

NUVEEN CALIFORNIA DIVIDEND ADVANTAGE MUNICIPAL FUND
Form N-CSRS
November 06, 2014

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

FORM N-CSR

CERTIFIED SHAREHOLDER REPORT OF REGISTERED
MANAGEMENT INVESTMENT COMPANIES

Investment Company Act file number 811-09161

Nuveen California Dividend Advantage Municipal Fund
(Exact name of registrant as specified in charter)

Nuveen Investments
333 West Wacker Drive
Chicago, IL 60606
(Address of principal executive offices) (Zip code)

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Registrant's telephone number, including area code: (312) 917-7700

Date of fiscal year end: February 28

Date of reporting period: August 31, 2014

Form N-CSR is to be used by management investment companies to file reports with the Commission not later than 10 days after the transmission to stockholders of any report that is required to be transmitted to stockholders under Rule 30e-1 under the Investment Company Act of 1940 (17 CFR 270.30e-1). The Commission may use the information provided on Form N-CSR in its regulatory, disclosure review, inspection, and policymaking roles.

A registrant is required to disclose the information specified by Form N-CSR, and the Commission will make this information public. A registrant is not required to respond to the collection of information contained in Form N-CSR unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. ss. 3507.

ITEM 1. REPORTS TO STOCKHOLDERS.

NUVEEN INVESTMENTS ACQUIRED BY TIAA-CREF

On October 1, 2014, TIAA-CREF completed its previously announced acquisition of Nuveen Investments, Inc., the parent company of your fund's investment adviser, Nuveen Fund Advisors, LLC ("NFAL") and the Nuveen affiliates that act as sub-advisers to the majority of the Nuveen Funds. TIAA-CREF is a national financial services organization with approximately \$613 billion in assets under management as of June 30, 2014 and is a leading provider of retirement services in the academic, research, medical and cultural fields. Nuveen expects to operate as a separate subsidiary within TIAA-CREF's asset management business. Nuveen's existing leadership and key investment teams have remained in place following the transaction.

Your fund investment will not change as a result of Nuveen's change of ownership. You will still own the same fund shares and the underlying value of those shares will not change as a result of the transaction. NFAL and your fund's sub-adviser(s) will continue to manage your fund according to the same objectives and policies as before, and we do not anticipate any changes to your fund's operations.

Table of Contents

Chairman’s Letter to Shareholders	4
Portfolio Manager’s Comments	5
Fund Leverage	10
Common Share Information	12
Risk Considerations	14
Performance Overview and Holding Summaries	15
Shareholder Meeting Report	21
Portfolios of Investments	29
Statement of Assets and Liabilities	86
Statement of Operations	88
Statement of Changes in Net Assets	90
Statement of Cash Flows	92
Financial Highlights	94
Notes to Financial Statements	102
Additional Fund Information	119
Glossary of Terms Used in this Report	120
Reinvest Automatically, Easily and Conveniently	122
Annual Investment Management Agreement Approval Process	123

Nuveen Investments 3

Chairman's Letter to Shareholders

Dear Shareholders,

Over the past year, global financial markets were generally strong as stocks of many countries rose due to strengthening economies and abundant central bank support. A low and stable interest rate environment allowed the bond market to generate modest but positive returns.

More recently, markets have been less certain as economic growth is strengthening in some parts of the world, but in other areas recovery has been slow or uneven at best. Despite increasing market volatility, geopolitical turmoil and concerns over rising rates, better-than-expected earnings results and economic data have supported U.S. stocks. Europe continues to face challenges as disappointing growth and inflation measures led the European Central Bank to further cut interest rates. Japan is suffering from the burden of the recent consumption tax as the government's structural reforms continue to steadily progress. Flare-ups in hotspots, such as the ongoing Russia-Ukraine conflict and Middle East, have not yet been able to derail the markets, though that remains a possibility. With all the challenges facing the markets, accommodative monetary policy around the world has helped lessen the impact of these events.

It is in such changeable markets that professional investment management is most important. Investment teams who have experienced challenging markets in the past understand how their asset class can behave in rapidly changing times. Remaining committed to their investment disciplines during these times is a critical component to achieving long-term success. In fact, many strong investment track records are established during challenging periods because experienced investment teams understand that volatile markets place a premium on companies and investment ideas that can weather the short-term volatility. By maintaining appropriate time horizons, diversification and relying on practiced investment teams, we believe that investors can achieve their long-term investment objectives.

As always, I encourage you to communicate with your financial consultant if you have any questions about your investment in a Nuveen Fund. On behalf of the other members of the Nuveen Fund Board, we look forward to continuing to earn your trust in the months and years ahead.

William J. Schneider
Chairman of the Board
October 23, 2014

Portfolio Manager's Comments

Nuveen California Municipal Value Fund, Inc. (NCA)
Nuveen California Municipal Value Fund 2 (NCB)
Nuveen California AMT-Free Municipal Income Fund (NKX)
Nuveen California Dividend Advantage Municipal Fund (NAC)
Nuveen California Dividend Advantage Municipal Fund 2 (NVX)
Nuveen California Dividend Advantage Municipal Fund 3 (NZH)

These Funds feature portfolio management by Nuveen Asset Management, LLC, an affiliate of Nuveen Investments, Inc. Portfolio manager Scott R. Romans, PhD, reviews key investment strategies and the six-month performance of the Nuveen California Municipal Funds. Scott has managed NCA, NKX, NAC, NVX and NZH since 2003 and NCB since its inception in 2009.

What key strategies were used to manage the California Funds during the six-month reporting period ended August 31, 2014?

During this reporting period, the rally in the municipal market continued, driven by strong demand and tight supply and reinforced by a market environment of solid fundamentals and improving technical factors. For the reporting period, municipal bond prices generally rose, while interest rates declined. California municipal paper as a whole outperformed the national market, due in part to increased demand triggered by recent changes in the state tax code as well as improving economic conditions in the state. During this time, we continued to take a bottom-up approach to discovering sectors that appeared undervalued as well as individual credits that we believed had the potential to perform well over the long term.

Despite the decline in new municipal issuance both nationally and to a greater extent in California, we continued to find opportunities to purchase bonds in both the primary and secondary markets that helped us keep the Funds fully invested. As the municipal market improved, we tried to position our portfolios somewhat more defensively by focusing on higher grade bonds that offered good liquidity and that were positioned in the longer-intermediate part of the yield curve, (i.e., 18 to 22 years, rather than 25 to 30 years). In the current rate environment, we believe it is advantageous to think of purchases as short-term holdings that can be swapped for credit positions with better embedded yields when interest rates start to rise. We successfully used this strategy when rates rose in 2013 to swap out of bonds with 5% coupons and into bonds with higher coupons. In addition, many of those bonds had been purchased at significant premiums. Because premiums must be amortized, that cut into the amount of income available for distribution from the coupon. By executing a bond swap in a rising interest rate environment, the amortization expense was basically

Certain statements in this report are forward-looking statements. Discussions of specific investments are for illustration only and are not intended as recommendations of individual investments. The forward-looking statements and other views expressed herein are those of the portfolio manager as of the date of this report. Actual future results or occurrences may differ significantly from those anticipated in any forward-looking statements, and the views expressed herein are subject to change at any time, due to numerous market and other factors. The Funds disclaim any obligation to update publicly or revise any forward-looking statements or views expressed herein.

Ratings shown are the highest rating given by one of the following national rating agencies: Standard & Poor's (S&P), Moody's Investors Service, Inc. (Moody's) or Fitch, Inc. (Fitch). Credit ratings are subject to change. AAA, AA, A, and BBB are investment grade ratings; BB, B, CCC, CC, C and D are below investment grade ratings. Certain bonds backed by U.S. government or agency securities are regarded as having an implied rating equal to the rating of such

securities. Holdings designated N/R are not rated by these national rating agencies.

Bond insurance guarantees only the payment of principal and interest on the bond when due, and not the value of the bonds themselves, which will fluctuate with the bond market and the financial success of the issuer and the insurer. Insurance relates specifically to the bonds in the portfolio and not to the share prices of a Fund. No representation is made as to the insurers' ability to meet their commitments.

Nuveen Investments 5

Portfolio Manager's Comments (continued)

converted into a loss, so that more of the income from the coupon could be distributed to shareholders. An additional benefit of this strategy was the generation of tax loss carry-forwards that could be used to offset future capital gains.

During this reporting period, we also took advantage of some opportunities to trade tobacco bonds. Bonds from certain tobacco issuers tend to be more liquid because they were part of a larger issuance. Because of this liquidity, these bonds are preferred by nontraditional municipal investors such as hedge funds. By swapping the Funds' more liquid tobacco bonds for ones with less liquidity, we were able to pick up bonds with better credit quality and structure and higher yields, while also harvesting tax losses.

Overall, our emphasis in purchase activity was on relative value and credit quality, rather than sector. That is, when considering the purchase of a lower rated bond or a slightly less liquid issue, we looked carefully at the compensation offered by the bond in question relative to its credit quality or liquidity to determine that, if the bond were held for the long term rather than swapped when interest rates rise, the Funds would be well compensated for that. During this reporting period, our purchases of high grade, liquid bonds included California general obligation (GO) bonds as well as California State Public Works credits, both of which we bought until the credit upgrade on California GOs (see next paragraph). As spreads on these bonds tightened following the upgrade, we shifted our focus to other bonds in the high-grade end of the spectrum. All of the additions to our portfolios during this reporting period consisted of California paper.

In June 2014, Moody's upgraded its credit rating on California GO debt to Aa3 from A1, the highest level since 2001, citing California's "rapidly improving financial position, high but declining debt metrics, adjusted net pension liability ratios...and robust employment growth." Earlier in 2014, S&P had revised its outlook for the state to positive from stable, while affirming an A-rating. Fitch continued to rate the state at A with a stable outlook. Also during this reporting period, S&P upgraded its credit rating on National Public Finance Guarantee Corp. (NPF), the insurance subsidiary of MBIA, to AA- rated from A-rated, citing NPF's strong operating performance and competitive position in the financial guarantee market. As a result, the ratings on the Funds' holdings of bonds backed by insurance from NPF were similarly upgraded to AA- as of mid-March 2014. This action produced an increase in the percentage of our portfolios held in the AA-rated credit quality category (and a corresponding decrease in the A-rated category), improving the overall credit quality of the Funds. During this reporting period, S&P also upgraded its rating on Assured Guaranty Municipal (AGM) as well as AGM's municipal-only insurer Municipal Assurance Corp. to AA from AA-.

Cash for purchases was generated primarily by proceeds from called and matured bonds, which we worked to redeploy to keep the Funds fully invested and support their income streams. The decline in municipal yields and the flattening of the municipal yield curve relative to the Treasury curve helped to make refunding deals more attractive and we saw an increase in this activity during the reporting period, as bond issuers sought to lower costs through refinancings. This provided ample cash for purchases and drove most of our trading activity for the reporting period.

As of August 31, 2014, all six of these Funds continued to use inverse floating rate securities. We employ inverse floaters for a variety of reasons, including duration management, income enhancement and total return enhancement.

How did the Funds perform during the six-month reporting period ended August 31, 2014?

The tables in the Performance Overview and Holding Summaries section of this report provide total returns for each Fund for the six-month, one-year, five-year, ten-year and/or since inception periods ended August 31, 2014. Each Fund's returns at net asset value (NAV) are compared with the performance of corresponding market indexes and Lipper classification average.

For the six months ended August 31, 2014, the total returns at common share NAV for all six of these Funds exceeded the return for the S&P Municipal Bond California Index as well as that for the national S&P Municipal Bond Index. For this same period, NKX, NAC and NZH outperformed the average return for the Lipper California Municipal Debt Funds Classification Average, while NCA, NCB and NVX trailed this Lipper California average.

Key management factors that influenced the Funds' returns included duration and yield curve positioning, credit exposure and sector allocation. In addition, the use of regulatory leverage was an important factor affecting the performance of these Funds. Among the primary reasons that the returns of NCA and NCB lagged those of the other Funds for this six-month reporting period was that these two Funds do not use regulatory leverage. Leverage is discussed in more detail later in this report.

Given the combination of declining interest rates and a flattening yield curve during this reporting period, municipal bonds with longer maturities generally outperformed those with shorter maturities. Overall, credits with maturities of 15 years or more, especially those at the longest end of the municipal yield curve, outperformed the general municipal market, while bonds at the shortest end of the curve produced the weakest results. In general, the Funds' durations and yield curve positioning were positive for their performance. Consistent with our long-term strategy, all of these Funds tended to be overweighted in the longer parts of the yield curve that performed best and underweighted in the underperforming shorter end of the curve. This was especially true in NKX and NAC, which had the longest durations among these Funds, while NVX had the shortest duration among the leveraged Funds. Between the two Funds that do not use leverage, NCA benefited from having a longer duration than NCB.

During this reporting period, lower rated bonds generally outperformed higher quality bonds, as the municipal market rally continued and investors became more willing to accept risk. In general, these Funds tended to have good weightings in the lower quality categories and underweights in the highest AAA-rated category, which helped their performance. Overall, NKX was the most advantageously positioned among these Funds in terms of credit exposure, while NVX received less of a contribution from its ratings positioning.

Health care bonds generally were the top performer among the municipal market, while industrial development revenue (IDR), transportation (led by tollroads), education, and water and sewer credits also outperformed the general municipal market. Among these Funds, NCB, NAC and NZH had the heaviest weightings in the health care sector, which boosted their performance. Conversely, health care was a negative factor in NVX due to where its health care holdings were weighted along the curve. The Funds also benefited from solid performance from their holdings of tax increment financing (TIF) district bonds, an area on which we have focused in recent years. Benefiting from the improving housing market and overall economy, land-secured deals such as TIF bonds led the outperformance of the tax-supported sector. However, the Funds tended to be underweighted in tax-supported

Portfolio Manager's Comments (continued)

bonds as a whole. During this reporting period, lower rated tobacco credits backed by the 1998 master tobacco settlement agreement tended to perform in the middle of the pack. All of these Funds had allocations of tobacco bonds issued by various California agencies, with NKX and NZH having the heaviest weighting in these credits and NCA the smallest.

In contrast, pre-refunded bonds, which are often backed by U.S. Treasury securities, were among the poorest performing market segments. The underperformance of these bonds relative to the market can be attributed primarily to their shorter effective maturities and higher credit quality. All of these Funds had allocations of pre-refunded bonds, with NCA having by far the heaviest weighting and NCB and NZH the smallest exposures. In addition, GO credits generally trailed the revenue sectors as well as the municipal market as a whole for the reporting period. This included California state GOs, which underperformed despite their upgrade by Moody's in June 2014.

We also continue to monitor ongoing economic developments in Puerto Rico for any impact on the Funds' holdings and performance. Shareholders should note that NCB had no exposure to Puerto Rico bonds during this reporting period, while NVX had less than 2% and the other four Funds had allocations of less than 1% at the end of the reporting period. The Puerto Rico credits offered higher yields, added diversification, and triple exemption (i.e., exemption from most federal, state, and local taxes). However, Puerto Rico's continued economic weakening, escalating debt service obligations, and long-standing inability to deliver a balanced budget led to multiple downgrades on its debt over the past two years. Following the latest rating reduction by Moody's in July 2014, Puerto Rico general obligation debt was rated B2/BB+/BB (below investment grade) by Moody's, S&P and Fitch, respectively, with negative outlooks. In late June 2014, Puerto Rico approved new legislation creating a judicial framework and formal process that would allow several of the commonwealth's public corporations to restructure their public debt. As of September 2014, the Nuveen complex held \$70.9 million in bonds backed by public corporations in Puerto Rico that could be restructured under this legislation, representing less than 0.1% of our municipal assets under management. In light of the evolving economic situation in Puerto Rico, Nuveen's credit analysis of the commonwealth had previously considered the possibility of a default and the restructuring of public corporations, and we had adjusted our portfolios to prepare for such an outcome, although no such default or restructuring has occurred to date. The Nuveen complex's entire exposure to obligations of the government of Puerto Rico and other Puerto Rico issuers totals 0.35% of assets under management, as of September 30, 2014. For the reporting period ended August 31, 2014, Puerto Rico paper underperformed the municipal market as a whole.

FUND REORGANIZATIONS

Effective before the opening of business on June 9, 2014, certain California Funds (the Target Funds) were reorganized into larger California Funds included in this report (the Acquiring Funds) as follows:

The approved reorganizations are as follows:

Target Funds	Acquiring Funds
Nuveen California Performance Plus Municipal Fund, Inc. (NCP)	Nuveen California Dividend Advantage Municipal Fund (NAC)
Nuveen California Municipal Market Opportunity Fund, Inc. (NCO)	
Nuveen California Investment Quality Municipal Fund, Inc. (NQC)	
Nuveen California Select Quality Municipal Fund, Inc. (NVC)	

Nuveen California Quality Income Municipal Fund, Inc.
(NUC)

Nuveen California Premium Income Municipal Fund
(NCU)

Nuveen California AMT-Free Municipal Income Fund
(NKX)

8 Nuveen Investments

Upon the closing of a reorganization, a Target Fund transfers its assets to the Acquiring Fund in exchange for common and preferred shares of the Acquiring Fund, and the assumption by the Acquiring Fund of the liabilities of the Target Fund. Each Target Fund is then liquidated, dissolved and terminated in accordance with its Declaration of Trust. Shareholders of each Target Fund become shareholders of the Acquiring Fund. Holders of common shares receive newly issued common shares of their Acquiring Fund, the aggregate net asset value of which equal the aggregate net asset value of the common shares of the Target Fund held immediately prior to the reorganization (including for this purpose fractional Acquiring Fund shares to which shareholders are entitled). Fractional shares are sold on the open market and shareholders received cash in lieu of such fractional shares. Holders of preferred shares of each Target Fund receive on a one-for-one basis newly issued preferred shares of their Acquiring Fund, in exchange for preferred shares of the Target Fund held immediately prior to the reorganizations.

Nuveen Investments 9

Fund Leverage

IMPACT OF THE FUNDS' LEVERAGE STRATEGY ON PERFORMANCE

One important factor impacting the returns of the Funds relative to their comparative benchmarks was the Funds' use of leverage through their issuance of preferred shares and/or investments in inverse floating rate securities, which represent leveraged investments in underlying bonds. As mentioned previously, NCA and NCB do not use regulatory leverage. The Funds use leverage because our research has shown that, over time, leveraging provides opportunities for additional income, particularly in the recent market environment where short-term market rates are at or near historical lows, meaning that the short-term rates the Fund has been paying on its leveraging instruments have been much lower than the interest the Fund has been earning on its portfolio of long-term bonds that it has bought with the proceeds of that leverage. However, use of leverage also can expose the Fund to additional price volatility. When a Fund uses leverage, the Fund will experience a greater increase in its net asset value if the municipal bonds acquired through the use of leverage increase in value, but it will also experience a correspondingly larger decline in its net asset value if the bonds acquired through leverage decline in value, which will make the Fund's net asset value more volatile, and its total return performance more variable over time. In addition, income in levered funds will typically decrease in comparison to unlevered funds when short-term interest rates increase and increase when short-term interest rates decrease. Leverage had a positive impact on the performance of the Funds over this reporting period. For NCA, the impact was minimal due to the low level of leverage used in the Fund.

As of August 31, 2014, the Funds' percentages of leverage are as shown in the accompanying table.

	NCA		NCB		NKX		NAC		NVX		NZH	
Effective Leverage*	1.67	%	9.48	%	34.85	%	36.34	%	32.12	%	38.20	%
Regulatory Leverage*	0.00	%	0.00	%	30.48	%	29.44	%	30.03	%	31.55	%

* Effective leverage is a Fund's effective economic leverage, and includes both regulatory leverage and the leverage effects of certain derivative and other investments in a Fund's portfolio that increase the Fund's investment exposure. Currently, the leverage effects of Tender Option Bond (TOB) inverse floater holdings are included in effective leverage values, in addition to any regulatory leverage. Regulatory leverage consists of preferred shares issued or borrowings of a Fund. Both of these are part of a Fund's capital structure. Regulatory leverage is subject to asset coverage limits set forth in the Investment Company Act of 1940.

THE FUNDS' REGULATORY LEVERAGE

As of August 31, 2014, the following Funds have issued and outstanding MuniFund Term Preferred (MTP) Shares and Variable Rate Demand Preferred (VRDP) Shares as shown in the accompanying table. As mentioned previously, NCA and NCB do not use regulatory leverage.

Series	Shares Issued at Liquidation Value	MTP Shares		NYSE/ NYSE MKT Ticker	Series	VRDP Shares		Total
		Annual Dividend Rate				Shares Issued at Liquidation Value		
NKX	2015*	\$ 35,250,000	2.00%	NKX PRC	2	\$	35,500,000	
					3	\$	42,700,000	
					4	\$	109,000,000	
					5	\$	104,400,000	
							\$ 35,250,000	\$ 291,600,000
NAC	—	—			1	\$	136,200,000	
					2*	\$	91,000,000	
					3*	\$	49,800,000	
					4*	\$	105,600,000	
					5*	\$	158,900,000	
					6*	\$	158,100,000	
			\$ 699,600,000	\$ 699,600,000				
NVX	—	—			1	\$	98,000,000	\$ 98,000,000
NZH	—	—			1	\$	160,000,000	\$ 160,000,000

* MTP Shares and/or VRDP Shares issued in connection with the reorganization.

Refer to Notes to Financial Statements, Note 1 — General Information and Significant Accounting Policies for further details on MTP and VRDP Shares.

Common Share Information

COMMON SHARE DISTRIBUTION INFORMATION

The following information regarding the Funds' distributions is current as of August 31, 2014. Each Fund's distribution levels may vary over time based on each Fund's investment activity and portfolio investment value changes.

During the current reporting period, each Fund's distributions to common shareholders were as shown in the accompanying table.

Ex-Dividend Date	Per Common Share Amounts					
	NCA	NCB	NKX	NAC	NVX	NZH
March 2014	\$ 0.0390	\$ 0.0650	\$ 0.0700	\$ 0.0740	\$ 0.0750	\$ 0.0670
April	0.0390	0.0650	0.0700	0.0740	0.0750	0.0670
May	0.0390	0.0650	0.0700	0.0740	0.0750	0.0670
June*	0.0390	0.0650	0.1400	0.1480	0.0700	0.0670
July	0.0390	0.0650	0.0000	0.0000	0.0700	0.0670
August 2014	0.0390	0.0650	0.0700	0.0800	0.0700	0.0670
Market Yield**	4.60%	4.70%	6.05%	6.73%	6.03%	6.28%
Taxable-Equivalent Yield**	7.04%	7.20%	9.26%	10.31%	9.23%	9.62%

* In connection with NKX's reorganization, the Fund declared a dividend of \$0.0700 per common share with an ex-dividend date of June 4, 2014, payable on July 1, 2014 and a dividend of \$0.0700 per common share with an ex-dividend date of June 4, 2014, payable on August 1, 2014. In connection with NAC's reorganization, the Fund declared a dividend of \$0.0740 per common share with an ex-dividend date of June 4, 2014, payable on July 1, 2014, a dividend of \$0.0686 per common share with an ex-dividend date of June 4, 2014, payable on August 1, 2014 and a dividend of \$0.0054 per common share with an ex-dividend date of June 17, 2014, payable on August 1, 2014.

**Market Yield is based on the Fund's current annualized monthly distribution divided by the Fund's market price as of the end of the reporting period. Taxable-Equivalent Yield represents the yield that must be earned on a fully taxable investment in order to equal the yield of the Fund on an after-tax basis. It is based on a combined federal and state income tax rate of 34.7%. When comparing a Fund to investments that generate qualified dividend income, the Taxable-Equivalent Yield is lower.

Each Fund in this report seeks to pay regular monthly dividends out of its net investment income at a rate that reflects its past and projected net income performance. To permit each Fund to maintain a more stable monthly dividend, the Fund may pay dividends at a rate that may be more or less than the amount of net income actually earned by the Fund during the period. If a Fund has cumulatively earned more than it has paid in dividends, it will hold the excess in reserve as undistributed net investment income (UNII) as part of the Fund's net asset value. Conversely, if a Fund has cumulatively paid in dividends more than it has earned, the excess will constitute a negative UNII that will likewise be reflected in the Fund's net asset value. Each Fund will, over time, pay all its net investment income as dividends to shareholders.

As of August 31, 2014, all of the Funds in this report had positive UNII balances, based upon our best estimate, for tax purposes and positive UNII balances for financial reporting purposes.

All monthly dividends paid by the Funds during the six months ended August 31, 2014 were paid from net investment income. If a portion of a Fund's monthly distributions was sourced from or comprised of elements other than net investment income, including capital gains and/or a return of capital, the Funds' shareholders would have received a notice to that effect. The composition and per share amounts of each Fund's monthly dividends for the reporting period are presented in the Statement of Changes in Net Assets and Financial Highlights, respectively (for reporting purposes) and in Note 6 — Income Tax Information within the accompany Notes to Financial Statements (for income tax purposes), later in this report.

12 Nuveen Investments

COMMON SHARE REPURCHASES

As of August 31, 2014, and since the inception of the Funds' repurchase programs, the Funds have cumulatively repurchased and retired their outstanding common shares as shown in the accompanying table.

	NCA	NCB	NKX	NAC	NVX	NZH
Common Shares Cumulatively Repurchased and Retired	0	0	0	0	50,700	12,900
Common Shares Authorized for Repurchase	2,530,000	330,000	4,185,000	2,350,000	1,475,000	2,415,000

During the current reporting period, the Funds did not repurchase any of their outstanding common shares.

COMMON SHARE EQUITY SHELF PROGRAMS

During the reporting period, the following Funds were authorized to issue additional common shares through their ongoing equity shelf programs. Under these programs, each Fund, subject to market conditions, may raise additional capital from time to time in varying amounts and offering methods at a net price at or above the Fund's NAV per common share. Under the equity shelf programs, the Funds are authorized to issue the following number of additional common shares.

	NCA	NKX	NAC
Additional Common Shares Authorized	2,500,000	4,100,000	2,300,000

During the current reporting period, the Funds did not sell any of their common shares through their equity shelf program.

As June 30, 2014, NCA's, NKX's and NAC's shelf offering registration statement were no longer effective. Therefore, the Funds may not issue additional common shares under their equity shelf programs until a new registration statement is effective. On October 3, 2014 (subsequent to the close of this reporting period), a new registration statement for NCA became effective and therefore, the Fund may issue additional common shares under its equity shelf program.

OTHER COMMON SHARE INFORMATION

As of August 31, 2014, and during the current reporting period, the Funds' common share prices were trading at a premium/(discount) to their common share NAVs as shown in the accompanying table.

	NCA	NCB	NKX	NAC	NVX	NZH
Common Share NAV	\$ 10.44	\$ 17.39	\$ 15.63	\$ 15.61	\$ 15.47	\$ 14.37
Common Share Price	\$ 10.18	\$ 16.59	\$ 13.89	\$ 14.26	\$ 13.93	\$ 12.80
Premium/(Discount) to NAV	(2.49)%	(4.60)%	(11.13)%	(8.65)%	(9.95)%	(10.93)%
6-Month Average						
Premium/(Discount) to NAV	(2.92)%	(6.35)%	(9.65)%	(7.48)%	(8.59)%	(9.66)%

Risk Considerations

Fund shares are not guaranteed or endorsed by any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation. Past performance is no guarantee of future results. Fund common shares are subject to a variety of risks, including:

Investment, Price and Market Risk. An investment in common shares is subject to investment risk, including the possible loss of the entire principal amount that you invest. Your investment in common shares represents an indirect investment in the municipal securities owned by the Fund, which generally trade in the over-the-counter markets. Shares of closed-end investment companies like these Funds frequently trade at a discount to their net asset value (NAV). Your common shares at any point in time may be worth less than your original investment, even after taking into account the reinvestment of Fund dividends and distributions.

Leverage Risk. Each Fund's use of leverage creates the possibility of higher volatility for the Fund's per share NAV, market price, distributions and returns. There is no assurance that a Fund's leveraging strategy will be successful. Certain aspects of the recently adopted Volcker Rule may limit the availability of tender option bonds, which are used by the Funds for leveraging and duration management purposes. The effects of this new Rule, expected to take effect in mid-2015, may make it more difficult for a Fund to maintain current or desired levels of leverage and may cause the Fund to incur additional expenses to maintain its leverage.

Tax Risk. The tax treatment of Fund distributions may be affected by new IRS interpretations of the Internal Revenue Code and future changes in tax laws and regulations.

Issuer Credit Risk. This is the risk that a security in a Fund's portfolio will fail to make dividend or interest payments when due.

Interest Rate Risk. Fixed-income securities such as bonds, preferred, convertible and other debt securities will decline in value if market interest rates rise.

Reinvestment Risk. If market interest rates decline, income earned from a Fund's portfolio may be reinvested at rates below that of the original bond that generated the income.

Call Risk or Prepayment Risk. Issuers may exercise their option to prepay principal earlier than scheduled, forcing a Fund to reinvest in lower-yielding securities.

Inverse Floater Risk. The Funds invest in inverse floaters. Due to their leveraged nature, these investments can greatly increase a Fund's exposure to interest rate risk and credit risk. In addition, investments in inverse floaters involve the risk that the Fund could lose more than its original principal investment.

NCA

Nuveen California Municipal Value Fund, Inc.
Performance Overview and Holding Summaries as of August 31, 2014

Refer to the Glossary of Terms Used in this Report for further definition of the terms used within this section.

Average Annual Total Returns as of August 31, 2014

	Cumulative	Average Annual		
	6-Month	1-Year	5-Year	10-Year
NCA at Common Share NAV	6.48%	14.66%	7.36%	5.38%
NCA at Common Share Price	8.90%	17.04%	7.40%	6.32%
S&P Municipal Bond California Index	4.78%	12.30%	6.53%	5.18%
S&P Municipal Bond Index	4.21%	10.55%	5.65%	4.82%
Lipper California Municipal Debt Funds Classification Average	7.96%	21.18%	9.63%	5.72%

Past performance is not predictive of future results. Current performance may be higher or lower than the data shown. Returns do not reflect the deduction of taxes that shareholders may have to pay on Fund distributions or upon the sale of Fund shares. Returns at NAV are net of Fund expenses, and assume reinvestment of distributions. Comparative index and Lipper return information is provided for the Fund's shares at NAV only. Indexes and Lipper averages are not available for direct investment.

This data relates to the securities held in the Fund's portfolio of investments as of the end of the reporting period. It should not be construed as a measure of performance for the Fund itself. Holdings are subject to change.

Ratings shown are the highest rating given by one of the following national rating agencies: Standard & Poor's Group, Moody's Investors Service, Inc. or Fitch, Inc. Credit ratings are subject to change. AAA, AA, A and BBB are investment grade ratings; BB, B, CCC, CC, C and D are below-investment grade ratings. Certain bonds backed by U.S. Government or agency securities are regarded as having an implied rating equal to the rating of such securities. Holdings designated N/R are not rated by these national rating agencies.

Fund Allocation

(% of net assets)

Municipal Bonds	99.1%
Short-Term Investments	0.4%
Floating Rate Obligations	(1.7)%
Other Assets Less Liabilities	2.2%

Portfolio Composition

(% of total investments)

Tax Obligation/Limited	23.7%
Health Care	17.7%
U.S. Guaranteed	17.5%
Tax Obligation/General	16.9%
Water and Sewer	7.0%
Transportation	5.7%
Other Industries	11.5%

Credit Quality

(% of total investment exposure)

AAA/U.S. Guaranteed	16.9%
AA	35.0%
A	20.3%
BBB	11.5%
BB or Lower	8.6%
N/R (not rated)	7.7%

Nuveen Investments 15

NCB

Nuveen California Municipal Value Fund 2
Performance Overview and Holding Summaries as of August 31, 2014

Refer to the Glossary of Terms Used in this Report for further definition of the terms used within this section.

Average Annual Total Returns as of August 31, 2014

	Cumulative	Average Annual		
	6-Month	1-Year	5-Year	Since Inception ¹
NCB at Common Share NAV	5.89%	15.02%	7.91%	8.93%
NCB at Common Share Price	9.43%	18.03%	7.86%	7.36%
S&P Municipal Bond California Index	4.78%	12.30%	6.53%	6.84%
S&P Municipal Bond Index	4.21%	10.55%	5.65%	6.06%
Lipper California Municipal Debt Funds Classification Average	7.96%	21.18%	9.63%	8.97%

Past performance is not predictive of future results. Current performance may be higher or lower than the data shown. Returns do not reflect the deduction of taxes that shareholders may have to pay on Fund distributions or upon the sale of Fund shares. Returns at NAV are net of Fund expenses, and assume reinvestment of distributions. Comparative index and Lipper return information is provided for the Fund's shares at NAV only. Indexes and Lipper averages are not available for direct investment.

This data relates to the securities held in the Fund's portfolio of investments as of the end of the reporting period. It should not be construed as a measure of performance for the Fund itself. Holdings are subject to change.

Ratings shown are the highest rating given by one of the following national rating agencies: Standard & Poor's Group, Moody's Investors Service, Inc. or Fitch, Inc. Credit ratings are subject to change. AAA, AA, A and BBB are investment grade ratings; BB, B, CCC, CC, C and D are below-investment grade ratings. Certain bonds backed by U.S. Government or agency securities are regarded as having an implied rating equal to the rating of such securities. Holdings designated N/R are not rated by these national rating agencies.

Fund Allocation

(% of net assets)

Municipal Bonds	98.5%
Short-Term Investments	1.0%
Other Assets Less Liabilities	0.5%

Portfolio Composition

(% of total investments)

Tax Obligation/Limited	23.1%
Health Care	21.8%
Utilities	14.1%
Tax Obligation/General	11.1%
Water and Sewer	7.4%
Housing/Single Family	5.7%
Consumer Staples	5.0%
Other Industries	11.8%

Credit Quality

(% of total investment exposure)

AAA/U.S. Guaranteed	15.9%
AA	19.9%
A	43.5%
BBB	11.0%
BB or Lower	7.6%
N/R (not rated)	2.1%

¹ Since inception returns are from April 28, 2009.

16 Nuveen Investments

NKX

Nuveen California AMT-Free Municipal Income Fund
Performance Overview and Holding Summaries as of August 31, 2014

Refer to the Glossary of Terms Used in this Report for further definition of the terms used within this section.

Average Annual Total Returns as of August 31, 2014

	Cumulative	Average Annual		
	6-Month	1-Year	5-Year	10-Year
NKX at Common Share NAV	10.82%	25.31%	8.95%	6.43%
NKX at Common Share Price	8.08%	23.14%	8.23%	5.80%
S&P Municipal Bond California Index	4.78%	12.30%	6.53%	5.18%
S&P Municipal Bond Index	4.21%	10.55%	5.65%	4.82%
Lipper California Municipal Debt Funds Classification Average	7.96%	21.18%	9.63%	5.72%

Past performance is not predictive of future results. Current performance may be higher or lower than the data shown. Returns do not reflect the deduction of taxes that shareholders may have to pay on Fund distributions or upon the sale of Fund shares. Returns at NAV are net of Fund expenses, and assume reinvestment of distributions. Comparative index and Lipper return information is provided for the Fund's shares at NAV only. Indexes and Lipper averages are not available for direct investment.

This data relates to the securities held in the Fund's portfolio of investments as of the end of the reporting period. It should not be construed as a measure of performance for the Fund itself. Holdings are subject to change.

Ratings shown are the highest rating given by one of the following national rating agencies: Standard & Poor's Group, Moody's Investors Service, Inc. or Fitch, Inc. Credit ratings are subject to change. AAA, AA, A and BBB are investment grade ratings; BB, B, CCC, CC, C and D are below-investment grade ratings. Certain bonds backed by U.S. Government or agency securities are regarded as having an implied rating equal to the rating of such securities. Holdings designated N/R are not rated by these national rating agencies.

Fund Allocation

(% of net assets)

Municipal Bonds	141.5%
Short-Term Investments	1.2%
Floating Rate Obligations	(0.9)%
MTP Shares, at Liquidation Value	(4.7)%
VRDP Shares, at Liquidation Value	(39.1)%
Other Assets Less Liabilities	2.0%

Portfolio Composition

(% of total investments)

Tax Obligation/Limited	34.6%
Tax Obligation/General	21.1%
Health Care	14.7%
Water and Sewer	10.4%
Transportation	4.4%
Other Industries	14.8%

Credit Quality

(% of total investment exposure)

AAA/U.S. Guaranteed	4.7%
AA	54.4%
A	17.7%
BBB	9.3%
BB or Lower	7.1%
N/R (not rated)	6.8%

Nuveen Investments 17

NAC

Nuveen California Dividend Advantage Municipal Fund
Performance Overview and Holding Summaries as of August 31, 2014

Refer to the Glossary of Terms Used in this Report for further definition of the terms used within this section.

Average Annual Total Returns as of August 31, 2014

	Cumulative	Average Annual		
	6-Month	1-Year	5-Year	10-Year
NAC at Common Share NAV	9.52%	24.46%	10.02%	6.51%
NAC at Common Share Price	4.62%	23.99%	10.03%	6.30%
S&P Municipal Bond California Index	4.78%	12.30%	6.53%	5.18%
S&P Municipal Bond Index	4.21%	10.55%	5.65%	4.82%
Lipper California Municipal Debt Funds Classification Average	7.96%	21.18%	9.63%	5.72%

Past performance is not predictive of future results. Current performance may be higher or lower than the data shown. Returns do not reflect the deduction of taxes that shareholders may have to pay on Fund distributions or upon the sale of Fund shares. Returns at NAV are net of Fund expenses, and assume reinvestment of distributions. Comparative index and Lipper return information is provided for the Fund's shares at NAV only. Indexes and Lipper averages are not available for direct investment.

This data relates to the securities held in the Fund's portfolio of investments as of the end of the reporting period. It should not be construed as a measure of performance for the Fund itself. Holdings are subject to change.

Ratings shown are the highest rating given by one of the following national rating agencies: Standard & Poor's Group, Moody's Investors Service, Inc. or Fitch, Inc. Credit ratings are subject to change. AAA, AA, A and BBB are investment grade ratings; BB, B, CCC, CC, C and D are below-investment grade ratings. Certain bonds backed by U.S. Government or agency securities are regarded as having an implied rating equal to the rating of such securities. Holdings designated N/R are not rated by these national rating agencies.

Fund Allocation

(% of net assets)

Municipal Bonds	144.2%
Short-Term Investments	1.6%
Floating Rate Obligations	(6.0)%
VRDP Shares, at Liquidation Value	(41.7)%
Other Assets Less Liabilities	1.9%

Portfolio Composition

(% of total investments)

Tax Obligation/Limited	23.9%
Health Care	22.5%
Tax Obligation/General	20.5%
Water and Sewer	8.7%
U.S. Guaranteed	5.6%
Transportation	4.9%
Other Industries	13.9%

Credit Quality

(% of total investment exposure)

AAA/U.S. Guaranteed	8.5%
AA	46.4%
A	19.4%
BBB	11.7%
BB or Lower	8.2%
N/R (not rated)	5.8%

18 Nuveen Investments

NVX

Nuveen California Dividend Advantage Municipal Fund 2
Performance Overview and Holding Summaries as of August 31, 2014

Refer to the Glossary of Terms Used in this Report for further definition of the terms used within this section.

Average Annual Total Returns as of August 31, 2014

	Cumulative	Average Annual		
	6-Month	1-Year	5-Year	10-Year
NVX at Common Share NAV	7.19%	20.71%	8.91%	6.40%
NVX at Common Share Price	4.51%	16.57%	8.70%	6.33%
S&P Municipal Bond California Index	4.78%	12.30%	6.53%	5.18%
S&P Municipal Bond Index	4.21%	10.55%	5.65%	4.82%
Lipper California Municipal Debt Funds Classification Average	7.96%	21.18%	9.63%	5.72%

Past performance is not predictive of future results. Current performance may be higher or lower than the data shown. Returns do not reflect the deduction of taxes that shareholders may have to pay on Fund distributions or upon the sale of Fund shares. Returns at NAV are net of Fund expenses, and assume reinvestment of distributions. Comparative index and Lipper return information is provided for the Fund's shares at NAV only. Indexes and Lipper averages are not available for direct investment.

This data relates to the securities held in the Fund's portfolio of investments as of the end of the reporting period. It should not be construed as a measure of performance for the Fund itself. Holdings are subject to change.

Ratings shown are the highest rating given by one of the following national rating agencies: Standard & Poor's Group, Moody's Investors Service, Inc. or Fitch, Inc. Credit ratings are subject to change. AAA, AA, A and BBB are investment grade ratings; BB, B, CCC, CC, C and D are below-investment grade ratings. Certain bonds backed by U.S. Government or agency securities are regarded as having an implied rating equal to the rating of such securities. Holdings designated N/R are not rated by these national rating agencies.

Fund Allocation

(% of net assets)

Municipal Bonds	130.9%
Short-Term Investments	9.5%
Floating Rate Obligations	(0.4)%
VRDP Shares, at Liquidation Value	(42.9)%
Other Assets Less Liabilities	2.9%

Portfolio Composition

(% of total investments)

Tax Obligation/General	22.4%
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Federal Income Tax Consequences

The following is only a brief summary of the effect of U.S. federal income taxation on the award recipients and Potlatch. This summary does not discuss the income tax laws of any other jurisdiction (such as municipality or state) in which the recipient of the award may reside.

Incentive Stock Options. No tax will be payable by the participant or Potlatch at the time of grant or exercise of an incentive stock option that satisfies the requirements of Code Section 422. The participant will recognize long term capital gain or loss on the sale or exchange of the shares acquired upon the exercise of the incentive stock option if the participant sells or exchanges the shares at least two years after the date grant and more than one year after the date of exercise. If the participant sells or exchanges the shares earlier than the expiration of these two holding periods, then the participant will recognize ordinary income equal to the lesser of the difference between the exercise price of the option and the fair market value of the shares on the date of exercise or the difference between the sales price and the exercise price. Any additional gain on the sale of the shares will be capital gain. Potlatch will be entitled to deduct the amount, if any, that the participant recognizes as ordinary income, subject to certain reporting requirements.

Nonqualified Stock Options and Stock Appreciation Rights. No tax will be payable by the participant or Potlatch at the time of grant of a nonqualified stock option or stock appreciation right settled in stock. Upon exercise of a nonqualified stock option or stock appreciation right, the excess, if any, of the fair market value of the shares with respect to which the award is exercised over the exercise price of the award will be treated for Federal tax purposes as ordinary income. Any profit or loss realized on the sale or exchange of the shares will be treated as a capital gain or loss. Potlatch will be entitled to deduct the amount, if any, by which the fair market value of the shares on the date of exercise exceeds the exercise price.

Restricted Stock. Generally, no taxes are due when the restricted stock award is initially granted and no deduction will be taken by Potlatch at that time. The fair market value of the shares subject to the award is taxable as ordinary income when it is no longer subject to a substantial risk of forfeiture (i.e., becomes vested or transferable). Income tax is paid by the participant on the value of the shares at

Table of Contents

ordinary rates when the restrictions lapse and Potlatch will be entitled to a corresponding deduction. Any profit or loss realized on the sale or exchange of the shares will be treated as a capital gain or loss.

Restricted Stock Units and Performance Shares. Generally, no taxes are due when the restricted stock units or performance shares are initially granted and no deduction is taken by Potlatch at that time. The fair market value of the shares subject to the award is taxable to the participant when the shares are paid to the participant subject to the design limitations and requirements of Code Section 409A. Potlatch will be entitled to deduct the amount, if any, that the participant recognizes as ordinary income.

Deferred Compensation. Subject to further guidance from the Internal Revenue Service, stock appreciation rights that are settled in cash and restricted stock units that may be deferred beyond the vesting date are deferred compensation and subject to design limitations and requirements of Code Section 409A. If the limitations and requirements of Code Section 409A are violated, deferred amounts will be subject to tax at ordinary income rates immediately upon such violation and will be subject to penalties equal to (i) 20% of the amount deferred and (ii) interest at a specified rate on the under-payment of tax that would have occurred had the deferred compensation been included in gross income in the taxable year in which it was first deferred.

New Plan Benefits

Because future awards and payments under the 2005 Plan are discretionary, it is not possible to determine the payments that will be received under the 2005 Plan by executive officers and other employees until completion of the year. The table below shows the benefits that were awarded in the 2004 fiscal year under our current 2000 Stock Incentive Plan for: all of the executive officers as a group; non-executive directors as a group; and all other employees of Potlatch. The benefits that were awarded in 2004 to each of the executive officers named in the Summary Compensation Table of this proxy statement, including nonqualified stock options and performance shares, are outlined in the tables titled, Option/SAR Grants in Last Fiscal Year, and Long-Term Incentive Plans Awards in Last Fiscal Year, respectively, and the footnotes thereto.

Name	Dollar Value	Number of Units
Executive Officer Group	\$ 281,173	40,225
Non-Executive Director Group		
Non-Executive Officer Employee Group	577,094	82,560

The affirmative vote of a majority of the voting power present or represented by proxy and entitled to vote is required for approval of the 2005 Stock Incentive Plan.

Table of Contents

PROPOSAL 4 RATIFICATION OF THE APPOINTMENT OF INDEPENDENT AUDITOR

We recommend a vote FOR this proposal.

KPMG LLP, a registered public accounting firm, presently serves as Potlatch's independent auditor and conducted the audit of Potlatch's consolidated financial statements and internal controls over financial reporting for fiscal year 2004. A summary of the fees paid by Potlatch to KPMG LLP in connection with its audits for fiscal years 2004 and 2003 can be found in the section titled, "Fees Paid to Independent Auditor in 2004 and 2003" in this proxy statement.

Based upon its review of KPMG LLP's qualifications, independence and performance, the Audit Committee of the Board of Directors has appointed KPMG LLP to serve as Potlatch's independent auditor for fiscal year 2005.

The appointment of Potlatch's independent auditor is not required to be submitted for ratification by the stockholders. The listing standards of the New York Stock Exchange provide that the Audit Committee is solely responsible for the appointment, compensation, evaluation and oversight of the independent auditor. However, as a matter of good corporate governance, the Audit Committee is submitting its appointment of KPMG LLP as independent auditor for fiscal year 2005 for ratification by the stockholders.

If the stockholders fail to ratify the appointment of KPMG LLP, the Audit Committee may reconsider whether to retain KPMG LLP, and may continue to retain that firm or appoint another firm without resubmitting the matter to the stockholders. Even if the stockholders ratify the appointment of KPMG LLP, the Audit Committee may, in its discretion, appoint a different independent auditor for Potlatch if it determines that such a change would be in the best interests of Potlatch and its stockholders.

The affirmative vote of a majority of the voting power present or represented by proxy and entitled to vote is required to ratify the appointment of the independent auditor.

Table of Contents

PROPOSAL 5 STOCKHOLDER PROPOSAL

We recommend a vote AGAINST this proposal.

We have been notified that John Osborn, 2421 W. Mission Avenue, Spokane, WA 99201, who is the owner of 100 shares of common stock, intends to present the following proposal at the Annual Meeting:

Resolved: That Shareholders urge the board to prepare a report that explains past and current dividend policy, and alternative plans for future dividends. This report should address the substantial ownership of Potlatch shares by members of the extended Weyerhaeuser family.

Stockholder s Supporting Statement

The proud history of many important companies begins with a small enterprise sustained when parent hands the reigns to a second generation. Such enterprises may grow with financing from creditors who will insist on repayment while not necessarily restricting a family company s family interests. But it is convention that when companies tap the public market and sell equity securities, the company management demonstrates that the public investors will be served exclusive of family concerns.

Potlatch descends from the efforts of 19th century legend Frederick Weyerhaeuser. Potlatch remains readily identified with the Weyerhaeuser family. Descendants of the Weyerhaeuser family control a significant share of the equity, serve on its board, and have worked in staff positions in the past decades.

Potlatch s dividend policy deserves attention. Despite losses, it has continued to pay a dividend. Even when it has earned money, its dividend has occasionally exceeded earnings.

Our company s extravagant dividends bleed our company of capital needed for Potlatch corporate health. Potlatch has failed to significantly invest or plan investment in its production base from capital gained by selling its Minnesota OSB division. Potlatch chose, instead, to distribute \$75 million to shareholders.

For example, our company s wastewater from its Lewiston, Idaho, industrial complex flows in a pipe that empties at the Idaho-Washington state line, polluting waters in both Idaho and Washington state. Complying with an EPA wastewater discharge permit to protect the Snake River will be costly. Monies paid out in dividends are not available to our company for its environmental responsibilities and investment opportunities.

Studies show that vigilance is needed. Founding families are in unique positions of power and control that enable them to expropriate wealth from minority shareholders. The prevalence of such ownership among US firms raises the question: who monitors the family, if anyone? (See Who Monitors the Families, by Ronald Anderson and David Reeb, Culverhouse College; <http://www.cba.ua.edu/~dreeb/Who%20Monitors.pdg.pdf>)

I believe that all shareholders, both minority shareholders as well as the extended Weyerhaeuser family, will be well-served by having such a study completed. Indeed, any study of alternatives should take into account the interests of all shareholders.

Table of Contents

Board of Directors Statement Opposing Stockholder Proposal

We oppose this proposal, which requests that the Board of Directors prepare a report on Potlatch's dividend policy and simultaneously address the beneficial ownership of Potlatch stock by particular stockholders. We oppose this proposal on the grounds that the information that would be contained in the requested report is regularly disclosed in Potlatch's public filings with the Securities and Exchange Commission and as a result implementation of the proposal would not be helpful or meaningful to stockholders.

The Board of Directors annually reviews and approves the dividend policy. As stated in the Annual Report on Form 10-K for 2004, we consider a variety of factors in determining whether to pay a dividend and the dividend rate, including, among other things, conditions in the forest products industry and the economy generally, Potlatch's operating results and cash flows, anticipated capital expenditures and compliance with the terms of the credit facility that limits the payment of dividends on Potlatch's common stock. The quarterly dividend rate is subject to change from time to time based on our business judgment with respect to these and other relevant factors. For example, in August 2001 the Board reduced the dividend in light of the above factors. The Board does not consider the interests of any particular stockholders when determining whether or not or at what rate to set a dividend, rather we make our decisions taking into account the best interests of Potlatch and all stockholders. We believe that our decisions in regard to the dividend have been sound and have equally served the interests of all stockholders.

For these reasons, we therefore recommend voting **AGAINST** the proposal.

The affirmative vote of a majority of the voting power present or represented by proxy and entitled to vote is required for approval.

Table of Contents

Appendix A

POTLATCH CORPORATION

Stockholder Time-Phased Voting Procedures

Under Potlatch Corporation's Restated Certificate of Incorporation (the Restated Certificate), holders of Potlatch's common stock are entitled to either four (4) votes or one (1) vote per share as follows: (i) a holder of the common stock shall be entitled to four (4) votes on each matter submitted to a vote at a meeting of stockholders for each share of the common stock held of record by such holder as of the record date for such meeting which share has had the same beneficial owner or owners for at least 48 consecutive calendar months (dating from the first day of the first full month on or after the date the holder acquired beneficial ownership of such share) prior to the record date for such meeting; and (ii) a holder of the common stock shall be entitled to one (1) vote on each matter submitted to a vote at a meeting of stockholders for each share of the common stock which does not satisfy the condition in clause (i). These rules are subject to the following exceptions which are set forth in the Restated Certificate:

- n Any share of common stock acquired as a direct result of a stock split, stock dividend, reclassification or other distribution of shares by Potlatch with respect to existing shares will be deemed to have been beneficially acquired on the date that the original shares, with respect to which the new shares were issued, were acquired.
- n Shares acquired pursuant to the terms of certain Potlatch employee benefit plans or Potlatch's dividend reinvestment plan are entitled to four (4) votes per share.
- n No change in beneficial ownership will be deemed to occur as a result of Exempt Transfers (as defined in the Restated Certificate) which generally include transfers by gift, devise, bequest or otherwise through the laws of inheritance or descent; transfers to a trust beneficiary under the terms of a trust; transfers that may occur as a result of certain family events; or certain changes related to shares held in trust or in guardianship or custodial arrangements.

For more details on these exceptions, stockholders should consult Section V of Article Fourth of the Restated Certificate which is available on Potlatch's website at www.potlatchcorp.com.

The Restated Certificate provides the following two presumptions with respect to the period of beneficial ownership:

- a. Any share of the common stock held of record (other than as described in subparagraph b. below) shall be presumed to be owned beneficially by the record holder and for the period shown by the stockholder records of Potlatch (Registered Shares).
- b.

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Any share of the common stock held of record in street or nominee name or by a broker, clearing agency, voting trustee, bank, trust company or other nominee shall be presumed to have had the same beneficial owner for a period of less than 48 months (Street Name Shares).

Pursuant to Section V.(g) of Article Fourth of the Restated Certificate, the Board of Directors has adopted the following procedures to determine the beneficial ownership and to establish the number of votes that each Potlatch stockholder will be entitled to cast at a meeting of stockholders:

1. Procedures applicable to Registered Shares

- a. The proxy card mailed to each holder of Registered Shares with respect to any meeting of stockholders will set forth the number of votes per share that the holder is entitled to vote

A-1

Table of Contents

applying the presumption applicable to Registered Shares and ask the holder to indicate if the presumption is incorrect. If the presumption that a holder is entitled to one (1) vote is incorrect, the holder shall certify the number of Registered Shares that should be entitled to four (4) votes per share because such Registered Shares have had the same beneficial owner or owners for at least 48 consecutive calendar months prior to the record date for such meeting.

- b. If a holder of Registered Shares provides the certification described in 1.a. with respect to certain shares and Potlatch does not require the holder to provide evidence pursuant to 1.c., then the presumption applicable to those Registered Shares will be deemed to be rebutted and they will be entitled to four (4) votes per share.
 - c. Notwithstanding 1.b., Potlatch may at any time, in order to verify the integrity of the vote on any matter submitted to the stockholders, require that a particular holder provide additional evidence to support the holder's certification that such holder has been the beneficial owner of specified Registered Shares for a period sufficient to entitle such holder to four (4) votes per share, and if the holder fails to produce evidence reasonably satisfactory to Potlatch in its sole discretion then the holder shall be entitled to one (1) vote per share.
2. Procedures applicable to Street Name Shares
- a. The voting instruction form mailed to each beneficial holder of Street Name Shares with respect to any meeting of stockholders will provide the beneficial holder with an opportunity to certify the number of Street Name Shares that should be entitled to four (4) votes per share because such Street Name Shares have had the same beneficial owner or owners for at least 48 consecutive calendar months prior to the record date for such meeting.
 - b. If a beneficial holder of Street Name Shares provides the certification described in 2.a. with respect to certain shares and Potlatch does not require the beneficial holder to provide evidence pursuant to 2.c., then the presumption applicable to Street Name Shares will be deemed to be rebutted with respect to those shares and they will be entitled to four (4) votes per share.
 - c. Notwithstanding 2.b., Potlatch may at any time, in order to verify the integrity of the vote on any matter submitted to the stockholders, require that a particular beneficial holder provide evidence, in addition to the certification contained in the voting instruction form, to support the rebuttal of the presumption applicable to Street Name Shares, and if the beneficial holder fails to produce evidence reasonably satisfactory to Potlatch in its sole discretion, then the presumption will apply.
 - d. A broker, clearing agency, voting trustee, bank, trust company or other nominee will not be entitled to rebut the presumption applicable to Street Name Shares absent a voting instruction form validly executed and certified by the beneficial owner to the effect that the beneficial owner has beneficially owned such Street Name Shares for the period entitling such holder to four (4) votes per share.
3. Generally applicable procedures
- a. If Potlatch requests additional evidence of beneficial ownership, acceptable evidence will in most cases be a written certification of the facts, together with any appropriate corroborating documentation, which form the basis for the holder's conclusion that the holder is entitled to four (4) votes per share.

Table of Contents

- b. Potlatch reserves the right to change what it deems to be acceptable evidence of beneficial ownership at any time if it appears from experience that the present standard is inadequate.

- c. A holder of shares of common stock as of the record date for a stockholder meeting who acquired beneficial ownership of shares on more than one date and who has transferred beneficial ownership of shares prior to such record date, shall be entitled to take the position that the shares so transferred were those most recently acquired, except where the shares for which beneficial ownership was transferred can be traced to a specific acquisition date.

- d. The Board of Directors designates Potlatch's transfer agent to act for it in determining changes in beneficial ownership, or the absence of any such change, in accordance with the foregoing procedures, reserving to itself the power, should it wish to exercise the same, to review any determination made by the transfer agent, the Board's determination as the result of any such review to be conclusive.

A-3

Table of Contents

Appendix B

DIRECTOR INDEPENDENCE POLICY

BOARD OF DIRECTORS

POTLATCH CORPORATION

Principles

It is the practice and expectation of the Board of Directors that all Directors will exercise their independent judgment diligently and in good faith and in the best interests of the Company and its stockholders. The Board of Directors will be comprised of a majority of independent Directors. No Director will qualify as independent until the Board of Directors affirmatively determines that the Director has no material relationship with the Company. Such determination will be made in accordance with the independence criteria described below. This Policy and the determination made by the Board of Directors will be disclosed in the Company's annual proxy statement.

Independence Criteria

1. A Director who is an employee, or whose immediate family member is an executive officer, of the Company is not independent until three years after the end of such employment relationship. An immediate family member includes: children, stepchildren, grandchildren, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, daughter-in-law, son-in-law, brother-in-law, or sister-in-law, and anyone (other than domestic employees) who share the Director's home, including adoptive relationships.
2. A Director who receives, or whose immediate family member receives, more than \$100,000 per year in direct compensation from the Company, other than through Director and Committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service), is not independent until three years after the Director ceases to receive more than \$100,000 per year in such compensation.
3. A Director who is affiliated with or employed by, or whose immediate family member is affiliated with or employed in a professional capacity by, a present or former internal or external auditor of the Company is not independent until three years after the end of the affiliation or the employment or auditing relationship.
4. A Director who is employed, or whose immediate family member is employed, as an executive officer of another company where any of the Company's present executives serve on that company's compensation committee is not independent until three years after the end of such service or the employment relationship.

5. A Director who is an executive officer or an employee, or whose immediate family member is an executive officer, of a company that makes payments to, or receives payment from, the Company for property or services in an amount which, in any single fiscal year, exceeds the greater of \$1 million, or 2%, of such other company's consolidated gross revenues, is not independent until three years after falling below such threshold.

B-1

Table of Contents

Appendix C

AUDIT COMMITTEE CHARTER

BOARD OF DIRECTORS

POTLATCH CORPORATION

Committee Purpose

The Audit Committee is a standing Committee established by the Board of Directors of Potlatch Corporation whose purposes are to:

- a. Assist Board oversight of the following:
 - (i) the integrity of Potlatch Corporation's financial statements;
 - (ii) Potlatch Corporation's compliance with legal and regulatory requirements;
 - (iii) the independent auditor's qualifications and independence; and
 - (iv) the performance of Potlatch Corporation's internal audit function and independent auditors; and
- b. Prepare the Audit Committee Report to be included in the Potlatch Corporation annual proxy statement as required by the rules of the Securities and Exchange Commission (SEC).

The role of the Audit Committee is to provide oversight on matters relating to accounting, financial reporting, internal controls, auditing, legal and regulatory compliance activities and other matters as the Board of Directors deems appropriate. The Committee's role is limited to this oversight. It is not the duty of the Audit Committee to plan or conduct audits or to determine that Potlatch Corporation's financial statements and disclosures are complete and accurate and are in accordance with generally accepted accounting principles and applicable rules and regulations or to determine that internal controls are adequate and appropriate. These are the responsibilities of Management and the independent auditor. In adopting this Charter, the Board of Directors acknowledges that the Audit Committee members are not providing any expert or special assurance as to Potlatch Corporation's financial statements or any professional certification as to the independent auditor's work or auditing standards. Each member of the Audit Committee is entitled to rely on the integrity of those persons and organizations within and outside Potlatch Corporation that provide information to the Audit Committee and the accuracy and completeness of the financial and other information provided to the Audit Committee by such persons and organizations absent actual knowledge to the contrary.

Committee Membership and Procedures

The Audit Committee shall consist of a minimum of three Directors, as determined from time to time by the Board of Directors, one of whom shall be appointed as Chair of the Committee. The members and the Chair of the Committee will be appointed by the Board and shall serve at the pleasure of the Board. A majority of the members of the Committee shall constitute a quorum. The Chair (or in his or her absence, a member designated by the Chair) shall preside at all meetings of the Audit Committee. The Chair shall be responsible for leadership of the Audit Committee, including scheduling meetings, preparing agendas and making reports to the Board of Directors.

The entire Audit Committee or any individual Audit Committee member may be removed from office without cause by the affirmative vote of a majority of the Board of Directors. Any Audit Committee

C-1

Table of Contents

member may resign effective upon giving oral or written notice to the Chairman of the Board of Directors, the Corporate Secretary or the Board of Directors (unless the notice specifies a later time for the effectiveness of such resignation).

Independence and Other Qualifications

Each Director who serves on the Audit Committee shall meet the objective test of independence which has been established by the Board of Directors or, in the absence of such test, the Board of Directors shall make an individual determination that such Director is independent within the meaning of any applicable law or any listing standard or rule established by the New York Stock Exchange (NYSE) and applicable to the Committee. Each member of the Audit Committee shall also meet any additional independence or experience requirements as may be established from time to time by the NYSE or the SEC and applicable to the Audit Committee.

The Board of Directors shall endeavor to appoint at least one member to the Audit Committee who is a financial expert as such term may be defined from time to time by the SEC.

Committee Meetings

The Committee shall meet at the call of the Chair upon notice given in accordance with the By-laws of Potlatch Corporation. Meetings may also be called, subject to required notice, at any time by any member of the Committee or by the Chairman of the Board or the Vice Chair of the Board. The Audit Committee may include in its meetings or in separate executive sessions members of Management, the internal auditors, the independent auditors or other persons employed or retained by Potlatch Corporation or the Audit Committee.

Delegation to Subcommittee

The Audit Committee shall have the authority to delegate to a subcommittee consisting of one or more designated members of the Audit Committee the authority to conduct such of the Audit Committee's duties and responsibilities as are provided in the resolutions of the Audit Committee, except to the extent such delegation is limited by applicable law or listing standard. The actions of any subcommittee to whom authority is delegated under this paragraph shall be reported to the full Audit Committee.

Resources and Authority

The Audit Committee shall have the resources and appropriate authority to discharge its duties and responsibilities, including the authority to select, retain, terminate, and approve the fees and other retention terms of outside legal, accounting or other advisors to assist the Audit Committee or a member of the Audit Committee engaged in

conducting the Audit Committee's duties and responsibilities, as it deems appropriate, without seeking Board approval.

Duties and Responsibilities

The following shall be the common recurring duties and responsibilities of the Audit Committee in carrying out its oversight role. These duties and responsibilities are set forth below as a guide to the Audit Committee with the understanding that the Audit Committee may alter or supplement them as appropriate under the circumstances to the extent permitted by applicable law, regulation or listing standard.

C-2

Table of Contents

With respect to the independent auditor:

1. The Audit Committee shall have the sole authority to appoint, retain, compensate, evaluate and, where appropriate, replace Potlatch Corporation's independent auditor;
2. The Audit Committee, or a subcommittee to which the Audit Committee shall have delegated its authority for this purpose, shall have the sole authority to approve any or all auditing services and non-audit services to be provided to Potlatch Corporation and its subsidiaries by the independent auditors in advance of the provision of these services and shall also approve the fees and terms of all non-audit services provided by the independent auditor;
3. Obtain and review, at least annually, a report by the independent auditor describing the following:
 - a. the auditors' internal quality control procedures;
 - b. any material issues raised by the most recent internal quality control review, or peer review, of the independent auditor's firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the independent auditor's firm, and any steps taken to deal with such issues; and
 - c. all relationships between the independent auditor and Potlatch Corporation, in order to assess the independent auditor's independence.
4. Review any report by the independent auditor describing:
 - a. all critical accounting policies and practices to be used;
 - b. all alternative treatments of financial information within generally accepted accounting principles that have been discussed with Management, ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the independent auditor; and
 - c. any other material written communications between the independent auditor and Management, such as any management letter or schedule of unadjusted differences;
5. Following each audit, evaluate the independent auditor's qualifications, performance and independence, including the review and evaluation of the lead partner of the independent auditor, taking into account the opinions of Management and Potlatch Corporation's internal auditor and the report referred to in paragraph 4 above and present its conclusions to the Board of Directors;

With respect to Potlatch Corporation's financial statements:

6. Review and discuss with the independent auditor the matters related to the conduct of the audit required to be discussed by Statement on Auditing Standards Nos. 61 and 90 (Communications with Audit Committees), including the independent auditor's judgment about the quality, not just acceptability, of Potlatch Corporation's accounting principles as applied in its financial reporting;
7. Review with the independent auditor, the internal auditor and Management the adequacy and effectiveness of Potlatch Corporation's internal control structure and procedures and consider any recommendations for improvement of such controls;
8. Discuss the annual audited financial statements and quarterly financial statements with Management and the independent auditor, including Potlatch Corporation's disclosures under Management's Discussion and Analysis of Financial Condition and Results of Operations ;

C-3

Table of Contents

9. Discuss press releases related to Potlatch Corporation's earnings (paying particular attention to any use of pro forma or adjusted non-GAAP information), as well as financial information and earnings guidance provided to analysts and rating agencies;
10. Review with the independent auditor any difficulties the independent auditor has encountered in the course of its audit, including any restrictions on the scope of the independent auditor's activities or on access to requested information, any significant disagreements with Management and Management's response.
11. Review major issues regarding accounting principles and financial statement presentations, including any significant changes in Potlatch Corporation's selection or application of accounting principles, and major issues as to the adequacy of Potlatch Corporation's internal controls and any special audit steps adopted in light of material control deficiencies;
12. Review analyses prepared by Management or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the financial statements, including analyses of the effects of alternative GAAP methods on the financial statements;
13. Review the effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the financial statements of Potlatch Corporation;
14. Review with the independent auditor and Management the impact on the financial statements of Potlatch Corporation of significant events, transactions or changes in accounting principles or estimates that potentially affect the quality of financial reporting, prior to filing of periodic reports with the SEC or as soon as practicable if the communications cannot be made prior to filing.
15. Recommend to the Board of Directors, based on the Audit Committee's review and discussions with Management, the internal auditor and independent auditor, whether Potlatch Corporation's financial statements should be included in its Annual Report on Form 10-K (or the annual report to stockholders if distributed prior to the filing of the Form 10-K).

With respect to the internal audit function:

16. Oversee the appointment or replacement and compensation of an internal audit function, with the internal auditor reporting to the Audit Committee. The internal audit function may be staffed by employees or by an outside firm engaged by the Audit Committee;
17. Review with the senior internal auditor the scope and plan of the work to be done by the internal auditor and the results of such work;

With respect to other matters:

18. Oversee the adoption and disclosure of the Potlatch Corporation Corporate Conduct and Ethics Policy for Directors and Employees, including:

- a. reviewing on an annual basis with Management the Policy and the implementation and effectiveness of compliance programs thereunder; and
- b. reviewing any proposed waiver of the Policy for executive Officers or Directors and making a recommendation to the Board of Directors with respect to the disposition of any proposed waiver;

C-4

Table of Contents

19. Establish procedures for: (i) the receipt, retention and treatment of complaints from employees of Potlatch Corporation regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by employees of concerns regarding questionable accounting or auditing matters;
20. Discuss Potlatch Corporation's policies with respect to risk assessment and risk management, including discussing the guidelines and policies to govern the process by which Management assesses and manages Potlatch Corporation's exposure to risk;
21. Set clear hiring policies for employees or former employees of the independent auditor;
22. Review with the Board of Directors any issues that arise with respect to the quality or integrity of Potlatch Corporation's financial statements, Potlatch Corporation's compliance with legal or regulatory requirements, the performance and independence of Potlatch Corporation's independent auditors, or the performance of the internal audit function;
23. Review disclosures made to the Audit Committee by the Chief Executive Officer and Chief Financial Officer during their process for certification of periodic reports filed with the SEC about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in Potlatch Corporation's internal controls.
24. Prepare the report required by SEC rules to be included in Potlatch Corporation's annual stockholders' meeting proxy statement.
25. Recommend to the Board of Directors any revisions to this Charter deemed appropriate by the Audit Committee.

Performance Evaluation

The Audit Committee shall produce and provide to the Board of Directors an annual self-evaluation of the Committee, which evaluation shall assess the Committee's performance of its duties and responsibilities set forth in this Charter. The self-evaluation shall be conducted in such manner as the Audit Committee deems appropriate.

Table of Contents

Appendix D

**AMENDMENT TO
RESTATED CERTIFICATE OF INCORPORATION**

The Board of Directors has unanimously adopted and declared advisable the following amendment to Article Fourth, Section V of Potlatch's Restated Certificate of Incorporation.

V. VOTING RIGHTS.

(a) A holder of the common stock shall, ~~except as otherwise provided in paragraphs (b), (c) or (f) hereof,~~ be entitled to one (1) vote on each matter submitted to a vote at a meeting of stockholders for each share of the common stock held of record by such holder as of the record date for such meeting.

(b) ~~A holder of the common stock shall be entitled to four (4) votes on each matter submitted to a vote at a meeting of stockholders for each share of the common stock held of record by such holder as of the record date for such meeting which meets one or both of the following criteria:~~

~~(1) such share of the common stock has had the same beneficial owner or owners since December 12, 1985; or~~

~~(2) such share of the common stock has had the same beneficial owner or owners for at least 48 consecutive calendar months (dating from the first day of the first full month on or after the date the holder acquired beneficial ownership of such share) prior to the record date for such meeting;~~

~~subject, in the case of holders referred to in paragraph (d) hereof, to the requirements set forth in such paragraph.~~

~~(c) For purposes of this Section V, no change in beneficial ownership shall be deemed to have occurred with respect to any share of common stock upon the occurrence of any of the following events (each such event being hereinafter referred to as an Exempt Transfer):~~

~~(i) Upon the transfer of such share by gift; by devise, bequest or otherwise through the laws of inheritance or descent; or by a trustee to a trust beneficiary or beneficiaries under the terms of the trust; or~~

~~(ii) Upon the appointment of a successor trustee, guardian or custodian with respect to such share; or~~

~~(iii) Upon the addition, withdrawal or demise of a beneficiary or beneficiaries of a trust under the terms of the trust and by reason of the birth, death, marriage or divorce of any natural person; the adoption of any natural person; the passage of a given period of time; the attainment by any natural person of a specific age; or the creation or termination of any guardianship or custodial arrangement; or~~

~~(iv) Upon the transfer of record or the transfer of a beneficial interest or interests in such share where the circumstances surrounding such transfer clearly demonstrate that no material change in beneficial ownership has occurred;~~

~~provided, in each such case, that (A) the transferee or the transferor shall have provided to the corporation, in accordance with such procedures as shall be established by the corporation as~~

D-1

Table of Contents

~~provided in paragraph (g) hereof, satisfactory evidence that such change in beneficial ownership qualifies as an Exempt Transfer and (B) such change was not undertaken in order to circumvent the provisions or purposes of this Section V.~~

~~(d) Any share of the common stock held of record on any record date for determining the holders entitled to vote on any matter submitted to a vote by the stockholders (a Record Date) shall be presumed to be owned beneficially by the record holder and for the period shown by the stockholder records of the corporation. Notwithstanding the preceding sentence of this paragraph (d), any share of the common stock held of record on a Record Date in street or nominee name or by a broker, clearing agency, voting trustee, bank, trust company or other nominee shall be presumed to have been acquired by the beneficial owner subsequent to December 12, 1985 and to have had the same beneficial owner for a period of less than 48 consecutive calendar months prior to such Record Date. These presumptions shall be rebuttable by presentation to the corporation, in accordance with such procedures as shall be established by the corporation as provided in paragraph (g) hereof, of satisfactory evidence.~~

~~(e) Any share of the common stock acquired by the beneficial owner as a direct result of a stock split, stock dividend, reclassification or other distribution of shares by the corporation with respect to existing shares (dividend shares) will be deemed to have been acquired and held continuously by such holder from the date on which the original shares, with respect to which the dividend shares were issued, were acquired.~~

~~(f) A holder of any share of the common stock acquired pursuant to the terms of certain plans of the corporation as specified below, whether issued before or after December 12, 1985, shall be entitled to four (4) votes on each matter submitted to a vote at a meeting of stockholders, provided such holder meets one of the following requirements:~~

~~(i) Such holder is an employee who holds such share of the common stock beneficially by reason of participation in any tax qualified savings, thrift, stock bonus, employee stock ownership, pension or other similar individual account employee benefit plan or arrangement adopted by the corporation or such holder is a trustee under any such plan; or~~

~~(ii) Such holder is an employee or a former employee or a beneficiary of either of them who holds such share of the common stock beneficially by reason of a distribution from any plan referred to in paragraph (f)(i) hereof; or~~

~~(iii) Such holder has acquired and beneficially owns such share of the common stock by reason of participation in a dividend reinvestment plan approved by the corporation.~~

~~(g) For purposes of this Section V, all determinations concerning changes in beneficial ownership, or the absence of any such change, shall be made by the Board of Directors or a transfer agent acting on behalf of the Board of Directors and any such determination shall be conclusive. Written procedures designed to facilitate such determinations shall be established by the Board of Directors from time to time. Such procedures shall provide, among other things, the manner of proof of facts that will be accepted and the frequency with which such proof may be required to be renewed. The Board of Directors and any transfer agent shall be entitled to rely on information concerning beneficial ownership of the common stock coming to their attention from any source and in any manner reasonably deemed by them to be reliable, but neither the Board of Directors nor any transfer agent shall be charged with any other information concerning the beneficial ownership of the common stock. The powers conferred upon the~~

Board of Directors by this paragraph (g) are granted solely to enable ~~the Board of Directors to adopt procedures for the purpose of making determinations of beneficial ownership under this Section V.~~

D-2

Table of Contents

~~(h) For purposes of this Section V, the terms beneficial owner and beneficially owned shall be defined in accordance with Rule 13d-3 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended (or any subsequent provisions replacing such act or rule) except as provided otherwise in this Section V. Notwithstanding Rule 13d-3, shares of common stock acquired upon the exercise of a stock option which was granted under an employee stock option plan adopted by the corporation shall, with respect to the person who exercises such option, be deemed to be beneficially owned commencing from the date the option was exercised.~~

~~(i) Notwithstanding paragraphs (b), (c) and (f) hereof, for purposes of any vote on a proposal submitted to the stockholders solely under Articles Sixth, Eighth or Twelfth of this Restated Certificate of Incorporation and for purposes of any vote on a proposal to amend, alter or repeal such Article Twelfth, a holder of common stock shall be entitled to one (1) vote for each share of the common stock held of record by such holder as of the record date for determining stockholders entitled to vote on such proposal.~~

~~(j) The holders of each series of preferred stock shall have such voting rights, if any, as shall be provided for in the resolution or resolutions of the Board of Directors establishing such class or series.~~

D-3

Table of Contents

Appendix E

**POTLATCH CORPORATION
2005 STOCK INCENTIVE PLAN**

1. PURPOSE.

This Potlatch Corporation 2005 Stock Incentive Plan is intended to provide incentive to Employees and Directors of Potlatch Corporation (the Corporation) and its eligible Affiliates, to encourage proprietary interest in the Corporation and to encourage Employees and Directors to remain in the service of the Corporation or its Affiliates.

2. DEFINITIONS.

- a) Administrator means the Board or either of the Committees appointed to administer the Plan.
- b) Affiliate means any entity, whether a corporation, partnership, joint venture or other organization that directly, or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with the Corporation.
- c) Award means any award of an Option, Restricted Stock, Restricted Stock Units, Performance Shares or an Other Share-Based Award under the Plan.
- d) Beneficiary means a person designated as such by a Participant or a Beneficiary for purposes of the Plan or determined with reference to Section 18.
- e) Board means the Board of Directors of the Corporation.
- f) Cause means the occurrence of any one or more of the following: (i) the Participant's conviction of any felony or crime involving fraud, dishonesty or moral turpitude; (ii) the Participant's participation in a fraud or act of dishonesty against the Corporation, its Affiliates or any successor to the Corporation that result in material harm to the business of the Corporation, its Affiliates or any successor to the Corporation; or (iii) the Participant's intentional, material violation of any contract between the Corporation, its Affiliates or any successor to the Corporation and the Participant or any statutory duty the Participant owes to the Corporation, its Affiliates or any successor to the Corporation that the Participant does not correct within 30 days after written notice thereof has been provided to the Participant.

- g) Code means the Internal Revenue Code of 1986, as amended.
- h) Committee means the Executive Compensation and Personnel Policies Committee of the Board and the Nominating and Corporate Governance Committee of the Board.
- i) Common Stock means the \$1 par value common stock of the Corporation.
- j) Corporation means Potlatch Corporation, a Delaware corporation.
- k) Covered Employee means the chief executive officer or any Employee whose total compensation for the taxable year is required to be reported to stockholders under the Exchange Act by reason of such Employee being among the four highest compensated officers for the taxable year (other than the chief executive officer).
- l) Director means a director of the Corporation.

E-1

Table of Contents

m) Disability means the condition of a Participant who is unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment which can be expected to result in death or which has lasted or can be expected to last for a continuous period of at least 12 months.

n) Employee means an individual employed by the Corporation or an Affiliate (within the meaning of Code section 3401 and the regulations thereunder).

o) Exchange Act means the Securities Exchange Act of 1934, as amended.

p) Exercise Price means the price per Share of Common Stock at which an option may be exercised.

q) Fair Market Value of a Share as of a specified date means the closing price at which Shares are traded at the close of business on such date as reported in the New York Stock Exchange composite transactions published in the Wall Street Journal, or if no trading of Shares is reported for that day, on the next preceding day on which trading was reported.

r) Good Reason means that one or more of the following are undertaken by the Corporation, its Affiliates or any successor to the Corporation without the Participant's express written consent: (i) the assignment to the Participant of any duties or responsibilities that results in a diminution in the Participant's position or function as in effect immediately prior to the effective date of a Change in Control (as defined in Section 7(e) below); provided, however, that a change in the Participant's title or reporting relationships shall not provide the basis for a voluntary termination with Good Reason; (ii) a reduction by the Corporation, its Affiliates or any successor to the Corporation in the Participant's annual base salary, as in effect on the effective date of the Change in Control or as increased thereafter; (iii) any failure by the Corporation, its Affiliates or any successor to the Corporation to continue in effect any benefit plan or program, including incentive plans or plans with respect to the receipt of securities of the Corporation, its Affiliates or any successor to the Corporation, in which the Participant was participating immediately prior to the effective date of the Change in Control (hereinafter referred to as Benefit Plans), or the taking of any action by the Corporation, its Affiliates or any successor to the Corporation that would adversely affect the Participant's participation in or reduce the Participant's benefits under the Benefit Plan or deprive the Participant of any fringe benefit that the Participant enjoyed immediately prior to the effective date of the Change in Control; provided, however, that no voluntary termination with Good Reason shall be deemed to have occurred if the Corporation, its Affiliates or any successor to the Corporation provide for the Participant's participation in benefit plans and programs, that, taken as a whole, are comparable to the Benefit Plans; (iv) a relocation of the Participant's business office to a location more than 50 miles from the location at which the Participant performs duties as of the effective date of the Change in Control, except for required travel by the Participant on the Corporation's, its Affiliates' or any successor to the Corporation's business to an extent substantially consistent with the Participant's business travel obligations prior to the effective date of the Change in Control; or (v) a material breach by the Corporation, its Affiliates or any successor to the Corporation of any provision of the Plan or the Option Agreement or any material agreement between the Participant and the Corporation, its Affiliates or any successor to the Corporation concerning the terms and conditions of the Participant's employment.

s) Incentive Stock Option means an Option described in Code section 422(b).

t) Misconduct means that the Administrator (or its delegate) has determined in its sole discretion that a Participant has (i) engaged in competition with the Corporation or an Affiliate, including, but not limited to, the rendering of services for any organization or engaging directly or indirectly in any business that is or may be (in the reasonable discretion of the Administrator) directly or indirectly competitive with the Corporation or an Affiliate, (ii) induced any customer of the Corporation

E-2

Table of Contents

or an Affiliate to breach any contract with the Corporation or an Affiliate or induced any employee of the Corporation or an Affiliate to be employed or perform services elsewhere, (iii) made any unauthorized disclosure of any of the secrets or confidential information of the Corporation or an Affiliate, (iv) committed an act of embezzlement, fraud or theft with respect to the property of the Corporation or an Affiliate, or (v) engaged in conduct which is not in good faith and which directly results in material loss, damage or injury to the business, reputation or employees of the Corporation or an Affiliate.

u) Nonqualified Stock Option means an Option not described in Code section 422(b) or 423(b).

v) Option means a stock option granted pursuant to Section 7. Option Agreement means the agreement between the Corporation and the Participant which contains the terms and conditions pertaining to such Option.

w) Other Share-Based Award means an Award granted pursuant to Section 11. Other Share-Based Award Agreement means the agreement between the Corporation and the recipient of an Other Share-Based Award which contains the terms and conditions pertaining to the Other Share-Based Award.

x) Outside Director means a Director who is not an Employee.

y) Participant means an Employee or Director who has received an Award.

z) Performance Shares means an Award denominated in Shares granted pursuant to Section 10 that may be earned in whole or in part based upon attainment of performance objectives established by the Administrator pursuant to Section 13. Performance Share Agreement means the agreement between the Corporation and the recipient of the Performance Shares which contains the terms and conditions pertaining to the Performance Shares.

aa) Plan means this Potlatch Corporation 2005 Stock Incentive Plan.

bb) Purchase Price means the Exercise Price times the number of whole Shares with respect to which an Option is exercised.

cc) Restricted Stock means Shares granted pursuant to Section 8. Restricted Stock Agreement means the agreement between the Corporation and the recipient of Restricted Stock which contains the terms, conditions and restrictions pertaining to the Restricted Stock.

dd) Restricted Stock Unit means an Award denominated in Shares granted pursuant to Section 9 in which the Participant has the right to receive a specified number of Shares over a specified period of time. Restricted Stock Unit Agreement means the agreement between the Corporation and the recipient of the Restricted Stock Unit Award which contains the terms and conditions pertaining to the Restricted Stock Unit Award.

ee) Share means one share of Common Stock, adjusted in accordance with Section 16 (if applicable).

ff) Share Equivalent means a bookkeeping entry representing a right to the equivalent of one Share.

gg) Stock Right means a right to receive an amount equal to the value of a specified number of Shares which will be payable in Shares or cash as established by the Administrator.

hh) Subsidiary means any corporation in an unbroken chain of corporations beginning with the Corporation if each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

Table of Contents

3. EFFECTIVE DATE.

This Plan was adopted by the Board on December 2, 2004, to be effective immediately, subject to approval by the Corporation's stockholders.

4. ADMINISTRATION.

a) Administration with respect to Outside Directors.

With respect to Awards to Outside Directors, the Plan shall be administered by (A) the Board or (B) the Nominating and Corporate Governance Committee of the Board. Notwithstanding the foregoing, all Awards made to members of the Nominating and Corporate Governance Committee shall be approved by the Board.

b) Administration with respect to Employees.

With respect to Awards to Employees, the Plan shall be administered by (A) the Board or (B) the Executive Compensation and Personnel Policies Committee of the Board.

(i) If any member of the Executive Compensation and Personnel Policies Committee does not qualify as an outside director for purposes of Code section 162(m), Awards under the Plan for the Covered Employees shall be administered by a subcommittee consisting of each Executive Compensation and Personnel Policies Committee member who qualifies as an outside director. If fewer than two Executive Compensation and Personnel Policies Committee members qualify as outside directors, the Board shall appoint one or more other Board members to such subcommittee who do qualify as outside directors, so that the subcommittee will at all times consist of two or more members all of whom qualify as outside directors for purposes of Code section 162(m).

(ii) If any member of the Executive Compensation and Personnel Policies Committee does not qualify as a non-employee director for purposes of Rule 16b-3 promulgated under the Exchange Act, then Awards under the Plan for the executive officers of the Corporation and Directors shall be administered by a subcommittee consisting of each Executive Compensation and Personnel Policies Committee member who qualifies as a non-employee director. If fewer than two Executive Compensation and Personnel Policies Committee members qualify as non-employee directors, then the Board shall appoint one or more other Board members to such subcommittee who do qualify as non-employee directors, so that the subcommittee will at all times consist of two or more members all of whom qualify as non-employee directors for purposes of Rule 16b-3 promulgated under the Exchange Act.

c) Powers of the Administrator.

The Administrator shall from time to time at its discretion make determinations with respect to Employees and Directors who shall be granted Awards, the number of Shares or Share Equivalents to be subject to each Award, the vesting of Awards, the designation of Options as Incentive Stock Options or Nonqualified Stock Options and other conditions of Awards to Employees and Directors.

The interpretation and construction by the Administrator of any provisions of the Plan or of any Award shall be final. No member of a Committee shall be liable for any action or determination made in good faith with respect to the Plan or any Award.

E-4

Table of Contents

5. ELIGIBILITY.

Subject to the terms and conditions set forth below, Awards may be granted to Employees and Directors. Notwithstanding the foregoing, only employees of the Corporation and its Subsidiaries may be granted Incentive Stock Options.

a) Ten Percent Stockholders.

An Employee who owns more than 10% of the total combined voting power of all classes of outstanding stock of the Corporation, its parent or any of its Subsidiaries is not eligible to receive an Incentive Stock Option pursuant to this Plan. For purposes of this Section 5(a) the stock ownership of an Employee shall be determined pursuant to Code section 424(d).

b) Number of Awards.

A Participant may receive more than one Award, including Awards of the same type, but only on the terms and subject to the restrictions set forth in the Plan. Subject to adjustment as provided in Section 16, the maximum aggregate number of Shares or Share Equivalents that may be subject to Awards to a Participant in any calendar year is 250,000 Shares.

6. STOCK.

The stock subject to Options, Restricted Stock, or Other Share-Based Awards granted under the Plan shall be Shares of the Corporation's authorized but unissued or reacquired Common Stock. The aggregate number of Shares subject to Options, Restricted Stock or Other Share-Based Awards issued under this Plan shall not exceed 1,600,000 Shares. If any outstanding Option under the Plan for any reason expires or is terminated or any Restricted Stock or Other Share-Based Award is forfeited and under the terms of the expired or terminated Award the Participant received no benefits of ownership during the period the Award was outstanding, then the Shares allocable to the unexercised portion of such Option or the forfeited Restricted Stock or Other Share-Based Award may again be subjected to Options, Restricted Stock or Other Share-Based Awards under the Plan. However, if one Award is granted in tandem with another Award, so that the exercise of one causes the other to expire, then the number of Shares subject to the expired Award shall not be restored to the pool available for Awards.

The limitations established by this Section 6 shall be subject to adjustment as provided in Section 16.

7. TERMS AND CONDITIONS OF OPTIONS.

Options granted to Employees and Directors pursuant to the Plan shall be evidenced by written Option Agreements in such form as the Administrator shall determine, subject to the following terms and conditions:

a) Number of Shares.

Each Option shall state the number of Shares to which it pertains, which shall be subject to adjustment in accordance with Section 16.

b) Exercise Price.

Each Option shall state the Exercise Price, determined by the Administrator, which shall not be less than the Fair Market Value of a Share on the date of grant, except as provided in Section 16.

Table of Contents

c) Medium and Time of Payment.

The Purchase Price shall be payable in full in United States dollars upon the exercise of the Option; provided that with the consent of the Administrator and in accordance with its rules and regulations, the Purchase Price may be paid by the surrender of Shares in good form for transfer, owned by the person exercising the Option and having a Fair Market Value on the date of exercise equal to the Purchase Price, or in any combination of cash and Shares, so long as the total of the cash and the Fair Market Value of the Shares surrendered equals the Purchase Price. No Share shall be issued until full payment has been made.

d) Term and Exercise of Options: Nontransferability of Options.

Each Option shall state the time or times when it becomes exercisable. No Option shall be exercisable after the expiration of 10 years from the date it is granted. During the lifetime of the Participant, the Option shall be exercisable only by the Participant and shall not be assignable or transferable. In the event of the Participant's death, any Option shall be transferred to the Beneficiary designated by the Participant for this purpose.

e) Change in Control.

Subject to Section 7(d), in the event that a Participant's employment or service with the Corporation is involuntarily terminated without Cause or voluntarily terminated for Good Reason within one month prior to or 24 months following the effective date of a Change in Control (defined below) that is at least six months following the date of grant of the Option, the Participant shall have the right to exercise the Option (or to call the related stock appreciation right as described in Section 7(j)) in whole or in part. For purposes of the Plan, a Change in Control means the occurrence of one or more of the following:

(i) The consummation of a reorganization, merger or consolidation involving the Corporation (a Business Combination), in each case, unless, following such Business Combination, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the then outstanding shares of Common Stock (the Outstanding Common Stock) and then outstanding voting securities of the Corporation entitled to vote generally in the election of Directors (the Outstanding Voting Securities) immediately prior to such Business Combination beneficially own, directly or indirectly, more than 50% of, respectively, the then outstanding shares of common stock and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors of the corporation resulting from such Business Combination (including, without limitation, a corporation which as a result of such transaction owns the Corporation either directly or through one or more subsidiaries), (B) no Person (as defined in subparagraph (iii) below) (excluding any corporation resulting from such Business Combination or any employee benefit plan (or related trust) sponsored or maintained by the Corporation or such other corporation resulting from such Business Combination beneficially owns, directly or indirectly, 20% or more of, respectively, the then outstanding shares of common stock of the corporation resulting from such Business Combination or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership is based on the beneficial ownership, directly or indirectly, of Outstanding Common Stock or Outstanding Voting Securities immediately prior to the Business Combination and (C) at least a majority of the members of the board of directors of the corporation resulting from such Business Combination were members of the Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Business Combination; or

(ii) That individuals who, as of December 2, 2004 constitute the Board (the Incumbent Board) cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a Director subsequent to December 2, 2004 whose election, or

E-6

Table of Contents

nomination for election by the Corporations stockholders, was approved by a vote of at least a majority of the Directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of Directors, an actual or threatened solicitation of proxies or consents or any other actual or threatened action by, or on behalf of any Person other than the Board; or

(iii) The acquisition after December 2, 2004 by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Exchange Act) (a Person) of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of 20% or more of either (A) the then Outstanding Common Stock or (B) the combined voting power of the Outstanding Voting Securities; provided, however, that the following acquisitions shall not be deemed to be covered by this subsection (iii): (x) any acquisition of Outstanding Common Stock or Outstanding Voting Securities by the Corporation, (y) any acquisition of Outstanding Common Stock or Outstanding Voting Securities by any employee benefit plan (or related trust) sponsored or maintained by the Corporation, (z) any acquisition of Outstanding Common Stock or Outstanding Voting Securities by any corporation pursuant to a transaction which complies with clauses (A), (B) and (C) of subsection (i) of this Section 7(e); or

(iv) The consummation of the sale of all or substantially all of the assets of the Corporation or approval by the stockholders of the Corporation of a complete liquidation or dissolution of the Corporation.

f) Termination of Employment Except Death.

(i) In the event that a Participant who is an Employee ceases to be employed by the Corporation or any of its Affiliates for any reason other than death, such Participant shall have the right (subject to the limitations of Section 7(d) above) to exercise the Option either:

a. within three months after such termination of employment; or

b. in the case of Early, Normal or Late Retirement under the Salaried Employees Retirement Plan, or Disability, at any time before the end of the option period specified in the Option Agreement,

to the extent that, at the date of termination of employment, the Option had vested pursuant to the terms of the Option Agreement with respect to which such Option was granted and had not previously been exercised. However, in addition to the rights and obligations established in Section 14 below, if the employment of a Participant is terminated by the Corporation or an Affiliate by reason of Misconduct, such Option shall cease to be exercisable at the time of the Participant s termination of employment. The Administrator (or its delegate) shall determine whether a Participant s employment is terminated by reason of Misconduct. In making such determination the Administrator (or its delegate) shall act fairly and shall give the Participant an opportunity to be heard and present evidence on his or her behalf. If a Participant s employment terminates for reasons other than Misconduct, but Misconduct is discovered after the termination and is determined to have occurred by the Administrator (or its delegate), all outstanding Options shall cease to be exercisable upon such determination.

For purposes of this Section, the employment relationship will be treated as continuing while the Participant is on military leave, sick leave (including short term disability) or other bona fide leave of absence (to be determined in the sole discretion of the Administrator, in accordance with rules and regulations construing Code section 422(a)(2)). Notwithstanding the foregoing, in the case of an

E-7

Table of Contents

Incentive Stock Option, employment shall not be deemed to continue beyond three months after the Participant ceased active employment, unless the Participant's reemployment rights are guaranteed by statute or by contract.

(ii) In the event an Outside Director terminates services as a Director for any reason other than death, the former Director shall have the right (subject to the limitations of Section 7(d) above) to exercise the Option either:

a. within three months after such termination,

or

b. in the case of termination after five years of service as an Outside Director, any time before the end of the option period specified in the Option Agreement,

to the extent that, at the date of termination the Option had vested pursuant to the terms of the Option Agreement and had not previously been exercised. However, if the services of the Outside Director are terminated by the Board for cause in accordance with the Corporation's Restated Certificate of Incorporation, such Option shall cease to be exercisable at the time of the Outside Director's termination of services.

g) Death of Participant.

(i) If a Participant who is an Employee dies while in the employ of the Corporation or an Affiliate, the Option may be exercised at any time before the end of the option period as specified in the Option Agreement by the Participant's designated Beneficiary, to the extent that, at the date of the Participant's death, the Option had vested pursuant to the terms of the Option Agreement and had not previously been exercised.

(ii) In the event the Outside Director's services terminate by reason of death, the Option may be exercised at any time before the end of the option period specified in the Option Agreement by the Director's designated Beneficiary, to the extent that, at the date of the Director's death, the Option had vested pursuant to the terms of the Option Agreement and had not previously been exercised.

h) Rights as a Stockholder.

A Participant or a transferee of a Participant shall have no rights as a stockholder with respect to any Shares covered by his or her Option until the date of issuance of a stock certificate for such Shares. No adjustment shall be made for dividends, distributions or other rights for which the record date is prior to the date such stock certificate is issued,

except as provided in Section 16.

i) Modification, Extension and Renewal of Options.

Subject to the terms and conditions and within the limitations of the Plan, including the limitations of Section 20, the Administrator may modify, extend or renew outstanding Options granted to Employees and Directors under the Plan. Notwithstanding the foregoing, however, no modification of an Option shall, without the consent of the Participant, alter or impair any rights or obligations under any Option previously granted under the Plan.

j) Stock Appreciation Rights.

Each Option granted under the Plan may include a stock appreciation right that may be exercised only following the applicable Change in Control and termination events described in Section 7(e). Following such events, the Participant shall have the right to surrender all or part of the Option and to

Table of Contents

exercise the stock appreciation right (the "call") to obtain payment from the Corporation of an amount equal to the difference obtained by subtracting the aggregate Exercise Price of the Shares subject to the Option (or the portion of such Option) surrendered from the Fair Market Value of such Shares on the date of such surrender. In the case of a stock appreciation right called after the applicable Change in Control and termination events described in Section 7(e) above, "Fair Market Value" for purposes of this Subsection (j) shall be the greater of (A) the Fair Market Value of such Shares as of the date immediately prior to the events described in Section 7(e) above, or (B) the value of such Shares determined as of the date of the call in good faith by the Administrator (as composed on the day preceding the date of the events described in Section 7(e) above), taking into consideration all relevant facts and circumstances. The call of such stock appreciation right shall be subject to such limitations (including, but not limited to, limitations as to time and amount) as the Administrator shall deem appropriate. The payment may be made in shares of Common Stock (determined with reference to its Fair Market Value on the date of call), or in cash, or partly in cash and in shares of Common Stock, at the discretion of the Administrator, provided that the Administrator determines that such settlement is consistent with the purpose set forth in Section 1, and provided further, that if the stock appreciation right is called after the applicable Change in Control and termination events described in Section 7(e), the payment shall be made in cash. For all purposes under the Plan, the terms "exercise" or "exercisable" shall be deemed to include the terms "call" or "callable" as such terms may apply to a stock appreciation right, and in the event of the call of a stock appreciation right, the underlying Option will be deemed to have been exercised for all purposes under the Plan.

k) Limitation of Incentive Stock Option Awards.

If and to the extent that the aggregate Fair Market Value (determined as of the date the Option is granted) of the Shares with respect to which any Incentive Stock Options are exercisable for the first time by a Participant during any calendar year under this Plan and all other plans maintained by the Corporation, its parent or its Subsidiaries exceeds \$100,000, the excess (taking into account the order in which they were granted) shall be treated as nonqualified stock options.

l) Other Provisions.

The Option Agreement shall contain such other provisions that are consistent with the terms of the Plan, including, without limitation, restrictions upon the exercise of the Option, as the Administrator shall deem advisable.

8. RESTRICTED STOCK.

a) Grants.

Subject to the provisions of the Plan, the Administrator shall have sole and complete authority to determine the Employees and Directors to whom, and the time or times at which, grants of Restricted Stock will be made, the number of shares of Restricted Stock to be awarded, the price (if any) to be paid by the recipient of Restricted Stock, the time or times within which such Awards may be subject to forfeiture, and all other terms and conditions of the Awards. The Administrator may condition the grant of Restricted Stock upon the attainment of specified performance objectives established by the Administrator pursuant to Section 13 or such other factors as the Administrator may determine, in its sole discretion.

The terms of each Restricted Stock Award shall be set forth in a Restricted Stock Agreement between the Corporation and the Participant, which Agreement shall contain such provisions as the Administrator determines to be necessary or appropriate to carry out the intent of the Plan. Each Participant receiving a Restricted Stock Award shall be issued a stock certificate in respect of such shares of Restricted Stock. Such certificate shall be registered in the name of such Participant, and

E-9

Table of Contents

shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Award. The Administrator shall require that stock certificates evidencing such shares be held by the Corporation until the restrictions lapse and that, as a condition of any Restricted Stock Award, the Participant shall deliver to the Corporation a stock power relating to the stock covered by such Award.

b) Restrictions and Conditions.

The shares of Restricted Stock awarded pursuant to this Section 8 shall be subject to the following restrictions and conditions:

(i) During a period set by the Administrator commencing with the date of such Award (the Restriction Period), the Participant shall not be permitted to sell, transfer, pledge, assign or encumber shares of Restricted Stock awarded under the Plan. Within these limits, the Administrator, in its sole discretion, may provide for the lapse of such restrictions in installments and may accelerate or waive such restrictions in whole or in part, based on service, performance, a change of control of the Corporation or such other factors or criteria as the Administrator may determine in its sole discretion.

(ii) Except as provided in this paragraph (ii) and paragraph (i) above, the Participant shall have, with respect to the shares of Restricted Stock, all of the rights of a stockholder of the Corporation, including the right to vote the shares and the right to receive any cash dividends. The Administrator, in its sole discretion, as determined at the time of Award, may provide that the payment of cash dividends shall or may be deferred and, if the Administrator so determines, invested in additional shares of Restricted Stock to the extent available under Section 6, or otherwise invested. Stock dividends issued with respect to Restricted Stock shall be treated as additional shares of Restricted Stock that are subject to the same restrictions and other terms and conditions that apply to the shares with respect to which such dividends are issued.

(iii) The Administrator shall specify the conditions under which shares of Restricted Stock shall vest or be forfeited and such conditions shall be set forth in the Restricted Stock Agreement.

(iv) If and when the Restriction Period applicable to shares of Restricted Stock expires without a prior forfeiture of the Restricted Stock, certificates for an appropriate number of unrestricted Shares shall be delivered promptly to the Participant, and the certificates for the shares of Restricted Stock shall be canceled.

9. RESTRICTED STOCK UNITS.

a) Grants.

Subject to the provisions of the Plan, the Administrator shall have sole and complete authority to determine the Employees and Directors to whom, and the time or times at which, grants of Restricted Stock Units will be made, the number of Restricted Stock Units to be awarded, the price (if any) to be paid by the recipient of the Restricted Stock Units, the time or times within which such Restricted Stock Units may be subject to forfeiture, and all other terms and conditions of the Restricted Stock Unit Awards. The Administrator may condition the grant of Restricted Stock Unit Awards upon the attainment of specified performance objectives established by the Administrator pursuant to Section 13 or such other factors as the Administrator may determine, in its sole discretion.

The terms of each Restricted Stock Unit Award shall be set forth in a Restricted Stock Unit Award Agreement between the Corporation and the Participant, which Agreement shall contain such provisions as the Administrator determines to be necessary or appropriate to carry out the intent of the Plan. With respect to a Restricted Stock Unit Award, no certificate for shares of stock shall be issued at

Table of Contents

the time the grant is made (nor shall any book entry be made in the records of the Corporation) and the Participant shall have no right to or interest in shares of stock of the Corporation as a result of the grant of Restricted Stock Units.

b) Restrictions and Conditions.

The Restricted Stock Units awarded pursuant to this Section 9 shall be subject to the following restrictions and conditions:

(i) At the time of grant of a Restricted Stock Unit Award, the Administrator may impose such restrictions or conditions on the vesting of the Restricted Stock Units, as the Administrator deems appropriate. Within these limits, the Administrator, in its sole discretion, may provide for the lapse of such restrictions in installments and may accelerate or waive such restrictions in whole or in part, based on service, performance, a change of control of the Corporation or such other factors or criteria as the Administrator may determine in its sole discretion.

(ii) Dividend equivalents may be credited in respect of Restricted Stock Units, as the Administrator deems appropriate. Such dividend equivalents may be converted into additional Restricted Stock Units by dividing (1) the aggregate amount or value of the dividends paid with respect to that number of Shares equal to the number of Restricted Stock Units then credited by (2) the Fair Market Value per Share on the payment date for such dividend. The additional Restricted Stock Units credited by reason of such dividend equivalents will be subject to all of the terms and conditions of the underlying Restricted Stock Unit Award to which they relate.

(iii) The Administrator shall specify the conditions under which Restricted Stock Units shall vest or be forfeited and such conditions shall be set forth in the Restricted Stock Unit Agreement.

c) Deferral Election.

Each recipient of a Restricted Stock Unit Award shall be entitled to elect to defer all or a percentage of any Shares he or she may be entitled to receive upon the lapse of any restrictions or vesting period to which the Award is subject. This election shall be made by giving notice in a manner and within the time prescribed by the Administrator. Each Participant must indicate the percentage (expressed in whole percentages) he or she elects to defer of any Shares he or she may be entitled to receive. If no notice is given, the Participant shall be deemed to have made no deferral election. Each deferral election filed with the Administrator shall become irrevocable on and after the prescribed deadline.

10. PERFORMANCE SHARES.

a) Grants.

Subject to the provisions of the Plan, the Administrator shall have sole and complete authority to determine the Employees and Directors to whom, and the time or times at which, grants of Performance Shares will be made, the number of Performance Shares to be awarded, the price (if any) to be paid by the recipient of the Performance Shares, the time or times within which such Performance Shares may be subject to forfeiture, and all other terms and conditions of the Performance Share Awards. The Administrator may condition the grant of Performance Share Awards upon the attainment of specified performance objectives established by the Administrator pursuant to Section 13 or such other factors as the Administrator may determine, in its sole discretion.

The terms of each Performance Share Award shall be set forth in a Performance Share Award Agreement between the Corporation and the Participant, which Agreement shall contain such provisions as the Administrator determines to be necessary or appropriate to carry out the intent of the

E-11

Table of Contents

Plan. With respect to a Performance Share Award, no certificate for shares of stock shall be issued at the time the grant is made (nor shall any book entry be made in the records of the Corporation) and the Participant shall have no right to or interest in shares of stock of the Corporation as a result of the grant of Performance Shares.

b) Restrictions and Conditions.

The Performance Shares awarded pursuant to this Section 10 shall be subject to the following restrictions and conditions: At the time of grant of a Performance Share Award, the Administrator may set performance objectives in its discretion which, depending on the extent to which they are met, will determine the number of Performance Shares that will be paid out to the Participant. The time period during which the performance objectives must be met will be called the Performance Period. After the applicable Performance Period has ended, the recipient of the Performance Shares will be entitled to receive the number of Performance Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding performance objectives have been achieved. After the grant of a Performance Share Award, the Administrator, in its sole discretion, may reduce or waive any performance objective for such Performance Share Award.

11. OTHER SHARE-BASED AWARDS.

a) Grants.

Other Awards of Shares and other Awards that are valued in whole or in part by reference to, or are otherwise based on, Shares (Other Share-Based Awards), may be granted either alone or in addition to or in conjunction with other Awards under this Plan. Awards under this Section 11 may include (without limitation) Stock Rights, the grant of Shares conditioned upon some specified event, the payment of cash based upon the performance of the Shares or the grant of securities convertible into Shares.

Subject to the provisions of the Plan, the Administrator shall have sole and complete authority to determine the Employees and Directors to whom and the time or times at which Other Share-Based Awards shall be made, the number of Shares or other securities, if any, to be granted pursuant to Other Share-Based Awards, and all other conditions of the Other Share-Based Awards. The Administrator may condition the grant of an Other Share-Based Award upon the attainment of specified performance goals or such other factors as the Administrator shall determine, in its sole discretion. In granting an Other Share-Based Award, the Administrator may determine that the recipient of an Other Share-Based Award shall be entitled to receive, currently or on a deferred basis, interest or dividends or dividend equivalents with respect to the Shares or other securities covered by the Award, and the Administrator may provide that such amounts (if any) shall be deemed to have been reinvested in additional Shares or otherwise reinvested. The terms of any Other Share-Based Award shall be set forth in an Other Share-Based Award Agreement between the Corporation and the Participant, which Agreement shall contain such provisions as the Administrator determines to be necessary or appropriate to carry out the intent of the Plan.

b) Terms and Conditions.

In addition to the terms and conditions specified in the Other Share-Based Award Agreement, Other Share-Based Awards shall be subject to the following:

(i) Any Other Share-Based Award may not be sold, assigned, transferred, pledged or otherwise encumbered prior to the date on which the Shares are issued or the Award becomes payable, or, if later, the date on which any applicable restriction, performance or deferral period lapses.

(ii) The Other Share-Based Award Agreement shall contain provisions dealing with the disposition of such Award in the event of termination of the Employee's employment or the

E-12

Table of Contents

Director's service prior to the exercise, realization or payment of such Award, and the Administrator in its sole discretion may provide for payment of the Award in the event of the Participant's retirement, Disability or death or the change of control of the Corporation, with such provisions to take account of the specific nature and purpose of the Award.

12. OTHER PAYMENTS IN SHARES.

Shares may be issued under this Plan to satisfy the payment of all or part of an award pursuant to the Potlatch Corporation Management Performance Award Plan. In addition, all or part of any Director's fees may be paid in Shares issued under this Plan. Any Shares issued pursuant to this Section 12 shall reduce the number of Shares authorized for Options, Restricted Stock or Other Share-Based Awards under Section 6 but shall not be considered an Award for purposes of the maximum grant limitation in Section 5(b).

13. PERFORMANCE OBJECTIVES.

The Administrator shall determine the terms and conditions of Awards at the date of grant or thereafter; provided that performance objectives for each year, if any, shall be established by the Administrator not later than the latest date permissible under Code section 162(m). To the extent that such Awards are paid to Employees the performance objectives to be used, if any, shall be expressed in terms of one or more of the following: total shareholder return; earnings per share; stock price; return on equity; net earnings; related return ratios; cash flow; net earnings growth; earnings before interest, taxes, depreciation and amortization (EBITDA); return on assets; increase in revenues; decrease in expenses; increase in funds from operations (FFO); and increase in FFO per share. Performance objectives, if any, established by the Administrator may be (but need not be) different from year-to-year, and different performance objectives may be applicable to different Participants.

14. FORFEITURE ON ACCOUNT OF MISCONDUCT.

Notwithstanding any other provision of this Plan to the contrary, if the Participant engages in Misconduct prior to, or during the twelve month period following, the exercise of the Option or the vesting of the Award without the Administrator's (or its delegate's) express written consent, the Administrator (or its delegate) may

(a) rescind the exercise of any Option exercised during the period beginning twelve months prior to through 24 months after the Participant's termination of employment or service with the Corporation or its Affiliates and cancel all outstanding Awards within 24 months after the Participant's termination of employment or service with the Corporation or its Affiliates, and

(b) demand that the Participant pay over to the Corporation the proceeds (less the Participant's purchase price, if any) received by the Participant upon the sale, transfer or other transaction involving the Shares acquired upon the exercise of any Option exercised during the period beginning twelve months prior to through 24 months after the Participant's termination of employment or service with the Corporation or its Affiliates or the vesting of any Award

within 24 months after the Participant's termination of employment or service with the Corporation or its Affiliates, in such manner and on such terms and conditions as may be required, and, without limiting any other remedy the Corporation or its Affiliates may have, the Corporation shall be entitled to set-off against the amount of any such proceeds any amount owed the Participant by the Corporation or its Affiliates to the fullest extent permitted by law.

15. TERM OF PLAN.

Awards may be granted pursuant to the Plan until the termination of the Plan on December 1, 2014.

E-13

Table of Contents

16. RECAPITALIZATION.

Subject to any required action by the stockholders, the number of Shares covered by this Plan as provided in Section 6, the maximum grant limitation in Section 5(b), the number of Shares or Share Equivalents covered by or referenced in each outstanding Award, and the Exercise Price of each outstanding Option and any price required to be paid for Restricted Stock or Other Share-Based Award shall be proportionately adjusted for any increase or decrease in the number of issued Shares resulting from a subdivision or consolidation of Shares, the payment of a stock dividend (but only of Common Stock) or any other increase or decrease in the number of such Shares effected without receipt of consideration by the Corporation or the declaration of a dividend payable in cash that has a material effect on the price of issued Shares.

Subject to any required action by the stockholders, if the Corporation shall be a party to any merger, consolidation or other reorganization, each outstanding Award shall pertain and apply to the securities to which a holder of the number of Shares or Share Equivalents subject to the Award would have been entitled. In the event of a change in the Common Stock as presently constituted, which is limited to a change of all of its authorized shares with par value into the same number of shares with a different par value or without par value, the shares resulting from any such change shall be deemed to be the Common Stock within the meaning of the Plan.

To the extent that the foregoing adjustments relate to stock or securities of the Corporation, such adjustments shall be made by the Administrator, whose determination in that respect shall be final, binding and conclusive, provided that each Incentive Stock Option granted pursuant to this Plan shall not be adjusted in a manner that causes the Option to fail to continue to qualify as an incentive stock option within the meaning of Code section 422.

Except as expressly provided in this Section 16, a Participant shall have no rights by reason of any subdivision or consolidation of shares of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class or by reason of any dissolution, liquidation, merger or consolidation or spin-off of assets or stock of another corporation, and any issue by the Corporation of shares of stock of any class or securities convertible into shares of stock of any class, shall not affect the number or price of Shares subject to the Option.

The grant of an Option pursuant to the Plan shall not affect in any way the right or power of the Corporation to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge or consolidate or to dissolve, liquidate, sell or transfer all or any part of its business assets.

17. SECURITIES LAW REQUIREMENTS AND LIMITATION OF RIGHTS.

a) Securities Law.

No Shares shall be issued pursuant to the Plan unless and until the Corporation has determined that: (i) it and the Participant have taken all actions required to register the Shares under the Securities Act of 1933 or perfect an

exemption from registration; (ii) any applicable listing requirement of any stock exchange on which the Common Stock is listed has been satisfied; and (iii) any other applicable provision of state or federal law has been satisfied.

b) Employment Rights.

Neither the Plan nor any Award granted under the Plan shall be deemed to give any individual a right to remain employed by the Corporation or an Affiliate or to remain a Director. The Corporation and

Table of Contents

its Affiliates reserve the right to terminate the employment of any employee at any time, with or without cause or for no cause, subject only to a written employment contract (if any), and the Board reserves the right to terminate a Director's membership on the Board for cause in accordance with the Corporation's Restated Certificate of Incorporation.

c) Stockholders' Rights.

A Participant shall have no dividend rights, voting rights or other rights as a stockholder with respect to any Shares covered by his or her Award prior to the issuance of a stock certificate for such Shares. No adjustment shall be made for cash dividends or other rights for which the record date is prior to the date when such certificate is issued.

d) Creditors' Rights.

A holder of an Other Share-Based Award shall have no rights other than those of a general creditor of the Corporation. An Other Share-Based Award shall represent an unfunded and unsecured obligation of the Corporation, subject to the terms and conditions of the applicable Other Share-Based Award Agreement. An Other Share-Based Award shall not be deemed to create a trust for the benefit of any individual.

18. BENEFICIARY DESIGNATION.

Participants and their Beneficiaries may designate on the prescribed form one or more Beneficiaries to whom distribution shall be made of any Award outstanding at the time of the Participant's or Beneficiary's death. A Participant or Beneficiary may change such designation at any time by filing the prescribed form with the Administrator. If a Beneficiary has not been designated or if no designated Beneficiary survives the Participant or Beneficiary, distribution will be made to the residuary beneficiary under the terms of the Participant's or Beneficiary's last will and testament or, in the absence of a last will and testament, to the Participant's or Beneficiary's estate as Beneficiary.

19. AMENDMENT OF THE PLAN.

The Board may suspend or discontinue the Plan or revise or amend it with respect to any Shares at the time not subject to Awards except that, without approval of the stockholders of the Corporation, no such revision or amendment shall:

- a) Increase the number of Shares subject to the Plan;
- b) Change the designation in Section 5 of the class of Employees eligible to receive Awards;

- c) Decrease the price at which Incentive Stock Options may be granted;
- d) Remove the administration of the Plan from the Administrator; or
- e) Amend this Section 19 to defeat its purpose.

20. NO AUTHORITY TO REPRICE.

Without the consent of the stockholders of the Corporation, except as provided in Section 16, the Administrator shall have no authority to effect either (i) the repricing of any outstanding Options under the Plan or (ii) the cancellation of any outstanding Options under the Plan and the grant in substitution therefor of new Options under the Plan covering the same or different numbers of shares of Common Stock.

E-15

Table of Contents

21. NO OBLIGATION TO EXERCISE OPTION.

The granting of an Option shall impose no obligation upon the Participant to exercise such Option.

22. APPROVAL OF STOCKHOLDERS.

This Plan and any amendments requiring stockholder approval pursuant to Section 19 shall be subject to approval by affirmative vote of the stockholders. Such vote shall be taken at the first annual meeting of stockholders of the Corporation following the adoption of the Plan or of any such amendments, or any adjournment of such meeting.

23. PAYMENT OF EXCISE TAX.

If any payments or transfers to or for the benefit of a Participant are deemed an excess parachute payment as defined in Code section 280G subject to the excise tax imposed by Code section 4999, the Corporation shall pay to the Participant an additional amount such that the total amount of all such payments and benefits (including payments made pursuant to this Section) to the Participant shall equal the total amount of all such payments and benefits to which the Participant would have been entitled (but for this Section) net of all applicable federal, state and local taxes except the excise tax. For purposes of this Section, the Participant shall be deemed to pay federal, state and local taxes at the highest marginal rate of taxation for the applicable calendar year. The amount of the payment to the Participant shall be estimated by the firm of independent certified public accountants [serving as the outside auditor of the Corporation], as of the date of the applicable Change in Control or termination events as described in Section 7(e).

24. WITHHOLDING TAXES.

a) General.

To the extent required by applicable law, the recipient of any payment or distribution under the Plan shall make arrangements satisfactory to the Corporation for the satisfaction of any withholding tax obligations that arise by reason of such payment or distribution. The Corporation shall not be required to make such payment or distribution until such obligations are satisfied.

b) Other Awards.

The Administrator may permit a Participant who exercises Nonqualified Stock Options or who vests in Restricted Stock Awards to satisfy all or part of his or her withholding tax obligations by having the Corporation withhold a portion

of the Shares that otherwise would be issued to him or her under such Nonqualified Stock Options or Restricted Stock Awards. Such Shares shall be valued at the Fair Market Value on the date when taxes otherwise would be withheld in cash. The payment of withholding taxes by surrendering Shares to the Corporation, if permitted by the Administrator, shall be subject to such restrictions as the Administrator may impose, including any restrictions required by rules of the Securities and Exchange Commission.

25. EXECUTION.

To record the adoption of the Plan effective December 2, 2004, the Corporation has caused its authorized officer to execute the same.

POTLATCH CORPORATION

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E-16

Table of Contents

Table of Contents

Table of Contents

Table of Contents

Table of Contents

