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Weyerhaeuser Declares Record \$5.6 Billion Dividend (Update3)
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(Updates with closing share price in sixth paragraph.)

By Christopher Donville

July 12 (Bloomberg) -- Weyerhaeuser Co., the second-largest owner of U.S. timberland, declared a record \$5.6 billion special dividend to lock in the company's conversion this year to a real estate investment trust. The shares rose the most in 15 months.

The company is making the payout to signal its determination to convert to a REIT this year and address investor concern that its shrinking market valuation could have derailed the process, Chief Executive Officer Daniel Fulton said in an interview. The dividend, limited to 10 percent cash with the balance in stock, will be paid Sept. 1, the Federal Way, Washington-based company said today.

"Market conditions today are not impacting our ability to convert and we wanted to take away the uncertainty and provide the surety for our shareholders that we will complete the conversion this year," Fulton, 61, said by phone.

Weyerhaeuser had seen its shares in New York tumble by a third since their peak this year on April 23 as investors reacted to the Greek financial crisis and concern the U.S. may slide back into recession. Some shareholders, including Franklin Mutual Advisers LLC, have pressured the company to become a REIT to reduce taxes on earnings from its more than six million acres of timberlands.

"We have the intent of converting this year," Fulton said.

Weyerhaeuser climbed \$3.02, or 8.4 percent, to \$38.86 at 4:15 p.m. in New York Stock Exchange composite trading, the biggest percentage gain since April 9, 2009. The shares have fallen 9.9 percent this year.

Plan Approve

Shareholders in April approved a plan to distribute shares as part of the planned conversion. As a REIT, most earnings from the timberlands won't be the subject of corporate tax before flowing to investors. Under U.S. law, 110-year-old Weyerhaeuser is required to pay out all undistributed earnings and profit to shareholders to qualify to become a REIT.

The company's REIT conversion would be at risk if the company's shares dropped to about \$26 a share, or the per-share equivalent of an estimated payout of about \$5.5 billion to \$5.7 billion, Chip Dillon, a New York-based analyst with Credit Suisse Group AG, said in a May 28 note to clients. This was "highly unlikely," he said.

Questions about whether the company's shrinking market valuation threatened the REIT conversion this year are "moot," Patricia Bedient, Weyerhaeuser's chief financial officer, said in the same interview with Fulton. Any declines in the company's market capitalization now that the dividend has been declared are "unlikely" to disrupt the process, she said.

Valuation

Fulton also has sold assets, including Weyerhaeuser's cardboard box and recycling businesses to International Paper Co. in 2008 for \$6 billion, to qualify under U.S. tax rules to become a real estate trust and to pare debt.

Weyerhaeuser also combined its fine paper business with Montreal-based Domtar Corp. in 2007.

"The primary result of the conversion to a real estate investment trust is to reduce taxes," Fulton said, adding that will also help reduce the company's cost of capital to compete with other timber real estate trusts.

Conversion would make Weyerhaeuser the fourth so-called "timber" REIT. The others are Plum Creek Timber Co., Rayonier Inc., and Potlatch Inc.

As part of the transformation, Weyerhaeuser plans to elect conversion under U.S. tax law when it pays its 2010 taxes next spring. That "election" will allow the company to claim REIT status retroactively to Jan. 1, 2010.

Weyerhaeuser is the second-largest owner of U.S. timberland after Seattle-based Plum Creek. Weyerhaeuser only trailed Vancouver-based West Fraser Timber Co. in North American softwood-lumber output in 2009, according to a Weyerhaeuser spokesman.

(Weyerhaeuser scheduled a conference call with investors for 8:30 a.m. New York time today at +1-877-296-9413. The passcode is 84047456.)

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