WEYERHAEUSER CO
Form 10-Q
October 27, 2017

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, 2017
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, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and "emerging growth company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer o Non-accelerated filer o
Smaller reporting company o Emerging growth company o
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 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 23, 2017, 754,829,417 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)

DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER-SHARE FIGURES	QUARTER ENDED SEPTEMBER 2017	QUARTER ENDED SEPTEMBER 2016	YEAR-TO-DATE ENDED SEPTEMBER 2017	YEAR-TO-DATE ENDED SEPTEMBER 2016
Net sales	$1,872	$ 1,709	$5,373	$ 4,769
Costs of products sold	1,374	1,328	3,982	3,702
Gross margin	498	381	1,391	1,067
Selling expenses	22	22	66	67
General and administrative expenses	75	80	238	253
Research and development expenses	4	5	12	14
Charges for integration and restructuring, closures and asset impairments (Note 15)	14	16	178	141
Charges for product remediation (Note 16)	190	—	240	—
Other operating costs (income), net (Note 17)	(12)	(3)	2	(56)
Operating income	205	261	655	648
Equity earnings from joint ventures (Note 7)	1	9	1	21
Non-operating pension and other postretirement benefit (costs) credits	(16)	13	(46)	37
Interest income and other	11	15	29	34
Interest expense, net of capitalized interest	(98)	(114)	(297)	(323)
Earnings from continuing operations before income taxes	103	184	342	417
Income taxes (Note 18)	27	(22)	(31)	(64)
Earnings from continuing operations	130	162	311	353
Earnings from discontinued operations, net of income taxes (Note 3)	—	65	—	123
Net earnings	130	227	311	476
Dividends on preference shares (Note 5)	—	—	—	(22)
Net earnings attributable to Weyerhaeuser common shareholders	$130	$ 227	$311	$ 454
Earnings per share attributable to Weyerhaeuser common shareholders, basic (Note 5):				
Continuing operations	$0.17	$ 0.22	$0.41	$ 0.47
Discontinued operations	—	0.08	—	0.17
Net earnings per share	$0.17	$ 0.30	$0.41	$ 0.64
Earnings per share attributable to Weyerhaeuser common shareholders, diluted (Note 5):				
Continuing operations	$0.17	$ 0.21	$0.41	$ 0.46
Discontinued operations	—	0.09	—	0.18
Net earnings per share	$0.17	$ 0.30	$0.41	$ 0.64
Dividends paid per share	$0.31	$ 0.31	$0.93	$ 0.93
Weighted average shares outstanding (in thousands) (Note 5):				
Basic	753,535	749,587	752,301	708,395
Diluted	756,903	754,044	756,058	712,205

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 2017	SEPTEMBER 2016	SEPTEMBER 2017	SEPTEMBER 2016
Net earnings	$ 130	$ 227	$ 311	$ 476
Other comprehensive income (loss):				
Foreign currency translation adjustments	24	(5)	35	34
Actuarial gains, net of tax expense of $12, $15, $62 and $40	18	29	90	70
Prior service costs, net of tax benefit of $0, $0, $1 and $0	(1)	(1)	(5)	(3)
Unrealized gains on available-for-sale securities	1	—	2	1
Total other comprehensive income	42	23	122	102
Total comprehensive income	$ 172	$ 250	$ 433	$ 578

See accompanying Notes to Consolidated Financial Statements.

WEYERHAEUSER COMPANY
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

DOLLAR AMOUNTS IN MILLIONS	SEPTEMBER 30, 2017	DECEMBER 31, 2016
ASSETS		
Current assets:		
Cash and cash equivalents	$ 497	$ 676
Receivables, less discounts and allowances of $1 and $1	485	390
Receivables for taxes	65	84
Inventories (Note 6)	340	358
Prepaid expenses and other current assets	130	114
Total current assets	1,517	1,622
Property and equipment, less accumulated depreciation of $3,393 and $3,306	1,534	1,562
Construction in progress	225	213
Timber and timberlands at cost, less depletion charged to disposals	13,627	14,299
Minerals and mineral rights, less depletion	312	319
Investments in and advances to joint ventures (Note 7)	33	56
Goodwill	40	40
Deferred tax assets	240	293
Other assets	259	224
Restricted financial investments held by variable interest entities	615	615
Total assets	$ 18,402	$ 19,243
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt (Note 10)	$ 62	$ 281
Accounts payable	259	233
Accrued liabilities (Note 9)	702	692
Total current liabilities	1,023	1,206
Long-term debt (Note 10)	5,933	6,329
Long-term debt (nonrecourse to the company) held by variable interest entities	511	511
Deferred pension and other postretirement benefits (Note 8)	1,201	1,322
Deposit from contribution of timberlands to related party (Note 7)	416	426
Other liabilities	273	269
Total liabilities	9,357	10,063
Commitments and contingencies (Note 12)		
Equity:		
Common shares: $1.25 par value; authorized 1,360,000,000 shares; issued and outstanding: 753,050,533 and 748,528,131 shares	941	936
Other capital	8,391	8,282
Retained earnings	1,050	1,421
Cumulative other comprehensive loss (Note 13)	(1,337)	(1,459)
Total equity	9,045	9,180
Total liabilities and equity	$ 18,402	$ 19,243

See accompanying Notes to Consolidated Financial Statements.

WEYERHAEUSER COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

DOLLAR AMOUNTS IN MILLIONS	YEAR-TO-DATE ENDED SEPTEMBER 2017	SEPTEMBER 2016
Cash flows from operations:		
Net earnings	$ 311	$ 476
Noncash charges (credits) to earnings:		
Depreciation, depletion and amortization	394	428
Basis of real estate sold	48	49
Deferred income taxes, net	9	96
Pension and other postretirement benefits (Note 8)	72	5
Share-based compensation expense	29	53
Charges for impairment of assets	153	23
Equity (earnings) loss from joint ventures (Note 7)	(1)	(18)
Net gains on disposition of assets and operations	(15)	(121)
Foreign exchange transaction (gains) losses (Note 17)	—	(11)
Change in:		
Receivables less allowances	(113)	(96)
Receivable/payable for taxes	(116)	37
Inventories	4	49
Prepaid expenses	(9)	(3)
Accounts payable and accrued liabilities	184	61
Pension and postretirement contributions (Note 8)	(59)	(83)
Distributions of earnings received from joint ventures (Note 7)	1	5
Other	(45)	(64)
Net cash from operations	847	886
Cash flows from investing activities:		
Capital expenditures for property and equipment	(213)	(260)
Capital expenditures for timberlands reforestation	(46)	(43)
Acquisition of timberlands	—	(10)
Proceeds from sale of assets and operations	423	379
Proceeds from contribution of timberlands to related party	—	440
Distributions of investment received from joint ventures (Note 7)	23	34
Cash and cash equivalents acquired in Plum Creek merger (Note 4)	—	9
Other	5	42
Cash from investing activities	192	591
Cash flows from financing activities:		
Cash dividends on common shares	(699)	(700)
Cash dividends on preference shares	—	(22)
Proceeds from issuance of long-term debt (Note 10)	225	1,698
Payments on long-term debt (Note 10)	(831)	(723)
Proceeds from borrowings on line of credit (Note 10)	100	—
Payments on line of credit (Note 10)	(100)	—
Repurchase of common stock	—	(2,003)
Proceeds from exercise of stock options	89	48
Other	(2)	(8)
Cash used in financing activities	(1,218)	(1,710)

Net change in cash and cash equivalents	(179)	(233)
Cash and cash equivalents from continuing operations at beginning of period	676	1,011
Cash and cash equivalents from discontinued operations at beginning of period	—	1
Cash and cash equivalents at beginning of period	676	1,012
Cash and cash equivalents from continuing operations at end of period	497	769
Cash and cash equivalents from discontinued operations at end of period	—	10
Cash and cash equivalents at end of period	$ 497	$ 779
Cash paid (received) during the period for:		
Interest, net of amount capitalized of $6 and $5	$ 315	$ 367
Income taxes	$ 129	$ (26)

See accompanying Notes to Consolidated Financial Statements.

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INDEX FOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE QUARTERS AND YEARS-TO-DATE ENDED SEPTEMBER 30, 2017 AND 2016

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 subsidiaries (TRSs), which includes our Wood Products segment and portions of our Timberlands and Real Estate, Energy and Natural Resources (Real Estate & ENR) segments.

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.

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 information and footnote disclosures normally included in our annual Consolidated Financial Statements have been condensed or omitted. These quarterly 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, 2016. Results of operations for interim periods should not necessarily be regarded as 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 2017 reporting. This makes year-to-year comparisons easier. Our reclassifications had no effect on consolidated net earnings or equity. Our reclassifications present the adoption of new accounting pronouncements on our Consolidated Statement of Operations and in the related footnotes. Refer to discussion of new accounting pronouncements below.

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. In December 2016, the FASB issued ASU 2016-20, which amends ASU 2014-09 for technical corrections and to correct for unintended application of the guidance. In February 2017, FASB issued ASU 2017-05, which clarifies the scope of ASC 610-20 and impacts accounting for partial sales of nonfinancial assets.

The company expects to adopt and implement the new revenue recognition guidance effective January 1, 2018. The new standard is required to be applied retrospectively to each prior reporting period presented (full retrospective transition method) or retrospectively with the cumulative effect of initially applying it recognized at the date of initial application (cumulative effect method). We expect to adopt using the cumulative effect method. We expect that the adoption of the new revenue recognition guidance will not materially impact our operating results, balance sheet, or cash flows. We expect an impact to our financial reporting from adding expanded disclosures.

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. We adopted ASU 2015-11 on January 1, 2017, and determined this pronouncement does not have a material impact on our consolidated financial statements and related disclosures.

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 ASU 2016-02 on January 1, 2019, and are evaluating the impact on our consolidated financial statements and related disclosures.

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 adopted this accounting standard on January 1, 2017. As a result of this adoption, our opening balance sheet was adjusted through "Retained earnings" to include a deferred tax asset of $22 million for prior period intra-entity transfers. Adoption of this standard did not have a material impact on our Consolidated Statement of Cash Flows or Consolidated Statement of Operations.

In March 2017, FASB issued ASU 2017-07, which requires that an employer report the service cost component of pension and other postretirement benefit costs in the Consolidated Statement of Operations in the same line item or items as other compensation costs arising from services rendered by the pertinent employees. This requirement is consistent with how we have historically presented our pension service costs. The other requirement of ASU 2017-07 is to present the remaining components of pension and other postretirement benefit costs (i.e., interest, expected return on plan assets, amortization of actuarial gains or losses, and amortization of prior service credits or costs) in the Consolidated Statement of Operations separately from the service cost component and outside a subtotal of income from operations. The new guidance is effective for annual periods beginning after December 15, 2017, and early adoption is permitted. We adopted this accounting standard as of January 1, 2017. As a result, we reclassified amounts related to other components of pension and other post retirement benefit costs from their prior financial statements captions ("Costs of products sold," "General and administrative expenses," and "Other operating costs (income), net") into a new financial statement caption titled "Non-operating pension and other postretirement benefit (costs) credits" in our Consolidated Statement of Operations. The adoption of ASU 2017-07 did not impact "Net earnings," nor did it impact our Consolidated Balance Sheet.

NOTE 2: BUSINESS SEGMENTS

Reportable business segments are determined based on the company’s "management approach," as defined by FASB ASC 280, “Segment Reporting.” The management approach 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.

We are principally engaged in growing and harvesting timber; manufacturing, distributing, and selling products made from trees; 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 leased recreational access;
- Real Estate & ENR – which includes sales of timberlands; rights to explore for and extract hard minerals, oil and gas production and coal; 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, structural panels, medium density fiberboard and building materials distribution.

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		YEAR-TO-DATE ENDED	
	SEPTEMBER 2017	SEPTEMBER 2016	SEPTEMBER 2017	SEPTEMBER 2016
Sales to unaffiliated customers:				
Timberlands	$ 491	$ 484	$ 1,446	$ 1,342
Real Estate & ENR	82	48	181	125
Wood Products	1,299	1,177	3,746	3,302
	1,872	1,709	5,373	4,769
Intersegment sales:				
Timberlands	179	216	544	631
Wood Products	—	17	—	61
	179	233	544	692
Total sales	2,051	1,942	5,917	5,461
Intersegment eliminations	(179)	(233)	(544)	(692)
Total	$ 1,872	$ 1,709	$ 5,373	$ 4,769
Net contribution to earnings:				
Timberlands [(1)]	$ 131	$ 122	$ 267	$ 376
Real Estate & ENR[(2)]	47	15	96	42
Wood Products [(3)]	40	170	389	413
	218	307	752	831
Unallocated items[(4)]	(17)	(9)	(113)	(91)
Net contribution to earnings	201	298	639	740
Interest expense, net of capitalized interest	(98)	(114)	(297)	(323)
Earnings from continuing operations before income taxes	103	184	342	417
Income taxes	27	(22)	(31)	(64)
Earnings from continuing operations	130	162	311	353
Earnings from discontinued operations, net of income taxes [(5)]	—	65	—	123
Net earnings	130	227	311	476
Dividends on preference shares	—	—	—	(22)
Net earnings attributable to Weyerhaeuser common shareholders	$ 130	$ 227	$ 311	$ 454

(1) Net contribution to earnings for the Timberlands segment includes a noncash pretax impairment charge of $147 million, recorded during second quarter 2017. This impairment was a result of our agreement to sell our Uruguayan operations, which was announced in June 2017 and completed on September 1, 2017. Refer to Note 3: Discontinued Operations and Other Divestitures for more information regarding this transaction.

(2) The Real Estate & ENR segment includes the equity earnings from, investments in and advances to our Real Estate Development Ventures (as defined and described in Note 7: Related Parties), which are accounted for under the equity method.

(3) Net contribution to earnings for the Wood Products segment includes pretax charges of $190 million and $240 million incurred in the quarter and year-to-date period ended September 30, 2017, respectively, to accrue for estimated costs to remediate an issue with certain I-joists coated with our Flak Jacket® Protection product. Refer to Note 16: Charges for Product Remediation for additional details.

(4) 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 financing, and the elimination of intersegment profit in inventory and the LIFO reserve. Additionally, amounts shown for 2016 include equity earnings from our former Timberland

Venture. As of August 31, 2016, the Timberland Venture became a fully consolidated, wholly-owned subsidiary and therefore eliminated our equity method investment at that time.

(5) Discontinued operations as presented herein consist of the operations of our former Cellulose Fibers segment. Refer to Note 3: Discontinued Operations and Other Divestitures for more information regarding our discontinued operations.

NOTE 3: DISCONTINUED OPERATIONS AND OTHER DIVESTITURES

OPERATIONS DIVESTED

On October 12, 2016, we announced the exploration of strategic alternatives for our Uruguay timberlands and manufacturing operations, which was part of our Timberlands business segment. On June 2, 2017, the Weyerhaeuser Board of Directors approved an equity purchase agreement with a consortium led by BTG Pactual's Timberland Investment Group (TIG), including other long-term investors, pursuant to which the Company agreed to sell, in exchange for $403 million in cash, all of its equity interest in the subsidiaries that collectively owned and operated its Uruguayan timberlands and manufacturing operations.

On September 1, 2017, we completed the sale of our Uruguay timberlands and manufacturing operations for approximately $403 million of cash proceeds. Due to the impairment of our Uruguayan operations recorded during second quarter 2017 (refer to Note 15: Charges for Integration and Restructuring, Closures and Asset Impairments), no material gain or loss was recorded as a result of this sale. As of September 30, 2017, no assets or liabilities related to our Uruguayan operations remain on the Consolidated Balance Sheet.

The sale of our Uruguayan operations was not considered a strategic shift that had or will have a major effect on our operations or financial results, and therefore did not meet the requirements for presentation as discontinued operations.

DISCONTINUED OPERATIONS

During 2016, we entered into three separate transactions to sell our Cellulose Fibers business. As a result of these transactions, the company recognized a pretax gain on disposition of $789 million and total cash proceeds of $2.5 billion in the second half of 2016. These transactions consisted of:

- sale of our Cellulose Fibers liquid packaging board business to Nippon Paper Industries Co., Ltd, which closed on August 31, 2016;
- sale of our Cellulose Fibers printing papers joint venture to One Rock Capital Partners, LLC, which closed on November 1, 2016; and
- sale of our Cellulose Fibers pulp business to International Paper, which closed on December 1, 2016.

The results of operations for our pulp and liquid packaging board businesses, along with our interest in our printing papers joint venture, were reclassified to discontinued operations during our 2016 reporting year. These results have been summarized in "Earnings from discontinued operations, net of income taxes" on our Consolidated Statement of Operations for each period presented. We did not reclassify our Consolidated Statement of Cash Flows to reflect discontinued operations.

The following table presents net earnings from discontinued operations. As all discontinued operations were sold in 2016, no assets or liabilities remain as of September 30, 2017, or December 31, 2016.

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED SEPTEMBER 2016	YEAR-TO-DATE ENDED SEPTEMBER 2016
Total net sales	$ 420	$ 1,306
Costs of products sold	350	1,110
Gross margin	70	196
Selling expenses	3	10
General and administrative expenses	7	24

Research and development expenses	—	3
Charges for integration and restructuring, closures and asset impairments[1]	13	44
Other operating income, net	(2)	(21)
Operating income	49	136
Equity loss from joint venture	—	(3)
Interest expense, net of capitalized interest	(2)	(5)
Earnings from discontinued operations before income taxes	47	128
Income taxes	(23)	(46)
Net earnings from operations	24	82
Net gain on divestiture of Liquid Packaging Board	41	41
Net earnings from discontinued operations	$ 65	$ 123

(1) Charges relate to our strategic evaluation of the Cellulose Fibers businesses and transaction-related costs.

Cash flows from discontinued operations for the three and nine months ended September 30, 2016, are as follows:

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED SEPTEMBER 2016	YEAR-TO-DATE ENDED SEPTEMBER 2016
Net cash provided by operating activities	$ 58	$ 192
Net cash provided by investing activities	$ 259	$ 225

NOTE 4: MERGER WITH PLUM CREEK

On February 19, 2016, we merged with Plum Creek Timber Company, Inc. (Plum Creek). Plum Creek was a REIT that primarily owned and managed timberlands in the United States. Plum Creek also produced wood products, developed opportunities for mineral and other natural resource extraction, and sold real estate properties.

The acquisition of total assets of $10.0 billion was a noncash investing and financing activity comprised of $6.4 billion in equity consideration transferred and $3.6 billion of liabilities assumed.

Summarized unaudited pro forma information that presents combined amounts as if this merger occurred at the beginning of 2016 is as follows:

DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER-SHARE FIGURES	QUARTER ENDED SEPTEMBER 2016	YEAR-TO-DATE ENDED SEPTEMBER 2016
Net sales	$ 1,709	$ 4,925
Net earnings from continuing operations attributable to Weyerhaeuser common shareholders	$ 172	$ 438
Earnings from continuing operations per share attributable to Weyerhaeuser common shareholders, basic and diluted	$ 0.23	$ 0.58

Pro forma "Net earnings from continuing operations attributable to Weyerhaeuser common shareholders" excludes $10 million and $144 million of non-recurring merger-related costs (net of tax) incurred in the quarter and year-to-date ended September 30, 2016, respectively. Pro forma data may not be indicative of the results that would have been obtained had these events occurred at the beginning of the periods presented, nor is it intended to be a projection of future results.

NOTE 5: NET EARNINGS PER SHARE

Our basic and diluted earnings per share attributable to Weyerhaeuser shareholders were:

- $0.17 during third quarter 2017 and $0.41 during year-to-date 2017; and
- $0.30 during third quarter 2016 and $0.64 during year-to-date 2016.

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:

SHARES IN THOUSANDS	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 2017	SEPTEMBER 2016	SEPTEMBER 2017	SEPTEMBER 2016
Weighted average number of outstanding common shares – basic	753,535	749,587	752,301	708,395
Dilutive potential common shares:				
Stock options	2,437	3,185	2,754	2,660
Restricted stock units	551	814	529	723
Performance share units	380	458	474	427
Total effect of outstanding dilutive potential common shares	3,368	4,457	3,757	3,810
Weighted average number of outstanding common shares – dilutive	756,903	754,044	756,058	712,205

We use the treasury stock method to calculate the dilutive 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.

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

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.

	QUARTER ENDED		YEAR-TO-DATE ENDED
SHARES IN THOUSANDS	SEPTEMBER 2017	SEPTEMBER 2016	