WEYERHAEUSER CO
Form 10-Q
August 09, 2007
Table of Contents

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 JULY 1, 2007

or

¨ **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)**
33663 Weyerhaeuser Way South **Federal Way, Washington** **(Address of principal executive offices)**	**98063-9777** **(Zip Code)**

(253) 924-2345

(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. Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Large accelerated filer x Accelerated filer ¨ Non-accelerated filer ¨

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

As of August 03, 2007, 215,857,855 shares of the registrant s common stock ($1.25 par value) were outstanding.

Table of Contents

TABLE OF CONTENTS

PART I	**FINANCIAL INFORMATION**	1
ITEM 1.	FINANCIAL STATEMENTS:	
	CONSOLIDATED STATEMENT OF EARNINGS	1
	CONSOLIDATED BALANCE SHEET	2
	CONSOLIDATED STATEMENT OF CASH FLOWS	4
	INDEX FOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	5
	NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	6
ITEM 2.	MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS	17
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	31
ITEM 4.	CONTROLS AND PROCEDURES	31
PART II	**OTHER INFORMATION**	
ITEM 1.	LEGAL PROCEEDINGS	31
ITEM 1A.	RISK FACTORS	31
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	32
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	32
ITEM 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	32
ITEM 5.	OTHER INFORMATION	32
ITEM 6.	EXHIBITS	33

The financial information included in this report has been prepared in conformity with accounting practices and methods reflected in the financial statements included in the annual report (Form 10-K) filed with the Securities and Exchange Commission for the year ended December 31, 2006. Though not audited by an independent registered public accounting firm, the financial information reflects, in the opinion of management, all adjustments necessary to present a fair statement of results for the interim periods indicated. The results of operations for the thirteen and twenty-six week periods ended July 1, 2007, should not be regarded as necessarily indicative of the results that may be expected for the full year.

Signature

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

WEYERHAEUSER COMPANY
Date: August 9, 2007

By: /s/ Jeanne M. Hillman
Jeanne M. Hillman
Vice President and Principal Accounting Officer

Table of Contents

PART I. FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF EARNINGS

FOR THE THIRTEEN AND TWENTY-SIX WEEK PERIODS ENDED JULY 1, 2007 AND JUNE 25, 2006

(DOLLAR AMOUNTS IN MILLIONS EXCEPT PER-SHARE FIGURES)

(UNAUDITED)

	THIRTEEN WEEKS ENDED		TWENTY-SIX WEEKS ENDED	
	JULY 1, 2007	JUNE 25, 2006 (REVISED SEE NOTE 2)	JULY 1, 2007	JUNE 25, 2006 (REVISED SEE NOTE 2)
Net sales and revenues:				
Weyerhaeuser	$ 3,775	$ 4,121	$ 7,179	$ 7,882
Real Estate and Related Assets	559	746	1,046	1,436
Total net sales and revenues	4,334	4,867	8,225	9,318
Costs and expenses:				
Weyerhaeuser:				
Costs of products sold	3,085	3,190	5,870	6,137
Depreciation, depletion and amortization	223	231	455	464
Selling expenses	109	117	218	217
General and administrative expenses	199	205	399	440
Research and development expenses	18	15	34	31
Charges for restructuring	2	18	5	17
Charges for closure of facilities (Note 12)	19	5	24	7
Impairment of goodwill (Note 6)			22	
Other operating costs (income), net (Note 13)	5	(26)	26	5
	3,660	3,755	7,053	7,318
Real Estate and Related Assets:				
Costs and operating expenses	415	553	794	1,035
Depreciation and amortization	5	4	11	7
Selling expenses	45	43	86	80
General and administrative expenses	27	35	55	65
Charge for impairment of long-lived assets	12	3	12	3
Other operating costs, net	4	3		
	508	641	958	1,190
Total costs and expenses	4,168	4,396	8,011	8,508
Operating income	166	471	214	810
Interest expense and other:				
Weyerhaeuser:				
Interest expense incurred (Note 7)	(179)	(129)	(310)	(257)
Less: interest capitalized	29	20	59	36
Interest income and other	25	15	45	34
Equity in income of affiliates	1	6		9

Real Estate and Related Assets:				
Interest expense incurred	(16)	(14)	(28)	(28)
Less: interest capitalized	16	14	28	28
Interest income and other	1	3	4	13
Equity in income of unconsolidated entities	12	15	30	36
Earnings from continuing operations before income taxes	55	401	42	681
Income taxes	(18)	(92)	(21)	(192)
Earnings from continuing operations	37	309	21	489
Discontinued operations, net of income taxes (Note 3)	(5)	(11)	766	(767)
Net earnings (loss)	$ 32	$ 298	$ 787	$ (278)
Basic earnings (loss) per share (Note 4):				
Continuing operations	$ 0.17	$ 1.24	$ 0.09	$ 1.98
Discontinued operations	(0.02)	(0.04)	3.40	(3.11)
Net earnings (loss)	$ 0.15	$ 1.20	$ 3.49	$ (1.13)
Diluted earnings (loss) per share (Note 4):				
Continuing operations	$ 0.17	$ 1.23	$ 0.09	$ 1.97
Discontinued operations	(0.02)	(0.04)	3.38	(3.09)
Net earnings (loss)	$ 0.15	$ 1.19	$ 3.47	$ (1.12)
Dividends paid per share	$ 0.60	$ 0.50	$ 1.20	$ 1.00

See accompanying Notes to Consolidated Financial Statements.

1

Table of Contents

CONSOLIDATED BALANCE SHEET

(DOLLAR AMOUNTS IN MILLIONS)

(UNAUDITED)

	JULY 1, 2007	DECEMBER 31, 2006
ASSETS		
Weyerhaeuser:		
Current assets:		
Cash and cash equivalents	$ 208	$ 223
Receivables, less allowances of $13 and $15	1,508	1,183
Inventories (Note 5)	1,308	1,355
Prepaid expenses	378	385
Assets held for sale (Note 3)		105
Current assets of discontinued operations (Note 3)		870
Total current assets	3,402	4,121
Property and equipment, less accumulated depreciation of $9,325 and $8,901	6,775	7,061
Construction in progress	544	395
Timber and timberlands at cost, less depletion charged to disposals	3,721	3,681
Investments in and advances to equity affiliates	510	499
Goodwill (Note 6)	2,181	2,185
Deferred pension and other assets	1,470	1,368
Restricted assets held by special purpose entities	916	917
Noncurrent assets of discontinued operations (Note 3)		3,011
	19,519	23,238
Real Estate and Related Assets:		
Cash and cash equivalents	7	20
Receivables, less discounts and allowances of $5 and $4	75	144
Real estate in process of development and for sale	1,561	1,449
Land being processed for development	1,476	1,365
Investments in unconsolidated entities, less allowances of $13 and $11	83	72
Other assets	383	423
Consolidated assets not owned	287	151
	3,872	3,624
Total assets	$ 23,391	$ 26,862

See accompanying Notes to Consolidated Financial Statements.

2

Table of Contents

CONSOLIDATED BALANCE SHEET

(CONTINUED)

	JULY 1, 2007	DECEMBER 31, 2006
LIABILITIES AND SHAREHOLDERS INTEREST		
Weyerhaeuser		
Current liabilities:		
Notes payable and commercial paper	$ 92	$ 72
Current maturities of long-term debt (Note 7)	63	488
Accounts payable	1,010	948
Accrued liabilities	1,145	1,363
Current liabilities of discontinued operations (Note 3)		258
Total current liabilities	2,310	3,129
Long-term debt (Note 7)	5,980	7,069
Deferred income taxes	2,906	3,011
Deferred pension, other postretirement benefits and other liabilities	1,775	1,759
Liabilities (nonrecourse to Weyerhaeuser) held by special purpose entities	765	765
Noncurrent liabilities of discontinued operations (Note 3)		717
Commitments and contingencies (Note 11)		
	13,736	16,450
Real Estate and Related Assets		
Notes payable and commercial paper	412	
Long-term debt	605	606
Other liabilities	539	606
Consolidated liabilities not owned	246	115
Commitments and contingencies (Note 11)		
	1,802	1,327
Total liabilities	15,538	17,777
Shareholders interest:		
Common shares: $1.25 par value; authorized 400,000,000 shares; issued and outstanding: 216,043,436 and 236,020,282 shares	270	295
Exchangeable shares: no par value; unlimited shares authorized; issued and held by nonaffiliates: 1,715,745 and 1,987,770 shares	117	135
Other capital	1,981	3,812
Retained earnings	5,269	4,755
Cumulative other comprehensive income (Note 10)	216	88
Total shareholders interest	7,853	9,085
Total liabilities and shareholders interest	$ 23,391	$ 26,862

See accompanying Notes to Consolidated Financial Statements.

3

Table of Contents

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE TWENTY-SIX WEEK PERIODS ENDED JULY 1, 2007 AND JUNE 25, 2006

(DOLLAR AMOUNTS IN MILLIONS)

(UNAUDITED)

	CONSOLIDATED		WEYERHAEUSER		REAL ESTATE AND RELATED ASSETS	
	JULY 1, 2007	JUNE 25, 2006	JULY 1, 2007	JUNE 25, 2006	JULY 1, 2007	JUNE 25, 2006
Cash flows from operations:						
Net earnings (loss)	$ 787	$ (278)	$ 710	$ (466)	$ 77	$ 188
Noncash charges (credits) to income:						
Depreciation, depletion and amortization	517	628	506	621	11	7
Deferred income taxes, net	(106)	(99)	(115)	(93)	9	(6)
Pension and other postretirement benefits (Note 8)	57	65	54	63	3	2
Share-based compensation expense	32	17	29	15	3	2
Reclass of excess tax benefits from share-based payment arrangements to financing	(48)	(20)	(45)	(17)	(3)	(3)
Equity in (income) loss of affiliates and unconsolidated entities	(30)	(45)		(9)	(30)	(36)
Charge for impairment of goodwill (Notes 3 and 6)	22	749	22	749		
Charge for impairment of long-lived assets (Notes 12 and 13)	68	18	56	15	12	3
Loss on early extinguishment of debt (Note 7)	42		42			
Gain on disposition of assets (Note 13)	(32)		(32)			
Gain on sale of operations (Note 3)	(678)		(678)			
Foreign exchange transaction (gains) losses (Note 13)	(36)	5	(36)	5		
Decrease (increase) in working capital, net of divestiture and acquisitions:						
Receivables	(202)	(310)	(271)	(211)	69	(99)
Inventories, real estate and land	(42)	(334)	125	(9)	(167)	(325)
Prepaid expenses	(1)	(24)		(19)	(1)	(5)
Accounts payable and accrued liabilities	(264)	(103)	(211)	(271)	(53)	168
Deposits on land positions	(19)	(80)			(19)	(80)
Intercompany advances			308	(387)	(308)	387
Other	(86)	(25)	(72)	(17)	(14)	(8)
Net cash from operations	(19)	164	392	(31)	(411)	195
Cash flows from investing activities:						
Property and equipment	(265)	(381)	(254)	(366)	(11)	(15)
Timberlands reforestation	(24)	(21)	(24)	(21)		
Acquisition of timberlands	(70)	(31)	(70)	(31)		
Acquisition of businesses and facilities, net of cash acquired	(39)	(213)			(39)	(213)

Investments in, advances to and returns of equity affiliates, net	20	13	3	1	17	12
Proceeds from sale of property, equipment and other assets	49	12	49	12		
Proceeds from Domtar Transaction (Note 3)	1,350		1,350			
Other		4		4		
Cash from investing activities	1,021	(617)	1,054	(401)	(33)	(216)
Cash flows from financing activities:						
Notes, commercial paper borrowings and revolving credit facilities, net	461	76	32	(49)	429	125
Cash dividends	(274)	(246)	(274)	(246)		
Payments on debt (Note 7)	(1,557)	(525)	(1,556)	(168)	(1)	(357)
Exercises of stock options	316	171	316	171		
Repurchase of common stock	(22)		(22)			
Excess tax benefits from share-based payment arrangements	48	20	45	17	3	3
Other	(2)	2	(2)	2		
Cash from financing activities	(1,030)	(502)	(1,461)	(273)	431	(229)
Net change in cash and cash equivalents	(28)	(955)	(15)	(705)	(13)	(250)
Cash and cash equivalents at beginning of period	243	1,104	223	818	20	286
Cash and cash equivalents at end of period	$ 215	$ 149	$ 208	$ 113	$ 7	$ 36
Cash paid (received) during the year for:						
Interest, net of amount capitalized	$ 259	$ 272	$ 259	$ 272	$	$
Income taxes	$ 96	$ 269	$ (214)	$ 269	$ 310	$

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

INDEX FOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:	**BASIS OF PRESENTATION**	6
NOTE 2:	**ACCOUNTING CHANGES**	6
NOTE 3:	**DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE**	7
NOTE 4:	**NET EARNINGS (LOSS) PER SHARE**	9
NOTE 5:	**INVENTORIES**	10
NOTE 6:	**GOODWILL**	10
NOTE 7:	**DEBT**	10
NOTE 8:	**PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS**	11
NOTE 9:	**UNCERTAIN TAX POSITIONS**	11
NOTE 10:	**COMPREHENSIVE INCOME (LOSS)**	12
NOTE 11:	**LEGAL PROCEEDINGS, COMMITMENTS AND CONTINGENCIES**	12
NOTE 12:	**CHARGES FOR CLOSURE OF FACILITIES**	14
NOTE 13:	**OTHER OPERATING COSTS (INCOME), NET**	15
NOTE 14:	**BUSINESS SEGMENTS**	15

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THIRTEEN AND TWENTY-SIX WEEK PERIODS ENDED JULY 1, 2007 AND JUNE 25, 2006

NOTE 1: BASIS OF PRESENTATION

The consolidated financial statements include the accounts of Weyerhaeuser Company and all of its majority-owned domestic and foreign subsidiaries and variable interest entities of which Weyerhaeuser Company or its subsidiaries are determined to be the primary beneficiary. Intercompany transactions and accounts are eliminated. Investments in and advances to unconsolidated equity affiliates over which the company has significant influence are accounted for using the equity method with taxes provided on undistributed earnings.

Certain of the Consolidated Financial Statements and Notes to Consolidated Financial Statements are presented in two groupings: (1) Weyerhaeuser, principally engaged in the growing and harvesting of timber and the manufacture, distribution and sale of forest products, and (2) Real Estate and Related Assets, principally engaged in real estate development and construction and other real estate related activities. The term company refers to Weyerhaeuser Company, all of its majority-owned domestic and foreign subsidiaries and variable interest entities of which Weyerhaeuser Company or its subsidiaries are determined to be the primary beneficiary. The term Weyerhaeuser refers to the forest products-based operations and excludes the Real Estate and Related Assets operations.

The accompanying unaudited Consolidated Financial Statements reflect all adjustments that are, in the opinion of management, necessary for a fair presentation of the company s financial position, results of operations, and cash flows for the interim periods presented. Except as otherwise disclosed in the 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; as such 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 the company s Annual Report on Form 10-K for the year ended December 31, 2006.

Certain reclassifications of prior period balances have been made for consistent presentation with the current period. Refer to Note 2: Accounting Pronouncements regarding the retrospective application of a change in accounting for planned major maintenance costs. Refer to Note 3: Discontinued Operations and Assets Held for Sale regarding the reclassification of balances related to the fine paper business and related assets and the Canadian distribution facilities.

NOTE 2: ACCOUNTING CHANGES

Accounting Changes Implemented

The company has implemented the following three accounting changes in the first half of 2007. None of these changes had a material effect on the company s financial position, results of operations or cash flows.

Accounting for Income Tax Uncertainties

The company adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109* (Interpretation 48) on January 1, 2007. Interpretation 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise s financial statements in accordance with FASB Statement No. 109, *Accounting for Income Taxes*. Interpretation 48 also prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

The cumulative effects of applying this interpretation have been recorded as an increase of $1 million to beginning retained earnings, a decrease of $23 million to net deferred tax liabilities and an increase of $22 million to current income taxes payable. Refer to Note 9: Uncertain Tax Positions for additional information.

Accounting for Planned Major Maintenance Activities

Effective January 1, 2007, the company transitioned to the expense-as-incurred method of accounting for planned annual maintenance costs in its primary manufacturing mills. Previously, the company used the accrue-in-advance method of accounting for these planned major maintenance activities during interim reporting periods; however, under FASB Staff Position AUG AIR-1, *Accounting for Planned Major Maintenance Activities* (FSP AUG AIR-1), issued in September 2006, this method is no longer allowed. This change was applied retrospectively for all interim periods presented. Accordingly, the company has eliminated the liability recorded from the accrue-in-advance methodology and has recognized the annual maintenance costs in the interim periods in which they were incurred. The company does not expect any adjustment to its annual results of operations as a result of implementation or retrospective application of FSP AUG AIR-1.

The net effect of these adjustments on the consolidated statement of earnings for the thirteen and twenty-six weeks ended June 25,2006, was as follows:

	THIRTEEN WEEKS ENDED JUNE 25, 2006		
DOLLAR AMOUNTS IN MILLIONS EXCEPT PER-SHARE FIGURES	**PRIOR TO ADJUSTMENT**	**ADJUSTMENT**	**AS CURRENTLY REPORTED**
Net earnings	$ 314	$ (16)	$ 298
Earnings per share diluted	$ 1.26	$ (0.07)	$ 1.19

	TWENTY-SIX WEEKS ENDED JUNE 25, 2006	
DOLLAR AMOUNTS IN MILLIONS EXCEPT PER-SHARE FIGURES	**PRIOR TO ADJUSTMENT**	**ADJUSTMENT**