WEYERHAEUSER CO
Form 10-Q
October 28, 2016

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, 2016
or
o 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 (State or other jurisdiction of incorporation or organization)	91-0470860 (I.R.S. Employer Identification Number)
220 Occidental Avenue South Seattle, Washington	98104-7800
(Address of principal executive offices)	(Zip Code)

(206) 539-3000
(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 o 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). x Yes o 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 x Accelerated filer o Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
o Yes x No
As of October 21, 2016, 748,058,329 shares of the registrant's common stock ($1.25 par value) were outstanding.

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FINANCIAL INFORMATION

WEYERHAEUSER COMPANY
CONSOLIDATED STATEMENT OF OPERATIONS
(UNAUDITED)

DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER-SHARE FIGURES	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 2016	SEPTEMBER 2015	SEPTEMBER 2016	SEPTEMBER 2015
Net sales	$1,709	$ 1,355	$4,769	$ 3,980
Costs of products sold	1,314	1,073	3,661	3,123
Gross margin	395	282	1,108	857
Selling expenses	22	24	67	73
General and administrative expenses	78	55	248	184
Research and development expenses	5	4	14	12
Charges for integration and restructuring, closures and asset impairments (Note 15)	16	2	141	16
Other operating costs (income), net (Note 16)	—	31	(47)	56
Operating income	274	166	685	516
Equity earnings from joint ventures (Note 7)	9	—	21	—
Interest income and other	15	9	34	27
Interest expense, net of capitalized interest	(114)	(87)	(323)	(254)
Earnings from continuing operations before income taxes	184	88	417	289
Income taxes (Note 17)	(22)	44	(64)	36
Earnings from continuing operations	162	132	353	325
Earnings from discontinued operations, net of income taxes (Note 3)	65	59	123	111
Net earnings	227	191	476	436
Dividends on preference shares (Note 5)	—	(11)	(22)	(33)
Net earnings attributable to Weyerhaeuser common shareholders	$227	$ 180	$454	$ 403
Earnings per share attributable to Weyerhaeuser common shareholders, basic (Note 5):				
Continuing operations	$0.22	$ 0.24	$0.47	$ 0.56
Discontinued operations	0.08	0.11	0.17	0.22
Net earnings per share	$0.30	$ 0.35	$0.64	$ 0.78
Earnings per share attributable to Weyerhaeuser common shareholders, diluted (Note 5):				
Continuing operations	$0.21	$ 0.23	$0.46	$ 0.56
Discontinued operations	0.09	0.12	0.18	0.21
Net earnings per share	$0.30	$ 0.35	$0.64	$ 0.77
Dividends paid per share	$0.31	$ 0.31	$0.93	$ 0.89
Weighted average shares outstanding (in thousands) (Note 5):				
Basic	749,587	514,301	708,395	518,121
Diluted	754,044	517,088	712,205	521,455

See accompanying Notes to Consolidated Financial Statements.

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WEYERHAEUSER COMPANY
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
(UNAUDITED)

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 2016	SEPTEMBER 2015	SEPTEMBER 2016	SEPTEMBER 2015
Net earnings	$ 227	$ 191	$ 476	$ 436
Other comprehensive income (loss):				
Foreign currency translation adjustments	(5)	(43)	34	(78)
Actuarial gains, net of tax expense of $15, $25, $40 and $75	29	55	70	161
Prior service costs, net of tax benefits of $0, $1, $0, and $0	(1)	(1)	(3)	(3)
Unrealized gains on available-for-sale securities	—	(1)	1	—
Total other comprehensive income	23	10	102	80
Comprehensive income attributable to Weyerhaeuser common shareholders	$ 250	$ 201	$ 578	$ 516

See accompanying Notes to Consolidated Financial Statements.

WEYERHAEUSER COMPANY
CONSOLIDATED BALANCE SHEET
(UNAUDITED)

DOLLAR AMOUNTS IN MILLIONS	SEPTEMBER 30, 2016	DECEMBER 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 769	$ 1,011
Receivables, less allowances of $2 and $1	412	276
Receivables for taxes	5	30
Inventories (Note 6)	368	325
Prepaid expenses and other current assets	150	63
Assets of discontinued operations (Note 3)	1,652	1,934
Total current assets	3,356	3,639
Property and equipment, less accumulated depreciation of $3,364 and $3,287	1,476	1,233
Construction in progress	202	144
Timber and timberlands at cost, less depletion charged to disposals	14,424	6,479
Minerals and mineral rights, net	321	14
Investments in and advances to joint ventures (Note 7)	73	—
Goodwill	40	40
Deferred tax assets	122	254
Other assets	317	302
Restricted financial investments held by variable interest entities	615	615
Total assets	$ 20,946	$ 12,720
LIABILITIES AND EQUITY		
Current liabilities:		
Current maturities of long-term debt (Note 10)	$ 1,981	$ —
Notes payable	1	4
Accounts payable	234	204
Accrued liabilities (Note 9)	533	427
Liabilities of discontinued operations (Note 3)	578	690
Total current liabilities	3,327	1,325
Long-term debt (Note 10)	6,329	4,787
Long-term debt (nonrecourse to the company) held by variable interest entities	511	511
Deferred pension and other postretirement benefits	875	987
Deposit from contribution of timberlands to related party (Note 7)	429	—
Other liabilities	285	241
Total liabilities	11,756	7,851
Commitments and contingencies (Note 12)		
Equity:		
Mandatory convertible preference shares, series A: $1.00 par value; $50.00 liquidation; authorized 40,000,000 shares; issued and outstanding: 0 and 13,799,711 shares	—	14
Common shares: $1.25 par value; authorized 1,360,000,000 shares; issued and outstanding: 747,932,527 and 510,483,285 shares	935	638
Other capital	8,264	4,080
Retained earnings	1,101	1,349
Cumulative other comprehensive loss (Note 13)	(1,110)	(1,212)

Total equity	9,190	4,869
Total liabilities and equity	$ 20,946	$ 12,720

See accompanying Notes to Consolidated Financial Statements.

WEYERHAEUSER COMPANY
CONSOLIDATED STATEMENT OF CASH FLOWS (UNAUDITED)

DOLLAR AMOUNTS IN MILLIONS	YEAR-TO-DATE ENDED SEPTEMBER 2016	SEPTEMBER 2015
Cash flows from operations:		
Net earnings	$ 476	$ 436
Noncash charges (credits) to earnings:		
Depreciation, depletion and amortization	428	359
Basis of real estate sold	49	13
Deferred income taxes, net	96	10
Pension and other postretirement benefits (Note 8)	5	32
Share-based compensation expense	53	22
Charges for impairment of assets	23	14
Equity (earnings) loss from joint ventures (Note 7)	(18)	18
Net gains on dispositions of assets and operations	(121)	(30)
Foreign exchange transaction (gains) losses (Note 16)	(11)	41
Change in:		
Receivables less allowances	(96)	(41)
Receivable for taxes	37	11
Inventories	49	(9)
Prepaid expenses	(3)	(2)
Accounts payable and accrued liabilities	61	(47)
Pension and postretirement contributions (Note 8)	(83)	(59)
Distributions received from joint ventures	5	—
Other	(64)	(32)
Net cash from operations	886	736
Cash flows from investing activities:		
Capital expenditures for property and equipment	(260)	(276)
Capital expenditures for timberlands reforestation	(43)	(33)
Acquisition of timberlands	(10)	(34)
Proceeds from sale of assets and operations	379	7
Proceeds from contribution of timberlands to related party (Note 7)	440	—
Distributions received from joint ventures	34	—
Cash and cash equivalents acquired in Plum Creek merger (Note 4)	9	—
Other	42	12
Cash from (used in) investing activities	591	(324)
Cash flows from financing activities:		
Cash dividends on common shares	(700)	(460)
Cash dividends on preference shares	(22)	(22)
Proceeds from issuance of long-term debt	1,698	—
Payments of debt	(723)	—
Repurchase of common stock (Note 5)	(2,003)	(484)
Other	40	22
Cash used in financing activities	(1,710)	(944)
Net change in cash and cash equivalents	(233)	(532)

Cash and cash equivalents from continuing operations at beginning of period	1,011	1,577
Cash and cash equivalents from discontinued operations at beginning of period	1	3
Cash and cash equivalents at beginning of period	1,012	1,580
Cash and cash equivalents from continuing operations at end of period	769	1,046
Cash and cash equivalents from discontinued operations at end of period	10	2
Cash and cash equivalents at end of period	$ 779	$ 1,048
Cash paid (received) during the period for:		
Interest, net of amount capitalized of $5 and $4	$ 367	$ 290
Income taxes	$ (26)	$ 4

See accompanying Notes to Consolidated Financial Statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)
FOR THE QUARTERS AND YEAR-TO-DATE ENDED SEPTEMBER 30, 2016 AND 2015

NOTE 1: BASIS OF PRESENTATION

We are a corporation that has elected to be taxed as a real estate investment trust (REIT). We expect to derive most of our REIT income from investments in timberlands, including the sale of standing timber. As a REIT, we generally are not subject to federal corporate level income taxes on REIT taxable income that is distributed to shareholders. We are required to pay corporate income taxes on earnings of our Taxable REIT Subsidiary (TRS), which includes our manufacturing businesses and the portion of our Timberlands and Real Estate and Energy & Natural Resources (Real Estate & ENR) segments' income included in the TRS.

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,
- the results of Plum Creek Timber Company, Inc. (Plum Creek), for the period from February 19, 2016 (the merger date), to September 30, 2016 (see Note 4: Merger with Plum Creek), 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.

Throughout these Notes to Consolidated Financial Statements, unless specified otherwise, references to “Weyerhaeuser,” “we,” “the company” and “our” refer to the consolidated company.

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; 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, 2015. Results of operations for interim periods should not be regarded as necessarily indicative of the results that may be expected for the full year.

RECLASSIFICATIONS

We have reclassified certain balances and results from the prior year to be consistent with our 2016 reporting. This makes year-to-year comparisons easier. Our reclassifications had no effect on consolidated net earnings or equity.

Our reclassifications present 1) our adoption of new accounting pronouncements and 2) the results of discontinued operations separately from results of continuing operations on our Consolidated Statement of Operations, Consolidated Balance Sheet and in the related footnotes. Note 3: Discontinued Operations provides information about our discontinued operations.

As a result of the merger, we have revised our business segments. Results for fiscal periods prior to 2016 have been revised to conform to the new segments and to exclude discontinued operations. Note 2: Business Segments provides information about our revised business segments.

NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-09, a comprehensive new revenue recognition model that requires an entity to recognize revenue to depict the transfer of goods or services to customers at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In August 2015, FASB issued ASU 2015-14, which deferred the effective date for an additional year. In March 2016, FASB issued ASU 2016-08, which does not change the core principle of the guidance; however, it does clarify the implementation guidance on principal versus agent considerations. In April 2016, FASB issued ASU 2016-10, which clarifies two aspects of ASU 2014-09: identifying performance obligations and the licensing implementation guidance. In May 2016, FASB issued ASU 2016-12, which amends ASU 2014-09 to provide improvements and practical expedients to the new revenue recognition model. We plan to adopt these accounting standard updates on January 1, 2018, and have not yet determined whether we will use the retrospective or cumulative effect transition method. We anticipate that this standard will increase the volume of disclosures about our revenue transactions, but will not materially impact our consolidated financial statements.

In April 2015, FASB issued ASU 2015-03, which amends the presentation of debt issuance costs on the consolidated balance sheet. Under the new guidance, debt issuance costs are presented as a direct deduction from the carrying amount of the debt liability rather than as an asset. The new guidance is effective retrospectively for fiscal periods beginning after December 15, 2015. We adopted on January 1, 2016, and have reclassified balances of debt issuance costs accordingly in our consolidated balance sheet and in related disclosures for all periods presented.

In May 2015, FASB issued ASU 2015-07, which clarifies the presentation within the fair value hierarchy of certain investments held within our pension plan. The new guidance is effective retrospectively for fiscal periods starting after December 15, 2015. This new guidance removes the requirement to categorize within the fair value hierarchy investments for which fair value is measured using the net asset value per share as a practical expedient and, instead, permits separate disclosure. Upon adoption these investments are presented separately from the fair value hierarchy and reconciled to total investments in our consolidated financial statements and related disclosures. We adopted on January 1, 2016.

In July 2015, FASB issued ASU 2015-11, which simplifies the measurement of inventories valued under most methods, including our inventories valued under FIFO – the first-in, first-out – and moving average cost methods. Inventories valued under LIFO – the last-in, first-out method – are excluded. Under this new guidance, inventories valued under these methods would be valued at the lower of cost or net realizable value, with net realizable value defined as the estimated selling price less reasonable costs to sell the inventory. The new guidance is effective prospectively for fiscal periods starting after December 15, 2016, and early adoption is permitted. We expect to adopt on January 1, 2017, and do not expect adoption to materially impact our consolidated financial statements and related disclosures.

In September 2015, FASB issued ASU 2015-16, which results in the ability to recognize, in current period earnings, any changes in provisional amounts during the measurement period after the closing of an acquisition, instead of restating prior periods for these changes. We adopted on January 1, 2016. Measurement period adjustments related to our merger with Plum Creek did not have a material impact to earnings or cash flows for the quarter and year-to-date period ended September 30, 2016.

In February 2016, FASB issued ASU 2016-02, which requires lessees to recognize assets and liabilities for the rights and obligations created by those leases and requires both capital and operating leases to be recognized on the balance sheet. The new guidance is effective for fiscal years beginning after December 15, 2018, and early adoption is permitted. We expect to adopt on January 1, 2019, and are evaluating the impact on our consolidated financial statements and related disclosures.

In March 2016, FASB issued ASU 2016-09, which simplifies several aspects of accounting for share-based payment transactions, including income tax consequences, award classification, cash flows reporting, and forfeiture rate application. Specifically, the update requires all excess tax benefits and tax deficiencies to be recognized as income tax expense or benefit in the income statement with a cumulative-effect adjustment to equity as of the beginning of the period of adoption. The update allows excess tax benefits to be classified along with other income tax cash flows as an operating activity on the statement of cash flows. When accruing compensation cost, an entity can make an entity-wide accounting policy election to either estimate the number of awards expected to vest or to account for forfeitures as they occur with a cumulative-effect adjustment to equity as of the beginning of the period of adoption. The update requires cash paid by an employer when directly withholding shares for tax-withholding purposes to be classified as a financing activity on the statement of cash flows, applied retrospectively. This guidance is effective for fiscal years beginning after December 15, 2016. As permitted, we elected to adopt early, and applied the different aspects as prescribed by the standard effective January 1, 2016. The adoption of this guidance represents a change in accounting policy and did not have a material impact on our consolidated financial statements. Shares withheld by the employer for tax-withholding purposes for the nine months ended September 30, 2015, of $11 million were retrospectively reclassified from an operating activity to a financing activity in the Consolidated Statement of Cash Flows.

In August 2016, FASB issued ASU 2016-15, which reduces diversity in practice in how certain transactions are classified in the statement of cash flows. These transactions include: debt prepayment or debt extinguishment costs, settlement of zero-coupon debt instruments, contingent consideration payments made after a business combination, proceeds from the settlement of insurance claims, proceeds from the settlement of corporate-owned life insurance policies, distributions received from equity method investments, beneficial interests in securitization transactions, and separately identifiable cash flows and application of the predominance principle. The new guidance is effective for fiscal years beginning after December 15, 2017, and early adoption is permitted. We have adopted this update effective July 1, 2016, and our adoption did not materially impact our Consolidated Statement of Cash Flows.

In October 2016, FASB issued ASU 2016-16, which requires immediate recognition of the income tax consequences upon intra-entity transfers of assets other than inventory. The new guidance is effective for annual periods beginning after December 15, 2017, and early adoption is permitted. We expect to adopt this accounting standard update on January 1, 2017, and do not expect adoption to materially impact our consolidated financial statements and related disclosures.

NOTE 2: BUSINESS SEGMENTS

Reportable business segments are determined based on the company’s management approach. The management approach, as defined by FASB ASC 280, “Segment Reporting,” is based on the way the chief operating decision maker organizes the segments within a company for making decisions about resources to be allocated and assessing their performance.

During fiscal year 2016, the company’s chief operating decision maker changed the information regularly reviewed for making decisions to allocate resources and assess performance. As a result, the company will report its financial performance based on three business segments: Timberlands, Real Estate & ENR, and Wood Products. Prior to revising our segment structure, activities related to the Real Estate & ENR business segment were reported as part of the Timberlands business segment.

Amounts for all periods presented have been reclassified throughout the consolidated financial statements and disclosures to conform to the new segment structure.

We are principally engaged in growing and harvesting timber, manufacturing, distributing, and selling products made from trees, as well as maximizing the value of every acre we own through the sale of higher and better use (HBU) properties and monetizing reserves of minerals, oil, gas, coal, and other natural resources on our timberlands. The following is a brief description of each of our reportable business segments and activities:

- Timberlands – which includes logs, timber, and our Uruguay operations;
- Real Estate & ENR – which includes sales of HBU and non-core timberlands, minerals, oil, gas, coal and other natural resources, and equity interests in our Real Estate Development Ventures (as defined and described in Note 7: Related

Parties); and

- Wood Products – which includes softwood lumber, engineered wood products, oriented strand board, plywood, medium density fiberboard and building materials distribution.

Discontinued operations as presented herein consist of the operations of our former Cellulose Fibers segment, and relate to assets and liabilities that have been reclassified as discontinued operations on our balance sheet as of September 30, 2016. All periods presented have been revised to separate the results of discontinued operations

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from the results of our continuing operations. Refer to Note 3: Discontinued Operations for more information regarding our discontinued operations.

On October 12, 2016, we announced the exploration of strategic alternatives for our timberlands and manufacturing operations in Uruguay. We intend to consider a broad range of alternatives, including continuing to hold and operate the business, or a sale.
An analysis and reconciliation of our business segment information to the respective information in the Consolidated Statements of Operations is as follows:

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED SEPTEMBER 2016	QUARTER ENDED SEPTEMBER 2015	YEAR-TO-DATE ENDED SEPTEMBER 2016	YEAR-TO-DATE ENDED SEPTEMBER 2015
Sales to unaffiliated customers:				
Timberlands	$ 484	$ 310	$ 1,342	$ 961
Real Estate & ENR	48	22	125	69
Wood Products	1,177	1,023	3,302	2,950
	1,709	1,355	4,769	3,980
Intersegment sales:				
Timberlands	216	210	631	625
Wood Products	17	20	61	61
	233	230	692	686
Total sales	1,942	1,585	5,461	4,666
Intersegment eliminations	(233)	(230)	(692)	(686)
Total	$ 1,709	$ 1,355	$ 4,769	$ 3,980
Net contribution to earnings:				
Timberlands	$ 122	$ 107	$ 376	$ 363
Real Estate & ENR(1)	15	19	42	52
Wood Products	170	85	413	218
	307	211	831	633
Unallocated items(2)(3)	(9)	(36)	(91)	(90)
Net contribution to earnings	298	175	740	543
Interest expense, net of capitalized interest	(114)	(87)	(323)	(254)
Earnings from continuing operations before income taxes	184	88	417	289
Income taxes	(22)	44	(64)	36
Earnings from continuing operations	162	132	353	325
Earnings from discontinued operations, net of income taxes	65	59	123	111
Net earnings	227	191	476	436
Dividends on preference shares	—	(11)	(22)	(33)
Net earnings attributable to Weyerhaeuser common shareholders	$ 227	$ 180	$ 454	$ 403

(1) The Real Estate & ENR segment includes the equity earnings from and investments in and advances to our Real Estate Development Ventures (as defined and described in Note 7: Related Parties), which are accounted for under the equity method.

(2) Unallocated items are gains or charges not related to or allocated to an individual operating segment. They include a portion of items such as: share-based compensation, pension and postretirement costs, foreign exchange transaction gains and losses associated with financing, equity earnings from our Timberland Venture, (as defined and described in Note 7: Related Parties), the elimination of intersegment profit in inventory and the LIFO reserve.

(3) As a result of reclassifying our former Cellulose Fibers segment as discontinued operations, Unallocated items also includes retained indirect corporate overhead costs previously allocated to the former segment.

A reconciliation of our business segment total assets to total assets in the Consolidated Balance Sheet is as follows:

DOLLAR AMOUNTS IN MILLIONS	SEPTEMBER 30, 2016	DECEMBER 31, 2015
Total Assets:		
Timberlands and Real Estate & ENR[1]	$ 15,810	$ 7,260
Wood Products	1,846	1,541
Unallocated items	1,638	1,985
Discontinued operations	1,652	1,934
Total	$ 20,946	$ 12,720

(1) Assets attributable to the Real Estate & ENR business segment are combined with total assets for the Timberlands segment because we do not produce separate balance sheets internally.

NOTE 3: DISCONTINUED OPERATIONS

On November 8, 2015, Weyerhaeuser announced that the board authorized the exploration of strategic alternatives for its Cellulose Fibers business segment.

On May 1, 2016, we entered into an agreement to sell our Cellulose Fibers pulp business to International Paper for $2.2 billion in cash. The pulp business consists of five pulp mills located in Columbus, Mississippi; Flint River, Georgia; New Bern, North Carolina; Port Wentworth, Georgia and Grande Prairie, Alberta, and two modified fiber mills located in Columbus, Mississippi and Gdansk, Poland. This transaction is expected to close in fourth quarter 2016 and is subject to customary closing conditions, including regulatory review. We will continue to operate separately from International Paper until the transaction closes.

On June 15, 2016, we entered into an agreement to sell our Cellulose Fibers liquid packaging board business to Nippon Paper Industries Co., Ltd., for $285 million in cash. Our liquid packaging board business consisted of one mill located in Longview, Washington. On August 31, 2016, we completed the sale and recognized a pre-tax gain of $60 million, which is included in "Earnings from discontinued operations, net of income taxes" on the Consolidated Statement of Operations.

On October 4, 2016, we entered an agreement to sell our interest in our printing papers joint venture to One Rock Capital Partners, LLC. The transaction includes the printing papers mill located in Longview, Washington. This transaction is expected to close in the fourth quarter of 2016 and is subject to customary closing conditions. The printing papers joint venture will continue to operate separately from One Rock until the transaction closes.

The assets and liabilities of the pulp business, along with our investment in our printing papers joint venture, met the criteria necessary to be classified as held-for-sale during second quarter 2016 and continue to meet those criteria as of September 30, 2016. It is our expectation that the sales of these assets are probable and will be completed within one year.

Results of operations for our pulp and liquid packaging board businesses, along with our interest in our printing papers joint venture, have been reclassified to discontinued operations. These operations were previously reported as the Cellulose Fibers segment. These results have been summarized in "Earnings from discontinued operations, net of income taxes" on our Consolidated Statement of Operations for each period presented. The related assets and liabilities of these operations met the criteria for classification as "held for sale" and have been reclassified as discontinued operations on our Consolidated Balance Sheet for each date presented. We did not reclassify our Consolidated Statement of Cash Flows to reflect discontinued operations.

We expect to use after-tax proceeds from our sales of our discontinued operations for repayment of long-term debt.

The following table presents net earnings from discontinued operations.

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 2016	SEPTEMBER 2015	SEPTEMBER 2016	SEPTEMBER 2015
Total net sales	$420	$ 471	$1,306	$ 1,385
Costs of products sold	350	372	1,110	1,181
Gross margin	70	99	196	204
Selling expenses	3	3	10	10
General and administrative expenses	7	5	24	21
Research and development expenses	—	2	3	5
Charges for integration and restructuring, closures and asset impairments[1]	13	1	44	1
Other operating income, net	(2)	(5)	(21)	(19)
Operating income	49	93	136	186
Equity loss from joint venture	—	(5)	(3)	(18)
Interest expense, net of capitalized interest	(2)	(1)	(5)	(5)
Earnings from discontinued operations before income taxes	47	87	128	163
Income taxes	(23)	(28)	(46)	(52)
Net earnings from operations	24	59	82	111
Net gain on divestiture of Liquid Packaging Board	41	—	41	—
Net earnings from discontinued operations	$65	$ 59	$123	$ 111

(1) Charges for integration and restructuring, closures and asset impairments consist of costs related to our strategic evaluation of the Cellulose Fibers businesses and transaction-related costs.

The following table shows carrying values for assets and liabilities classified as discontinued operations as of September 30, 2016 and December 31, 2015.

DOLLAR AMOUNTS IN MILLIONS	SEPTEMBER 30, 2016	DECEMBER 31, 2015
Assets		
Cash and cash equivalents	$ 10	$ 1
Receivables, less allowances	182	211
Inventories	173	243
Prepaid expenses	12	14
Property and equipment, net	1,130	1,339
Construction in progress	94	51
Timber and timberlands at cost, less depletion charged to disposals	—	1
Investments in and advances to joint ventures	51	74
Total assets of discontinued operations	$ 1,652	$ 1,934
Liabilities		
Accounts payable	$ 107	$ 122
Accrued liabilities	89	118
Long-term debt	88	88
Deferred income taxes	280	336
Other liabilities	14	26
Total liabilities of discontinued operations	$ 578	$ 690

Cash flows from discontinued operations for the three and nine months ended September 30, 2016 and September 30, 2015 are as follows:

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 2016	SEPTEMBER 2015	SEPTEMBER 2016	SEPTEMBER 2015
Net cash provided by (used in) operating activities	$ 58	$ 75	$ 192	$ 248
Net cash provided by (used in) investing activities	$ 259	$ (27)	$ 225	$ (85)

NOTE 4: MERGER WITH PLUM CREEK

On February 19, 2016, we merged with Plum Creek Timber Company, Inc. (Plum Creek). Plum Creek was a REIT that primarily owned and managed timberlands in the United States. Plum Creek also produced wood products, developed opportunities for mineral and other natural resource extraction, and sold real estate properties. The merger combined two industry leaders. The breadth and diversity of our combined timberlands, real estate, energy and natural resources assets, and wood products operations position Weyerhaeuser to capitalize on the improving housing market and to continue to capture HBU land values across the combined portfolio.

Under the merger agreement, each issued and outstanding share of Plum Creek common stock was exchanged for 1.60 Weyerhaeuser common shares, with cash paid in lieu of any fractional shares. Upon consummation of the merger, all outstanding Plum Creek stock options (all fully vested as of the merger date) and restricted stock units were converted into Weyerhaeuser stock options and restricted stock units, after giving effect to the 1.60 exchange ratio. Because the Plum Creek stock options were fully vested and relate to services rendered to Plum Creek prior to the merger, the replacement stock options were also fully vested and their fair value is included in the consideration transferred. Replacement restricted stock units relate to services to be performed post-merger and therefore were not included in consideration transferred. See additional details about replacement share-based payment awards in Note 14: Share-based Compensation.

The acquisition of total assets of $10.0 billion was a noncash investing and financing activity comprised of $6.4 billion in equity consideration transferred and $3.6 billion of liabilities assumed. See Note 10: Long-term Debt and Lines of Credit for additional details of indebtedness assumed.

The following table summarizes the equity consideration transferred in the merger:

DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER-SHARE FIGURES		
Number of Plum Creek common shares outstanding(1)	174,307,267	
Exchange ratio per the merger agreement	1.60	
Weyerhaeuser shares issued in exchange for Plum Creek equity(2)	278,901,479	
Price per Weyerhaeuser common share(3)	$ 22.87	
Aggregate value of Weyerhaeuser common stock issued		$6,378
Fair value of stock options(4)		5
Estimated consideration transferred		$6,383

(1) The number of shares of Plum Creek common stock issued and outstanding as of February 19, 2016.
(2) Total shares issued net of partial shares settled in cash.
(3) The closing price of Weyerhaeuser common stock on the NYSE on February 19, 2016.
(4) The estimated fair value of Plum Creek stock options for pre-merger services rendered.

We recognized $14 million and $132 million of merger-related costs that were expensed during the quarter and year-to-date period ended September 30, 2016, respectively. We also recognized $14 million of merger-related costs that were expensed during the fourth quarter of 2015. See Note 15: Charges for Integration and Restructuring, Closures, and Asset Impairments for descriptions of the components of merger-related costs. These costs are included in "Charges for integration and restructuring, closures and asset impairments" in our Consolidated Statement of Operations.

As a result of progress made to integrate financial systems since the merger date, the amount of revenue and loss before income taxes from acquired Plum Creek operations is no longer practicable to disclose for the quarter and and year-to-date period ended September 30, 2016.

Summarized unaudited pro forma information that presents combined amounts as if this merger occurred at the beginning of 2015 is as follows:

DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER-SHARE FIGURES	QUARTER ENDED SEPTEMBER 2016	QUARTER ENDED SEPTEMBER 2015	YEAR-TO-DATE ENDED SEPTEMBER 2016	YEAR-TO-DATE ENDED SEPTEMBER 2015
Net sales	$1,709	$ 1,763	$4,925	$ 5,081
Net earnings from continuing operations attributable to Weyerhaeuser common shareholders	$172	$ 198	$438	$ 382
Earnings from continuing operations per share attributable to Weyerhaeuser common shareholders, basic and diluted	$0.23	$ 0.25	$0.58	$ 0.48

Pro forma net earnings attributable to Weyerhaeuser common shareholders exclude $10 million and $144 million non-recurring merger-related costs (net of tax) incurred in the quarter and year-to-date period ended September 30, 2016, respectively. No non-recurring merger-related costs were incurred during the quarter or year-to-date period ended September 30, 2015. Pro forma data may not be indicative of the results that would have been obtained had these events occurred at the beginning of the periods presented, nor is it intended to be a projection of future results.

Weyerhaeuser has accounted for the merger transaction as the acquirer and has applied the acquisition method of accounting. Under the acquisition method, the assets acquired and liabilities assumed by Weyerhaeuser from Plum Creek were recorded as of the date of the acquisition at their respective estimated fair values.

The fair values of the assets acquired and liabilities assumed were preliminarily determined using the income, cost or market approaches. The fair value measurements were generally based on significant inputs that are not observable in the market and thus represent Level 3 measurements as defined in ASC 820, Fair Value Measurement, with the exception of certain long-term debt instruments assumed in the acquisition that can be valued using observable market inputs and are therefore Level 2 measurements. The income approach was primarily used to value acquired timberlands, minerals and mineral rights, equity investments in the Timberland Venture (as defined and described in Note 7: Related Parties) and Real Estate Development Ventures (as defined and described in Note 7: Related Parties), and the Note Payable to Timberland Venture (as defined and described in Note 7: Related Parties). The income approach estimates fair value for an asset based on the present value of cash flow projected to be generated by the asset. Projected cash flows are discounted at rates of return that reflect the relative risk of achieving the cash flows and the time value of money. The cost approach, which estimates value by determining the current cost of replacing an asset with another of equivalent economic utility, was used, as appropriate, for property and equipment. The cost to replace a given asset reflects the estimated reproduction or replacement cost for the property, less an allowance for loss in value due to depreciation. The market approach was primarily used to value higher and better use real estate tracts included within acquired timberlands, certain land and building assets included within acquired property and equipment, and long-term debt instruments. The market approach estimates fair value for an asset based on values of recent comparable transactions.

The initial allocation of purchase price was recorded using preliminary estimated fair value of assets acquired and liabilities assumed based upon the best information available to management at the time. The purchase price allocation was updated in the third quarter 2016. The measurement period adjustments reflect additional information obtained to record the fair value of certain assets acquired and liabilities assumed based on facts and circumstances existing as of the acquisition date. Measurement period adjustments reflected below did not have a material impact to earnings and had no impact to cash flows for the quarter or year-to-date period ended September 30, 2016.

Initial and updated preliminary estimated fair values of identifiable assets acquired and liabilities assumed as of the merger date are as follows:

DOLLAR AMOUNTS IN MILLIONS	FEBRUARY 19, 2016	MEASUREMENT PERIOD ADJUSTMENTS	SEPTEMBER 30, 2016
Current assets	$ 128	$ 1	$ 129
Timber and timberlands	8,124	23	8,147
Minerals and mineral rights	312	4	316
Property and equipment	272	5	277
Equity investment in Timberland Venture	876	(29)	847
Equity investment in Real Estate Development Ventures	88	(4)	84
Other assets	163	(4)	159
Total assets acquired	9,963	(4)	9,959
Current liabilities	610	—	610
Long-term debt	2,056	—	2,056
Note Payable to Timberland Venture	837	1	838
Other liabilities	77	(5)	72
Total liabilities assumed	3,580	(4)	3,576
Net assets acquired	$ 6,383	$ —	$ 6,383

These estimated fair values are preliminary in nature and subject to further adjustments, which could be material. We have not identified any material unrecorded pre-merger contingencies where the related asset, liability or impairment is probable and the amount can be reasonably estimated. We are in the process of finalizing our valuations related to the following:

- timber and timberlands,
- minerals and mineral rights, and
- other contractual rights and obligations.

Our valuations will be finalized when certain information arranged to be obtained has been received and our review of that information has been completed. Prior to the finalization of the purchase price allocation, if information becomes available that would indicate it is probable that such events had occurred and the amounts can be reasonably estimated, such items will be included in the final purchase price allocation.

NOTE 5: NET EARNINGS PER SHARE AND SHARE REPURCHASES

NET EARNINGS PER SHARE

Our basic earnings per share attributable to Weyerhaeuser shareholders were:

- $0.30 during third quarter 2016 and $0.64 during year-to-date 2016; and
- $0.35 during third quarter 2015 and $0.78 during year-to-date 2015.

Our diluted earnings per share attributable to Weyerhaeuser shareholders were:

- $0.30 during third quarter 2016 and $0.64 during year-to-date 2016; and
- $0.35 during third quarter 2015 and $0.77 during year-to-date 2015.

Basic earnings per share is net earnings available to common shareholders divided by the weighted average number of our outstanding common shares, including stock equivalent units where there is no circumstance under which those shares would not be issued.

Diluted earnings per share is net earnings available to common shareholders divided by the sum of the weighted average number of our outstanding common shares and the effect of our outstanding dilutive potential common shares:

SHARES IN THOUSANDS	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 2016	SEPTEMBER 2015	SEPTEMBER 2016	SEPTEMBER 2015
Weighted average number of outstanding common shares – basic	749,587	514,301	708,395	518,121
Dilutive potential common shares:				
Stock options	3,185	1,969	2,660	2,459
Restricted stock units	814	348	723	352
Performance share units	458	470	427	523
Total effect of outstanding dilutive potential common shares	4,457	2,787	3,810	3,334
Weighted average number of outstanding common shares – dilutive	754,044	517,088	712,205	521,455

We use the treasury stock method to calculate the effect of our outstanding stock options, restricted stock units and performance share units. Share-based payment awards that are contingently issuable upon the achievement of specified performance or market conditions are included in our diluted earnings per share calculation in the period in which the conditions are satisfied.

As described below, on July 1, 2016, all outstanding Preference Shares were converted into common shares. For all periods presented the Preference Shares were antidilutive as determined using the if-converted method.

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

The following shares were not included in the computation of diluted earnings per share because they were either antidilutive or the required performance or market conditions were not met. Some or all of these shares may be dilutive potential common shares in future periods.

SHARES IN THOUSANDS	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 2016	SEPTEMBER 2015	SEPTEMBER 2016	SEPTEMBER 2015
Stock options	1,835	6,579	1,835	6,579
Performance share units	361	351	361	351
Preference shares	—	24,987	—	24,987

STOCK REPURCHASE PROGRAM

We repurchased 9,775,873 shares of common stock for $306 million (including transaction fees) during third quarter 2016 and 67,816,810 shares of common stock for $2.0 billion (including transaction fees) year-to-date 2016 under the 2016 Share Repurchase Authorization. The 2016 Share Repurchase Authorization was approved in November 2015 by our Board of Directors and authorized management to repurchase up to $2.5 billion of outstanding shares subsequent to the closing of our merger with Plum Creek. This new authorization replaced the August 2015 share repurchase authorization. Transaction fees incurred for repurchases are not counted as use of funds authorized for repurchases under the 2016 Share Repurchase Authorization. All common stock purchases under the stock repurchase program were made in open-market transactions. As of September 30, 2016, we had remaining authorization of $500 million for future stock repurchases.

We record share repurchases upon trade date as opposed to the settlement date when cash is disbursed. We record a liability to account for repurchases that have not been cash settled. There were no unsettled repurchases as of September 30, 2016 or December 31, 2015.

MANDATORY CONVERTIBLE PREFERENCE SHARES

On July 1, 2016, all outstanding 6.375% Mandatory Convertible Preference Shares, Series A (Preference Shares) converted into Weyerhaeuser common shares at a rate of 1.6929 Weyerhaeuser common shares per Preference Share. The company issued a total of 23.2 million Weyerhaeuser common shares in conjunction with the conversion, based on 13.7 million Preference Shares outstanding as of the conversion date.

In accordance with the terms of the Preference Shares, the number of Weyerhaeuser common shares issuable on conversion was determined based on the average volume weighted average price of $29.54 for Weyerhaeuser common shares over the 20-trading-day period beginning June 1, 2016, and ending on June 28, 2016.

NOTE 6: INVENTORIES

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

DOLLAR AMOUNTS IN MILLIONS	SEPTEMBER 30, 2016	DECEMBER 31, 2015
LIFO Inventories:		
Logs	$ 8	$ 5
Lumber, plywood and panels	48	48
Other products	14	11
FIFO or moving average cost inventories:		
Logs	27	36
Lumber, plywood, panels and engineered wood products	83	75
Other products	104	84
Materials and supplies	84	66
Total	$ 368	$ 325

LIFO – the last-in, first-out method – applies to major inventory products held at our U.S. domestic locations. The FIFO – the first-in, first-out method – or moving average cost methods apply to the balance of our domestic raw material and product inventories as well as for all material and supply inventories and all foreign inventories. If we used FIFO for all LIFO inventories, our stated inventories would have been higher by $69 million as of September 30, 2016, and $67 million as of December 31, 2015.

NOTE 7: RELATED PARTIES

We use the equity method to account for our investments in various joint ventures. The following tables summarize the current period equity earnings or loss from our respective balances of our investments in and advances to each of our joint ventures:

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED SEPTEMBER 2016	QUARTER ENDED SEPTEMBER 2015	YEAR-TO-DATE ENDED SEPTEMBER 2016	YEAR-TO-DATE ENDED SEPTEMBER 2015
Equity earnings from joint ventures:				
Timberland Venture	$ 8	$ —	$ 20	$ —
Real Estate Development Ventures	1	—	1	—
Total	$ 9	$ —	$ 21	$ —

	SEPTEMBER 30, 2016	DECEMBER 31, 2015
Investment in and advances to joint ventures:		
Real Estate Development Ventures	$ 73	$ —

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Through our merger with Plum Creek on February 19, 2016, we acquired equity interests in the Real Estate Development Ventures and the Timberland Venture. Additionally, through the merger Weyerhaeuser assumed the benefits and obligations associated with the formation of Twin Creeks Timber, LLC, a timberland venture (Twin Creeks Venture). The Twin Creeks Venture was funded with initial capital contributions on April 1, 2016.

Real Estate Development Ventures

WestRock-Charleston Land Partners, LLC (WR-CLP) is a limited liability company which holds residential and commercial real estate development properties, currently under development (Class A Properties) and higher-value timber and development lands (Class B Properties) (referred to collectively as the Real Estate Development Ventures). We have a 3 percent interest in Class A Properties and a 50 percent interest in Class B Properties. WestRock Company is the other member of WR-CLP and owns 97 percent of the Class A Properties and 50 percent of the Class B Properties. The Company uses the equity method for both its Class A and Class B interests. Our share of the equity earnings are included in the net contribution to earnings of our Real Estate & ENR segment.

WR-CLP is a variable interest entity and is financed by regular capital calls from the manager of WR-CLP in proportion to a member’s ownership interest. If a member does not make a capital contribution, the member’s ownership interest is diluted. We are committed to make additional capital contributions of up to $26 million during the remaining term of the venture which expires in 2020. We do not intend to provide any additional sources of financing for WR-CLP.

We are not the primary beneficiary of WR-CLP. We consider the activities that most significantly impact the economic performance of WR-CLP to be the day-to-day operating decisions along with the oversight responsibilities for the real estate development projects and properties. WestRock Company (the other equity member) has the power to direct the activities of WR-CLP that most significantly impact its economic performance through its ability to manage the day-to-day operations of WR-CLP. WestRock Company also has the ability to control all management decisions associated with all Class A and Class B Properties through its majority representation on the board of directors for the Class A Properties and due to its equal representation on the board of directors for the Class B Properties.

Our maximum exposure to loss is $73 million, the carrying amount of our investment in WR-CLP at September 30, 2016, plus any required future capital contributions.

Timberland Venture

Beginning on the date of our merger with Plum Creek until August 31, 2016, we held preferred and common interests in Southern Diversified Timber, LLC, a timberland joint venture (Timberland Venture), which included 100 percent of the preferred interests and 9 percent of the common interests. The Timberland Venture’s other member, an affiliate of Campbell Global LLC (TCG Member), held 91 percent of the Timberland Venture’s common interests. The activities of the Timberland Venture consisted primarily of owning, growing, managing and sustaining its Southern timberlands, entering into cutting contracts with an affiliate of Campbell Global LLC for the sale and harvest of timber and owning a promissory note payable to the Timberland Venture (Note Payable to Timberland Venture) and collecting interest thereon. Our investment in and share of the equity earnings of the Timberland Venture was not attributed to one of our business segments, and was reported in Unallocated Items.

On August 31, 2016, the Timberland Venture redeemed TCG Member’s interest. Upon the redemption, the Timberland Venture distributed all of the timberlands, a portion of the cash balance, and other net assets to TCG Member equal in total to the fair value of TCG Member's adjusted capital account. Following the redemption and distribution of assets to TCG Member, the Timberland Venture's remaining assets consisted of cash and a note receivable from

Weyerhaeuser.

As we now hold all of the equity interests in the Timberland Venture, we have consolidated it as a wholly-owned subsidiary and eliminated our equity method investment in the Timberland Venture. As a result, the Note Payable to Timberland Venture is now eliminated for financial reporting purposes in consolidation as it is now intercompany indebtedness and therefore no longer appears on our Consolidated Balance Sheet.

In conjunction with the redemption of TCG Member, we remeasured our previously held equity interest to fair value at August 31, 2016, resulting in recognition of a gain of $6 million in "Interest income and other" on our Consolidated Statement of Operations during the third quarter of 2016.

Twin Creeks Venture

On April 1, 2016, we contributed approximately 260,000 acres of our southern timberlands with an agreed-upon value of approximately $560 million to Twin Creeks Timber, LLC (Twin Creeks Venture), in exchange for cash of approximately $440 million and a 21 percent ownership interest. The other members contributed cash of approximately $440 million for a combined 79 percent ownership interest.

The Twin Creeks Venture is expected to raise total committed capital of up to $950 million from its investors over the next several years. We expect to maintain a 21 percent ownership interest and to contribute additional capital of up to $85 million during the next several years. Unless extended by unanimous vote of all the investors, the term of the Twin Creeks Venture is 15 years.

In conjunction with contributing to the venture, we entered into a separate agreement to manage the timberlands owned by the Twin Creeks Venture, including harvesting activities, marketing and log sales activities, and replanting and silviculture activities. This management agreement guarantees an annual return to the venture in the form of minimum quarterly payments from us equal to 3 percent of the fair value of the managed timberlands. We are also required to annually distribute 75 percent of any profits earned by us in excess of the minimum quarterly payments. The management agreement is cancellable at any time by Twin Creeks Timber, LLC, and otherwise will expire after three years.

The guaranteed return that the management agreement requires Weyerhaeuser to provide to the Twin Creeks Venture constitutes continuing involvement in the timberlands we contributed to the venture. This continuing involvement prohibits recognition of the contribution as a sale and requires application of the deposit method to account for the cash payment received. By applying the deposit method to the contribution of timberlands to the venture:

- our receipt of $440 million proceeds from the contribution of timberlands to the venture was recorded as a noncurrent liability – "Deposit from contribution of timberlands to related party" – on our Consolidated Balance Sheet;
- the contributed timberlands will continue to be reported within the "Timber and timberlands at cost, less depletion charged to disposals" on our Consolidated Balance Sheet with no change in value;
- no gain or loss was recognized in our Consolidated Statement of Operations; and
- our balance sheet does not reflect our 21 percent ownership interest in the Twin Creeks Venture.

The receipt of $440 million was classified as a cash flow from investing activities in our Consolidated Statement of Cash Flows. The cash proceeds from our contribution of timberlands were used to fund our share repurchases described in Note 5: Net Earnings per Share and Share Repurchases.

The "Deposit from contributions of timberlands to related party" liability balance will subsequently increase for additional payments received from the venture (e.g., distributions) and decrease for any payments by us to the venture (e.g., the guaranteed return payments) with no corresponding impact to earnings. These cash flows are included in "Other" cash flows from investing activities in our Consolidated Statement of Cash Flows.

All revenues and expenses from our harvest and sale of standing timber from the contributed timberland will continue to be reported in our Consolidated Statement of Operations and attributed to our Timberlands business segment as though the contribution had not occurred.

NOTE 8: PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

The components of net periodic benefit costs (credits) are:

	PENSION			
	QUARTER ENDED		YEAR-TO-DATE ENDED	
DOLLAR AMOUNTS IN MILLIONS	SEPTEMBER 2016	SEPTEMBER 2015	SEPTEMBER 2016	SEPTEMBER 2015
Service cost[(1)]	$ 13	$ 14	$ 37	$ 42
Interest cost	70	65	207	198
Expected return on plan assets	(125)	(115)	(371)	(354)
Amortization of actuarial loss	39	44	117	135
Amortization of prior service cost	1	1	3	3
Accelerated pension costs included in Plum Creek merger-related costs (Note 15)	—	—	5	—
Total net periodic benefit cost (credit) - pension	$ (2)	$ 9	$ (2)	$ 24

(1) Service cost includes $3 million and $5 million for quarters ended September 30, 2016, and September 30, 2015, respectively, and $10 million and $13 million for the year-to-date periods ended September 30, 2016, and September 30, 2015, respectively for employees of our Cellulose Fibers segment. These charges are included in our results of discontinued operations.

	OTHER POSTRETIREMENT BENEFITS			
	QUARTER ENDED		YEAR-TO-DATE ENDED	
DOLLAR AMOUNTS IN MILLIONS	SEPTEMBER 2016	SEPTEMBER 2015	SEPTEMBER 2016	SEPTEMBER 2015
Interest cost	$ 2	$ 2	$ 7	$ 7
Amortization of actuarial loss	2	2	6	7
Amortization of prior service credit	(2)	(2)	(6)	(6)
Total net periodic benefit cost - other postretirement benefits	$ 2	$ 2	$ 7	$ 8

ASSUMED PLANS FROM MERGER WITH PLUM CREEK

Upon our merger with Plum Creek, we assumed one qualified pension plan and two nonqualified pension plans. All active participants in these plans became fully vested and the plans were frozen as of February 19, 2016. The cumulative funded status of the assumed plans as of February 19, 2016, was a net liability of $62 million.

The expected return on assets for the qualified plan assumed is 7 percent. Assets of $47 million related to the nonqualified plans are held in a grantor trust and are subject to the claims of creditors in the event of bankruptcy. As a result, these are not considered plan assets and have not been netted against the nonqualified pension liability. These assets are included in "Other assets" in our Consolidated Balance Sheet.

During first quarter 2016, we recognized $5 million of pension benefit costs from change in control provisions for certain Plum Creek executives. These enhanced pension benefits were triggered by changes in control and retention decisions made after the completion of the merger (see Note 15: Charges for Integration and Restructuring, Closures and Impairments). We did not recognize any additional costs for change in control provisions during the second or third quarters of 2016.

During third quarter 2016, we made $37 million of nonqualified pension benefits payments, which included a portion of the enhanced benefits triggered by change in control provisions. These were paid using proceeds from sales of assets held in grantor trusts.

FAIR VALUE OF PENSION PLAN ASSETS AND OBLIGATION

We estimate the fair value of pension plan assets based upon the information available during the year-end reporting process. In some cases, primarily private equity funds, the information available consists of net asset values as of an interim date, cash flows between the interim date and the end of the year and market events. We updated the year-end estimated fair value of pension plan assets to incorporate year-end net asset values reflected in financial statements received after we have filed our Annual Report on Form 10-K. During second quarter 2016, we recorded an increase in the fair value of the pension assets of $7 million, or less than 1 percent. We also updated our census data that is used to estimate our projected benefit obligation for pension and other postretirement benefit plans. As a result of that update, during second quarter 2016, we recorded an increase to the projected benefit obligation of $1 million, or less than 1 percent. The net effect was a $6 million increase in the funded status.

Consistent with accounting for the merger as the acquirer in a business combination (see Note 4: Merger with Plum Creek), pension assets and benefit obligations for plans assumed from Plum Creek were re-measured to reflect their fair value as of the merger date. This included updating asset values, updating discount rates to reflect market conditions as of the date of the merger, and freezing benefit accruals. The fair value of these items as of February 19, 2016, were as follows:

- $137 million qualified pension plan assets;
- $149 million qualified pension plan projected benefit obligation; and
- $50 million nonqualified pension plan projected benefit obligation.

No adjustments were made to the fair value of assets or projected benefit obligations of plans assumed from Plum Creek during the second or third quarter.

EXPECTED CONTRIBUTIONS AND BENEFIT PAYMENTS

In 2016 we expect to:

- be required to contribute approximately $17 million for our Canadian registered plan;
- be required to contribute or make benefit payments for our Canadian nonregistered plans of $3 million;
- make benefit payments of $57 million for our U.S. nonqualified pension plans, including $38 million of benefit payments for plans assumed from Plum Creek to be paid out of assets held in grantor trusts; and
- make benefit payments of $22 million for our U.S. and Canadian other postretirement plans.

We do not anticipate making a contribution to our U.S. qualified pension plans for 2016.

NOTE 9: ACCRUED LIABILITIES

Accrued liabilities were comprised of the following:

DOLLAR AMOUNTS IN MILLIONS	SEPTEMBER 30, 2016	DECEMBER 31, 2015
Wages, salaries and severance pay	$ 140	$ 117
Pension and other postretirement benefits	50	44
Vacation pay	35	30
Taxes – Social Security and real and personal property	37	17
Interest	89	102
Customer rebates and volume discounts	37	31
Deferred income	54	28

Other	91	58
Total	$ 533	$ 427

NOTE 10: LONG-TERM DEBT AND LINES OF CREDIT

This note provides details about our:
- long-term debt assumed in the Plum Creek merger and
- new term loans issued.

LONG-TERM DEBT ASSUMED IN THE PLUM CREEK MERGER

Through our merger with Plum Creek, we assumed long-term debt instruments consisting of:
- two issuances of publicly traded Senior Notes;
- an Installment Note (defined and described below); and
- the Note Payable to Timberland Venture (defined and described below).

Concurrent with the merger, we repaid in full the outstanding balances of Plum Creek's Revolving Line of Credit and Term Loan using $720 million of cash on hand.

Senior Notes

The assumed Senior Notes are publicly traded and were issued by Plum Creek Timberlands, L.P. (PC Timberlands) and were fully and unconditionally guaranteed by Weyerhaeuser Company as of the acquisition date. During the third quarter 2016, PC Timberlands was merged into Weyerhaeuser Company and Weyerhaeuser Company assumed the obligations. There were two separate issuances of Senior Notes: $569 million (principal) of 4.70 percent notes which mature in 2021 and $325 million (principal) of 3.25 percent notes which mature in 2023. The Senior Notes are redeemable prior to maturity; however, they are subject to a premium on redemption, which is based upon interest rates of U.S. Treasury securities having similar average maturities.

Through preliminary acquisition accounting the Senior Notes were recognized at estimated fair values of $614 million for the 4.70 percent notes and $324 million for the 3.25 percent notes as of the acquisition date. The differences between cash interest payments and the amounts recorded as interest expense at the effective market rates will adjust the carrying values of the notes to the principal amounts at maturity.

Installment Note

We assumed an installment note (Installment Note) payable to WestRock Land and Development, LLC (WR LD) that was issued in connection with Plum Creek's acquisition of certain timberland assets. The principal balance of the Installment Note is $860 million. Following the issuance, WR LD pledged the installment note to certain banks. The annual interest rate on the Installment Note is fixed at 5.207 percent. Interest is paid semi-annually with the principal due upon maturity in December 2023. The term may be extended at the request of the holder if the company at the time of the request intends to refinance all or a portion of the Installment Note for a term of five years or more. The Installment Note is generally not redeemable prior to maturity except in certain limited circumstances and could be subject to a premium on redemption.

We receive patronage refunds under the Installment Note. Patronage refunds are distributions of profits from banks in the farm credit system, which are cooperatives that are required to distribute profits to their members. Patronage distributions, which are made in either cash or stock, are received in the year after they were earned and are recorded as offsets to interest expense.

Through preliminary acquisition accounting, the Installment Note was recognized at an estimated fair value of $893 million as of the acquisition date. The difference between the cash interest payments and the amount being recorded as interest expense at the effective market rate will reduce the carrying value of the Installment Note to the principal amount at the maturity date.

Note Payable to Timberland Venture

We assumed the Note Payable to Timberland Venture, which has a principal balance of $783 million. The annual interest rate on the Note Payable to Timberland Venture is fixed at 7.375 percent. Interest is paid quarterly with the principal due upon maturity. The note matures on October 1, 2018, but may be extended until October 1, 2020, at our election. The note is not redeemable prior to maturity.

Through preliminary acquisition accounting, the Note Payable to Timberland Venture was recognized at an estimated fair value of $838 million as of the acquisition date. The difference between the cash interest payments and the amount being recorded as interest expense at the effective market rate will reduce the carrying value of the note to the principal amount at the maturity date.

On August 31, 2016, the Timberland Venture redeemed TCG Member's interest and Weyerhaeuser obtained full ownership of the Timberland Venture's equity. As a result, we consolidated the Timberland Venture as a wholly-owned subsidiary and the Note Payable to Timberland Venture is therefore eliminated for financial reporting purposes upon consolidation as it is now intercompany indebtedness. The redemption transaction and consolidation is described in Note 7: Related Parties.

NEW TERM LOANS ISSUED

During February 2016 and subsequent to completion of the Plum Creek merger, we entered into a $600 million 18-month senior unsecured term loan maturing in August 2017. Borrowings are currently at LIBOR plus 1.05 percent. At September 30, 2016, we had $600 million outstanding under this facility.

During March 2016, we entered into a $1.9 billion 18-month senior unsecured term loan maturing in September 2017. Borrowings are currently at LIBOR plus 1.05 percent. At September 30, 2016, we had $1,100 million outstanding under this facility.

NOTE 11: FAIR VALUE OF FINANCIAL INSTRUMENTS

The estimated fair values and carrying values of our long-term debt consisted of the following:

DOLLAR AMOUNTS IN MILLIONS	SEPTEMBER 30, 2016 CARRYING VALUE	SEPTEMBER 30, 2016 FAIR VALUE (LEVEL 2)	DECEMBER 31, 2015 CARRYING VALUE	DECEMBER 31, 2015 FAIR VALUE (LEVEL 2)
Long-term debt (including current maturities):				
Fixed rate	$ 6,063	$ 7,204	$ 4,238	$ 4,967
Variable rate	2,247	2,250	549	550
Total Debt	$ 8,310	$ 9,454	$ 4,787	$ 5,517

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

- market approach – based on quoted market prices we received 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.

We believe that our variable rate long-term debt instruments have net carrying values that approximate their fair values with only insignificant differences.

The inputs to these valuations are based on market data obtained from independent sources or information derived principally from observable market data. 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.

FAIR VALUE OF OTHER FINANCIAL INSTRUMENTS

We believe that our other financial instruments, including cash and cash equivalents, short-term investments, mutual fund investments held in grantor trusts, 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 and the allowance for doubtful accounts.

NOTE 12: LEGAL PROCEEDINGS, COMMITMENTS AND CONTINGENCIES

This note provides details about our:
- legal proceedings and
- environmental matters.

LEGAL PROCEEDINGS

We are party to various legal proceedings arising in the ordinary course of business. We are not currently a party to any legal proceeding that management believes could have a material adverse effect on our long-term consolidated financial position, results of operations or cash flows. See Note 17: Income Taxes for a discussion of a tax proceeding involving Plum Creek REIT's 2008 U.S. federal income tax return.

ENVIRONMENTAL MATTERS

Our environmental matters include:
- site remediation and
- asset retirement obligations.

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.

We have received notification from the Environmental Protection Agency (the EPA) and have acknowledged that we are a potentially responsible party in a portion of the Kalamazoo River Superfund site in southwest Michigan. Our involvement in the remediation site is based on our former ownership of the Plainwell, Michigan mill located within the remediation site. In 2015, we received invitations from the EPA to negotiate an administrative order on consent for a contaminant removal action for a portion of the site comprising a stretch of the river approximately 1.7 miles long that the EPA refers to as the Otsego Township Dam Area. Several other companies also operated upstream pulp mills, and two other parties received the same invitations. On April 14, 2016, the EPA issued an administrative order to the company and the other parties, the terms and scope of which are generally consistent with the company’s and the other parties’ discussions with the EPA. The company and the other parties have begun to jointly implement the administrative order. At this time we do not expect to incur material losses related to the implementation of the administrative order.

As of September 30, 2016, our total accrual for future estimated remediation costs on the active Superfund sites and other sites for which we are responsible was approximately $37 million. These reserves are recorded in "Accrued liabilities" and "Other liabilities" on our Consolidated Balance Sheet. The accrual has not changed materially since the end of 2015.

Asset Retirement Obligations

We have obligations associated with the retirement of tangible long-lived assets consisting primarily of reforestation obligations related to forest management licenses in Canada and obligations to close and cap landfills. As of September 30, 2016, our accrued balance for these obligations was $28 million. These obligations are recorded in

"Accrued liabilities" and "Other liabilities" on our Consolidated Balance Sheet. The accruals have not changed materially for continuing operations since the end of 2015.

Some of our sites have materials containing asbestos. We have met our current legal obligation to identify and manage these materials. In situations where we cannot reasonably determine when materials containing asbestos might be removed from the sites, we have not recorded an accrual because the fair value of the obligation cannot be reasonably estimated.

NOTE 13: CUMULATIVE OTHER COMPREHENSIVE INCOME (LOSS)

Changes in amounts included in our cumulative other comprehensive income (loss) by component are:

		PENSION		OTHER POSTRETIREMENT BENEFITS			
DOLLAR AMOUNTS IN MILLIONS	Foreign currency translation adjustments	Actuarial losses	Prior service costs	Actuarial losses	Prior service credits	Unrealized gains on available-for-sale securities	Total
Beginning balance as of December 31, 2015	$ 207	$(1,372)	$(11)	$ (77)	$ 35	$ 6	$(1,212)
Other comprehensive income (loss) before reclassifications	34	(16)	—	3	—	1	22
Income taxes	—	3	—	(1)	—	—	2
Net other comprehensive income (loss) before reclassifications	34	(13)	—	2	—	1	24
Amounts reclassified from cumulative other comprehensive income (loss)(1)	—	117	3	6	(6)	—	120
Income taxes	—	(40)	(1)	(2)	1	—	(42)
Net amounts reclassified from cumulative other comprehensive income (loss)	—	77	2	4	(5)	—	78
Total other comprehensive income (loss)	34	64	2	6	(5)	1	102
Ending balance as of September 30, 2016	$ 241	$(1,308)	$(9)	$ (71)	$ 30	$ 7	$(1,110)

(1) Actuarial losses and prior service credits (cost) are included in the computation of net periodic benefit costs (credits). See Note 8: Pension and Other Postretirement Benefit Plans.

NOTE 14: SHARE-BASED COMPENSATION

In year-to-date 2016, we granted 6,121,835 stock options, 1,954,796 restricted stock units (RSUs), 495,079 performance share units (PSUs) and 106,752 stock appreciation rights. In addition, 1,166,591 outstanding RSUs and 288,780 outstanding PSUs vested during year-to-date 2016. A total of 3,034,349 shares of common stock were issued as a result of RSU vesting, PSU vesting and stock option exercises.

SHARE-BASED COMPENSATION RESULTING FROM OUR MERGER WITH PLUM CREEK

Included in the award activity above are replacement awards granted as a result of the merger with Plum Creek. Eligible outstanding Plum Creek stock options, restricted stock unit and deferred stock unit awards were converted into equivalent equity awards with respect to Weyerhaeuser Common Shares, after giving effect to the appropriate adjustments to reflect the consummation of the merger. In total, we issued replacement awards consisting of 1,953,128 stock options and 1,248,006 RSUs. We also assumed 289,910 value management awards (VMAs) through the merger with Plum Creek.

Replacement Stock Option Awards

The replacement stock option awards issued as a result of the merger with Plum Creek have similar exercise provisions as the terms of our current awards. All replacement stock option awards were fully vested prior to the date of the merger, so no expense will be recorded. The value of the replacement stock option awards was $5 million, which was included in the equity consideration issued in the merger as described in Note 4: Merger with Plum Creek.

Replacement Restricted Stock Unit Awards

The replacement RSUs issued as a result of the merger with Plum Creek have similar vesting provisions as the terms of existing Weyerhaeuser restricted stock unit awards. Expense for replacement RSUs will continue to be recognized over the remaining service period unless a qualifying termination occurs. A qualifying termination of an awardee will result in acceleration of vesting and expense recognition in the period that the qualifying termination occurs. Qualifying terminations during year-to-date 2016 resulted in accelerated vesting of 686,096 of the replacement RSUs and recognition of $15 million of expense. This accelerated expense is included in merger-related integration costs as described in Note 15: Charges for Integration and Restructuring, Closures and Asset Impairments.

Value Management Awards

Following the merger, the VMAs assumed were valued at target. All outstanding VMAs, if earned, will vest December 31, 2017, and be paid in the first quarter of 2018. The VMAs are classified and accounted for as liabilities, as they will be settled in cash upon vesting. The expense recognized over the remaining performance period will equal the cash value of an award as of the last day of the performance period multiplied by the number of awards that are earned. Expense for VMAs will continue to be recognized over the remaining service period unless a qualifying termination occurs. A qualifying termination of an awardee will result in acceleration of vesting and expense recognition in the period that the qualifying termination occurs. Qualifying terminations during year-to-date 2016 resulted in $6 million of expense recognized. This accelerated expense is included in merger-related integration costs as described in Note 15: Charges for Integration and Restructuring, Closures and Asset Impairments.

STOCK OPTIONS

Excluding replacement awards granted as a result of the merger, the weighted average exercise price of stock options granted to date in 2016 was $23.09. The vesting and post-termination vesting terms for stock options granted to date in 2016 were as follows:

- vest ratably over four years, except for the replacement stock option awards granted as a result of the Plum Creek merger, which were fully vested as of the grant date;
- vest or continue to vest in the event of death while employed, disability or retirement at an age of at least 62;
- continue to vest upon retirement at an age of at least 62, but a portion of the grant forfeits if retirement occurs before the one year anniversary of the grant;
- continue to vest for one year in the event of involuntary termination when the retirement criteria has not been met; and
- stop vesting for all other situations including early retirement prior to age 62.

Weighted Average Assumptions Used in Estimating the Value of Stock Options Granted in 2016

	Stock Options[1]	
Expected volatility	25.43	%
Expected dividends	5.37	%
Expected term (in years)	4.95	
Risk-free rate	1.28	%
Weighted average grant date fair value	$2.73	

(1) Weighted average assumptions presented do not include the replacement stock option awards issued as consideration for our merger with Plum Creek.

RESTRICTED STOCK UNITS

Excluding replacement awards granted as a result of the merger, the weighted average fair value of the RSUs granted in 2016 was $23.09. The vesting provisions for RSUs granted in 2016 were as follows:

- vest ratably over four years;
- immediately vest in the event of death while employed or disability;
- continue to vest upon retirement at an age of at least 62, but a portion of the grant forfeits if retirement occurs before the one year anniversary of the grant;
- continue vesting for one year in the event of involuntary termination when the retirement criteria has not been met; and
- will forfeit upon termination of employment in all other situations including early retirement prior to age 62.

PERFORMANCE SHARE UNITS

The weighted average grant date fair value of PSUs granted in 2016 was $20.83.

The final number of shares granted in 2016 will range from 0 percent to 150 percent of each grant's target, depending upon actual company performance.

The ultimate number of PSUs earned is based on three measures:

- our relative total shareholder return (TSR) ranking measured against the S&P 500 over a three year period;
- our relative TSR ranking measured against an industry peer group of companies over a three year period; and
- achievement of Plum Creek merger cost synergy targets.

The vesting provisions for PSUs granted in 2016 were as follows:

- vest 100 percent on the third anniversary of the grant date as long as the individual remains employed by the company;
- fully vest in the event the participant dies or becomes disabled while employed;
- continue to vest upon retirement at an age of at least 62, but a portion of the grant forfeits if retirement occurs before the one year anniversary of the grant;
- continue vesting for one year in the event of involuntary termination when the retirement criteria has not been met and the employee has met the second anniversary of the grant date; and
- will forfeit upon termination of employment in all other situations including early retirement prior to age 62.

Weighted Average Assumptions Used in Estimating the Value of Performance Share Units Granted in 2016

	Performance Share Units
Performance period	1/1/2016 – 12/31/2018
Valuation date closing stock price	$ 23.09
Expected dividends	5.37 %
Risk-free rate	0.48% – 0.93 %
Expected volatility	23.57% – 28.09 %

STOCK APPRECIATION RIGHTS

Stock appreciation rights are re-measured 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, 2016.

Weighted Average Assumptions Used to Re-measure the Value of Stock Appreciation Rights as of September 30, 2016

	Stock Appreciation Rights
Expected volatility	23.08 %
Expected dividends	4.14 %
Expected term (in years)	2.21
Risk-free rate	0.86 %
Weighted average fair value	$7.07

The vesting and post-termination vesting terms for stock appreciation rights granted in 2016 are the same as for stock options described above.

NOTE 15: CHARGES FOR INTEGRATION AND RESTRUCTURING, CLOSURES AND ASSET IMPAIRMENTS

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED SEPTEMBER 2016	QUARTER ENDED SEPTEMBER 2015	YEAR-TO-DATE ENDED SEPTEMBER 2016	YEAR-TO-DATE ENDED SEPTEMBER 2015
Integration and restructuring charges related to our merger with Plum Creek:				
Termination benefits	$ 4	$ —	$ 52	$ —
Acceleration of share-based compensation related to qualifying terminations (Note 14)	—	—	21	—
Acceleration of pension benefits related to qualifying terminations (Note 8)	—	—	5	—
Professional services	6	—	45	—
Other integration and restructuring costs	4	—	9	—
Total integration and restructuring charges related to our merger with Plum Creek	14	—	132	—
Charges related to closures and other restructuring activities:				

Termination benefits	1	—	4	1
Other closures and restructuring costs	1	1	3	1
Total charges related to closures and other restructuring activities	2	1	7	2
Impairments of long-lived assets	—	1	2	14
Total charges for integration and restructuring, closures and impairments	$ 16	$ 2	$ 141	$ 16

During 2016, we incurred and accrued for termination benefits (primarily severance), accelerated share-based payment costs, and accelerated pension benefits based upon actual and expected qualifying terminations of certain employees as a result of restructuring decisions made subsequent to the merger. We also incurred non-recurring professional services costs for investment banking, legal and consulting, and certain other fees directly attributable to our merger with Plum Creek.

During 2015, we recognized a noncash impairment charge of $13 million in first quarter 2015 related to a nonstrategic asset held in Unallocated Items that was sold in second quarter 2015. The fair value of the asset was determined using significant unobservable inputs (level 3) based on discounted cash flow model.

Changes in accrued severance related to restructuring during the year-to-date period ended September 30, 2016, were as follows:

DOLLAR AMOUNTS IN MILLIONS	
Accrued severance as of December 31, 2015	$5
Charges	56
Payments	(33)
Accrued severance as of September 30, 2016	$28

Accrued severance is recorded within the "Wages, salaries and severance pay" component of "Accrued liabilities" on our Consolidated Balance Sheet as detailed in Note 9: Accrued Liabilities. The majority of the accrued severance balance as of September 30, 2016, is expected to be paid within one year.

NOTE 16: OTHER OPERATING COSTS (INCOME), NET

Other operating costs (income), net:
- includes both recurring and occasional income and expense items and
- can fluctuate from year to year.

ITEMS INCLUDED IN OTHER OPERATING COSTS (INCOME), NET

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED		YEAR-TO-DATE ENDED	
	SEPTEMBER 2016	SEPTEMBER 2015	SEPTEMBER 2016	SEPTEMBER 2015
Gain on disposition of nonstrategic assets	$ (8)	$ (1)	$ (54)	$ (7)
Foreign exchange losses (gains), net	1	20	(11)	41
Litigation expense, net	2	6	23	17
Other, net	5	6	(5)	5
Total other operating costs (income), net	$ —	$ 31	$ (47)	$ 56

Gain on disposition of nonstrategic assets included a $36 million pretax gain recognized in the first quarter of 2016 on the sale of our Federal Way, Washington headquarters campus.
Foreign exchange losses (gains) result from changes in exchange rates, primarily related to our Canadian operations.

NOTE 17: INCOME TAXES

As a REIT, we generally are not subject to federal corporate level income taxes on REIT taxable income that is distributed to shareholders. We are required to pay corporate income taxes on earnings of our TRS, which includes our manufacturing businesses and portions of our Timberlands and Real Estate & ENR segments' earnings.

The quarterly provision for income taxes is based on the current estimate of the annual effective tax rate. Our 2016 estimated annual effective tax rate for our TRS is approximately 33 percent, which is lower than the U.S. domestic statutory federal tax rate primarily due to lower foreign tax rates applicable to foreign earnings, partially offset by state income taxes.

Following the merger with Plum Creek in first quarter 2016, our income tax receivables and deferred income tax balances for our TRS have been adjusted to include Plum Creek's TRS, which include $4 million in federal income tax receivables and $65 million in deferred income tax assets arising from temporary differences between the tax bases and book bases of assets acquired and liabilities assumed in the merger. See Note 4: Merger with Plum Creek for additional details.

ONGOING IRS MATTER

We received a Notice of Final Partnership Administrative Adjustment (FPAA), dated July 20, 2016, from the Internal Revenue Service (IRS) in regard to Plum Creek REIT's 2008 U.S. federal income tax treatment of the transaction forming the Timberland Venture. The IRS is asserting that the transfer of the timberlands to the Timberland Venture was a taxable transaction to the company at the time of the transfer rather than a nontaxable capital contribution. We have filed a petition in the U.S. Tax Court and will vigorously contest this adjustment.

In the event that we are unsuccessful in this tax litigation, we could be required to recognize and distribute gain to shareholders of approximately $600 million and pay built-in gains tax of approximately $100 million. We would also be required to pay interest on both of those amounts, which would be substantial. We expect that as much as 80 percent of any such distribution could be made with our common stock, and shareholders would be subject to tax on the distribution at the applicable capital gains tax rate. Alternatively, we could elect to retain the gain and pay corporate-level tax to minimize interest costs to the company.

Although the outcome of this process cannot be predicted with certainty, we are confident in our position based on U.S. tax law and believe we will be successful in defending it. Accordingly, no reserve has been recorded related to this matter.

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:
- 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 significantly from our forward-looking statements. There is no guarantee that any of the events anticipated by our forward-looking statements will occur. Or 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

Forward-looking statements can be identified by the fact that they do not relate strictly to historical or current facts. They often use words such as expects, may, should, will, believes, anticipates, estimates, projects, intends, plans, targets and approximately. They may use the positive or negative or other variation of those and similar words.

STATEMENTS

We make forward-looking statements in this report concerning our plans, strategies, intentions and expectations, including with respect to estimated taxes and tax rates, expectations relating to shares, share repurchases, share compensation, dilution and dividends, expected results of legal proceedings and the sufficiency of litigation reserves, expected uses of cash, expectations relating to pension contributions and benefit payments, and our expectations relating to the U.S. housing market, economic conditions, strength of the U.S. dollar and demand for our products.

We base our forward-looking statements on a number of factors, including the expected effect of:
- the economy,
- laws and regulations,
- adverse litigation outcomes and the adequacy of reserves,
- changes in accounting principles,
- contributions to pension plans,
- projected benefit payments,
- projected tax treatment, rates and credits, and
- other related matters.

You should understand that it is not possible to predict or identify all such factors and, consequently, you should not consider any such list to be a complete set of all potential risks or uncertainties. Should other risks or uncertainties materialize, or should our underlying assumptions prove inaccurate, actual results could differ materially from past results as well as from our estimated or projected results.

RISKS, UNCERTAINTIES AND ASSUMPTIONS

Major risks and uncertainties – and assumptions that we make – that affect our business and may cause actual results to differ from these forward-looking statements include, but are not limited to:

- the effect of general economic conditions, including employment rates, interest rate levels, housing starts, availability of financing for home mortgages and strength of the U.S. dollar;
- market demand for our products, including market demand for our timberland properties with higher and better uses, which is related to, among other factors, the strength of the various U.S. business segments and U.S. and international economic conditions;
- performance of our manufacturing operations, including maintenance and capital requirements;
- potential disruptions in our manufacturing operations;
- the level of competition from domestic and foreign producers;
- raw material availability and prices;
- the effect of weather;
- the risk of loss from fires, floods, windstorms, hurricanes, pest infestation and other natural disasters;
- energy prices;
- the successful execution of our internal plans and strategic initiatives, including without limitation the realization of cost and operational synergies;
- the successful and timely execution and integration of our strategic acquisitions, including our ability to realize expected benefits and synergies, and the successful and timely execution of our strategic divestitures, each of which is subject to a number of risks and conditions beyond our control including, but not limited to, timing and required regulatory approvals;
- transportation and labor availability and costs;
- federal tax policies, interpretations or rulings;
- the effect of forestry, land use, environmental and other governmental regulations;
- legal proceedings;
- 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;
- changes in accounting principles; and
- other factors described under “Risk Factors” in our 2015 Annual Report on Form 10-K and in our Registration Statement on Form S-4/A filed on December 23, 2015.

EXPORTING ISSUES

We are a large exporter, affected by:

- economic activity in Europe and Asia, especially Japan and China;
- currency exchange rates – particularly the relative value of the U.S. dollar, Canadian dollar, euro and yen; and
- restrictions on international trade or tariffs imposed on imports.

RESULTS OF OPERATIONS

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

- Sales realizations refer to net selling prices – this includes selling price plus freight, minus normal sales deductions.
- Net contribution to earnings does not include interest expense and income taxes.

In the following discussion, unless otherwise noted, references to increases or decreases in income and expense items, sales realizations, shipment volumes, and net contributions to earnings are based on the quarter and year-to-date period ended September 30, 2016, compared to the quarter and year-to-date period ended September 30, 2015.

Our merger with Plum Creek during first quarter 2016 significantly impacted the comparability of our consolidated operating results between 2016 and 2015. As a result of progress made to integrate financial processes and systems since the merger date, the results beginning on February 19, 2016, from acquired Plum Creek operations and the respective impacts of these results on our current period results are impracticable to disclose in the quarter and year-to-date period ended September 30, 2016. Our prior period results do not include pre-merger results of Plum Creek operations.

When compared to historical Plum Creek results, the post-merger results of the acquired operations are significantly impacted by the following items:

- Increased depletion charges and increased basis of real estate sold as a result of applying acquisition accounting to Timber and timberlands assets acquired as described in Note 4: Merger with Plum Creek and

- Certain merger-related costs as described in Note 15: Charges for Integration and Restructuring, Closures and Asset Impairments.

ECONOMIC AND MARKET CONDITIONS AFFECTING OUR OPERATIONS

The strength of the U.S. housing market strongly affects our Wood Products and Timberlands segments. As published by the U.S. Census Bureau, total housing starts for 2015 were 1.11 million units. We continue to expect improving U.S. housing starts and anticipate a level of approximately 1.18 million units in 2016 as a result of employment growth, improving consumer confidence and continued historically low mortgage rates. In the first nine months of 2016, housing starts averaged 1.15 million total units on a seasonally adjusted annual basis according to the U.S. Census Bureau and single family units averaged 0.77 million as a seasonally adjusted annual rate. This is consistent with expectations for 7 percent to 8 percent year-over-year growth in housing starts. Repair and remodeling activity is also a driver of wood product demand. The Joint Center for Housing of Harvard University is projecting an increase in remodeling expenditures of 8.6 percent in 2016 over 2015.

Our Real Estate & ENR segment is affected by the health of the U.S. economy and especially the U.S. housing sector, which influences the real estate market. According to the Realtors Land Institute of the National Association of Realtors, land transaction prices and volumes are expected to be the same or stronger in 2016 compared to 2015.

Demand for logs from our Timberlands segment is affected by production levels of wood-based building products. U.S. wood product markets advanced in the first nine months of 2016, consistent with homebuilding and remodeling segments and helped by a rising single family share of total housing starts. Single family starts are up 10 percent year to date over the same period last year on a seasonally adjusted basis. Demand for logs increased with wood products production, and log supplies kept pace, leaving prices relatively flat year to date for western and southern sawlogs and southern pulpwood. Our western holdings are also affected by export demand. Log inventories in Chinese ports were lower in 2016 than for the same period in 2015 and demand was modestly improved over 2015. Japan housing starts for January through August 2016 are up 5 percent from the same period last year. Housing starts are a key driver of wood product and log demand in Japan. We expect demand from China and Japan in 2016 to be similar to 2015.

CONSOLIDATED RESULTS

How We Did Third Quarter and Year-to-Date 2016

DOLLAR AMOUNTS IN MILLIONS, EXCEPT PER-SHARE FIGURES	QUARTER ENDED SEPTEMBER 2016	QUARTER ENDED SEPTEMBER 2015	AMOUNT OF CHANGE 2016 VS. 2015	YEAR-TO-DATE ENDED SEPTEMBER 2016	YEAR-TO-DATE ENDED SEPTEMBER 2015	AMOUNT OF CHANGE 2016 VS. 2015
Net sales	$1,709	$ 1,355	$ 354	$4,769	$ 3,980	$ 789
Costs of products sold	1,314	1,073	241	3,661	3,123	538
Operating income	274	166	108	685	516	169
Earnings of discontinued operations, net of tax	65	59	6	123	111	12
Net earnings attributable to Weyerhaeuser common shareholders	227	180	47	454	403	51
Earnings per share attributable to Weyerhaeuser shareholders, basic	$0.30	$ 0.35	$ (0.05)	$0.64	$ 0.78	$ (0.14)
Earnings per share attributable to Weyerhaeuser shareholders, diluted	$0.30	$ 0.35	$ (0.05)	$0.64	$ 0.77	$ (0.13)

Comparing Third Quarter 2016 with Third Quarter 2015

Net sales

Net sales increased $354 million – 26 percent – primarily attributable to the following factors:

- Timberlands segment sales increased $174 million – 56 percent – due to higher delivered logs sales volumes primarily attributable to acquired Plum Creek operations. This increase was partially offset by lower average sales realizations. The decrease in average sales realizations is primarily attributable to the increase in sales volume for the South, which has lower average sales realizations compared to the West. The South comprised 33 percent of net sales for the quarter compared with 21 percent of net sales for third quarter 2015.
- Real Estate & ENR segment sales increased $26 million – 118 percent – primarily due to increased volume of timberland acres sold and increased ENR sales volume attributable to the operations acquired in our merger with Plum Creek, partially offset by a decrease in average price realized per timberland acre.
- Wood Products segment sales increased $154 million – 15 percent – primarily due to increased medium density fiberboard sales generated from our operations acquired from our merger with Plum Creek; increased oriented strand board, lumber, and plywood average sales realizations; and increased lumber and plywood sales volumes attributable to the operations acquired in our merger with Plum Creek.

Costs of products sold

Costs of products sold increased $241 million – 22 percent – primarily attributable to the following:

- Timberlands segment costs of products sold increased $161 million, primarily due to:
  increased sales volumes as described above and higher depletion rates in the South and West for acquired Plum Creek timberlands, which were measured at fair value as of the merger date; and
  increased silviculture and reforestation costs, which is attributable to the significant increase in our timberlands holdings resulting from the merger;
- Real Estate & ENR segment costs of products sold increased $23 million primarily due to increased real estate and ENR sales volume as explained above, coupled with an increase in the average basis of real estate sold attributable to measuring acquired Plum Creek land at fair value in acquisition accounting; and
- Wood Products segment costs of products sold increased $66 million primarily due to increased sales volume as described above. This increase is partially offset by lower resin and manufacturing costs per unit.

Operating income

Operating income increased $108 million – 65 percent – primarily attributable to increased net sales and costs of products sold explained above.
These increases were partially offset by a $14 million increase to charges for integration and restructuring, closures and asset impairments, which is attributable to integration costs related to our merger with Plum Creek.

Net earnings attributable to Weyerhaeuser common shareholders

Our net earnings attributable to Weyerhaeuser common shareholders increased $47 million – 26 percent. Excluding earnings from discontinued operations, net of tax, net earnings attributable to Weyerhaeuser common shareholders increased $41 million – 34 percent – primarily attributable to the variances in net sales, costs of products sold and operating income as explained above. The increase is partially offset by a $66 million increase in income taxes from continuing operations attributable to:

- increased earnings for our TRS due primarily to the improved performance of our Wood Products segment and
- exhaustion of our remaining federal tax credit and net operating loss carryforwards during 2016.

Earnings from discontinued operations, net of tax, decreased $6 million – 10 percent – primarily due to:

- lower average sales realizations and sales volumes for pulp and liquid packaging board; and
- increased charges for restructuring, closures and asset impairments, which consists of costs related to our strategic evaluation of the Cellulose Fibers businesses and transaction-related costs.

These were partially offset by:

- lower costs of products sold, primarily due to lower sales and ceasing depreciation when Cellulose Fibers manufacturing assets were classified as held-for-sale in the second quarter 2016;
- lower equity loss from our printing papers joint venture; and
- the net gain on the divestiture of liquid packaging board recognized in third quarter 2016.

Comparing Year-to-Date 2016 with Year-to-Date 2015

Net sales

Net sales increased $789 million – 20 percent – attributable to:

- Timberlands segment sales increased $381 million – 40 percent – primarily due to acquired Plum Creek operations. This increase was partially offset by lower average sales realizations. The decrease in average sales realizations is primarily attributable to the increase in sales volume for the South, which has lower average sales realizations compared to the West. The South comprised 31 percent of net sales for year-to-date 2016 compared with 19 percent of net sales for the 2015 year-to-date period.
- Real Estate & ENR segment sales increased $56 million – 81 percent – attributable to increased volume of timberland acres sold and increased ENR sales volume attributable to the operations acquired in our merger with Plum Creek, and an increase in average price realized per acre sold.
- Wood Products segment sales increased $352 million – 12 percent – primarily due to increased medium density fiberboard sales generated from our operations acquired from our merger with Plum Creek; increased oriented strand board and plywood average sales realizations; and increased lumber, oriented strand board, plywood, and engineered solid section sales volumes.

Costs of products sold

Costs of products sold increased $538 million – 17 percent – primarily attributable to the following:

- Timberlands segment costs of products sold increased $351 million, primarily due to increased sales volumes, as explained above and to higher depletion rates in the South and West for acquired Plum Creek timberlands, which were measured at fair value;

- Real Estate & ENR segment costs of products sold increased $50 million attributable to increased real estate and ENR sales volumes as explained above; and
- Wood Products segment costs of products sold increased $153 million primarily due to increased sales volume as explained above. This increase was partially offset by lower log, resin, and manufacturing costs per unit.

Operating income

Operating income increased $169 million – 33 percent – primarily due to the following:
- increased gross margin as described above – $251 million,
- noncash gain on foreign exchange debt held by our Canadian entity – $53 million, and
- a pretax gain related to the sale of our Federal Way headquarters campus – $36 million.

These increases were partially offset by:
- a $125 million increase in charges for integration and restructuring, closures and asset impairments, primarily attributable to 2016 integration costs related to our merger with Plum Creek – $132 million; and
- a $64 million increase in general and administrative expenses attributable primarily to acquired Plum Creek operations.

These increases are partially offset by a noncash impairment charge recognized in first quarter 2015 related to a nonstrategic asset that was sold in second quarter 2015 – $13 million.

Net earnings attributable to Weyerhaeuser common shareholders

Our net earnings attributable to Weyerhaeuser common shareholders increased $51 million – 13 percent. Excluding earnings from discontinued operations, net of tax, net earnings attributable to Weyerhaeuser common shareholders increased $39 million – 13 percent – primarily attributable to the variances in net sales, costs of products sold and operating income as explained above, partially offset by $100 million increase in income taxes from continuing operations resulting from increased taxable earnings generated by our TRS.
Earnings from discontinued operations, net of tax, increased $12 million – 11 percent – primarily due to:
- lower costs of products sold, primarily due to lower sales and ceasing depreciation when Cellulose Fibers manufacturing assets were classified as held-for-sale in the second quarter 2016,
- a decrease in the equity loss from our printing papers joint venture, and
- the gain on the divestiture of the liquid packaging board business recognized in third quarter of 2016.

These were partially offset by:
- lower average sales realizations for pulp and liquid packaging board and lower sales volumes for liquid packaging board,
- increased income tax expense due to the gain on the divestiture of the liquid packaging board business, and
- increased charges for integration and restructuring, closures and asset impairments, which consists of costs related to our strategic evaluation of the Cellulose Fibers businesses and transaction-related costs.

TIMBERLANDS

Compared to 2015, the changes to the results of operations for our Timberlands segment are primarily attributable to the addition of approximately 6.3 million acres of Plum Creek timberlands, which produced over 18 million tons of harvest volumes in 2015. The merger results in expansion of our Southern timberlands from 4.0 million acres to 7.4 million acres – an 85 percent increase – and our Western timberlands from 2.6 million acres to 3.0 million acres – a 15 percent increase. The merger also added 2.5 million acres across West Virginia, Maine, New Hampshire, Vermont, Michigan, Wisconsin and Montana, which we refer to as our Northern timberlands. Increases to our sales volumes are primarily attributable to the significant increases in the size of our timberlands holdings by region, particularly in the South and North regions.

The composition of our sales volume by region was also altered by the merger, as the South and North regions, which have lower average sales realizations compared to the West, now comprise a greater portion of our overall sales. Additionally, within the South the acquired timberlands alter the overall sales mix, as lower realization pulpwood sales have increased and higher realization grade logs have decreased as a percentage of total sales, resulting in lower average sales realizations overall for the region.

As a result of of applying acquisition accounting to Timber and timberlands assets acquired as described in Note 4: Merger with Plum Creek, depletion rates have increased significantly in 2016 compared to 2015. When combined with increased sales volumes, these higher depletion rates drive the significant increases in our costs of products sold in 2016 compared to 2015 for the periods presented.

How We Did Third Quarter and Year-to-Date 2016

DOLLAR AMOUNTS IN MILLIONS	QUARTER ENDED		AMOUNT OF CHANGE	YEAR-TO-DATE ENDED		AMOUNT OF CHANGE
	SEPTEMBER 2016	SEPTEMBER 2015	2016 VS. 2015	SEPTEMBER 2016	SEPTEMBER 2015	2016 VS. 2015
Net sales to unaffiliated customers:						
Delivered logs[1]:						
West	$ 217	$ 196	$ 21	$ 664	$ 627	$ 37
South	160	64	96	415	180	235
North	29	—	29	61	—	61
Other	11	6	5	25	17	8
Subtotal delivered logs sales	417	266	151	1,165	824	341
Stumpage and pay-as-cut timber	24	13	11	62	27	35
Products from international operations[2]	21	20	1	58	69	(11)
Recreational and other lease revenue	15	7	8	29	18	11
Other	7	4	3	28	23	5
Subtotal net sales to unaffiliated customers	484	310	174	1,342	961	381
Intersegment sales:						
United States	149	138	11	446	426	20
Other	67	72	(5)	185	199	(14)
Subtotal intersegment sales	216	210	6	631	625	6
Total sales	$ 700	$ 520	$ 180	$ 1,973	$ 1,586	$ 387
Costs of products sold	$ 559	$ 398	$ 161	$ 1,527	$ 1,176	$ 351
Operating income and Net contribution to earnings	$ 122	$ 107	$ 15	$ 376	$ 363	$ 13

(1) The Western region includes Washington and Oregon. The Southern region includes Virginia, North Carolina, South Carolina, Florida, Georgia, Alabama, Mississippi, Louisiana, Arkansas, Texas and Oklahoma. The Northern region includes West Virginia, Maine, New Hampshire, Vermont, Michigan, Wisconsin and Montana. Other includes our Canadian operations and the timberlands of the Twin Creeks Venture that we manage.

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

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Comparing Third Quarter 2016 with Third Quarter 2015

Net sales – unaffiliated customers

Net sales to unaffiliated customers increased $174 million – 56 percent – primarily due to:

- a $96 million increase in Southern log sales as a result of a 166 percent increase in delivered logs sales volumes primarily attributable to acquired Plum Creek operations, partially offset by a 6 percent decrease in average sales realizations for delivered logs;
- a $29 million increase in Northern log sales attributable to the operations added in our merger with Plum Creek; and
- a $21 million increase in Western log sales as result of an 11 percent increase in delivered logs sales volumes primarily attributable to acquired Plum Creek operations and to more favorable fire season harvest conditions compared to third quarter 2015.

Intersegment sales

Intersegment sales increased $6 million – 3 percent – primarily due to increased intersegment sales in the United States – $11 million. This is attributable to higher intersegment log sales volumes attributable to the Montana operations acquired from Plum Creek, as well as an increase in average sales realizations. The increase in the United States was partially offset by a decrease in Canada intersegment sales – $5 million – primarily attributable to lower log sales volumes.

Costs of products sold

Costs of products sold increased $161 million – 40 percent – due to a 90 percent increase in sales volumes attributable to the operations acquired in our merger with Plum Creek and to higher depletion rates in the South and West for acquired Plum Creek timberlands, which were measured at fair value as of the merger date. Silviculture costs also increased as a result of the increased timberlands acreage.

Operating income and Net contribution to earnings

Operating income and Net contribution to earnings increased $15 million – 14 percent – primarily attributable to the changes in net sales and costs of products sold as explained above. The increase in gross margin was partially offset by higher selling, general, and administrative expenses due to our integration with Plum Creek.

Comparing Year-to-Date 2016 with Year-to-Date 2015

Net sales – unaffiliated customers

Net sales to unaffiliated customers increased $381 million – 40 percent – primarily due to:

- a $235 million increase in Southern log sales as a result of a 141 percent increase in delivered logs sales volumes primarily attributable to adding acquired Plum Creek operations, partially offset by a 4 percent decrease in average sales realizations of delivered logs due to mix of sawlogs and pulp logs;
- a $61 million increase in Northern log sales, which were acquired upon our merger with Plum Creek; and
- a $37 million increase in Western log sales as a result of an 8 percent increase in delivered logs sales volumes primarily attributable to adding acquired Plum Creek operations, partially offset by a 2 percent decrease in average sales realizations for delivered logs.

Intersegment sales

Intersegment sales increased $6 million – 1 percent – primarily due to increased intersegment sales in the United States – $20 million. This is attributable to higher intersegment log sales volumes attributable to the Montana operations acquired from Plum Creek, as well as an increase in average sales realizations. The increase in the United States was partially offset by a decrease in Canada intersegment sales – $14 million. This decrease is attributable to lower log sales volumes and average log sales realizations, partially offset by higher chip sales volumes.

Costs of products sold

Costs of products sold increased $351 million – 30 percent – primarily due to a 69 percent increase in sales volumes attributable to the operations acquired in our merger with Plum Creek and to higher depletion rates in the South and West for acquired Plum Creek timberlands, which were measured at fair value as of the merger date.

Operating income and Net contribution to earnings

Operating income and Net contribution to earnings increased $13 million – 4 percent – primarily attributable to the changes in net sales and costs of products sold as explained above.

THIRD-PARTY LOG SALES VOLUMES AND FEE HARVEST VOLUMES

VOLUMES IN THOUSANDS (1)(2)	QUARTER ENDED		AMOUNT OF CHANGE	YEAR-TO-DATE ENDED		AMOUNT OF CHANGE
	SEPTEMBER 2016	SEPTEMBER 2015	2016 VS. 2015	SEPTEMBER 2016	SEPTEMBER 2015	2016 VS. 2015
Third party log sales – tons:						
West	2,209	1,992	217	6,705	6,207	498
South	4,538	1,707	2,831	11,659	4,844	6,815
North	503	—	503	1,005	—	1,005
Uruguay	117	194	(77)	352	556	(204)
Other	263	127	136	601	384	217
Total	7,630	4,020	3,610	20,322	11,991	8,331
Fee harvest volumes – tons:						
West	2,744	2,548	196	8,525	7,967	558
South	6,992	3,648	3,344	19,083	10,548	8,535
North	678	—	678	1,392	—	1,392
Uruguay	242	220	22	789	725	64
Other	191	—	191	372	—	372
Total	10,847	6,416	4,431	30,161	19,240	10,921

(1) The West region includes Washington and Oregon. The South region includes Virginia, North Carolina, South Carolina, Florida, Georgia, Alabama, Mississippi, Louisiana, Arkansas, Texas and Oklahoma. The North region includes West Virginia, Maine, New Hampshire, Vermont, Michigan, Wisconsin, and Montana. Other includes our Canadian operations and the timberlands of the Twin Creeks Venture that we manage.

(2) Beginning in the first quarter of 2016, we report log sales and fee harvest volumes in tons. Prior period volumes have been converted from cubic meters to tons using annualized 2015 conversion factors as follows:

West: 1.056 m^3 = 1 ton
South: 0.818 m^3 = 1 ton
Canada: 1.244 m^3 = 1 ton
Uruguay: 0.907 m^3 = 1 ton

REAL ESTATE, ENERGY & NATURAL RESOURCES

How We Did Third Quarter and Year-to-Date 2016

QUARTER ENDED AMOUNT OF CHANGE YEAR-TO-DATE ENDED In thousands

Freight Segment

Transit Segment

Corporate Activities and Elimination

Total

Sales to external customers

$

804,994

$

388,135

$

$

1,193,129

Intersegment sales/(elimination)

11,552

5,428

(16,980

)

Total sales

$

816,546

$

393,563

$

(16,980

)

$

1,193,129

Income (loss) from operations

$

159,032

$

44,549

$

(8,606

)

$

194,975

Interest expense and other, net

(7,124

)

(7,124

)

Income (loss) from operations before income taxes

$
159,032

$
44,549

$
(15,730
)

$
187,851

19

Sales by product are as follows:

	Three Months Ended June 30,	
In thousands	2013	2012
Specialty Products & Electronics	$ 284,166	$ 298,447
Brake Products	139,410	128,363
Remanufacturing, Overhaul & Build	141,199	109,933
Other Transit Products	52,379	54,902
Other	20,848	18,175
Total sales	$ 638,002	$ 609,820

Sales by product are as follows:

	Six Months Ended June 30,	
In thousands	2013	2012
Specialty Products & Electronics	$ 523,368	$ 577,288
Brake Products	280,732	259,613
Remanufacturing, Overhaul & Build	304,793	218,655
Other Transit Products	103,428	100,800
Other	41,191	36,773
Total sales	$ 1,253,512	$ 1,193,129

15. GUARANTOR SUBSIDIARIES FINANCIAL INFORMATION

Effective August 2003, the Company issued $150 million of Senior Notes due in 2013 (the Notes). On November 7, 2011, the Company refinanced its existing revolving credit and term loan facility due in 2016 (the Bank Debt). The obligations under the Note and the Bank Debt are fully and unconditionally guaranteed by all U.S. subsidiaries as guarantors. In accordance with positions established by the Securities and Exchange Commission, the following shows separate financial information with respect to the parent, the guarantor subsidiaries and the non-guarantor subsidiaries. The principal elimination entries eliminate investment in subsidiaries and certain intercompany balances and transactions.

Balance Sheet as of June 30, 2013:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Cash and cash equivalents	$ 3,984	$ 5,232	$ 205,289	$	$ 214,505

Accounts receivable	486	289,807	198,156		488,449
Inventories		266,879	139,059		405,938
Other current assets	62,915	4,937	13,241		81,093
Total current assets	67,385	566,855	555,745		1,189,985
Property, plant and equipment	5,018	124,322	111,626		240,966
Goodwill	7,980	402,995	303,979		714,954
Investment in subsidiaries	3,423,789	380,494		(3,804,283)	
Other intangibles		166,413	163,421		329,834
Other long term assets	(11,248)	7,797	44,102		40,651
Total Assets	$ 3,492,924	$ 1,648,876	$ 1,178,873	$ (3,804,283)	$ 2,516,390
Current liabilities	$ 17,042	$ 331,997	$ 175,233	$	$ 524,272
Inter-company	1,606,493	(1,697,841)	91,348		
Long-term debt	396,400	153	362		396,915
Other long term liabilities	67,283	34,570	87,644		189,497
Total liabilities	2,087,218	(1,331,121)	354,587		1,110,684
Stockholders equity	1,405,706	2,979,997	824,286	(3,804,283)	1,405,706
Total Liabilities and Stockholders Equity	$ 3,492,924	$ 1,648,876	$ 1,178,873	$ (3,804,283)	$ 2,516,390

Balance Sheet as of December 31, 2012:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Cash and cash equivalents	$ 22,335	$ 5,473	$ 187,958	$	$ 215,766
Accounts receivable	1,210	213,895	174,810		389,915
Inventories		278,610	128,429		407,039
Other current assets	63,496	5,400	11,322		80,218
Total current assets	87,041	503,378	502,519		1,092,938
Property, plant and equipment, net	4,685	127,165	112,238		244,088
Goodwill	7,980	402,510	255,532		666,022
Investment in subsidiaries	3,146,931	279,731		(3,426,662)	
Other intangibles, net		169,374	138,947		308,321
Other long term assets	(10,491)	4,309	46,355		40,173
Total Assets	$ 3,236,146	$ 1,486,467	$ 1,055,591	$ (3,426,662)	$ 2,351,542
Current liabilities	$ 64,404	$ 321,675	$ 166,980	$	$ 553,059
Intercompany	1,506,541	(1,598,419)	91,878		
Long-term debt	317,000	168	685		317,853
Other long term liabilities	66,184	37,845	94,584		198,613
Total liabilities	1,954,129	(1,238,731)	354,127		1,069,525
Stockholders equity	1,282,017	2,725,198	701,464	(3,426,662)	1,282,017
Total Liabilities and Stockholders Equity	$ 3,236,146	$ 1,486,467	$ 1,055,591	$ (3,426,662)	$ 2,351,542

Income Statement for the Three Months Ended June 30, 2013:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination(1)	Consolidated
Net sales	$	$ 436,000	$ 260,310	$ (58,308)	$ 638,002
Cost of sales	614	(262,311)	(208,402)	24,978	(445,121)
Gross profit	614	173,689	51,908	(33,330)	192,881
Operating expenses	(12,535)	(39,554)	(28,238)		(80,327)
Operating (loss) profit	(11,921)	134,135	23,670	(33,330)	112,554
Interest (expense) income, net	(4,928)	1,547	110		(3,271)
Other income (expense), net	2,771	490	(2,855)		406

Equity earnings	112,430	26,894		(139,324)	
Income (loss) from operations before income tax	98,352	163,066	20,925	(172,654)	109,689
Income tax expense	(23,714)	(3,355)	(7,982)		(35,051)
Net income (loss) attributable to Wabtec shareholders	$ 74,638	$ 159,711	$ 12,943	$ (172,654)	$ 74,638
Comprehensive income (loss) attributable to Wabtec shareholders	$ 77,084	$ 159,711	$ 3,688	$ (172,654)	$ 67,829

(1) Includes elimination of gross profit realized with certain intercompany transactions between Guarantor and Non-Guarantor subsidiaries.

Income Statement for the Three Months Ended June 30, 2012:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination(1)	Consolidated
Net sales	$	$ 431,392	$ 223,556	$ (45,128)	$ 609,820
Cost of sales	(293)	(275,312)	(177,492)	16,704	(436,393)
Gross (loss) profit	(293)	156,080	46,064	(28,424)	173,427
Operating expenses	(15,571)	(38,879)	(18,112)		(72,562)
Operating (loss) profit	(15,864)	117,201	27,952	(28,424)	100,865
Interest (expense) income, net	(5,370)	1,006	855		(3,509)
Other income (expense), net	289	(1,791)	1,725		223
Equity earnings	107,941	24,573		(132,514)	
Income (loss) from operations before income tax	86,996	140,989	30,532	(160,938)	97,579
Income tax expense	(22,284)	(3,218)	(7,365)		(32,867)
Net income (loss) attributable to Wabtec shareholders	$ 64,712	$ 137,771	$ 23,167	$ (160,938)	$ 64,712
Comprehensive income (loss) attributable to Wabtec shareholders	$ 64,605	$ 137,771	$ 6,648	$ (160,938)	$ 48,086

(1) Includes elimination of gross profit realized with certain intercompany transactions between Guarantor and Non-Guarantor subsidiaries.

Income Statement for the Six Months Ended June 30, 2013:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination(1)	Consolidated
Net sales	$	$ 854,035	$ 497,470	$ (97,993)	$ 1,253,512
Cost of sales	1,101	(532,856)	(390,544)	44,556	(877,743)
Gross profit	1,101	321,179	106,926	(53,437)	375,769
Operating expenses	(27,709)	(77,873)	(53,966)		(159,548)
Operating (loss) profit	(26,608)	243,306	52,960	(53,437)	216,221
Interest (expense) income, net	(9,844)	2,831	128		(6,885)
Other income (expense), net	13,667	(3,286)	(10,556)		(175)
Equity earnings	213,845	44,594		(258,439)	
	191,060	287,445	42,532	(311,876)	209,161

Income (loss) from operations before income tax					
Income tax expense	(46,809)	(6,781)	(11,320)		(64,910)
Net income (loss) attributable to Wabtec shareholders	$ 144,251	$ 280,664	$ 31,212	$ (311,876)	$ 144,251
Comprehensive income (loss) attributable to Wabtec shareholders	$ 148,883	$ 280,664	$ (5,969)	$ (311,876)	$ 111,702

(1) Includes elimination of gross profit realized with certain intercompany transactions between Guarantor and Non-Guarantor subsidiaries.

Income Statement for the Six Months Ended June 30, 2012:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination(1)	Consolidated
Net sales	$	$ 846,042	$ 433,609	$ (86,522)	$ 1,193,129
Cost of sales	(348)	(545,890)	(337,761)	33,678	(850,321)
Gross profit	(348)	300,152	95,848	(52,844)	342,808
Operating expenses	(32,772)	(77,863)	(37,198)		(147,833)
Operating (loss) profit	(33,120)	222,289	58,650	(52,844)	194,975
Interest (expense) income, net	(10,832)	2,184	1,415		(7,233)
Other income (expense), net	8,121	(6,094)	(1,918)		109
Equity earnings	201,639	36,960		(238,599)	
Income (loss) from operations before income tax	165,808	255,339	58,147	(291,443)	187,851
Income tax expense	(41,835)	(6,811)	(15,232)		(63,878)
Net income (loss) attributable to Wabtec shareholders	$ 123,973	$ 248,528	$ 42,915	$ (291,443)	$ 123,973
Comprehensive income (loss) attributable to Wabtec shareholders	$ 124,190	$ 248,528	$ 37,297	$ (291,443)	$ 118,572

(1) Includes elimination of gross profit realized with certain intercompany transactions between Guarantor and Non-Guarantor subsidiaries.

Condensed Statement of Cash Flows for the Six Months Ended June 30, 2013:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net cash (used for) provided by operating activities	$ (96,588)	$ 288,443	$ 165,117	$ (311,876)	$ 45,096
Net cash used for investing activities	(3,178)	(8,008)	(112,661)		(123,847)
Net cash provided by (used for) financing activities	81,415	(280,676)	(31,544)	311,876	81,071
Effect of changes in currency exchange rates			(3,581)		(3,581)
(Decrease) increase in cash	(18,351)	(241)	17,331		(1,261)
Cash, beginning of year	22,335	5,473	187,958		215,766
Cash, end of period	$ 3,984	$ 5,232	$ 205,289	$	$ 214,505

Condensed Statement of Cash Flows for the Six Months Ended June 30, 2012:

In thousands	Parent	Guarantors	Non-Guarantors	Elimination	Consolidated
Net cash provided by (used for) operating activities	$ 30,954	$ 251,959	$ 39,066	$ (291,443)	$ 30,536
Net cash used for investing activities	(91,723)	(9,220)	(3,795)		(104,738)
Net cash provided by (used for) financing activities	24,383	(248,328)	(42,850)	291,443	24,648
Effect of changes in currency exchange rates			(1,956)		(1,956)
Decrease in cash	(36,386)	(5,589)	(9,535)		(51,510)
Cash, beginning of year	75,621	14,024	195,970		285,615
Cash, end of period	$ 39,235	$ 8,435	$ 186,435	$	$ 234,105

16. OTHER INCOME (EXPENSE), NET

The components of other income (expense) are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
In thousands	2013	2012	2013	2012
Foreign currency (loss) gain	$ (1,004)	$ 631	$ (1,931)	$ 1,041
Other miscellaneous income (expense)	1,410	(408)	1,756	(932)
Total other income (expense), net	$ 406	$ 223	$ (175)	$ 109

Item 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read in conjunction with the information in the unaudited condensed consolidated financial statements and notes thereto included herein and Westinghouse Air Brake Technologies Corporation s Financial Statements and Management s Discussion and Analysis of Financial Condition and Results of Operations included in its Annual Report on Form 10-K for the year ended December 31, 2012, filed with the Securities and Exchange Commission on February 22, 2013.

OVERVIEW

Wabtec is one of the world s largest providers of value-added, technology-based products and services for the global rail industry. Our products are found on virtually all U.S. locomotives, freight cars and passenger transit vehicles, as well as in more than 100 countries throughout the world. Our products enhance safety, improve productivity and reduce maintenance costs for customers, and many of our core products and services are essential in the safe and efficient operation of freight rail and passenger transit vehicles. Wabtec is a global company with operations in 19 countries. In the first six months of 2013, about 49% of the Company s revenues came from customers outside the U.S.

Management Review and Future Outlook

Wabtec s long-term financial goals are to generate cash flow in excess of net income, maintain a strong credit profile while minimizing our overall cost of capital, increase margins through strict attention to cost controls and implementation of the Wabtec Performance System, and increase revenues through a focused growth strategy, including global and market expansion, new products and technologies, aftermarket products and services, and acquisitions. In addition, management evaluates the Company s current operational performance through measures such as quality and on-time delivery.

The Company monitors a variety of factors and statistics to gauge activity in key freight rail and passenger transit markets such as North and South America, Europe and the United Kingdom, and Asia-Pacific. In these and other markets, the freight rail industry is largely driven by general economic conditions, which can cause fluctuations in rail traffic and the level of investment spending by railroads and governments to expand, upgrade, and modernize their networks. Based on those fluctuations, railroads and governments can increase or decrease purchases of new locomotives and freight cars, and spending on rail-related infrastructure. The passenger transit industry is driven mainly by the spending of government agencies and authorities as they maintain, expand and modernize their transit systems. In doing so, they will increase or decrease spending on new locomotives, transit/subway cars, buses and related infrastructure. Farebox revenues, the fees paid by riders to use public transit, also provide funding for maintaining and operating the systems. Many government entities at all levels are facing budget issues, which could have a negative effect on demand for the Company s products and services.

In North America, the AAR compiles freight rail industry statistics such as carloadings, generally referred to as rail traffic, and the Railway Supply Institute (RSI) releases data on freight car orders, deliveries, and backlog. Through July 13, 2013 carloadings in North America increased 1.3%, including a 0.4% decrease in general merchandise traffic and a 3.5% increase in intermodal traffic. The decrease in general merchandise traffic was mainly due to a 3.9% decrease in coal carloadings. According to the RSI, in the second quarter of 2013, the industry multi-year backlog of freight cars on order increased to about 74,000, the highest since the fourth quarter of 2007. In 2013, with some carbuilders already at capacity, we expect deliveries of new locomotives and new freight cars to be slightly lower than in 2012. Future demand depends largely on the strength in the overall economy and in rail traffic volumes.

The American Public Transportation Association (APTA) provides quarterly transit ridership statistics for the U.S. and Canada. In its most recent report, APTA said first quarter 2013 ridership decreased 1.9% in the U.S. and 2.6% in

Canada. In 2012, the U.S. Congress passed a new, two-year transportation funding bill, which maintained transit spending at about the same level, about $10.7 billion, as in prior years. Spending in 2013 is expected to remain at about the same level. The Company also expects deliveries of new subway cars and buses in 2013 to remain about the same as in 2012.

In 2008, the U.S. federal government enacted a rail safety bill that mandates the use of PTC technology, which includes on-board locomotive computer and related software, on a majority of the locomotives and track in the U.S. With our Electronic Train Management System®, we are the leading supplier of this on-board train control equipment, and we are working with the U.S. Class I railroads, commuter rail authorities and other industry suppliers to implement this technology by the December 31, 2015 deadline set in the rail safety bill. In 2012, the U.S. Congress discussed extending the deadline but did not do so. An extension of the deadline could affect the rate of industry spending on this technology. Wabtec s PTC revenue was about $109 million for the six months ended June 30, 2013.

Wabtec continues to expand its presence in freight rail and passenger transit markets outside the U.S., particularly in Europe, Asia-Pacific and South America. In Europe, the majority of the rail system serves the passenger transit market, which is larger than the transit market in the U.S. Our presence in the U.K., Germany and Italy has positioned the Company to take advantage of this market.

Asia-Pacific is a growth market and our various joint ventures and direct exports to China have positioned the Company to take advantage of this growth. Economic growth in Australia has been an area of expansion for the Company as commodity suppliers use our products to meet the demands of their regional customers. In Brazil, the Company is delivering on a PTC contract, has expanded locations and has completed two acquisitions, allowing us to increase our sales in that market.

Current conditions in these international markets vary based on general economic factors and specific freight rail and passenger transit drivers, as mentioned above. In its most recent quarterly data, the Office of Rail Regulation in the U.K. reported an increase in passenger ridership of 3.9% and a 0.9% increase in freight moved. In Germany, the government statistics bureau reported an increase of 0.7% for bus and rail ridership in 2012, and a decrease in rail freight transport of 2.4% for the same period. In France, SNCF, the country s largest rail system operator, announced a 5.3% increase in regional train ridership in 2012. Brazil s National Association of Rail Transport reported a 1.3% increase in freight rail traffic in 2012, and a 6.6% increase in spending on new infrastructure and equipment. In China, spending on rolling stock increased about 3% in 2012, and earlier this year the government established China Railway Corp. to manage its rail system. Russian Railways announced an increase of 6.1% in passenger ridership in the first quarter of 2013 compared to the year-ago quarter, and a decrease of 4.1% in freight tons loaded.

In 2013 and beyond, general economic and market conditions in our key markets could have an impact on our sales and operations. To the extent that these factors cause instability of capital markets, shortages of raw materials or component parts, longer sales cycles, deferral or delay of customer orders or an inability to market our products effectively, our business and results of operations could be materially adversely affected. In addition, we face risks associated with our four-point growth strategy including the level of investment that customers are willing to make in new technologies developed by the industry and the Company, and risks inherent in global expansion. When necessary, we will modify our financial and operating strategies to reflect changes in market conditions and risks.

RESULTS OF OPERATIONS

The following table shows our Consolidated Statements of Operations for the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
In millions	2013	2012	2013	2012
Net sales	$ 638.0	$ 609.8	$1,253.5	$1,193.1
Cost of sales	(445.1)	(436.4)	(877.7)	(850.3)
Gross profit	192.9	173.4	375.8	342.8
Selling, general and administrative expenses	(63.9)	(59.2)	(128.2)	(121.2)
Engineering expenses	(11.3)	(10.1)	(22.6)	(20.3)
Amortization expense	(5.1)	(3.2)	(8.8)	(6.3)
Total operating expenses	(80.3)	(72.5)	(159.6)	(147.8)
Income from operations	112.6	100.9	216.2	195.0
Interest expense, net	(3.3)	(3.5)	(6.9)	(7.2)
Other income (expense), net	0.4	0.2	(0.1)	0.1
Income from operations before income taxes	109.7	97.6	209.2	187.9
Income tax expense	(35.1)	(32.9)	(64.9)	(63.9)
Net income attributable to Wabtec shareholders	$ 74.6	$ 64.7	$ 144.3	$ 124.0

SECOND QUARTER 2013 COMPARED TO SECOND QUARTER 2012

The following table summarizes the results of operations for the period:

	Three months ended June 30,		
In thousands	2013	2012	Percent Change
Freight Segment	$ 354,857	$ 407,706	(13.0)%
Transit Segment	283,145	202,114	40.1 %
Net sales	638,002	609,820	4.6 %
Income from operations	112,554	100,865	11.6 %
Net income attributable to Wabtec shareholders	$ 74,638	$ 64,712	15.3 %

The following table shows the major components of the change in sales in the second quarter of 2013 from the second quarter of 2012:

In thousands	Freight Segment	Transit Segment	Total
Second Quarter 2012 Net Sales	$ 407,706	$ 202,114	$ 609,820
Acquisitions	14,980	34,000	48,980
Change in Sales by Product Line:			
Brake Products	(9,443)	19,670	10,227
Specialty Products & Electronics	(25,208)	1,782	(23,426)
Other Transit Products		(2,596)	(2,596)
Remanufacturing, Overhaul & Build	(29,671)	28,561	(1,110)
Other	(520)	361	(159)
Foreign Exchange	(2,987)	(747)	(3,734)
Second Quarter 2013 Net Sales	$ 354,857	$ 283,145	$ 638,002

Net sales increased by $28.2 million to $638.0 million from $609.8 million for the three months ended June 30, 2013 and 2012, respectively. The increase is due to sales from acquisitions of $49.0 million; and $10.2 million for Brake Products sales due to higher demand for original equipment brakes from certain transit contracts. These increases were partially offset by a $23.4 million decrease for Specialty Products and Electronics sales from lower demand for freight original equipment rail products; a $2.6 million decrease in Other Transit Products; and a $1.1 million decrease in Remanufacturing, Overhaul & Build from completion of certain freight locomotives contracts. Company net sales decreased $3.7 million and income from operations decreased $0.2 million due to unfavorable effects of foreign exchange. Net income for the three months ended June 30, 2013 was $74.6 million or $0.77 per diluted share. Net income for the three months ended June 30, 2012 was $64.7 million or $0.67 per diluted share. Net income increased due to higher sales volume and a decrease in the effective income tax rate discussed below.

Freight Segment sales decreased by $52.8 million, or 13.0%, due to a decrease of $29.7 million for freight original equipment locomotives as contract mix shifted to transit locomotives; $25.2 million decrease for Specialty Products and Electronics sales from lower demand for freight original equipment rail products; and $9.4 million from decreased demand for original equipment brake products. These decreases were partially offset by $15.0 million in sales from acquisitions. For the Freight Segment, net sales decreased by $3.0 million due to unfavorable effects of foreign exchange.

Transit Segment sales increased by $81.0 million, or 40.1%, due to $34.0 million from acquisitions; higher sales of $28.6 million for original equipment transit locomotives as contract mix shifted from freight locomotives; $19.7 million from increased demand for original equipment brakes; partially offset by a decrease of $2.6 million from certain transit car build contracts. For the Transit Segment, net sales decreased by $0.7 million due to unfavorable effects of foreign exchange.

Cost of Sales and Gross Profit. Cost of Sales increased by $8.7 million to $445.1 million in the second quarter of 2013 compared to $436.4 million in the same period of 2012. In the second quarter of 2013, cost of sales, as a percentage of sales was 69.8% compared to 71.6% in the same period of 2012.

Raw material costs decreased as a percentage of sales to approximately 42% in the second quarter of 2013 from approximately 45% in the same period of 2012. Labor costs increased as a percentage of sales to approximately 12% in the second quarter of 2013 from approximately 11% in the same period of 2012. Overhead costs as a percentage of sales were approximately 16% in the second quarter of 2013 and 2012. Freight Segment raw material costs decreased as a percentage of sales to approximately 41% in the second quarter of 2013 from 46% in the same period of 2012.

Freight Segment labor costs increased as a percentage of sales to approximately 11% in the second quarter of 2013 from approximately 10% in the same period of 2012, and overhead costs increased as a percentage of sales to approximately 15% in the second quarter of 2013 from approximately 14% in the same period of 2012. Transit Segment raw material costs increased as a percentage of sales to approximately 43% in the second quarter of 2013 from approximately 42% in the same period of 2012. Transit Segment labor costs decreased as a percentage of sales to approximately 13% in the second quarter of 2013 from approximately 14% in the same period of 2012, and overhead costs decreased as a percentage of sales to approximately 17% in the second quarter of 2013 from approximately 18% in the same period of 2012. Freight Segment material costs decreased as a percentage of sales and transit material costs increased as a percentage of sales due to a shift in contract mix for original equipment locomotives from freight in the second quarter of 2012 to transit in the second quarter of 2013. Freight Segment labor costs increased as a percentage of sales due to certain long term contracts, which carry higher labor costs on a percentage basis.

In general, raw material costs decreased as a percentage of sales reflecting the lower mix of revenue generated from freight original equipment sales, which has a higher raw material component as cost of sales. Overhead costs vary as a percentage of sales depending on product mix and changes in sales volume.

Included in cost of sales is warranty expense. The provision for warranty expense is generally established for specific losses, along with historical estimates of customer claims as a percentage of sales, which can cause variability in warranty expense between quarters. Warranty expense was $2.4 million higher in the second quarter of 2013 compared to the same period of 2012 due to increased sales and increased provision for certain transit contracts. As a percentage of sales, warranty expense was 1.4% for the second quarter of 2013 compared to 1.1% for the same period in the previous year.

Gross profit increased to $192.9 million in the second quarter of 2013 compared to $173.4 million in the same period of 2012, due to higher sales volume and the reasons discussed above. For the second quarter of 2013, gross profit, as a percentage of sales, was 30.2% compared to 28.4%, for the second quarter of 2012.

Operating expenses The following table shows our operating expenses:

	Three months ended June 30,		
In thousands	2013	2012	Percent Change
Selling, general and administrative expenses	$ 63,874	$ 59,163	8.0%
Engineering expenses	11,280	10,145	11.2%
Amortization expense	5,173	3,254	59.0%
Total operating expenses	$ 80,327	$ 72,562	10.7%

Selling, general, and administrative expenses increased $4.7 million in the second quarter of 2013 compared to the same period of 2012 primarily due to $6.5 million of expenses from acquisitions, partially offset by a release of $2.8 million of certain legal reserves for a court ruling. Engineering expense increased by $1.1 million in the second quarter of 2013 compared to the same period of 2012 due to $1.3 million of engineering expense from acquisitions. Costs related to engineering for specific customer contracts are included in cost of sales. Amortization expense increased in the second quarter of 2013 compared to the same period in 2012 due to amortization of intangibles associated with acquisitions. Total operating expenses were 12.6% of sales for the second quarter of 2013 compared to 11.9% for the same period in the previous year.

The following table shows our segment operating expense:

	Three months ended June 30,		
In thousands	2013	2012	Percent Change
Freight Segment	$ 39,066	$ 38,249	2.1 %
Transit Segment	39,321	29,827	31.8 %
Corporate	1,940	4,486	(56.8)%
Total operating expenses	$ 80,327	$ 72,562	10.7 %

Segment operating expenses consist of specific segment costs such as, sales and marketing, information technology, insurance, and audit and tax fees, allocated corporate costs, and other segment specific discrete charges. Corporate costs are allocated to the Freight and Transit Segments based on segment revenues. Certain corporate departmental expenses are not allocated.

Freight Segment operating expenses increased $0.8 million in the second quarter of 2013 compared to the same period of 2012 because of $0.9 million of incremental selling, general and administrative expense from acquisitions and $0.7 million of incremental engineering expense from acquisitions, partially offset by a $1.0 million decrease in allocated operating expenses. Freight Segment operating expenses were 10.8% and 9.2% of Freight Segment sales for the second quarter of 2013 and 2012, respectively.

Transit Segment operating expenses increased $9.5 million in the second quarter of 2013 compared to the same period of 2012 because of $5.6 million of incremental selling, general and administrative expense from acquisitions and $0.6 million of incremental engineering expense from acquisitions and higher amortization expense related to acquisitions. Allocated operating expenses increased $0.6 million. Transit Segment operating expenses were 13.8% and 14.5% of Transit Segment sales for the second quarter of 2013 and 2012, respectively.

Corporate non-allocated operating expenses decreased $2.5 million in the second quarter of 2013 compared to the same period of 2012 primarily due to a release of certain legal reserves for a court ruling.

Income from operations Income from operations totaled $112.6 million or 17.6% of sales in the second quarter of 2013 compared to $100.9 million or 16.5% of sales in the same period of 2012. Income from operations increased due to higher sales volume, partially offset by higher operating expenses discussed above.

Interest expense, net Overall interest expense, net, was comparable to the prior period.

Other income (expense), net The Company recorded foreign exchange losses of $1.0 million and gains of $0.6 million, in the second quarter of 2013 and 2012, respectively, due to the effect of currency exchange rate changes on intercompany transactions that are non U.S. dollar denominated and charged or credited to earnings.

Income taxes The effective income tax rate was 32.0% and 33.7% for the second quarter of 2013 and 2012, respectively. The decrease in the effective rate is primarily due to an increase in foreign income taxed at lower statutory rates.

Net income Net income for the second quarter of 2013 increased $9.9 million, compared with the same period of 2012. The increase in net income is due to higher sales volume and lower effective tax rate, partially offset by higher operating expenses discussed above.

FIRST SIX MONTHS OF 2013 COMPARED TO FIRST SIX MONTHS OF 2012

The following table summarizes the results of operations for the period:

	Six months ended June 30,		
	2013	2012	Percent Change
Freight Segment	$ 668,536	$ 804,994	(17.0)%
Transit Segment	584,976	388,135	50.7 %
Net sales	1,253,512	1,193,129	5.1 %
Income from operations	216,221	194,975	10.9 %
Net income attributable to Wabtec shareholders	$ 144,251	$ 123,973	16.4 %

The following table shows the major components of the change in sales in the first six months of 2013 from the first six months of 2012:

In thousands	Freight Segment	Transit Segment	Total
First Six Months of 2012 Net Sales	$ 804,994	$ 388,135	$1,193,129
Acquisitions	24,919	65,446	90,365
Change in Sales by Product Line:			
Brake Products	(16,064)	36,176	20,112
Specialty Products & Electronics	(79,172)	10,739	(68,433)
Other Transit Products		2,515	2,515
Remanufacturing, Overhaul & Build	(58,814)	81,927	23,113
Other	(1,057)	1,280	223
Foreign Exchange	(6,270)	(1,242)	(7,512)
First Six Months of 2013 Net Sales	$ 668,536	$ 584,976	$1,253,512

Net sales increased by $60.4 million to $1,253.5 million from $1,193.1 million for the six months ended June 30, 2013 and 2012, respectively. The increase is due to sales related to acquisitions of $90.4 million; higher Remanufacturing, Overhaul and Build sales of $23.1 million from increased demand for transit original equipment locomotives and aftermarket services for locomotives; higher Brake Products sales of $20.1 million due to higher demand for transit original equipment brakes; and an increase in Other Transit Products of $2.5 million. These increases were partially offset by a $68.4 million decrease for Specialty Products and Electronics sales from lower demand for freight original equipment rail products. Company net sales decreased $7.5 million and income from operations decreased $0.6 million due to unfavorable effects of foreign exchange. Net income for the six months ended June 30, 2013 was $144.3 million or $1.49 per diluted share. Net income for the six months ended June 30, 2012 was $124.0 million or $1.28 per diluted share. Net income increased due to higher sales volume and a decrease in the effective income tax rate discussed below.

Freight Segment sales decreased by $136.5 million, or 17.0%, due to a decrease of $79.2 million for Specialty Products and Electronics sales from lower demand for freight original equipment rail products; $58.8 million decrease for freight original equipment locomotives as contract mix shifted to transit locomotives; and $16.1 million from decreased demand for original equipment brake products. These decreases were partially offset by $24.9 million in sales from acquisitions. For the Freight Segment, net sales decreased by $6.3 million due to unfavorable effects of foreign exchange.

Transit Segment sales increased by $196.8 million, or 50.7%, due to higher sales of $81.9 million for original equipment transit locomotives as contract mix shifted from freight locomotives; $65.4 million from acquisitions; $36.2 million from increased demand for original equipment brakes; $10.7 million from increased demand for positive train control electronics; and a increase of $2.5 million from certain transit car build contracts. For the Transit Segment, net sales decreased by $1.2 million due to unfavorable effects of foreign exchange.

Cost of Sales and Gross Profit Cost of Sales increased by $27.4 million to $877.7 million in the first six months of 2013 compared to $850.3 million in the same period of 2012. In the first six months of 2013, cost of sales, as a percentage of sales was 70.0% compared to 71.3% in the same period of 2012.

Raw material costs decreased as a percentage of sales to approximately 42% in the first six months of 2013 from approximately 44% in the same period of 2012. Labor costs increased as a percentage of sales to approximately 12% in the first six months of 2013 from approximately 11% in the same period of 2012. Overhead costs as a percentage of sales were approximately 16% in the first six months of 2013 and 2012. Freight Segment raw material costs decreased as a percentage of sales to approximately 41% in the first six months of 2013 from approximately 45% in the same period of 2012. Freight Segment labor costs increased as a percentage of sales to approximately 11% in the first six months of 2013 from approximately 10% in the same period of 2012, and overhead costs as a percentage of sales were approximately 15% in the first six months of 2013 and 2012. Transit Segment raw material costs increased as a percentage of sales to approximately 44% in the first six months of 2013 from 42% in the same period of 2012. Transit Segment labor costs as a percentage of sales were approximately 13% in the first six months of 2013 and 2012, and overhead costs decreased as a percentage of sales to approximately 17% in the first six months of 2013 from 18% in the same period of 2012. Freight Segment material costs decreased as a percentage of sales and transit material costs increased as a percentage of sales due to a shift in contract mix for original equipment locomotives from freight in the second quarter of 2012 to transit in the second quarter of 2013. Freight Segment labor costs increased as a percentage of sales due to certain long term contracts, which carry higher labor costs on a percentage basis.

In general, raw material costs decreased as a percentage of sales reflecting the lower mix of revenue generated from freight original equipment sales, which has a higher raw material component as cost of sales. Overhead costs vary as a percentage of sales depending on product mix and changes in sales volume.

In addition, included in cost of sales is warranty expense. The provision for warranty expense is generally established for specific losses, along with historical estimates of customer claims as a percentage of sales, which can cause variability in warranty expense between quarters. Warranty expense for the first six month of 2013 was $0.9 million higher compared to the same period of 2012, due to increased sales. As a percentage of sales, warranty expense was 1.1% for the first six months of 2013 and 2012.

Gross profit increased to $375.8 million in the first six months of 2013 compared to $342.8 million in the same period of 2012, for the reasons discussed above. Accordingly, for the first six months of 2013, gross profit, as a percentage of sales, was 30.0% compared to 28.7%, for the first six months of 2012.

Operating expenses The following table shows our operating expenses:

	Six months ended June 30,		
In thousands	2013	2012	Percent Change

Selling, general and administrative expenses	$ 128,174	$ 121,192	5.8%
Engineering expenses	22,614	20,294	11.4%
Amortization expense	8,760	6,347	38.0%
Total operating expenses	$ 159,548	$ 147,833	7.9%

Selling, general, and administrative expenses increased $7.0 million in the first six months of 2013 compared to the same period of 2012 primarily due to $12.7 million of expenses from acquisitions, partially offset by a release of $3.9 million of certain legal reserves for a court ruling and a decrease of $2.0 million for incentive and non-cash compensation. Engineering expense increased by $2.3 million in the first six months of 2013 compared to the same period of 2012 due to engineering expense from acquisitions. Costs related to engineering for specific customer contracts are included in cost of sales. Amortization expense increased in the first six months of 2013 compared to the same period in 2012 due to amortization of intangibles associated with acquisitions. Total operating expenses were 12.7% and 12.4% of sales for the first six months of 2013 and 2012, respectively.

The following table shows our segment operating expense:

	Six months ended June 30,		
In thousands	2013	2012	Percent Change
Freight Segment	$ 76,051	$ 81,040	(6.2)%
Transit Segment	76,808	58,187	32.0 %
Corporate	6,689	8,606	(22.3)%
Total operating expenses	$ 159,548	$ 147,833	7.9 %

Segment operating expenses consist of specific segment costs such as, sales and marketing, information technology, insurance, and audit and tax fees, allocated corporate costs, and other segment specific discrete charges. Corporate costs are allocated to the Freight and Transit Segments based on segment revenues. Certain corporate departmental expenses are not allocated. Allocated operating expenses decreased $3.4 million for the first six months of 2013 compared to the same period of the prior year, primarily due to a decrease of incentive and non-cash compensation and a decrease in allocated legal expenses.

Freight Segment operating expenses decreased $5.0 million in the first six months of 2013 compared to the same period of 2012 because of a decrease of $4.3 million in allocated operating expenses and a $1.4 million decrease in other segment specific discrete charges. Freight Segment operating expenses were 11.1% and 9.9% of Freight Segment sales for the first six months of 2013 and 2012, respectively.

Transit Segment operating expenses increased $18.6 million in the first six months of 2013 compared to the same period of 2012 because of $11.1 million of incremental selling, general and administrative expense from acquisitions and $1.1 million of incremental engineering expense from acquisitions, higher amortization expense related to acquisitions, and $0.9 million increase in allocated operating expenses. In addition, operating expenses increased to support the higher sales volume. Transit Segment operating expenses were 13.1% and 14.8% of Transit Segment sales for the first six months of 2013 and 2012, respectively.

Corporate non-allocated operating expenses decreased $1.9 million in the first six months of 2013 compared to the same period of 2012 primarily due to a release of $2.8 million of certain legal reserves for a court ruling, partially offset by an increase in certain non-allocated administrative expenses.

Income from operations Income from operations totaled $216.2 million or 17.2% of sales in the first six months of 2013 compared to $195.0 million or 16.3% of sales in the same period of 2012. Income from operations increased due to higher sales volume, partially offset by higher operating expenses discussed above.

Interest expense, net Overall interest expense, net, was comparable to the prior period.

Other income (expense), net The Company recorded foreign exchange losses of $1.9 million in the first six months of 2013 and foreign exchange gain of $1.0 million in the first six months of 2012 due to the effect of currency exchange rate changes on intercompany transactions that are non U.S. dollar denominated and charged or credited to earnings.

Income taxes The effective income tax rate was 31.0% and 34.0% for the first six months of 2013 and 2012, respectively. The decrease in the effective rate is due to retroactive extension of the R&D tax credit and an increase in foreign income taxed at a lower statutory rates.

Net income Net income for the first six months of 2013 increased $20.3 million, compared with the same period of 2012. The increase in net income is due to higher sales volume and lower effective tax rate, partially offset by higher operating expenses discussed above.

Liquidity and Capital Resources

Liquidity is provided primarily by operating cash flow and borrowings under the Company s unsecured credit facility with a consortium of commercial banks. The following is a summary of selected cash flow information and other relevant data:

	Three months ended June 30,	
In thousands	2013	2012
Cash provided by (used for):		
Operating activities	$ 45,096	$ 30,536
Investing activities	(123,847)	(104,738)
Financing activities	81,071	24,648
Decrease in cash	$ (1,261)	$ (51,510)

Operating activities In the first six months of 2013 and 2012, cash provided by operations was $45.1 million and $30.5 million, respectively. In comparison to the first six months of 2012, cash provided by operations in 2013 resulted from higher operating results and lower cash outflows for working capital. The major components of the lower cash outflows were as follows: a favorable change or decrease of $35.4 million in inventory, as our days supply of inventory (DSI) decreased to 67 days from 72 days during the first six months of 2013 due to the completion of certain original equipment contracts; a favorable change in accounts payable of $23.5 million due to payment timing; a negative change in accounts receivable of $16.1 million as the number of days to collect cash remained relatively stable and sales increased; a $15.8 million payment in the second quarter of 2013 for a court ruling; and an increase in income taxes paid of $10.1 million due to increased pre-tax income.

Investing activities In the first six months of 2013 and 2012, cash used in investing activities was $123.8 million and $104.7 million, respectively. The major components of the cash outflow are as follows: planned additions to property, plant and equipment of $14.6 million for continued investments in our facilities and manufacturing processes and acquisitions of $115.1 million. This compares to $16.5 million in property, plant, and equipment and $88.4 million in net cash paid for acquisitions in 2012. Refer to Note 3 of the Notes to Condensed Consolidated Financial Statements for additional information on acquisitions.

Financing activities In the first six months of 2013, cash provided by financing activities was $81.1 million, which included $244.8 million in proceeds from debt and $165.7 million of repayments of debt on the revolving credit facility and $4.8 million of dividend payments. In the first six months of 2012, cash provided by financing activities was $24.7 million, which included $172.4 million in proceeds from debt and $125.4 million of repayments of debt on the revolving credit facility and $2.9 million of dividend payments and $21.9 million for the repurchase of 298,800 shares of stock.

The following table shows outstanding indebtedness at June 30, 2013 and December 31, 2012.

In thousands	June 30, 2013	December 31, 2012
6.875% Senior Notes, due 2013	$ 150,000	$ 150,000
Revolving Credit Facility	246,400	167,000
Capital Leases	558	896
Total	396,958	317,896
Less current portion	43	43
Long-term portion	$ 396,915	$ 317,853

Cash balance at June 30, 2013 and December 31, 2012 was $214.5 million and $215.8 million, respectively.

2011 Refinancing Credit Agreement

On November 7, 2011, the Company refinanced its existing revolving credit and term loan facility with a consortium of commercial banks. This 2011 Refinancing Credit Agreement provides the company with a $600 million, five-year revolving credit facility. The Company incurred approximately $1.9 million of deferred financing cost related to the 2011 Refinancing Credit Agreement. The facility expires on November 7, 2016.

Refer to Note 6 of the Notes to Condensed Consolidated Financial Statements for additional information regarding the 2011 Refinancing Credit Agreement.

6.875% Senior Notes Due July 31 2013

In August 2003, the Company issued $150.0 million of Senior Notes due in 2013 (the Notes). The Notes were issued at par. Interest on the Notes accrues at a rate of 6.875% per annum and is payable semi-annually on January 31 and July 31 of each year. The proceeds were used to repay debt outstanding under the Company s existing credit agreement, and for general corporate purposes. The principal balance is due in full at maturity. The Company has both the intent and ability to refinance the Notes, maturing July 31, 2013, on a long term basis utilizing available capacity under the 2011 Refinancing Credit Agreement. The 2011 Refinancing Credit Agreement will provide available bank borrowing capacity sufficient to refinance the Notes on a long-term basis. In addition, the 2011 Refinancing Credit Agreement has provisions for increasing available capacity. The Notes are included in the long-term portion of debt as of June 30, 2013. The Company is in compliance with the restrictions and covenants in the indenture under which the Notes were issued and expects that these restrictions and covenants will not be any type of limiting factor in executing our operating activities.

Management believes that based on current levels of operations and forecasted earnings, cash flow and liquidity will be sufficient to fund working capital and capital equipment needs as well as meeting debt service requirements. If sources of funds were to fail to satisfy the Company s cash requirements, the Company may need to refinance our existing debt or obtain additional financing. There is no assurance that such new financing alternatives would be available, and, in any case, such new financing, if available, may be more costly and burdensome than the debt agreements currently in place.

Company Stock Repurchase Plan

On May 11, 2011, the Board of Directors increased its stock repurchase authorization to $150 million of the Company s outstanding shares. Through June 30, 2013, repurchases are $72.6 million, leaving $77.4 million under the authorization. This share repurchase authorization supersedes the previous authorization of $150 million of which $39.4 million was remaining.

The Company intends to purchase shares on the open market or in negotiated or block trades. No time limit was set for the completion of the programs which conforms to the requirements under the 2011 Refinancing Credit Agreement, as well as the Notes currently outstanding.

During the first six months of 2013, the Company did not repurchase any shares. During 2012, the Company repurchased 1,214,800 shares of its stock at an average price of $38.33 per share. All purchases were on the open market.

Capital Structure

On May 14, 2013, our stockholders approved an amendment to our Amended and Restated Certificate of Incorporation to increase the number of authorized shares of our common stock to 200.0 million shares. In addition, on May 14, 2013, our Board of Directors approved a two-for-one split of the Company s issued and outstanding common stock in the form of a 100% stock dividend. The increase in the authorized shares and the stock split became effective on May 14, 2013 and June 11, 2013, respectively.

The Company issued approximately 66.2 million shares of its common stock as a result of the two-for-one stock split. The par value of the Company s common stock remained unchanged at $0.01 per share.

Information regarding shares of common stock (except par value per share), retained earnings, and net income per common share attributable to Wabtec shareholders for all periods presented reflects the two-for-one split of the Company s common stock. The number of shares of the Company s common stock issuable upon exercise of outstanding stock options and vesting of other stock-based awards was proportionally increased, and the exercise price per share thereof was proportionally decreased, in accordance with the terms of the stock incentive plans.

Contractual Obligations and Off-Balance Sheet Arrangements

As of June 30, 2013, the Company has recognized a total liability of $10.7 million for unrecognized tax benefits related to uncertain tax positions. At this time, the Company is unable to make a reasonably reliable estimate of the timing of cash settlement for any of the unrecognized tax benefits due to the uncertainty of the timing and outcome of its audits and other factors.

Since December 31, 2012, there have been no other significant changes in the total amount of the Company s contractual obligations or the timing of cash flows in accordance with those obligations, as reported in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

Forward Looking Statements

We believe that all statements other than statements of historical facts included in this report, including certain statements under Business and Management s Discussion and Analysis of Financial Condition and Results of Operations, may constitute forward-looking statements. We have based these forward-looking statements on our current expectations and projections about future events. Although we believe that our assumptions made in connection with the forward-looking statements are reasonable, we cannot assure that our assumptions and expectations are correct.

These forward-looking statements are subject to various risks, uncertainties and assumptions about us, including, among other things:

Economic and industry conditions

- prolonged unfavorable economic and industry conditions in the markets served by us, including North America, South America, Europe, Australia, Asia and South Africa;

- decline in demand for freight cars, locomotives, passenger transit cars, buses, power generation equipment and related products and services;

- reliance on major original equipment manufacturer customers;

- original equipment manufacturers program delays;

- demand for services in the freight and passenger rail industry;
- demand for our products and services;
- orders either being delayed, cancelled, not returning to historical levels, or reduced or any combination of the foregoing;
- consolidations in the rail industry;
- continued outsourcing by our customers; industry demand for faster and more efficient braking equipment;
- fluctuations in interest rates and foreign currency exchange rates; or
- availability of credit;

Operating factors

- supply disruptions;
- technical difficulties;
- changes in operating conditions and costs;
- increases in raw material costs;
- successful introduction of new products;
- performance under material long-term contracts;
- labor relations;
- completion and integration of acquisitions; or

· the development and use of new technology;

Competitive factors

· the actions of competitors;

Political/governmental factors

· political stability in relevant areas of the world;

· future regulation/deregulation of our customers and/or the rail industry;

· levels of governmental funding on transit projects, including for some of our customers;

· political developments and laws and regulations, including those related to Positive Train Control;

· federal and state income tax legislation; or

· the outcome of our existing or any future legal proceedings, including litigation involving our principal customers and any litigation with respect to environmental, asbestos-related matters and pension liabilities; and

Transaction or commercial factors

· the outcome of negotiations with partners, governments, suppliers, customers or others.

Statements in this 10-Q apply only as of the date on which such statements are made, and we undertake no obligation to update any statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events. Reference is also made to the risk factors set forth in the Company s Annual Report on Form 10-K for the year ended December 31, 2012.

Critical Accounting Policies

A summary of critical accounting policies is included in the Company s Annual Report on Form 10-K for the year ended December 31, 2012. In particular, judgment is used in areas such as accounts receivable and the allowance for doubtful accounts, inventories, goodwill and indefinite-lived intangibles, warranty reserves, pensions and postretirement benefits, income taxes and revenue recognition. There have been no significant changes in accounting policies since December 31, 2012.

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Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

In the ordinary course of business, Wabtec is exposed to risks that increases in interest rates may adversely affect funding costs associated with its variable-rate debt. The Company s variable rate debt represents 62% and 53% of total long-term debt at June 30, 2013 and December 31, 2012, respectively. On an annual basis a 1% change in the interest rate for variable rate debt at June 30, 2013 would increase or decrease interest expense by about $2.5 million. To reduce the impact of interest rate changes on a portion of this variable-rate debt, the Company entered into forward interest rate swap agreements which will effectively convert a portion of the debt from variable to fixed-rate borrowings during the term of the swap contracts. Refer to Financial Derivatives and Hedging Activities in Note 2 of Notes to Condensed Consolidated Financial Statements for additional information regarding interest rate risk.

Foreign Currency Exchange Risk

The Company is subject to certain risks associated with changes in foreign currency exchange rates to the extent our operations are conducted in currencies other than the U.S. dollar. For the first six months of 2013, approximately 51% of Wabtec s net sales were to customers in the United States, 11% in the United Kingdom, 8% in Canada, 6% in Australia, 4% in Mexico, 3% in Brazil, 2% in Germany and 15% in other international locations. To reduce the impact of changes in currency exchange rates, the Company has periodically entered into foreign currency forward contracts. Refer to Financial Derivatives and Hedging Activities in Note 2 of Notes to Condensed Consolidated Financial Statements for more information regarding foreign currency exchange risk.

Item 4. CONTROLS AND PROCEDURES

Wabtec s principal executive officer and its principal financial officer have evaluated the effectiveness of Wabtec s disclosure controls and procedures, (as defined in Exchange Act Rule 13a-15(e)) as of June 30, 2013. Based upon their evaluation, the principal executive officer and principal financial officer concluded that Wabtec s disclosure controls and procedures are effective to provide reasonable assurance that information required to be disclosed by Wabtec in the reports filed or submitted by it under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC s rules and forms, and to provide reasonable assurance that information required to be disclosed by Wabtec in such reports is accumulated and communicated to Wabtec s Management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

There was no change in Wabtec s internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) that occurred during the quarter ended June 30, 2013, that has materially affected, or is reasonably likely to materially affect, Wabtec s internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

There have been no material changes regarding the Company s commitments and contingencies as described in Note 18 of the Company s Annual Report on Form 10-K for the year ended December 31, 2012, except as regarding the disclosure related to the claim by Faiveley Transport USA. The Faiveley plaintiffs agreed to reduce the damage award to $15.0 million, plus interest, in lieu of a new trial on damages. In accordance with the decision entered by the appellate court, Wabtec paid the Faiveley plaintiffs a total of approximately $15.8 million, and the case is closed.

Item 1A. RISK FACTORS

There have been no material changes in our risk factors from those disclosed in our Annual Report on Form 10-K for the year ended December 31, 2012.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

On May 11, 2011, the Board of Directors increased its stock repurchase authorization to $150 million of the Company s outstanding shares. Through June 30, 2013 repurchases are $72.6 million, leaving $77.4 million under the authorization. This share repurchase authorization supersedes the previous authorization of $150 million, of which $39.4 million was remaining.

The Company intends to purchase shares on the open market or in negotiated or block trades. No time limit was set for the completion of the programs which conforms to the requirements under the 2011 Refinancing Credit Agreement, as well as the Notes currently outstanding.

During the first six months of 2013, the Company did not repurchase any shares of its stock.

Item 4. MINE SAFETY DISCLOSURES

Not Applicable

Item 6. EXHIBITS

The following exhibits are being filed with this report:

31.1	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certification of Chief Executive Officer and Chief Financial Officer.
101.INS*	XBRL Instance Document.
101.SCH*	XBRL Taxonomy Extension Schema Document.
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.

* Users of this data are advised pursuant to Rule 406T of Regulation S-T that this interactive data file is deemed not filed or part of a registration statement or prospectus for purposes of sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of section 18 of the Securities and Exchange Act of 1934, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

WESTINGHOUSE AIR BRAKE TECHNOLOGIES CORPORATION

By: /s/ ALVARO GARCIA-TUNON

Alvaro Garcia-Tunon,
Executive Vice President,

Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)

DATE: July 26, 2013

EXHIBIT INDEX

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