailed harvest information by region and product is presented in Management's Discussion and Analysis of Financial Condition and Results of Operations. The following table presents a summary of our total 2013 fee timber harvest by region.

	FEE TIMBER HARVESTED (TONS)			
(in thousands)	SAWLOGS	PULPWOOD	STUMPAGE	TOTAL
Northern region	2,032	128	25	2,185
Southern region	694	822	8	1,524
Total	2,726	950	33	3,709

Based on our current projections that take into consideration such factors as market conditions, the ages of our timber stands and recent timberland sales and acquisitions, we expect the overall timber harvest from our lands in 2014 to total approximately 3.8 million tons.

The volume and value of timber that can be harvested from our lands may be affected by natural disasters such as fire, insect infestation, disease, ice storms, hurricanes, wind storms, floods and other weather conditions and causes. We assume substantially all risk of loss to the standing timber we own from fire and other hazards, consistent with industry practice in the United States, because insuring for such losses is not practicable.

The Resource segment sells a portion of its logs at market prices to our wood products manufacturing facilities. Intersegment sales to our wood products manufacturing facilities in 2013 were approximately 25% of our total Resource segment revenues. The segment also sells sawlogs and pulpwood to a variety of forest products companies located near our timberlands. The segment's customers range in size from small operators to multinational corporations. The segment competes with owners of timberlands that operate in areas near our timberlands, ranging from private owners of small tracts of land to some of the largest timberland companies in the United States. The segment competes principally on the basis of distance to market, price, log quality and customer service.

In 2013, approximately 36% of our Northern region's volume and 37% of our Southern region's volume was sold under log supply agreements. We expect approximately the same amount to be sold under log supply agreements in 2014. In general, our log supply contracts require a specified volume of timber to be delivered to certain customer facilities at prices that are adjusted periodically to reflect market conditions. Prices in our Northern region contracts are adjusted periodically by species to prevailing market prices for logs, lumber, wood chips and other residuals. Prices in our Southern region contracts are adjusted every three months for pine and hardwood logs based on prevailing market prices for logs. Currently our log supply agreements are in place for two to three years. Idaho Forest Group, LLC represented slightly more than 10% of our consolidated revenues in 2013 and 2012.

Our operations are subject to numerous federal, state and local laws and regulations, including those relating to the environment, endangered species, our forestry activities, and health and safety. Due to the significance of regulation to our business, we integrate wildlife, habitat and watershed management into our resource management practices. We also take an active approach to regulatory developments by participating in standard-setting where possible. We work cooperatively with regulators to create voluntary conservation plans that address environmental concerns while preserving our ability to operate our timberlands efficiently. Despite our active participation in governmental policymaking and regulatory standard-setting, there can be no assurance that endangered species, environmental and other laws will not restrict our operations or impose significant costs, damages, penalties and liabilities on us. In particular, we anticipate that endangered species and environmental laws will generally become increasingly stringent.

Wood Products Segment

Our Wood Products segment manufactures and markets lumber and plywood at five mills located in Arkansas, Idaho, Michigan and Minnesota. The segment's products are largely commodity products, which are sold through our sales offices to end users, retailers or wholesalers for nationwide distribution primarily for use in home building, industrial products and other construction activity.

A description of our wood products manufacturing facilities, which are all owned by us, together with their respective 2013 capacities and actual production, are as follows:

	ANNUAL CAPACITY[1,2]	PRODUCTION[2]
Sawmills:		
Warren, Arkansas	175 mmbf	191 mmbf
St. Maries, Idaho	160 mmbf	168 mmbf
Gwinn, Michigan	170 mmbf	173 mmbf
Bemidji, Minnesota	120 mmbf	123 mmbf
Plywood Mill:		
St. Maries, Idaho	150 mmsf	161 mmsf

1 Capacity represents the proven annual production capabilities of the facility under normal operating conditions and producing a normal product mix. Normal operating conditions are based on the configuration, efficiency and the number of shifts worked at each individual facility. In general, the definition includes two shifts for five days (two 40-hour shifts) per week at each facility, which is consistent with industry-wide recognized measures. Production can exceed capacity due to efficiency gains and overtime.

2 mmbf stands for million board feet; mmsf stands for million square feet, 3/8 inch panel thickness basis.

Our share of the markets for lumber and plywood is not significant compared to the total United States markets for these products. We believe that competitiveness in this industry is largely based on individual mill efficiency and on the availability of competitively priced raw materials on a facility-by-facility basis, rather than the number of mills operated. This is due to the fact that it is generally not economical to transfer wood between or among facilities, which might permit a greater degree of specialization and operating efficiencies. Instead, each facility must utilize the raw materials that are available to it in a relatively limited geographic area. For these reasons, we believe we are able to compete effectively with companies that have a larger number of mills. We compete based on product quality, customer service and price.

Our manufacturing facilities can produce and sell FSC-certified products that generally command premium pricing.

For our Wood Products operations, the principal raw material used is logs, which are obtained from our Resource segment or purchased on the open market. We generally do not maintain long-term supply contracts for a significant volume of logs. During 2013 and 2012, 39% and 36% of our log purchases, respectively, were provided by our Resource segment.

Real Estate Segment

The activities of our Real Estate segment consist primarily of the sale of selected non-core timberland real estate, which consist of three categories of property: HBU, rural real estate and non-strategic.

- HBU properties have characteristics that provide development potential as a result of superior location or other attractive amenities. These properties tend to have a much higher value than timberlands.
- Rural real estate properties also have a higher value than timberlands, but do not have the same developmental potential as HBU properties. For example, these properties may be appropriate for hunting, conservation or secondary rural housing.
- Non-strategic properties often have locational or operational disadvantages for us, and are typically on the fringe of our ownership areas.

The Real Estate segment engages in real estate sales, subdivision and development activities through Potlatch TRS.

From time to time, we also take advantage of opportunities to sell timberland where we believe pricing to be particularly attractive, to match a sale with a purchase of more desirable property in order to defer taxes in a like-kind exchange (LKE) transaction, or to meet various other financial or strategic objectives. Sales of conservation properties and conservation easements on our properties are also included in this segment. Results for the segment depend on the demand for our non-core timberlands, the types of properties sold, the basis of these properties and the timing of closings of property sales. Although large sales of non-strategic properties can cause results that are not comparable or predictable between periods, we have maintained a relatively consistent level of rural real estate and HBU sales.

A main focus of this segment is to continually assess the highest value use of our lands. We conduct periodic stratification assessments on our lands and as new lands are acquired. The following tools are used in assessing our lands:

- electronic analysis, using geographic information systems;
- on-the-ground analysis and verification of modeling assumptions; and
- certain measured and ranked attributes, such as timber potential, recreational opportunities, accessibility, special features and population and demographic trends.

As a result of this continual assessment of our lands, we currently have identified 200,000 to 230,000 acres of non-core timberland real estate. This includes approximately 110,000 to 120,000 acres of HBU property, 80,000 to 90,000 acres of rural real estate property and 10,000 to 20,000 acres of non-strategic timberland. Sales of these lands are expected to occur over a 10-year period, with the goal of utilizing LKE transactions or other tax-advantaged methods when it is appropriate.

Seasonality

Log and pulpwood sales volumes in our Resource segment are typically lower in the first half of each year, as winter rains in the Southern region and spring thaw in the Northern region limit timber harvesting operations due to softened roadbeds and wet logging conditions that restrict access to logging sites. The third quarter is typically our Resource segment's strongest production quarter. Real Estate dispositions and acquisitions can be adversely affected when access to any properties to be sold or considered for acquisition is limited due to adverse weather conditions. Demand for our manufactured wood products typically decreases in the winter months when construction activity is slower and increases in the spring, summer and fall when construction activity is generally higher.

Geographic Areas

All of our timberlands, wood products manufacturing facilities and other real estate and assets are located within the continental United States. In 2013, 2012 and 2011, approximately 2%, 2% and 1%, of the respective year's revenues were derived from sales of manufactured wood products to Canada and Mexico, with the remainder of our revenues resulting from domestic sales.

Environmental Regulation

We are subject to extensive federal and state environmental regulation of our wood products manufacturing facilities and timberlands, particularly with respect to air emissions, wastewater discharges, solid and hazardous waste management, site remediation, forestry operations, and threatened and endangered species. We are also subject to the requirements of the Federal Occupational Safety and Health Act and comparable state statutes relating to the health and safety of our employees. We maintain environmental and safety compliance programs and conduct regular internal and independent third-party audits of our facilities and timberlands to monitor compliance with these laws and regulations. Compliance with environmental regulations is a significant factor in our business and requires capital expenditures as well as additional operating costs.

We believe that our manufacturing facilities and timberland operations are currently in substantial compliance with applicable environmental laws and regulations. We cannot be certain, however, that situations that give rise to material environmental liabilities will not be discovered.

Enactment of new environmental laws or regulations, or changes in existing laws or regulations, particularly relating to air and water quality, or their enforcement, may require significant expenditures by us or may adversely affect our timberland management and harvesting activities.

Similarly, a number of species indigenous to our timberlands have been listed as threatened or endangered or have been proposed for one or the other status under the Endangered Species Act. As a result, our activities in or adjacent to the habitat of these species may be subject to restrictions on the harvesting of timber, reforestation activities and the construction and use of roads.

We expect legislative and regulatory developments in the area of climate change to address carbon dioxide emissions and renewable energy and fuel standards. It is unclear as of this date how any such developments will affect our business.

At this time, we believe that federal and state laws and regulations related to the protection of endangered species and air and water quality will not have a material adverse effect on our financial position, results of operations or liquidity. We anticipate, however, that increasingly strict laws and regulations relating to the environment, natural resources and forestry operations, as well as increased social concern over environmental issues, may result in additional restrictions on us leading to increased costs, additional capital expenditures and reduced operating flexibility.

Information regarding potentially material environmental proceedings is included in Note 15: Commitments and Contingencies in the Notes to Consolidated Financial Statements contained in this report and incorporated herein by reference.

Employees

As of December 31, 2013, we had approximately 880 employees. The workforce consisted of approximately 220 salaried, 630 hourly and 30 temporary or part-time employees. As of December 31, 2013, 18% of the workforce was covered under one collective bargaining agreement, which expires in May 2016.

ITEM 1A. RISK FACTORS

Investing in our common stock involves a significant degree of risk. Our business, financial condition, results of operations or liquidity could be materially adversely affected by any of the following risks and, as a result, the trading price of our common stock could decline. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently deem immaterial may also impair our business, financial condition, results of operations or liquidity. In addition to the risk factors discussed below, investors should carefully consider the risks and uncertainties presented in Part 1 - Item 1. Business.

Business and Operating Risks

Our cash distributions are not guaranteed and may fluctuate, which could adversely affect our stock price.

Under the REIT rules, to remain qualified as a REIT, a REIT must distribute, within a certain period after the end of each year, 90% of its ordinary taxable income for such year. Our REIT income, however, consists primarily of net capital gains resulting from payments received under timber cutting contracts with Potlatch TRS and third parties, rather than ordinary taxable income. Therefore, unlike most REITs, we are not required to distribute material amounts of cash to remain qualified as a REIT. If, after giving effect to our distributions, we have not distributed an amount equal to 100% of our REIT ordinary taxable income and net capital gains income, then we would be required to pay tax on the undistributed portion of such taxable income at regular corporate tax rates and our stockholders would be required to include their proportionate share of any undistributed capital gain in income and would receive a credit or refund for their share of the tax paid by us.

Our Board of Directors, in its sole discretion, determines the actual amount of distributions to be made to stockholders based on consideration of a number of factors, including, but not limited to, our results of operations, cash flow and capital requirements, economic conditions in our industry and in the markets for our products, tax considerations, borrowing capacity, debt covenant restrictions, timber prices, harvest levels on our timberlands, market demand for timberlands, including timberland properties we have identified as potentially having a higher and better use, and future acquisitions and dispositions. For a description of debt covenants that could limit our ability to make distributions to stockholders in the future, see Liquidity and Capital Resources in Management’s Discussion and Analysis of Financial Condition and Results of Operations. Consequently, the level of future distributions to our stockholders may fluctuate, and any reduction in the distribution rate may adversely affect our stock price.

Our operating results and cash flows will be materially affected by the fluctuating nature of timber prices.
Our results of operations and cash flows will be materially affected by the fluctuating nature of timber prices. A variety of factors affect prices for timber, including factors affecting demand, such as changes in economic conditions, the level of domestic new construction and remodeling activity, foreign demand, interest rates, credit availability, population growth, weather conditions and pest infestation, as well as changes in timber supply and other factors. All of these factors can vary by region, timber type (sawlogs or pulpwood logs) and species.
Timber prices are affected by changes in demand on a local, national or international level. The closure of a mill in the regions where we own timber can have a material adverse effect on demand and therefore pricing. In 2011, due to continuing poor market conditions and the resulting closure of a significant customer's mill in Arkansas, we saw a substantial decline in log prices in the region. As the demand for paper nationwide continues to decline, closures of pulp mills have adversely affected the demand for pulpwood and wood chips in certain of the regions in which we operate. Also, demand in other parts of the world may affect timber prices in the markets in which we compete. For example, during the past few years, demand from Asia has remained steady, and although we do not sell into the Asian markets, Asian demand has affected supply and demand in the markets in which we participate. A decrease in Asian demand may have a negative impact on lumber and timber prices in the markets in which we compete.
Timber prices are also affected by changes in timber availability at the local, national and international level. Our timberland ownership is currently concentrated in Arkansas, Idaho and Minnesota. In Arkansas and Minnesota, most timberlands are privately owned. Historically, increases in timber prices have often resulted in substantial increases in harvesting on private timberlands, including lands not previously made available for commercial timber operations, causing a short-term increase in supply that has tended to moderate price increases. Decreases in timber prices have often resulted in lower harvest levels, causing short-term decreases in supply that have tended to moderate price decreases. In Idaho, where a greater proportion of timberland is government owned, any substantial increase in timber harvesting from government-owned land could significantly reduce timber prices, which would harm our results of operations. For more than 20 years, environmental concerns and other factors have limited timber sales by federal agencies, which historically had been major suppliers of timber to the U.S. forest products industry, particularly in the West. Any reversal of policy that substantially increases timber sales from government-owned land could have a material adverse effect on our results of operations and cash flows.
On a local level, timber supplies can fluctuate depending upon factors such as changes in weather conditions and harvest strategies of local timberland owners, as well as occasionally high timber salvage efforts due to events such as unusual pest infestations or fires.
The cyclical nature of our business could adversely affect our results of operations.
The financial performance of our operations is affected by the cyclical nature of our business. The markets for timber, manufactured wood products and real estate are influenced by a variety of factors beyond our control. The demand for our timber and manufactured wood products is affected by the level of new residential construction activity and, to a lesser extent, home repair and remodeling activity, which are subject to fluctuations due to changes in economic conditions, interest rates, credit availability, population growth, weather conditions and other factors. The demand for logs is also affected by the demand for wood chips in the pulp and paper markets. The supply of timber and logs has historically increased during favorable pricing environments, which then causes downward pressure on prices. Historical prices for our manufactured wood products have been volatile, and we have limited direct influence over the timing and extent of price changes for our manufactured wood products. The demand for real estate can be affected by changes in factors such as interest rates, credit availability and economic conditions, as well as by the impact of federal, state and local land use and environmental protection laws.
We may be unable to harvest timber or we may elect to reduce harvest levels due to market conditions, either of which could adversely affect our results of operations and cash flows.
Our timber harvest levels and sales may be limited due to weather conditions, timber growth cycles, restrictions on access, availability of contract loggers, and regulatory requirements associated with the protection of wildlife and water resources, as well as by other factors, including damage by fire, insect infestation, disease and natural disasters such as ice storms, wind storms, hurricanes and floods. Changes in global climate conditions could intensify one or more of these factors. Although damage from such natural causes usually is localized, affecting only a limited

percentage of our timber, there can be no assurance that any damage affecting our timberlands will be limited. We typically experience seasonally lower harvest activity during the winter and early spring due to weather conditions. Severe weather conditions and other natural disasters can also reduce the productivity of timberlands and disrupt the harvesting and delivery of logs. Our financial results and cash flows are dependent to a significant extent on our continued ability to harvest timber at adequate levels.

On a short-term basis, we may adjust our timber harvest levels in response to market conditions. For example, in 2011, in response to weak demand and low prices, we shifted a portion of our harvest from our Southern region to our Northern region to capture better pricing opportunities. Following the closure of a significant customer's mill in Arkansas, in 2012 we reduced our overall timber harvest to 3.6 million tons from 4.1 million tons in 2011.

Longer term, our timber harvest levels will be affected by acquisitions of additional timberlands and sales of existing timberlands. In addition to timberland acquisitions and sales, future timber harvest levels may be affected by changes in estimates of long-term sustainable yield because of silvicultural advances, natural disasters, fires and other hazards, regulatory constraints and other factors beyond our control.

We do not insure against losses of standing timber from any causes.

The volume and value of timber that can be harvested from our lands may be affected by natural disasters such as fire, insect infestation, disease, ice storms, wind storms, hurricanes, floods and other weather conditions and causes beyond our control. As is typical in the forest industry, we assume substantially all risk of loss to the standing timber we own from fire and other hazards because insuring for such losses is not practicable. Consequently, a reduction in our timber inventory could adversely affect our financial results and cash flows.

Changes in demand for our real estate and delays in the timing of real estate transactions may affect our revenues and operating results.

A number of factors, including availability of credit, a slowing of residential real estate development, population shifts and changes in demographics could reduce the demand for our real estate and negatively affect our results of operations. Changes in investor interest in purchasing timberlands could reduce our ability to execute sales of non-strategic timberlands and could also negatively affect our results of operations. In addition, changes in the interpretation or enforcement of current laws, or the enactment of new laws, regarding the use and development of real estate, or changes in the political composition of federal, state and local governmental bodies could lead to new or greater costs, delays and liabilities that could materially adversely affect our real estate business, profitability or financial condition.

In addition, there are inherent uncertainties in the timing of real estate transactions that could adversely affect our operating results in any particular quarter. The timing of real estate sales is a function of many factors, including the general state of the economy, demand in local real estate markets, the number of properties listed for sale, the seasonal nature of sales, the plans of adjacent landowners and our expectations of future price appreciation. Delays in the completion of transactions or the termination of potential transactions may be beyond our control. These events could adversely affect our operating results.

We may be unsuccessful in carrying out our acquisition strategy.

We have pursued, and intend to continue to pursue, acquisitions of strategic timberland properties and other forest products assets. We compete with buyers that have substantially greater financial resources than we have for acquisition opportunities. We intend to finance acquisitions through cash from operations, borrowings under our credit facility, proceeds from equity or debt offerings, or proceeds from asset dispositions, or any combination thereof. In addition, it is uncertain whether any acquisitions we make will perform in accordance with our expectations. The failure to identify and complete acquisitions of suitable properties, our inability to finance future acquisitions on favorable terms or our inability to complete like-kind exchanges, could adversely affect our operating results and cash flows.

Our wood products are commodities that are widely available from other producers.

Because commodity products have few distinguishing properties from producer to producer, competition for these products is based primarily on price, which is determined by supply relative to demand and competition from substitute products. Prices for our products are affected by many factors outside of our control, and we have no influence over the timing and extent of price changes, which often are volatile. Our profitability with respect to these products depends, in part, on managing our costs, particularly raw material and energy costs, which represent significant components of our operating costs and can fluctuate based upon factors beyond our control.

The forest products industry is highly competitive.
The markets for our wood products are highly competitive, and companies that have substantially greater financial resources than we do compete with us in each of our lines of business. Our wood products are subject to competition from wood products manufacturers in the United States, and to a lesser extent in Canada. After years of trade disputes over Canadian lumber imports, the United States and Canada signed an agreement, which has been extended to 2015, establishing a system of tiered taxes and volume restrictions relating to Canadian lumber imports to the United States. Notwithstanding the signing of this agreement, there can be no assurance that it will at all times, or at any time, effectively create a fair trade environment. The London Court of International Arbitration has twice ruled that Canada has violated the Softwood Lumber Agreement. In addition, our wood products manufacturing facilities are relatively capital intensive, which leads to high fixed costs and generally results in continued production as long as prices are sufficient to cover variable costs. These conditions have contributed to substantial price competition, particularly during periods of reduced demand. Some of our wood products competitors may currently be lower-cost producers than we are, and accordingly these competitors may be less adversely affected than we are by price decreases. Wood products also are subject to significant competition from a variety of substitute products, including non-wood and engineered wood products. To the extent there is a significant increase in competitive pressure from substitute products or other domestic or foreign suppliers, our business could be adversely affected.
Our businesses are affected by transportation availability and costs.
Our business depends on the availability of logging contractors and providers of transportation of wood products, and is materially affected by the cost of these service providers. Therefore, increases in the cost of fuel could negatively impact our financial results by increasing the cost associated with logging activities and transportation services, and could also result in an overall reduction in the availability of these services.
A material disruption at one of our manufacturing facilities could prevent us from meeting customer demand, reduce our sales or negatively affect our results of operations and financial condition.
Any of our manufacturing facilities, or any of our machines within an otherwise operational facility, could cease operations unexpectedly due to a number of events, including unscheduled maintenance outages, prolonged power failures, equipment failures, labor difficulties, disruptions in the transportation infrastructure, such as roads, bridges, railroad tracks and tunnels, fire, ice storms, floods, windstorms, hurricanes or other catastrophes, terrorism or threats of terrorism, governmental regulations and other operational problems.
Any such downtime or facility damage could prevent us from meeting customer demand for our products and/or require us to make unplanned capital expenditures. If one of these machines or facilities were to incur significant downtime, our ability to meet our production targets and satisfy customer requirements could be impaired, resulting in lower sales and income.
Our businesses are subject to extensive environmental laws and regulations.
Our operations are subject to a variety of federal, state and local laws and regulations regarding protection of the environment, including those relating to the protection of timberlands, endangered species, timber harvesting practices, recreation and aesthetics, protection and restoration of natural resources, air and water quality, and remedial standards for contaminated soil, sediments and groundwater. Failure to comply with these requirements can result in significant fines or penalties, as well as liabilities for remediation of contaminated sites, natural resource damages, or alleged personal injury or property damage claims.
Laws, regulations and related judicial decisions and administrative interpretations affecting our business are subject to change and new laws and regulations that may affect our business are frequently enacted. These changes may adversely affect our ability to harvest and sell timber and operate our manufacturing facilities and may adversely affect the ability of others to develop property we intend to sell for higher and better use purposes. Over time, the complexity and stringency of these laws and regulations have increased markedly and the enforcement of these laws and regulations has intensified. We believe that these laws and regulations will continue to become more restrictive and over time could adversely affect our operating results.

Regulatory restrictions on future harvesting activities may be significant. Federal, state and local laws and regulations, which are intended to protect threatened and endangered species, as well as waterways and wetlands, limit and may prevent timber harvesting, road building and other activities on our timberlands. For example, the Clean Water Act and comparable state laws, regulations and best management practices programs protect water quality. As a result, our resource management activities adjacent to rivers and streams as well as the point source discharges from our manufacturing facilities are subject to strict regulation and there can be no assurance that our forest management and manufacturing activities will not be subject to increased regulation under the Clean Water Act in the future. Similarly, the threatened and endangered species restrictions apply to activities that would adversely impact a protected species or significantly degrade its habitat. A number of species on our timberlands have been and in the future may be protected under these laws. If current or future regulations or their enforcement become more restrictive, the amount of our timberlands subject to harvest restrictions could increase.

We anticipate that increasingly strict laws and regulations relating to the environment, natural resources and forestry operations, as well as increased social concern over environmental issues, may result in additional restrictions on us leading to increased costs, additional capital expenditures and reduced operating flexibility.

Our manufacturing operations are subject to stringent environmental laws, regulations and permits covering air emissions, wastewater discharge, water usage, and waste handling and disposal that govern how we operate our facilities. These laws, regulations and permits, now and in the future, may restrict our current production and limit our ability to increase production, and impose significant costs on our operations with respect to environmental compliance. For example, in December 2012, the Environmental Protection Agency (EPA) issued new Major Source Boiler Maximum Achievable Control Technology, or Boiler MACT, rules that could require capital investments at our Wood Products manufacturing facilities. These rules are effective in early 2016. We are unable at this time to estimate the cost of compliance with these new rules because we are still in the process of reviewing the new rules as they apply to our wood products manufacturing facilities, however, the capital investments required to comply with the new rules could be significant. Overall, it is expected that environmental compliance costs will likely increase over time as environmental requirements become more stringent, and as the expectations of the communities in which we operate become more demanding.

Certain environmental laws, including the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) impose strict, and under certain circumstances joint and several, liability on responsible parties, including current and former owners and operators of contaminated sites, for costs of investigation and remediation of contamination. They also impose liability for related damages to natural resources. We have in the past been identified by the EPA as a potentially responsible party under CERCLA at various locations, and we are currently identified as a potentially responsible party in connection with one of our properties. Additional information regarding this matter is included in Note 15: Commitments and Contingencies in the Notes to Consolidated Financial Statements included in this report, and that information is incorporated herein by reference. It is possible that other facilities we own or operate, or formerly owned or operated, or timberlands we now own or acquire, could also become subject to liabilities under these laws. The cost of investigation and remediation of contaminated properties could increase operating costs and adversely affect our financial results. Although we believe we have appropriate reserves recorded for the investigation and remediation of known matters, there can be no assurance that actual expenditures will not exceed our expectations, that reserves will not be increased, or that other unknown liabilities will not be discovered in the future.

Environmental groups and interested individuals may intervene in the regulatory processes in the locations where we own timberland and operate our wood products mills. Delays or restrictions on our operations due to the intervention of environmental groups or interested individuals could adversely affect our operating results. In addition to intervention in regulatory proceedings, interested parties may file or threaten to file lawsuits that seek to prevent us from obtaining permits, implementing capital improvements or pursuing operating plans or to require us to obtain permits before pursuing operating plans. Any lawsuit, or even a threatened lawsuit, could delay harvesting on our timberlands or impact our ability to operate or invest in our wood products mills.

Our defined benefit pension plans are currently underfunded.

As a result of the steep downturn in the stock market in the fourth quarter of 2008 and the resulting effects on long-term interest rates and discount rates, our defined benefit pension plans have been underfunded since December 31, 2008, as the projected benefit obligation exceeds the aggregate fair value of plan assets. As a result of the underfunding, we may be required to make contributions to our qualified pension plans. We did not make a contribution in 2013, however, we contributed $21.6 million and $9.4 million, respectively, in 2012 and 2011. We funded the 2012 contribution by taking a loan against our company owned life insurance plan, or COLI, based on the cash surrender value that has accumulated in the plan over the years. Based on estimated year-end asset values and projections of plan liabilities, during 2014 we expect to be required to make a contribution of $1.7 million to our qualified pension plans. In addition, we will be making payments of approximately $1.8 million for our non-qualified pension plan.

The determination of pension plan expense and the requirements for funding our pension plans are based on a number of actuarial assumptions. Two critical assumptions are the expected rate of return on plan assets and the discount rate applied to pension plan obligations. Pension plan assets primarily consist of equity and fixed income investments, so fluctuations in actual equity market returns and changes in long-term interest rates may result in increased pension costs in future periods. Changes in assumptions regarding discount rates and expected rates of return on plan assets could also increase future pension costs. Changes in any of these factors may significantly impact future contribution requirements.

We depend on external sources of capital for future growth.

Our ability to finance growth is dependent to a significant degree on external sources of capital. Our ability to access such capital on favorable terms could be hampered by a number of factors, many of which are outside of our control, including a decline in general market conditions, decreased market liquidity, a downgrade to our public debt rating, increases in interest rates, an unfavorable market perception of our growth potential, a decrease in our current or estimated future earnings or a decrease in the market price of our common stock. In addition, our ability to access additional capital may also be limited by the terms of our existing indebtedness, which, among other things, restricts our incurrence of debt and the payment of dividend distributions. Any of these factors, individually or in combination, could prevent us from being able to obtain the capital we require on terms that are acceptable to us, and the failure to obtain necessary capital could materially adversely affect our future growth.

A strike or other work stoppage, or our inability to renew collective bargaining agreements on favorable terms, could adversely affect our financial results.

As of December 31, 2013, approximately 18% of our workforce was covered by one collective bargaining agreement, which expires in May 2016. While we believe our relations with our employees are satisfactory, we cannot assure you that we will be able to negotiate a new collective bargaining agreement on favorable terms. If we are unable to negotiate an acceptable new agreement with the union upon expiration of the existing contract, we could experience a strike or work stoppage. Even if we are successful in negotiating a new agreement, the new agreement could call for higher wages or benefits paid to union members, which would increase our operating costs and could adversely affect our profitability. If our unionized workers were to engage in a strike or other work stoppage, or other non-unionized operations were to become unionized, we could experience a significant disruption of operations at our facilities or higher ongoing labor costs. A strike or other work stoppage in the facilities of any of our major customers or suppliers could also have similar effects on us.

Risks Related to Our Indebtedness

Our indebtedness could materially adversely affect our ability to generate sufficient cash to make distributions to stockholders and fulfill our debt obligations, our ability to react to changes in our business and our ability to incur additional indebtedness to fund future needs.

Our debt requires interest and principal payments. As of December 31, 2013, we had long-term debt of $320.1 million, with no installments due in 2014. Subject to the limits contained in our debt instruments, we may be able to incur additional debt from time to time to finance working capital, capital expenditures, investments or acquisitions, or for other purposes. If we do so, the risks related to our indebtedness could intensify.

Our indebtedness increases the possibility that we may be unable to generate cash sufficient to pay, when due, the principal of, interest on or other amounts due in respect of our indebtedness or to make distributions to our stockholders. Our indebtedness, combined with our other financial obligations and contractual commitments, could have important consequences for stockholders. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness, and any failure to comply with the obligations under any of our debt instruments, including restrictive covenants, could result in an event of default under the agreements governing such indebtedness;
-

require us to dedicate a substantial portion of our cash flow from operations to payments on our indebtedness, thereby reducing funds available for distributions to stockholders, working capital, capital expenditures, acquisitions and other purposes;

- increase our vulnerability to adverse economic and industry conditions, which could place us at a competitive disadvantage compared to our competitors that have relatively less indebtedness;
- limit our flexibility in planning for, or reacting to, changes in our business and the industries in which we operate; and
- limit our ability to borrow additional funds, or to dispose of assets to raise funds, if needed, for distributions to stockholders, working capital, capital expenditures, acquisitions and other corporate purposes.

Changes in credit ratings issued by nationally recognized statistical rating organizations could adversely affect our cost of financing and have an adverse effect on the market price of our securities.

Credit rating agencies rate our debt securities on factors that include our operating results, actions that we take, their view of the general outlook for our industry and their view of the general outlook for the economy. Actions taken by the rating agencies can include maintaining, upgrading or downgrading the current rating or placing the company on a watch list for possible future downgrading. Downgrading the credit rating of our debt securities or placing us on a watch list for possible future downgrading could limit our access to the credit markets, increase our cost of financing, and have an adverse effect on the market price of our securities.

REIT and Tax-Related Risks

If we fail to remain qualified as a REIT, income from our timberlands will be subject to taxation at regular corporate rates and we will have reduced funds available for distribution to our stockholders.

Qualification as a REIT involves the application of highly technical and complex provisions of the Internal Revenue Code to our operations, including satisfaction of certain asset, income, organizational, distribution, stockholder ownership and other requirements, on a continuing basis. Given the highly complex nature of the rules governing REITs, the ongoing importance of factual determinations and the possibility of future changes in our circumstances, no assurance can be given that we will remain qualified as a REIT.

In addition, the rules dealing with federal income taxation are constantly under review by persons involved in the legislative process and by the IRS and the U.S. Department of the Treasury (Treasury). Changes to the tax laws affecting REITs or taxable REIT subsidiaries, which may have retroactive application, could adversely affect our stockholders or us. We cannot predict how changes in the tax laws might affect our stockholders or us. Accordingly, we cannot provide assurance that new legislation, Treasury regulations, administrative interpretations or court decisions will not significantly affect our ability to remain qualified as a REIT, the federal income tax consequences of such qualification, the determination of the amount of REIT taxable income or the amount of tax paid by the TRS.

If in any taxable year we fail to remain qualified as a REIT:

- we would not be allowed a deduction for distributions to stockholders in computing our taxable income; and
- we would be subject to federal income tax on our taxable income at regular corporate rates, including any applicable alternative minimum tax.

Any such corporate tax liability could be substantial and would reduce the amount of cash available for distribution to our stockholders, which in turn could have an adverse impact on the value of our common stock. In addition, we would be disqualified from treatment as a REIT for the four taxable years following the year during which the qualification was lost, unless we are entitled to relief under certain statutory provisions. As a result, net income and the funds available for distribution to our stockholders could be reduced for up to five years, which would have an adverse impact on the value of our common stock.

Certain of our business activities are potentially subject to a prohibited transactions tax on 100% of our net income derived from such activities, which would reduce our cash flow and impair our ability to make distributions.

REITs are generally intended to be passive entities and can thus only engage in those activities permitted by the Internal Revenue Code, which for us generally include owning and managing a timberland portfolio, growing timber and selling standing timber.

Accordingly, the manufacture and sale of wood products, certain types of timberland sales, and the harvest and sale of logs are conducted through Potlatch TRS because such activities generate non-qualifying REIT income and could constitute “prohibited transactions” if such activities were engaged in directly by the REIT. In general, prohibited transactions are defined by the Internal Revenue Code to be sales or other dispositions of property held primarily for sale to customers in the ordinary course of a trade or business.

By conducting our business in this manner, we believe we will satisfy the REIT requirements of the Internal Revenue Code and thus avoid the 100% tax that could be imposed if a REIT were to conduct a prohibited transaction. We may not always be successful, however, in limiting such activities to Potlatch TRS. Therefore, we could be subject to the 100% prohibited transactions tax if such instances were to occur, which would adversely affect our cash flow and impair our ability to make quarterly distributions.

Our REIT structure may limit our ability to invest in our non-REIT qualifying operations.

Our use of Potlatch TRS enables us to continue to engage in non-REIT qualifying business activities consisting primarily of our manufacturing facilities, assets used for the harvesting of timber and the sale of logs, and selected land parcels that we expect to be sold or developed for higher and better use purposes. However, under the Internal Revenue Code, no more than 25% of the value of the assets of a REIT may be represented by securities of our taxable REIT subsidiaries. This may limit our ability to make investments in our wood products manufacturing operations or in other non-REIT qualifying operations.

Our ability to fund distributions and service our indebtedness using cash generated through our taxable REIT subsidiary may be limited.

The rules with which we must comply to maintain our status as a REIT limit our ability to use dividends from Potlatch TRS for the payment of stockholder distributions and to service our indebtedness. In particular, at least 75% of our gross income for each taxable year as a REIT must be derived from sales of our standing timber and other types of real estate income. No more than 25% of our gross income may consist of dividends from Potlatch TRS and other non-qualifying types of income. This requirement may limit our ability to receive dividends from Potlatch TRS and may impact our ability to fund distributions to stockholders and service the REIT's indebtedness using cash from Potlatch TRS.

We may not be able to complete desired like-kind exchange transactions for property we sell.

We sometimes seek to match sales and acquisitions of properties, which allows us to use Internal Revenue Code section 1031 like-kind exchange tax-deferred treatment. The matching of sales and purchases provides us with significant tax benefits, primarily the deferral of any gain on the property sold until the ultimate disposition or harvest of the replacement property. While we may attempt to complete like-kind exchanges when it is appropriate, it is unlikely that we will be able to do so in all instances due to various factors, including the lack of availability of suitable replacement property on acceptable terms and the inability to complete a qualifying like-kind exchange transaction within the time frames required by the Internal Revenue Code. The inability to obtain like-kind exchange treatment could result in the payment of taxes with respect to REIT property sold in 2014 and 2015, and a corresponding reduction in income and cash available for distribution to stockholders.

We may not be able to realize our deferred tax assets.

We may not have sufficient future taxable income to realize all our deferred tax assets. The ultimate realization of deferred tax assets depends on the generation of future taxable income during the periods in which our temporary differences are deductible as governed by the tax code. The amount of our deferred tax assets could be reduced in the near term if future taxable income does not materialize or management is unable to implement one or more strategies that it has identified to generate taxable income. See Note 9: Income Taxes in the Notes to Consolidated Financial Statements contained in this report for additional information about our deferred tax assets.

Risks Related to Ownership of Our Common Stock

The price of our common stock may be volatile.

The market price of our common stock may be influenced by many factors, some of which are beyond our control, including those described above under "Business and Operating Risks" and the following: actual or anticipated fluctuations in our operating results or our competitors' operating results, announcements by us or our competitors of capacity changes, acquisitions or strategic investments, our growth rate and our competitors' growth rates, the financial markets and general economic conditions, changes in stock market analyst recommendations regarding us, our competitors or the forest products industry generally, or lack of analyst coverage of our common stock, failure to pay cash dividends or the amount of cash dividends paid, sales of our common stock by our executive officers, directors and significant stockholders or sales of substantial amounts of common stock, and changes in accounting principles. In addition, there has been significant volatility in the market price and trading volume of securities of companies operating in the forest products industry that often has been unrelated to the operating performance of particular companies.

Certain provisions of our certificate of incorporation and bylaws and of Delaware law may make it difficult for stockholders to change the composition of our board of directors and may discourage hostile take over attempts that some of our stockholders may consider to be beneficial.

Certain provisions of our certificate of incorporation and bylaws and Delaware law may have the effect of delaying or preventing changes in control if our board of directors determines that such changes in control are not in the best interest of us and our stockholders. The provisions in our certificate or incorporation and bylaws include, among other things, the following:

- a classified board of directors with three-year staggered terms;
- the ability of our board of directors to issue shares of preferred stock and to determine the price and other terms, including preferences and voting rights, of those shares without stockholder approval;
- stockholder action can only be taken at a special or regular meeting and not by written consent and stockholders cannot call a special meeting except upon the written request of stockholders entitled to cast not less than a majority of all of the votes entitled to be cast at the meeting;
- advance notice procedures for nominating candidates to our board of directors or presenting matters at stockholder meetings;
- removal of directors only for cause;
- allowing only our board of directors to fill vacancies on our board of directors;
- in order to facilitate the preservation of our status as a REIT under the Internal Revenue Code, a prohibition on any single stockholder, or any group of affiliated stockholders, from beneficially owning more than 9.8% of our outstanding common or preferred stock, unless our board waives or modifies this ownership limitation;
- unless approved by the vote of at least 80% of our outstanding shares, we may not engage in business combinations, including mergers, dispositions of assets, certain issuances of shares of stock and other specified transactions, with a person owning or controlling, directly or indirectly, 5% or more of the voting power of our outstanding common stock; and
- supermajority voting requirements to amend our bylaws and certain provisions of our certificate of incorporation.

While these provisions have the effect of encouraging persons seeking to acquire control of our company to negotiate with our board of directors, they could enable the board of directors to hinder or frustrate a transaction that stockholders might believe to be in their best interests and, in that case, may prevent or discourage attempts to remove and replace incumbent directors. We are also subject to Delaware laws that could have similar effects. One of these laws prohibits us from engaging in a business combination with a significant stockholder unless specific conditions are met.

ITEM 1B. UNRESOLVED STAFF COMMENTS
None.

ITEM 2. PROPERTIES
Information on our locations and facilities is included in Part I - Item 1. Business under each of the respective segment headers.

ITEM 3. LEGAL PROCEEDINGS
Other than the environmental proceedings described in Note 15: Commitments and Contingencies in the Notes to Consolidated Financial Statements, which is incorporated herein by reference, we believe there is no pending or threatened litigation that would have a material adverse effect on our financial position, operations or liquidity.

ITEM 4. MINE SAFETY DISCLOSURES
Not applicable.

Part II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Our common stock trades on The Nasdaq Global Select Market (NASDAQ). The quarterly high and low sales price per share of our common stock and the quarterly cash distribution payments per share for 2013 and 2012, were as follows:

	2013			2012		
QUARTER	HIGH	LOW	CASH DISTRIBUTIONS	HIGH	LOW	CASH DISTRIBUTIONS
1st	$46.01	$39.43	$ 0.31	$34.45	$29.73	$ 0.31
2nd	51.48	39.66	0.31	32.13	28.02	0.31
3rd	44.93	37.59	0.31	38.49	31.12	0.31
4th	43.84	38.01	0.35	39.21	36.65	0.31

There were approximately 1,172 stockholders of record at January 31, 2014.

Our Board of Directors, in its sole discretion, determines the actual amount of distributions to be made to stockholders based on consideration of a number of factors, including, but not limited to, our results of operations, cash flow and capital requirements, economic conditions in our industry and in the markets for our products, tax considerations, borrowing capacity, debt covenant restrictions, timber prices, harvest levels on our timberlands, market demand for timberlands, including timberland properties we have identified as potentially having a higher and better use, and future acquisitions and dispositions. Consequently, the level of distributions to our stockholders may fluctuate and any reduction in the distribution rate may adversely affect our stock price.

Reference is made to the discussion in Liquidity and Capital Resources in Management’s Discussion and Analysis of Financial Condition and Results of Operations, of (i) the covenants in our bank credit facility and term loan and the indenture governing our senior notes with which we must comply in order to make cash distributions and (ii) the REIT tax rules, which under certain circumstances may restrict our ability to receive dividends from Potlatch TRS, our taxable REIT subsidiary.

There are currently no authorized repurchase programs in effect under which we may repurchase shares.

See Part III - Item 12. Security Ownerships of Certain Beneficial Owners and Management and Related Stockholder Matters of this report for a tabular summary of shares authorized for issuance under our equity compensation plans, which information is incorporated herein by this reference.

Company Stock Price Performance

The following graph and table show a five-year comparison of cumulative total stockholder returns for the company, the NAREIT Equity Index, the Standard & Poor's 500 Composite Index and a group of six companies that we refer to as our Peer Group for the period ended December 31, 2013. The total stockholder return assumes $100 invested at December 31, 2008, with quarterly reinvestment of all dividends.

	At December 31,				
	2009	2010	2011	2012	2013
Potlatch Corporation	$132	$143	$144	$188	$207
NAREIT Equity Index	128	164	177	209	215
S&P 500 Composite	126	146	149	172	228
2013 Peer Group[1]	130	142	148	203	216

1 Our Peer Group companies are Deltic Timber Corp., Plum Creek Timber Co., Inc., Rayonier Inc., St. Joe Co., Universal Forest Products Inc. and Weyerhaeuser Co.

ITEMS 6, 7, 7A and 8.

The information called for by Items 6, 7, 7A and 8, inclusive, of Part II of this form is contained in the following sections of this report at the pages indicated below:

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

We conducted an evaluation (pursuant to Rule 13a-15(b) of the Securities Exchange Act of 1934 (the Exchange Act)), under the supervision and with the participation of management, including the Chief Executive Officer (CEO)and Chief Financial Officer (CFO), of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) of the Exchange Act) as of December 31, 2013. These disclosure controls and procedures are designed to ensure that information required to be disclosed in our reports that are filed or submitted under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms. Our disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that this information is accumulated and communicated to management, including the principal executive and principal financial officers, or persons performing similar functions, as appropriate, to allow timely decisions regarding required disclosure. Based on the evaluation, the CEO and CFO have concluded that these disclosure controls and procedures were effective as of December 31, 2013.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act of 1934.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management, with the participation of our CEO and CFO, assessed the effectiveness of our internal control over financial reporting as of December 31, 2013. In making this assessment, our management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in Internal Control-Integrated Framework (1992).

Based on our assessment, management believes that, as of December 31, 2013, our internal control over financial reporting is effective based on those criteria.

The effectiveness of our internal control over financial reporting as of December 31, 2013, has been audited by KPMG LLP, an independent registered public accounting firm. The audit report is included in the Reports of Independent Registered Public Accountants section of this document.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the latest fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

Part III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Certain of the information required by this item is incorporated by reference to the information appearing under the headings "Board of Directors," "Corporate Governance" and "Security Ownership of Certain Beneficial Owners and Management – Section 16(a) Beneficial Ownership Reporting Compliance" from our definitive Proxy Statement to be filed with the Commission on or about April 1, 2014.

Our Corporate Conduct and Ethics Code, which is applicable to all directors, officers and employees, can be found on our website at www.potlatchcorp.com. We post any amendments to or waivers from our Corporate Conduct and Ethics Code on our website.

Executive Officers of the Registrant

Information as of February 14, 2014, and for at least the past five years concerning our executive officers is as follows:

Michael J. Covey (age 56), has served as Chief Executive Officer since February 2006 and served as President and Chief Executive Officer from 2006 to March 2013. He has been a director of the company since February 2006, and has served as Chairman of the Board of the company since January 2007.

Eric J. Cremers (age 50), has served as President and Chief Operating Officer, and a director of the company, since March 2013, as Executive Vice President and Chief Financial Officer from March 2012 to March 2013, and as Vice President, Finance and Chief Financial Officer from July 2007 to March 2012.

Jerald W. Richards (age 45), has served as Vice President and Chief Financial Officer since September 2013. He was employed by Weyerhaeuser Company and served as Chief Accounting Officer from October 2010 to August 2013 and corporate segment controller from 2008 to October 2010.

William R. DeReu (age 47), has served as Vice President, Real Estate and Lake States Resource since February 2012 and as Vice President, Real Estate from May 2006 to February 2012.

Lorrie D. Scott (age 59), has served as Vice President, General Counsel and Corporate Secretary since July 2010. Prior to July 2010, she was employed by Weyerhaeuser Realty Investors, Inc., and served as Senior Vice President and General Counsel from October 2007 to July 2010.

Thomas J. Temple (age 57), has served as Vice President, Wood Products and Arkansas Resource since February 2012, as Vice President, Wood Products from January 2009 to February 2012, and as Vice President from November 2008 to January 2009.

The term of office of the officers of the company expires at the annual meeting of our board, and each officer holds office until the officer’s successor is duly elected and qualified or until the earlier of the officer’s death, resignation, retirement, removal by the board or as otherwise provided in our bylaws.

ITEM 11. EXECUTIVE COMPENSATION

Information set forth under the headings "Report of the Executive Compensation Personnel Policies Committee," "Compensation Discussion and Analysis" and "Corporate Governance - Compensation Committee Interlocks and Insider Participation" in our definitive Proxy Statement to be filed with the Commission on or about April 1, 2014, is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information regarding any person or group known by us to be the beneficial owner of more than five percent of our common stock as well as the security ownership of management set forth under the heading "Security Ownership of Certain Beneficial Owners and Management" in our definitive Proxy Statement to be filed with the Commission on or about April 1, 2014, is incorporated herein by reference.

The following table provides certain information as of December 31, 2013, with respect to our equity compensation plans:

EQUITY COMPENSATION PLAN INFORMATION

PLAN CATEGORY	NUMBER OF SECURITIES TO BE ISSUED UPON EXERCISE OF OUTSTANDING OPTIONS, WARRANTS OR RIGHTS[1]	WEIGHTED AVERAGE EXERCISE PRICE OF OUTSTANDING OPTIONS, WARRANTS OR RIGHTS[2]		NUMBER OF SECURITIES REMAINING AVAILABLE FOR FUTURE ISSUANCE UNDER EQUITY COMPENSATION PLANS
Equity compensation plans approved by security holders	557,943	$	30.92	269,358
Equity compensation plans not approved by security holders	—		—	—
Total	557,943	$	30.92	269,358

1 Includes 455,350 performance shares and 89,734 restricted stock units, or RSUs, which are the maximum number of shares that can be awarded under the performance share and RSU programs, not including future dividend equivalents.

2 Performance shares and RSUs do not have exercise prices and are therefore not included in the weighted average exercise price calculation.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this item regarding certain relationships and related transactions is included under the heading "Corporate Governance - Transactions with Related Persons" in our definitive Proxy Statement to be filed with the Commission on or about April 1, 2014, and is incorporated herein by reference.

The information required by this item regarding director independence is included under the headings "Board of Directors" and "Corporate Governance - Director Independence" in our definitive Proxy Statement to be filed with the Commission on or about April 1, 2014, and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item regarding principal accounting fees and services is included under the heading "Fees Paid to Independent Registered Public Accounting Firm in 2013 and 2012" in our definitive Proxy Statement to be filed with the Commission on or about April 1, 2014, and is incorporated herein by reference.

Part IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

Consolidated Financial Statements

Our consolidated financial statements are listed in the Index to Consolidated Financial Statements and Schedules.

Financial Statement Schedules

None.

Exhibits

Exhibits are listed in the Exhibit Index.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

POTLATCH CORPORATION
(Registrant)

By /S/ MICHAEL J. COVEY
Michael J. Covey
Chairman of the Board and Chief Executive Officer

Date: February 14, 2014

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below on February 14, 2014, by the following persons on behalf of the registrant in the capacities indicated.

BY /S/ MICHAEL J. COVEY Michael J. Covey	Director, Chairman of the Board, and Chief Executive Officer (Principal Executive Officer)
BY /S/ ERIC J. CREMERS Eric J. Cremers	Director, President and Chief Operating Officer
BY /S/ JERALD W. RICHARDS Jerald W. Richards	Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
* Boh A. Dickey	Director
* William L. Driscoll	Director
* Charles P. Grenier	Director
* Jerome C. Knoll	Director
* John S. Moody	Director
* Lawrence S. Peiros	Director
* Gregory L. Quesnel	Director

*By /S/ LORRIE D. SCOTT
Lorrie D. Scott
(Attorney-in-fact)

POTLATCH CORPORATION AND CONSOLIDATED SUBSIDIARIES
Index to Consolidated Financial Statements and Schedules
The following documents are filed as part of this report:

POTLATCH CORPORATION AND CONSOLIDATED SUBSIDIARIES
Selected Financial Data

(Dollars in thousands – except per-share amounts)

	2013	2012	2011	2010	2009
Revenues	$570,289	$525,134	$497,421	$539,447	$476,169
Income from continuing operations	70,581	42,594	40,266	40,275	81,431
Net income	70,581	42,594	40,266	40,394	77,328
Total assets	$680,530	$718,897	$746,220	$781,711	$823,565
Working capital	80,051	74,510	57,242	95,762	63,225
Long-term debt (including current portion)	320,092	357,576	366,403	368,496	368,431
Stockholders’ equity	204,148	138,643	142,138	204,439	229,790
Current ratio	2.6 to 1	2.2 to 1	1.7 to 1	2.5 to 1	2.1 to 1
Long-term debt to stockholders’ equity ratio	1.6 to 1	2.6 to 1	2.6 to 1	1.8 to 1	1.6 to 1
Capital expenditures:					
Property, plant and equipment	$10,280	$5,636	$5,338	$5,215	$4,317
Timber and timberlands, net	13,373	23,552	11,548	9,786	11,380
Total capital expenditures	$23,653	$29,188	$16,886	$15,001	$15,697
Net income per share from continuing operations:					
Basic	$1.74	$1.06	$1.00	$1.01	$2.05
Diluted	1.73	1.05	1.00	1.00	2.04
Net income per share:					
Basic	$1.74	$1.06	$1.00	$1.01	$1.94
Diluted	1.73	1.05	1.00	1.00	1.93
Weighted-average shares outstanding (in thousands):					
Basic	40,503	40,333	40,159	39,971	39,763
Diluted	40,709	40,553	40,383	40,219	39,974
Distributions per share	$1.28	$1.24	$1.84	$2.04	$2.04

Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

Our 2013 performance demonstrated a strong year, marked by the improvement in lumber prices and higher log prices in Idaho. The Resource segment income increased 48% year over year, or $23.9 million, on flat harvest levels. The Wood Products segment operated well and posted its highest level of earnings in nearly a decade. Results for our Real Estate segment were strong and it continues to be a stable earnings contributor based on steady demand for our HBU and rural recreational properties.

According to industry forecasts, total demand for North American lumber is anticipated to increase an additional 4 billion board feet, or approximately 7%, from 2013 levels. The majority of the growth is expected in the new home construction market segment as the U.S. housing market continues its gradual recovery. Factors such as home price increases, the cost of new mortgages, the mortgage approval process and the availability of desirable building lots will continue to play into the pace of the housing recovery. Participation by first-time homebuyers has been low to this point in the recovery by historical standards, and would provide an additional boost to demand. We anticipate southern pine sawlog prices will remain flat in 2014.

Factors Influencing Our Results of Operations and Cash Flows

The operating results of our Resource, Wood Products and Real Estate business segments have been and will continue to be influenced by a variety of factors, including the cyclical nature of the forest products industry, changes in timber prices and in harvest levels from our timberlands, competition, timberland valuations, demand for our non-strategic timberland for higher and better use purposes, the efficiency and level of capacity utilization of our wood products manufacturing operations, changes in our principal expenses such as log costs, asset dispositions or acquisitions, and other factors. See Part I - Item 1. Business for additional information.

Results of Operations

As of December 31, 2013, our business is organized into three reporting segments: Resource, Wood Products and Real Estate. Sales between segments are recorded as intersegment revenues based on prevailing market prices. Because of the role of the Resource segment in supplying our Wood Products segment with a portion of its wood fiber needs, intersegment revenues can represent a significant portion of the Resource segment's total revenues. Our other segments generally do not generate intersegment revenues.

In the period-to-period discussions of our consolidated results of operations, our revenues are reported after elimination of intersegment revenues. In the discussions by business segments, each segment's revenues are presented before elimination of intersegment revenues.

CONSOLIDATED RESULTS COMPARING 2013 WITH 2012

The following table sets forth year-to-year changes in items included in our Consolidated Statements of Income for the years ended December 31, 2013 and 2012.

	YEARS ENDED DECEMBER 31,			
(Dollars in thousands)	2013	2012	AMOUNT OF CHANGE	PERCENT CHANGE
Revenues	$570,289	$525,134	$45,155	9 %
Costs and expenses:				
Cost of goods sold	408,772	390,666	18,106	5 %
Selling, general and administrative expenses	50,397	49,419	978	2 %
Environmental remediation charge	3,522	—	3,522	n/m
Asset impairment charge	—	107	(107)	n/m
	462,691	440,192	22,499	5 %
Operating income	107,598	84,942	22,656	27 %
Interest expense, net	(23,132)	(25,539)	2,407	9 %
Income before income taxes	84,466	59,403	25,063	42 %
Income tax provision	(13,885)	(16,809)	2,924	17 %
Net income	$70,581	$42,594	$27,987	66 %

Revenues. Revenues increased in 2013 over 2012 from the Resource segment, primarily from higher log prices in Idaho, and the Wood Products segment, due to higher prices for manufactured wood products, partially offset by decreased revenues from our Real Estate segment due to fewer acres sold in 2013. A more detailed discussion of revenues follows in the operating results by business segments.

Cost of goods sold. Cost of goods sold increased in 2013 over 2012, primarily due to higher log costs in Wood Products and and higher logging and hauling costs and depletion expense in our Resource segment as a result of higher harvest volumes.

Environmental remediation charge. In 2013, we recorded pre-tax charges of $3.5 million to reflect increased remediation costs associated with liabilities related to our Avery Landing site in Idaho. Physical clean-up activities at the site were completed in 2013.

Asset impairment charge. In 2012, we recorded a $0.1 million charge related to write-downs of two of our real estate development projects.

Interest expense, net. Net interest expense decreased in 2013 from 2012 primarily due to the early redemption of $36.7 million of debt in 2013.

Income tax provision. Our effective tax rate for 2013 was 16.4% compared to 28.3% in 2012. The decrease resulted primarily from proportionately higher operating income in the REIT.

BUSINESS SEGMENT RESULTS COMPARING 2013 WITH 2012
Resource Segment

	YEARS ENDED DECEMBER 31,			
(Dollars in thousands)	2013	2012	INCREASE (DECREASE)	PERCENT CHANGE
Revenues (before elimination of intersegment revenues)	$238,228	$207,846	$30,382	15 %
Operating income	$73,425	$49,543	$23,882	48 %
Harvest Volumes (in tons)				
Northern region				
Sawlog	2,031,637	1,946,138	85,499	4 %
Pulpwood	127,998	299,934	(171,936)	(57)%
Stumpage	25,397	34,049	(8,652)	(25)%
Total	2,185,032	2,280,121	(95,089)	(4)%
Southern region				
Sawlog	694,147	586,658	107,489	18 %
Pulpwood	821,781	691,411	130,370	19 %
Stumpage	8,353	—	8,353	n/m
Total	1,524,281	1,278,069	246,212	19 %
Total harvest volume	3,709,313	3,558,190	151,123	4 %
Sales Price/Unit ($ per ton)				
Northern region				
Sawlog	$85	$75	$10	13 %
Pulpwood	$36	$40	$(4)	(10)%
Stumpage	$8	$10	$(2)	(20)%
Weighted Average	$81	$69	$12	17 %
Southern region				
Sawlog	$43	$42	$1	2 %
Pulpwood	$32	$31	$1	3 %
Stumpage	$12	$—	$12	n/m
Weighted Average	$37	$36	$1	3 %

Revenues increased in 2013 over 2012 due to increased prices, primarily for sawlogs in Idaho, and the incremental harvest volumes provided by land acquisitions in Arkansas in late 2012. Increased prices accounted for $22.0 million of the revenue variance, while the increase in total harvest volume accounted for $8.6 million of the variance.

In our Northern region, sawlog prices and volume increased due to stronger demand. An oversupply of residuals and chips in the Northwest market resulted in lower pulpwood prices, which led us to minimize pulpwood production.

In our Southern region, both sawlog and pulpwood volumes increased. Sawlog prices increased due primarily to a shift in product mix related to increased demand for higher priced hardwoods. Pulpwood prices increased as a result of slightly improved demand for both pine and hardwood pulpwood.

Expenses for the segment increased $6.5 million, or 4%, in 2013 over 2012, primarily due to higher logging and hauling costs, from increased per-unit costs as well as volume, and higher depletion expense from increased harvest volumes.

Wood Products Segment

(Dollars in thousands)	YEARS ENDED DECEMBER 31, 2013	2012	INCREASE (DECREASE)	PERCENT CHANGE
Revenues	$366,015	$329,404	$36,611	11 %
Operating income	$58,892	$45,456	$13,436	30 %
Lumber shipments (MBF)	641,217	649,119	(7,902)	(1)%
Lumber sales prices ($ per MBF)	$392	$342	$50	15 %

Revenues for the segment increased in 2013 over 2012 as lumber prices increased, but were partially offset by a small decrease in shipments. Expenses for the segment increased $23.2 million, or 8%, due to the higher cost of logs consumed, primarily related to increased prices for sawlogs in Idaho, and increased logging and hauling expenses, primarily due to a higher volume of logs sourced from third party timberlands in Idaho, and labor-related expenses.

Real Estate Segment

(Dollars in thousands)	YEARS ENDED DECEMBER 31, 2013	2012	INCREASE (DECREASE)	PERCENT CHANGE
Revenues	$26,160	$38,238	$(12,078)	(32)%
Operating income	$18,266	$28,056	$(9,790)	(35)%

	2013 ACRES SOLD	2013 AVERAGE PRICE/ACRE	2012 ACRES SOLD	2012 AVERAGE PRICE/ACRE
HBU	4,799	$2,033	7,080	$2,969
Rural real estate	9,494	$1,310	11,724	$1,218
Non-strategic timberland	4,669	$849	4,140	$711
Total	18,962		22,944	

Revenues decreased $12.1 million, expenses decreased $2.3 million and operating income decreased $9.8 million in 2013 compared to 2012, all primarily due to the sale of fewer acres of land in 2013 and product mix.

CONSOLIDATED RESULTS COMPARING 2012 WITH 2011

The following table sets forth year-to-year changes in items included in our Consolidated Statements of Income for the years ended December 31, 2012 and 2011.

	YEARS ENDED DECEMBER 31,			
(Dollars in thousands)	2012	2011	AMOUNT OF CHANGE	PERCENT CHANGE
Revenues	$525,134	$497,421	$27,713	6 %
Costs and expenses:				
Cost of goods sold	390,666	382,252	8,414	2 %
Selling, general and administrative expenses	49,419	40,549	8,870	22 %
Environmental remediation charge	—	1,200	(1,200)	n/m
Asset impairment charge	107	1,180	(1,073)	(91)%
	440,192	425,181	15,011	4 %
Operating income	84,942	72,240	12,702	18 %
Interest expense, net	(25,539)	(27,829)	2,290	8 %
Income before income taxes	59,403	44,411	14,992	34 %
Income tax provision	(16,809)	(4,145)	(12,664)	n/m
Net income	$42,594	$40,266	$2,328	6 %

Revenues. Revenues increased in 2012 compared to 2011 due to increased revenues from our Wood Products segment, partially offset by decreased revenues from our Resource and Real Estate segments. A more detailed discussion of revenues follows in the operating results by business segments.

Cost of goods sold. Cost of goods sold increased in 2012 over 2011, primarily due to the increased cost of logs consumed, customer freight, and wages and benefits that resulted from increased production and operating hours at our wood products manufacturing facilities, partially offset by reduced logging and hauling costs from our Resource segment due to the harvest deferral and lower basis of acres sold by our Real Estate segment.

Selling, general and administrative expenses. Selling, general and administrative expenses increased in 2012 over 2011, primarily due to higher pension expense related to our legacy plans, increased compensation expenses and mark to market adjustments related to deferred compensation plans.

Environmental remediation charge. In 2011, we recorded a pre-tax charge of $1.2 million to reflect increased remediation cost estimates associated with estimated liabilities related to our Avery Landing site in Idaho.

Asset impairment charge. In 2012, we recorded a $0.1 million charge related to write-downs of two of our real estate development projects. In 2011, we recorded a charge of $1.2 million that resulted from a change in the intended use of a warehouse.

Interest expense, net. Net interest expense decreased in 2012 from 2011 due to the maturity and redemption of $21.7 million of debt in 2012 and the lower interest rates associated with our interest rate swaps in 2012. In addition, a $1.2 million non-cash charge was recorded in 2011 for deferred costs related to the reduction in the available borrowing capacity in our previous bank credit facility.

Income tax provision. Our effective tax rate for 2012 was 28.3% compared to 9.3% in 2011. The increase resulted from increased operating income earned by Potlatch TRS in 2012.

BUSINESS SEGMENT RESULTS COMPARING 2012 WITH 2011

Resource Segment

(Dollars in thousands)	YEARS ENDED DECEMBER 31, 2012	2011	INCREASE (DECREASE)	PERCENT CHANGE
Revenues (before elimination of intersegment revenues)	$207,846	$226,969	$(19,123)	(8)%
Operating income	$49,543	$59,792	$(10,249)	(17)%
Harvest Volumes (in tons)				
Northern region				
Sawlog	1,946,138	2,034,465	(88,327)	(4)%
Pulpwood	299,934	360,391	(60,457)	(17)%
Stumpage	34,049	41,008	(6,959)	(17)%
Total	2,280,121	2,435,864	(155,743)	(6)%
Southern region				
Sawlog	586,658	875,933	(289,275)	(33)%
Pulpwood	691,411	812,577	(121,166)	(15)%
Stumpage	—	15,006	(15,006)	n/m

establish that members of the board of directors may be removed only for cause upon the affirmative vote of stockholders owning at least a majority of our capital stock;

authorize the issuance of blank check preferred stock that could be issued by our board of directors in a discriminatory fashion designed to increase the number of outstanding shares and prevent or delay a takeover attempt;

limit who may call a special meeting of stockholders;

Table of Contents

- establish advance notice requirements for nominations for election to the board of directors or for proposing matters that can be acted upon at stockholder meetings;

- prohibit our stockholders from making certain changes to our Restated Certificate of Incorporation or Amended and Restated Bylaws except with 66 $^{2}/3$ percent stockholder approval; and

- provide for a classified board of directors with staggered terms.

We also may be subject to provisions of the Delaware corporation law that, in general, prohibit any business combination with a beneficial owner of 15 percent or more of our common stock for three years unless the holder s acquisition of our stock was approved in advance by our board of directors. Although we believe these provisions collectively provide for an opportunity to receive higher bids by requiring potential acquirers to negotiate with our board of directors, they would apply even if the offer may be considered beneficial by some stockholders. In any event, these provisions may delay or prevent a third party from acquiring us. Any such delay or prevention could cause the market price of our common stock to decline.

We have never paid dividends on our capital stock, and we do not anticipate paying any cash dividends in the foreseeable future.

We have paid no cash dividends on any of our classes of capital stock to date, and we currently intend to retain our future earnings, if any, to fund the development and growth of our business. We do not anticipate paying any cash dividends on our common stock in the foreseeable future. As a result, capital appreciation, if any, of our common stock will be your sole source of gain for the foreseeable future.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. (REMOVED AND RESERVED).

ITEM 5. OTHER INFORMATION.

None.

ITEM 6. EXHIBITS.

Exhibit Number	Description
31.1	Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the period ended September 30, 2010.
31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the period ended September 30, 2010.

32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities and Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	MEDICINOVA, INC.	
Date: November 15, 2010	By:	/s/ YUICHI IWAKI **Yuichi Iwaki, M.D., Ph.D.** **President and Chief Executive Officer** **(on behalf of the registrant and** **as the registrant s Principal Executive Officer)**
	By:	/s/ SHINTARO ASAKO **Shintaro Asako** **Vice President and Chief Financial Officer** **(on behalf of the registrant and** **as the registrant s Principal Financial Officer)**

58

Table of Contents

INDEX TO EXHIBITS

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31.2	Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 for the period ended September 30, 2010.
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).