

Edgar Filing: TEMPLE INLAND INC - Form 10-Q

TEMPLE INLAND INC
Form 10-Q
August 12, 2004

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 July 3, 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
incorporation or organization) Identification 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 X No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes X 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 July 3, 2004
Common Stock (par value \$1.00 per share)	55,723,917

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The Exhibit Index is page 46.

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PART I. FINANCIAL INFORMATION ITEM 1. FINANCIAL STATEMENTS

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

	Second Quarter		First Six Months	
	2004	2003	2004	2003
	----	----	----	----
	(In millions)			
NET REVENUES	\$ 940	\$ 877	\$ 1,833	\$ 1,724
COSTS AND EXPENSES				
Cost of sales	800	802	1,600	1,599

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Selling	25	28	53	57
General and administrative	43	45	89	90
Other (income) expense	5	21	24	30
	-----	-----	-----	-----
	873	896	1,766	1,776
	-----	-----	-----	-----
	67	(19)	67	(52)
FINANCIAL SERVICES EARNINGS	59	42	112	81
	-----	-----	-----	-----
OPERATING INCOME	126	23	179	29
Interest expense	(34)	(35)	(66)	(70)
Other expense	(2)	--	(2)	--
	-----	-----	-----	-----
INCOME (LOSS) FROM CONTINUING BEFORE TAXES	90	(12)	111	(41)
Income tax (expense) benefit	(35)	167	(43)	179
	-----	-----	-----	-----
INCOME FROM CONTINUING OPERATIONS	55	155	68	138
Discontinued operations	1	1	1	1
	-----	-----	-----	-----
INCOME BEFORE ACCOUNTING CHANGE	56	156	69	139
Effect of accounting change	--	--	--	(1)
	-----	-----	-----	-----
NET INCOME	\$ 56	\$ 156	\$ 69	\$ 138
	=====	=====	=====	=====

See the notes to consolidated financial statements.

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

	Second Quarter 2004	Year- End 2003
	----	----
	(In millions)	
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 67	\$ 20
Receivables, net of allowances of \$15 in 2004 and \$14 in 2003	437	359
Inventories:		
Work in process and finished goods	90	83
Raw materials and supplies	241	247
	-----	-----
Total inventories	331	330
Prepaid expenses and other	63	69
	-----	-----
Total current assets	898	778
Investment in Financial Services	1,120	1,123

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Timber and Timberlands	499	497
Property and Equipment:		
Land and buildings	594	600
Machinery and equipment	3,443	3,454
Construction in progress	51	59
Less allowances for depreciation	(2,331)	(2,259)
	-----	-----
Total property and equipment	1,757	1,854
Goodwill	235	237
Assets of Discontinued Operations	28	50
Other Assets	113	99
	-----	-----
TOTAL ASSETS	\$ 4,650	\$ 4,638
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities		
Accounts payable	\$ 223	\$ 218
Employee compensation and benefits	60	72
Accrued interest	25	27
Accrued property taxes	26	23
Other accrued expenses	133	141
Liabilities of discontinued operations	22	22
Current portion of long-term debt	3	4
	-----	-----
Total current liabilities	492	507
Long-Term Debt	1,557	1,611
Deferred Income Taxes	55	25
Postretirement Benefits	144	146
Pension Liability	274	250
Other Long-Term Liabilities	63	131
	-----	-----
Total Liabilities	2,585	2,670
Shareholders' Equity	2,065	1,968
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 4,650	\$ 4,638
	=====	=====

See the notes to consolidated financial statements.

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

	First Six
	Months

	2004 2003

	(In millions)

CASH PROVIDED BY (USED FOR) OPERATIONS

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Net income (loss)	\$	69	\$	138
Adjustments:				
Depreciation and amortization		111		118
Non-cash stock based compensation		19		16
Non-cash pension and postretirement expense		30		27
Cash contribution to pension and postretirement plans		(8)		(6)
Other non-cash charges (credits)		14		(135)
Deferred income taxes		30		--
Net earnings of financial services		(70)		(52)
Dividends from financial services		70		70
Net assets of discontinued operations		(9)		(1)
Cumulative effect of accounting change		--		1
Other		(5)		8
		-----		-----
		251		184
Changes in:				
Receivables		(78)		(46)
Inventories		(2)		18
Prepaid expenses and other		6		(16)
Accounts payable and accrued expenses		(14)		2
		-----		-----
		163		142
		-----		-----
CASH PROVIDED BY (USED FOR) INVESTING				
Capital expenditures		(64)		(58)
Sales of non-strategic assets		61		30
Other acquisitions and joint ventures		(3)		(5)
		-----		-----
		(6)		(33)
		-----		-----
CASH PROVIDED BY (USED FOR) FINANCING				
Payments of debt		(55)		(74)
Payments of other long-term liabilities		(64)		--
Cash dividends paid to shareholders		(40)		(37)
Proceeds from exercise of stock options		49		--
Additions to debt		--		2
		-----		-----
		(110)		(109)
Effect of exchange rate changes on cash		--		--
		-----		-----
Net increase (decrease) in cash and cash equivalents		47		--
Cash and cash equivalents at beginning of period		20		17
		-----		-----
Cash and cash equivalents at end of period	\$	67	\$	17
		=====		=====

See the notes to consolidated financial statements.

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	Second Quarter		First Six Months	
	2004	2003	2004	2003
	(In millions)			
INTEREST INCOME				
Loans and loans held for sale	\$ 118	\$ 131	\$ 232	\$ 264
Securities available-for-sale	14	18	29	37
Securities held-to-maturity	43	37	89	77
Other earning assets	--	1	1	2
	----	----	----	----
Total interest income	175	187	351	380
INTEREST EXPENSE				
Deposits	33	49	67	102
Borrowed funds	43	44	85	89
	----	----	----	----
Total interest expense	76	93	152	191
NET INTEREST INCOME				
	99	94	199	189
(Provision) credit for loan losses	4	(20)	4	(31)
	----	----	----	----
NET INTEREST INCOME AFTER (PROVISION) CREDIT FOR LOAN LOSSES				
	103	74	203	158
	----	----	----	----
NONINTEREST INCOME				
Loan servicing fees	8	7	16	16
Amortization and impairment of servicing rights	(6)	(23)	(13)	(41)
Loan origination and sale of loans	46	88	83	154
Real estate operations	20	12	35	20
Insurance commissions and fees	13	12	24	22
Service charges on deposits	11	9	20	17
Operating lease income	3	3	6	5
Other	8	10	17	20
	----	----	----	----
Total noninterest income	103	118	188	213
	----	----	----	----
NONINTEREST EXPENSE				
Compensation and benefits	74	91	144	174
Loan servicing and origination	4	4	6	7
Real estate operations, other than compensation	12	8	20	15
Insurance operations, other than compensation	2	1	3	3
Occupancy	7	8	15	16
Data processing	5	6	9	13
Other	43	32	82	62
	----	----	----	----
Total noninterest expense	147	150	279	290
INCOME BEFORE TAXES				
	59	42	112	81
Income tax (expense)	(22)	(15)	(42)	(29)
	----	----	----	----
NET INCOME	\$ 37	\$ 27	\$ 70	\$ 52
	=====	=====	=====	=====

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See the notes to consolidated financial statements.

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SUMMARIZED BALANCE SHEETS
FINANCIAL SERVICES
Unaudited

	Second	
	Quarter	Year-End
	2004	2003
	----	----
	(In millions)	
ASSETS		
Cash and cash equivalents	\$ 353	\$ 379
Loans held for sale	566	551
Loans, net of allowance for losses of \$100 in 2004 and \$111 in 2003	9,414	9,026
Securities available-for-sale	1,241	1,374
Securities held-to-maturity	4,425	5,267
Real estate	252	295
Premises and equipment, net	172	164
Accounts, notes and accrued interest receivable	130	138
Goodwill	158	147
Mortgage servicing rights	90	89
Other assets	212	231
	-----	-----
TOTAL ASSETS	\$ 17,013	\$ 17,661
	=====	=====
LIABILITIES AND SHAREHOLDER'S EQUITY		
Deposits	\$ 8,813	\$ 8,698
Federal Home Loan Bank advances	4,579	4,992
Securities sold under repurchase agreements	1,577	1,327
Obligations to settle trade date securities	3	567
Other liabilities	417	410
Other borrowings	199	239
Preferred stock issued by subsidiaries	305	305
	-----	-----
TOTAL LIABILITIES	15,893	16,538
	-----	-----
SHAREHOLDER'S EQUITY	1,120	1,123
	-----	-----
TOTAL LIABILITIES AND SHAREHOLDER'S EQUITY	\$ 17,013	\$ 17,661
	=====	=====

See the notes to consolidated financial statements.

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SUMMARIZED STATEMENTS OF CASH FLOWS
FINANCIAL SERVICES
Unaudited

	First Six Months	
	2004	2003
	-----	-----
	(In millions)	
CASH PROVIDED BY (USED FOR) OPERATIONS		
Net income	\$ 70	\$ 52
Adjustments:		
Depreciation of premises and equipment	12	12
Depreciation of leased assets	4	4
Amortization and impairment of servicing rights	13	41
Provision (credit) for loan losses	(4)	31
Amortization and accretion of financial instruments	9	9
Deferred income taxes	4	(9)
	-----	-----
	108	140
Changes in:		
Loans held for sale, originations of loans	(3,932)	(7,477)
Loans held for sale, sales of loans	3,902	7,495
Collections on loans services for others, net	(1)	(31)
Other	13	49
	-----	-----
	90	176
	-----	-----
CASH PROVIDED BY (USED FOR) INVESTING		
Securities available-for-sale:		
Purchases	(28)	(4)
Principal payments and maturities	157	312
Securities held-to-maturity:		
Purchases	(666)	(1,112)
Principal payments and maturities	933	960
Loans originated or acquired, net of collections	(448)	(44)
Sale of loans	35	23
Acquisitions, net of cash acquired	(15)	(1)
Capital expenditures	(18)	(11)
Other	42	4
	-----	-----
	(8)	127
	-----	-----
CASH PROVIDED BY (USED FOR) FINANCING		
Net increase (decrease) in deposits	116	(29)
Repurchase agreements and short-term borrowings, net	(8)	58
Additions to long-term FHLB advances and other borrowings	183	57
Payments of long-term FHLB advances and other		

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borrowings	(341)	(425)
Dividends paid to parent company	(70)	(70)
Other	12	9
	-----	-----
	(108)	(400)
	-----	-----
Net increase (decrease) in cash and cash equivalents	(26)	(97)
Cash and cash equivalents at beginning of period	379	438
	-----	-----
Cash and cash equivalents at end of period	\$ 353	\$ 341
	=====	=====

See the notes to consolidated financial statements.

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

	Second Quarter		First Six Months	
	2004	2003	2004	2003
	-----	-----	-----	-----
	(In millions, except per share amounts)			
REVENUES				
Manufacturing	\$ 940	\$ 877	\$ 1,833	\$ 1,724
Financial Services	278	305	539	593
	-----	-----	-----	-----
	1,218	1,182	2,372	2,317
	-----	-----	-----	-----
COSTS AND EXPENSES				
Manufacturing	873	896	1,766	1,776
Financial Services	219	263	427	512
	-----	-----	-----	-----
	1,092	1,159	2,193	2,288
	-----	-----	-----	-----
OPERATING INCOME	126	23	179	29
Parent company interest	(34)	(35)	(66)	(70)
Other expense	(2)	--	(2)	--
	-----	-----	-----	-----
INCOME (LOSS) BEFORE TAXES	90	(12)	111	(41)
Income tax (expense) benefit	(35)	167	(43)	179
	-----	-----	-----	-----
INCOME FROM CONTINUING OPERATIONS	55	155	68	138
Discontinued operations	1	1	1	1
	-----	-----	-----	-----
INCOME BEFORE ACCOUNTING CHANGE	56	156	69	139
Effect of accounting change	--	--	--	(1)
	-----	-----	-----	-----
NET INCOME	\$ 56	\$ 156	\$ 69	\$ 138

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	=====	=====	=====	=====
EARNINGS (LOSS) PER SHARE				
Basic:				
Income from continuing operations	\$ 0.99	\$ 2.86	\$ 1.23	\$ 2.55
Discontinued operations	0.01	0.01	0.01	0.01
Effect of accounting change	--	--	--	(0.01)
	-----	-----	-----	-----
Net income	\$ 1.00	\$ 2.87	\$ 1.24	\$ 2.55
	=====	=====	=====	=====
Diluted:				
Income from continuing operations	\$ 0.98	\$ 2.86	\$ 1.22	\$ 2.55
Discontinued operations	0.01	0.01	0.01	0.01
Effect of accounting change	--	--	--	(0.01)
	-----	-----	-----	-----
Net income	\$ 0.99	\$ 2.87	\$ 1.23	\$ 2.55
	=====	=====	=====	=====
DIVIDENDS PAID PER SHARE OF COMMON STOCK	\$ 0.36	\$ 0.34	\$ 0.72	\$ 0.68
	=====	=====	=====	=====

See the notes to consolidated financial statements.

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

	Parent Company	Financial Services	Consolidated
	-----	-----	-----
(In millions)			
ASSETS			
Cash and cash equivalents	\$ 67	\$ 353	\$ 420
Loans held for sale	--	566	566
Loans receivable	--	9,414	9,414
Securities available-for-sale	--	1,241	1,241
Securities held-to-maturity	--	4,425	4,425
Trade receivables	437	--	437
Inventories	331	--	331
Timber and timberlands	499	--	499
Property and equipment	1,757	172	1,929
Goodwill	235	158	393
Other assets	204	684	852
Investment in Financial Services	1,120	--	--
	-----	-----	-----
TOTAL ASSETS	\$ 4,650	\$ 17,013	\$ 20,507

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	=====	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY			
Deposits	\$ --	\$ 8,813	\$ 8,813
Federal Home Loan Bank advances	--	4,579	4,579
Securities sold under repurchase agreements	--	1,577	1,577
Obligations to settle trade date securities	--	3	3
Other liabilities	555	417	952
Long-term debt	1,557	199	1,756
Deferred income taxes	55	--	39
Postretirement benefits	144	--	144
Pension liability	274	--	274
Preferred stock issued by subsidiaries	--	305	305
	-----	-----	-----
TOTAL LIABILITIES	\$ 2,585	\$ 15,893	\$ 18,442
	-----	-----	-----
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			395
Accumulated other comprehensive loss			(185)
Retained earnings			2,052

			2,323
Cost of shares held in the treasury: 5,665,635 shares			(258)

TOTAL SHAREHOLDERS' EQUITY			2,065

TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY			\$ 20,507
			=====

See the notes to consolidated financial statements.

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

Parent	Financial	
Company	Services	Consolidated
-----	-----	-----

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(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
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 Six Months	
	2004	2003
	(In millions)	
CASH PROVIDED (USED FOR) OPERATIONS		
Net income (loss)	\$ 69	\$ 138
Adjustments:		
Depreciation and amortization	127	134
Amortization and accretion of financial instruments	22	50
Provision for loan losses	(4)	31
Deferred income taxes	34	(9)
Other non-cash charges (credits)	14	(135)
Net assets of discontinued operations	(9)	(1)
Cumulative effect of accounting change	--	1
Other	49	94
	-----	-----
	302	303
	-----	-----
Changes in:		
Receivables	(78)	(46)
Inventories	(2)	18
Prepaid expenses and other	6	(16)
Accounts payable and accrued expenses	(14)	2
Loans held for sale, originations of loans	(3,932)	(7,477)
Loans held for sale, sales of loans	3,902	7,495
Collections on loans services for others, net	(1)	(31)
	-----	-----
	183	248
	-----	-----
CASH PROVIDED BY (USED FOR) INVESTING		
Capital expenditures	(82)	(69)
Sale of non-strategic assets	61	30
Securities available-for-sale, net	129	308
Securities held-to-maturity, net	267	(152)
Loans originated or acquired, net of principal collected	(448)	(44)
Proceeds from sale of loans	35	23
Acquisitions, net of cash acquired	(18)	(6)
Other	42	4
	-----	-----
	(14)	94
	-----	-----
CASH PROVIDED BY (USED FOR) FINANCING		
Deposits, net	116	(29)
Additions to long-term debt	183	59
Payments of long-term debt	(396)	(499)
Payments of other long-term liabilities	(64)	--

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Repurchase agreements and short-term borrowings, net	(8)		58
Cash dividends paid to shareholders	(40)		(37)
Proceeds from exercise of stock options	49		--
Other	12		9
	----		----
	(148)		(439)
	----		----
Effect of exchange rate changes on cash	--		--
	----		----
Net increase (decrease) in cash and cash equivalents	21		(97)
Cash and cash equivalents at beginning of period	399		455
	----		----
Cash and cash equivalents at end of period	\$ 420	\$	\$ 358
	=====		=====

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 financial services 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 segment.

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.

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

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

NOTE B - EARNINGS PER SHARE

Denominators used in computing per share amounts were:

	Second Quarter		First Six Months	
	2004	2003	2004	2003
	----	----	----	----
	(In millions)			
Denominator for basic earnings per share:				
Weighted average common shares outstanding	55.6	54.1	55.3	54.0
Dilutive effect of:				
Equity purchase contracts	--	--	--	--
Stock options	0.6	--	0.6	0.1
	-----	-----	-----	-----
Denominator for diluted earnings per share	56.2	54.1	55.9	54.1
	=====	=====	=====	=====

NOTE C - COMPREHENSIVE INCOME (LOSS)

Comprehensive income (loss) consists of:

	Second Quarter		First Six Months	
	2004	2003	2004	2003
	----	----	----	----
	(In millions)			
Net income	\$ 56	\$ 156	\$ 69	\$ 138
Other comprehensive income (loss), net of taxes:				
Unrealized gains (losses) on:				
Available-for-sale securities	(1)	(3)	(3)	1
Derivative instruments	4	(1)	4	(1)
Foreign currency translation adjustments	(1)	1	(1)	(2)
	-----	-----	-----	-----
Other comprehensive income (loss)	2	(3)	--	(2)
	-----	-----	-----	-----

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Comprehensive income	\$ 58	\$ 153	\$ 69	\$ 136
	=====	=====	=====	=====

At second quarter-end 2004, the aggregate fair value of all of our derivative instruments was a \$3 million liability consisting of a \$5 million liability for our interest rate swap derivative and a \$2 million asset for our linerboard and OCC derivatives. The ineffective portion of the interest rate swap derivative resulted in a \$1 million reduction in interest expense in second quarter and first six months 2004. During second quarter 2004, \$4 million was reclassified from other comprehensive income into interest expense because it is probable that a portion of the forecasted transaction will not occur.

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 (income) expense and unallocated expenses, principally general and administrative expenses. We do not allocate parent company interest to the business segments. Other (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

For Second Quarter 2004	Corrugated Packaging	Forest Products	Financial Services	Unallocated Expenses and Other Income (Expense)	Total
-----	-----	-----	-----	-----	-----
(In millions)					
Revenues from external customers	\$ 687	\$ 253	\$ 278	\$ --	\$ 1,218
Depreciation and amortization	40	13	8	2	63
Operating income	26	65	59	(24)	