

Potlatch

Potlatch Corporation

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Securities and Exchange Commission
ATTN: Jonathan G. Katz, Secretary
450 Fifth Street, N.W.
Washington, D.C. 20549

RE: File No. SR-NYSE-86-17

Dear Commissioners:

Potlatch Corporation is a one billion dollar integrated forest products company whose stock is traded on the New York Stock Exchange. We are taking this opportunity to respond to the arguments put forward against the Exchange's proposal to amend its one share, one vote rule and in favor of the unqualified imposition of that rule across the board on all domestic security markets. Potlatch operates in the tree-growing, wood products and paper business. It takes from 35 to 80 years to grow its trees, and its larger capital projects take up to 5 years to engineer, construct and bring into full operation. Therefore, its management must have a long-term focus if it is to compete in the worldwide forest products industry.

A review of the comments submitted and the transcript of the SEC hearings identify four major arguments, on the merits, against the Exchange's proposal to amend its Voting Rights Listing Standards for Domestic Companies: (1) the disenfranchisement of current stockholders, (2) the disenfranchisement of future stockholders, (3) the division of ownership (without, or with limited, votes) from management (with votes), and (4) the resulting lack of accountability of management.

While many of these arguments were met by various commentators and witnesses, we assert unequivocally that all of the concerns raised in such arguments have been satisfied as suggested by Commissioner Fleischman's question, Transcript Page 237, by the adoption of a charter amendment by Potlatch Corporation. All beneficial owners of the Company's common stock on the date of the amendment, December 12, 1985, were deemed long-term holders and were entitled to four votes per share; new purchasers after that date have one vote per share until they become long-term owners by holding their shares for four years and are entitled to four votes per share ("Time-Phased Voting"). No other features of stock ownership were changed by the amendment for existing or future owners.

1. Disenfranchisement of Current Stockholders. Under Time-Phased Voting, there is no disenfranchisement of current stockholders. No existing stockholders, whether voting in favor of or against the charter amendment, were deprived of their votes. Further, there was full and complete disclosure of the fact that the charter amendment was intended to give long-term owners a greater voice in the Company's affairs than short-term owners and that it would make a takeover less likely. And, as stated above, all current holders were considered long-term owners. There was no coercion on current owners as argued by Professor Rubeck, Transcript Page 94, because the Company had and continues to have only one class of common stock. All shares have the same market value. There were no "enticements" and no "sweeteners" such as increased dividends. No stock with voting rights was given up for stock with higher dividends.

We share the view of Commissioner Peters, Transcript Page 118, that it is ironic that the witnesses and commentators who argue most strenuously for stockholder democracy seem to believe that, on the issue of their voting rights, stockholders are not capable of a rational decision and that therefore they should not be permitted to make that decision (see views expressed by Messrs. McElroy, Machold and Goldin, Transcript Pages 217, 161 and 291, respectively).

We also should point out that not only were existing Potlatch stockholders not disenfranchised in the voting process, they were not disenfranchised after the vote was taken. All current stockholders had exactly the same pro rata voting power after, as before, the vote. They had the same right to dividends, the same right to make stockholder proposals, to wage proxy battles and to otherwise exercise their franchise.

2. Disenfranchisement of Future Stockholders. All purchasers of Potlatch stock (including insiders and other employees who purchase by the exercise of stock options) after the Time-Phased Voting charter amendment have exactly the same rights, that is, one share, one vote. There is no way in which long-term holders, including members of management, can sell stock so that the purchasers will immediately have four votes per share. If new owners agree with the Company's long-term objectives, they need only hold their shares for four years to become long-term holders entitled to four votes for each share held. The decision is up to each new owner. In the meantime, his dividend rights, right to make stockholder proposals and to wage proxy contests and to otherwise exercise his franchise are exactly the same as those of the existing long-term holders.

As suggested by Commissioner Fleischman, Transcript Page 309, and others, no one need become a "future" stockholder, and the Company has certainly made no secret of Time-Phased Voting. Indeed, if the SEC were to mandate new, ongoing disclosure requirements concerning such voting rights, the Company would be supportive of such disclosure. In Commissioner Cox's words: "Future holders would be aware, it would be disclosed what they were buying, so I guess I am a little puzzled at the problem for future holders", Transcript Page 398. Such new holders presumably have made and will continue to make their investment decisions on the basis of the Company's performance, not the number of votes they can immediately control. In this connection, it is interesting to note that although the descendants of early founding families and longtime stockholders of predecessor companies have a significant

ownership interest in the Company, Potlatch has always had many institutional holders, contrary to the views expressed by Professor Gordon, Transcript Page 83. Further, the number of institutions holding positions in the Company has increased from 81 on September 30, 1985, the end of the quarter prior to the adoption of the Time-Phased Voting amendment, to 108 as of September 30, 1986, a year later. Additionally, in the first full calendar year since enactment of Time-Phased Voting on December 12, 1985, purchases by new stockholders have increased the price of Potlatch stock by 52.3% so that it outperformed all but one of its major forest products competitors. See enclosed chart taken from information in the Wall Street Journal.

3. Division of Ownership (without, or with limited, votes) from Management (with votes). Immediately following adoption of Time-Phased Voting, all stockholders - managers and other insiders, individuals and institutions - were deemed long-term holders. In the words of the proxy statement proposing Time-Phased Voting, copy enclosed, "the Company has emphasized long-range planning and the dedication of the Company's resources to long-term goals for many decades . . . the Company considers it very important to foster an atmosphere in which the directors and officers of the Company can make decisions which will be in the long-term best interests of the Company and all of its stockholders. To this end, the Amendment seeks to give long-term stockholders a greater vote in the Company's affairs than short-term investors."

All stockholders had a right to decide that they were not interested in continuing to be long-term holders and to sell their stock, the price of which is now substantially higher than it was before the distribution of the proxy statement or immediately following the charter amendment. At the same time, there is a unity of interest, rather than a division, between those who continue as stockholders with a commitment to long-term, rather than quarter-to-quarter, planning in the handling of the Company's affairs and a management which is charged with the responsibility for that long-term planning. The long-term owners, whether or not aligned with management, have the voting power to determine the Company's course. This long-term status is open to all stockholders who share that commitment. Individuals and institutions, whether owning stock before the charter amendment or purchasing it thereafter, have the right to make the determination that they wish to invest in a company which has only one class of common stock and where long-range planning and its resulting creation of future investment opportunities is emphasized.

4. Management Accountability or Lack Thereof. We agree with Commissioner Fleischman that the future accountability of management is not accomplished by a majority vote of the "public" stockholders on the charter amendment, Transcript Page 38. Management at Potlatch remains accountable to all stockholders. A short-term stockholder can control Potlatch tomorrow by acquiring 81% of Potlatch shares today (in effect, a short-term super-majority vote requirement). A long-term stockholder can control Potlatch in four years by acquiring 51% of Potlatch shares today.

A formal sunset provision, such as proposed by some witnesses for recapitalizations involving A/B common stock, is not necessary for Potlatch's one class of common stock since any stockholders acquiring voting control of the one class of common stock can put an end to

Time-Phased Voting. Other controls also continue to monitor management's performance. Among these are: (1) an independent board consisting of 13 (out of a total of 15) outside directors, (2) the proxy system whereby any of the Company's stockholders can submit a proposal concerning the governance of the Company or initiate a proxy contest, (3) bankers and other lending institutions, (4) equity markets for the Company's securities, (5) the investing public.

We continue to affirm the belief stated in our letter to the Commissioners of November 25, 1986, copy enclosed, that the Commission should approve the proposed rule change relating to amendments to the New York Stock Exchange's Voting Rights Listing Standards for Domestic Companies.

At the same time, review of the transcript of the hearings held on December 16 and 17, 1986, leads us to believe that should the Commission not approve the proposed rule change, but rather impose a one share, one vote listing standard across all domestic markets, it would, nevertheless, look with favor on granting such exemptions from that standard as are necessary to cause the least disturbance in the marketplace and in the normal business operations of companies which have issued stock with disparate voting rights.

We believe the Company's Time-Phased Voting Plan, which provides for one share and one vote over time, is responsive to the concerns raised in the comments and hearings and therefore would qualify as a reasonable and fair exemption to a strict one share, one vote rule. There is no disenfranchisement of current or future stockholders and no division of management and ownership. There are effective controls on management. Therefore, should the Commission decide to mandate the one share, one vote standard across the board, we urge that the Company's Time-Phased Voting Plan be exempt from the rule, not only because it is in place and was, as suggested by Senator Metzenbaum, adopted prior to January 1, 1986, but also because, in substance and effect and over time, it satisfies the rule.

Sincerely,

Richard B. Madden
Chairman and Chief Executive
Officer

CC: Richard G. Ketchum