

WEYERHAEUSER CO  
Form 10-Q  
November 06, 2009  
Table of Contents

**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, 2009**

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: 1-4825

**WEYERHAEUSER COMPANY**

Edgar Filing: WEYERHAEUSER CO - Form 10-Q

<b>Washington</b> (State or other jurisdiction of incorporation or organization)	<b>91-0470860</b> (I.R.S. Employer Identification Number)
<b>33663 Weyerhaeuser Way South</b>  <b>Federal Way, Washington</b> (Address of principal executive offices)	<b>98063-9777</b> (Zip Code)
<b>(253) 924-2345</b>  (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.  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  Accelerated filer  Non-accelerated filer  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

As of October 30, 2009, 211,357,747 shares of the registrant's common stock (\$1.25 par value) were outstanding.

**Table of Contents****TABLE OF CONTENTS**

<b>PART I</b>	<b>FINANCIAL INFORMATION</b>	1
ITEM 1.	FINANCIAL STATEMENTS:	
	<u>CONSOLIDATED STATEMENT OF EARNINGS</u>	1
	<u>CONSOLIDATED BALANCE SHEET</u>	2
	<u>CONSOLIDATED STATEMENT OF CASH FLOWS</u>	4
	<u>INDEX FOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	5
	<u>NOTES TO CONSOLIDATED FINANCIAL STATEMENTS</u>	6
ITEM 2.	<u>MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ( MD&amp;A )</u>	20
ITEM 3.	<u>QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK</u>	38
ITEM 4.	<u>CONTROLS AND PROCEDURES</u>	38
<b>PART II</b>	<b>OTHER INFORMATION</b>	
ITEM 1.	<u>LEGAL PROCEEDINGS</u>	38
ITEM 1A.	<u>RISK FACTORS</u>	38
ITEM 2.	<u>UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS</u>	38
ITEM 3.	DEFAULTS UPON SENIOR SECURITIES	NA
ITEM 4.	SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS	NA
ITEM 5.	OTHER INFORMATION	NA
ITEM 6.	<u>EXHIBITS</u>	38

The financial information included in this report has been prepared in conformity with accounting practices and methods reflected in the financial statements included in the annual report (Form 10-K) filed with the Securities and Exchange Commission for the year ended December 31, 2008. Though not audited by an independent registered public accounting firm, the financial information reflects, in the opinion of management, all adjustments necessary to present a fair statement of results for the interim periods indicated. The results of operations for the quarter and year-to-date periods ended September 30, 2009, should not be regarded as necessarily indicative of the results that may be expected for the full year.

**Signature**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**WEYERHAEUSER COMPANY**

Date: November 5, 2009

By: /s/ Jeanne M. Hillman  
Jeanne M. Hillman  
Vice President and Principal Accounting Officer

**Table of Contents****FINANCIAL INFORMATION****CONSOLIDATED STATEMENT OF EARNINGS****(DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER-SHARE FIGURES)****(UNAUDITED)**

	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008
<b>Net sales and revenues:</b>				
Forest Products	\$ 1,211	\$ 1,778	\$ 3,506	\$ 5,269
Real Estate	196	329	567	1,054
Total net sales and revenues	1,407	2,107	4,073	6,323
<b>Costs and expenses:</b>				
<b>Forest Products:</b>				
Costs of products sold	973	1,413	3,001	4,330
Alternative fuel mixture credits	(122)		(229)	
Depreciation, depletion and amortization	123	147	370	438
Selling expenses	33	57	109	173
General and administrative expenses	79	109	258	382
Research and development expenses	10	14	38	49
Charges for restructuring and closures (Note 6)	67	10	195	87
Impairment of goodwill and other assets (Note 6)	36	65	74	147
Other operating income, net (Note 7)	(184)	(7)	(255)	(8)
	1,015	1,808	3,561	5,598
<b>Real Estate:</b>				
Costs and operating expenses	172	365	487	1,001
Depreciation and amortization	3	5	11	14
Selling expenses	19	32	61	105
General and administrative expenses	16	26	61	82
Other operating costs (income), net	13	(3)	20	(4)
Impairment of long-lived assets and other related charges (Note 8)	46	230	141	547
	269	655	781	1,745
Total costs and expenses	1,284	2,463	4,342	7,343
Operating earnings (loss)	123	(356)	(269)	(1,020)
<b>Forest Products:</b>				
Interest expense incurred	(107)	(126)	(322)	(384)
Less: interest capitalized	1	11	5	56
Interest income and other	15	29	42	58
Gain on Uruguay restructuring (Note 9)				101
Equity in income (loss) of affiliates	(4)	10	(1)	8
<b>Real Estate:</b>				
Interest expense incurred	(8)	(10)	(22)	(36)

Edgar Filing: WEYERHAEUSER CO - Form 10-Q

Less: interest capitalized	6	10	20	36
Interest income and other	3	1	5	2
Equity in income of unconsolidated entities	1	15	14	16
Impairment of investments and other related charges (Note 8)		(10)	(32)	(117)
<b>Earnings (loss) from continuing operations before income taxes</b>	<b>30</b>	<b>(426)</b>	<b>(560)</b>	<b>(1,280)</b>
Income tax benefit (provision)	(35)	221	173	574
<b>Loss from continuing operations</b>	<b>(5)</b>	<b>(205)</b>	<b>(387)</b>	<b>(706)</b>
Discontinued operations, net of income taxes (Note 3)		480		678
<b>Net earnings (loss)</b>	<b>(5)</b>	<b>275</b>	<b>(387)</b>	<b>(28)</b>
Less: Net loss attributable to noncontrolling interests	5	5	17	64
<b>Net earnings (loss) attributable to Weyerhaeuser common shareholders</b>	<b>\$</b>	<b>\$ 280</b>	<b>\$ (370)</b>	<b>\$ 36</b>
<b>Basic and diluted earnings (loss) per share attributable to Weyerhaeuser common shareholders (Note 4):</b>				
Continuing operations	\$	\$ (0.94)	\$ (1.75)	\$ (3.04)
Discontinued operations		2.27		3.21
<b>Net earnings (loss) per share</b>	<b>\$</b>	<b>\$ 1.33</b>	<b>\$ (1.75)</b>	<b>\$ 0.17</b>
<b>Dividends paid per share</b>	<b>\$ 0.05</b>	<b>\$ 0.60</b>	<b>\$ 0.55</b>	<b>\$ 1.80</b>
<b>Weighted average shares outstanding (in thousands) (Note 4)</b>				
Basic	211,357	211,284	211,337	211,247
Diluted	211,357	211,284	211,337	211,247

See accompanying Notes to Consolidated Financial Statements.

**Table of Contents****CONSOLIDATED BALANCE SHEET****(DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER-SHARE FIGURES)****(UNAUDITED)**

	SEPTEMBER 30, 2009	DECEMBER 31, 2008
<b>ASSETS</b>		
Forest Products:		
Current assets:		
Cash and cash equivalents	\$ 1,624	\$ 2,288
Short-term investments	47	138
Receivables, less allowances of \$7 and \$7	403	429
Receivables for taxes	299	73
Receivable from pension trust (Note 13)	285	200
Inventories (Note 10)	498	702
Prepaid expenses	87	101
Deferred tax assets	150	159
Total current assets	3,393	4,090
Property and equipment, less accumulated depreciation of \$6,594 and \$6,252	3,686	3,869
Construction in progress	108	104
Timber and timberlands at cost, less depletion charged to disposals	4,014	4,205
Investments in and advances to equity affiliates	199	202
Goodwill	40	43
Deferred pension and other assets	658	651
Restricted assets held by special purpose entities	914	916
	13,012	14,080
Real Estate:		
Cash and cash equivalents	4	6
Receivables, less discounts and allowances of \$2 and \$4	31	74
Real estate in process of development and for sale	828	990
Land being processed for development	916	882
Investments in unconsolidated entities	16	30
Deferred tax assets	396	438
Other assets	156	195
Consolidated assets not owned	6	40
	2,353	2,655
<b>Total assets</b>	<b>\$ 15,365</b>	<b>\$ 16,735</b>

*See accompanying Notes to Consolidated Financial Statements.*

**Table of Contents****CONSOLIDATED BALANCE SHEET**

(CONTINUED)

	SEPTEMBER 30, 2009	DECEMBER 31, 2008
<b>LIABILITIES AND EQUITY</b>		
Forest Products:		
Current liabilities:		
Notes payable and commercial paper	\$ 3	\$ 1
Current maturities of long-term debt (Note 12)	41	407
Accounts payable	325	381
Accrued liabilities (Note 11)	708	985
<b>Total current liabilities</b>	<b>1,077</b>	<b>1,774</b>
Long-term debt (Note 12)	5,150	5,153
Deferred income taxes	1,663	1,805
Deferred pension, other postretirement benefits and other liabilities	1,649	1,566
Liabilities (nonrecourse to Weyerhaeuser) held by special purpose entities	765	764
Commitments and contingencies (Note 15)		
	10,304	11,062
Real Estate:		
Long-term debt (Note 12)	404	456
Other liabilities	292	353
Consolidated liabilities not owned		17
Commitments and contingencies (Note 15)		
	696	826
<b>Total liabilities</b>	<b>11,000</b>	<b>11,888</b>
Equity:		
Weyerhaeuser shareholders' interest:		
Common shares: \$1.25 par value; authorized 400,000,000 shares; issued and outstanding: 211,357,081 and 211,289,320 shares	264	264
Other capital	1,781	1,767
Retained earnings	2,844	3,278
Cumulative other comprehensive loss (Note 14)	(540)	(495)
<b>Total Weyerhaeuser shareholders' interest</b>	<b>4,349</b>	<b>4,814</b>
Noncontrolling interest	16	33
<b>Total equity</b>	<b>4,365</b>	<b>4,847</b>
<b>Total liabilities and equity</b>	<b>\$ 15,365</b>	<b>\$ 16,735</b>

*See accompanying Notes to Consolidated Financial Statements.*

**Table of Contents****CONSOLIDATED STATEMENT OF CASH FLOWS****(DOLLAR AMOUNTS IN MILLIONS) (UNAUDITED)****FOR THE YEAR-TO-DATE PERIODS ENDED  
SEPTEMBER 30, 2009 AND SEPTEMBER 28, 2008**

	<b>CONSOLIDATED</b>		<b>FOREST PRODUCTS</b>		<b>REAL ESTATE</b>	
	<b>SEPTEMBER 30, 2009</b>	<b>SEPTEMBER 28, 2008</b>	<b>SEPTEMBER 30, 2009</b>	<b>SEPTEMBER 28, 2008</b>	<b>SEPTEMBER 30, 2009</b>	<b>SEPTEMBER 28, 2008</b>
Cash flows from operations:						
Net earnings (loss)	\$ (387)	\$ (28)	\$ (239)	\$ 503	\$ (148)	\$ (531)
Noncash charges (credits) to income:						
Depreciation, depletion and amortization	381	516	370	502	11	14
Deferred income taxes, net	(20)	(837)	(62)	(643)	42	(194)
Pension and other postretirement benefits (Note 13)	10	(137)	13	(136)	(3)	(1)
Share-based compensation expense	18	46	15	43	3	3
Equity in (income) loss of affiliates and unconsolidated entities	(13)	(22)	1	(6)	(14)	(16)
Litigation charges	20		20			
Charges for impairment of assets (Notes 6 and 8)	247	817	74	153	173	664
Net gains on dispositions of assets and operations (Note 7)	(185)	(1,415)	(185)	(1,415)		
Increase to environmental liability reserve		17		17		
Gain on Uruguay restructuring (Note 9)		(101)		(101)		
Foreign exchange transaction (gains) losses (Note 7)	(34)	21	(34)	21		
Decrease (increase) in working capital:						
Receivables	(164)	(43)	(197)	(11)	33	(32)
Inventories, real estate and land	247	142	201	30	46	112
Prepaid expenses	15	62	15	59		3
Accounts payable and accrued liabilities	(344)	1,037	(269)	1,063	(75)	(26)
Deposits on land positions	13	(38)			13	(38)
Intercompany advances <sup>(1)(3)</sup>					102	(213)
Other	(80)	(176)	(93)	(164)	13	(12)
Cash from operations	(276)	(139)	(370)	(85)	196	(267)
Cash flows from investing activities:						
Property and equipment	(132)	(295)	(123)	(282)	(9)	(13)
Timberlands reforestation	(29)	(36)	(29)	(36)		
Acquisition of timberlands	(26)	(147)	(26)	(147)		
Redemption of short-term investments	92		92			
Investments in and advances to equity affiliates	(2)	(46)	2	8	(4)	(54)
Proceeds from sale of assets and operations	350	6,458	348	6,458	2	
Uruguay restructuring (Note 9)		(23)		(23)		
Purchase of short-term investments		(701)		(701)		
Loan to pension trust	(85)		(85)			
Intercompany dividends <sup>(1)</sup>			250			
Intercompany advances <sup>(1)</sup>			(224)	(444)		
Other	32	13	32	13		
Cash from investing activities	200	5,223	237	4,846	(11)	(67)



Edgar Filing: WEYERHAEUSER CO - Form 10-Q

Cash flows from financing activities:

Notes, commercial paper borrowings and revolving credit facilities, net		(381)		(203)		(178)
Cash dividends	(116)	(380)	(116)	(380)		
Change in book overdrafts	(46)	(99)	(40)	(76)	(6)	(23)
Payments on debt	(422)	(199)	(370)	(97)	(52)	(102)
Exercises of stock options		4		4		
Repurchase of common stock	(2)		(2)			
Intercompany dividends <sup>(1)</sup>					(250)	
Intercompany advances <sup>(1)</sup>					122	657
Other	(4)	(41)	(3)	(3)	(1)	(38)
Cash from financing activities	(590)	(1,096)	(531)	(755)	(187)	316
Net change in cash and cash equivalents	(666)	3,988	(664)	4,006	(2)	(18)
Cash and cash equivalents at beginning of period <sup>(2)</sup>	2,294	114	2,288	93	6	21
Cash and cash equivalents at end of period <sup>(2)</sup>	\$ 1,628	\$ 4,102	\$ 1,624	\$ 4,099	\$ 4	\$ 3
Cash paid (received) during the year for:						
Interest, net of amount capitalized	\$ 381	\$ 391	\$ 379	\$ 391	\$ 2	\$
Income taxes <sup>(3)</sup>	\$ 47	\$ 13	\$ 284	\$ (9)	\$ (237)	\$ 22

<sup>(1)</sup> Intercompany dividends, loans and advances represent payments and receipts between Forest Products and Real Estate and are classified as operating, investing or financing based on the perspective of each entity and the characteristics of the underlying cash flows. These amounts are eliminated and do not appear in the consolidated cash flows above.

<sup>(2)</sup> 2008 Includes cash and cash equivalents of discontinued operations.

<sup>(3)</sup> Income taxes paid or received by Forest Products and Real Estate include intercompany payments related to income taxes. These intercompany transactions flow through the intercompany advances lines in the statement of cash flows in either operating or investing as discussed in footnote (1) above, and may differ in timing from income tax payments to or receipts from the taxing authorities. Actual income taxes paid to (received from) the taxing authorities are reflected by consolidated cash paid (received) for taxes.

*See accompanying Notes to Consolidated Financial Statements.*

**Table of Contents**

**INDEX FOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

<b>NOTE 1:</b>	<b><u>BASIS OF PRESENTATION</u></b>	6
<b>NOTE 2:</b>	<b><u>ACCOUNTING PRONOUNCEMENTS</u></b>	6
<b>NOTE 3:</b>	<b><u>DISCONTINUED OPERATIONS</u></b>	8
<b>NOTE 4:</b>	<b><u>NET EARNINGS (LOSS) PER SHARE</u></b>	8
<b>NOTE 5:</b>	<b><u>SHARE-BASED COMPENSATION</u></b>	9
<b>NOTE 6:</b>	<b><u>CHARGES FOR FOREST PRODUCTS RESTRUCTURING, CLOSURES AND ASSET IMPAIRMENTS</u></b>	10
<b>NOTE 7:</b>	<b><u>OTHER OPERATING INCOME, NET</u></b>	11
<b>NOTE 8:</b>	<b><u>REAL ESTATE ASSET IMPAIRMENTS AND OTHER RELATED CHARGES</u></b>	11
<b>NOTE 9:</b>	<b><u>RESTRUCTURING OF URUGUAY JOINT VENTURES</u></b>	12
<b>NOTE 10:</b>	<b><u>INVENTORIES</u></b>	12
<b>NOTE 11:</b>	<b><u>ACCRUED LIABILITIES</u></b>	13
<b>NOTE 12:</b>	<b><u>FAIR VALUE OF FINANCIAL INSTRUMENTS</u></b>	13
<b>NOTE 13:</b>	<b><u>PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS</u></b>	14
<b>NOTE 14:</b>	<b><u>COMPREHENSIVE INCOME (LOSS)</u></b>	15
<b>NOTE 15:</b>	<b><u>LEGAL PROCEEDINGS, COMMITMENTS AND CONTINGENCIES</u></b>	16
<b>NOTE 16:</b>	<b><u>BUSINESS SEGMENTS</u></b>	18

**Table of Contents**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

**FOR THE QUARTERS AND YEAR-TO-DATE PERIODS ENDED SEPTEMBER 30, 2009 AND SEPTEMBER 28, 2008**

**NOTE 1: BASIS OF PRESENTATION**

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.

We report our financial results and condition in two groups:

**Forest Products** our forest products-based operations, principally the growing and harvesting of timber, the manufacture, distribution and sale of forest products and corporate governance activities; and

**Real Estate** our real estate development and construction operations.

Throughout these Notes to Consolidated Financial Statements, unless specified otherwise, references to Weyerhaeuser, we and our refer to the consolidated company, including both Forest Products and Real Estate.

In December 2008, our board of directors amended our bylaws to adopt a December 31 fiscal year-end. Previously we reported results on a fiscal calendar ending the last Sunday of the calendar year. Third quarter 2008 ended September 28, 2008, and included 91 days. Year-to-date 2008 included 273 days. Beginning in 2009, we report our results on a calendar quarter. Third quarter 2009 ended September 30, 2009, and included 92 days. Year-to-date 2009 included 273 days.

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; as such certain disclosures normally provided in accordance with accounting principles generally accepted in the United States have been omitted. These 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, 2008.

The Company has evaluated events and transactions through November 5, 2009, the date these financial statements were issued, for items that should potentially be recognized or disclosed.

**RECLASSIFICATIONS**

We have reclassified certain balances and results from the prior year for consistency with our 2009 reporting. This makes year-to-year comparisons easier. Our reclassifications had no effect on net earnings (loss) or Weyerhaeuser shareholders' interest. Note 2: Accounting Pronouncements discusses the noncontrolling interest presentation changes.

**NOTE 2: ACCOUNTING PRONOUNCEMENTS**

**ACCOUNTING CHANGES WE IMPLEMENTED IN 2009**

We changed how we disclose or account for the following during 2009:

references to accounting guidance,

fair value measurements for nonfinancial assets and nonfinancial liabilities,

noncontrolling interests,

disclosures about fair value of financial instruments and

subsequent events.

**The FASB Accounting Standards Codification<sup>TM</sup> (the Codification)**

On July 1, 2009, the FASB issued the Codification to establish a single level of authoritative nongovernmental U.S. GAAP and eliminate the previous U.S. GAAP hierarchy. All other literature outside of the Codification is non-authoritative with the exception of SEC rules and interpretive releases, which are also authoritative U.S. GAAP for SEC registrants.

Our adoption of the Codification during the third quarter did not change our application of U.S. GAAP nor did it have any impact on our results of operations, financial position or cash flows.

**Fair Value Measurements for Nonfinancial Assets and Nonfinancial Liabilities**

We adopted FASB guidance for fair value measurements and disclosures of financial assets and financial liabilities in the first quarter of 2008. The FASB deferred the effective date of this guidance for one year as it applies to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value on a recurring basis. We adopted the deferred guidance in the first quarter of 2009. This guidance:

provides a common definition of fair value,

establishes a framework for measuring fair value in generally accepted accounting principles and

expands disclosures about fair value instruments.

It applies when other accounting standards require or permit fair value measurements. However, it does not require any new fair value measurements.

## **Table of Contents**

Nonfinancial assets and nonfinancial liabilities affected by this guidance include:

long-lived assets (asset groups) measured at fair value for an impairment assessment,

reporting units measured at fair value in the first step of a goodwill impairment test,

nonfinancial assets and nonfinancial liabilities measured at fair value in the second step of a goodwill impairment assessment and

asset retirement obligations initially measured at fair value.

This guidance includes a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity's pricing based upon their own market assumptions.

The fair value hierarchy consists of the following three levels:

Level 1 Inputs are quoted prices in active markets for identical assets or liabilities.

Level 2 Inputs are:

quoted prices for similar assets or liabilities in an active market,

quoted prices for identical or similar assets or liabilities in markets that are not active and

inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data.

Level 3 Inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable. The adoption of the guidance for nonfinancial assets and nonfinancial liabilities resulted in additional disclosure in Note 8 Real Estate Impairments and Other Related Charges. It did not have a material impact on our results of operations, financial position, or cash flows.

## **Noncontrolling Interests**

In December 2007, the FASB issued guidance that affects the presentation of noncontrolling interests which:

changes the accounting for noncontrolling (minority) interests in consolidated financial statements,

## Edgar Filing: WEYERHAEUSER CO - Form 10-Q

requires noncontrolling interests to be presented as a separate component of equity,

changes the income statement presentation of income or losses attributable to noncontrolling interests and

revises the accounting for both increases and decreases in a parent's controlling ownership interest.

Our adoption of this guidance in the first quarter of 2009 did not have a material impact on our results of operations, financial position or cash flows. We did change the presentation of noncontrolling interests on our consolidated financial statements.

### **Disclosures About Fair Value of Financial Instruments**

In April 2009, the FASB issued guidance requiring disclosure of the fair value of financial instruments in interim reporting periods beginning in the second quarter of 2009. The additional disclosure is included in Note 12 Fair Value of Financial Instruments.

### **Subsequent Events**

In May 2009, the FASB issued guidance on subsequent event accounting which:

incorporates accounting and disclosure requirements related to subsequent events into U.S. GAAP,

requires evaluation of subsequent events through the date financial statements are issued or available to be issued,

refers to the types of subsequent events as either recognized subsequent events or nonrecognized subsequent events and

requires disclosure of the date through which subsequent events are evaluated.

Our adoption of this guidance during the second quarter did not have a material impact on our results of operations, financial position or cash flows.

## **ACCOUNTING CHANGES THAT TAKE EFFECT IN THE FUTURE**

### **Disclosures About Postretirement Benefit Plan Assets**

In December 2008, the FASB issued guidance that amends postretirement disclosure requirements to include:

qualitative disclosures about how pension investment allocation decisions are made;

disclosures about the major categories of plan assets and concentrations of risk; and

disclosures about fair value measurements, including the methods and inputs used to measure the fair value of plan assets.

This guidance is effective during the fourth quarter of 2009 and we are currently evaluating the effect that the adoption of this guidance will have on our financial statement disclosures.

### **Variable Interest Entities**

In June 2009, the FASB issued guidance which amends existing consolidation guidance over variable interest entities (VIEs). The new guidance:

changes the required approach for identifying the primary beneficiary of a VIE by replacing the quantitative-based risks and rewards calculation with a qualitative approach that focuses on identifying who has the power to direct activities that significantly impact an entity's economic performance,

**Table of Contents**

requires reconsideration of whether an entity is a VIE when there is a loss of power from changes to voting or similar rights to direct the activities that significantly impact the entity's economic performance,

requires ongoing assessment of whether an enterprise is the primary beneficiary of a VIE and

requires additional disclosures over involvement with a VIE.

This guidance is effective in first quarter 2010 and we are currently evaluating the effect that the adoption of this guidance will have on our financial position, results of operations and cash flows.

**NOTE 3: DISCONTINUED OPERATIONS**

There are no operations classified as discontinued for the quarter and year-to-date periods ended September 30, 2009.

Our discontinued operations for the quarter and year-to-date periods ended September 28, 2008, include the operations of our Containerboard, Packaging and Recycling business and our Australian operations, both of which were sold in third quarter 2008.

The following table summarizes net sales and revenues and net earnings from discontinued operations for the quarter and year-to-date periods ended September 28, 2008:

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED SEPTEMBER 28, 2008	YEAR-TO-DATE ENDED SEPTEMBER 28, 2008
Net sales and revenues	\$ 514	\$ 3,301
Income from operations	28	331
Interest expense		(1)
Equity in income of affiliates	1	5
Income tax expense	(13)	(121)
Earnings from operations	16	214
Pretax gain on divestiture and sales	1,379	1,379
Income tax expense	(915)	(915)
Net gain on divestiture and sales	464	464
<b>Net earnings from discontinued operations</b>	<b>\$ 480</b>	<b>\$ 678</b>

Results of discontinued operations:

exclude certain general corporate overhead costs that have been allocated to and are included in contribution to earnings for the operating segments,

include an allocation of net pension income and



## Edgar Filing: WEYERHAEUSER CO - Form 10-Q

include interest expense only if the interest is directly attributable to the discontinued operations or is interest on debt that is required to be repaid as a result of a disposal transaction.

Discontinued operations related to our Containerboard, Packaging and Recycling business do not include any allocation of interest expense. Discontinued operations related to our Australian operations include interest expense.

### **NOTE 4: NET EARNINGS (LOSS) PER SHARE**

Basic earnings per share is net earnings divided by the weighted average number of our outstanding common shares.

Diluted earnings per share is net earnings divided by the sum of the:

weighted average number of our outstanding common shares and

the effect of our outstanding dilutive potential common shares.

Dilutive potential common shares may include:

outstanding stock options,

restricted stock units or

performance share units.

We use the treasury stock method to calculate the effect of our outstanding dilutive potential common shares.

Our basic and diluted earnings (loss) per share attributable to Weyerhaeuser shareholders was:

\$0.00 during third quarter and \$(1.75) during year-to-date 2009 and

\$1.33 during third quarter and \$0.17 during year-to-date 2008.

### **SHARES EXCLUDED FROM DILUTIVE EFFECT**

The following shares were not included in the computation of diluted earnings (loss) per share for the quarters and year-to-date periods ended September 30, 2009, and September 28, 2008, due to our net loss position from continuing operations. Some or all of these shares may be dilutive potential common shares in future periods.

**Table of Contents****Potential Shares Not Included in the Computation of Diluted Earnings (Loss) per Share**

SHARES IN THOUSANDS	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008
Stock options	11,901	10,580	11,677	10,244
Performance share units	219	464	220	511
Restricted stock units	745	731	700	729

**Share Repurchase Program**

In December 2008, we announced a stock repurchase program under which we are authorized to repurchase up to \$250 million of outstanding common shares. Through September 30, 2009, we had repurchased a total of 66,691 shares of common stock for approximately \$2 million under the program. These repurchases took place during first half 2009 and all common stock purchases under the program were made in open-market transactions.

**NOTE 5: SHARE-BASED COMPENSATION**

We granted 1,504,850 stock options, 94,850 stock appreciation rights and 238,344 restricted stock units in 2009. In addition, 193,982 outstanding restricted stock unit awards vested during 2009, resulting in the issuance of 134,452 shares of common stock. The number of stock units vested and the number of common shares issued will differ as a portion of the shares awarded are withheld to cover employee taxes.

**STOCK OPTIONS**

Most of the stock options were granted with the following standard vesting and post-termination vesting terms:

options vest ratably over 4 years;

options either vest or continue to vest in the event of death, disability, retirement or involuntary termination; and

options must be exercised within 10 years of the grant date.

In addition, we granted 295,600 stock options to certain executives with the following vesting terms and post-termination provisions:

options vest at the end of a 4-year required service period;

options fully or partially vest in the event of death, disability or involuntary termination; and

unvested options will be forfeited in the event of retirement.

The weighted average exercise price of all of the stock options granted in 2009 was \$25.29.

**Weighted Average Assumptions Used in Estimating the Value of Stock Options Granted in 2009**

Edgar Filing: WEYERHAEUSER CO - Form 10-Q

	10-YEAR STANDARD OPTIONS	10-YEAR EXECUTIVE OPTIONS
Expected volatility	36.61%	36.51%
Expected dividends	3.95%	3.95%
Expected term (in years)	6.16	7.08
Risk-free rate	2.54%	2.75%
Weighted average grant date fair value	\$ 6.50	\$ 6.69

**STOCK APPRECIATION RIGHTS**

Stock appreciation rights represent liability-classified awards that are remeasured to reflect the fair value at each reporting period. The following table shows the weighted average assumptions applied to all outstanding stock appreciation rights as of September 30, 2009.

**Weighted Average Assumptions Used to Remeasure the Value of Stock Appreciation Rights as of September 30, 2009**

	September 30, 2009
Expected volatility	43.23%
Expected dividends	0.55%
Expected term (in years)	3.88
Risk-free rate	1.83%
Weighted average fair value	\$ 6.74

**RESTRICTED STOCK UNITS**

The weighted average fair value of the restricted stock units granted in 2009 was \$25.41. Standard vesting and post-termination vesting terms for restricted stock units granted in 2009 were as follows:

restricted stock units vest ratably over 4 years; and

restricted stock units will be forfeited upon termination of employment for any reason, including retirement or involuntary termination.

**Table of Contents****NOTE 6: CHARGES FOR FOREST PRODUCTS RESTRUCTURING, CLOSURES AND ASSET IMPAIRMENTS**

Actions related to the following Wood Products operations, coupled with corporate restructuring, resulted in the majority of closure and restructuring charges in 2008 and 2009:

TYPE OF OPERATION	LOCATION	CURRENT STATUS
Softwood lumber	Aberdeen, WA	Permanently closed
	Coburg, OR	Permanently closed
	Carrot River, SK	Permanently closed
	Dallas, OR	Permanently closed
	Green Mountain, WA	Permanently closed
	Kamloops, BC	Permanently closed
	Pine Hill, AL	Indefinitely closed
	Taylor, LA	Permanently closed
	Wright City, OK	Indefinitely closed
	Veneer and plywood	Aberdeen, WA
Dodson, LA		Indefinitely closed
Hudson Bay, SK		Permanently closed
Engineered I-joists	Pine Hill, AL	Indefinitely closed
	Evergreen, AL	Indefinitely closed
	Valdosta, GA	Indefinitely closed
Engineered wood products	Colbert, GA	Indefinitely closed
	Deerwood, MN	Indefinitely closed
	Evergreen, AL	Indefinitely closed
	Hazard, KY	Indefinitely closed
	Junction City, OR	Indefinitely closed
Strand technology	Simsboro, LA	Indefinitely closed
	Drayton Valley, AB	Permanently closed
	Hudson Bay, SK	Indefinitely closed
	Miramichi, NB	Permanently closed
Hardwood lumber	Wawa, ON	Indefinitely closed
	Delta, BC	Permanently closed
Trus Joist® Commercial division	Various	Sold
Trucking	Albany, OR	Permanently closed
iLevel® service centers	7 U.S. distribution facilities	Sold
	9 U.S. distribution facilities	Permanently closed

We review the carrying value of our assets whenever events or changes in circumstances indicate that the carrying value of the assets may not be recoverable through future operations. These events or changes in circumstances may include, but are not limited to:

decisions made to curtail, close, sell or restructure operations;

changes in the expected use of assets; and

significant or prolonged adverse changes in financial markets and economic conditions in markets in which we operate.

Charges for Forest Products restructuring, closures and asset impairments for the quarters and year-to-date periods ended September 30, 2009, and September 28, 2008, include:

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008
<b>Restructuring and closure charges:</b>				
Termination benefits	\$ 4	\$ 10	\$ 83	\$ 86
Pension and postretirement charges	61	(2)	96	(1)
Other restructuring and closure costs	2	1	16	9
	67	9	195	94
Less: discontinued operations		1		(7)
<b>Charges for restructuring and closures</b>	<b>\$ 67</b>	<b>\$ 10</b>	<b>\$ 195</b>	<b>\$ 87</b>
<b>Asset Impairments:</b>				
Long-lived assets	\$ 36	\$ 59	\$ 60	\$ 136
Goodwill		6	3	11
Other assets		1	11	6
	36	66	74	153
Less: discontinued operations		(1)		(6)
<b>Impairment of goodwill and other assets</b>	<b>\$ 36</b>	<b>\$ 65</b>	<b>\$ 74</b>	<b>\$ 147</b>

The restructuring and closure charges recognized in 2009 are primarily related to corporate restructuring activities and the Wood Products closures and curtailments listed in the above table. Restructuring activities in third quarter 2009 include a \$60 million noncash pension charge triggered by the amount of lump-sum distributions paid in 2009 to former employees – see Note 13: Pension and Other Postretirement Benefit Plans – for more information. Additional costs were recognized in 2009 in connection with previously announced facility closures.

**Table of Contents**

The restructuring and closure charges recognized in 2008 primarily include charges for permanent closures and curtailments listed in the above table and other costs recognized in connection with previously announced closures.

Long-lived asset impairment charges were \$60 million in 2009, of which \$48 million related to Wood Products facilities and corporate-region buildings. The fair values of the assets were determined using significant other observable inputs (Level 2) based on market quotes and significant unobservable inputs (Level 3) based on discounted cash flow models. The remaining \$12 million relates to software costs.

Long-lived asset impairment charges in 2008 related primarily to capitalized interest on impaired Real Estate projects and Wood Products facility closures and curtailments listed in the above table.

Goodwill impairment charges recognized in 2009 relate to goodwill in our hardwoods and industrial wood products reporting unit. Goodwill impairment charges recognized in 2008 relate to operations in our iLevel® wood products reporting unit.

Changes in accrued termination benefits related to restructuring and facility closures during the year-to-date period ended September 30, 2009, were as follows:

**DOLLAR AMOUNTS IN MILLIONS**

Accrued severance as of December 31, 2008	\$ 53
Charges	83
Payments	(98)
Other adjustments	5
<b>Accrued severance as of September 30, 2009</b>	<b>\$ 43</b>

The majority of the accrued severance balance as of September 30, 2009, is expected to be paid within one year.

**NOTE 7: OTHER OPERATING INCOME, NET**

Other operating income, net:

excludes our Real Estate operations,

includes both recurring and occasional income and expense items and

can fluctuate from year to year.

**Various Income and Expense Items Included in Forest Products Other Operating Income, Net**

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008
Gain on sale of non-strategic timberlands	\$ (163)	\$	\$ (163)	\$
Gain on sale of Containerboard, Packaging and Recycling		(1,173)		(1,173)
Gain on sale of Australian operations		(211)		(211)
(Gain) loss on sale of assets and other operations	1	(6)	(22)	(25)
Foreign exchange (gain) loss	(17)	13	(34)	21
Litigation (reimbursements) expense, net		(6)	9	30

Edgar Filing: WEYERHAEUSER CO - Form 10-Q

Land management income	(5)	(7)	(14)	(16)
Environmental remediation reserve adjustments		1		18
Insurance recoveries			(13)	(6)
Gain on change in postretirement benefits				(52)
Other, net		21	(18)	4
	(184)	(1,368)	(255)	(1,410)
Less: discontinued operations		(1,361)		(1,402)
<b>Total other operating income, net</b>	<b>\$ (184)</b>	<b>\$ (7)</b>	<b>\$ (255)</b>	<b>\$ (8)</b>

Foreign exchange (gains) losses result primarily from changes in exchange rates between the U.S. dollar and the Canadian dollar.

The \$163 million pretax gain on sale of non-strategic timberlands resulted from the sale of 140,000 acres in northwestern Oregon in third quarter 2009.

The total pretax gain on the 2008 sale of our Australian operations was \$217 million; \$211 million was recorded in other operating income, net and \$6 million was recorded in equity in income of affiliates. The full \$217 million is presented on the Consolidated Statement of Earnings as earnings from discontinued operations, net of taxes.

**NOTE 8: REAL ESTATE ASSET IMPAIRMENTS AND OTHER RELATED CHARGES**

We review homebuilding long-lived assets and investments within our Real Estate segment for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. These assets are stated at cost unless events or circumstances trigger an impairment review. If a triggering event occurs and the asset's carrying amount is not recoverable, we record an impairment loss, which is the difference between the asset's book value and fair value. The determination of fair value is based on appraisals and market pricing of comparable assets when that information is available, or the discounted value of estimated future net cash flows from these assets.

During 2008 and 2009, unfavorable market conditions caused us to re-evaluate our strategy to develop certain projects, reduce sales prices, and increase customer incentives. The recoverability of our investments was reassessed, which triggered impairment charges. Asset impairments are recorded as adjustments to the cost basis of inventory and investments.

**Table of Contents****Total Real Estate Impairment and Other Related Charges**

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008
Impairments of long-lived assets and other related charges:				
Charges attributable to Weyerhaeuser shareholders:				
Real estate impairments	\$ 41	\$ 226	\$ 90	\$ 505
Write-off of pre-acquisition costs	2	4	37	16
Other impairment related charges			3	
	43	230	130	521
Charges attributable to noncontrolling interests	3		11	26
Total impairments of long-lived assets and other related charges	46	230	141	547
Impairments of investments and other related charges:				
Charges attributable to Weyerhaeuser shareholders				
Charges attributable to noncontrolling interests	(1)	6	28	81
	1	4	4	36
Total impairments of investments and other related charges		10	32	117
<b>Total Real Estate impairments and other related charges</b>	<b>\$ 46</b>	<b>\$ 240</b>	<b>\$ 173</b>	<b>\$ 664</b>

The write-off of pre-acquisition costs primarily relates to forfeited deposits on options to purchase land. The charge for third quarter 2009 includes the forfeiture of a deposit on one project that was planned for development of approximately 385 residential lots. As of September 30, 2009, we control approximately 64,000 lots under option.

Impairments of investments and other related charges relate to loans and investments in unconsolidated entities.

In addition to the Real Estate charges included above, Forest Products has recorded charges for the impairment of interest that previously was capitalized on Real Estate assets of \$1 million and \$19 million in third quarters 2009 and 2008, respectively, and \$2 million and \$47 million during the year-to-date periods ended September 30, 2009, and September 28, 2008, respectively. These charges are classified as Forest Products charges for asset impairments in the accompanying Consolidated Statement of Earnings.

Given the current economic environment, approximately one-third of our 118 real estate projects had triggering events in third quarter 2009 that required the project to be reviewed for recoverability. Of the projects that were reviewed, 12 were impaired.

Additional fair value information related to the Real Estate assets that were impaired in third quarter 2009 is provided in the following table:

DOLLAR AMOUNTS IN MILLIONS	Fair Value Measurements Using				Total Impairment Charges in Third Quarter 2009
	Fair Value of Impaired Assets at September 30, 2009	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Real estate held for sale or development	\$ 59	\$	\$ 48	\$ 11	\$ 41

The significant unobservable inputs (Level 3) reported above are discounted future cash flows of the projects. We use present value techniques based on discounting the estimated cash flows at a rate commensurate with the inherent risks associated with the assets and related estimated cash flow streams. Discount rates applied to the estimated future cash flows of our homebuilding assets in third quarter 2009 ranged from 12



percent to 21 percent. See Critical Accounting Policies in Management's Discussion and Analysis for additional information regarding our evaluation of real estate impairments.

**NOTE 9: RESTRUCTURING OF URUGUAY JOINT VENTURES**

In April 2008, we completed the process of restructuring our ownership interests in Uruguay and partitioned the timberland and other assets formerly owned through a joint venture. As part of the partitioning, we contributed \$23 million, net of cash acquired, to obtain full ownership of a plywood mill formerly owned through the joint venture. These assets and the results of their operations were consolidated in the accompanying financial statements as of April 2008. An estimated noncash restructuring gain of \$101 million was recorded in our Corporate and Other segment during second quarter 2008. An additional \$149 million gain was recorded in fourth quarter 2008 when the valuation of the partitioned assets was finalized. There was no tax provision on the gain primarily due to a forestry exemption from income taxes in Uruguay, and the fact that the assets are considered indefinitely invested.

**NOTE 10: INVENTORIES**

Forest Products inventories include raw materials, work-in-process and finished goods.

<b>DOLLAR AMOUNTS IN MILLIONS</b>	<b>SEPTEMBER 30, 2009</b>	<b>DECEMBER 31, 2008</b>
Logs and chips	\$ 26	\$ 63
Lumber, plywood, panels and engineered lumber	155	260
Pulp and paperboard	95	126
Other products	82	103
Materials and supplies	140	150
<b>Total inventories</b>	<b>\$ 498</b>	<b>\$ 702</b>

**Table of Contents****NOTE 11: ACCRUED LIABILITIES**

Forest Products accrued liabilities were comprised of the following:

DOLLAR AMOUNTS IN MILLIONS	SEPTEMBER 30, 2009	DECEMBER 31, 2008
Wages, salaries, severance and vacation pay	\$ 261	\$ 334
Pension and postretirement	83	88
Income taxes	2	53
Taxes Social Security and real and personal property	39	41
Interest	58	120
Dividends		53
Customer rebates and volume discounts	41	70
Deferred mineral income	32	34
Other	192	192
<b>Total accrued liabilities</b>	<b>\$ 708</b>	<b>\$ 985</b>

**NOTE 12: FAIR VALUE OF FINANCIAL INSTRUMENTS**

This note provides details about our:

debt and

other financial instruments.

**FAIR VALUE OF DEBT**

The fair value of our long-term debt was \$5.3 billion as of September 30, 2009. The estimated fair values and carrying values consisted of the following:

DOLLAR AMOUNTS IN MILLIONS	September 30, 2009		December 31, 2008	
	Carrying Value	Fair Value	Carrying Value	Fair Value
<b>Financial Liabilities:</b>				
Long-term debt (including current maturities)				
Forest Products	\$ 5,191	\$ 4,938	\$ 5,560	\$ 4,605
Real Estate	\$ 404	\$ 392	\$ 456	\$ 381

To estimate the fair value of long-term debt, we used the following valuation approaches:

market approach based on quoted market prices for the same types and issues of our debt; or

income approach based on the discounted value of the future cash flows using market yields for the same type and comparable issues of debt.

The inputs to the valuations of our long-term debt instruments are based on market data obtained from independent sources or information derived principally from observable market data.

## Edgar Filing: WEYERHAEUSER CO - Form 10-Q

The difference between the fair value and the carrying value represents the theoretical net premium or discount we would pay or receive to retire all debt at the measurement date.

### **SUBSEQUENT EVENT DEBT OFFERING**

On October 1, 2009, we issued notes totaling \$500 million. The notes are unsecured senior obligations bearing an interest rate of 7.375 percent due October 1, 2019. The net proceeds after deducting the discount, underwriting fees and issuance costs were \$491 million.

### **FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS**

We believe that our other financial instruments, including cash, short-term investments, receivables, and payables, have net carrying values that approximate their fair values with only insignificant differences. This is primarily due to:

the short-term nature of these instruments,

carrying short-term investments at expected net realizable value and

the allowance for doubtful accounts.

We also have long-term investments that are classified as available-for-sale securities. These securities carrying values approximate their fair values.

**Table of Contents****NOTE 13: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS**

We recognized net pension and other postretirement benefit costs of \$10 million and credits of \$77 million during the year-to-date periods ended September 30, 2009, and September 28, 2008, respectively. The components of net periodic benefit credits (costs) are:

DOLLAR AMOUNTS IN MILLIONS	PENSION			
	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008
Service cost	\$ (14)	\$ (19)	\$ (43)	\$ (79)
Interest cost	(67)	(73)	(206)	(224)
Expected return on plan assets	114	141	354	428
Amortization of gain (loss)	(8)	8	(22)	18
Amortization of prior service costs	(4)	(6)	(14)	(23)
Loss due to curtailment, settlement and special termination benefits	(62)	(58)	(93)	(59)
<b>Total net periodic benefit credits (costs)</b>	<b>\$ (41)</b>	<b>\$ (7)</b>	<b>\$ (24)</b>	<b>\$ 61</b>

DOLLAR AMOUNTS IN MILLIONS	OTHER POSTRETIREMENT BENEFITS			
	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008
Service (cost) credit	\$ 1	\$ (1)	\$ (1)	\$ (11)
Interest cost	(9)	(13)	(28)	(45)
Amortization of loss	(4)	(6)	(12)	(15)
Amortization of prior service credits	22	30	63	35
Gain (loss) due to curtailment and special termination benefits			(8)	52
<b>Total net periodic benefit credits</b>	<b>\$ 10</b>	<b>\$ 10</b>	<b>\$ 14</b>	<b>\$ 16</b>

The 2009 curtailments and special termination benefits are related to involuntary terminations due to restructuring activities and the closure of Wood Products facilities.

During third quarter 2009, amendments were approved for our postretirement medical and life insurance benefits for certain retirees and employees covered by plans in Canada. The changes to the Canadian plans included a decrease in the amounts we will pay for postretirement medical and life insurance for certain retirees and employees. Due to the changes, the plans' liabilities were remeasured as of August 31, 2009, using a discount rate of 5.9 percent.

During third quarter 2009, the cumulative lump-sum distributions for the year triggered a settlement in the U.S. qualified pension plan for salaried employees. The plan's assets and liabilities were remeasured as of August 31, 2009—the date the settlement was triggered. The assets were remeasured to their estimated fair values. The liabilities were remeasured using a discount rate of 6.1 percent.

The net effect of these third quarter 2009 plan amendments, settlements and related plan remeasurements was:

a \$60 million pension settlement charge recognized in third quarter 2009;

a \$53 million reduction in pension and postretirement liabilities; and

a \$79 million net credit in cumulative other comprehensive income (loss) (OCI) which is comprised of a \$113 million pretax credit to cumulative OCI, net of \$34 million in deferred taxes.

During second quarter 2008, we announced amendments to our postretirement medical and life insurance benefit plans for U.S. salaried employees that reduced or eliminated certain medical and life insurance benefits that were available to both past and present employees. These changes resulted in a \$52 million curtailment gain recognized in second quarter 2008 for full recognition of the pre-existing prior service credit for affected employees.

During third quarter 2008, we recognized a \$59 million charge for settlement of the qualified pension plan that was transferred to International Paper and other plan curtailments and special termination benefits related to the transaction. This charge was included in the net gain on the sale of the Containerboard, Packaging and Recycling business and is presented in discontinued operations in the accompanying Consolidated Statement of Earnings.

#### **FAIR VALUE OF PENSION PLAN ASSETS**

As disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008, the value reported for our pension plan assets at the end of 2008 was estimated. Additional information regarding the year-end values generally becomes available to us during the first half of the following year. We finalized the valuations of our pension plan assets during second quarter 2009. Based on the final valuations, the year-end value of the pension plan assets was less than the estimated values reported as of December 31, 2008.

Use of the final valuations would have changed our balance sheet as of December 31, 2008, as follows:

\$137 million decrease in deferred pension and other assets;

\$149 million increase in deferred pension, other postretirement benefits and other liabilities;

\$103 million decrease in the liability for deferred income taxes; and

\$183 million net increase in cumulative other comprehensive loss, which would have resulted in a reduction in total Weyerhaeuser shareholders' interest.

The above adjustments were recorded in first half 2009. Further adjustments were made to the balance sheet as of September 30, 2009, as a result of the remeasurement of the U.S. qualified pension plan for salaried employees discussed above.

#### **RECEIVABLES FROM PENSION TRUST**

During 2008 and first quarter 2009, we provided short-term liquidity to the U.S. pension trust through short-term loans. As of September 30, 2009, we have total receivables from the pension trust of \$285 million. These loans do not affect the net funded status of the pension plans and therefore do not change any of the balance sheet effects discussed above.

**Table of Contents****EXPECTED PENSION FUNDING**

During 2009:

We are not required to make any contributions to our U.S. qualified pension plans.

We expect to pay benefits of approximately \$19 million for our U.S. nonqualified pension plans.

We are required to contribute approximately \$7 million to our Canadian pension plans (registered and nonregistered) in accordance with the minimum funding rules of the respective provincial regulations. We also chose to make voluntary contributions of approximately \$10 million to our largest registered plan during second quarter 2009. In addition, we made contributions of \$5 million to our largest registered plan in October 2009 \$3 million of voluntary contributions and \$2 million that was required due to a partial windup of the plan for Ontario members in 2008.

We expect to pay benefits of approximately \$64 million for our U.S. and Canadian other postretirement benefit plans.

**2010 CHANGES TO U.S. RETIREMENT PLAN**

On August 6, 2009, we announced changes to the Weyerhaeuser Company Retirement Plan for Salaried Employees (the pension plan for U.S. employees receiving salaried benefits) for service earned on and after January 1, 2010. The changes include a reduced pension benefit, changes in how benefits payable before age 65 are determined and a change from a single lump sum optional form of payment to an option for seven equal annual installments. There will be no change in the plan's Projected Benefit Obligation (PBO) for the 2009 plan year as a result of these changes. The changes also increased the minimum benefit under the plan for all years of service including those earned prior to January 1, 2010. This change will have an immaterial impact on the plan's PBO. The effects of these changes will be reflected in the year end disclosures. All of these changes will impact net periodic pension benefit credits (costs) and required funding, if any, beginning in 2010.

**NOTE 14: COMPREHENSIVE INCOME (LOSS)**

Our comprehensive income (loss) attributable to Weyerhaeuser common shareholders, net of tax, was income of \$106 million for third quarter 2009 and a loss of \$415 million for year-to-date 2009.

**Items Included in Our Comprehensive Income (Loss)**

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008
Consolidated net earnings (loss)	\$ (5)	\$ 275	\$ (387)	\$ (28)
Other comprehensive income (loss):				
Foreign currency translation adjustments	44	(37)	76	(71)
Actuarial net losses, net of tax		(213)	(175)	(187)
Prior service credits, net of tax	61	2	53	170
Net derivative gains (losses) on cash flow hedges, net of tax		(6)		15
Reclassification of net gains (losses) on cash flow hedges, net of tax		1	(1)	(6)
Unrealized gains (losses) on available-for-sale securities	1		2	(1)
<b>Total other comprehensive income (loss)</b>	<b>106</b>	<b>(253)</b>	<b>(45)</b>	<b>(80)</b>

Edgar Filing: WEYERHAEUSER CO - Form 10-Q

Total comprehensive income (loss)	101	22	(432)	(108)
Less: comprehensive loss attributable to noncontrolling interests	5	5	17	64
<b>Comprehensive income (loss) attributable to Weyerhaeuser common shareholders</b>	<b>\$ 106</b>	<b>\$ 27</b>	<b>\$ (415)</b>	<b>\$ (44)</b>

The net actuarial loss and net prior service credits recognized in 2009 reflect the following changes as disclosed in Note 13: Pension and Other Postretirement Benefit Plans:

In first half we adjusted the net funded status of our pension plans as of December 31, 2008;

In third quarter we announced changes to and remeasured our postretirement benefit plans in Canada; and

In third quarter we remeasured our U.S. qualified pension plan for salaried employees.

**Cumulative Other Comprehensive Loss**

Our cumulative other comprehensive loss, net of tax, was \$540 million as of September 30, 2009.

**Items Included in Our Cumulative Other Comprehensive Loss**

<b>DOLLAR AMOUNTS IN MILLIONS</b>	<b>SEPTEMBER 30, 2009</b>	<b>DECEMBER 31, 2008</b>
Foreign currency translation adjustments	\$ 374	\$ 298
Net pension and other postretirement benefit loss not yet recognized in earnings, net of tax	(1,069)	(894)
Prior service credit not yet recognized in earnings, net of tax	152	99
Cash flow hedge fair value adjustments, net of tax		1
Unrealized gains on available-for-sale securities	3	1
<b>Total cumulative other comprehensive loss</b>	<b>\$ (540)</b>	<b>\$ (495)</b>

**Table of Contents**

**NOTE 15: LEGAL PROCEEDINGS, COMMITMENTS AND CONTINGENCIES**

This note provides details about our:

legal proceedings and

environmental matters.

**LEGAL PROCEEDINGS**

Major legal proceedings involving us described in this section are:

hardboard siding claims and

alder antitrust litigation.

We also are a party to other legal matters generally incidental to our business.

The ultimate outcome of any legal proceeding:

is subject to a great many variables and

cannot be predicted with any degree of certainty.

However, whenever probable losses from litigation could reasonably be determined we believe that we have established adequate reserves. In addition, we believe the ultimate outcome of the legal proceedings:

could have a material adverse effect on our results of operations, cash flows or financial position in any given quarter or year; but

will not have a material adverse effect on our long-term results of operations, cash flows or financial position.

**Hardboard Siding Claims**

This is a nationwide claims-based settlement of hardboard siding class action cases against us.

Under the settlement which we entered into in June 2000 all persons who own or owned structures in the United States on which our hardboard siding had been installed from January 1, 1981, through December 31, 1999, can file claims.

An independent adjuster reviews claims submitted and determines payment. Claims are paid as submitted over a nine-year period. The right to file claims expires in three six-year increments and claims for the first two periods may no longer be filed. The expiration dates are:

2003 persons who had our hardboard siding installed from 1981 to 1986.



2006 persons who had our hardboard siding installed from 1987 to 1993.

2009 persons who had our hardboard siding installed from 1994 to 1999.

**Status.** Total claims and litigation costs paid through September 30, 2009, were \$112 million. The reserve for future claim payments was \$5 million as of September 30, 2009. We have recovered a total of \$52 million through negotiated settlements with our insurance carriers.

We have no litigation pending with any persons or entities that have opted out of the class. However, it is possible that persons or entities that have opted out may file claims in the future.

We believe our reserve balance is adequate. However, determining reserves required to fund any future claims involves judgments and projections of future claims rates and amounts. At this time, we are unable to estimate the amount of additional charges if any we may need for these claims in the future.

**Claims Activity and Average Damage Award Paid**

	YEAR-TO-DATE ENDED SEPTEMBER 30, 2009	YEAR ENDED DECEMBER 31, 2008	YEAR ENDED DECEMBER 30, 2007
Number of claims filed during the period	1,775	1,755	1,460
Number of claims resolved	2,095	1,410	1,980
Number of claims unresolved at end of period	990	1,310	965
Number of damage awards paid	1,570	1,070	1,200
Average damage award paid	\$ 1,269	\$ 1,574	\$ 2,100

**Events and Claims.** Here is a chronology of the settlement:

2000 We entered into a nationwide settlement of hardboard siding class action cases and recognized a \$130 million pretax charge to cover the estimated cost of the settlement and related claims.

2001 We reassessed the adequacy of our reserve and increased it by \$43 million.

2003 The right to file claims from the first six-year period (1981-1986) expired.

2004 We reduced our reserve by \$20 million based on actual claims and litigation.

2006 The right to file claims from the second six-year period (1987-1993) expired.

2006 We reduced our reserve by another \$23 million based on actual claims and litigation.

2008 We reduced our reserve by \$13 million based on actual claims and litigation.

## **Table of Contents**

### **Alder Antitrust Litigation**

A class action lawsuit filed against us in 2004 in U.S. District Court in Oregon claimed:

Weyerhaeuser had an alleged monopoly on the alleged alder sawlog market in the Pacific Northwest.

Because of that alleged monopoly, we also were able to have a monopoly on or control the alleged market for finished alder in the Pacific Northwest.

We allegedly charged monopoly prices for finished alder lumber in the Pacific Northwest.

**Status.** In April 2008, a jury found in favor of the class and imposed trebled damages of \$84 million. In first quarter 2009, we reached an agreement to settle the case and established a reserve of \$20 million. The settlement was approved by the District Court and took effect September 11, 2009. We paid the settlement amount October 1, 2009.

Sales during the class period to persons or entities opting out of the class were approximately \$100 million. There have been no claims by persons or entities opting out of the class. However, it is possible that entities or persons who have opted out of the class may file lawsuits against us in the future. We have not established a reserve for the possibility of opt-out lawsuits. We also are unable to estimate at this time the amount of charges if any that may be required in the future.

### **ENVIRONMENTAL MATTERS**

The issues we have concerning environmental matters are:

site remediation and

asbestos removal.

#### *Site Remediation*

Under the Comprehensive Environmental Response Compensation and Liability Act commonly known as the Superfund and similar state laws, we:

are a party to various proceedings related to the cleanup of hazardous waste sites and

have been notified that we may be a potentially responsible party related to the cleanup of other hazardous waste sites for which proceedings have not yet been initiated.

**Our Established Reserves.** We have established reserves for estimated remediation costs on the active Superfund sites and other sites for which we are responsible.

#### **Changes in the Reserve for Environmental Remediation**

**DOLLAR AMOUNTS IN MILLIONS**

Reserve balance as of December 31, 2008	\$ 37
Reserve charges and adjustments, net	(4)
Payments	(4)
<b>Reserve balance as of September 30, 2009</b>	<b>\$ 29</b>
<b>Total active sites as of September 30, 2009</b>	<b>53</b>

The changes in our reserves for remediation costs reflect:

new information on all sites concerning implementation of remediation alternatives,

updates on prior cost estimates and

costs incurred to remediate sites.

**Estimates.** We believe it is reasonably possible based on currently available information and analysis that remediation costs for all identified sites may exceed our reserves by up to \$35 million.

That estimate in which those additional costs may be incurred over several years is the upper end of the range of reasonably possible additional costs. The estimate:

is much less certain than the estimates on which our accruals currently are based and

uses assumptions that are less favorable to us among the range of reasonably possible outcomes.

In estimating our current accruals and the possible range of additional future costs, we:

assumed we will not bear the entire cost of remediation of every site,

took into account other potentially responsible parties and

considered each party's financial condition and probable contribution on a per-site basis.

We have not recorded any amounts for potential recoveries from insurance carriers.

**Asbestos Management**

Some of our sites have asbestos containing materials (ACM). We have met our current legal obligation to identify and manage these materials. In situations where we cannot reasonably determine when asbestos containing materials might be removed from the sites, we have not recognized a liability because its fair value cannot be reasonably estimated.

**Table of Contents****NOTE 16: BUSINESS SEGMENTS**

We are principally engaged in the growing and harvesting of timber; the manufacture, distribution and sale of forest products; and real estate development and construction. Our principal business segments are:

Timberlands which includes logs; chips; timber; minerals, oil, gas; and international wood products;

Wood Products which includes softwood lumber, engineered lumber, structural panels, hardwood lumber and building materials distribution;

Cellulose Fibers which includes pulp, liquid packaging board and an equity interest in a newsprint joint venture;

Real Estate which includes real estate development, construction and sales; and

Corporate and Other which includes governance-related corporate support activities, transportation and results of international operations outside of North America that have been sold. We also may record gains or charges in the Corporate and Other segment related to dispositions or events that are not related to an individual operating segment.

In addition, we had Containerboard, Packaging and Recycling operations that were sold to International Paper in August 2008.

**KEY FINANCIAL DATA BY BUSINESS SEGMENT**

Effective with third quarter 2008, certain postretirement credits (costs) are no longer allocated to the Forest Products segments. These credits (costs) are reported in the Corporate and Other segment with the exception of our Real Estate segment and certain union-negotiated postretirement benefits that are reflected in the Cellulose Fibers segment. Postretirement credits (costs) due to curtailments, settlements or special termination benefits continue to be reported in the appropriate business segment and are not reflected in the table below. See Note 13: Pension and Other Postretirement Benefit Plans for more detailed information.

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008
Net postretirement credits (costs):				
Timberlands	\$	\$	\$	\$ (2)
Wood Products				(13)
Cellulose Fibers	(2)	(1)	(5)	(7)
Real Estate		(1)		(3)
Containerboard, Packaging and Recycling				(10)
Corporate and Other	12	12	27	(1)
<b>Total</b>	<b>\$ 10</b>	<b>\$ 10</b>	<b>\$ 22</b>	<b>\$ (36)</b>

**Table of Contents**

An analysis and reconciliation of our business segment information to the respective information in the consolidated financial statements is as follows:

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008
<b>Sales to and revenues from unaffiliated customers:</b>				
Timberlands	\$ 193	\$ 254	\$ 558	\$ 675
Wood Products	588	1,006	1,724	3,043
Cellulose Fibers	390	447	1,103	1,352
Real Estate	196	329	567	1,054
Containerboard, Packaging and Recycling		497		3,169
Corporate and Other	40	88	121	331
	1,407	2,621	4,073	9,624
Less: sales of discontinued operations (Note 3)		(514)		(3,301)
	1,407	2,107	4,073	6,323
<b>Intersegment sales:</b>				
Timberlands	122	253	408	821
Wood Products	16	36	49	144
Cellulose Fibers		1		7
Containerboard, Packaging and Recycling				2
Corporate and Other	3	8	8	28
	141	298	465	1,002
Total sales and revenues	1,548	2,405	4,538	7,325
Intersegment eliminations	(141)	(298)	(465)	(1,002)
<b>Total</b>	<b>\$ 1,407</b>	<b>\$ 2,107</b>	<b>\$ 4,073</b>	<b>\$ 6,323</b>
<b>Net contribution (charge) to earnings:</b>				
Timberlands	\$ 219	\$ 107	\$ 325	\$ 322
Wood Products	(97)	(146)	(525)	(587)
Cellulose Fibers	166	78	297	176
Real Estate	(64)	(316)	(210)	(727)
Containerboard, Packaging and Recycling		10		204
Corporate and Other	(81)	1,369	(111)	1,439
	143	1,102	(224)	827
Interest expense (continuing and discontinued operations)	(115)	(136)	(344)	(421)
Less: capitalized interest	7	21	25	92
Income (loss) before income taxes (continuing and discontinued operations)	35	987	(543)	498
Income tax benefit (expense) (continuing and discontinued operations)	(35)	(707)	173	(462)
<b>Net earnings (loss) attributable to Weyerhaeuser common shareholders</b>	<b>\$</b>	<b>\$ 280</b>	<b>\$ (370)</b>	<b>\$ 36</b>



**Table of Contents**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS ( MD&A )**

**FORWARD-LOOKING STATEMENTS**

This report contains statements concerning our future results and performance that are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements:

use forward-looking terminology,

are based on various assumptions we make and

may not be accurate because of risks and uncertainties surrounding the assumptions that we make.

Factors listed in this section as well as other factors not included may cause our actual results to differ from our forward-looking statements. There is no guarantee that any of the events anticipated by our forward-looking statements will occur. If any of the events occur, there is no guarantee what effect they will have on our operations or financial condition.

We will not update our forward-looking statements after the date of this report.

**FORWARD-LOOKING TERMINOLOGY**

Some forward-looking statements discuss our plans, strategies and intentions. They use words such as expects, may, will, believes, should, approximately, anticipates, estimates, and plans. In addition, these words may use the positive or negative or a variation of those terms.

**STATEMENTS**

We make forward-looking statements of our expectations regarding fourth quarter 2009, including:

our markets,

fee timber harvest levels and operating costs in the Timberlands segment,

sales of non-strategic timberlands,

demand and pricing for our wood products in the Wood Products segment,

increased expenses for annual planned maintenance and raw materials costs in the Cellulose Fibers segment,

average pulp price realizations,

home sale closings and prices,

cost control measures and

earnings and performance of our business segments.

We base our forward-looking statements on a number of factors, including the expected effect of:

the economy;

foreign exchange rates, primarily the Canadian dollar and Euro;

adverse litigation outcomes and the adequacy of reserves;

regulations;

changes in accounting principles;

the effect of implementation or retrospective application of accounting methods;

contributions to pension plans;

projected benefit payments;

projected tax rates;

IRS audit outcomes and timing of settlements; and

other related matters.



**Table of Contents**

**RISKS, UNCERTAINTIES AND ASSUMPTIONS**

The major risks and uncertainties and assumptions that we make that affect our business include, but are not limited to:

general economic conditions, including the level of interest rates, appraised values, availability of financing for home mortgages, strength of the U.S. dollar, employment rates and housing starts;

market demand for our products, which is related to the strength of the various U.S. business segments and economic conditions;

raw material prices;

energy prices;

transportation costs;

successful execution of our internal performance plans including restructurings, operating efficiencies and cost reduction initiatives;

changes in our business support functions and support costs;

performance of our manufacturing operations, including maintenance requirements;

changes in legislation or tax rules;

level of competition from domestic and foreign producers;

forestry, land use, environmental and other governmental regulations;

legal proceedings;

weather;

loss from fires, floods, windstorms, hurricanes, pest infestation and other natural disasters;

changes in accounting principles;

performance of pension fund investments and related derivatives;

the effect of timing of retirements and changes in the market price of our common stock on charges for share-based compensation; and

the other factors described under "Risk Factors" in this report and our annual report on Form 10-K.

#### **EXPORTING ISSUES**

We are a large exporter and are affected by changes in:

economic activity in Europe and Asia – especially Japan, China and Korea;

currency exchange rates – particularly the relative value of the U.S. dollar to the Euro and the Canadian dollar; and

restrictions on international trade or tariffs imposed on imports.

#### **RESULTS OF OPERATIONS**

As disclosed in "Notes to Consolidated Financial Statements – Note 3: Discontinued Operations," the following operations are classified as discontinued operations in the accompanying consolidated financial statements in the 2008 periods presented:

Containerboard, Packaging, and Recycling operations; and

Australian operations included in the Corporate and Other segment.

There are no operations classified as discontinued operations in 2009.

In reviewing our results of operations, it is important to understand the following:

Net sales and revenues and operating loss included in Consolidated Results below exclude the results of discontinued operations.

Net sales and revenues and net contribution to earnings reported in the individual segment discussions that follow include the results of discontinued operations.

In reviewing our results of operations, it is important to understand these terms:

Price realizations refer to net selling prices – this includes selling price plus freight, minus normal sales deductions.

Net contribution to earnings can be positive or negative and refers to earnings (loss) attributable to Weyerhaeuser's shareholders before interest expense not capitalized and income taxes.

In the following discussion, unless otherwise noted, references to increases or decreases in income and expense items, price realizations, shipment volumes, and net contributions to earnings are based on the quarter and year-to-date periods ended September 30, 2009, compared to the quarter and year-to-date periods ended September 28, 2008.



**Table of Contents****CONSOLIDATED RESULTS****How We Did Third Quarter and Year-to-Date 2009**

Here is a comparison of net sales and revenues to unaffiliated customers and net contribution to earnings for the quarters and year-to-date periods ended September 30, 2009, and September 28, 2008:

**NET SALES AND REVENUES / OPERATING INCOME (LOSS) / NET EARNINGS (LOSS) WEYERHAEUSER COMPANY**

DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER-SHARE FIGURES	QUARTER ENDED		AMOUNT OF CHANGE 2009 VS. 2008	YEAR-TO-DATE ENDED		AMOUNT OF CHANGE 2009 VS. 2008
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008		SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	
Net sales and revenues	\$ 1,407	\$ 2,107	\$ (700)	\$ 4,073	\$ 6,323	\$ (2,250)
Operating income (loss)	\$ 123	\$ (356)	\$ 479	\$ (269)	\$ (1,020)	\$ 751
Earnings from discontinued operations, net of tax	\$	\$ 480	\$ (480)	\$	\$ 678	\$ (678)
Net earnings (loss) attributable to Weyerhaeuser common shareholders	\$	\$ 280	\$ (280)	\$ (370)	\$ 36	\$ (406)
Net earnings (loss) attributable to Weyerhaeuser common shareholders per share, basic and diluted	\$	\$ 1.33	\$ (1.33)	\$ (1.75)	\$ 0.17	\$ (1.92)

**Comparing 2009 with 2008**

In 2009:

Net sales and revenues decreased \$700 million 33 percent during third quarter and \$2.3 billion 36 percent year-to-date.

Net earnings (loss) attributable to Weyerhaeuser common shareholders decreased \$280 million 100 percent during third quarter and \$406 million year-to-date.

*Net sales and revenues*

Net sales and revenues decreased primarily due to the continued market challenges for the U.S. homebuilding industry and weak pulp markets, reflected in the following:

lower demand and prices for residential building products refer to the Wood Products segment discussion;

declines in the number of single-family homes closed and average selling prices refer to the Real Estate segment discussion;

decreased western log sales due to weaker export and domestic markets refer to the Timberlands segment discussion; and

lower pulp sales realizations refer to the Cellulose Fibers segment discussion.

*Net earnings (loss) attributable to Weyerhaeuser common shareholders*

## Edgar Filing: WEYERHAEUSER CO - Form 10-Q

Net earnings (loss) attributable to Weyerhaeuser common shareholders decreased during third quarter 2009 primarily due to the following:

net gains from the sale of our Containerboard, Packaging and Recycling business and the sale of our Australian operations recognized in 2008 that did not recur in 2009 refer to the Corporate and Other segment discussion and Notes to Consolidated Financial Statements Note 3: Discontinued Operations ;

decreased sales prices in all segments and harvest deferrals in Timberlands refer to the individual segment discussions;

increased Corporate restructuring and impairment charges refer to the Corporate and Other segment discussion; and

decreased income tax benefits related to our improved results from continuing operations as compared with 2008 and income tax adjustments refer to the Income Taxes discussion.

These decreases during third quarter were partially offset by the following:

decreased Real Estate asset impairment charges refer to the Real Estate segment discussion;

recognition of a gain on sale of 140,000 acres of non-strategic timberlands refer to the Timberlands segment discussion;

recognition of alternative fuel mixture credits refer to the Cellulose Fibers segment and the Other Liquidity Related Disclosures discussions; and

decreased costs in all segments as a result of our cost reduction initiatives, portfolio changes and operating efficiencies refer to the individual segment discussions.

Net earnings (loss) attributable to Weyerhaeuser common shareholders for year-to-date 2009 decreased due to third quarter items noted above and:

loss of earnings due to the sale of our Containerboard, Packaging and Recycling business refer to the Containerboard, Packaging and Recycling discussion; and

gains from the restructuring of our investments in Uruguay and from changes in our U.S. postretirement benefit plans recognized in 2008 that did not recur in 2009 refer to the Corporate and Other segment discussion.

**Table of Contents****TIMBERLANDS****How We Did Third Quarter and Year-to-Date 2009**

Here is a comparison of net sales and revenues to unaffiliated customers, intersegment sales, and net contribution to earnings for the quarter and year-to-date periods ended September 30, 2009, and September 28, 2008:

**NET SALES AND REVENUES / NET CONTRIBUTION TO EARNINGS TIMBERLANDS**

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED		AMOUNT OF	YEAR-TO-DATE ENDED		AMOUNT OF
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	CHANGE	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	CHANGE
	2009	2008	2009 VS. 2008	2009	2008	2009 VS. 2008
Net sales and revenues to unaffiliated customers:						
Logs:						
West	\$ 84	\$ 149	\$ (65)	\$ 253	\$ 418	\$ (165)
South	39	29	10	115	60	55
Canada	5	2	3	7	16	(9)
Subtotal log sales and revenues	128	180	(52)	375	494	(119)
Pay as cut timber sales	10	9	1	24	21	3
Timberlands sales and exchanges <sup>(1)</sup>	15	29	(14)	59	66	(7)
Higher and better use land sales <sup>(1)</sup>	5	1	4	10	9	1
Minerals, oil and gas	21	18	3	49	42	7
Products from international operations <sup>(2)</sup>	13	14	(1)	30	27	3
Other products	1	3	(2)	11	16	(5)
Subtotal net sales and revenues to unaffiliated customers	193	254	(61)	558	675	(117)
Intersegment sales:						
United States	93	203	(110)	314	655	(341)
Other	29	50	(21)	94	166	(72)
Subtotal intersegment sales	122	253	(131)	408	821	(413)
<b>Total sales and revenues</b>	<b>\$ 315</b>	<b>\$ 507</b>	<b>\$ (192)</b>	<b>\$ 966</b>	<b>\$ 1,496</b>	<b>\$ (530)</b>
<b>Net contribution to earnings</b>	<b>\$ 219</b>	<b>\$ 107</b>	<b>\$ 112</b>	<b>\$ 325</b>	<b>\$ 322</b>	<b>\$ 3</b>

(1) Higher and better use timberland and other non-strategic timberland are sold through Forest Products subsidiaries.

(2) Includes logs, plywood and hardwood lumber harvested or produced by our international operations, primarily in South America.

**Comparing Third Quarter 2009 with Third Quarter 2008**

In third quarter 2009:

## Edgar Filing: WEYERHAEUSER CO - Form 10-Q

Net sales and revenues to unaffiliated customers decreased \$61 million 24 percent.

Intersegment sales decreased \$131 million 52 percent.

Net contribution to earnings increased \$112 million 105 percent.

*Net sales and revenues unaffiliated customers*

The \$61 million decrease in net sales and revenues to unaffiliated customers resulted primarily from:

41 percent decrease in Western log sales volumes and 3 percent decrease in price realizations due to weaker domestic and export markets; and

\$10 million decrease in land sales and exchanges, including higher and better use lands.

These were partially offset by a 46 percent increase in southern log sales volumes, primarily due to sales of fiber logs to International Paper for use at locations that previously were owned by Weyerhaeuser and grade log sales to domestic customers.

*Intersegment sales*

The \$131 million decrease in intersegment sales was primarily due to the following:

fewer Weyerhaeuser mills in operation as a result of closures and curtailments of Wood Products operations in the United States; and

sales to Containerboard, Packaging and Recycling operations became third-party sales after we sold the business to International Paper in August 2008.

*Net contribution to earnings*

The \$112 million increase in net contribution to earnings resulted primarily from:

\$163 million pre-tax gain on the third quarter 2009 sale of 140,000 acres of non-strategic timberland in northwestern Oregon; and

\$19 million reduction of operating costs, including less salvage logging, lower diesel costs and reduced spending on roads and silviculture. These increases were partially offset by:

\$36 million due to 43 percent reduced harvest in the West and 25 percent reduced harvest in the South and

\$33 million due to lower domestic and export prices.

**Table of Contents**

**Comparing Year-to-Date 2009 with Year-to-Date 2008**

During year-to-date 2009:

Net sales and revenues to unaffiliated customers decreased \$117 million 17 percent.

Intersegment sales decreased \$413 million 50 percent.

Net contribution to earnings increased \$3 million 1 percent.

*Net sales and revenues unaffiliated customers*

The \$117 million decrease in net sales and revenues to unaffiliated customers resulted primarily from the following:

Western log sales volumes decreased 35 percent and price realizations decreased 7 percent due to weaker domestic and export markets.

Canadian log sales volumes decreased 51 percent due to lower logging levels in all provinces as a result of fewer manufacturing operations and production curtailments.

These were partially offset by an 89 percent increase in southern log sales volumes, primarily due to sales of fiber logs to International Paper for use at locations that previously were owned by Weyerhaeuser, and higher grade log sales to domestic customers.

*Intersegment sales*

The \$413 million decrease in intersegment sales was primarily due to the following:

fewer Weyerhaeuser mills in operation as a result of closures and curtailments of Wood Products operations in the United States; and

sales to Containerboard, Packaging and Recycling operations became third-party sales after we sold the business to International Paper in August 2008.

*Net contribution to earnings*

The \$3 million increase in net contribution to earnings was primarily due to:

\$163 million pre-tax gain on third quarter 2009 sale of 140,000 acres of non-strategic timberland in northwestern Oregon;

\$33 million reduction of operating costs which includes less salvage logging, lower diesel costs and reduced spending on roads and silviculture; and

\$17 million reduction in selling, general and administrative costs as a result of cost cutting measures.



Edgar Filing: WEYERHAEUSER CO - Form 10-Q

These were partially offset by:

\$112 million due to 38 percent reduced harvest in the West and 25 percent reduced harvest in the South and

\$97 million due to lower domestic and export prices in the West and South.

**Our Outlook**

We expect fourth quarter earnings to be lower than third quarter primarily due to additional harvest deferrals and seasonally higher silviculture costs. No significant non-strategic land sales are anticipated in fourth quarter.

**THIRD-PARTY LOG SALES VOLUMES AND FEE HARVEST VOLUMES**

VOLUMES IN THOUSANDS	QUARTER ENDED		AMOUNT OF	YEAR-TO-DATE ENDED		AMOUNT OF
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	CHANGE 2009 VS. 2008	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	CHANGE 2009 VS. 2008
Third party log sales cubic meters:						
West	1,156	1,970	(814)	3,529	5,401	(1,872)
South	981	672	309	2,812	1,486	1,326
Canada	144	83	61	211	432	(221)
International	84	53	31	234	181	53
<b>Total</b>	<b>2,365</b>	<b>2,778</b>	<b>(413)</b>	<b>6,786</b>	<b>7,500</b>	<b>(714)</b>
Fee depletion cubic meters:						
West	1,603	2,813	(1,210)	5,191	8,412	(3,221)
South	2,258	3,021	(763)	7,133	9,505	(2,372)
<b>Total</b>	<b>3,861</b>	<b>5,834</b>	<b>(1,973)</b>	<b>12,324</b>	<b>17,917</b>	<b>(5,593)</b>

**Table of Contents****WOOD PRODUCTS****How We Did Third Quarter and Year-to-Date 2009**

Here is a comparison of net sales and revenues to unaffiliated customers and net contribution to earnings for the quarters and year-to-date periods ended September 30, 2009, and September 28, 2008:

**NET SALES AND REVENUES / NET CONTRIBUTION TO EARNINGS WOOD PRODUCTS**

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED		AMOUNT OF CHANGE 2009 VS. 2008	YEAR-TO-DATE ENDED		AMOUNT OF CHANGE 2009 VS. 2008
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008		SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	
Net sales and revenues:						
Softwood lumber	\$ 226	\$ 393	\$ (167)	\$ 677	\$ 1,157	\$ (480)
Engineered solid section	67	114	(47)	184	340	(156)
Engineered I-joists	47	79	(32)	123	238	(115)
Oriented strand board	63	113	(50)	176	328	(152)
Plywood	25	48	(23)	71	164	(93)
Hardwood lumber	54	72	(18)	161	232	(71)
Other products produced	37	63	(26)	119	163	(44)
Other products purchased for resale	69	124	(55)	213	421	(208)
<b>Total</b>	<b>\$ 588</b>	<b>\$ 1,006</b>	<b>\$ (418)</b>	<b>\$ 1,724</b>	<b>\$ 3,043</b>	<b>\$ (1,319)</b>
<b>Net contribution to earnings</b>	<b>\$ (97)</b>	<b>\$ (146)</b>	<b>\$ 49</b>	<b>\$ (525)</b>	<b>\$ (587)</b>	<b>\$ 62</b>

**Comparing Third Quarter 2009 with Third Quarter 2008**

In third quarter 2009:

Net sales and revenues decreased \$418 million 42 percent.

Net contribution to earnings improved \$49 million 34 percent.

*Net sales and revenues*

We have announced the closure and curtailment of a number of facilities. See Notes to Consolidated Financial Statements Note 6: Charges for Forest Products Restructuring, Closures and Asset impairments for additional information. Demand for wood products was significantly weaker in 2009 compared to 2008 resulting in significant decreases in shipment volumes and prices for all product lines. The \$418 million decrease in net sales and revenues was primarily due to the following:

Softwood lumber average price realizations decreased 15 percent and shipment volumes decreased 33 percent.

Engineered solid section average price realizations decreased 6 percent and shipment volumes decreased 38 percent.

## Edgar Filing: WEYERHAEUSER CO - Form 10-Q

Engineered I-joists average price realizations decreased 11 percent and shipment volumes decreased 32 percent.

Oriented strand board (OSB) average price realizations decreased 8 percent and shipment volumes decreased 39 percent.

Plywood average price realizations decreased 17 percent and shipment volumes decreased 38 percent.

Hardwood lumber average price realizations decreased 5 percent and shipment volumes decreased 20 percent.

Sales of other products purchased for resale decreased 44 percent primarily due to reduced market demand and closed distribution facilities.  
*Net contribution to earnings*

Third quarter 2009 results improved compared to third quarter 2008 results. The \$49 million increase in net contribution to earnings was primarily due to the following:

\$48 million decrease in raw materials, mainly due to decreased log costs;

\$40 million decrease in manufacturing and other cost of sales primarily due to closures, curtailments and increased operating efficiencies;

\$28 million decrease in selling and administrative costs as a result of facility closures and our continued focus on reducing costs; and

\$24 million decrease in restructuring, closure and asset impairment charges.  
These cost improvements were partially offset by:

\$69 million decrease due to lower sales price realizations and lower shipment volumes for all product lines,

\$13 million decrease due to the 2008 reduction in the hardboard siding claims reserve and

\$8 million decrease in contributions from other products purchased for resale as a result of reduced market demand and closed distribution facilities.

### **Comparing Year-to-Date 2009 with Year-to-Date 2008**

During year-to-date 2009:

Net sales and revenues decreased \$1.3 billion 43 percent.

Net contribution to earnings improved \$62 million 11 percent.

**Table of Contents**

*Net sales and revenues*

The \$1.3 billion decrease in net sales and revenues was primarily due to the following:

Softwood lumber average price realizations decreased 16 percent and shipment volumes decreased 30 percent.

Engineered solid section average price realizations decreased 4 percent and shipment volumes decreased 44 percent.

Engineered I-joists average price realizations decreased 7 percent and shipment volumes decreased 44 percent.

OSB average price realizations decreased 6 percent and shipment volumes decreased 43 percent.

Plywood average price realizations decreased 13 percent and shipment volumes decreased 51 percent.

Hardwood lumber average price realizations decreased 7 percent and shipment volumes decreased 25 percent.

Sales of other products purchased for resale decreased 49 percent primarily due to closed distribution facilities and reduced market demand.  
*Net contribution to earnings*

The \$62 million improvement in net contribution to earnings was primarily due to the following:

\$133 million decrease in raw materials, mainly due to lower log costs;

\$85 million decrease in selling and administrative costs as a result of facility closures and our continued focus on reducing costs; and

\$54 million decrease in manufacturing and other cost of sales primarily due to closures, curtailments and operating efficiencies.  
These cost improvements were partially offset by:

\$182 million decrease in sales price realizations in all product lines, especially lumber, plywood and OSB; and

\$29 million decrease in contributions from other products purchased for resale as a result of reduced market demand and closed distribution facilities.

**Our Outlook**

We expect a higher fourth quarter operating loss with seasonally lower volumes and reduced prices.

**THIRD-PARTY SALES VOLUMES**

Edgar Filing: WEYERHAEUSER CO - Form 10-Q

VOLUMES IN MILLIONS	QUARTER ENDED		AMOUNT OF CHANGE 2009 VS. 2008	YEAR-TO-DATE ENDED		AMOUNT OF CHANGE 2009 VS. 2008
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008		SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	
Softwood lumber board feet	803	1,197	(394)	2,589	3,706	(1,117)
Engineered solid section cubic feet	3	6	(3)	10	18	(8)
Engineered I-Joists lineal feet	43	63	(20)	105	189	(84)
Oriented strand board square feet (3/8 )	363	595	(232)	1,084	1,903	(819)
Plywood square feet (3/8 )	84	135	(51)	222	449	(227)
Hardwood lumber board feet	66	83	(17)	193	258	(65)
<b>TOTAL PRODUCTION VOLUMES</b>						

VOLUMES IN MILLIONS	QUARTER ENDED		AMOUNT OF CHANGE 2009 VS. 2008	YEAR-TO-DATE ENDED		AMOUNT OF CHANGE 2009 VS. 2008
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008		SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	
Softwood lumber board feet	777	1,107	(330)	2,430	3,474	(1,044)
Engineered solid section cubic feet	3	6	(3)	8	18	(10)
Engineered I-Joists lineal feet	36	60	(24)	80	179	(99)
Oriented strand board square feet (3/8 )	390	585	(195)	1,094	1,952	(858)
Plywood square feet (3/8 )	48	89	(41)	113	258	(145)
Hardwood lumber board feet	54	64	(10)	157	202	(45)

**Table of Contents****CELLULOSE FIBERS****How We Did Third Quarter and Year-to-Date 2009**

Here is a comparison of net sales and revenues to unaffiliated customers and net contribution to earnings for the quarters and year-to-date periods ended September 30, 2009, and September 28, 2008:

**NET SALES AND REVENUES / NET CONTRIBUTION TO EARNINGS CELLULOSE FIBERS**

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED		AMOUNT OF CHANGE 2009 VS. 2008	YEAR-TO-DATE ENDED		AMOUNT OF CHANGE 2009 VS. 2008
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008		SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	
Net sales and revenues:						
Pulp	\$ 297	\$ 346	\$ (49)	\$ 833	\$ 1,046	\$ (213)
Liquid packaging board	73	73		216	214	2
Other products	20	28	(8)	54	92	(38)
<b>Total</b>	<b>\$ 390</b>	<b>\$ 447</b>	<b>\$ (57)</b>	<b>\$ 1,103</b>	<b>\$ 1,352</b>	<b>\$ (249)</b>
<b>Net contribution to earnings</b>	<b>\$ 166</b>	<b>\$ 78</b>	<b>\$ 88</b>	<b>\$ 297</b>	<b>\$ 176</b>	<b>\$ 121</b>

**Comparing Third Quarter 2009 with Third Quarter 2008**

In third quarter 2009:

Net sales and revenues decreased \$57 million 13 percent.

Net contribution to earnings increased \$88 million 113 percent.

*Net sales and revenues*

The effects of the global economic recession placed downward pressure on sales realizations as compared to third quarter 2008. The \$57 million decrease in net sales and revenues was primarily due to decreased pulp price realizations of \$160 per ton 20 percent. However, pulp prices have increased during the third quarter 2009. The year over year revenue decrease was partially offset by:

Sales volumes for pulp increased 28,000 tons 7 percent.

Liquid packaging board price realizations increased \$16 per ton 2 percent.

*Net contribution to earnings*

Net contribution to earnings increased \$88 million primarily due to the following:

## Edgar Filing: WEYERHAEUSER CO - Form 10-Q

\$122 million increase due to alternative fuel mixture credits, see [Liquidity and Capital Resources](#) [Other Liquidity Related Disclosures](#) for more information related to the alternative fuel mixture credits;

\$35 million decrease in freight, fiber, energy and chemical costs primarily as a result of lower prices for chips, fuels and chemicals; and

\$15 million decrease in other operating, maintenance and administrative costs primarily due to cost reduction initiatives. Partially offsetting these increases in earnings were the following:

\$72 million decrease due to lower pulp price realizations as global pulp market demand remained weak and

\$10 million decrease in other income and earnings from our interest in a newsprint joint venture primarily due to lower newsprint market prices.

### **Comparing Year-to-Date 2009 with Year-to-Date 2008**

During year-to-date 2009:

Net sales and revenues decreased \$249 million 18 percent.

Net contribution to earnings increased \$121 million 69 percent.  
*Net sales and revenues*

Weaker pulp demand combined with a stronger US dollar placed downward pressure on price realizations and sales volumes. The \$249 million decrease in net sales and revenues was primarily due to the following:

Pulp price realizations decreased \$134 per ton 17 percent.

Sales volumes for pulp decreased 57,000 tons 4 percent.

Sales volumes for liquid packaging board decreased approximately 11,000 tons 5 percent. These decreases were partially offset by increased liquid packaging price realizations of \$51 per ton 5 percent.

*Net contribution to earnings*

Net contribution to earnings increased \$121 million primarily due to the following:

\$229 million increase due to alternative fuel mixture credits, see [Liquidity and Capital Resources](#) [Other Liquidity Related Disclosures](#) for more information related to the alternative fuel mixture credits;

\$67 million decrease in freight, fiber and energy costs primarily related to lower prices for chips and fuel;





**Table of Contents**

\$30 million decrease in other operating and administrative costs, primarily as a result of cost reduction initiatives;

\$17 million decrease in costs for Canadian manufacturing operations primarily due to the strengthening of the U.S. dollar;

\$12 million decrease in overall maintenance costs primarily due to timing and lower spending for annual maintenance outages net of increased spending for the extended outage at Columbus, MS; and

\$11 million increase in liquid packaging board price realizations.  
Partially offsetting these increases in earnings were the following:

\$177 million decrease due to lower pulp prices and lower pulp sales volumes as global pulp market demand weakened,

\$23 million decrease due to lower other product realizations,

\$32 million decrease as a result of lower production due to maintenance and market downtime and

\$10 million decrease due to higher chemical costs in the first half of the year.

**Our Outlook**

Excluding the effect of alternative fuel mixture credits, we expect earnings from operations for fourth quarter to be comparable to third quarter. Improved pulp price realizations are expected to be offset by increased annual maintenance and fiber costs.

**THIRD-PARTY SALES VOLUMES**

VOLUMES IN THOUSANDS	QUARTER ENDED		AMOUNT OF CHANGE 2009 VS. 2008	YEAR-TO-DATE ENDED		AMOUNT OF CHANGE 2009 VS. 2008
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008		SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	
Pulp air-dry metric tons	450	422	28	1,254	1,311	(57)
Liquid packaging board tons	74	77	(3)	215	226	(11)
<b>TOTAL PRODUCTION VOLUMES</b>						

VOLUMES IN THOUSANDS	QUARTER ENDED		AMOUNT OF CHANGE 2009 VS. 2008	YEAR-TO-DATE ENDED		AMOUNT OF CHANGE 2009 VS. 2008
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008		SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	
Pulp air-dry metric tons	429	452	(23)	1,212	1,324	(112)
Liquid packaging board - tons	71	75	(4)	213	216	(3)
<b>REAL ESTATE</b>						

**How We Did Third Quarter and Year-to-Date 2009**

Edgar Filing: WEYERHAEUSER CO - Form 10-Q

Here is a comparison of net sales and revenues and net contribution to earnings for the quarter and year-to-date periods ended September 30, 2009, and September 28, 2008:

**NET SALES AND REVENUES / NET CONTRIBUTION TO EARNINGS REAL ESTATE**

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED		AMOUNT OF CHANGE 2009 VS. 2008	YEAR-TO-DATE ENDED		AMOUNT OF CHANGE 2009 VS. 2008
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008		SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	
Net sales and revenues:						
Single-family housing	\$ 185	\$ 303	\$ (118)	\$ 527	\$ 986	\$ (459)
Land development	10	24	(14)	37	54	(17)
Other	1	2	(1)	3	14	(11)
<b>Total</b>	<b>\$ 196</b>	<b>\$ 329</b>	<b>\$ (133)</b>	<b>\$ 567</b>	<b>\$ 1,054</b>	<b>\$ (487)</b>
<b>Net contribution to earnings</b>	<b>\$ (64)</b>	<b>\$ (316)</b>	<b>\$ 252</b>	<b>\$ (210)</b>	<b>\$ (727)</b>	<b>\$ 517</b>

**Table of Contents**

Here is a comparison of key statistics related to our single-family operations for the quarters and year-to-date periods ended September 30, 2009, and September 28, 2008:

**SUMMARY OF SINGLE-FAMILY STATISTICS**

	QUARTER ENDED		AMOUNT OF CHANGE 2009 VS. 2008	YEAR-TO-DATE ENDED		AMOUNT OF CHANGE 2009 VS. 2008
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008		SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	
Homes sold	593	531	62	1,838	2,193	(355)
Homes closed	506	720	(214)	1,399	2,433	(1,034)
Homes sold but not closed (backlog)	997	984	13	997	984	13
Cancellation rate	22.2%	37.0%	(14.8)%	22.4%	30.7%	(8.3)%
Buyer traffic	15,614	29,942	(14,328)	54,236	92,753	(38,517)
Average price of homes closed	\$ 366,000	\$ 421,000	\$ (55,000)	\$ 377,000	\$ 405,000	\$ (28,000)
Single-family gross margin excluding impairments (%) <sup>(1)</sup>	12.6%	16.5%	(3.9)%	12.6%	14.2%	(1.6)%

(1) Single-family gross margin excluding impairments equals revenue less cost of sales and period costs other than impairments.

**Comparing Third Quarter 2009 with Third Quarter 2008**

In third quarter 2009:

Net sales and revenues decreased \$133 million 40 percent.

Net contribution to earnings increased \$252 million 80 percent.

*Net sales and revenues*

Third quarter net sales and revenues were significantly lower than the prior year. Third quarter closing volumes were affected by extremely weak orders in first quarter 2009. Sales of foreclosed homes have continued to put pricing pressure on new home sales prices. We have also experienced a shift in the mix of homes closed. Changes in mix reflect changes in product lines (entry-level homes versus move-up products) or changes in geographic markets where the closings occur. Increased affordability due to lower home prices, relatively low interest rates and tax credits available to qualifying first time home buyers have benefitted lower priced market segments. A greater proportion of closings were in lower priced markets in third quarter 2009 compared to third quarter 2008.

The \$133 million decrease in net sales and revenues resulted primarily from:

Home closings decreased 30 percent to 506 in third quarter 2009 from 720 in third quarter 2008.

Average prices of single-family homes closed decreased 13 percent to \$366,000 in third quarter 2009 from \$421,000 in third quarter 2008.

Land and lot sales decreased \$14 million. Land and lots sales are a routine part of our home building and land development business, but they do not occur evenly throughout the year.

## Edgar Filing: WEYERHAEUSER CO - Form 10-Q

### *Net contribution to earnings*

The \$252 million increase in net contribution to earnings resulted primarily from:

\$194 million decrease in impairments and other related charges attributable to Weyerhaeuser shareholders;

\$86 million increase in contribution from land and lot sales \$1 million loss third quarter 2009 compared to \$87 million loss third quarter 2008; and

\$23 million decrease in selling and general and administrative expenses due to lower sales volumes, a reduction in the number of open communities, and general cost cutting measures, including reductions in headcount.

These increases to net contribution to earnings were partially offset by:

\$26 million decrease 53 percent in single-family gross margin primarily resulting from fewer closings and lower prices and margins due to the mix of homes closed;

\$13 million increase in restructuring charges primarily related to vacated office spaces and headcount reductions; and

\$12 million of income from a commercial partnership investment in 2008 that did not recur in 2009.

### **Comparing Year-to-Date 2009 with Year-to-Date 2008**

During year-to-date 2009:

Net sales and revenues decreased \$487 million 46 percent.

Net contribution to earnings increased \$517 million 71 percent.

#### *Net sales and revenues*

Year-to-date net sales and revenues were significantly lower than the prior year. Year-to-date closings were affected by extremely weak orders in fourth quarter 2008 and first quarter 2009. Sales of foreclosed homes have continued to put pricing pressure on new home sales prices. We have also experienced a shift in the mix of homes sold with a greater proportion of 2009 sales in lower priced markets.

The \$487 million decrease in net sales and revenues resulted primarily from:

Home closings decreased 42 percent to 1,399 year-to-date 2009 from 2,433 year-to-date 2008.

Average prices of single-family homes closed decreased 7 percent to \$377,000 year-to-date 2009 from \$405,000 year-to-date 2008.

**Table of Contents**

*Net contribution to earnings*

The \$517 million increase in net contribution to earnings resulted primarily from:

\$444 million decrease in impairments and other related charges attributable to Weyerhaeuser shareholders;

\$65 million decrease in selling and general and administrative expenses due to lower sales volumes, a reduction in the number of open communities, and general cost cutting measures, including a reduction in headcount; and

\$102 million increase in contribution from land and lot sales.

These increases to net contribution to earnings were partially offset by:

\$73 million decrease 52 percent in single-family gross margin, primarily as a result of fewer closings; and

\$19 million increase in restructuring charges primarily related to vacated office space and headcount reductions.

**Our Outlook**

We expect slightly improved results from homebuilding operations in fourth quarter due to seasonally increased closing volumes. We are currently considering a number of potential fourth quarter land sales in order to monetize tax benefits.

**CONTAINERBOARD, PACKAGING AND RECYCLING**

On August 4, 2008, we sold our Containerboard, Packaging and Recycling operations to International Paper. Subsequent to third quarter 2008, we no longer have results of operations for the segment.

Here are net sales and revenues to unaffiliated customers and net contribution to earnings for the quarter and year-to-date periods ended September 28, 2008:

**NET SALES AND REVENUES / NET CONTRIBUTION TO EARNINGS CONTAINERBOARD, PACKAGING AND RECYCLING**

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED SEPTEMBER 28, 2008	YEAR-TO-DATE ENDED SEPTEMBER 28, 2008
Net sales and revenues:		
Containerboard	\$ 42	\$ 301
Packaging	388	2,449
Recycling	41	275
Kraft bags and sacks	9	56
Other products	17	88
<b>Total</b>	<b>\$ 497</b>	<b>\$ 3,169</b>
<b>Net contribution to earnings</b>	<b>\$ 10</b>	<b>\$ 204</b>

**CORPORATE AND OTHER**

Our Corporate and Other segment includes:

governance related corporate support activities and company wide initiatives, such as major information technology deployments;

transportation operations, including Westwood Shipping Lines and five short line railroads; and

results of international operations that have been disposed of and results of our investment in Uruguay prior to its restructuring in second quarter 2008.

We also may record gains or charges in the Corporate and Other segment related to dispositions or events that are not related to an individual operating segment.

During the third quarter of 2008, we closed the sale of our timberlands, manufacturing operations and distribution business in Australia and the sale of our Containerboard, Packaging and Recycling business. The gain and results of operations for the Australia businesses and the gain on the sale of Containerboard Packaging and Recycling business are included in Corporate and Other.

**How We Did Third Quarter and Year-to-Date 2009**

Here is a comparison of net sales and revenues and net contribution to earnings for the quarters and year-to-date periods ended September 30, 2009, and September 28, 2008:

**NET SALES AND REVENUES / NET CONTRIBUTIONS TO EARNINGS CORPORATE AND OTHER**

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED		AMOUNT OF CHANGE 2009 VS. 2008	YEAR-TO-DATE ENDED		AMOUNT OF CHANGE 2009 VS. 2008
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008		SEPTEMBER 30, 2009	SEPTEMBER 28, 2008	
<b>Net sales and revenues</b>	<b>\$ 40</b>	<b>\$ 88</b>	<b>\$ (48)</b>	<b>\$ 121</b>	<b>\$ 331</b>	<b>\$ (210)</b>
<b>Net contribution to earnings</b>	<b>\$ (81)</b>	<b>\$ 1,369</b>	<b>\$ (1,450)</b>	<b>\$ (111)</b>	<b>\$ 1,439</b>	<b>\$ (1,550)</b>

**Table of Contents**

**Comparing Third Quarter 2009 with Third Quarter 2008**

In third quarter 2009:

Net sales and revenues decreased \$48 million 55 percent.

Net contributions to earnings decreased \$1.5 billion.

*Net sales and revenues*

The \$48 million decrease in net sales and revenues consisted of:

\$31 million decrease in revenues from our Westwood shipping operations mainly due to reductions in volumes, freight rates and fuel surcharge income; and

\$17 million decrease related to Australian operations that were sold in third quarter 2008.

*Net contribution to earnings*

Net contribution to earnings decreased \$1.5 billion, primarily resulting from the following:

\$1.17 billion pretax gain recognized in third quarter 2008 from the sale of our Containerboard, Packaging and Recycling business;

\$217 million pretax gain recognized in third quarter 2008 from the sale of our Australian operations;

\$58 million increase in restructuring charges and asset impairments, including a \$60 million pension settlement charge triggered by the amount of distributions paid during 2009 to former salaried employees; and

\$32 million from net reductions in pension and postretirement credits primarily due to plan remeasurements and curtailments.

These decreases were partially offset by \$28 million increase in foreign exchange gains, primarily resulting from changes in exchange rates between the U.S. dollar and the Canadian dollar.

**Comparing Year-to-Date 2009 with Year-to-Date 2008**

During year-to-date 2009:

Net sales and revenues decreased \$210 million 63 percent.

Net contributions to earnings decreased \$1.6 billion.

*Net sales and revenues*

## Edgar Filing: WEYERHAEUSER CO - Form 10-Q

The \$210 million decrease in net sales and revenues consisted of:

\$132 million decrease in revenues related to Australian operations that were sold in third quarter 2008; and

\$78 million decrease in revenues from our Westwood shipping operations mainly due to reductions in volumes, freight rates and fuel surcharge income.

*Net contribution to earnings*

Net contribution to earnings decreased \$1.6 billion, primarily as a result of the following:

\$1.17 billion pretax gain recognized in 2008 from the sale of our Containerboard, Packaging and Recycling business;

\$217 million pretax gain recognized in 2008 from the sale of our Australian operations;

\$101 million pretax gain recognized in 2008 from restructuring our joint ventures in Uruguay;

\$66 million increase in charges for asset impairments and restructuring activities primarily related to 2009 pension settlements and curtailments;

\$52 million decrease in earnings from Westwood Shipping operations, as well as international operations that were disposed of in 2008; and

\$49 million pretax gain recognized in 2008 from changes in our U.S. postretirement plans for current salaried employees. These decreases were partially offset by the following:

\$51 million increase in earnings from foreign exchange, primarily resulting from changes in exchange rates between the U.S. dollar and the Canadian dollar; and

\$25 million decrease in administrative costs as a result of implementing company cost savings initiatives.

### **INTEREST EXPENSE**

Including Real Estate and discontinued operations, our interest expense incurred was:

\$115 million during third quarter and \$344 million during year-to-date 2009, respectively.

\$136 million during third quarter and \$421 million during year-to-date 2008, respectively. Interest expense incurred decreased primarily due to reductions in our debt.

### **INCOME TAXES**



Our effective income tax rates for continuing operations were:

36.2 percent for 2009 and

42.3 percent for 2008.

For 2009, the income tax rate was higher than the statutory rate principally due to state income taxes. For 2008, in addition to the effect on state income taxes, the income tax rate for continuing operations was higher than the statutory rate because we are in a pretax loss situation receiving a tax benefit. Our income tax credits and other permanent tax deductions increased our 2008 tax benefits.

## **Table of Contents**

The expected rate for year-to-date 2009 excludes the following tax adjustments:

\$15 million tax charge related to true-up of previous tax liabilities,

\$9 million tax charge related to interest on unrecognized tax benefits and

\$1 million tax charge due to state tax law and rate changes.

In 2008, the total amount of unrecognized tax benefits decreased by \$16 million due to the lapse of applicable statutes of limitation. There was no tax provision on the second quarter 2008 gain in Uruguay primarily due to a forestry exemption from income taxes and the fact that these assets are considered indefinitely invested.

We have assessed the realizability of deferred tax assets and recorded valuation allowances where appropriate. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized and considers the scheduled reversal of deferred tax liabilities (including the effect of available carryback and carryforward periods), projected future taxable income, and tax-planning strategies.

## **LIQUIDITY AND CAPITAL RESOURCES**

We are committed to maintaining a sound and conservative capital structure which enables us to:

protect the interests of our shareholders and lenders and

have access at all times to all major financial markets.

Two important elements of our policy governing capital structure include:

viewing the capital structure of Forest Products separately from that of Real Estate given the very different nature of their assets and business activity and

minimizing liquidity risk by managing a combination of maturing short-term and long-term debt.

The amount of debt and equity for Forest Products and Real Estate will reflect the following:

basic earnings capacity and

liquidity characteristics of their respective assets.

## **CASH FROM OPERATIONS**

Cash from operations includes:

cash received from customers;

cash paid to employees, suppliers and others;

cash paid for interest on our debt; and

cash paid or received for taxes.

Consolidated net cash used by our operations was:

\$276 million in 2009 and

\$139 million in 2008.

*Comparing 2009 with 2008*

Consolidated net cash used by our operations in 2009 increased \$137 million due primarily to the following:

Cash we received from customers decreased approximately \$5.5 billion primarily due to the following:

We sold our Containerboard, Packaging and Recycling business in August of 2008.

Sales from our Wood Products and Real Estate segments decreased significantly in 2009 due to the continued deterioration of the U.S. housing market.

Sales from our Cellulose Fibers and Timberlands segments decreased in 2009 due to weaker market conditions.

We received \$177 million cash from alternative fuel mixture credits in 2009.

Cash paid to employees, suppliers and others declined approximately \$5.2 billion, primarily due to the sale of operations, the closure of facilities and our continued efforts to reduce costs.

Consolidated cash paid for income taxes in 2009 increased by \$34 million as compared to 2008.

#### **CASH FROM INVESTING ACTIVITIES**

Cash from investing activities includes:

acquisitions of property, equipment, timberlands and reforestation;

investments in or distribution from equity affiliates;

proceeds from sale of assets and operations; and

purchases and redemptions of short-term investments.

**Table of Contents****Summary of Capital Spending by Business Segment Excluding Real Estate**

DOLLAR AMOUNTS IN MILLIONS	YEAR-TO-DATE ENDED	
	SEPTEMBER 30, 2009	SEPTEMBER 28, 2008
Timberlands	\$ 67	\$ 66
Wood Products	33	70
Cellulose Fibers	38	37
Containerboard, Packaging and Recycling		100
Corporate and Other	14	45
<b>Total</b>	<b>\$ 152</b>	<b>\$ 318</b>

We anticipate that our capital expenditures for 2009 excluding acquisitions and our Real Estate segment will be approximately \$200 million. However, that could change due to:

future economic conditions,

weather and

timing of equipment purchases.

**Proceeds from the Sale of Non-strategic Assets**

Proceeds received from the sale of non-strategic assets in 2009 included:

\$295 million from the sale of non-strategic timberlands in Oregon and

\$20 million from the sale of our closed Honolulu box plant.

Proceeds received from the sale of non-strategic assets in 2008 included:

\$6 billion from the sale of the Containerboard, Packaging and Recycling business;

\$338 million from the sale of the Australian operations in 2008 \$36 million of which was received as a dividend and is included in the Investments in and advances to equity affiliates on the accompanying Consolidated Statement of Cash Flows; and

\$62 million in 2008 from the sale of wood products facilities.

Discontinued operations are discussed in *Note 3: Discontinued Operations*.

**CASH FROM FINANCING ACTIVITIES**

Cash from financing activities includes:

issuances and payment of long-term debt,

borrowings and payments under revolving lines of credit,

changes in our book overdrafts,

proceeds from stock offerings and option exercises and

payment of cash dividends.

**Debt**

We paid debt, net of additional borrowings, of:

\$422 million in 2009 and

\$580 million in 2008.

**Subsequent event debt offering**

On October 1, 2009 we issued notes totaling \$500 million. The notes are unsecured senior obligations bearing an interest rate of 7.375 percent due October 1, 2019. The net proceeds after deducting the discount, underwriting fees and issuance costs were \$491 million.

**Credit Ratings**

On February 26, 2009, Standards & Poor's lowered its long-term rating of our debt to BBB- stable from BBB.

On May 6, 2009, Moody's Investors Service changed its rating of our debt to Ba1 (stable) from Baa2.

On June 22, 2009, Dominion Bond Rating Service (DBRS) changed the trend on the ratings for our debt to Negative from Stable, including our Issuer Rating of BBB (high).

On September 3, 2009, Fitch Ratings downgraded ratings for our debt to BB+ from BBB-.

**Table of Contents**

**Revolving credit facilities**

As of September 30, 2009, Weyerhaeuser Company and WRECO:

had no borrowings outstanding under our credit facilities,

had \$33 million in letters of credit drawn under the 2011 facility and

were in compliance with the credit facility covenants.

On September 14, 2009 Weyerhaeuser Company amended its \$1.0 billion December 2011 revolving credit facility by entering into a First Amendment to the \$1,000,000,000 Competitive Advance and Revolving Credit Facility Agreement dated as of December 19, 2006. The amendment decreased the amount of minimum defined net worth that the Company is required to maintain under the facility from \$3.75 billion to \$3.0 billion. In addition, the amendment reduced the amount that Weyerhaeuser Real Estate Company (WRECO) is permitted to borrow under the facility to \$200 million from \$400 million and modified the fees and interest rates payable under the facility. No other changes in the facility were made and \$1.0 billion remains available under the facility until December 2011.

Also on September 14, 2009, Weyerhaeuser Company amended its \$1.2 billion March 2010 revolving credit facility by entering into a First Amendment to the \$1,200,000,000 Competitive Advance and Revolving Credit Facility Agreement dated as of December 19, 2006. The amendment decreased the amount of minimum defined net worth that the Company is required to maintain under the facility from \$3.75 billion to \$3.0 billion. In addition, the amendment reduced the size of the facility to \$400 million from \$1.2 billion, removed WRECO as a borrower under the facility and modified the fees and interest rates payable under the facility. No other changes in the facility were made and \$400 million remains available under the facility until March 2010.

Neither Weyerhaeuser Company nor WRECO is a guarantor of the borrowing of the other under either of the Credit Facilities.

**Weyerhaeuser Company Covenants:**

Key covenants related to Weyerhaeuser Company include the requirement to maintain:

a minimum defined net worth of \$3.0 billion and

a defined debt-to-total-capital ratio of 65 percent or less.

Weyerhaeuser Company's defined net worth is comprised of:

total Weyerhaeuser shareholders' interest,

plus or minus accumulated comprehensive loss balance related to deferred pension and postretirement income or expense,

minus Weyerhaeuser Company's investment in subsidiaries in our Real Estate segment or other unrestricted subsidiaries.

Total Weyerhaeuser Company capitalization is comprised of:

Edgar Filing: WEYERHAEUSER CO - Form 10-Q

total Weyerhaeuser Company (excluding WRECO) debt

plus total defined net worth.

As of September 30, 2009, Weyerhaeuser Company had:

a defined net worth of \$4.4 billion and

a defined debt-to-total-capital ratio of 54.2 percent.

**Weyerhaeuser Real Estate Company Covenants**

Key covenants related to WRECO revolving credit facilities and medium-term notes include the requirement to maintain:

a minimum defined net worth of \$100 million,

a defined debt-to-total-capital ratio of 80 percent or less and

Weyerhaeuser Company or a subsidiary must own at least 79 percent of WRECO.  
WRECO's defined net worth is:

total WRECO shareholders' interest,

minus intangible assets,

minus WRECO's investment in joint ventures and partnerships.  
Total WRECO defined debt is:

total WRECO debt including any intercompany debt

plus outstanding WRECO guarantees and letters of credit.  
Total WRECO capitalization is defined as:

total WRECO defined debt and

total WRECO defined net worth.  
As of September 30, 2009, WRECO had:



Edgar Filing: WEYERHAEUSER CO - Form 10-Q

a defined net worth of \$833 million and

a defined debt-to-total-capital ratio of 61.9 percent.

There are no other significant financial debt covenants related to our third party debt for either Weyerhaeuser Company or WRECO.

## **Table of Contents**

### **Paying dividends and repurchasing stock**

We paid dividends of:

\$116 million in 2009 and

\$380 million in 2008.

We announced reduction in our quarterly dividend from 60 cents to 25 cents in December 2008. On July 7, 2009, our board of directors declared a dividend of 5 cents per share payable August 31, 2009, to shareholders of record at the close of business July 31, 2009.

During 2009, we repurchased 66,691 shares of common stock at a cost of \$2 million under the stock-repurchase program authorized by our board of directors in December 2008.

### **OTHER LIQUIDITY RELATED DISCLOSURES**

#### **Alternative Fuel Mixture Credits**

The U.S. Internal Revenue Code allows a \$0.50 per gallon tax credit for the alternative fuel component of alternative fuel mixtures produced and used as a fuel in a taxpayer's trade or business. Our application for registration as a blender based on our use of black liquor as an alternative fuel was approved in May 2009. We began blending black liquor (a byproduct of our wood pulping process) and diesel fuel during the first week of April 2009 and have blended and used 457 million gallons of the alternative fuel mixture through September 30, 2009. The alternative fuel mixture credit is currently scheduled to expire on December 31, 2009. We recognized credits of \$229 million year-to-date 2009 of which we have received \$177 million of cash and have recorded a receivable of \$52 million for black liquor blended through September 30, 2009.

#### **Receivables from Pension Trust**

During 2008 and first quarter 2009, we provided short-term liquidity to the U.S. pension trust through short-term loans. As of September 30, 2009, we have total receivables from the pension trust of \$285 million. These loans do not affect the net funded status of the pension plans.

#### **Variable Interest Entities**

At the end of 2008, we reported that two special purpose entities (SPEs) Jasmine Forest LLC and Jewell Forest LLC held letters of credit provided by Dexia Bank Belgium S.A. (Dexia) that were secured by cash deposits in connection with two sales of timberlands by us. On January 19, 2009, Moody's downgraded Dexia from Aa3 to A1. As a result, the SPEs were required to replace the Dexia letters of credit with letters of credit issued by another bank within 60 days. In first quarter 2009, the Dexia letters of credit supporting Jasmine Forest LLC and Jewell Forest LLC installment notes were replaced with letters of credit from Australia-New Zealand (ANZ) Bank and the deposits supporting the letters of credit were transferred from Dexia to ANZ Bank. The transfer occurred on March 12, 2009.

### **CRITICAL ACCOUNTING POLICIES**

The preparation of our consolidated financial statements requires us to make judgments and estimates that affect our assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities.

In accounting, we base our judgments and estimates on:

historical experience and

## Edgar Filing: WEYERHAEUSER CO - Form 10-Q

assumptions we believe are appropriate and reasonable under current circumstances.

Actual results, however, may differ from the estimated amounts we have recorded. For a full description of our critical accounting policies, see Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2008 Annual Report on Form 10-K. In addition to our critical accounting policies disclosed in our 2008 Annual Report, we have updated our pension and postretirement policy and added an Impairment of Long-Lived Assets: Real Estate policy.

### PENSION AND POSTRETIREMENT BENEFIT PLANS

We sponsor several pension and postretirement benefit plans for our employees. Key assumptions we use in accounting for the plans include our:

discount rate,

expected long-term rate of return,

anticipated trends in health care costs,

assumed increases in salaries and

mortality rates.

At the end of every year and when interim remeasurements are required we review our assumptions with external advisers and make adjustments as appropriate. Actual experience that differs from our assumptions or any changes in our assumptions could have a significant effect on our financial position, results of operations and cash flows.

Other factors that affect our accounting for the plans include:

actual pension fund performance,

level of lump-sum distributions,

plan changes and

changes in plan participation or coverage.

This section provides more information about our:

expected long-term rate of return,

discount rate and

cash contributions.



## **Table of Contents**

### **Expected Long-Term Rate of Returns**

Plan assets are assets of the pension plan trusts that fund the benefits provided under the pension plan. The expected long-term rate of return is our estimate of the long-term rate of return that our plan assets will earn. After considering all available information at the end of 2008 and as of the third quarter 2009 remeasurement date, we continue to assume an expected long-term rate of return on our plan assets of 9.5 percent. Factors we considered include:

the 15.3 percent net compounded annual return achieved by our U.S. pension trust investment strategy over the past 24 years and

current and expected valuation levels in the global equity and credit markets.

Our expected long-term rate of return is important in determining the net income or expense we recognize for our plans. Every 0.5 percent decrease in our expected long-term rate of return would increase expense or reduce a credit by approximately:

\$23 million for our U.S. qualified pension plans and

\$2 million for our Canadian registered pension plans.

Likewise, every 0.5 percent increase in our expected long-term rate of return would decrease expense or increase a credit by those same amounts.

The actual return on plan assets in any given year may vary from our expected long-term rate of return. Actual returns on plan assets affect the funded status of the plans. Differences between actual returns on plan assets and the expected long-term rate of return are reflected as adjustments to cumulative other comprehensive income (loss), a component of total Weyerhaeuser shareholders' interest.

### **Discount Rate**

Our discount rate as of December 31, 2008, was:

6.3 percent for our U.S. plans compared with 6.5 percent at December 30, 2007; and

7.3 percent for our Canadian plans compared with 5.5 percent at December 30, 2007.

We review our discount rates annually or when triggered by remeasurement and revise them as needed. The discount rates are selected at the measurement date by matching current spot rates of high-quality corporate bonds with maturities similar to the timing of expected cash outflows for benefits.

Pension and postretirement benefit expenses for 2009 were based on the assumed discount rates as of December 31, 2008—6.3 percent for the U.S. plans and 7.3 percent for the Canadian plans—except as discussed below:

Due to plan changes in certain of our postretirement plans in Canada, we remeasured the liabilities for the postretirement plans as of August 31, 2009, using a discount rate of 5.9 percent. Beginning September 2009, postretirement benefit expense for the affected plans is based on the assumed discount rate of 5.9 percent.

## Edgar Filing: WEYERHAEUSER CO - Form 10-Q

Due to the volume of lump-sum distributions from our U.S. qualified plan for salaried employees, we recognized a pension settlement in third quarter 2009. For purposes of determining the settlement charge, we remeasured the plan's assets and liabilities as of August 31, 2009 the date the settlement was triggered. A discount rate of 6.1 percent was used.

Our discount rate is important in determining the cost of our plans. A 0.5 percent decrease in our discount rate would increase expense or reduce a credit by approximately:

\$2 million for our U.S. qualified pension plans and

\$2 million for our Canadian registered pension plans.

### **Contributions Made and Benefits Paid**

During 2008:

We were not required to and did not make any contributions to our U.S. qualified pension plans.

We paid benefits of approximately \$23 million for our U.S. nonqualified pension plans.

We contributed approximately \$5 million to our Canadian registered and nonregistered pension plans in accordance with minimum funding rules of the respective provincial regulations.

We paid benefits of approximately \$62 million for our U.S. and Canadian other postretirement plans.

During 2009:

We are not required to make any contributions to our U.S. qualified pension plans.

We expect to pay benefits of approximately \$19 million for our U.S. nonqualified pension plans.

We are required to contribute approximately \$7 million to our Canadian pension plans (registered and nonregistered) in accordance with the minimum funding rules of the respective provincial regulations. We also chose to make voluntary contributions of approximately \$10 million to our largest registered plan during second quarter 2009. In addition, we made contributions of \$5 million to our largest registered plan in October 2009—\$3 million of voluntary contributions and \$2 million that was required due to a partial windup of the plan for Ontario members in 2008.

We expect to pay benefits of approximately \$64 million for our U.S. and Canadian other postretirement plans.

### **IMPAIRMENT OF LONG-LIVED ASSETS: REAL ESTATE**

Ordinarily, we review homebuilding long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable. We recorded long-lived homebuilding asset impairments and related charges of \$547 million in 2008 and \$141 million 2009.

Real Estate Held for Development

## Edgar Filing: WEYERHAEUSER CO - Form 10-Q

Real estate held for development includes subdivisions and master planned communities (MPCs). MPCs typically include several product segments such as residential, active adult, retail and commercial. We evaluate impairment at the subdivision or MPC product segment level. Factors that are considered when evaluating a subdivision or MPC product segment for impairment include:

gross margins and selling costs on homes closed in recent months;

projected gross margins and selling costs based on our operating budgets;

competitor pricing and incentives in the same or nearby communities; and

**Table of Contents**

trends in average selling prices, discounts, incentives, sales velocity and cancellations.

We update the undiscounted cash flow forecast for each subdivision and MPC product segment that may be impaired. The undiscounted cash flow forecasts are affected by community-specific factors that include:

estimates and timing of future revenues;

estimates and timing of future land development, materials, labor and contractor costs;

community location and desirability, including availability of schools, retail, mass transit and other services;

local economic and demographic trends regarding employment, new jobs and taxes;

competitor presence, product types, future competition, pricing, incentives and discounts; and

land availability, number of lots we own or control, entitlement restrictions and alternative uses.

The carrying amount of each subdivision and MPC product segment is written down to fair value when the forecasted cash flows are less than the carrying amount of a subdivision or MPC product segment. An impairment charge for a subdivision or MPC product segment is allocated to each lot in the community in the same manner as land and development costs are allocated to each lot.

**Real Estate Held for Sale**

Real estate held for sale includes homes that have been completed and land that we intend to sell. We regularly sell land or lots that do not fit our value proposition or development plans.

The carrying amount of real estate held for sale is reduced to fair value less estimated costs to sell if the forecasted net proceeds are less than the carrying amount. The fair value analysis is affected by local market economic conditions, demographic factors and competitor actions, and is inherently uncertain. Actual net proceeds can differ from the estimates. The carrying amount of real estate held for sale is evaluated quarterly.

**Market Approach**

We use the market approach to determine fair value of real estate held for development and held for sale when information for comparable assets is available. This approach is commonly used for our active projects where we are selling product. We typically use:

sales prices for comparable assets,

market studies,

appraisals or

legitimate offers.



Income Approach

We generally use the income approach to determine fair value of real estate for our inactive projects. The income approach uses valuation techniques to convert future amounts (for example, cash flows or earnings) to a single present amount (discounted). The fair value measurement is based on the value indicated by current market expectations regarding those future estimated cash inflows and outflows. We use present value techniques based on discounting the estimated cash flows at a rate commensurate with the inherent risks associated with the assets and related estimated cash flow streams. Discount rates applied to the estimated future cash flows of our homebuilding assets in year-to-date 2009 ranged from 12 percent to 21 percent. The income approach relies on management judgment regarding the various inputs to the undiscounted cash flow forecasts.

## **Table of Contents**

### **QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

No changes occurred during year-to-date 2009 that had a material effect on the information relating to quantitative and qualitative disclosures about market risk that was provided in our Annual Report on Form 10-K for the year ended December 31, 2008.

### **CONTROLS AND PROCEDURES**

#### **EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES**

Weyerhaeuser's principal executive officer and principal financial officer have evaluated the effectiveness of Weyerhaeuser's disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q. Disclosure controls are controls and other procedures that are designed to ensure that information required to be disclosed in the reports filed or submitted under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission's (SEC) rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that it files or submits under the Exchange Act is accumulated and communicated to management, including its principal executive officer and principal financial officer, as appropriate, to allow timely decisions regarding required disclosure.

#### **CHANGES IN INTERNAL CONTROLS**

No changes occurred in Weyerhaeuser's internal control over financial reporting during third quarter that have materially affected, or are reasonably likely to materially affect, Weyerhaeuser's internal control over financial reporting.

#### **LEGAL PROCEEDINGS**

Refer to Notes to Consolidated Financial Statements Note 15: Legal Proceedings, Commitments and Contingencies.

#### **RISK FACTORS**

Results of operations and cash flows for our Cellulose Fibers segment for the current reporting period significantly benefited from Alternative Fuel Mixture Credits resulting from our qualification and registration as a producer and user of specified alternative fuel mixtures with the IRS. The Alternative Fuel Mixture Credit currently is scheduled to expire December 31, 2009. Changes to the U.S. Internal Revenue Code, such as earlier termination of the credit, repeal of the application of the credit to black liquor or decrease in credit amount, could materially affect cash flows and operating results during fourth quarter 2009.

See our 2008 Annual Report on Form 10-K for other risk factors that affect our business.

#### **UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

In December 2008, we announced a stock-repurchase program under which we are authorized to repurchase up to \$250 million of outstanding shares. As of September 30, 2009, we had repurchased a total of 66,691 shares of common stock for approximately \$2 million under the program. These repurchases took place during first quarter 2009 and all common stock purchases under the program were made in open-market transactions. There were no common share repurchases during third quarter 2009.

#### **EXHIBITS**

- |         |   |
|---------|---|
| 12.     | Statements regarding computation of ratios  |
| 31.     | Certification pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as amended  |
| 32.     | Certification pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended, and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. 1350) |
| 100.INS | XBRL Instance Document  |

Edgar Filing: WEYERHAEUSER CO - Form 10-Q

100.SCH	XBRL Taxonomy Extension Schema Document
100.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
100.DEF	XBRL Taxonomy Extension Definition Linkbase Document
100.LAB	XBRL Taxonomy Extension Label Linkbase Document
100.PRE	XBRL Taxonomy Extension Presentation Linkbase Document