WEYERHAEUSER CO
Form 10-Q
October 31, 2014

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, 2014
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)
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. 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 24, 2014, 524,363,555 shares of the registrant’s common stock ($1.25 par value) were outstanding.

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FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF OPERATIONS (UNAUDITED)

	QUARTER ENDED		YEAR-TO-DATE ENDED	
DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER-SHARE FIGURES	SEPTEMBER 2014	SEPTEMBER 2013	SEPTEMBER 2014	SEPTEMBER 2013
Net sales	$1,915	$ 1,857	$5,615	$ 5,486
Cost of products sold	1,504	1,479	4,364	4,304
Gross margin	411	378	1,251	1,182
Selling expenses	28	32	83	96
General and administrative expenses	73	98	249	299
Research and development expenses	5	8	19	23
Charges for restructuring, closures and impairments (Note 13)	10	1	37	7
Other operating income, net (Note 14)	(23)	(4)	(163)	(32)
Operating income	318	243	1,026	789
Interest income and other	7	21	27	39
Interest expense, net of capitalized interest	(88)	(94)	(254)	(256)
Earnings before income taxes	237	170	799	572
Income taxes (Note 15)	(39)	(24)	(148)	(99)
Earnings from continuing operations	198	146	651	473
Earnings from discontinued operations, net of income taxes (Note 2)	966	21	998	36
Net earnings	1,164	167	1,649	509
Dividends on preference shares	(11)	(10)	(33)	(12)
Net earnings attributable to Weyerhaeuser common shareholders	$1,153	$ 157	$1,616	$ 497
Earnings per share attributable to Weyerhaeuser common shareholders, basic (Note 5):				
Continuing operations	$0.35	$ 0.23	$1.09	$ 0.83
Discontinued operations	1.82	0.04	1.76	0.06
Net earnings per share	$2.17	$ 0.27	$2.85	$ 0.89
Earnings per share attributable to Weyerhaeuser common shareholders, diluted (Note 5):				
Continuing operations	$0.35	$ 0.23	$1.08	$ 0.82
Discontinued operations	1.80	0.04	1.75	0.06
Net earnings per share	$2.15	$ 0.27	$2.83	$ 0.88
Dividends paid per share	$0.29	$ 0.22	$0.73	$ 0.59
Weighted average shares outstanding (in thousands) (Note 5):				
Basic	531,913	582,828	567,436	560,505
Diluted	536,012	587,179	571,503	565,383

See accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 2014	SEPTEMBER 2013	SEPTEMBER 2014	SEPTEMBER 2013
Consolidated net earnings attributable to Weyerhaeuser common shareholders	$1,153	$ 157	$1,616	$ 497
Other comprehensive income (loss):				
Foreign currency translation adjustments	(26)	18	(27)	(29)
Actuarial gains (losses), net of tax expense (benefit) of ($91), $15, ($58) and $64	(143)	31	(76)	135
Prior service costs, net of tax benefit of $13, $0, $43 and $3	(25)	(4)	(68)	(12)
Unrealized gains on available-for-sale securities	—	—	—	1
Total other comprehensive income (loss)	(194)	45	(171)	95
Comprehensive income attributable to Weyerhaeuser common shareholders	$959	$ 202	$1,445	$ 592

See accompanying Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEET
(UNAUDITED)

DOLLAR AMOUNTS IN MILLIONS	SEPTEMBER 30, 2014	DECEMBER 31, 2013
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,620	$ 830
Receivables, less allowances of $3 and $4	583	518
Receivables for taxes	23	101
Inventories (Note 6)	578	542
Prepaid expenses	97	117
Deferred tax assets	111	130
Current assets of discontinued operations (Note 2)	—	88
Total current assets	3,012	2,326
Property and equipment, less accumulated depreciation of $6,408 and $6,327	2,534	2,689
Construction in progress	215	112
Timber and timberlands at cost, less depletion charged to disposals	6,546	6,580
Investments in and advances to equity affiliates	186	190
Goodwill	40	42
Deferred tax assets	—	5
Other assets	292	324
Restricted financial investments held by variable interest entities	615	615
Noncurrent assets of discontinued operations (Note 2)	—	1,694
Total assets	$ 13,440	$ 14,577
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable	$ —	$ 2
Accounts payable	351	343
Accrued liabilities (Note 8)	606	629
Current liabilities of discontinued operations (Note 2)	—	154
Total current liabilities	957	1,128
Long-term debt (Note 9)	4,891	4,891
Long-term debt (nonrecourse to the company) held by variable interest entities	511	511
Deferred income taxes	338	285
Deferred pension and other postretirement benefits	569	516
Other liabilities	318	382
Noncurrent liabilities of discontinued operations (Note 2)	—	32
Commitments and contingencies (Note 10)		
Total liabilities	7,584	7,745
Equity:		
Weyerhaeuser shareholders' interest:		
Mandatory convertible preference shares, series A: $1.00 par value; $50.00 liquidation; authorized 40,000,000 shares; issued and outstanding: 13,800,000 shares	14	14
Common shares: $1.25 par value; authorized 1,360,000,000 shares; issued and outstanding: 525,484,841 and 583,548,428 shares	657	729
Other capital	4,548	6,444
Retained earnings	1,494	294
Cumulative other comprehensive loss (Note 11)	(857)	(686)
Total Weyerhaeuser shareholders' interest	5,856	6,795

Noncontrolling interests	—	3
Noncontrolling interests in discontinued operations (Note 2)	—	34
Total equity	5,856	6,832
Total liabilities and equity	$ 13,440	$ 14,577

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS(UNAUDITED)

DOLLAR AMOUNTS IN MILLIONS	YEAR-TO-DATE ENDED SEPTEMBER 2014	SEPTEMBER 2013
Cash flows from operations:		
Net earnings	$1,649	$509
Noncash charges (credits) to earnings:		
Depreciation, depletion and amortization	375	343
Deferred income taxes, net	170	73
Pension and other postretirement benefits (Note 7)	(104)	79
Share-based compensation expense	29	34
Charges for impairment of assets	1	5
Net gains on dispositions of assets and operations[1] (Note 2)	(1,048)	(42)
Foreign exchange transaction losses (Note 14)	15	6
Change in:		
Receivables less allowances	(28)	(112)
Receivable for taxes	77	64
Inventories	(46)	—
Real estate and land	(133)	(179)
Prepaid expenses	6	(16)
Accounts payable and accrued liabilities	(76)	45
Deposits on land positions and other assets	15	(11)
Pension and postretirement contributions / benefit payments	(85)	(104)
Other	(33)	(38)
Net cash from operations	784	656
Cash flows from investing activities:		
Property and equipment	(239)	(151)
Timberlands reforestation	(32)	(28)
Acquisition of Longview Timber LLC, net of cash acquired (Note 3)	—	(1,581)
Net proceeds from Real Estate Divestiture, net of cash divested (Note 2)	707	—
Proceeds from sale of assets	24	15
Net proceeds of investments held by special purpose entities	—	22
Other	25	5
Cash from investing activities	485	(1,718)
Cash flows from financing activities:		
Net proceeds from issuance of common shares	—	897
Net proceeds from issuance of preference shares	—	669
Net proceeds from issuance of debt	—	494
Net proceeds from issuance of Weyerhaeuser Real Estate Company (WRECO) debt (Note 2)	887	—
Deposit of WRECO debt proceeds into escrow (Note 2)	(887)	—
Cash dividends on common shares	(411)	(330)
Cash dividends on preference shares	(22)	—
Change in book overdrafts	(17)	8
Payments on debt	—	(340)
Exercises of stock options	84	141
Repurchase of common stock (Note 5)	(123)	—
Other	5	22
Cash from financing activities	(484)	1,561

Net change in cash and cash equivalents	785	499
Cash and cash equivalents at beginning of period	835	898
Cash and cash equivalents at end of period	$1,620	$1,397
Cash paid (received) during the period for:		
Interest, net of amount capitalized of $12 and $15	$253	$275
Income taxes	$(40)	$(4)
Noncash investing and financing activity:		
Acquisition of Longview Timber LLC, debt assumed (Note 3)	$—	$1,070
Common shares tendered in WRECO divestiture (Note 2)	$1,954	$—

(1) Includes gains on timberland exchanges.

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 PERIODS ENDED SEPTEMBER 30, 2014 AND 2013

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 through pay-as-cut sales contracts. REIT income can be distributed to shareholders without first paying corporate level tax, substantially eliminating the double taxation on income. A significant portion of our timberland segment earnings receives this favorable tax treatment. We are, however, subject to corporate taxes on built-in-gains (the excess of fair market value over tax basis at January 1, 2010) on sales of real property (other than standing timber) held by the REIT during the first 10 years following the REIT conversion. We continue to be required to pay federal corporate income taxes on earnings of our Taxable REIT Subsidiary (TRS), which principally includes our manufacturing businesses and the portion of our Timberlands segment 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 and
- variable interest entities in which we are the primary beneficiary.

They do not include our intercompany transactions and accounts, which are eliminated, and noncontrolling interests are presented as a separate component of equity.
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” 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, 2013. 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 2014 reporting. This makes year-to-year comparisons easier. Our reclassifications had no effect on net earnings or Weyerhaeuser shareholders’ interest. Our reclassifications present the results of operations discontinued in 2014 separately on our Consolidated Statement of Operations, Consolidated Balance Sheet and in the related footnotes. Note 2: Discontinued Operations provides information about our discontinued operations.

NEW ACCOUNTING PRONOUNCEMENTS
In July 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2013-11, which provides guidance on the presentation of unrecognized tax benefits, reflecting the manner in which an entity would settle at the reporting date any additional income taxes that would result from the disallowance of a tax position when net operating loss carryforwards, similar tax losses or tax credit carryforwards exist. Our prospective adoption of this guidance in first quarter 2014 did not have a material effect on our results of operations, financial

position or cash flows.

In April 2014, FASB issued ASU 2014-08, an amendment to the current model of the classification and presentation of discontinued operations and asset disposals that changes the definition of a discontinued operation to include only disposals of components of an entity that represent a strategic shift that has (or will have) a material effect on an entity's financial results. The new standard is effective for all disposals or classifications as assets held for sale for fiscal periods starting after December 15, 2014 and early adoption is permitted. We expect to adopt ASU 2014-08 on January 1, 2015 and have determined that its adoption will not have a material impact on our consolidated financial statements and related disclosures at that time.

In May 2014, FASB issued 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. The new standard is effective for us on January 1, 2017 and early adoption is not permitted. We may use either the retrospective or cumulative effect transition method. We are evaluating the impact that ASU 2014-09 will have on our consolidated financial statements and related disclosures. We have not yet selected a transition method nor determined the effect of the standard on our ongoing financial reporting.

NOTE 2: DISCONTINUED OPERATIONS

On July 7, 2014, we completed the following set of transactions resulting in our homebuilding and real estate development business becoming wholly-owned by TRI Pointe Homes, Inc. (TRI Pointe):

- the distribution of shares of WRECO to our shareholders in exchange for 59 million shares of our common stock; and
- the merger of WRECO into a special purpose subsidiary of TRI Pointe, with WRECO surviving the merger and becoming a wholly-owned subsidiary of TRI Pointe.

Collectively, these transactions are referred to as the “Real Estate Divestiture”.

During June 2014, our wholly-owned subsidiary, WRECO, issued $900 million of unsecured and unsubordinated senior debt obligations. The net proceeds after deducting the discount, underwriting fees and issuance costs were $870 million. At the close of the Real Estate Divestiture in July 2014, WRECO used $744 million of the debt proceeds to repay intercompany debt and interest to Weyerhaeuser Company. The newly issued debt, remaining proceeds and other WRECO assets and liabilities, including $5 million cash on hand, were acquired by TRI Pointe when WRECO became a wholly-owned subsidiary of TRI Pointe at the closing of the transaction. Additionally, $32 million related to the adjustment amount payable pursuant to the terms of the transaction agreement was paid to TRI Pointe. Our net cash proceeds in connection with the Real Estate Divestiture totaled $707 million.

Prior to the distribution of WRECO shares to our shareholders, WRECO was a wholly-owned subsidiary. Concurrent with the distribution to shareholders, WRECO ceased being a subsidiary. Discontinued operations relates to WRECO which was previously reported under the Real Estate segment and Unallocated Items.

The following table presents the components of the net gain on divestiture:

DOLLAR AMOUNTS IN MILLIONS		
Proceeds:		
Common shares tendered (58,813,151 shares at $33.22 per share)	$1,954	
Cash	707	
	2,661	
Less:		
Net book value of contributed assets	(1,671	)
Transaction costs, net of reimbursement	(18	)
	(1,689	)
Net gain on divestiture	$972	

The net gain on the Real Estate Divestiture of $972 million is not taxable and was recognized in third quarter 2014 in discontinued operations. The finalization of certain matters may result in additional adjustments in future periods.

The following table summarizes the components of net sales and net earnings from discontinued operations.

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 2014[(1)]	SEPTEMBER 2013	SEPTEMBER 2014	SEPTEMBER 2013
Net sales from discontinued operations	$8	$ 324	$573	$ 787
Income (loss) from operations	$(1)	$ 33	$42	$ 56
Income taxes	(5)	(12)	(16)	(20)
Net earnings (loss) from operations	(6)	21	26	36
Net gain on divestiture	972	—	972	—
Net earnings from discontinued operations	$966	$ 21	$998	$ 36

(1) Discontinued operations in third quarter 2014 covered only seven days.

The following table shows carrying values for assets and liabilities classified as discontinued operations as of December 31, 2013.

DOLLAR AMOUNTS IN MILLIONS	DECEMBER 31, 2013
Assets	
Cash and cash equivalents	$ 5
Receivables, less discounts and allowances	51
Prepaid expenses	11
Deferred tax assets	21
Total current assets	88
Property and equipment, net	15
Real estate in process of development and for sale	851
Land being processed for development	596
Investments in and advances to equity affiliates	21
Deferred tax assets	115
Other assets	96
Total noncurrent assets	1,694
Total assets	$ 1,782
Liabilities	
Accounts payable	$ 41
Accrued liabilities	113
Total current liabilities	154
Long-term debt (nonrecourse to the company) held by variable interest entities	5
Other liabilities	27
Total noncurrent liabilities	32
Total liabilities	$ 186
Noncontrolling interests	$ 34

NOTE 3: LONGVIEW TIMBER PURCHASE

On July 23, 2013, we purchased 100 percent of the equity interests in Longview Timber LLC (Longview Timber) for $1.58 billion cash and assumed debt of $1.07 billion, for an aggregate purchase price of $2.65 billion. Longview Timber was a privately-held Delaware limited liability company engaged in the ownership and management of approximately 645,000 acres of timberlands in Oregon and Washington. We believe Longview Timber has productive lands with favorable age class distribution that have and continue to provide us with optionality for harvest. Earnings, assets and liabilities from this business are reported as part of the Timberlands segment beginning in third quarter 2013.

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Summarized unaudited pro forma information that presents combined amounts as if this acquisition occurred at the beginning of 2013, is as follows:

DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER-SHARE FIGURES	QUARTER ENDED SEPTEMBER 2013	YEAR-TO-DATE ENDED SEPTEMBER 2013
Net sales	$1,867	$ 5,603
Net earnings from continuing operations attributable to Weyerhaeuser common shareholders	$132	$ 478
Earnings from continuing operations per share attributable to Weyerhaeuser common shareholders, basic and diluted	$0.22	$ 0.82

NOTE 4: BUSINESS SEGMENTS

We are principally engaged in growing and harvesting timber and manufacturing, distributing and selling forest products. Our principal business segments are:

- Timberlands – which includes logs, timber, minerals, oil and gas, and international wood products;
- Wood Products – which includes softwood lumber, engineered lumber, structural panels and building materials distribution; and
- Cellulose Fibers – which includes pulp, liquid packaging board and an equity interest in a newsprint joint venture.

We have disposed of various businesses and operations that are excluded from the segment results below. See Note 2: Discontinued Operations for information regarding our discontinued operations.

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

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 2014	SEPTEMBER 2013	SEPTEMBER 2014	SEPTEMBER 2013
Sales to unaffiliated customers:				
Timberlands	$364	$ 353	$1,138	$ 979
Wood Products	1,048	1,030	3,023	3,083
Cellulose Fibers	503	474	1,454	1,424
	1,915	1,857	5,615	5,486
Intersegment sales:				
Timberlands	218	194	642	584
Wood Products	20	19	60	55
	238	213	702	639
Total sales	2,153	2,070	6,317	6,125
Intersegment eliminations	(238)	(213)	(702)	(639)
Total	$1,915	$ 1,857	$5,615	$ 5,486
Net contribution to earnings:				
Timberlands	$136	$ 118	$470	$ 336
Wood Products	105	79	271	393
Cellulose Fibers	59	47	204	135
	300	244	945	864
Unallocated Items[(1)]	25	20	108	(36)
Net contribution to earnings from discontinued operations	972	34	1,017	58
Net contribution to earnings	1,297	298	2,070	886
Interest expense, net of capitalized interest (continuing and discontinued operations)	(89)	(95)	(257)	(258)
Income before income taxes (continuing and discontinued operations)	1,208	203	1,813	628
Income taxes (continuing and discontinued operations)	(44)	(36)	(164)	(119)
Net earnings	1,164	167	1,649	509
Dividends on preference shares	(11)	(10)	(33)	(12)
Net earnings attributable to Weyerhaeuser common shareholders	$1,153	$ 157	$1,616	$ 497

(1) Unallocated Items are gains or charges not related to or allocated to an individual operating segment. They include a portion of items such as: share-based compensation, pension and postretirement costs, foreign exchange transaction gains and losses associated with outstanding borrowings and the elimination of intersegment profit in inventory and the LIFO reserve.

NOTE 5: NET EARNINGS PER SHARE

Our basic earnings per share attributable to Weyerhaeuser shareholders were:

- $2.17 during third quarter and $2.85 during year-to-date 2014; and
- $0.27 during third quarter and $0.89 during year-to-date 2013.

Our diluted earnings per share attributable to Weyerhaeuser shareholders were:

- $2.15 during third quarter and $2.83 during year-to-date 2014; and
- $0.27 during third quarter and $0.88 during year-to-date 2013.

Basic earnings per share is net earnings available to common shareholders divided by the weighted average number of our outstanding common shares, including stock equivalent units where there is no circumstance under which those shares would not be issued.

Diluted earnings per share is net earnings available to common shareholders divided by the sum of the:

- weighted average number of our outstanding common shares and
- the effect of our outstanding dilutive potential common shares.

Dilutive potential common shares can include:

- outstanding stock options,
- restricted stock units,
- performance share units and
- preference shares.

We use the treasury stock method to calculate the effect of our outstanding stock options, restricted stock units and performance share units. Share-based payment awards that are contingently issuable upon the achievement of specified performance or market conditions are included in our diluted earnings per share calculation in the period in which the conditions are satisfied.

We use the if-converted method to calculate the effect of our outstanding preference shares. In applying the if-converted method, conversion is not assumed for purposes of computing diluted earnings per share if the effect would be antidilutive. Preference shares are antidilutive whenever the amount of the dividend declared in or accumulated for the current period per common share obtainable on conversion exceeds diluted earnings per share exclusive of the preference shares.

Preference shares are evaluated for participation on a quarterly basis to determine whether two-class presentation is required. Preference shares are considered to be participating as of the financial reporting period end to the extent they would participate in dividends paid to common shareholders. Preference shares are not considered participating for the quarter and year-to-date periods ended September 30, 2014. Under the provisions of the two-class method, basic and diluted earnings per share would be presented for both preference and common shareholders.

SHARES EXCLUDED FROM DILUTIVE EFFECT

The following shares were not included in the computation of diluted earnings per share because they were either antidilutive or the required performance or market conditions were not met. Some or all of these shares may be dilutive potential common shares in future periods.

We issued 13.8 million 6.375 percent Mandatory Convertible Preference Shares, Series A on June 24, 2013. We do not include these shares in our calculation of diluted earnings per share because they are antidilutive.

Potential Shares Not Included in the Computation of Diluted Earnings per Share

SHARES IN THOUSANDS	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 2014	SEPTEMBER 2013	SEPTEMBER 2014	SEPTEMBER 2013
Stock options	—	4,955	—	4,955
Preference shares	24,988	24,865	24,988	24,865

STOCK REPURCHASE PROGRAM

On August 13, 2014, our Board of Directors approved the 2014 stock repurchase program under which we are authorized to repurchase up to $700 million of outstanding shares. The 2014 stock repurchase program replaced the prior 2011 stock repurchase program. During third quarter 2014, we repurchased 3,851,430 shares of common stock for $130 million under the 2014 stock repurchase program. Cash settlements of $7 million occurred at the beginning of the fourth quarter. All common stock purchases under the stock repurchase program were made in open-market transactions. As of September 30, 2014, we had remaining authorization of $570 million for future share repurchases.

NOTE 6: INVENTORIES

Inventories include raw materials, work-in-process and finished goods.

DOLLAR AMOUNTS IN MILLIONS	SEPTEMBER 30, 2014	DECEMBER 31, 2013
LIFO Inventories:		
Logs and chips	$ 12	$ 15
Lumber, plywood and panels	54	46
Pulp and paperboard	109	97
Other products	10	11
FIFO or moving average cost inventories:		
Logs and chips	32	33
Lumber, plywood, panels and engineered lumber	85	70
Pulp and paperboard	28	30
Other products	96	94
Materials and supplies	152	