

SECURITIES AND EXCHANGE COMMISSION

FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

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POTLATCH CORP

CIK: **79716** | IRS No.: **820156045** | State of Incorporation: **DE** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **001-05313** | Film No.: **94541184**
SIC: **5047** Medical, dental & hospital equipment & supplies

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SECURITIES AND EXCHANGE COMMISSION
Washington, D. C. 20549

Form 10-Q

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For Quarter Ended June 30, 1994 Commission file number 1-5313

POTLATCH CORPORATION
(Exact name of registrant as specified in its charter)

A Delaware Corporation
(State or other jurisdiction of
incorporation or organization)

82-0156045
(I.R.S. Employer
Identification No.)

One Maritime Plaza
San Francisco, California
(Address of principal executive offices)

94111
(Zip Code)

Registrant's telephone number, including area code (415) 576-8800

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. Yes[X] No[]

The number of shares of common stock outstanding as of June 30, 1994:
29,217,181 shares of Common Stock, par value \$1 per share.

POTLATCH CORPORATION AND CONSOLIDATED SUBSIDIARIES

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PART I

Item 1. Financial Statements

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

<CAPTION>

	Quarter Ended June 30		Six Months Ended June 30	
	1994	1993	1994	1993
<S>	<C>	<C>	<C>	<C>
Net sales	\$345,120	\$326,624	\$710,402	\$688,167
Costs and expenses:				
Depreciation, amortization and cost of fee timber harvested	34,387	30,221	69,410	58,589
Materials, labor and other operating expenses	270,982	262,202	551,333	528,668
Selling, general and administrative expenses	20,915	19,634	40,429	41,116
	326,284	312,057	661,172	628,373
Earnings from operations	18,836	14,567	49,230	59,794
Interest expense	(12,562)	(11,724)	(25,305)	(22,026)
Interest and dividend income	85	481	224	787

Other income (expense), net	3,403	1,052	(5,816)	1,000

Earnings before taxes on income and cumulative effect of accounting changes	9,762	4,376	18,333	39,555
Provision for taxes on income (Note 2)	3,710	1,618	6,967	14,635

Net earnings before cumulative effect of accounting changes	6,052	2,758	11,366	24,920
Cumulative effect of accounting changes for post- retirement benefits and income taxes, net of tax	-	-	-	(31,704)

Net earnings (loss)	\$ 6,052	\$ 2,758	\$ 11,366	\$ (6,784)
=====				
Net earnings (loss) per common share (Note 3):				
Before accounting changes	\$.21	\$.09	\$.39 *	\$.85
After accounting changes	.21	.09	.39 *	(.24)
Dividends per common share (annual rate)	1.56	1.50	1.56	1.50
Average shares outstanding (in thousands)	29,214	29,184	29,213	29,178

<FN>
* Includes a charge of \$.21 per common share for early retirement programs in the first quarter of 1994.

The accompanying notes are an integral part of these financial statements.
</TABLE>

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<TABLE>

Potlatch Corporation and Consolidated Subsidiaries
Condensed Balance Sheets
1994 amounts unaudited (Dollars in thousands -
except per-share amounts)

<CAPTION>

	June 30, 1994	December 31, 1993

<S>	<C>	<C>
Assets		
Current assets:		
Cash	\$ 6,283	\$ 6,813
Short-term investments	48,160	20,421
Receivables, net	116,952	118,601
Inventories (Note 4)	148,912	155,560
Prepaid expenses	26,239	25,758

Total current assets	346,546	327,153
Land, other than timberlands	9,112	9,105
Plant and equipment, at cost less accumulated depreciation	1,322,351	1,340,028
Timber, timberlands and related logging facilities	345,795	343,044
Other assets	30,379	66,322

	\$2,054,183	\$2,085,652

Liabilities and Stockholders' Equity

Current liabilities:

Notes payable (Note 5)	\$ 20,000	\$ -
Current installments on long-term debt	18,807	7,057
Accounts payable and accrued liabilities	192,783	190,958

Total current liabilities	231,590	198,015
Long-term debt	637,292	707,131
Other long-term obligations	133,963	120,388
Deferred taxes	142,545	140,454
Stockholders' equity	908,793	919,664

\$2,054,183 \$2,085,652

Stockholders' equity per common share	\$31.10	\$31.50
Working capital	\$114,956	\$129,138
Current ratio	1.5:1	1.7:1

<FN>

December 31, 1993 amounts have been restated to conform to the 1994 presentation in which bank overdrafts are classified as a current liability.

The accompanying notes are an integral part of these financial statements.

</TABLE>

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<TABLE>

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

<CAPTION>

	Six Months Ended June 30	
	1994	1993
<S>	<C>	<C>
Cash Flows From Operations		
Net earnings (loss)	\$ 11,366	\$ (6,784)
Adjustments to reconcile net earnings (loss) to cash provided by operations:		
Cumulative effect of accounting changes	-	31,704
Depreciation, amortization and cost of fee timber harvested	69,410	58,589
Deferred taxes	2,091	6,000
Working capital changes	4,815	20,618
Other, net	(1,167)	(324)
Net cash provided by operations	86,515	109,803
Cash Flows From Financing		
Change in bank overdrafts	4,826	(3,448)
Proceeds from long-term debt	-	5,124
Repayment of long-term debt	(38,089)	(1,968)
Issuance of treasury stock	386	864
Dividends	(22,785)	(21,883)
Net cash used for financing	(55,662)	(21,311)
Cash Flows From Investing		
Decrease (increase) in short-term investments	10,533	(16,056)
Additions to plant and properties	(48,351)	(77,437)
Disposition of plant and properties	2,448	763

Other, net	3,987	(6,252)

Net cash used for investing	(31,383)	(98,982)

Decrease in cash	(530)	(10,490)
Balance at beginning of period	6,813	16,708

Balance at end of period	\$ 6,283	\$ 6,218
=====		

<FN>

Net interest payments (net of amounts capitalized) for the six months ended June 30, 1994 and 1993 were \$24.1 million and \$20.4 million, respectively. Net income tax payments for the six months ended June 30, 1994 and 1993 were \$8.1 million and \$10.3 million, respectively.

The accompanying notes are an integral part of these financial statements.

</TABLE>

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Potlatch Corporation and Consolidated Subsidiaries
Notes to Financial Statements
(Dollars in thousands)

NOTE 1. GENERAL - The accompanying condensed balance sheets at June 30, 1994 and December 31, 1993, and the statements of earnings for the quarter and six months ended June 30, 1994 and 1993, and the condensed statements of cash flows for the six months ended June 30, 1994 and 1993, have been prepared in conformity with generally accepted accounting principles. The management of Potlatch Corporation (the "company") believes that all adjustments necessary for a fair statement of the results of such interim periods have been included.

NOTE 2. INCOME TAX - The provision for taxes on income has been computed by applying an estimated annual effective tax rate. This rate was 38 percent for 1994, compared with 37 percent in 1993.

NOTE 3. EARNINGS PER COMMON SHARE - Earnings per common share are computed by dividing net earnings by the weighted average number of common shares outstanding. Common stock equivalents which would arise from the exercise of stock options were not included in the weighted average because of immateriality.

NOTE 4. INVENTORIES - Inventories at the balance sheet dates consist of:

<TABLE>

<CAPTION>

	June 30, 1994	December 31, 1993
	-----	-----
<S>	<C>	<C>
Raw materials	\$ 78,500	\$ 86,508
Work in process	6,746	4,809
Finished goods	63,666	64,243
	-----	-----
	\$148,912	\$155,560
	=====	=====

</TABLE>

NOTE 5. NOTES PAYABLE - Notes payable at June 30, 1994 represent the portion of the company's outstanding commercial paper which it intends to retire within one year. The amount presented, \$20.0 million, was reclassified from long-term debt in the second quarter of 1994.

ITEM 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Liquidity and Capital Funding

Net cash provided by operations for the first six months of 1994, as presented in the Condensed Statements of Cash Flows on page 4, totaled \$86.5 million, compared with \$109.8 million for the same period in 1993.

The company's ratio of long-term debt to stockholders' equity was .70 to 1 at June 30, 1994, compared with .77 to 1 at December 31, 1993. The decrease in the ratio was primarily due to a decrease of \$33.0 million in commercial paper outstanding and the reclassification of \$20.0 million of the remaining amount of outstanding commercial paper from long-term to current due to the company's intent to retire this amount within a year. The company also reclassified \$15.0 million of

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its medium-term notes from long-term to current due to their maturity within one year.

Working capital of \$115.0 million at June 30, 1994, decreased \$14.1 million from December 31, 1993. Increases of \$20.0 million in notes payable, as discussed previously, and \$11.8 million in current installments on long-term debt combined with a decrease of \$6.6 million in inventories were largely responsible for the decline. The effect of these changes was partially offset by a \$27.7 million increase in short-term investments. Short-term investments increased due to a reclassification of assets previously classified as long-term, which will mature within one year.

Capital expenditures totaled \$48.4 million for the first six months of 1994. Of this amount, the company spent \$16.5 million in the wood products segment, which included expenditures for the replacement of a company sawmill in Warren, Arkansas. The company spent \$9.9 million in the printing papers segment, including expenditures for the continued modernization and expansion of the company's pulp mill in Cloquet, Minnesota. Spending in the other pulp-based products segment totaled \$21.7 million. A significant portion of this total related to the rebuild of a tissue machine at the Consumer Products Division's Lewiston, Idaho facility.

<TABLE>

Results of Operations

A summary of period-to-period changes in items included in the statements of earnings is presented on page 8 of this Form 10-Q.

Segment Information	(Dollars in thousands)
---------------------	------------------------

<CAPTION>

	Second Quarter		Six Months	
	1994	1993	1994	1993
<S>	<C>	<C>	<C>	<C>
Net Sales				
Wood products	\$129,766	\$121,184	\$270,938	\$256,618
Printing papers	91,148	87,467	193,264	186,235
Other pulp-based products	124,206	117,973	246,200	245,314
Total net sales	\$345,120	\$326,624	\$710,402	\$688,167
Operating Income				
Wood products	\$ 35,891	\$ 40,619	\$ 82,334	\$ 91,977
Printing papers	6,787	(1,934)	15,246	989
Other pulp-based products	(15,802)	(17,960)	(44,315)	(19,217)

	26,876	20,725	53,265	73,749
Corporate	(17,114)	(16,349)	(34,932)	(34,194)
Earnings before taxes on income and cumulative effect of accounting changes				
	\$ 9,762	\$ 4,376	\$ 18,333	\$ 39,555

</TABLE>

Higher earnings for the second quarter of 1994 were due to improved results for the company's pulp-based businesses. Net earnings increased to \$6.1 million for the second quarter, up from 1993's \$2.8 million. Earnings per common share were \$.21, compared with \$.09 reported for the

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second quarter of 1993. Net sales were \$345.1 million, compared with \$326.6 million in 1993's second quarter.

Net earnings for the first half of 1994 were \$11.4 million, or \$.39 per common share, which included a \$.21 per share charge for early retirement programs. Comparatively, earnings for the first half of 1993, before accounting changes, were \$24.9 million, or \$.85 per common share. After accounting changes for postretirement benefits and income taxes, the company posted a 1993 first half net loss and loss per common share of \$6.8 million and \$.24, respectively. Net sales for the first half of 1994 were \$710.4 million, compared with \$688.2 million a year ago.

Depreciation, amortization and cost of Potlatch timber harvested totaled \$69.4 million for the first half of 1994, an 18 percent increase over the \$58.6 million reported in 1993's first half.

The Wood Products Group reported earnings of \$35.9 million for the second quarter of 1994, down from 1993's \$40.6 million. The decline in earnings was attributable to accelerated depreciation associated with the replacement of equipment at the Lewiston, Idaho, sawmill and start-up costs of the new sawmill in Warren, Arkansas. The new sawmill experienced considerable downtime during the quarter primarily due to equipment-related operating problems and was also shut down for a day late in the second quarter as a result of an electrical outage.

The Northwest Paper Division reported second quarter earnings of \$6.8 million, compared with a loss of \$1.9 million in 1993. The results reflect a combination of improved production, lower costs and higher shipments. Sales realizations for coated papers improved from the first quarter of 1994, but remained relatively unchanged overall from the second quarter of 1993. Although both periods included normal annual maintenance shutdowns, the earnings comparison was favorably affected by a change in accounting for these shutdowns in 1994. The related costs are now being accrued over the entire year.

The other pulp-based businesses, which include the Pulp and Paperboard Group and the Consumer Products Division, reported a second quarter loss of \$15.8 million, compared with a loss of \$18.0 million last year. The improvement was due in large part to the absence of the extended shutdown of the Lewiston pulp mill, which occurred in the second quarter of 1993, and the start-up problems that followed. Market conditions for pulp and tissue products improved slightly during the quarter. The rise in pulp prices allowed the company to begin selling market pulp. Sales of market pulp had been curtailed since late 1993. Sales realizations were lower for paperboard compared with the prior year but began to improve near the end of the quarter. The electrical outage that reduced earnings for wood products also hampered results at the Arkansas pulp and paperboard facility.

"Interest expense" for the second quarter and first half of 1994 increased primarily due to a reduction in the amount of interest capitalized on long-term construction projects.

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<TABLE>

POTLATCH CORPORATION AND CONSOLIDATED SUBSIDIARIES
Changes in Statements of Earnings
(Dollars in thousands)

<CAPTION>

	Quarter Ended June 30			Six Months Ended June 30		
	1994	1993	Increase (Decrease)	1994	1993	Increase (Decrease)
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Net sales	\$345,120	\$326,624	6%	\$710,402	\$688,167	3%
Costs and expenses:						
Depreciation, amortization and cost of fee timber harvested	34,387	30,221	14%	69,410	58,589	18%
Materials, labor and other operating expenses	270,982	262,202	3%	551,333	528,668	4%
Selling, general and administrative expenses	20,915	19,634	7%	40,429	41,116	(2%)
Earnings from operations	18,836	14,567	29%	49,230	59,794	(18%)
Interest expense	(12,562)	(11,724)	7%	(25,305)	(22,026)	15%
Interest and dividend income	85	481	(82%)	224	787	(72%)
Other income, net	3,403	1,052	*	(5,816)	1,000	*
Provision for taxes on income	3,710	1,618	129%	6,967	14,635	(52%)
Net earnings before cumulative effect of accounting changes	6,052	2,758	119%	11,366	24,920	(54%)
Change in accounting for postretirement benefits and income taxes, net of tax	-	-	*	-	(31,704)	*
Net earnings (loss)	6,052	2,758	119%	11,366	(6,784)	*

<FN>

* Not a meaningful figure.

</TABLE>

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PART II

ITEM 1. Legal Proceedings

In June 1994, the company received a Notice of Violation ("NOV") issued by the Idaho Department of Health and Welfare ("IDHW") alleging 41 violations of State of Idaho environmental laws relating to air quality at the company's facilities in Lewiston, Idaho. Many of the alleged violations include continuing violations over a period of time. The IDHW also submitted a list of 14 alleged federal New Source Performance Standard violations. The aggregate penalty proposed for settlement of all of the alleged state and federal violations is approximately \$2.7 million. The company believes it has legal and equitable defenses to many of the alleged violations and has held initial settlement discussions with the IDHW and the United States Environmental Protection Agency ("EPA"). The company will continue to discuss settlement of all outstanding issues.

As reported in its Report on Form 10-Q for the Quarter ended

September 30, 1993, the company received a NOV from the EPA, Region 5, in August 1993. The NOV alleged that the company commenced construction of its three oriented strand board plants in Bemidji, Cook and Grand Rapids, Minnesota, prior to obtaining permits pursuant to regulations to prevent the significant deterioration of air quality in any area which has attained the National Ambient Air Quality Standards. The allegations contained in the NOV arise from the same facts and are the same allegations as set forth in NOVs previously issued to the company by the Minnesota Pollution Control Agency ("MPCA"). In early January 1994, the company entered into an agreement with the MPCA which resolved the alleged violations under the NOVs issued by the MPCA. Pursuant to the agreement the company will install improved pollution control equipment at all three plants in phases starting with the installation of improved pollution control equipment at the Grand Rapids plant during 1994. The agreement did not resolve the allegations of the EPA set forth in the August 1993, NOV. In July 1994, the EPA informed the company that it will refer the matter to the United States Department of Justice to commence a civil enforcement action against the company. The company believes that it has legal and equitable defenses which would defeat the alleged violations or minimize the amount of any civil penalties.

The company believes that adequate provision has been made for any amounts which may be paid as a result of the alleged violations described above.

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ITEM 4. Submission of Matters to a Vote of Security Holders

At the annual meeting of stockholders of the company held on May 19, 1994, the company's stockholders voted in favor of the election of five directors to the company's Board of Directors and the ratification of KPMG Peat Marwick as the company's independent auditors for 1994. There were 61,052,337 votes represented which equaled 89.5 percent of the total outstanding votes of 68,223,157. The number of votes for, against or withheld, as well as the number of abstentions, as applicable, as to each matter approved at the annual meeting of stockholders were as follows:

Proposal No. 1	For	Withheld	
Election of 5 Directors			
Richard B. Madden	60,835,458	216,879	
Richard M. Morrow	60,742,747	309,590	
John M. Richards	60,837,595	214,742	
Reuben F. Richards	60,829,959	222,378	
Frederick T. Weyerhaeuser	60,838,097	214,240	
Proposal No. 2	For	Against	Abstain
Ratification of Selection of Independent Auditors	60,806,782	44,336	201,219

ITEM 6. Exhibits and Reports on Form 8-K

Exhibits

The exhibit index is located on page 11 of this Form 10-Q.

Reports on Form 8-K

No reports on Form 8-K were filed for the three months ended June 30, 1994.

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SIGNATURES

Pursuant to the requirements 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 G. E. Pfautsch

G. E. Pfautsch
Senior Vice President, Finance
(Duly Authorized; Principal
Financial Officer)

By T. L. Carter

T. L. Carter
Controller
(Duly Authorized; Principal
Accounting Officer)

Date: August 2, 1994

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POTLATCH CORPORATION AND CONSOLIDATED SUBSIDIARIES

Exhibit Index

Exhibit

PART II

- (4) Registrant undertakes to file with the Securities and Exchange Commission, upon request, any instrument with respect to long-term debt.

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