

Edgar Filing: TEMPLE INLAND INC - Form 10-Q

TEMPLE INLAND INC
Form 10-Q
November 12, 2004

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 October 2, 2004

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: 001-08634

Temple-Inland Inc.

(Exact name of registrant as specified in its charter)

Delaware

75-1903917

(State or other jurisdiction of (I.R.S. Employer Identification
incorporation or organization) Number)

1300 MoPac Expressway South, Austin, Texas 78746

(Address of Principal Executive Offices, including Zip code)

(512) 434-5800

(Registrant's telephone number, including area code)

Not Applicable

(Former Name, Former Address and Former Fiscal Year, if Changed
Since Last Report)

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 is an
accelerated filer (as defined in Rule 12b-2 of the Exchange Act).
Yes ☒ No ☐

Indicate the number of shares outstanding of each of the
issuer's classes of common stock, as of the latest practicable
date:

Class	Number of common shares outstanding as of October 2, 2004
-----	-----
Common Stock (par value \$1.00 per share)	55,991,644

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

SUMMARIZED STATEMENTS OF INCOME
PARENT COMPANY (TEMPLE-INLAND INC.)
Unaudited

Third

First Nine

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	Quarter		Months	
	2004	2003	2004	2003
	(In millions)			
NET REVENUES	\$ 955	\$ 878	\$ 2,788	\$ 2,602
COSTS AND EXPENSES				
Cost of sales	804	799	2,408	2,398
Selling	25	28	76	85
General and administrative	41	40	128	130
Other operating (income) expense	4	15	28	45
	874	882	2,640	2,658
	81	(4)	148	(56)
FINANCIAL SERVICES EARNINGS	16	48	128	129
OPERATING INCOME	97	44	276	73
Interest expense	(31)	(33)	(97)	(103)
Other non-operating expense	-	(8)	(2)	(8)
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES	66	3	177	(38)
Income tax (expense) benefit	(26)	(6)	(69)	173
INCOME (LOSS) FROM CONTINUING OPERATIONS	40	(3)	108	135
Discontinued operations	1	-	2	1
INCOME (LOSS) BEFORE ACCOUNTING CHANGE	41	(3)	110	136
Effect of accounting change	-	-	-	(1)
NET INCOME (LOSS)	\$ 41	\$ (3)	\$ 110	\$ 135

See the notes to consolidated financial statements.

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SUMMARIZED BALANCE SHEETS
PARENT COMPANY (TEMPLE-INLAND INC.)
Unaudited

Third Quarter Year-End
2004 2003

(In millions)

ASSETS

Current Assets

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Cash and cash equivalents	\$	15	\$	20
Receivables, net of allowances of \$15 in 2004 and \$14 in 2003		445		359
Inventories:				
Work in process and finished goods		99		83
Raw materials and supplies		273		247
		-----		-----
Total inventories		372		330
Prepaid expenses and other		67		69
		-----		-----
Total current assets		899		778
Investment in financial services		1,129		1,123
Timber and timberlands		497		497
Property and equipment:				
Land and buildings		592		600
Machinery and equipment		3,474		3,454
Construction in progress		47		59
Less allowances for depreciation		(2,366)		(2,259)
		-----		-----
Total property and equipment		1,747		1,854
Goodwill		235		237
Assets of discontinued operations		28		50
Other assets		111		99
		-----		-----
TOTAL ASSETS	\$	4,646	\$	4,638
		=====		=====
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current Liabilities				
Accounts payable	\$	211	\$	218
Employee compensation and benefits		73		72
Accrued interest		25		27
Accrued property taxes		30		23
Other accrued expenses		150		141
Liabilities of discontinued operations		23		22
Current portion of long-term debt		3		4
		-----		-----
Total current liabilities		515		507
Long-term debt		1,457		1,611
Deferred income taxes		80		25
Postretirement benefits		144		146
Pension liability		285		250
Other long-term liabilities		61		131
		-----		-----
Total Liabilities		2,542		2,670
Shareholders' Equity		2,104		1,968
		-----		-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$	4,646	\$	4,638
		=====		=====

See the notes to consolidated financial statements.

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Unaudited

	First Nine Months	
	2004	2003
	(In millions)	
CASH PROVIDED BY (USED FOR) OPERATIONS		
Net income	\$ 110	\$ 135
Adjustments:		
Depreciation and amortization	166	176
Non-cash stock based compensation	26	22
Non-cash pension and postretirement expense	45	41
Cash contribution to pension and postretirement plans	(13)	(11)
Other non-cash charges (credits)	14	(133)
Deferred income taxes	53	10
Net earnings of financial services	(79)	(83)
Dividends from financial services	70	120
Joint venture earnings	(19)	(2)
Dividends from joint ventures	10	4
Net assets of discontinued operations	(9)	(1)
Cumulative effect of accounting change	-	1
Other	16	12
	390	291
Changes in:		
Receivables	(86)	(48)
Inventories	(44)	18
Prepaid expenses and other	3	(9)
Accounts payable and accrued expenses	8	12
	271	264
CASH PROVIDED BY (USED FOR) INVESTING		
Capital expenditures	(117)	(96)
Sales of non-strategic assets	63	36
Other acquisitions and joint ventures	(3)	(7)
	(57)	(67)
CASH PROVIDED BY (USED FOR) FINANCING		
Payments of debt	(155)	(169)
Payments of other long-term liabilities	(64)	-
Cash dividends paid to shareholders	(60)	(55)
Proceeds from exercise of stock options	60	-
Additions to debt	-	24
	(219)	(200)
Effect of exchange rate changes on cash	(5)	(3)
Net increase (decrease) in cash and cash	(5)	(3)

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equivalents		
Cash and cash equivalents at beginning of period	20	17
	-----	-----
Cash and cash equivalents at end of period \$	\$ 15	\$ 14
	=====	=====

See the notes to consolidated financial statements.

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SUMMARIZED STATEMENTS OF INCOME FINANCIAL SERVICES Unaudited

	Third Quarter		First Nine Months	
	2004	2003	2004	2003
	----	----	----	----
	(In millions)			
INTEREST INCOME				
Loans and loans held for sale	\$ 122	\$ 129	\$ 354	\$ 393
Securities available-for-sale	13	16	42	54
Securities held-to-maturity	40	33	129	109
Other earning assets	1	1	2	3
	----	----	----	----
Total interest income	176	179	527	559
INTEREST EXPENSE				
Deposits	37	43	104	145
Borrowed funds	43	41	128	130
	----	----	----	----
Total interest expense	80	84	232	275
	----	----	----	----
NET INTEREST INCOME	96	95	295	284
(Provision) credit for loan losses	5	(13)	9	(44)
	----	----	----	----
NET INTEREST INCOME AFTER (PROVISION)	101	82	304	240
	----	----	----	----
NON-INTEREST INCOME				
Loan servicing fees	8	8	24	24
Amortization and impairment of	(21)	(12)	(34)	(53)
Loan origination and sale of loans	34	71	117	225
Real estate operations	8	14	43	34
Insurance commissions and fees	12	12	36	33
Service charges on deposits	11	9	31	26
Operating lease income	2	3	8	8
Other	9	8	26	29
	----	----	----	----
Total non-interest income	63	113	251	326
	----	----	----	----
NON-INTEREST EXPENSE				

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Compensation and benefits	65	84	209	256
Loan servicing and origination	3	5	9	12
Real estate operations, other than	4	9	24	24
Insurance operations, other than	1	1	4	4
Occupancy	9	9	24	25
Data processing	5	7	14	20
Other	40	31	122	93
Charges related to asset impairments and severance	21	1	21	3
	----	----	----	----
Total non-interest expense	148	147	427	437
	----	----	----	----
INCOME BEFORE TAXES	16	48	128	129
Income tax (expense)	(7)	(17)	(49)	(46)
	----	----	----	----
NET INCOME	\$ 9	\$ 31	\$ 79	\$ 83
	=====	=====	=====	=====

See the notes to consolidated financial statements.

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SUMMARIZED BALANCE SHEETS FINANCIAL SERVICES Unaudited

	Third Quarter 2004	Year-End 2003
	-----	-----
	(In millions)	
ASSETS		
Cash and cash equivalents	\$ 421	\$ 379
Loans held for sale	535	551
Loans, net of allowance for losses of \$96 in 2004 and \$111 in 2003	9,690	9,026
Securities available-for-sale	1,170	1,374
Securities held-to-maturity	4,232	5,267
Real estate	241	295
Premises and equipment, net	174	164
Accounts, notes and accrued interest receivable	133	138
Goodwill	152	147
Mortgage servicing rights	-	89
Assets held for sale	67	-
Other assets	222	231
	-----	-----
TOTAL ASSETS	\$ 17,037	\$ 17,661
	=====	=====
LIABILITIES AND SHAREHOLDER'S EQUITY		
Deposits	\$ 8,991	\$ 8,698
Federal Home Loan Bank advances	4,834	4,992
Securities sold under repurchase agreements	1,162	1,327

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Obligations to settle trade date securities	-	567
Other liabilities	418	410
Other borrowings	198	239
Preferred stock issued by subsidiaries	305	305
	-----	-----
TOTAL LIABILITIES	15,908	16,538
	-----	-----
SHAREHOLDER'S EQUITY	1,129	1,123
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 17,037	\$ 17,661
	=====	=====

See the notes to consolidated financial statements.

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SUMMARIZED STATEMENTS OF CASH FLOWS FINANCIAL SERVICES Unaudited

	First Nine Months	
	2004	2003
	----	----
	(In millions)	
CASH PROVIDED BY (USED FOR) OPERATIONS		
Net income	\$ 79	\$ 83
Adjustments:		
Depreciation of premises and equipment	18	18
Depreciation of leased assets	7	6
Amortization and impairment of servicing rights	34	53
Non-cash charges related to mortgage banking repositioning	17	-
Provision (credit) for loan losses	(9)	44
Amortization and accretion of financial instruments	14	17
Deferred income taxes	(9)	(12)
	-----	-----
	151	209
Changes in:		
Loans held for sale, originations of loans	(5,464)	(11,144)
Loans held for sale, sales of loans	5,479	11,611
Collections on loans services for others, net	(5)	(24)
Other	(1)	(41)
	-----	-----
	160	611
	-----	-----
CASH PROVIDED BY (USED FOR) INVESTING		
Securities available-for-sale:		
Purchases	(28)	(17)

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Principal payments and maturities	229	452
Securities held-to-maturity:		
Purchases	(896)	(2,008)
Principal payments and maturities	1,349	1,706
Loans originated or acquired, net of collections	(725)	198
Sale of loans	36	41
Acquisitions, net of cash acquired	(20)	(1)
Capital expenditures	(30)	(25)
Sale of assets and other	56	10
	-----	-----
	(29)	356
	-----	-----
CASH PROVIDED BY (USED FOR) FINANCING		
Net increase (decrease) in deposits	293	(234)
Repurchase agreements and short-term borrowings, net	(85)	(241)
Additions to long-term FHLB advances and other borrowings	321	282
Payments of long-term FHLB advances and other borrowings	(562)	(647)
Dividends paid to parent company	(70)	(120)
Other	14	11
	-----	-----
	(89)	(949)
	-----	-----
Net increase (decrease) in cash and cash equivalents	42	18
Cash and cash equivalents at beginning of period	379	438
	-----	-----
Cash and cash equivalents at end of period	\$ 421	\$ 456
	=====	=====

See the notes to consolidated financial statements.

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CONSOLIDATED STATEMENTS OF INCOME TEMPLE-INLAND INC. AND SUBSIDIARIES Unaudited

	Third Quarter		First Nine Months	
	2004	2003	2004	2003
	----	----	----	----
(In millions, except per share amounts)				
REVENUES				
Manufacturing	\$ 955	\$ 878	\$ 2,788	\$ 2,602
Financial services	239	292	778	885
	-----	-----	-----	-----

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	1,194	1,170	3,566	3,487
	-----	-----	-----	-----
COSTS AND EXPENSES				
Manufacturing	874	882	2,640	2,658
Financial services	223	244	650	756
	-----	-----	-----	-----
	1,097	1,126	3,290	3,414
	-----	-----	-----	-----
OPERATING INCOME	97	44	276	73
Parent company interest	(31)	(33)	(97)	(103)
Other non-operating expense	-	(8)	(2)	(8)
	-----	-----	-----	-----
INCOME (LOSS) BEFORE TAXES	66	3	177	(38)
Income tax (expense) benefit	(26)	(6)	(69)	173
	-----	-----	-----	-----
INCOME (LOSS) FROM CONTINUING OPERATIONS	40	(3)	108	135
Discontinued operations	1	-	2	1
	-----	-----	-----	-----
INCOME (LOSS) BEFORE ACCOUNTING CHANGE	41	(3)	110	136
Effect of accounting change	-	-	-	(1)
	-----	-----	-----	-----
NET INCOME (LOSS)	\$ 41	\$ (3)	\$ 110	\$ 135
	=====	=====	=====	=====
EARNINGS (LOSS) PER SHARE				
Basic:				
Income (loss) from continuing operations	\$ 0.71	\$ (0.06)	\$ 1.95	\$ 2.49
Discontinued operations	0.02	-	0.03	0.01
Effect of accounting change	-	-	-	(0.01)
	-----	-----	-----	-----
Net income (loss)	\$ 0.73	\$ (0.06)	\$ 1.98	\$ 2.49
	=====	=====	=====	=====
Diluted:				
Income (loss) from continuing operations	\$ 0.71	\$ (0.06)	\$ 1.93	\$ 2.49
Discontinued operations	0.02	-	0.03	0.01
Effect of accounting change	-	-	-	(0.01)
	-----	-----	-----	-----
Net income (loss)	\$ 0.73	\$ (0.06)	\$ 1.96	\$ 2.49
	=====	=====	=====	=====
DIVIDENDS PAID PER SHARE OF COMMON STOCK	\$ 0.36	\$ 0.34	\$ 1.08	\$ 1.02
	=====	=====	=====	=====

See the notes to consolidated financial statements.

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CONSOLIDATING BALANCE SHEETS
 TEMPLE-INLAND INC. AND SUBSIDIARIES
 Third Quarter 2004
 Unaudited

	Parent Company -----	Financial Services -----	Consolidated -----
	(In millions)		
ASSETS			
Cash and cash equivalents	\$ 15	\$ 421	\$ 436
Loans held for sale	-	535	535
Loans receivable	-	9,690	9,690
Securities available-for-sale	-	1,170	1,170
Securities held-to-maturity	-	4,232	4,232
Trade receivables	445	-	445
Inventories	372	-	372
Timber and timberlands	497	-	497
Property and equipment	1,747	174	1,921
Goodwill	235	152	387
Other assets	206	663	821
Investment in financial services	1,129	-	-
	-----	-----	-----
TOTAL ASSETS	\$ 4,646	\$ 17,037	\$ 20,506
	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	\$ -	\$ 8,991	\$ 8,991
Federal Home Loan Bank advances	-	4,834	4,834
Securities sold under repurchase agreements	-	1,162	1,162
Other liabilities	576	418	975
Long-term debt	1,457	198	1,655
Deferred income taxes	80	-	51
Postretirement benefits	144	-	144
Pension liability	285	-	285
Preferred stock issued by subsidiaries	-	305	305
	-----	-----	-----
TOTAL LIABILITIES	\$ 2,542	\$ 15,908	\$ 18,402
	-----	-----	-----
SHAREHOLDERS' EQUITY			
Preferred stock - par value \$1 per share: authorized 25,000,000 shares; none issued			-
Common stock - par value \$1 per share: authorized 200,000,000 shares; issued 61,389,552 shares including shares held in the treasury			61
Additional paid-in capital			402
Accumulated other comprehensive loss			(186)
Retained earnings			2,073

			2,350
Cost of shares held in the			

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treasury: 5,397,908 shares	(246)

TOTAL SHAREHOLDERS' EQUITY	2,104

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 20,506
	=====

See the notes to consolidated financial statements.

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CONSOLIDATING BALANCE SHEETS TEMPLE-INLAND INC. AND SUBSIDIARIES Year-End 2003 Unaudited

	Parent Company	Financial Services	Consolidated
	-----	-----	-----
	(In millions)		
ASSETS			
Cash and cash equivalents	\$ 20	\$ 379	\$ 399
Loans held for sale	-	551	551
Loans receivable	-	9,026	9,026
Securities available-for-sale	-	1,374	1,374
Securities held-to-maturity	-	5,267	5,267
Trade receivables	359	-	359
Inventories	330	-	330
Timber and timberlands	497	-	497
Property and equipment	1,854	164	2,018
Goodwill	237	147	384
Other assets	218	753	938
Investment in financial services	1,123	-	-
	-----	-----	-----
TOTAL ASSETS	\$ 4,638	\$ 17,661	\$ 21,143
	-----	-----	-----
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	\$ -	\$ 8,698	\$ 8,698
Federal Home Loan Bank advances	-	4,992	4,992
Securities sold under repurchase agreements	-	1,327	1,327
Obligations to settle trade date securities	-	567	567
Other liabilities	638	410	1,033
Long-term debt	1,611	239	1,850
Deferred income taxes	25	-	7
Postretirement benefits	146	-	146

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Pension liability	250	-	250
Preferred stock issued by subsidiaries	-	305	305
	-----	-----	-----
TOTAL LIABILITIES	\$ 2,670	\$ 16,538	\$ 19,175
	=====	=====	=====
SHAREHOLDERS' EQUITY			
Preferred stock - par value \$1 per share: authorized 25,000,000 shares; none issued			-
Common stock - par value \$1 per share: authorized 200,000,000 shares; issued 61,389,552 shares including shares held in the treasury			61
Additional paid-in capital			377
Accumulated other comprehensive loss			(185)
Retained earnings			2,023

			2,276
Cost of shares held in the treasury: 6,792,410 shares			(308)

TOTAL SHAREHOLDERS' EQUITY			1,968

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		\$	21,143
			=====

See the notes to consolidated financial statements.

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CONSOLIDATED STATEMENT OF CASH FLOWS TEMPLE-INLAND INC. AND SUBSIDIARIES Unaudited

	First Nine Months	
	2004	2003
	----	----
	(In millions)	
CASH PROVIDED (USED FOR) OPERATIONS		
Net income	\$ 110	\$ 135
Adjustments:		
Depreciation and amortization	191	200
Amortization and accretion of financial instruments	48	70
Provision for loan losses	(9)	44

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Deferred income taxes	44	(2)
Other non-cash charges (credits)	31	(133)
Net assets of discontinued operations	(9)	(1)
Joint venture earnings	(19)	(2)
Dividends from joint ventures	10	4
Cumulative effect of accounting change	-	1
Other	73	23
	-----	-----
	470	339
Changes in:		
Receivables	(86)	(48)
Inventories	(44)	18
Prepaid expenses and other	3	(9)
Accounts payable and accrued expenses	8	12
Loans held for sale, originations of loans	(5,464)	(11,144)
Loans held for sale, sales of loans	5,479	11,611
Collections on loans services for others, net	(5)	(24)
	-----	-----
	361	755
	-----	-----
CASH PROVIDED BY (USED FOR) INVESTING		
Capital expenditures	(147)	(121)
Sale of non-strategic assets	63	36
Securities available-for-sale, net	201	435
Securities held-to-maturity, net	453	(302)
Loans originated or acquired, net of principal collected	(725)	198
Proceeds from sale of loans	36	41
Acquisitions, net of cash acquired	(20)	(1)
Other	53	3
	-----	-----
	(86)	289
	-----	-----
CASH PROVIDED BY (USED FOR) FINANCING		
Deposits, net	293	(234)
Additions to long-term debt	321	306
Payments of long-term debt	(717)	(816)
Payments of other long-term liabilities	(64)	-
Repurchase agreements and short-term borrowings, net	(85)	(241)
Cash dividends paid to shareholders	(60)	(55)
Proceeds from exercise of stock options	60	-
Other	14	11
	-----	-----
	(238)	(1,029)
	-----	-----
	37	15
Effect of exchange rate changes on cash	-	-
	-----	-----
Net increase (decrease) in cash and cash equivalents	37	15
Cash and cash equivalents at beginning of period	399	455
	-----	-----
Cash and cash equivalents at end of period	\$ 436	\$ 470
	=====	=====

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See the notes to consolidated financial statements.

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TEMPLE-INLAND INC. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note A - Basis Of Presentation

We prepared these unaudited interim financial statements in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. As a result, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, in our opinion, all adjustments (consisting only of normal accruals) considered necessary for a fair presentation have been included. These interim operating results are not necessarily indicative of the results that may be expected for the entire year. For further information, refer to the financial statements and footnotes included in our Annual Report on Form 10-K for the fiscal year ended January 3, 2004.

The consolidated financial statements include the accounts of Temple-Inland Inc. and its manufacturing and financial services subsidiaries. Substantially all of our consolidated net assets invested in financial services are subject to regulatory rules and restrictions including restrictions on the ability of our financial services subsidiaries to pay dividends to us. Accordingly, included as an integral part of the consolidated financial statements are separate summarized financial statements for our parent company and for our financial services subsidiaries.

The parent company summarized financial statements include the accounts of Temple-Inland and its manufacturing segments. The net assets invested in financial services are reflected using the equity method. Related earnings, however, are presented before tax to be consistent with the consolidated financial statements.

We have eliminated all material intercompany amounts and transactions. We have reclassified certain prior period amounts to conform to current year's classifications.

Note B - Earnings Per Share

Denominators used in computing per share amounts were:

Third Quarter	First Nine Months
-----	-----

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	2004	2003	2004	2003
	----	----	----	----
	(In millions)			
Denominator for basic earnings per share:				
Weighted average common shares outstanding	55.9	54.2	55.5	54.1
Dilutive effect of:				
Equity purchase contracts	0.2	-	0.1	-
Stock options	0.6	0.1	0.5	-
	-----	-----	-----	-----
Denominator for diluted earnings per share	56.7	54.3	56.1	54.1
	=====	=====	=====	=====

We will settle the equity purchase contracts in May 2005. At that time, we will issue common stock in exchange for \$345 million cash. The actual number of shares we will issue will be based on the average market price of our stock with a floor of \$52, in which case we would issue 6.6 million shares, and a ceiling of \$63, in which case we would issue 5.5 million shares.

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TEMPLE-INLAND INC. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

Note C - Comprehensive Income (Loss)

Comprehensive income (loss) consists of:

	Third Quarter		First Nine Months	
	2004	2003	2004	2003
	----	----	----	----
	(In millions)			
Net income (loss)	\$ 41	\$ (3)	\$ 110	\$ 135
Other comprehensive income (loss), net of taxes:				
Unrealized gains (losses) on:				
Available-for-sale securities	-	(2)	(3)	(1)
Derivative instruments	(1)	-	3	(1)
Foreign currency translation adjustments	-	(3)	(1)	(5)
	-----	-----	-----	-----
Other comprehensive income (loss)	(1)	(5)	(1)	(7)
	-----	-----	-----	-----

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Comprehensive income (loss)	\$ 40	\$ (8)	\$ 109	\$ 128
	=====	=====	=====	=====

At third quarter-end 2004, the aggregate fair value of all of our derivative instruments was a \$4 million liability consisting of \$6 million of liabilities for our interest rate swap derivatives and a \$2 million asset for our linerboard and OCC derivatives. Of the interest rate swap derivative liabilities, \$3 million is related to a hedged transaction and \$3 million is related to a non-hedged transaction. The ineffective portion of the interest rate swap derivative designated as a hedged transaction resulted in a \$1 million reduction in interest expense in first nine months 2004. During second quarter 2004, a portion of the interest rate swap derivative was reclassified as a non-hedged transaction, which resulted in the reclassification of \$4 million from other comprehensive income to interest expense. During third quarter 2004, the loss charged to other non-operating expense for the non-hedged transaction was less than \$1 million.

Note D - Segment Information

We have three reportable segments: corrugated packaging, forest products, and financial services. We evaluate performance based on operating income before other operating (income) expense and unallocated expenses, principally general and administrative expenses. We do not allocate parent company interest to the business segments. Other operating (income) expense includes gain or loss on sale of assets, asset impairments and expenses associated with consolidation initiatives and facility closures.

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TEMPLE-INLAND INC. AND SUBSIDIARIES NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS - CONTINUED

For Third Quarter 2004 ----- (In millions)	Corrugated Packaging -----	Forest Products -----	Financial Services -----	Unallocated -----	Total -----
Revenues from external customers	\$ 689	\$ 266	\$ 239	\$ -	\$ 1,194
Depreciation and amortization	40	13	9	2	64
Operating income (loss)	42	68	37	(50)	