

POTLATCH CORP
Form 10-Q
October 21, 2014

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

Form 10-Q

(Mark One)

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

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 1-32729

POTLATCH CORPORATION
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization) 601 West First Avenue, Suite 1600 Spokane, Washington (Address of principal executive offices) (509) 835-1500 (Registrant's telephone number, including area code)	82-0156045 (I.R.S. Employer Identification No.) 99201 (Zip Code)
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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 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). Yes 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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

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

The number of shares of common stock of the registrant outstanding as of October 20, 2014 was 40,596,268.

POTLATCH CORPORATION AND CONSOLIDATED SUBSIDIARIES

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Part I

ITEM 1. FINANCIAL STATEMENTS

Potlatch Corporation and Consolidated Subsidiaries

Consolidated Statements of Income

Unaudited (Dollars in thousands, except per-share amounts)

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Revenues	\$177,215	\$157,869	\$460,713	\$430,334
Costs and expenses:				
Cost of goods sold	121,574	112,499	322,016	302,702
Selling, general and administrative expenses	10,772	13,444	32,794	37,157
Environmental remediation charge	—	1,022	—	3,522
	132,346	126,965	354,810	343,381
Operating income	44,869	30,904	105,903	86,953
Interest expense, net	(5,506)	(5,556)	(16,475)	(17,559)
Income before income taxes	39,363	25,348	89,428	69,394
Income taxes	(6,209)	(3,157)	(19,654)	(12,534)
Net income	\$33,154	\$22,191	\$69,774	\$56,860
Net income per share:				
Basic	\$0.81	\$0.55	\$1.71	\$1.40
Diluted	0.81	0.54	1.71	1.40
Distributions per share	\$0.35	\$0.31	\$1.05	\$0.93
Weighted average shares outstanding (in thousands):				
Basic	40,745	40,530	40,733	40,493
Diluted	40,889	40,720	40,861	40,686

The accompanying notes are an integral part of these consolidated financial statements.

Potlatch Corporation and Consolidated Subsidiaries
 Consolidated Statements of Comprehensive Income
 Unaudited (Dollars in thousands)

	Quarter Ended		Nine Months Ended	
	September 30,		September 30,	
	2014	2013	2014	2013
Net income	\$33,154	\$22,191	\$69,774	\$56,860
Other comprehensive income, net of tax:				
Pension and other postretirement employee benefits:				
Amortization of prior service credit included in net periodic cost, net of tax of \$(867) and \$(870), \$(2,601) and \$(2,611)	(1,357	) (1,362	) (4,069	) (4,085
Amortization of actuarial loss included in net periodic cost, net of tax of \$1,621 and \$2,255, \$4,866 and \$6,768	2,538	3,529	7,612	10,586
Other comprehensive income, net of tax	1,181	2,167	3,543	6,501
Comprehensive income	\$34,335	\$24,358	\$73,317	\$63,361

Amortization of prior service credit and amortization of actuarial loss are included in the computation of net periodic cost. See [Note 7: Pension Plans and Other Postretirement Employee Benefits](#) for additional information.

The accompanying notes are an integral part of these consolidated financial statements.

Potlatch Corporation and Consolidated Subsidiaries
Consolidated Condensed Balance Sheets
Unaudited (Dollars in thousands, except per-share amounts)

	September 30, 2014	December 31, 2013
ASSETS		
Current assets:		
Cash	\$8,299	\$5,586
Short-term investments	65,044	52,251
Receivables, net	23,563	16,572
Inventories	30,728	36,275
Deferred tax assets	7,724	7,724
Other assets	8,769	11,961
Total current assets	144,127	130,369
Property, plant and equipment, net	63,788	59,976
Timber and timberlands, net	449,423	455,871
Deferred tax assets	15,383	21,576
Noncurrent investments	29,394	3,144
Other assets	9,063	9,594
Total assets	\$711,178	\$680,530
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current installments on long-term debt	\$—	\$—
Accounts payable and accrued liabilities	59,977	50,318
Total current liabilities	59,977	50,318
Long-term debt	319,749	320,092
Liability for pension and other postretirement employee benefits	70,130	83,619
Other long-term obligations	15,558	22,353
Stockholders' equity	245,764	204,148
Total liabilities and stockholders' equity	\$711,178	\$680,530
Shares outstanding (in thousands)	40,596	40,537
Working capital	\$84,150	\$80,051
Current ratio	2.4:1	2.6:1

The accompanying notes are an integral part of these consolidated financial statements.
Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

Potlatch Corporation and Consolidated Subsidiaries
Consolidated Condensed Statements of Cash Flows
Unaudited (Dollars in thousands)

	Nine Months Ended September 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$69,774	\$56,860
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation, depletion and amortization	19,326	20,071
Basis of real estate sold	7,289	1,945
Change in deferred taxes	1,127	(1,870)
Employee benefit plans	616	5,182
Employee equity-based compensation expense	3,058	3,271
Other, net	(1,805)	) (22)
Funding of qualified pension plans	(3,550)) —
Working capital and operating related activities	11,829	(10,370)
Net cash from operating activities	107,664	75,067
CASH FLOWS FROM INVESTING ACTIVITIES		
Change in short-term investments	(12,793)	) 6,272
Transfer to company owned life insurance (COLI)	(25,476)) —
Property, plant and equipment	(9,174)	) (7,924)
Timberlands reforestation and timberland roads	(7,840)	) (9,011)
Acquisition of timber and timberlands	(3,143)) —
Other, net	1,126	(901)
Net cash from investing activities	(57,300)	) (11,564)
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions to common stockholders	(42,621)	) (37,680)
Repayment of long-term debt	—	(36,663)
Exercises of stock options	128	1,798
Deferred financing costs	(957)	) (25)
Employee tax withholdings on equity-based compensation	(1,092)	) (1,757)
Change in book overdrafts	(2,919)	) 19
Other, net	(190)	) (186)
Net cash from financing activities	(47,651)	) (74,494)
Change in cash	2,713	(10,991)
Cash at beginning of period	5,586	16,985
Cash at end of period	\$8,299	\$5,994
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid during the period for:		
Interest, net of amount capitalized	\$11,164	\$12,463
Income taxes, net	12,192	15,658

The accompanying notes are an integral part of these consolidated financial statements.

Certain 2013 amounts have been reclassified to conform to the 2014 presentation.

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NOTE 1. BASIS OF PRESENTATION

For purposes of this report, any reference to “Potlatch,” “the company,” “we,” “us,” and “our” means Potlatch Corporation and all of its wholly owned subsidiaries, except where the context indicates otherwise.

The accompanying unaudited 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 generally accepted accounting principles in the United States have been omitted. This Quarterly Report on Form 10-Q should be read in conjunction with our Annual Report on Form 10-K for the year ended December 31, 2013, as filed with the Securities and Exchange Commission on February 14, 2014. We believe that all adjustments necessary for a fair statement of the results of such interim periods have been included.

NOTE 2. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. This update was issued as Accounting Standards Codification Topic 606. The core principle of this amendment is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including interim periods within that reporting period, with earlier adoption not permitted. The guidance permits two implementation approaches, one requiring retrospective application of the new standard with restatement of prior years and one requiring prospective application of the new standard with disclosure of results under old standards. The adoption of this guidance is not expected to have a significant effect on our consolidated financial statements.

NOTE 3. INCOME TAXES

As a real estate investment trust (REIT), we generally are not subject to federal and state corporate income taxes on income of the REIT that we distribute to our shareholders. We are, however, subject to corporate taxes on built-in gains (the excess of fair market value over tax basis on January 1, 2006) on sales of real property held by the REIT during the first ten years following the REIT conversion. The sale of standing timber is not subject to built-in gains tax. The Small Business Jobs Act of 2010 modified the built-in gains provisions to exempt sales of real properties in 2011, if five years of the recognition period had elapsed before January 1, 2011. The American Taxpayer Relief Act of 2012 extended the reduced five-year holding period for sales occurring in 2012 and 2013. Accordingly, the built-in gains tax did not apply to sales of real property that occurred in 2011, 2012 and 2013.

We conduct certain activities through our taxable REIT subsidiaries (TRS), which are subject to corporate level federal and state income taxes. These activities are principally comprised of our wood products manufacturing operations and certain real estate investments. Income taxes for all periods presented in this Quarterly Report on Form 10-Q were primarily due to income of the TRS.

NOTE 4. EARNINGS PER SHARE

The following table reconciles the number of shares used in calculating the basic and diluted earnings per share for the quarters and nine months ended September 30:

(Dollars in thousands, except per-share amounts)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	\$33,154	\$22,191	\$69,774	\$56,860
Basic weighted average shares outstanding	40,744,667	40,530,393	40,732,704	40,492,901
Incremental shares due to:				
Performance shares	114,579	115,310	98,877	121,483
Restricted stock units	27,816	68,256	27,416	64,979
Stock options	2,218	6,099	1,981	6,803
Diluted weighted average shares outstanding	40,889,280	40,720,058	40,860,978	40,686,166
Basic net income per share	\$0.81	\$0.55	\$1.71	\$1.40
Diluted net income per share	\$0.81	\$0.54	\$1.71	\$1.40
Antidilutive shares excluded from the calculation:				
Performance shares	—	18,295	—	10,068
Restricted stock units	—	—	—	—
Total antidilutive shares excluded from the calculation	—	18,295	—	10,068

NOTE 5. EQUITY-BASED COMPENSATION

As of September 30, 2014, we had three stock incentive plans under which performance share grants, restricted stock unit (RSU) grants and stock options were outstanding, with approximately 1,082,692 shares authorized for future use under the 2014 Long-Term Incentive Plan.

On May 8, 2014, our board approved changes to our director compensation program. This amendment states that upon a director's separation from the company, all deferred awards will be settled in company stock and no longer settled in cash. This resulted in a reclassification of the related \$4.3 million liability to stockholders' equity.

As of September 30, 2014, there were 113,148 shares that will be distributed to directors in the future.

The following table details our equity-based compensation expense and director deferred compensation expense for the quarters and nine months ended September 30:

(Dollars in thousands)	Quarter Ended		Nine Months Ended	
	September 30, 2014	2013	September 30, 2014	2013
Employee equity-based compensation expense:				
Performance shares	\$882	\$959	\$2,577	\$2,708
Restricted stock units	144	211	481	563
Total employee equity-based compensation expense	\$1,026	\$1,170	\$3,058	\$3,271
Total tax benefit recognized	\$62	\$—	\$217	\$71
Director deferred compensation expense	\$111	\$25	\$125	\$375

PERFORMANCE SHARES

The following table presents the key inputs used in the Monte Carlo simulation method to calculate the fair value of the performance share awards in 2014 and 2013, and the resulting fair values:

	2014	2013	
Shares granted	87,441	83,111	
Stock price as of valuation date	\$39.76	\$45.31	
Risk-free rate	0.72	% 0.40	%
Fair value of a performance share	\$45.57	\$62.78	

The following table summarizes outstanding performance share awards as of September 30, 2014, and changes during the nine months ended September 30, 2014:

(Dollars in thousands, except grant date fair value)	Shares	Weighted Avg. Grant Date Fair Value	Aggregate Intrinsic Value
Unvested shares outstanding at January 1	155,814	\$ 48.73	
Granted	87,441	45.57	
Forfeited	(6,080)	) 50.26	
Unvested shares outstanding at September 30	237,175	47.53	\$ 9,537

As of September 30, 2014, there was \$5.1 million of unrecognized compensation cost related to unvested performance share awards, which is expected to be recognized over a weighted average period of 1.3 years.

RESTRICTED STOCK UNITS

The following table summarizes outstanding RSU awards as of September 30, 2014, and changes during the nine months ended September 30, 2014:

(Dollars in thousands, except grant date fair value)	Shares	Weighted Avg. Grant Date Fair Value	Aggregate Intrinsic Value
Unvested shares outstanding at January 1	37,461	\$ 38.69	
Granted	15,849	39.85	
Vested	(6,050)	) 42.09	
Forfeited	(2,025)	) 40.95	
Unvested shares outstanding at September 30	45,235	38.54	\$ 1,819

The fair value of each RSU equaled our common share price on the date of grant. The total fair value of RSU awards vested during the nine months ended September 30, 2014 was \$0.3 million. As of September 30, 2014, there was \$1.0 million of total unrecognized compensation cost related to unvested RSU awards, which is expected to be recognized over a weighted average period of 1.3 years.

STOCK OPTIONS

The following table summarizes outstanding stock options as of September 30, 2014, and changes during the nine months ended September 30, 2014:

(Dollars in thousands, except exercise prices)	Shares	Weighted Avg. Exercise Price	Aggregate Intrinsic Value
Outstanding at January 1	12,859	\$ 30.92	
Shares exercised	(4,286)	) 30.92	
Shares canceled or expired	—	—	
Outstanding and exercisable at September 30	8,573	30.92	\$ 80

The following table summarizes outstanding stock options as of September 30, 2014:

Exercise Price	Options Outstanding and Exercisable	
	Outstanding	Weighted Avg. Remaining Contractual Life
\$30.9204	8,573	0.17 years

NOTE 6. INVENTORIES

The following table details the composition of our inventories:

(Dollars in thousands)	September 30, 2014	December 31, 2013
Inventories:		
Lumber and other manufactured wood products	\$17,416	\$15,967
Logs	7,292	14,975
Materials and supplies	6,020	5,333
	\$30,728	\$36,275

NOTE 7. DEBT

Unsecured Credit Agreement

On August 12, 2014, we entered into a new amended and restated credit agreement with an expiration date of February 12, 2020, which supersedes our previous credit agreement dated as of December 11, 2012. This new credit agreement provides for a revolving line of credit with an initial aggregate principal amount not to exceed \$250 million, which may be increased by up to an additional \$250 million of principal amount. It also includes a sublimit of \$40 million for the issuance of standby letters of credit and a sublimit of \$25 million for swing line loans. As of September 30, 2014, there were no borrowings outstanding under our revolving line of credit, and approximately \$1.4 million of the letter of credit subfacility was being used to support several outstanding letters of credit. Available borrowing capacity at September 30, 2014 was \$248.6 million.

NOTE 8. PENSION AND OTHER POSTRETIREMENT EMPLOYEE BENEFITS

The following tables detail the components of net periodic cost (benefit) of our pension plans and other postretirement employee benefits (OPEB) for the quarters and nine months ended September 30:

(Dollars in thousands)	Quarters Ended September 30,			
	Pension		OPEB	
	2014	2013	2014	2013
Service cost	\$1,270	\$1,329	\$7	\$24
Interest cost	4,796	4,457	435	453
Expected return on plan assets	(6,128	) (6,523) —	—
Amortization of prior service cost (credit)	187	195	(2,411	) (2,427
Amortization of actuarial loss	3,613	4,982	546	802
Net periodic cost (benefit)	\$3,738	\$4,440	\$(1,423	) \$(1,148

(Dollars in thousands)	Nine Months Ended September 30,			
	Pension		OPEB	
	2014	2013	2014	2013
Service cost	\$3,810	\$3,988	\$19	\$70
Interest cost	14,388	13,369	1,306	1,358
Expected return on plan assets	(18,384	) (19,569) —	—
Amortization of prior service cost (credit)	561	585	(7,231	) (7,281
Amortization of actuarial loss	10,839	14,947	1,639	2,407
Net periodic cost (benefit)	\$11,214	\$13,320	\$(4,267	) \$(3,446

During the nine months ended September 30, 2014, we made qualified pension plan contributions of \$3.6 million and non-qualified supplemental pension payments of \$1.3 million.

The following tables detail the changes in accumulated other comprehensive loss (AOCL) by component for the quarters and nine months ended September 30:

(Dollars in thousands)	Quarter Ended September 30, 2014		
	Pension	OPEB	Total
AOCL at July 1			\$96,358
Amortization of defined benefit items, net of tax: ⁽¹⁾			
Prior service credit (cost)	\$(114	) \$1,471	1,357
Actuarial loss	(2,204	) (334	) (2,538
Total reclassification for the period	\$(2,318	) \$1,137	(1,181
AOCL at September 30			\$95,177

(Dollars in thousands)	Quarter Ended September 30, 2013		
	Pension	OPEB	Total
AOCL at July 1			\$136,564
Amortization of defined benefit items, net of tax: ⁽¹⁾			
Prior service credit (cost)	\$(119	) \$1,481	1,362
Actuarial loss	(3,040	) (489	) (3,529
Total reclassification for the period	\$(3,159	) \$992	(2,167
AOCL at September 30			\$134,397

(Dollars in thousands)	Nine Months Ended September 30, 2014		
	Pension	OPEB	Total
AOCL at January 1			\$98,720
Amortization of defined benefit items, net of tax: ⁽¹⁾			
Prior service credit (cost)	\$(342	) \$4,411	4,069
Actuarial loss	(6,612	) (1,000	) (7,612
Total reclassification for the period	\$(6,954	) \$3,411	(3,543
AOCL at September 30			\$95,177

(Dollars in thousands)	Nine Months Ended September 30, 2013		
	Pension	OPEB	Total
AOCL at January 1			\$140,898
Amortization of defined benefit items, net of tax: ⁽¹⁾			
Prior service credit (cost)	\$(357	) \$4,442	4,085
Actuarial loss	(9,118	) (1,468	) (10,586
Total reclassification for the period	\$(9,475	) \$2,974	(6,501
AOCL at September 30			\$134,397

⁽¹⁾ Amortization of prior service credit (cost) and amortization of actuarial loss are included in the computation of net periodic cost.

NOTE 9. FINANCIAL INSTRUMENTS

The following table presents the estimated fair values of our financial instruments:

(Dollars in thousands)	September 30, 2014		December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and short-term investments (Level 1)	\$73,343	\$73,343	\$57,837	\$57,837
Derivative asset related to interest rate swaps (Level 2)	1,271	1,271	1,830	1,830
Long-term debt, including fair value adjustments related to fair value hedges (Level 2)	319,749	349,682	320,092	347,869

FAIR VALUE HEDGES OF INTEREST RATE RISK

The following table presents the gross fair values of derivative instruments on our Consolidated Condensed Balance Sheets as of the balance sheet dates:

(Dollars in thousands)	Balance Sheet Location	September 30, 2014	December 31, 2013
Derivatives designated as hedging instruments:			
Interest rate contracts	Other assets	\$1,271	\$1,830
Total derivatives designated as hedging instruments		\$1,271	\$1,830

The following table details the effect of derivatives on the Consolidated Statements of Income for the quarters and nine months ended September 30:

(Dollars in thousands)	Location of Gain Recognized in Income	Gain Recognized in Income			
		Quarters Ended		Nine Months Ended	
		September 30, 2014	September 30, 2013	September 30, 2014	September 30, 2013
Derivatives designated in fair value hedging relationships:					
Realized gain on interest rate contract ⁽¹⁾	Interest expense	\$239	\$235	\$740	\$722
Net gain recognized in income from fair value hedges		\$239	\$235	\$740	\$722

(1) Realized gain on hedging instrument consists of net cash settlements and interest accruals on the interest rate swaps during the periods.

No net unrealized gain or loss associated with the interest rate swaps was recognized in income for any of the periods presented because we recognized no hedge ineffectiveness.

NOTE 10. COMMITMENTS AND CONTINGENCIES

There have been no material changes to our commitments and contingencies as reported in "Note 15: Commitments and Contingencies" in the Notes to Consolidated Financial Statements in our 2013 Annual Report on Form 10-K.

NOTE 11. SEGMENT INFORMATION

The following table summarizes information by business segment for the quarters and nine months ended September 30:

(Dollars in thousands)	Quarter Ended September 30,		Nine Months Ended September 30,	
	2014	2013	2014	2013
Revenues:				
Resource	\$91,919	\$77,017	\$183,336	\$177,254
Wood Products	99,213	92,116	287,589	278,642
Real Estate	6,176	8,868	36,352	19,312
	197,308	178,001	507,277	475,208
Elimination of intersegment revenues - Resource	(20,093)	(20,132)	(46,564)	(44,874)
Total consolidated revenues	\$177,215	\$157,869	\$460,713	\$430,334
Operating income:				
Resource	\$34,080	\$25,369	\$61,122	\$55,361
Wood Products	15,743	11,319	43,320	49,954
Real Estate	4,646	6,493	25,295	13,692
Eliminations and adjustments	(1,994)	(791)	(364)	(67)
	52,475	42,390	129,373	118,940
Corporate	(7,606)	(11,486)	(23,470)	(31,987)
Operating income	44,869	30,904	105,903	86,953
Interest expense, net	(5,506)	(5,556)	(16,475)	(17,559)
Income before income taxes	\$39,363	\$25,348	\$89,428	\$69,394
Depreciation, depletion and amortization:				
Resource	\$6,101	\$5,888	\$12,745	\$13,520
Wood Products	1,543	1,581	4,587	4,610
Real Estate	15	15	44	42
	7,659	7,484	17,376	18,172
Corporate	665	562	1,950	1,899
Total depreciation, depletion and amortization	\$8,324	\$8,046	\$19,326	\$20,071
Basis of real estate sold:				
Real Estate	\$519	\$1,170	\$7,928	\$2,370
Eliminations and adjustments	(64)	(132)	(639)	(425)
Total basis of real estate sold	\$455	\$1,038	\$7,289	\$1,945

NOTE 12. SUBSEQUENT EVENT

We signed a purchase agreement to acquire approximately 201,000 acres of timberlands in Mississippi and Alabama from affiliates of Resource Management Service, LLC for \$384 million on October 15, 2014. We expect to finance with new long-term debt and cash. Earnings from these assets will be reported in our Resource segment after closing, which is expected to occur late in the fourth quarter of 2014. The transaction is subject to the satisfaction of customary closing conditions.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Information

This report contains, in addition to historical information, certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including without limitation, statements regarding acquisition of timberlands in Mississippi and Alabama and financing thereof, recognition of compensation costs relating to our performance shares and RSUs, U.S. housing market conditions, housing starts and recovery, real estate demand and pricing, log prices, lumber demand and prices, business conditions for our business segments, Resource segment results, Wood Products segment results, Real Estate segment results, transfer of cash from company owned life insurance (COLI) and similar matters. Words such as “anticipate,” “expect,” “will,” “intend,” “plan,” “target,” “project,” “believe,” “seek,” “schedule,” “estimate,” “could,” “can,” “may” and similar expressions are intended to identify such forward-looking statements. These forward-looking statements reflect our current views regarding future events based on estimates and assumptions and are therefore subject to known and unknown risks and uncertainties and are not guarantees of future performance. Our actual results of operations could differ materially from our historical results or those expressed or implied by forward-looking statements contained in this report. For a nonexclusive listing of forward-looking statements and potential factors affecting our business, refer to “Cautionary Statement Regarding Forward-Looking Information” on page 1 and “Risk Factors” in Part I, Item 1A of our Annual Report on Form 10-K for the year ended December 31, 2013.

Forward-looking statements contained in this report present our views only as of the date of this report. Except as required under applicable law, we do not intend to issue updates concerning any future revisions of our views to reflect events or circumstances occurring after the date of this report.

Overview

The operating results of our Resource, Wood Products and Real Estate business segments have been and will continue to be influenced by a variety of factors, including the cyclical nature of the forest products industry, which is largely dependent on the economy and U.S. housing starts, changes in timber prices and in harvest levels from our timberlands, competition, timberland valuations, demand for our non-strategic timberland for higher and better use purposes, the efficiency and level of capacity utilization of our wood products manufacturing operations, changes in our principal expenses such as log costs and fuel costs, asset dispositions or acquisitions, and other factors. Our Resource earnings and cash flows were seasonably strong, although our planned harvest was constrained somewhat by wet weather in the South during the third quarter of 2014. For the quarter and nine months ending September 30, 2014, improved log pricing has resulted in increased revenues and operating income when compared to 2013. The Wood Products and Real Estate business have both performed well throughout 2014.

Results of Operations

Our business is organized into three reporting segments: Resource, Wood Products and Real Estate. Sales between segments are recorded as intersegment revenues based on prevailing market prices. Because our Resource segment supplies our Wood Products segment with a portion of its wood fiber needs, intersegment revenues typically represent a significant portion of the Resource segment's total revenues. Our other segments generally do not generate intersegment revenues.

In the analysis of our consolidated results of operations, revenues are reported after elimination of intersegment revenues. In the analysis by business segments, each segment's revenues are presented before elimination of intersegment revenues.

Consolidated Results Comparing the Quarters Ended September 30, 2014 and 2013

The following table sets forth period-to-period changes in items included in our Consolidated Statements of Income for the quarters ended September 30:

(Dollars in thousands)	2014	2013	Amount of Change	Percent Change	
Revenues	\$177,215	\$157,869	\$19,346	12	%
Costs and expenses:					
Cost of goods sold	121,574	112,499			