WEYERHAEUSER CO
Form 10-Q
November 07, 2008
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 28, 2008

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

Washington	**91-0470860**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification Number)**
33663 Weyerhaeuser Way South	
Federal Way, Washington	**98063-9777**
(Address of principal executive offices)	**(Zip Code)**

(253) 924-2345

(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. x 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 definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer x 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 x No

As of October 31, 2008, 211, 289,154 shares of the registrant s common stock ($1.25 par value) were outstanding.

Table of Contents

TABLE OF CONTENTS

PART I	**FINANCIAL INFORMATION**	1
ITEM 1.	FINANCIAL STATEMENTS:	
	CONSOLIDATED STATEMENT OF EARNINGS	1
	CONSOLIDATED BALANCE SHEET	2
	CONSOLIDATED STATEMENT OF CASH FLOWS	4
	INDEX FOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	5
	NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	6
ITEM 2.	MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)	25
ITEM 3.	QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK	41
ITEM 4.	CONTROLS AND PROCEDURES	42
PART II	**OTHER INFORMATION**	
ITEM 1.	LEGAL PROCEEDINGS	42
ITEM 1A.	RISK FACTORS	42
ITEM 2.	UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS	NA
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.	EXHIBITS	42

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 30, 2007. 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 13 and 39-week periods ended September 28, 2008, 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 6, 2008

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

Table of Contents

PART I. FINANCIAL INFORMATION

CONSOLIDATED STATEMENT OF EARNINGS

(DOLLAR AMOUNTS IN MILLIONS EXCEPT PER-SHARE FIGURES)

(UNAUDITED)

FOR THE THIRTEEN AND THIRTY-NINE WEEK PERIODS ENDED

SEPTEMBER 28, 2008 AND SEPTEMBER 30, 2007

	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
	SEPTEMBER 28, 2008	SEPTEMBER 30, 2007	SEPTEMBER 28, 2008	SEPTEMBER 30, 2007 (REVISED SEE NOTE 1)
Net sales and revenues:				
Weyerhaeuser	$ 1,778	$ 2,199	$ 5,269	$ 6,735
Real Estate	329	598	1,054	1,644
Total net sales and revenues	2,107	2,797	6,323	8,379
Costs and expenses:				
Weyerhaeuser:				
Costs of products sold	1,413	1,776	4,330	5,511
Depreciation, depletion and amortization	148	155	439	457
Selling expenses	57	61	173	200
General and administrative expenses	109	143	382	464
Research and development expenses	14	18	49	52
Charges for restructuring (Note 6)	11	16	51	20
Charges for closure of facilities (Note 7)		19	83	38
Impairment of goodwill (Note 12)	6	1	11	23
Other operating costs, net (Note 9)	50	5	80	64
	1,808	2,194	5,598	6,829
Real Estate:				
Costs and operating expenses	369	451	1,017	1,245
Depreciation and amortization	5	6	14	17
Selling expenses	32	45	105	131
General and administrative expenses	26	26	82	81
Charge for impairment of long-lived assets (Note 10)	226	23	505	35
Other operating income, net	(4)	(1)	(6)	
	654	550	1,717	1,509
Total costs and expenses	2,462	2,744	7,315	8,338
Operating income (loss)	(355)	53	(992)	41
Interest expense and other:				

Weyerhaeuser:				
Interest expense incurred	(126)	(131)	(384)	(440)
Less: interest capitalized	11	29	56	88
Interest income and other (Note 8)	30	20	160	65
Equity in income of affiliates	10	1	8	
Real Estate:				
Interest expense incurred	(10)	(15)	(36)	(44)
Less: interest capitalized	10	15	36	44
Interest income and other	1	2	2	6
Equity in income of unconsolidated entities	14	13	15	46
Impairments and other investment-related charges (Note 10)	(6)	(3)	(81)	(5)
Loss from continuing operations before income taxes	(421)	(16)	(1,216)	(199)
Income taxes	221	11	574	80
Loss from continuing operations	(200)	(5)	(642)	(119)
Discontinued operations, net of income taxes (Note 3)	480	106	678	972
Net earnings	$ 280	$ 101	$ 36	$ 853
Basic earnings (loss) per share (Note 4):				
Continuing operations	$ (0.94)	$ (0.02)	$ (3.04)	$ (0.54)
Discontinued operations	2.27	0.49	3.21	4.38
Net earnings	$ 1.33	$ 0.47	$ 0.17	$ 3.84
Diluted earnings (loss) per share (Note 4):				
Continuing operations	$ (0.94)	$ (0.02)	$ (3.04)	$ (0.54)
Discontinued operations	2.27	0.49	3.21	4.38
Net earnings	$ 1.33	$ 0.47	$ 0.17	$ 3.84
Dividends paid per share	$ 0.60	$ 0.60	$ 1.80	$ 1.80

See accompanying Notes to Consolidated Financial Statements.

Table of Contents

CONSOLIDATED BALANCE SHEET

(DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER-SHARE FIGURES)

(UNAUDITED)

	SEPTEMBER 28, 2008	DECEMBER 30, 2007
ASSETS		
Weyerhaeuser:		
Current assets:		
Cash and cash equivalents	$ 4,096	$ 78
Short-term investments	701	
Receivables, less allowances of $8 and $3	658	651
Inventories (Note 11)	712	795
Prepaid expenses	113	164
Deferred tax assets	164	132
Current assets held for sale (Note 3)	21	1,194
Total current assets	6,465	3,014
Property and equipment, less accumulated depreciation of $6,444 and $6,317	4,021	4,112
Construction in progress	121	289
Timber and timberlands at cost, less depletion charged to disposals	4,041	3,769
Investments in and advances to equity affiliates	196	285
Goodwill (Note 12)	919	947
Deferred pension and other assets (Note 14)	2,259	2,446
Restricted assets held by special purpose entities	914	916
Noncurrent assets held for sale (Note 3)	10	4,248
	18,946	20,026
Real Estate:		
Cash and cash equivalents	3	21
Receivables, less discounts and allowances of $3 and $2	84	63
Real estate in process of development and for sale	860	1,270
Land being processed for development	1,453	1,622
Investments in unconsolidated entities	41	58
Other assets	615	473
Consolidated assets not owned	214	273
	3,270	3,780
Total assets	$ 22,216	$ 23,806

See accompanying Notes to Consolidated Financial Statements.

2

Table of Contents

CONSOLIDATED BALANCE SHEET

(CONTINUED)

	SEPTEMBER 28, 2008	DECEMBER 30, 2007
LIABILITIES AND SHAREHOLDERS INTEREST		
Weyerhaeuser		
Current liabilities:		
Notes payable and commercial paper	$	$ 54
Current maturities of long-term debt	880	507
Accounts payable	449	586
Accrued liabilities (Note 13)	2,211	957
Current liabilities held for sale (Note 3)	4	503
Total current liabilities	3,544	2,607
Long-term debt	5,440	6,059
Deferred income taxes	2,683	2,554
Deferred pension, other postretirement benefits and other liabilities (Note 14)	1,235	1,657
Liabilities (nonrecourse to Weyerhaeuser) held by special purpose entities	764	765
Noncurrent liabilities held for sale (Note 3)		748
Commitments and contingencies (Note 16)		
	13,666	14,390
Real Estate		
Notes payable and commercial paper	2	
Long-term debt	501	775
Other liabilities	334	432
Consolidated liabilities not owned	108	228
Commitments and contingencies (Note 16)		
	945	1,435
Total liabilities	14,611	15,825
Shareholders interest:		
Common shares: $1.25 par value; authorized 400,000,000 shares; issued and outstanding: 211,288,512 and 209,546,474 shares	264	262
Exchangeable shares: no par value; unlimited shares authorized; issued and held by nonaffiliates: 0 and 1,600,110 shares (Note 4)		109
Other capital (Note 4)	1,764	1,609
Retained earnings	4,670	5,014
Cumulative other comprehensive income (Note 15)	907	987
Total shareholders interest	7,605	7,981
Total liabilities and shareholders interest	$ 22,216	$ 23,806

See accompanying Notes to Consolidated Financial Statements.

3

Table of Contents

CONSOLIDATED STATEMENT OF CASH FLOWS

(DOLLAR AMOUNTS IN MILLIONS) (UNAUDITED)

	FOR THE THIRTY-NINE WEEK PERIODS ENDED SEPTEMBER 28, 2008 AND SEPTEMBER 30, 2007					
	CONSOLIDATED		WEYERHAEUSER		REAL ESTATE	
	SEPTEMBER 28, 2008	SEPTEMBER 30, 2007	SEPTEMBER 28, 2008	SEPTEMBER 30, 2007	SEPTEMBER 28, 2008	SEPTEMBER 30, 2007
Cash flows from operations:						
Net earnings (loss)	$ 36	$ 853	$ 503	$ 739	$ (467)	$ 114
Noncash charges (credits) to income:						
Depreciation, depletion and amortization	516	753	502	736	14	17
Deferred income taxes, net	(837)	(159)	(643)	(172)	(194)	13
Pension and other postretirement benefits (Note 14)	(137)	(3)	(136)	(6)	(1)	3
Share-based compensation expense	46	41	43	37	3	4
Reclass of excess tax benefits from share-based payment arrangements to financing		(51)		(48)		(3)
Equity in income of affiliates and unconsolidated entities	(22)	(52)	(6)	(5)	(16)	(47)
Charges for impairment of assets (Note 7, 9,10, and 12)	726	128	140	88	586	40
Net gains on disposition of assets and operations (Notes 3 and 9)	(1,409)	(669)	(1,409)	(669)		
Loss on early extinguishment of debt		45		45		
Gain on restructuring Uruguay joint ventures (Note 8)	(101)		(101)			
Increase to environmental liability reserves (Note 16)	17		17			
Foreign exchange transaction (gains) losses (Note 9)	21	(39)	21	(39)		
Decrease (increase) in working capital, net of acquisitions and divestitures:						
Receivables	(43)	(193)	(11)	(264)	(32)	71
Inventories, real estate and land	158	(241)	30	15	128	(256)
Prepaid expenses	56	(29)	59	(31)	(3)	2
Accounts payable and accrued liabilities	1,026	(229)	1,063	(155)	(37)	(74)
Deposits on land positions	(38)	(38)			(38)	(38)
Intercompany advances[(1)]					(213)	(263)
Other	(163)	(31)	(157)	(2)	(6)	(29)
Cash from operations	(148)	86	(85)	269	(276)	(446)
Cash flows from investing activities:						
Property and equipment	(295)	(446)	(282)	(430)	(13)	(16)
Timberlands reforestation	(36)	(32)	(36)	(32)		
Acquisition of timberlands	(147)	(97)	(147)	(97)		
Acquisition of a business and facilities net of cash acquired		(38)				(38)
(Investments in and advances to) or distributions from equity affiliates	(46)	21	8	6	(54)	15
Restructuring Uruguay joint ventures, net (Note 8)	(23)		(23)			
Proceeds from sale of assets	45	70	45	70		
	6,413	1,457	6,413	1,457		

Proceeds from sale of operations (Note 3)						
Purchase of short-term investments	(701)		(701)			
Intercompany advances[1]			(444)	87		
Other	13	3	13	3		
Cash from investing activities	5,223	938	4,846	1,064	(67)	(39)
Cash flows from financing activities:						
Issuances of debt		451		451		
Notes, commercial paper borrowings and revolving credit facilities, net	(480)	475	(279)	180	(201)	295
Cash dividends	(380)	(404)	(380)	(404)		
Payments on debt	(199)	(1,611)	(97)	(1,610)	(102)	(1)
Exercises of stock options	4	319	4	319		
Excess tax benefits from share-based payment arrangements		51		48		3
Repurchase of common stock		(463)		(463)		
Intercompany advances[1]					657	176
Other	(32)	(5)	(3)	(5)	(29)	
Cash from financing activities	(1,087)	(1,187)	(755)	(1,484)	325	473
Net change in cash and cash equivalents	3,988	(163)	4,006	(151)	(18)	(12)
Cash and cash equivalents at beginning of period[2]	114	243	93	223	21	20
Cash and cash equivalents at end of period[2]	$ 4,102	$ 80	$ 4,099	$ 72	$ 3	$ 8
Cash paid (received) during the year for:						
Interest, net of amount capitalized	$ 391	$ 415	$ 391	$ 415	$	$
Income taxes	$ 13	$ 104	$ (9)	$ (206)	$ 22	$ 310

See accompanying Notes to Consolidated Financial Statements.

[1] Intercompany loans and advances represent payments and receipts between Weyerhaeuser 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. Intercompany loans and advances are eliminated and do not appear in the consolidated cash flows above.

[2] Includes cash and cash equivalents of discontinued operations.

INDEX FOR NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:	BASIS OF PRESENTATION	6
NOTE 2:	ACCOUNTING PRONOUNCEMENTS	6
NOTE 3:	DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE	8
NOTE 4:	NET EARNINGS (LOSS) PER SHARE	10
NOTE 5:	SHARE-BASED COMPENSATION	11
NOTE 6:	CHARGES FOR RESTRUCTURING	12
NOTE 7:	CHARGES FOR CLOSURE OF FACILITIES	12
NOTE 8:	RESTRUCTURING OF URUGUAY JOINT VENTURES	13
NOTE 9:	OTHER OPERATING COSTS, NET	13
NOTE 10:	REAL ESTATE ASSET IMPAIRMENTS AND OTHER INVESTMENT-RELATED CHARGES	14
NOTE 11:	INVENTORIES	14
NOTE 12:	GOODWILL	15
NOTE 13:	ACCRUED LIABILITIES	15
NOTE 14:	PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS	15
NOTE 15:	COMPREHENSIVE INCOME (LOSS)	17
NOTE 16:	LEGAL PROCEEDINGS, COMMITMENTS AND CONTINGENCIES	18
NOTE 17:	BUSINESS SEGMENTS	22

Table of Contents

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FOR THE THIRTEEN AND THIRTY-NINE WEEK PERIODS ENDED

SEPTEMBER 28, 2008 AND SEPTEMBER 30, 2007

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 that 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 unless indefinitely invested. This means that we generally record earnings and accrue taxes in the period that the earnings are recognized by our unconsolidated equity affiliates.

We report our financial results and condition in two groups:

- Weyerhaeuser our forest products-based operations, principally the growing and harvesting of timber and the manufacture, distribution and sale of forest products; and
- Real Estate our real estate development and construction operations and our other real estate-related activities.

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

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 the 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 30, 2007.

RECLASSIFICATIONS

We have reclassified certain balances and results from the prior year for consistency with our 2008 reporting. This makes year-to-year comparisons easier. Our reclassifications had no effect on net earnings or shareholders interest. *Note 3: Discontinued Operations and Assets Held for Sale* provides a summary of the results of discontinued operations and the balances and results associated with discontinued operations.

REVISION OF RESULTS FOR THE 39-WEEK PERIOD ENDED SEPTEMBER 30, 2007

We have revised our results for the 39-week period ended September 30, 2007 from amounts that were reported in our Quarterly Report on Form 10-Q for the period ended September 30, 2007. The revision reflects a first quarter 2007 adjustment to reduce the net gain on the Domtar Transaction by $35 million after taxes. This adjustment is included in discontinued operations on the Consolidated Statement of Earnings.

NOTE 2: ACCOUNTING PRONOUNCEMENTS

ACCOUNTING CHANGES WE IMPLEMENTED IN 2008

Fair Value Measurements for Financial Assets and Financial Liabilities

Statement 157 Statement of Financial Accounting Standards No. 157, *Fair Value Measurements* was adopted for financial assets and financial liabilities in the first quarter of 2008. Issued by the FASB in September 2006, Statement 157:

- 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.

In February 2008, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) No. 157-2, *Effective Date of FASB Statement No. 157*, which delayed the effective date of Statement 157 for certain non-financial assets and non-financial liabilities to our fiscal year 2009.

Statement 157 was applicable to our commodity cash flow hedges and available-for-sale securities in the first quarter of 2008, neither of which are material. As a result, the implementation of Statement 157 for financial assets and financial liabilities did not have a material impact on our financial position or results of operations and did not result in any additional disclosures.

ACCOUNTING CHANGES THAT TAKE EFFECT IN 2009

Several accounting changes are scheduled to take effect in 2009 and are related to:

- fair value measurements for certain non-financial assets and non-financial liabilities,
- business combinations,
- non-controlling interests,
- disclosures about derivative instruments and hedging activities and
- determining the useful life of intangible assets.

Table of Contents

Fair Value Measurements for Non-Financial Assets and Non-Financial Liabilities

As discussed above, Statement 157 will be effective for certain non-financial assets and non-financial liabilities in the first quarter of our fiscal year 2009. Assets and liabilities that are measured at fair value, but for which we have not yet applied the provisions of Statement 157 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,
- non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment assessment and
- asset retirement obligations initially measured at fair value.

Statement 157 will be applicable to future fair value measurements associated primarily with impairment assessments. We expect the adoption of Statement 157 will not have a material effect on our financial position, results of operation or cash flows, but may require additional disclosures. As disclosed in these financial statements we have recognized significant impairments in 2008 and future economic events and decisions may trigger additional impairments in the future.

Business Combinations

Statement 141R Statement of Financial Accounting Standards No. 141 (revised 2007), *Business Combinations* takes effect in the first quarter of our fiscal year 2009. Issued by the FASB in December 2007, Statement 141R will be applied to business combinations occurring after the effective date. Statement 141R:

- expands the definition of a business and
- changes the accounting for business combinations, including how an acquirer recognizes and measures the identifiable assets acquired, the cost of the acquisition, the liabilities assumed, any non-controlling interest in the acquiree and the goodwill acquired.

Statement 141R will be applicable to future business combinations, and will not have a material effect on our financial position, results of operations or cash flows prior to such acquisitions.

Non-controlling Interests

Statement 160 Statement of Financial Accounting Standards No. 160, *Non-controlling Interests in Consolidated Financial Statements An Amendment of ARB No. 51* takes effect in the first quarter of our fiscal year 2009. Issued by the FASB in December 2007, Statement 160:

- changes the accounting for non-controlling (minority) interests in consolidated financial statements,
- requires non-controlling interests to be presented as a separate component of equity,

- changes the income statement presentation of income or losses attributable to non-controlling interests and
- revises the accounting for both increases and decreases in a parent s controlling ownership interest.

We expect the adoption of Statement 160 will not have a material effect on our financial position, results of operations or cash flows.

Disclosures about Derivative Instruments and Hedging Activities

Statement 161 Statement of Financial Accounting Standards No. 161, *Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133* takes effect in the first quarter of our fiscal year 2009. Statement 161:

- requires qualitative disclosures about objectives and strategies for using derivatives,
- requires quantitative disclosures about fair value amounts of and gains and losses on derivative instruments and
- requires disclosures about credit-risk-related contingent features in derivative agreements.

We expect the adoption of Statement 161 will not have a material effect on our financial statement disclosures.

Determining the Useful Life of Intangible Assets

FSP 142-3 FASB Staff Position 142-3, *Determination of the Useful Life of Intangible Assets* takes effect in the first quarter of our fiscal year 2009. FSP 142-3:

- provides guidance on estimating the useful life of recognized intangible assets,
- requires consideration of all pertinent factors, including historical experience, when estimating the useful life of intangible assets and
- establishes additional disclosure requirements related to accounting for intangible assets.

We expect the adoption of FSP 142-3 will not have a material effect on our financial position, results of operations and disclosures.

Table of Contents

NOTE 3: DISCONTINUED OPERATIONS AND ASSETS HELD FOR SALE

Our discontinued operations for the 13 and 39-week periods ended September 28, 2008 include the Containerboard, Packaging and Recycling business and our Australian operations. In addition to these operations, discontinued operations for the 39-week period ended September 30, 2007 include nine weeks of operations of the Fine Paper Business and related assets that were divested as part of the Domtar Transaction in March 2007.

The following table summarizes the U.S. dollar components of net sales and net earnings from discontinued operations:

DOLLAR AMOUNTS IN MILLIONS	THIRTEEN WEEKS ENDED SEPTEMBER 28, 2008	THIRTEEN WEEKS ENDED SEPTEMBER 30, 2007	THIRTY-NINE WEEKS ENDED SEPTEMBER 28, 2008	THIRTY-NINE WEEKS ENDED SEPTEMBER 30, 2007
Net sales	$ 514	$ 1,349	$ 3,301	$ 4,555
Income from operations	28	171	331	432
Interest expense			(1)	(18)
Equity in income of affiliates	1	4	5	5
Income tax expense	(13)	(69)	(121)	(164)
Earnings from operations	16	106	214	255
Pretax gain on divestiture and sales	1,379		1,379	625
Income tax (expense) benefit	(915)		(915)	92
Net gain on divestiture and sales (after-tax)	464		464	717
Net earnings from discontinued operations	$ 480	$ 106	$ 678	$ 972

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
- 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 Containerboard, Packaging and Recycling do not include any allocation of interest expense; however, discontinued operations related to our Australian operations and the Fine Paper Business and related assets include interest expense.

The following table shows carrying values for assets and liabilities classified as assets held for sale as of September 28, 2008 and December 30, 2007. Assets held for sale as of both September 28, 2008 and December 30, 2007 include assets of the Trus Joist® Commercial division. In addition, assets held for sale as of December 30, 2007 include assets of the Containerboard, Packaging and Recycling operations and our Australian operations.

Carrying Value of Assets and Liabilities Classified as Assets Held for Sale:

DOLLAR AMOUNTS IN MILLIONS	SEPTEMBER 28, 2008	DECEMBER 30, 2007
Assets		
Cash and cash equivalents	$ 3	$ 15
Receivables, less allowances	8	682
Inventories	10	460
Prepaid expenses		13
Deferred tax assets		24
Total current assets	21	1,194
Property and equipment, net	10	2,706
Construction in progress		152
Investments in and advances to equity affiliates		71
Goodwill		1,260
Deferred pension and other assets		59
Total noncurrent assets	10	4,248
Total assets	$ 31	$ 5,442
Liabilities		
Accounts payable	$ 2	$ 283
Accrued liabilities	2	220
Total current liabilities	4	503
Deferred income taxes		736
Deferred pension, other postretirement benefits, and other liabilities		12
Total noncurrent liabilities		748
Total liabilities	$ 4	$ 1,251

Table of Contents

SALE OF CONTAINERBOARD, PACKAGING AND RECYCLING BUSINESS

On August 4, 2008, we sold our Containerboard, Packaging, and Recycling business to International Paper Company. The following operating assets were included as part of the transaction:

- nine containerboard mills with total capacity of 6.3 million tons,
- 72 packaging locations with total capacity of 99.4 billion square feet,
- 10 specialty packaging plants,
- four kraft bag and sack locations with a total capacity of 199,000 tons and
- 19 recycling facilities.

The Containerboard, Packaging and Recycling assets were classified as assets held for sale and depreciation of the assets was suspended as of March 15, 2008, the date the purchase and sale agreement was signed.

We received $6 billion in proceeds from the sale of the Containerboard, Packaging and Recycling business in the third quarter of 2008. We used $1.4 billion of the proceeds to pay down outstanding debt. The remaining proceeds are invested in money market funds and are classified as cash and cash equivalents and short-term investments in the accompanying consolidated balance sheet. As of September 28, 2008, the short-term investments consist of investments in the Reserve Primary Fund where redemptions have been delayed. These investments are carried at cost, which approximates fair value.

We recognized a $1.17 billion pretax gain in the Corporate and Other segment and recorded tax expense of $869 million, resulting in a net gain of $303 million on the transaction. The overall tax rate on the gain is high primarily due to the write-off of approximately $1.25 billion of goodwill in connection with the sale. Goodwill is not deductible for income tax purposes and no tax benefit has been recognized on the write-off of goodwill.

The gain recognized in the third quarter of 2008 does not include an adjustment for pension settlements that will be triggered in the fourth quarter as lump sum payouts are elected. The amount of the settlement adjustment cannot be determined until all payments are made and the pension assets and obligations are remeasured as of the date the settlement is triggered. The finalization of these and other matters may result in additional adjustments to the gain in future periods.

SALE OF AUSTRALIAN OPERATIONS

In July 2008, we sold the manufacturing operations and the distribution business of our Weyerhaeuser Australia Group and our 50 percent interest in the Green Triangle Forest Products timberlands business as part of two separate transactions.

The following assets were sold in these transactions:

- Pine Solutions Australia   selling and distribution operations;
- Weyerhaeuser Australia   two sawmills and associated operations; and

- Green Triangle Forest Products two sawmills, a pine moulding operation, an export chip business, and timberlands operations including approximately 20,000 hectares (approximately 50,000 acres) of plantation pine forest.

The Australian assets were classified as assets held for sale and depreciation of the assets was suspended as of June 19, 2008, the date the transactions were approved by our board of directors.

We received aggregate cash proceeds of $338 million from these transactions during the third quarter of 2008. Of these proceeds, $302 million is included as proceeds from sale of operations and $36 million is included in distributions from equity affiliates in the accompanying consolidated statement of cash flows. We recognized a $217 million pretax gain in the Corporate and Other segment and recorded tax expense of $59 million, resulting in a net gain of $158 million on the transactions.

OUR FINE PAPER BUSINESS AND RELATED ASSETS DOMTAR TRANSACTION

On March 7, 2007, we completed the following set of transactions:

- a series of transfers and other transactions resulting in our Fine Paper business and related assets becoming wholly-owned by Domtar Corporation;
- the distribution of shares of Domtar Corporation to our shareholders in exchange for 25 million shares of our common stock; and
- the acquisition of Domtar, Inc., an unaffiliated Canadian corporation, by Domtar Corporation.

Collectively, these transactions are referred to as the Domtar Transaction.

We also received $1.35 billion of cash proceeds in connection with the Domtar Transaction. We received a private letter ruling from the Internal Revenue Service regarding the Domtar Transaction, and in accordance with the ruling, the $1.35 billion of cash proceeds received were required to be used to pay down debt. Interest expense included in discontinued operations primarily reflects an estimate of interest expense related to the debt that was repaid with the proceeds from the transaction.

Prior to distributing Domtar Corporation shares to our shareholders, Domtar Corporation was a wholly-owned subsidiary of our company. Concurrent with the distribution to shareholders, Domtar Corporation ceased being a subsidiary of our company.

The operating assets divested as part of the Domtar Transaction are referred to as Fine Paper and related assets or the Fine Paper business and related assets and included the following:

- Fine Paper the Fine Paper business including seven paper mills and one coated groundwood mill with a combined capacity of 2.9 million tons, and 16 paper converting facilities with a total capacity of 2.0 million tons;
- Cellulose Fibers five cellulose fiber manufacturing facilities with total capacity of 0.8 million tons;
- Wood Products one sawmill with a capacity of 160 million board feet; and
- Timberlands forest licenses on 12.2 million acres associated with the Dryden, Ontario and Prince Albert, Saskatchewan facilities.

Table of Contents

Also included in the Fine Paper and related assets divested were:

- the Prince Albert, Saskatchewan pulp and paper facility that we closed in the first quarter of 2006; and
- sawmills in Big River and Wapawekka, Saskatchewan that were closed in the third quarter of 2006.

We recognized a $625 million pretax gain in the Corporate and Other segment and recorded $92 million in tax benefits for the 39-week period ended September 30, 2007. The U.S. portion of the transaction resulted in a gain that was not taxable while the Canadian portion of the transaction resulted in a net loss for which we recognized a tax benefit in the first quarter of 2007.

SALE OF BUILDING PRODUCTS DISTRIBUTION CENTERS

In the second quarter of 2007, we sold our Canadian building products distribution facilities. We recognized pretax charges in the 39-week period ended September 30, 2007, of which $38 million was in connection with the sale of the Canadian distribution facilities, including $22 million for the impairment of goodwill.

Through the third quarter of 2008, we also have sold six U.S. distribution facilities. Net losses of $2 million and $6 million were recognized on the sale of these facilities in the 13 and 39-week periods ended September 28, 2008, respectively. The net losses include charges for goodwill impairment of $2 million and $5 million in the 13 and 39-week periods, respectively.

We received net cash proceeds of approximately $62 million in the 39-week period ended September 28, 2008 and approximately $100 million in the 39-week period ended September 30, 2007, in connection with the sale of these distribution centers. We continue to sell wood products through many of these distribution centers. As a result of this continuing involvement, the operations of these facilities have not been included in discontinued operations in the accompanying consolidated financial statements.

TRUS JOIST® COMMERCIAL DIVISION

On October 10, 2008, we announced we had signed a non-binding letter of intent to sell our Trus Joist® Commercial division, which had year-to-date 2008 sales of approximately $65 million, to Atlas Holdings. The transaction is expected to be completed during the fourth quarter of 2008. These assets, reported in our Wood Products segment, met the specific accounting requirements of assets held for sale as of September 28, 2008.

The following operating assets are expected to be included as part of the transaction:

- four manufacturing plants and
- 13 sales and engineering offices.

In the third quarter of 2008, we recognized a pretax charge of $27 million for the impairment of operating assets and $6 million for the impairment of goodwill associated with the Trus Joist® Commercial division.

NOTE 4: NET EARNINGS (LOSS) PER SHARE

This note provides details about how we calculate basic and diluted net earnings per share, and our shares with an anti-dilutive effect.

HOW WE CALCULATE BASIC AND DILUTED NET EARNINGS PER SHARE

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

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

- weighted average number of our outstanding common and exchangeable 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.

Table of Contents

Components of Our Basic and Diluted Earnings per Share

DOLLAR AMOUNTS IN MILLIONS EXCEPT PER SHARE DATA, SHARES IN THOUSANDS	THIRTEEN WEEKS ENDED SEPTEMBER 28, 2008	THIRTEEN WEEKS ENDED SEPTEMBER 30, 2007	THIRTY-NINE WEEKS ENDED SEPTEMBER 28, 2008	THIRTY-NINE WEEKS ENDED SEPTEMBER 30, 2007
Loss from continuing operations	$ (200)	$ (5)	$ (642)	$ (119)
Earnings from discontinued operations	480	106	678	972
Net earnings available for common and exchangeable shareholders	$ 280	$ 101	$ 36	$ 853
Weighted average outstanding shares of common and exchangeable stock (basic)	211,284	215,154	211,247	222,028
Dilutive effect of share-based awards				
Common and exchangeable stock and stock equivalents (diluted)	211,284	215,154	211,247	222,028
Basic earnings (loss) per share:				
Continuing operations	$ (0.94)	$ (0.02)	$ (3.04)	$ (0.54)
Discontinued operations	2.27	0.49	3.21	4.38
Net earnings	$ 1.33	$ 0.47	$ 0.17	$ 3.84
Diluted earnings (loss) per share:				
Continuing operations	$ (0.94)	$ (0.02)	$ (3.04)	$ (0.54)
Discontinued operations	2.27	0.49	3.21	4.38
Net earnings	$ 1.33	$ 0.47	$ 0.17	$ 3.84

The decrease in the basic weighted average number of shares outstanding from 2007 to 2008 reflects:

- the cancellation of 25,490,194 shares as part of the Domtar Transaction in March 2007; and
- the repurchase of 6,999,400 shares during 2007.

SHARES EXCLUDED FROM DILUTIVE EFFECT

The following shares were not included in the computation of diluted earnings (loss) per share for the 13 and 39-week periods ended September 28, 2008 and September 30, 2007 due to the company s net loss from continuing operations. However, some or all of these shares may be dilutive potential common shares in future periods.

Potential Shares Not Included in the Computation of Diluted Earnings per Share

	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	

SHARES IN THOUSANDS	SEPTEMBER 28, 2008	SEPTEMBER 30, 2007	SEPTEMBER 28, 2008	SEPTEMBER 30, 2007
Stock options	10,580	8,949	10,244	9,075
Performance share units	232	285	255	399
Restricted stock units	731	543	729	550

During the second quarter of 2008 all remaining exchangeable shares were exchanged for common shares. Balances related to exchangeable shares have been reclassified into common shares (at par value) and other capital on the accompanying consolidated balance sheet.

NOTE 5: SHARE-BASED COMPENSATION

In the 39 weeks ended September 28, 2008, we granted 1,900,855 stock options, 131,844 stock appreciation rights and 455,669 restricted stock units.

The weighted average exercise price of the stock options granted in the first 39 weeks of 2008 was $62.05.

Weighted Average Assumptions Used in Estimating the Value of Stock Options Granted During the First 39 Weeks of 2008

	10-YEAR OPTIONS
Expected volatility	30.84%
Expected dividends	3.87%
Expected term (in years)	5.92
Risk-free rate	3.20%
Weighted average fair value	$ 13.74

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 28, 2008.

Table of Contents

Weighted Average Assumptions Used to Remeasure the Value of Stock Appreciation Rights as of September 28, 2008

	SEPTEMBER 28, 2008
Expected volatility	34.64%
Expected dividends	3.85%
Expected term (in years)	3.41
Risk-free rate	2.64%
Weighted average fair value	$ 11.15

The weighted average fair value of the restricted stock units granted in the 39 weeks ended September 28, 2008 was $63.54. The post-termination vesting provisions for restricted stock units granted in 2008 differed from previous grants by allowing for immediate or continued vesting of awards in the event of death, disability, job elimination or retirement, including early retirement. As a result, the expense associated with certain of the restricted stock units granted in 2008 will be recognized over a required service period that is less than the stated four-year vesting period.

NOTE 6: CHARGES FOR RESTRUCTURING

Weyerhaeuser charges for restructuring include the following costs recognized in connection with business restructuring and overall cost reduction efforts:

DOLLAR AMOUNTS IN MILLIONS	THIRTEEN WEEKS ENDED SEPTEMBER 28, 2008	THIRTEEN WEEKS ENDED SEPTEMBER 30, 2007	THIRTY-NINE WEEKS ENDED SEPTEMBER 28, 2008	THIRTY-NINE WEEKS ENDED SEPTEMBER 30, 2007
Termination benefits	$ 10	$ 16	$ 50	$ 21
Less: Discontinued operations (charges) credits	1		1	(1)
	$ 11	$ 16	$ 51	$ 20

The charges recognized in the 13 and 39-week periods ended September 28, 2008 are primarily related to corporate restructuring activities. The charges recognized in both the 13 and 39-week periods ended September 30, 2007 included the restructuring of an administration facility in Kamloops, British Columbia covering various business functions.

Changes in Our Accrued Termination Benefits Related to Restructuring During the 39-week Period Ended September 28, 2008

DOLLAR AMOUNTS IN MILLIONS	
Accrued severance as of December 30, 2007	$ 31
Charges	50
Payments	(25)
Accrued severance as of September 28, 2008	$ 56

The majority of the accrued severance balance as of September 28, 2008 is expected to be paid by the end of 2009.

NOTE 7: CHARGES FOR CLOSURE OF FACILITIES

Weyerhaeuser incurred the following charges for the curtailment and closure of facilities:

DOLLAR AMOUNTS IN MILLIONS	THIRTEEN WEEKS ENDED SEPTEMBER 28, 2008	THIRTEEN WEEKS ENDED SEPTEMBER 30, 2007	THIRTY-NINE WEEKS ENDED SEPTEMBER 28, 2008	THIRTY-NINE WEEKS ENDED SEPTEMBER 30, 2007
Asset impairment charges	$ 2	$ 9	$ 51	$ 19
Termination benefits		9	36	19
Other closure costs	2	2	12	9
Reversal of closure charges recorded in prior periods	(4)	(1)	(5)	(2)
		19	94	45
Less discontinued operations			(11)	(7)
	$	$ 19	$ 83	$ 38

The charges recognized during the 39-week period ended September 28, 2008, include asset impairment charges and severance costs related primarily to the curtailments and closures of an oriented strand board plant, two lumber mills, and a plywood mill, as well as additional costs recognized in connection with previously announced Wood Products closures. They also include charges related to the closures of two box plants, which are reported as discontinued operations.

The charges recognized in 2007 include asset impairment charges and severance costs related primarily to the curtailments and closures of an engineered I-Joist plant, a veneer lathe, two lumber mills, and an oriented strand board plant, as well as additional costs recognized in connection with previously announced mill closures.

Other closure costs include costs of demolishing plant and equipment, gain or loss on disposition of assets, environmental clean-up and general costs to wind down operating facilities.

Table of Contents

Changes in Accrued Termination Benefits Related to Facility Closures During the 39-week Period Ended September 28, 2008.

DOLLAR AMOUNTS IN MILLIONS	
Accrued severance as of December 30, 2007	$ 53
Charges	36
Payments	(65)
Other adjustments	(3)
Accrued severance as of September 28, 2008	$ 21

The majority of the accrued severance balance as of September 28, 2008 is expected to be paid by the end of 2009.

NOTE 8: RESTRUCTURING OF URUGUAY JOINT VENTURES

During 2007, we began the process to restructure our ownership interests in Uruguay. As of December 30, 2007, Weyerhaeuser International Holdings Ltd (a wholly owned subsidiary) held a 50 percent ownership in each of the following three joint ventures:

- Colonvade S.A., which acquires land and establishes pine and eucalyptus plantations in Uruguay;
- Los Piques S.A., which operates forestry and a plywood mill in Uruguay; and
- Vandora S.A., which operates forestry in Uruguay.

In December 2007, the joint venture partners entered into agreements to partition the assets of the joint ventures to their respective partners. The partitioning of the assets was completed in April 2008. After the partitioning of the assets, we retained full ownership of the entities identified above and the following assets that remained in those entities:

- 66,000 hectares (approximately 163,000 acres) of forestlands in Uruguay and
- the Los Piques plywood mill.

As part of the partitioning, we contributed $23 million, net of cash acquired, to obtain full ownership of the plywood mill.

Including both the forestlands acquired in the partitioning and additional forestlands owned by a separate wholly-owned subsidiary, we own a total of 149,000 hectares (approximately 369,000 acres) of forestlands in Uruguay.

These assets and the results of their operations were consolidated in the accompanying financial statements as of April 2008. The restructuring resulted in the recognition of a $101 million non-cash gain for financial accounting purposes and is classified in interest income and other in the accompanying consolidated statement of earnings. There is no tax provision on the gain primarily due to a forestry exemption from income taxes and the assets are considered indefinitely invested. The gain, which was based on preliminary values and is subject to adjustment, was recognized in the second quarter of 2008 and is reported in the Corporate and Other segment.

NOTE 9: OTHER OPERATING COSTS, NET

Other operating costs, net:

- exclude our Real Estate operations,
- include both recurring and occasional income and expense items and
- can fluctuate from year to year.

Various Income and Expense Items Included in Weyerhaeuser Other Operating Costs, Net

DOLLAR AMOUNTS IN MILLIONS	THIRTEEN WEEKS ENDED SEPTEMBER 28, 2008	THIRTEEN WEEKS ENDED SEPTEMBER 30, 2007	THIRTY-NINE WEEKS ENDED SEPTEMBER 28, 2008	THIRTY-NINE WEEKS ENDED SEPTEMBER 30, 2007
Gain on the sale of Containerboard, Packaging & Recycling operations (Note 3)	$ (1,173)	$	$ (1,173)	$
Gain on the sale of Australian operations (Note 3)	(211)		(211)	
Gain on the Domtar Transaction (Note 3)				(625)
Gain from change in post-retirement benefits (Note 14)			(52)	
Gain on disposition of assets	(5)	(11)	(19)	(42)
Asset impairment charges other than for closures	50		78	46
Charges for environmental remediation reserve (Note 16)	1		18	
Net charges (reversals) related to legal matters	(5)	(36)	25	4
Foreign exchange (gains) losses, net	13	(3)	21	(39)
Other, net	20	6	(6)	10
	(1,310)	(44)	(1,319)	(646)
Less: discontinued operations	1,360	49	1,399	710
	$ 50	$ 5	$ 80	$ 64

The total pretax gain on the sale of our Australian operations was $217 million; $211 million was recorded in other operating expenses 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.

Table of Contents

Weyerhaeuser asset impairment charges during the third quarter and year-to-date 2008 relate primarily to held-for-sale assets of the Trus Joist® Commercial division in Wood Products and capitalized interest on Real Estate projects that are impaired. Year-to-date 2007 includes pretax charges of $37 million related to Wood Products facilities that had been offered for sale.

Foreign exchange (gains) losses result from changes in exchange rates, primarily related to Weyerhaeuser s Canadian and New Zealand operations

NOTE 10: REAL ESTATE ASSET IMPAIRMENTS AND OTHER INVESTMENT-RELATED CHARGES

We review our long-lived assets and investments each quarter to determine if they are properly recorded. 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, unfavorable market conditions caused us to re-evaluate our strategy to develop certain projects, reduce sales prices, increase customer incentives, or reassess the recoverability of our investments, which triggered impairment charges. Write downs of impaired assets are recorded as adjustments to the cost basis of inventory and investments.

Total Real Estate Impairment and Other Investment-Related Charges

DOLLAR AMOUNTS IN MILLIONS	THIRTEEN WEEKS ENDED SEPTEMBER 28, 2008	THIRTEEN WEEKS ENDED SEPTEMBER 30, 2007	THIRTY-NINE WEEKS ENDED SEPTEMBER 28, 2008	THIRTY-NINE WEEKS ENDED SEPTEMBER 30, 2007
Impairment charges for long-lived assets	$ 226	$ 23	$ 505	$ 35
Impairment and other investment-related charges	6	3	81	5
Write-off of pre-acquisition costs	3	1	16	3
	$ 235	$ 27	$ 602	$ 43

Impairment charges for long-lived assets relate to homebuilding operations. Impairment and other investment-related charges relate to loans and investments in unconsolidated entities. Impairment and other investment-related charges for the 39-week periods ended September 28, 2008 and September 30, 2007 include allowances and impairment charges of $68 million and $5 million, respectively. 2008 also includes a $13 million charge related to an accrual for potential refunds of management fee income.

Charges for the write-off of pre-acquisition costs are recorded in Real Estate costs and operating expenses in the accompanying consolidated statement of earnings.

In addition to these impairment charges, Weyerhaeuser has recognized charges for the impairment of interest that was previously capitalized on Real Estate assets of $19 million and $47 million for the 13 and 39-week periods ended September 28, 2008, respectively. These charges are classified as Weyerhaeuser other operating costs in the accompanying consolidated statement of earnings. Refer to *Note 9: Other Operating Costs, Net* for additional information.

NOTE 11: INVENTORIES

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

DOLLAR AMOUNTS IN MILLIONS	SEPTEMBER 28, 2008	DECEMBER 30, 2007
Logs and chips	$ 37	$ 69
Lumber, plywood, panels and engineered lumber	270	346

Pulp and paper	105	99
Containerboard and packaging		235
Other products	157	191
Materials and supplies	153	315
	722	1,255
Less: assets held for sale	(10)	(460)
	$ 712	$ 795

14

Table of Contents

NOTE 12: GOODWILL

Goodwill is the purchase price minus the fair value of net assets we ve acquired through business acquisitions and combinations. This note includes information about changes in the carrying amount of our goodwill.

Changes in the Carrying Amount of Goodwill

DOLLAR AMOUNTS IN MILLIONS	TIMBERLANDS	WOOD PRODUCTS	CELLULOSE FIBERS	CONTAINERBOARD, PACKAGING, AND RECYCLING	CORPORATE AND OTHER	TOTAL
Balance as of December 30, 2007	$ 40	$ 813	$ 93	$ 1,245	$ 16	$ 2,207
Less: assets held for sale				(1,245)	(15)	(1,260)
Balance as of December 30, 2007, excluding assets held for sale	40	813	93		1	947
Impairment of goodwill		(11)				(11)
Effect of foreign currency translation and other adjustments		(16)			(1)	(17)
Balance as of September 28, 2008	$ 40	$ 786	$ 93	$	$	$ 919

As discussed in *Note 3: Discontinued Operations and Assets Held for Sale,* impairments of goodwill in 2008 relate to certain U.S. wood products distribution facilities and the Trus Joist® Commercial division. In 2007, we recognized $22 million of goodwill impairment in connection with the sale of our Canadian distribution facilities.

NOTE 13: ACCRUED LIABILITIES

Weyerhaeuser s accrued liabilities were $2.2 billion as of September 28, 2008. They include payroll, income taxes, Social Security taxes, real and personal property taxes, interest and other items.

DOLLAR AMOUNTS IN MILLIONS	SEPTEMBER 28, 2008	DECEMBER 30, 2007
Payroll wages and salaries, incentive awards, retirement and vacation pay	$ 435	$ 588
Accrued Income Taxes	1,330	33
Taxes Social Security and real and personal property	43	63
Interest	68	130
Other	337	363
	2,213	1,177
Less: discontinued operations	(2)	(220)
	$ 2,211	$ 957

Accrued income taxes increased from December 30, 2007 mainly due to the taxes on the gain from the sale of our Containerboard, Packaging and Recycling business to International Paper. Refer to *Note 3: Discontinued Operations and Assets Held for Sale* for additional information about the sale of our Containerboard, Packaging and Recycling business.

NOTE 14: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

We recognized net pension and other postretirement benefit credits of $3 million and $77 million during the 13 and 39-week periods ended September 28, 2008, respectively, compared to net pension and other postretirement credits of $6 million and cost of $51 million in the 13 and 39-week periods ended September 30, 2007, respectively. The components of net periodic benefit (credits) costs are:

	PENSION			
	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
DOLLAR AMOUNTS IN MILLIONS	SEPTEMBER 28, 2008	SEPTEMBER 30, 2007	SEPTEMBER 28, 2008	SEPTEMBER 30, 2007
Service cost	$ 19	$ 29	$ 79	$ 94
Interest cost	73	65	224	205
Expected return on plan assets	(141)	(124)	(428)	(386)
Amortization of loss (gain)	(8)	(2)	(18)	1
Amortization of prior service costs	6	8	23	25
Loss (gain) due to curtailment, settlement and special termination benefits, net	58	(3)	59	52
	$ 7	$ (27)	$ (61)	$ (9)

Table of Contents

	OTHER POSTRETIREMENT BENEFITS			
	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
DOLLAR AMOUNTS IN MILLIONS	SEPTEMBER 28, 2008	SEPTEMBER 30, 2007	SEPTEMBER 28, 2008	SEPTEMBER 30, 2007
Service cost	$ 1	$ 5	$ 11	$ 14
Interest cost	13	12	45	39
Amortization of loss	6	6	15	18
Amortization of prior service credits	(30)	(2)	(35)	(6)
Gain due to curtailment, settlement and special termination benefits, net			(52)	(5)
	$ (10)	$ 21	$ (16)	$ 60

PENSION BENEFITS

As part of the sale of our Containerboard, Packaging and Recycling business to International Paper in the third quarter of 2008, one of our qualified pension plans was transferred to and assumed by International Paper. We also remeasured the assets and obligations of all of our U.S. pension plans in connection with the transaction. The pension plans are typically remeasured at fiscal year end and at January 1 unless a significant event occurs that requires remeasurement. Refer to *Note 3: Discontinued Operations and Assets Held for Sale* for additional information about the transaction.

The net effect of the sale of the Containerboard, Packaging and Recycling business and plans remeasurements at January 1 and the transaction measurement date was as follows:

We recognized a $59 million charge in the third quarter of 2008 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 is 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.

The net funded status of our U.S. qualified pension plans, which is reflected as pension assets on the accompanying consolidated balance sheet, was reduced by $346 million. The fair value of the plans assets declined by more than the plans liabilities which were reduced in connection with the sale transaction. The net reduction in the funded status includes a net actuarial loss of $325 million generated by the remeasurements of the assets and liabilities of all of our U.S. qualified pension plans, an increase in liability of $23 million for negotiated plan amendments, and a net increase in funded status of $2 million resulting from the sale of our Containerboard, Packaging and Recycling business.

Non-qualified pension liabilities increased by $19 million due to the remeasurements of the plans liabilities.

Net deferred tax liabilities decreased by $109 million.

Shareholders interest decreased by $197 million for changes in accumulated other comprehensive income, reflecting the net effect of the items discussed above. Amounts deferred in accumulated other comprehensive income will be amortized into net periodic pension cost (credits) in future periods.

The discount rate used to remeasure the pension plans liabilities was changed from a rate of 6.5 percent at December 30, 2007 and January 1, 2008, to rates reflective of current bond rates on the remeasurement date for the transaction. A discount rate of 7.2 percent was used as of July 31, 2008. The discount rate assumed to value lump sum benefits was unchanged at 5.5 percent. There was no change to the expected rate of return assumption.

This transaction and the subsequent remeasurement resulted in an increase in the amount of pension income that is being recognized from August 4, 2008 to the end of the year.

The loss due to curtailment, settlement and special termination benefits, net for the 39-weeks ended September 30, 2007, is primarily related to the Domtar Transaction, which included the transfer of four Canadian pension plans. This loss is recorded as part of the net gain on the Domtar Transaction and is presented in discontinued operations. Refer to *Note 3: Discontinued Operations and Assets Held for Sale* for additional information about the Domtar Transaction.

Beginning in first quarter 2008, normal net pension (income) expense for Weyerhaeuser is recorded in the Corporate and Other segment. See additional discussion in *Note 17: Business Segments.*

OTHER POSTRETIREMENT BENEFITS

During the second quarter of 2008, we announced amendments to our postretirement medical and life insurance benefit plans for U.S. salaried employees that reduce or eliminate certain medical and life insurance benefits that are available to both past and present employees. These changes reduce amounts that we expect to pay in the future to fund the benefit plans and resulted in a significant decrease in our postretirement liabilities. Some of this reduction is recognized in earnings immediately in the form of a curtailment gain and pertains to the elimination of benefits for those employees who do not meet specified eligibility requirements. The remainder of the benefit is deferred in accumulated other comprehensive income, a component of shareholders interest, and will be recognized as part of our net periodic postretirement (benefit) expense through 2009.

The net effect of the plan amendments and the remeasurements was as follows:

- A curtailment gain of $52 million was recognized in the second quarter of 2008 for full recognition of the pre-existing prior service credit.

- Postretirement liabilities were reduced by $365 million. This includes a reduction in the plans liabilities of $318 million for the plan amendments, an actuarial gain of $29 million generated by the remeasurement of the plans liabilities at January 1, 2008 and an actuarial gain of $18 million generated by the change in discount rates at remeasurement on June 29, 2008.

- Net deferred tax liabilities increased by $127 million.

- Shareholders interest increased by $186 million for changes in accumulated other comprehensive income, reflecting the net effect of the items discussed above.

The discount rate used to remeasure the postretirement plans liabilities was changed from a rate of 6.5 percent at December 30, 2007 and January 1, 2008, to rates reflective of current bond rates on the date of remeasurement for the plan amendments. A rate of 7.0 percent was used to measure the elimination of medical plan benefits for current employees who will not meet eligibility requirements by January 1, 2010 and a rate of 6.6 percent was used to measure the ongoing plan benefits, as amended, for those employees and retirees who meet the eligibility requirements.

Table of Contents

As a result of the plan amendments and the $186 million net benefit that was deferred in accumulated other comprehensive income, we expect the net benefit that will be amortized out of accumulated other comprehensive income, which will be included in net periodic postretirement (benefit) expense for fiscal year 2008, will be approximately $50 million higher than the expected amounts of amortization of prior service credits and actuarial losses that were disclosed in our Annual Report on Form 10-K for the year ended December 30, 2007.

During the third quarter of 2008, the sale of our Containerboard, Packaging and Recycling business triggered the remeasurement of the postretirement benefit plans for U.S. hourly employees. These liabilities were previously remeasured at January 1, 2008. The remeasurement of liabilities for the transaction reflected both a change in the discount rate and the curtailment of future benefits for employees that transferred to International Paper who were not eligible for these benefits at their date of transfer. The net effect of the remeasurements resulted in a $13 million reduction in our postretirement liabilities and a corresponding increase in accumulated other comprehensive income in the third quarter.

Beginning in third quarter 2008, normal postretirement (income) expense for Weyerhaeuser is reported in the Corporate and Other segment, with the exception of certain union-negotiated benefits that are reflected in the Cellulose Fibers segment. See additional discussion in *Note 17: Business Segments.*

NOTE 15: COMPREHENSIVE INCOME (LOSS)

Our comprehensive income (loss), net of tax, was income of $27 million and a loss of $44 million for the 13 and 39-week periods ended September 28, 2008, respectively.

DOLLAR AMOUNTS IN MILLIONS	THIRTEEN WEEKS ENDED SEPTEMBER 28, 2008	THIRTEEN WEEKS ENDED SEPTEMBER 30, 2007	THIRTY-NINE WEEKS ENDED SEPTEMBER 28, 2008	THIRTY-NINE WEEKS ENDED SEPTEMBER 30, 2007
Net earnings	$ 280	$ 101	$ 36	$ 853
Other comprehensive income:				
Foreign currency translation adjustments	(37)	82	(71)	171
Net actuarial gains (losses), net of tax	(213)	2	(187)	10
Prior service credits, net of tax	2	4	170	19
Net derivative gains (losses) on cash flow hedges, net of tax	(6)	6	15	34
Reclassification of net (gains) losses on cash flow hedges, net of tax	1	(5)	(6)	(20)
Unrealized losses on available-for-sale securities			(1)	
	$ 27	$ 190	$ (44)	$ 1,067

Net actuarial losses for the third quarter of 2008 include pretax actuarial losses of $456 million related to the remeasurement of pension plan assets, partially offset by $126 million of net actuarial gains resulting from the remeasurements of liabilities in all of the company s pension plans for U.S. employees, the postretirement benefit plans for U.S. hourly employees, and certain postretirement plans for Canadian salaried employees. The U.S. plans were remeasured as a result of the sale of the Containerboard, Packaging and Recycling business. The Canadian plans were remeasured as a result of closures in Canada. There was an additional $19 million reduction of deferred actuarial gains that were recognized in third quarter earnings as part of the net gain on the sale of the Containerboard, Packaging and Recycling business. The after-tax effect of these items was a reduction of accumulated other comprehensive income of $213 million.

Net actuarial gains (losses) for the 39 weeks ended September 28, 2008, also include pretax actuarial gains of $29 million generated by the second quarter 2008 remeasurement of the U.S. salaried postretirement plans liabilities and $18 million specifically related to the change in discount rates at remeasurement on June 29, 2008. The after-tax amount was an increase in accumulated other comprehensive income of $26 million.

The prior service credits for the third quarter 2008 reflects the recognition of $81 million in previously deferred pretax prior service costs in connection with the sale of the Containerboard, Packaging and Recycling business, partially offset by the deferral of a pretax cost of $23 million related to amendments made to certain hourly pension plans in 2008. The after-tax effect of these items was an increase in accumulated other comprehensive income of $25 million.

The prior service credit for the 39 weeks ended September 28, 2008, also includes a pretax credit of $318 million for the reduction in liabilities resulting from the second quarter amendments to the postretirement plans for U.S. salaried employees, offset by the full recognition in earnings of a $52 million pre-existing prior service credit. The net pretax effect of these items was $266 million and the after-tax effect was an increase in accumulated other comprehensive income of $160 million.

In the 13 and 39-week periods ended September 28, 2008, we also recognized after-tax amortization of prior service credits for all of our pension and postretirement plans of $23 million and $14 million, respectively.

Cumulative Other Comprehensive Income

Our cumulative other comprehensive income, net of tax, was $907 million as of September 28, 2008.

Items Included in Our Cumulative Other Comprehensive Income, net of tax

DOLLAR AMOUNTS IN MILLIONS	SEPTEMBER 28, 2008	DECEMBER 30, 2007
Foreign currency translation adjustments	$ 456	$ 527
Net pension and other postretirement benefit gain not yet recognized in earnings	357	544
Prior service credit (cost) not yet recognized in earnings	87	(83)
Cash flow hedge fair value adjustments	4	(5)
Unrealized gains on available-for-sale securities	3	4
	$ 907	$ 987

17

Table of Contents

NOTE 16: 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,
- alder antitrust litigation,
- oriented strand board (OSB) antitrust litigation and
- Paragon Trade Brands, Inc. 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 U.S. 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 rights to file claims expire 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 and

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

Status. Cumulative payments against the reserve through September 28, 2008 were $110 million. Based on our experience with actual claims and litigation, we reduced our reserve by $13 million in the third quarter of 2008. As of September 28, 2008, the reserve for future claims was $7 million. To date, 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 any additional adjustments we may make in future periods.

Claims Activity and Average Damage Award Paid

	THIRTY-NINE WEEKS ENDED SEPTEMBER 28, 2008	FIFTY-TWO WEEKS ENDED DECEMBER 30, 2007	FIFTY-THREE WEEKS ENDED DECEMBER 31, 2006
Number of claims filed during the period	1,040	1,460	2,200
Number of claims resolved	1,360	1,980	1,420
Number of claims unresolved at end of period	645	965	1,485
Number of damage awards paid	1,070	1,200	675
Average damage award paid	$ 1,574	$ 2,100	$ 3,478

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 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 $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

There have been several lawsuits filed against us since 2000 alleging we had monopoly power or attempted to gain monopoly power for alder logs and finished alder lumber in the Pacific Northwest market.

The legal proceedings have included cases we refer to as:

- Initial Alder Case and Complaint in Equity,
- Washington Alder and
- Civil Class Action Antitrust Lawsuit.

Initial Alder Case and Complaint in Equity

The Initial Alder Case filed against us in U.S. District Court in Oregon alleged that from 1996 to 2001 we had monopoly power or attempted to gain monopoly power in the Pacific Northwest market for alder logs and finished alder lumber.

Complaint in Equity filed against us in U.S. District Court in Oregon asked that the judgment in the Initial Alder Case against a plaintiff who did not prevail be set aside and the matter be retried.

Status. The U.S. Supreme Court vacated the lower court decision in the Initial Alder Case that had imposed $79 million in trebled damages against us. We reversed a $79 million reserve into income in the fourth quarter of fiscal year 2006.

The U.S. Supreme Court held that because the plaintiff had conceded that it had not satisfied the test established by the U.S. Supreme Court the claim on which the damage award was based could not be supported.

We settled the Initial Alder Case and the related Complaint in Equity in the second quarter of fiscal year 2007 and recorded an after-tax charge of $11 million.

Events and Rulings. Here is a chronology of the litigation:

- 2000 The Initial Alder case was filed against us in U.S. District Court in Oregon.
- 2003 A jury verdict imposed $79 million in trebled damages against us and we recognized a charge of $79 million in the first quarter of 2003.
- 2003 We appealed the jury verdict to the U.S. Court of Appeals for the Ninth Circuit.
- 2005 A Complaint in Equity was filed against us in U.S. District Court in Oregon on behalf of a plaintiff who did not prevail in the Initial Alder Case. The complaint alleged that a fraud was committed on the court and alleged $20 million in trebled damages.

2005 The U.S. Court of Appeals for the Ninth Circuit upheld the jury verdict in the Initial Alder Case.

2006 We were granted discretionary review of the Initial Alder Case by the U.S. Supreme Court.

2007 The U.S. Supreme Court vacated the decision by the U.S. Court of Appeals for the Ninth Circuit and remanded the matter to the Ninth Circuit for further action.

2007 The Court of Appeals for the Ninth Circuit vacated the judgment of the District Court and remanded the matter to the District Court for further proceedings. We recognized income for the reversal of the $79 million reserve for this matter in the fourth quarter of 2006.

2007 We settled the Initial Alder Case and a related Complaint in Equity and recorded an after tax charge of $11 million in the second quarter of 2007.

Washington Alder

This lawsuit filed against us in U.S. District Court in Oregon alleged monopolization of the alder log and lumber markets. The plaintiff asked for:

- $36 million in trebled damages;
- divestiture of our Northwest Hardwoods Division; and
- divestiture of our alder sawmills in Oregon, Washington and British Columbia.

Status. The U.S. Court of Appeals for the Ninth Circuit vacated the lower court decision imposing $16 million in trebled damages against us and remanded the Washington Alder case to the U.S. District Court in Oregon because of the U.S. Supreme Court decision in the Initial Alder Case. The Ninth Circuit held that because the jury award in Washington Alder had been based on the jury verdict in the Initial Alder Case, the Washington Alder verdict also had to be reconsidered. We reversed a $16 million reserve into income in the fourth quarter of fiscal year 2006.

We settled the Washington Alder case in August 2007 and recorded an after-tax charge of $3 million in the third quarter of 2007.

Events and Rulings. Here is a chronology of the litigation:

2003 Washington Alder filed the antitrust lawsuit against us in U.S. District Court in Oregon.

2004 A jury verdict imposed $16 million in trebled damages against us and we recognized a charge of $16 million in the second quarter of 2004.

2004 We appealed the jury verdict to the U.S. Court of Appeals for the Ninth Circuit.

2007 The U.S. Court of Appeals for the Ninth Circuit issued an order vacating the judgment and remanded the case to the U.S. District Court in Oregon for further proceedings. We recognized income for the reversal of the $16 million reserve for this matter in the fourth quarter of 2006.

2007 We settled the case and recorded an after-tax charge of $3 million in the third quarter of 2007.

Civil Class Action Antitrust Lawsuit

This lawsuit filed against us in U.S. District Court in Oregon claimed that as a result of our alleged monopolization of what was claimed to be the alder sawlog market in the Pacific Northwest we also had monopolized or controlled an alleged market for finished alder and charged monopoly prices for finished alder lumber.

19

Table of Contents

Status. In April 2008 a jury found in favor of the class and imposed trebled damages of $84 million. There are currently several post-trial motions pending before the trial court. We believe multiple errors occurred during the trial and we intend to appeal the judgment once the post-trial motions are decided. Management believes that ultimately an adverse result is not probable because the company will prevail on appeal. Based on the information currently available to us, the requirements for establishing a reserve under Statement of Financial Accounting Standards No. 5, *Accounting for Contingencies* have not been met. As a result, we have not established a reserve for this litigation. However, it is possible in the future that there could be a charge for all or a portion of any damage award. Any such charge could materially and adversely affect our results of operations for the period in which we record it.

Sales for the class period to opt outs are 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 this matter. We also are unable to estimate at this time the amount of charges if any that may be required in the future.

Events and Rulings. Here is a chronology of the litigation:

2004 The civil class action antitrust lawsuit was filed against us in U.S. District Court in Oregon.

2004 The judge issued an order certifying the plaintiff as class representative for all U.S. purchasers of finished alder lumber between April 28, 2000, and March 31, 2004 for the purpose of awarding monetary damages.

2005 Class counsel notified the court that 5 percent of the class members opted out of the class action lawsuit.

2007 The U.S. District Court in Oregon granted the plaintiffs motion to file a second amended complaint, extended the claims period to December 31, 2006, and scheduled trial on the matter for April 2008.

2007 The U.S. District Court in Oregon denied our motion to decertify the class.

2007 The U.S. District Court in Oregon granted plaintiffs request to file a third amended complaint, which eliminated all allegations of overbidding and overbuying of alder sawlogs as a mechanism to affect the price of alder lumber.

2007 We filed a motion for summary judgment with the U.S. District Court.

2008 The U.S. District Court denied our motion for summary judgment. The trial commenced April 15, 2008. A verdict was delivered against us on April 28, 2008 The amount of the verdict with trebling is $84 million. We will appeal the judgment against us. A hearing is scheduled for December 2, 2008.

OSB Antitrust Litigation

In 2006 a series of lawsuits that had been filed were consolidated into one case in the U.S. District Court in Pennsylvania on behalf of persons and entities who directly or indirectly purchased OSB between June 2002 and February 2006 from us or from Louisiana-Pacific, Georgia-Pacific, Potlatch, Ainsworth Lumber, Tolko Forest Products, Grant Forest Products, Norbord or J.M. Huber Corp.

The lawsuit alleges:

these companies conspired to fix and raise OSB prices in the U.S. during the class period and

plaintiffs paid artificially inflated prices for OSB during that period.

No specific damages were alleged, but the direct and indirect plaintiffs estimated total damages from all defendants, with trebling, of $4.9 billion. This amount is lower than previously reported because the plaintiffs experts modified their opinions and because the end of the class period was limited to February 2006.

Status. The U.S. District Court in Pennsylvania issued a number of rulings approving class action status for various classes of direct and indirect purchasers for the period from June 2002 through February 2006. In March 2008 we reached a settlement in principle with the direct purchasers for $18 million and we recognized a charge of $18 million in the first quarter of 2008. The settlement was finalized in June. The court conducted a hearing on Weyerhaeuser s settlement with direct purchaser plaintiffs on August 5, 2008. A formal settlement agreement with the indirect purchasers for $1 million was signed August 4, 2008. Both settlement agreements received preliminary court approval. A hearing on final approval is scheduled for November 24, 2008.

Events and Rulings. Here is a chronology of the litigation:

2006 Numerous individual cases were consolidated into one lawsuit filed in U.S. District Court in Pennsylvania seeking class action status for direct purchasers of OSB.

2006 Additional lawsuits filed on behalf of indirect purchasers of OSB in different states where such claims are possible under state law were consolidated in U.S. District in Pennsylvania.

2006 The court dismissed with prejudice the claims filed by the Pennsylvania indirect purchasers.

2007 The U.S. District Court in Pennsylvania:

- certified a class of direct purchasers who purchased OSB structural panel products directly from defendants from June 1, 2002 to February 24, 2006;
- certified a class of nationwide indirect purchaser end users who indirectly purchased for their own use and not for resale, new OSB manufactured or sold by one or more of the defendants between June 1, 2002 and February 24, 2006;
- excluded persons who purchased OSB already incorporated into a house or other structure; and
- certified a multi-state class of indirect purchasers from 17 states.

2007 The U.S. Court of Appeals for the Third Circuit denied the separate petitions of the defendants and the indirect purchaser plaintiffs for leave to appeal the class certification order.

2007 Individual and joint motions for summary judgment were filed in December on behalf of the remaining defendants, including us.

2008 In March, we settled in principle with the direct purchasers of OSB for $18 million and a charge of $18 million was recognized in the first quarter of 2008.

2008 In April, we settled in principle with the indirect purchasers for $1 million.

2008 The court granted preliminary approval for the settlements with direct and indirect purchaser classes.

Table of Contents

Paragon Trade Brands, Inc. Litigation

The Equity Committee filed claims against us in 1999 in the Paragon Trade Brands, Inc. bankruptcy proceeding in the U.S. Bankruptcy Court for the Northern District of Georgia. The Equity Committee (later replaced by a litigation claims representative) asserted we breached certain warranties in our agreements with Paragon connected with its public offering of common stock in February 1993.

The Equity Committee sought to recover damages sustained by Paragon in two patent-infringement cases one brought by Procter & Gamble and the other by Kimberly-Clark.

Status. In 2005 the U.S. Bankruptcy Court imposed damages of approximately $470 million on us. We appealed the liability and damages determinations to the U.S. District Court for the Northern District of Georgia. In September 2007, the U.S. District Court for the Northern District of Georgia issued an order reversing the U.S. Bankruptcy Court s decision and directed the court clerk to enter judgment in our favor. In October 2007 the Litigation Claims Representative appealed the decision to the U.S. Court of Appeals for the Eleventh Circuit. In May 2008 the Eleventh Circuit upheld the District Court s opinion and upheld a judgment in our favor. The Bankruptcy Court reopened the matter and the parties filed a joint motion to distribute the remaining assets in the bankruptcy estate of approximately $7 million to us. In August the court signed the joint motion directing that funds be distributed to us.

Events and Rulings. Here is a chronology of the litigation:

1999 The Equity Committee in the Paragon Trade Brands, Inc. bankruptcy proceeding began its proceeding against us in U.S. Bankruptcy Court for the Northern District of Georgia.

2002 The Bankruptcy Court held us liable for breaches of warranty.

2005 The Bankruptcy Court imposed damages of $470 million on us.

2005 We appealed the liability and damages determination to the U.S. District Court for the Northern District of Georgia and posted a $500 million bond.

2007 The U.S. District Court for the Northern District of Georgia issued an order reversing the U.S. Bankruptcy Court s decision and directing the court clerk to enter judgment in our favor.

2007 The Litigation Claims Representative appealed the U.S. District Court s decision to the U.S. Court of Appeals for the Eleventh Circuit and we cancelled the $500 million bond that had been posted.

2008 The Eleventh Circuit Court of Appeals affirmed the decision of the U.S. District Court.

2008 The Bankruptcy Court reopened the matter and the parties filed a joint motion to distribute remaining assets to Weyerhaeuser. In August, the court signed a joint motion directing that funds be distributed to us. Funds were received and the case is closed.

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 30, 2007	$ 27
Remediation costs accrued	18
Remediation payments	(7)
Reserve balance as of September 28, 2008	$ 38
Total active sites as of September 28, 2008	56

During the first quarter of 2008, we recognized a charge of $17 million for an adjustment to increase our reserve for environmental remediation. The increase was primarily a result of including additional years during which we are required to perform ongoing monitoring activities at certain sites.

The other changes in our reserves for remediation costs reflect:

- additional information on all sites concerning implementation of remediation alternatives,
- updates on prior cost estimates and new sites 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 $30 million.

Table of Contents

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 are currently 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 the ability of other potentially responsible parties to participate 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 Removal

We have not recognized a liability for the removal and disposal of encapsulated asbestos from all facilities and equipment. That is because we cannot reasonably:

- estimate the fair value of our obligations or
- determine the date on which the encapsulated asbestos will be removed.

When we are able to reasonably estimate the fair value, we will establish a liability as appropriate.

NOTE 17: BUSINESS SEGMENTS

We principally are 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 North American logs, chips and timber, and international timberlands and related converting operations;
- 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;

- Containerboard, Packaging and Recycling sold in August 2008;

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

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

The following changes made during 2008 and 2007 affect the comparability of segment results:

During 2008:

- we reclassified Weyerhaeuser s international operations outside of North America from the Corporate and Other segment to the Timberlands segment, and

- we changed our process of allocating pension and postretirement costs (credits) to the operating segments.

During 2007:

- we completed the Domtar Transaction, which affected several of the company s segments.

International operations

Effective July 2008, there were changes in senior management responsibility for Weyerhaeuser s international operations outside of North America, which consist primarily of timberlands and related converting operations in South America. As a result, these operations, which previously were reported as part of the Corporate and Other segment are now reported as part of the Timberlands segment. Results of international operations that have been disposed of and results of the company s investment in Uruguay, prior to its restructuring in second quarter 2008, continue to be reported in the Corporate and Other segment. Segment results for prior periods have been recast to present information consistent with the current presentation.

Allocation of pension and postretirement credits (costs)

Effective with the first quarter of 2008, the company s normal pension credits (costs) are no longer being allocated to the Weyerhaeuser operating segments. Effective with the third quarter of 2008, the company s normal postretirement credits (costs) are no longer being allocated to the Weyerhaeuser operating segments. Normal Weyerhaeuser pension and postretirement credits (costs) are reported in the Corporate and Other segment with the exception of certain union-negotiated postretirement benefits that are reflected in the Cellulose Fibers segment. Pension and postretirement credits (costs) related to real estate operations are reported in the Real Estate segment.

Domtar Transaction

In the first quarter of 2007 we divested our fine paper business and related assets through completion of the Domtar Transaction. The majority of the operations that were divested as a result of the Domtar Transaction are included in the Fine Paper segment. The additional related assets are included in the following segments:

- Cellulose Fibers which includes the Kamloops, British Columbia cellulose fiber operations and also includes sales of cellulose fiber produced in four mills with integrated paper and cellulose fiber operations.

- Wood Products which includes the Ear Falls, Ontario, sawmill and activities associated with the Big River and Wapawekka, Saskatchewan sawmills that were closed in third quarter 2006.

Timberlands which includes forest licenses on 12.2 million acres associated with the Dryden, Ontario and Prince Albert, Saskatchewan facilities.

The pretax gain on the Domtar transaction is included in the Corporate and Other segment.

Table of Contents

KEY FINANCIAL DATA BY BUSINESS SEGMENT

Management evaluates segment performance based on the contribution to earnings of the respective segments. An analysis and reconciliation of the company s business segment information to the respective information in the Consolidated Financial Statements is as follows:

	THIRTEEN WEEKS ENDED		THIRTY-NINE WEEKS ENDED	
DOLLAR AMOUNTS IN MILLIONS	**SEPTEMBER 28, 2008**	**SEPTEMBER 30, 2007**	**SEPTEMBER 28, 2008**	**SEPTEMBER 30, 2007**
Sales to and revenues from unaffiliated customers:				
Timberlands	$ 254	$ 252	$ 675	$ 700
Wood Products	1,006	1,449	3,043	4,581
Cellulose Fibers	447	436	1,352	1,388
Fine Paper				459
Containerboard, Packaging and Recycling	497	1,293	3,169	3,846
Real Estate	329	598	1,054	1,644
Corporate and Other				