WEYERHAEUSER CO
Form 10-Q
October 28, 2016

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016
or
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM TO
COMMISSION FILE NUMBER: 1-4825

WEYERHAEUSER COMPANY

Washington (State or other jurisdiction of incorporation or organization)	91-0470860 (I.R.S. Employer Identification Number)
220 Occidental Avenue South Seattle, Washington	98104-7800
(Address of principal executive offices)	(Zip Code)

(206) 539-3000
(Registrant’s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). x Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). o Yes x No

As of October 21, 2016, 748,058,329 shares of the registrant’s common stock ($1.25 par value) were outstanding.

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FINANCIAL INFORMATION

WEYERHAEUSER COMPANY
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

	QUARTER ENDED		YEAR-TO-DATE ENDED	
DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER-SHARE FIGURES	SEPTEMBER 2016	SEPTEMBER 2015	SEPTEMBER 2016	SEPTEMBER 2015
Net sales	$1,709	$ 1,355	$4,769	$ 3,980
Costs of products sold	1,314	1,073	3,661	3,123
Gross margin	395	282	1,108	857
Selling expenses	22	24	67	73
General and administrative expenses	78	55	248	184
Research and development expenses	5	4	14	12
Charges for integration and restructuring, closures and asset impairments (Note 15)	16	2	141	16
Other operating costs (income), net (Note 16)	—	31	(47)	56
Operating income	274	166	685	516
Equity earnings from joint ventures (Note 7)	9	—	21	—
Interest income and other	15	9	34	27
Interest expense, net of capitalized interest	(114)	(87)	(323)	(254)
Earnings from continuing operations before income taxes	184	88	417	289
Income taxes (Note 17)	(22)	44	(64)	36
Earnings from continuing operations	162	132	353	325
Earnings from discontinued operations, net of income taxes (Note 3)	65	59	123	111
Net earnings	227	191	476	436
Dividends on preference shares (Note 5)	—	(11)	(22)	(33)
Net earnings attributable to Weyerhaeuser common shareholders	$227	$ 180	$454	$ 403
Earnings per share attributable to Weyerhaeuser common shareholders, basic (Note 5):				
Continuing operations	$0.22	$ 0.24	$0.47	$ 0.56
Discontinued operations	0.08	0.11	0.17	0.22
Net earnings per share	$0.30	$ 0.35	$0.64	$ 0.78
Earnings per share attributable to Weyerhaeuser common shareholders, diluted (Note 5):				
Continuing operations	$0.21	$ 0.23	$0.46	$ 0.56
Discontinued operations	0.09	0.12	0.18	0.21
Net earnings per share	$0.30	$ 0.35	$0.64	$ 0.77
Dividends paid per share	$0.31	$ 0.31	$0.93	$ 0.89
Weighted average shares outstanding (in thousands) (Note 5):				
Basic	749,587	514,301	708,395	518,121
Diluted	754,044	517,088	712,205	521,455

See accompanying Notes to Consolidated Financial Statements.

WEYERHAEUSER COMPANY
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 2016	SEPTEMBER 2015	SEPTEMBER 2016	SEPTEMBER 2015
Net earnings	$ 227	$ 191	$ 476	$ 436
Other comprehensive income (loss):				
Foreign currency translation adjustments	(5)	(43)	34	(78)
Actuarial gains, net of tax expense of $15, $25, $40 and $75	29	55	70	161
Prior service costs, net of tax benefits of $0, $1, $0, and $0	(1)	(1)	(3)	(3)
Unrealized gains on available-for-sale securities	—	(1)	1	—
Total other comprehensive income	23	10	102	80
Comprehensive income attributable to Weyerhaeuser common shareholders	$ 250	$ 201	$ 578	$ 516

See accompanying Notes to Consolidated Financial Statements.

WEYERHAEUSER COMPANY
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

DOLLAR AMOUNTS IN MILLIONS	SEPTEMBER 30, 2016	DECEMBER 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 769	$ 1,011
Receivables, less allowances of $2 and $1	412	276
Receivables for taxes	5	30
Inventories (Note 6)	368	325
Prepaid expenses and other current assets	150	63
Assets of discontinued operations (Note 3)	1,652	1,934
Total current assets	3,356	3,639
Property and equipment, less accumulated depreciation of $3,364 and $3,287	1,476	1,233
Construction in progress	202	144
Timber and timberlands at cost, less depletion charged to disposals	14,424	6,479
Minerals and mineral rights, net	321	14
Investments in and advances to joint ventures (Note 7)	73	—
Goodwill	40	40
Deferred tax assets	122	254
Other assets	317	302
Restricted financial investments held by variable interest entities	615	615
Total assets	$ 20,946	$ 12,720
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt (Note 10)	$ 1,981	$ —
Notes payable	1	4
Accounts payable	234	204
Accrued liabilities (Note 9)	533	427
Liabilities of discontinued operations (Note 3)	578	690
Total current liabilities	3,327	1,325
Long-term debt (Note 10)	6,329	4,787
Long-term debt (nonrecourse to the company) held by variable interest entities	511	511
Deferred pension and other postretirement benefits	875	987
Deposit from contribution of timberlands to related party (Note 7)	429	—
Other liabilities	285	241
Total liabilities	11,756	7,851
Commitments and contingencies (Note 12)		
Equity:		
Mandatory convertible preference shares, series A: $1.00 par value; $50.00 liquidation; authorized 40,000,000 shares; issued and outstanding: 0 and 13,799,711 shares	—	14
Common shares: $1.25 par value; authorized 1,360,000,000 shares; issued and outstanding: 747,932,527 and 510,483,285 shares	935	638
Other capital	8,264	4,080
Retained earnings	1,101	1,349
Cumulative other comprehensive loss (Note 13)	(1,110)	(1,212)

Total equity	9,190	4,869
Total liabilities and equity	$ 20,946	$ 12,720

See accompanying Notes to Consolidated Financial Statements.

WEYERHAEUSER COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

DOLLAR AMOUNTS IN MILLIONS	YEAR-TO-DATE ENDED SEPTEMBER 2016	SEPTEMBER 2015
Cash flows from operations:		
Net earnings	$ 476	$ 436
Noncash charges (credits) to earnings:		
Depreciation, depletion and amortization	428	359
Basis of real estate sold	49	13
Deferred income taxes, net	96	10
Pension and other postretirement benefits (Note 8)	5	32
Share-based compensation expense	53	22
Charges for impairment of assets	23	14
Equity (earnings) loss from joint ventures (Note 7)	(18)	18
Net gains on dispositions of assets and operations	(121)	(30)
Foreign exchange transaction (gains) losses (Note 16)	(11)	41
Change in:		
Receivables less allowances	(96)	(41)
Receivable for taxes	37	11
Inventories	49	(9)
Prepaid expenses	(3)	(2)
Accounts payable and accrued liabilities	61	(47)
Pension and postretirement contributions (Note 8)	(83)	(59)
Distributions received from joint ventures	5	—
Other	(64)	(32)
Net cash from operations	886	736
Cash flows from investing activities:		
Capital expenditures for property and equipment	(260)	(276)
Capital expenditures for timberlands reforestation	(43)	(33)
Acquisition of timberlands	(10)	(34)
Proceeds from sale of assets and operations	379	7
Proceeds from contribution of timberlands to related party (Note 7)	440	—
Distributions received from joint ventures	34	—
Cash and cash equivalents acquired in Plum Creek merger (Note 4)	9	—
Other	42	12
Cash from (used in) investing activities	591	(324)
Cash flows from financing activities:		
Cash dividends on common shares	(700)	(460)
Cash dividends on preference shares	(22)	(22)
Proceeds from issuance of long-term debt	1,698	—
Payments of debt	(723)	—
Repurchase of common stock (Note 5)	(2,003)	(484)
Other	40	22
Cash used in financing activities	(1,710)	(944)
Net change in cash and cash equivalents	(233)	(532)

Cash and cash equivalents from continuing operations at beginning of period	1,011	1,577
Cash and cash equivalents from discontinued operations at beginning of period	1	3
Cash and cash equivalents at beginning of period	1,012	1,580
Cash and cash equivalents from continuing operations at end of period	769	1,046
Cash and cash equivalents from discontinued operations at end of period	10	2
Cash and cash equivalents at end of period	$ 779	$ 1,048
Cash paid (received) during the period for:		
Interest, net of amount capitalized of $5 and $4	$ 367	$ 290
Income taxes	$ (26)	$ 4

See accompanying Notes to Consolidated Financial Statements.

INDEX FOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE QUARTERS AND YEAR-TO-DATE ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 1: BASIS OF PRESENTATION

We are a corporation that has elected to be taxed as a real estate investment trust (REIT). We expect to derive most of our REIT income from investments in timberlands, including the sale of standing timber. As a REIT, we generally are not subject to federal corporate level income taxes on REIT taxable income that is distributed to shareholders. We are required to pay corporate income taxes on earnings of our Taxable REIT Subsidiary (TRS), which includes our manufacturing businesses and the portion of our Timberlands and Real Estate and Energy & Natural Resources (Real Estate & ENR) segments' income included in the TRS.

Our consolidated financial statements provide an overall view of our results and financial condition. They include our accounts and the accounts of entities we control, including:

- majority-owned domestic and foreign subsidiaries,
- the results of Plum Creek Timber Company, Inc. (Plum Creek), for the period from February 19, 2016 (the merger date), to September 30, 2016 (see Note 4: Merger with Plum Creek), and
- variable interest entities in which we are the primary beneficiary.

They do not include our intercompany transactions and accounts, which are eliminated.

We account for investments in and advances to unconsolidated equity affiliates using the equity method, with taxes provided on undistributed earnings. This means that we record earnings and accrue taxes in the period earnings are recognized by our unconsolidated equity affiliates.

Throughout these Notes to Consolidated Financial Statements, unless specified otherwise, references to “Weyerhaeuser,” “we,” “the company” and “our” refer to the consolidated company.

The accompanying unaudited Consolidated Financial Statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of our financial position, results of operations and cash flows for the interim periods presented. Except as otherwise disclosed in these Notes to Consolidated Financial Statements, such adjustments are of a normal, recurring nature. The Consolidated Financial Statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission pertaining to interim financial statements; certain disclosures normally provided in accordance with accounting principles generally accepted in the United States have been omitted. These Consolidated Financial Statements should be read in conjunction with the Consolidated Financial Statements and Management’s Discussion and Analysis of Financial Condition and Results of Operations included in our Annual Report on Form 10-K for the year ended December 31, 2015. Results of operations for interim periods should not be regarded as necessarily indicative of the results that may be expected for the full year.

RECLASSIFICATIONS

We have reclassified certain balances and results from the prior year to be consistent with our 2016 reporting. This makes year-to-year comparisons easier. Our reclassifications had no effect on consolidated net earnings or equity.

Our reclassifications present 1) our adoption of new accounting pronouncements and 2) the results of discontinued operations separately from results of continuing operations on our Consolidated Statement of Operations, Consolidated Balance Sheet and in the related footnotes. Note 3: Discontinued Operations provides information about our discontinued operations.

As a result of the merger, we have revised our business segments. Results for fiscal periods prior to 2016 have been revised to conform to the new segments and to exclude discontinued operations. Note 2: Business Segments provides information about our revised business segments.

NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, a comprehensive new revenue recognition model that requires an entity to recognize revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In August 2015, FASB issued ASU 2015-14, which deferred the effective date for an additional year. In March 2016, FASB issued ASU 2016-08, which does not change the core principle of the guidance; however, it does clarify the implementation guidance on principal versus agent considerations. In April 2016, FASB issued ASU 2016-10, which clarifies two aspects of ASU 2014-09: identifying performance obligations and the licensing implementation guidance. In May 2016, FASB issued ASU 2016-12, which amends ASU 2014-09 to provide improvements and practical expedients to the new revenue recognition model. We plan to adopt these accounting standard updates on January 1, 2018, and have not yet determined whether we will use the retrospective or cumulative effect transition method. We anticipate that this standard will increase the volume of disclosures about our revenue transactions, but will not materially impact our consolidated financial statements.

In April 2015, FASB issued ASU 2015-03, which amends the presentation of debt issuance costs on the consolidated balance sheet. Under the new guidance, debt issuance costs are presented as a direct deduction from the carrying amount of the debt liability rather than as an asset. The new guidance is effective retrospectively for fiscal periods beginning after December 15, 2015. We adopted on January 1, 2016, and have reclassified balances of debt issuance costs accordingly in our consolidated balance sheet and in related disclosures for all periods presented.

In May 2015, FASB issued ASU 2015-07, which clarifies the presentation within the fair value hierarchy of certain investments held within our pension plan. The new guidance is effective retrospectively for fiscal periods starting after December 15, 2015. This new guidance removes the requirement to categorize within the fair value hierarchy investments for which fair value is measured using the net asset value per share as a practical expedient and, instead, permits separate disclosure. Upon adoption these investments are presented separately from the fair value hierarchy and reconciled to total investments in our consolidated financial statements and related disclosures. We adopted on January 1, 2016.

In July 2015, FASB issued ASU 2015-11, which simplifies the measurement of inventories valued under most methods, including our inventories valued under FIFO – the first-in, first-out – and moving average cost methods. Inventories valued under LIFO – the last-in, first-out method – are excluded. Under this new guidance, inventories valued under these methods would be valued at the lower of cost or net realizable value, with net realizable value defined as the estimated selling price less reasonable costs to sell the inventory. The new guidance is effective prospectively for fiscal periods starting after December 15, 2016, and early adoption is permitted. We expect to adopt on January 1, 2017, and do not expect adoption to materially impact our consolidated financial statements and related disclosures.

In September 2015, FASB issued ASU 2015-16, which results in the ability to recognize, in current period earnings, any changes in provisional amounts during the measurement period after the closing of an acquisition, instead of restating prior periods for these changes. We adopted on January 1, 2016. Measurement period adjustments related to our merger with Plum Creek did not have a material impact to earnings or cash flows for the quarter and year-to-date period ended September 30, 2016.

In February 2016, FASB issued ASU 2016-02, which requires lessees to recognize assets and liabilities for the rights and obligations created by those leases and requires both capital and operating leases to be recognized on the balance sheet. The new guidance is effective for fiscal years beginning after December 15, 2018, and early adoption is permitted. We expect to adopt on January 1, 2019, and are evaluating the impact on our consolidated financial statements and related disclosures.

In March 2016, FASB issued ASU 2016-09, which simplifies several aspects of accounting for share-based payment transactions, including income tax consequences, award classification, cash flows reporting, and forfeiture rate application. Specifically, the update requires all excess tax benefits and tax deficiencies to be recognized as income tax expense or benefit in the income statement with a cumulative-effect adjustment to equity as of the beginning of the period of adoption. The update allows excess tax benefits to be classified along with other income tax cash flows as an operating activity on the statement of cash flows. When accruing compensation cost, an entity can make an entity-wide accounting policy election to either estimate the number of awards expected to vest or to account for forfeitures as they occur with a cumulative-effect adjustment to equity as of the beginning of the period of adoption. The update requires cash paid by an employer when directly withholding shares for tax-withholding purposes to be classified as a financing activity on the statement of cash flows, applied retrospectively. This guidance is effective for fiscal years beginning after December 15, 2016. As permitted, we elected to adopt early, and applied the different aspects as prescribed by the standard effective January 1, 2016. The adoption of this guidance represents a change in accounting policy and did not have a material impact on our consolidated financial statements. Shares withheld by the employer for tax-withholding purposes for the nine months ended September 30, 2015, of $11 million were retrospectively reclassified from an operating activity to a financing activity in the Consolidated Statement of Cash Flows.

In August 2016, FASB issued ASU 2016-15, which reduces diversity in practice in how certain transactions are classified in the statement of cash flows. These transactions include: debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investments, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The new guidance is effective for fiscal years beginning after December 15, 2017, and early adoption is permitted. We have adopted this update effective July 1, 2016, and our adoption did not materially impact our Consolidated Statement of Cash Flows.

In October 2016, FASB issued ASU 2016-16, which requires immediate recognition of the income tax consequences upon intra-entity transfers of assets other than inventory. The new guidance is effective for annual periods beginning after December 15, 2017, and early adoption is permitted. We expect to adopt this accounting standard update on January 1, 2017, and do not expect adoption to materially impact our consolidated financial statements and related disclosures.

NOTE 2: BUSINESS SEGMENTS

Reportable business segments are determined based on the company's management approach. The management approach, as defined by FASB ASC 280, "Segment Reporting," is based on the way the chief operating decision maker organizes the segments within a company for making decisions about resources to be allocated and assessing their performance.

During fiscal year 2016, the company's chief operating decision maker changed the information regularly reviewed for making decisions to allocate resources and assess performance. As a result, the company will report its financial performance based on three business segments: Timberlands, Real Estate & ENR, and Wood Products. Prior to revising our segment structure, activities related to the Real Estate & ENR business segment were reported as part of the Timberlands business segment.

Amounts for all periods presented have been reclassified throughout the consolidated financial statements and disclosures to conform to the new segment structure.

We are principally engaged in growing and harvesting timber, manufacturing, distributing, and selling products made from trees, as well as maximizing the value of every acre we own through the sale of higher and better use (HBU) properties and monetizing reserves of minerals, oil, gas, coal, and other natural resources on our timberlands. The following is a brief description of each of our reportable business segments and activities:

- Timberlands – which includes logs, timber, and our Uruguay operations;
- Real Estate & ENR – which includes sales of HBU and non-core timberlands, minerals, oil, gas, coal and other natural resources, and equity interests in our Real Estate Development Ventures (as defined and described in Note 7: Related

Parties); and

- Wood Products – which includes softwood lumber, engineered wood products, oriented strand board, plywood, medium density fiberboard and building materials distribution.

Discontinued operations as presented herein consist of the operations of our former Cellulose Fibers segment, and relate to assets and liabilities that have been reclassified as discontinued operations on our balance sheet as of September 30, 2016. All periods presented have been revised to separate the results of discontinued operations from the results of our continuing operations. Refer to Note 3: Discontinued Operations for more information regarding our discontinued operations.

On October 12, 2016, we announced the exploration of strategic alternatives for our timberlands and manufacturing operations in Uruguay. We intend to consider a broad range of alternatives, including continuing to hold and operate the business, or a sale.

An analysis and reconciliation of our business segment information to the respective information in the Consolidated Statements of Operations is as follows:

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED SEPTEMBER 2016	QUARTER ENDED SEPTEMBER 2015	YEAR-TO-DATE ENDED SEPTEMBER 2016	YEAR-TO-DATE ENDED SEPTEMBER 2015
Sales to unaffiliated customers:				
Timberlands	$ 484	$ 310	$ 1,342	$ 961
Real Estate & ENR	48	22	125	69
Wood Products	1,177	1,023	3,302	2,950
	1,709	1,355	4,769	3,980
Intersegment sales:				
Timberlands	216	210	631	625
Wood Products	17	20	61	61
	233	230	692	686
Total sales	1,942	1,585	5,461	4,666
Intersegment eliminations	(233)	(230)	(692)	(686)
Total	$ 1,709	$ 1,355	$ 4,769	$ 3,980
Net contribution to earnings:				