INTERNATIONAL PAPER CO /NEW/
Form 10-Q
November 05, 2010
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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, 2010

¨ **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 1-3157

INTERNATIONAL PAPER COMPANY

(Exact name of registrant as specified in its charter)

New York	**13-0872805**
(State or other jurisdiction of incorporation of organization)	**(I.R.S. Employer Identification No.)**
6400 Poplar Avenue, Memphis, TN	**38197**
(Address of principal executive offices)	**(Zip Code)**

Registrant s telephone number, including area code: (901) 419-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant 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 (paragraph 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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 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	¨
Non-accelerated filer	¨	Smaller company	¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The number of shares outstanding of the registrant s common stock as of November 1, 2010 was 437,456,223.

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* Omitted since no answer is called for, answer is in the negative or inapplicable.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

INTERNATIONAL PAPER COMPANY

Consolidated Statement of Operations

(Unaudited)

(In millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	**2009**	**2010**	**2009**
Net Sales	**$ 6,720**	$ 5,919	**$ 18,648**	$ 17,389
Costs and Expenses				
Cost of products sold (Note 5)	**4,758**	3,758	**13,712**	11,270
Selling and administrative expenses	**504**	527	**1,397**	1,535
Depreciation, amortization and cost of timber harvested	**362**	378	**1,096**	1,088
Distribution expenses	**339**	299	**986**	857
Taxes other than payroll and income taxes	**58**	48	**150**	145
Restructuring and other charges	**0**	151	**359**	313
Net (gains) losses on sales and impairments of businesses	**0**	0	**0**	48
Interest expense, net	**152**	169	**458**	506
Earnings (Loss) From Continuing Operations Before Income Taxes and Equity Earnings	**547**	589	**490**	1,627
Income tax provision (benefit)	**170**	212	**171**	790
Equity earnings (losses), net of taxes	**22**	0	**27**	(59)
Net Earnings (Loss)	**399**	377	**346**	778
Less: Net earnings (loss) attributable to noncontrolling interests	**2**	6	**18**	14
Net Earnings (Loss) Attributable to International Paper Company	**$ 397**	$ 371	**$ 328**	$ 764
Basic Earnings (Loss) Per Share Attributable to International Paper Company Common Shareholders	**$ 0.92**	$ 0.87	**$ 0.76**	$ 1.80
Diluted Earnings (Loss) Per Share Attributable to International Paper Company Common Shareholders	**$ 0.91**	$ 0.87	**$ 0.76**	$ 1.79
Average Shares of Common Stock Outstanding assuming dilution	**433.8**	428.7	**433.8**	426.6
Cash Dividends Per Common Share	**$ 0.125**	$ 0.025	**$ 0.275**	$ 0.300

The accompanying notes are an integral part of these consolidated financial statements.

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INTERNATIONAL PAPER COMPANY

Consolidated Balance Sheet

(In millions, except per share amounts)

	September 30, 2010 (unaudited)	December 31, 2009
Assets		
Current Assets		
Cash and temporary investments	**$ 1,429**	$ 1,892
Accounts and notes receivable, net	**3,310**	2,695
Inventories	**2,336**	2,179
Deferred income tax assets	**330**	368
Other current assets	**403**	417
Total Current Assets	**7,808**	7,551
Plants, Properties and Equipment, net	**12,030**	12,688
Forestlands	**730**	757
Investments	**1,065**	1,077
Goodwill	**2,285**	2,290
Deferred Charges and Other Assets	**1,171**	1,185
Total Assets	**$ 25,089**	$ 25,548
Liabilities and Equity		
Current Liabilities		
Notes payable and current maturities of long-term debt	**$ 312**	$ 304
Accounts payable	**2,556**	2,058
Accrued payroll and benefits	**431**	473
Other accrued liabilities	**1,219**	1,177
Total Current Liabilities	**4,518**	4,012
Long-Term Debt	**8,428**	8,729
Deferred Income Taxes	**2,759**	2,425
Pension Benefit Obligation	**1,607**	2,765
Postretirement and Postemployment Benefit Obligation	**517**	538
Other Liabilities	**622**	824
Equity		
Common stock, $1 par value, 2010 438.5 shares and 2009 437.0 shares	**438**	437
Paid-in capital	**5,798**	5,803
Retained earnings	**2,154**	1,949
Accumulated other comprehensive loss	**(1,975)**	(2,077)
	6,415	6,112
Less: Common stock held in treasury, at cost, 2010 1.2 shares and 2009 3.9 shares	**27**	89
Total Shareholders Equity	**6,388**	6,023

Noncontrolling interests		**250**		232
Total Equity		**6,638**		6,255
Total Liabilities and Equity	**$**	**25,089**	$	25,548

The accompanying notes are an integral part of these consolidated financial statements.

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INTERNATIONAL PAPER COMPANY

Consolidated Statement of Cash Flows

(Unaudited)

(In millions)

	Nine Months Ended September 30,	
	2010	**2009**
Operating Activities		
Net earnings (loss)	**$ 346**	$ 778
Depreciation, amortization and cost of timber harvested	**1,096**	1,088
Cost of timberlands sold	**143**	0
Deferred income tax provision (benefit), net	**397**	585
Restructuring and other charges	**359**	313
Payments related to restructuring and legal reserves	**(2)**	(35)
Pension plan contribution	**(1,150)**	0
Net (gains) losses on sales and impairments of businesses	**0**	48
Equity (earnings) losses, net	**(27)**	59
Periodic pension expense, net	**174**	160
Alternative fuel mixture credits receivable	**0**	(251)
Other, net	**(57)**	140
Changes in current assets and liabilities		
Accounts and notes receivable	**(555)**	466
Inventories	**(181)**	262
Accounts payable and accrued liabilities	**126**	(38)
Interest payable	**49**	21
Other	**(131)**	(26)
Cash Provided by (Used for) Operations	**587**	3,570
Investment Activities		
Invested in capital projects	**(457)**	(367)
Acquisitions, net of cash acquired	**(152)**	(17)
Other	**(2)**	(59)
Cash Provided by (Used for) Investment Activities	**(611)**	(443)
Financing Activities		
Repurchases of common stock and payments of restricted stock tax withholding	**(26)**	(10)
Issuance of debt	**177**	2,490
Reduction of debt	**(505)**	(4,911)
Change in book overdrafts	**80**	(5)
Dividends paid	**(120)**	(129)
Other	**(24)**	(113)
Cash Provided by (Used for) Financing Activities	**(418)**	(2,678)

Effect of Exchange Rate Changes on Cash	**(21)**	59
Change in Cash and Temporary Investments	**(463)**	508
Cash and Temporary Investments		
Beginning of period	**1,892**	1,144
End of period	**$ 1,429**	$ 1,652

The accompanying notes are an integral part of these consolidated financial statements.

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INTERNATIONAL PAPER COMPANY

Condensed Notes to Consolidated Financial Statements

(Unaudited)

NOTE 1 BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States and in accordance with the instructions to Form 10-Q and, in the opinion of Management, include all adjustments that are necessary for the fair presentation of International Paper Company s (International Paper or the Company) financial position, results of operations, and cash flows for the interim periods presented. Except as disclosed herein, such adjustments are of a normal, recurring nature. Results for the first nine months of the year may not necessarily be indicative of full year results. It is suggested that these consolidated financial statements be read in conjunction with the audited financial statements and the notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009, as amended, (Form 10-K) which have previously been filed with the Securities and Exchange Commission.

International Paper accounts for its investment in Ilim Holding S.A. (Ilim), a separate reportable industry segment, using the equity method of accounting. Due to the complex organizational structure of Ilim s operations, and the extended time required to prepare consolidated financial information in accordance with accounting principles generally accepted in the United States, the Company reports its share of Ilim s operating results on a one-quarter lag basis.

NOTE 2 RECENT ACCOUNTING DEVELOPMENTS

Accounting For Distributions to Shareholders:

In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2010-01, Accounting for Distributions to Shareholders with Components of Stock and Cash, which clarifies that the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a potential limitation on the total amount of cash that all shareholders can elect to receive in the aggregate is considered a share issuance that is reflected in earnings per share prospectively and is not a stock dividend for purposes of applying Accounting Standards Codification (ASC) 505, Equity, and ASC 260, Earnings Per Share. This guidance was effective for interim and annual periods ending on or after December 15, 2009 (calendar year 2009), and should be applied on a retrospective basis. The application of the requirements of this guidance had no effect on the accompanying consolidated financial statements.

Accounting for Decreases in Ownership of a Subsidiary:

In January 2010, the FASB issued ASU 2010-02, Accounting and Reporting for Decreases in Ownership of a Subsidiary, which clarifies the scope of the guidance for the decrease in ownership of a subsidiary in ASC 810, Consolidations, and expands the disclosures required for the deconsolidation of a subsidiary or derecognition of a group of assets. This guidance was effective on a retrospective basis to January 1, 2009. The application of the requirements of this guidance had no effect on the accompanying consolidated financial statements.

Revenue Arrangements with Multiple Deliverables:

In September 2009, the FASB issued ASU 2009-13, Multiple-Deliverable Revenue Arrangements, which amends the multiple-element arrangement guidance under ASC 605, Revenue Recognition. This guidance amends the criteria for separating consideration for products or services in multiple-deliverable arrangements. This guidance establishes a selling price hierarchy for determining the selling price of a deliverable, eliminates the residual method of allocation, and requires that arrangement consideration be

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INTERNATIONAL PAPER COMPANY

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

allocated at the inception of the arrangement to all deliverables using the relative selling price method. In addition, this guidance significantly expands required disclosures related to a vendor s multiple-deliverable revenue arrangements. This guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010 (calendar year 2011). The Company is currently evaluating the provisions of this guidance but does not anticipate that it will have a material effect on its consolidated financial statements.

Variable Interest Entities:

In June 2009, the FASB issued ASU 2009-17, Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities, which amends the consolidation guidance that applies to variable interest entities under ASC 810, Consolidations. This guidance changes how a company determines when an entity that is insufficiently capitalized or is not controlled through voting (or similar rights) should be consolidated. This guidance was effective for financial statements issued in fiscal years (and interim periods) beginning after November 15, 2009 (calendar year 2010). The Company adopted this guidance on January 1, 2010 and it did not have an effect on the accompanying consolidated financial statements.

Transfers of Financial Assets:

In June 2009, the FASB issued ASU 2009-16, Accounting for Transfers of Financial Assets, which amends the derecognition guidance in ASC 860, Transfers and Servicing. This guidance eliminates the concept of qualifying special-purpose entities, changes the requirements for derecognizing financial assets and requires additional disclosures. This guidance was effective for financial asset transfers occurring after the beginning of an entity s first fiscal year beginning after November 15, 2009 (calendar year 2010). The Company adopted this guidance on January 1, 2010 and it did not have an effect on the accompanying consolidated financial statements.

Subsequent Events:

In May 2009, the FASB issued ASC 855, Subsequent Events, which establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This guidance is effective prospectively for interim and annual periods ending after June 15, 2009. In February 2010, the FASB issued ASU 2010-09, which amends ASC 855 to address certain implementation issues related to performing and disclosing subsequent events procedures. The Company included the requirements of this guidance in the preparation of the accompanying consolidated financial statements.

Other-Than-Temporary Impairment for Debt Securities:

In April 2009, the FASB issued new guidance under ASC 320, Investments Debt and Equity Securities, which provides a new other-than-temporary impairment model for debt securities. This guidance was effective for financial statements issued for fiscal years (and interim periods) ending after June 15, 2009. The application of the requirements of this guidance did not have a material effect on the accompanying consolidated financial statements.

Fair Value Measurements:

In April 2009, the FASB issued guidance under ASC 820, Fair Value Measurements and Disclosures, which provides guidance on estimating the fair value of an asset or liability (financial or nonfinancial) when the volume and level of activity for the asset or liability have significantly decreased and on identifying transactions that are not orderly. The application of the requirements of this guidance did not have a material effect on the accompanying consolidated financial statements.

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INTERNATIONAL PAPER COMPANY

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

In August 2009, the FASB issued ASU 2009-05, Measuring Liabilities at Fair Value, which further amends ASC 820 by providing clarification for circumstances in which a quoted price in an active market for the identical liability is not available. The Company included the disclosures required by this guidance in the accompanying consolidated financial statements.

In January 2010, the FASB issued ASU 2010-06, which further amends ASC 820 to add new disclosures about transfers into and out of Levels 1 and 2 and separate disclosures about purchases, sales, issuances, and settlements relating to Level 3 measurements. This new guidance also clarifies the level of disaggregation, inputs and valuation techniques used to measure fair value and amends guidance under ASC 715 related to employers disclosures about postretirement benefit plan assets to require that disclosures be provided by classes of assets instead of by major categories of assets. This guidance was effective for the first reporting period (including interim periods) beginning after December 15, 2009, except for the requirement to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which will be effective for fiscal years beginning after December 15, 2010, and for interim periods within those fiscal years. The Company included the disclosures required by this guidance in the accompanying consolidated financial statements. The Company does not anticipate that the adoption of the remaining requirements of this guidance will have a material effect on its consolidated financial statements.

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INTERNATIONAL PAPER COMPANY

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 3 EQUITY

A summary of the changes in equity for the nine months ended September 30, 2010 and 2009 is provided below:

	Nine Months Ended September 30,					
	2010			2009		
In millions, except per share amounts	Total International Paper Shareholders Equity	Noncontrolling Interests	Total Equity	Total International Paper Shareholders Equity	Noncontrolling Interests	Total Equity
Balance, January 1	**$ 6,023**	**$ 232**	**$ 6,255**	$ 4,169	$ 232	$ 4,401
Issuance of stock for various plans, net	**96**	**0**	**96**	91	0	91
Repurchase of stock	**(26)**	**0**	**(26)**	(10)	0	(10)
Common stock dividends ($0.275 per share in 2010 and $0.30 per share in 2009)	**(122)**	**0**	**(122)**	(133)	0	(133)
Dividends paid to noncontrolling interests by subsidiary	**0**	**(4)**	**(4)**	0	(6)	(6)
Noncontrolling interests of acquired entities	**0**	**9**	**9**	0	(1)	(1)
Acquisition of noncontrolling interests	**(12)**	**(7)**	**(19)**	0	0	0
Comprehensive income (loss):						
Net earnings (loss)	**328**	**18**	**346**	764	14	778
Amortization of pension and post-retirement prior service costs and net loss:						
U.S. plans	**85**	**0**	**85**	82	0	82
Non-U.S. plans	**(3)**	**0**	**(3)**	7	0	7
Change in cumulative foreign currency translation adjustment	**29**	**2**	**31**	604	0	604
Net gains/losses on cash flow hedging derivatives:						
Net gains (losses) arising during the period	**12**	**0**	**12**	31	0	31
Less: Reclassification adjustment for (gains) losses included in net earnings (loss)	**(22)**	**0**	**(22)**	40	0	40
Total comprehensive income (loss)			**449**			1,542
Balance, September 30	**$ 6,388**	**$ 250**	**$ 6,638**	$ 5,645	$ 239	$ 5,884

NOTE 4 EARNINGS PER SHARE ATTRIBUTABLE TO INTERNATIONAL PAPER COMPANY COMMON SHAREHOLDERS

Basic earnings per common share are computed by dividing earnings by the weighted average number of common shares outstanding. Diluted earnings per common share are computed assuming that all potentially dilutive securities, including in-the-money stock options, were converted into common shares at the beginning of each period. A reconciliation of the amounts included in the computation of earnings per common share, and diluted earnings per common share is as follows:

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INTERNATIONAL PAPER COMPANY

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

In millions, except per share amounts	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Net earnings (loss) attributable to International Paper Company	**$ 397**	$ 371	**$ 328**	$ 764
Effect of dilutive securities (a)	**0**	0	**0**	0
Net earnings (loss) assuming dilution	**$ 397**	$ 371	**$ 328**	$ 764
Average common shares outstanding	**430.1**	426.1	**429.5**	424.8
Effect of dilutive securities				
Restricted stock performance share plan (a)	**3.7**	2.6	**4.3**	1.8
Stock options (b)	**0**	0	**0**	0
Average common shares outstanding assuming dilution	**433.8**	428.7	**433.8**	426.6
Basic earnings (loss) per common share	**$ 0.92**	$ 0.87	**$ 0.76**	$ 1.80
Diluted earnings (loss) per common share	**$ 0.91**	$ 0.87	**$ 0.76**	$ 1.79

(a) Securities are not included in the table in periods when antidilutive.

(b) Options to purchase 19.9 million shares and 22.8 million shares for the three months ended September 30, 2010 and 2009, respectively, and options to purchase 19.9 million shares and 22.8 million shares for the nine months ended September 30, 2010 and 2009, respectively, were not included in the computation of diluted common shares outstanding because their exercise price exceeded the average market price of the Company s common stock for each respective reporting period.

NOTE 5 RESTRUCTURING CHARGES AND OTHER ITEMS

2010:

Restructuring and Other Charges

Restructuring and other charges during the three months ended September 30, 2010 were immaterial.

During the three months ended June 30, 2010, restructuring and other charges totaling $144 million before taxes ($88 million after taxes) were recorded. Details of this charge were as follows:

In millions	Three Months Ended June 30, 2010 Before-Tax Charges	After-Tax Charges

Franklin, Virginia mill closure costs (including before-tax charges of $46 million of accelerated depreciation and $36 million of environmental closure costs)	$ 111	$ 68
S&A reduction initiative	2	1
Early debt extinguishment costs	18	11
Write-off of Ohio Commercial Activity tax receivable	11	7
Other	2	1
Total	$ 144	$ 88

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INTERNATIONAL PAPER COMPANY

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

During the three months ended March 31, 2010, restructuring and other charges totaling $215 million before taxes ($132 million after taxes) were recorded. Details of this charge were as follows:

	Three Months Ended March 31, 2010	
In millions	**Before-Tax Charges**	**After-Tax Charges**
Franklin, Virginia mill closure costs (including $190 million of accelerated depreciation)	$ 204	$ 124
Early debt extinguishment costs	4	2
Shorewood Packaging reorganization	3	2
Other	4	4
Total	$ 215	$ 132

Additionally, a $46 million after-tax charge was recorded during the three months ended March 31, 2010 for tax adjustments related to incentive compensation and postretirement prescription drug coverage (see Note 10).

2009:

Restructuring and Other Charges

During the three months ended September 30, 2009, restructuring and other charges totaling $151 million before taxes ($95 million after taxes) were recorded. Details of this charge were as follows:

	Three Months Ended September 30, 2009	
In millions	**Before-Tax Charges**	**After-Tax Charges**
2008 overhead reduction program severance and benefits	$ 39	$ 24
Early debt extinguishment costs	102	62
Etienne mill severance and other costs	7	7
Other	3	2
Total	$ 151	$ 95

During the three months ended June 30, 2009, restructuring and other charges totaling $79 million before taxes ($55 million after taxes) were recorded. Details of this charge were as follows:

In millions	Three Months Ended June 30, 2009 Before-Tax Charges	After-Tax Charges
2008 overhead reduction program severance and benefits	$ 34	$ 21
Early debt extinguishment costs	25	16
Etienne mill severance and other costs	15	15
Other	5	3
Total	$ 79	$ 55

Additionally, the income tax provision for the three months ended June 30, 2009 included a $156 million charge to establish a valuation allowance for deferred tax assets in France, and a $26 million credit related to the settlement of certain tax issues (see Note 10).

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INTERNATIONAL PAPER COMPANY

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

During the three months ended March 31, 2009, restructuring and other charges totaling $83 million before taxes ($65 million after taxes) were recorded. Details of this charge were as follows:

	Three Months Ended March 31, 2009	
In millions	**Before-Tax Charges**	**After-Tax Charges**
2008 overhead reduction program severance and benefits	$ 52	$ 32
Inverurie mill closure costs	23	28
Franklin, Virginia lumber mill, sheet converting plant and converting innovations center closure costs	6	4
Shorewood Packaging reorganization	2	1
Total	$ 83	$ 65

Additionally, during the three months ended March 31, 2009, a $20 million charge was recorded related to certain tax adjustments (see Note 10).

Alternative Fuel Mixture Credits

The U.S. Internal Revenue Code provided a tax credit for companies that use alternative fuel mixtures to produce energy to operate their businesses. The credit, equal to $0.50 per gallon of alternative fuel contained in the mixture, was refundable to the taxpayer. In January 2009, the Company received notification that its application to be registered as an alternative fuel mixer had been approved. During the nine months ended September 30, 2009, the Company filed claims for alternative fuel mixture credits covering eligible periods subsequent to November 2008 totaling approximately $1.5 billion, including $251 million recorded in Accounts and notes receivable at September 30, 2009 and $1.3 billion that was received in cash. Accordingly, the accompanying consolidated statement of operations includes credits of approximately $525 million and $1.5 billion for the three months and nine months ended September 30, 2009, respectively, in Cost of products sold ($320 million and $944 million after taxes), representing eligible alternative fuel mixture credits earned through September 30, 2009. The credit expired on December 31, 2009.

NOTE 6 ACQUISITIONS, EXCHANGES AND JOINT VENTURES

On June 30, 2010, International Paper announced that it had completed the previously announced acquisition of SCA Packaging Asia (SCA) for a preliminary purchase price of $206 million, including $172 million in cash plus assumed debt of $34 million, subject to post-closing adjustments. The SCA packaging business in Asia consists of 13 corrugated box plants and two specialty packaging facilities, which are primarily in China, along with locations in Singapore, Malaysia and Indonesia.

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INTERNATIONAL PAPER COMPANY

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

The following table summarizes the preliminary allocation of the purchase price to the fair value of assets and liabilities acquired:

In millions	
Cash and temporary investments	$ 20
Accounts and notes receivable, net	74
Inventory	23
Other current assets	1
Plants, properties and equipment, net	121
Goodwill	3
Other intangible assets	49
Total assets acquired	291
Accounts payable and accrued liabilities	51
Long-term debt	34
Total liabilities assumed	85
Net assets acquired	$ 206

The purchase price allocation will be finalized in the first half of 2011.

The identifiable intangible assets acquired in connection with the SCA acquisition included the following:

In millions	Estimated Fair Value	Average Remaining Useful Life (at acquisition date)
Asset Class:		
Land-use rights	$ 49	39 years
Total	$ 49	

On August 4, 2008, International Paper completed the acquisition of the assets of Weyerhaeuser Company s Containerboard, Packaging and Recycling (CBPR) business for approximately $6 billion in cash, subject to post-closing adjustments. The CBPR operating results are included in International Paper s North American Industrial Packaging business from the date of acquisition. Selling and administrative expenses for the three months and nine months ended September 30, 2009 included charges of $18 million before taxes ($11 million after taxes) and $72 million before taxes ($44 million after taxes), respectively, of costs related to the integration of the CBPR business.

NOTE 7 BUSINESSES HELD FOR SALE AND DIVESTITURES

During the three months ended June 30, 2009, based on a current strategic plan update of projected future operating results of the Company s Etienne, France mill, a determination was made that the current book value of the mill s long-lived assets exceeded their estimated fair value, calculated using the probability-weighted present value of projected future cash flows. As a result, a $48 million charge, before and after taxes, was recorded to write down the long-lived assets of the mill to their estimated fair value. This charge is included in Net (gains) losses on sales and impairments of businesses in the accompanying consolidated statement of operations.

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INTERNATIONAL PAPER COMPANY

Condensed Notes to Consolidated Financial Statements (Continued)

(Unaudited)

NOTE 8 SUPPLEMENTAL FINANCIAL STATEMENT INFORMATION

Temporary investments with an original maturity of three months or less are treated as cash equivalents and are stated at cost. Temporary investments were as follows:

In millions	September 30, 2010	December 31, 2009
Temporary investments	**$ 1,117**	$ 1,634

Inventories by major category were:

In millions	September 30, 2010	December 31, 2009
Raw materials	**$ 432**	$ 307
Finished pulp, paper and packaging	**1,469**	1,443
Operating supplies	**374**	377
Other	**61**	52
Total	**$ 2,336**	$ 2,179

Depreciation expense was as follows:

In millions	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Depreciation expense	**$ 349**	$ 362	**$ 1,052**	$ 1,048

Certain valuation accounts were as follows:

In millions	September 30, 2010	December 31, 2009
Accumulated depreciation	**$ 18,802**	$ 17,817
Allowance for doubtful accounts	**144**	136

There was no material activity related to ***asset retirement obligations*** during the nine months ended September 30, 2010 or 2009.

Certain cash payments made were as follows:

In millions	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Interest payments	**$ 105**	$ 101	**$ 432**	$ 444
Income tax payments/(refunds)	**16**	36	**(75)**	49

Amounts related to ***interest*** were as follows:

In millions	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Interest expense (a)	**$ 162**	$ 177	**$ 484**	$ 530
Interest income (a)	**10**	8	**26**	24
Capitalized interest costs	**4**	2	**10**	9

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INTERNATIONAL PAPER COMPANY

Condensed Notes to Consolidated Financial Statements (Continued)

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(a) Interest expense and interest income exclude approximately $12 million and $27 million for the three months and nine months ended September 30, 2010, respectively, and $26 million and $98 million for the three months and nine months ended September 30, 2009, respectively, related to investments in and borrowings from variable interest entities for which the Company has a legal right of offset.

The components of the Company s ***postretirement benefit*** expense were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions	**2010**	**2009**	**2010**	**2009**
Service cost	**$ 0**	$ 0	**$ 1**	$ 1
Interest cost	**6**	8	**18**	23
Actuarial loss	**3**	5	**9**	17
Amortization of prior service credit	**(7)**	(7)	**(23)**	(21)
Net postretirement benefit expense (a)	**$ 2**	$ 6	**$ 5**	$ 20

(a) Excludes charges of $0.4 million and $2.3 million for the three months and nine months ended September 30, 2009, respectively, for termination benefits related to cost reduction programs recorded in Restructuring and other charges in the consolidated statement of operations.

On September 23, 2010, the Company finalized the sale of 163,000 acres of properties located in the southeastern United States to an affiliate of Rock Creek Capital (the Partnership) for $199 million, resulting in a $50 million pre-tax gain ($31 million after taxes), after expenses. Cash of $160 million was received at closing, with the balance of $39 million, plus interest, to be received no later than three years from closing. In addition, the Company has received a 20% profits interest in the Partnership.

NOTE 9 GOODWILL AND OTHER INTANGIBLES

The following tables present changes in goodwill balances as allocated to each business segment for the nine months ended September 30, 2010 and 2009:

In millions	**Industrial Packaging**	**Printing Papers**	**Consumer Packaging**	**Distribution**	**Total**
Balance as of January 1, 2010					
Goodwill	$ 1,131	$ 2,423	$ 1,765	$ 400	$ 5,719
Accumulated impairment losses (a)	0	(1,765)	(1,664)	0	(3,429)
	1,131	658	101	400	2,290
Reclassifications and other (b)	**(2)**	**13**	**1**	**0**	**12**

Additions/reductions	**3(c)**	**(20)(d)**	**0**	**0**	**(17)**
Balance as of September 30, 2010					
Goodwill	**1,132**	**2,416**	**1,766**	**400**	**5,714**
Accumulated impairment losses (a)	**0**	**(1,765)**	**(1,664)**	**0**	**(3,429)**
Total	**$ 1,132**	**$ 651**	**$ 102**	**$ 400**	**$ 2,285**

(a) Represents accumulated goodwill impairment charges since the adoption of ASC 350, Intangibles Goodwill and Other in 2002.
(b) Represents the effects of foreign currency translations and reclassifications.
(c) Represents the preliminary purchase price allocation related to the acquisition of SCA Packaging Asia.
(d) Reflects a reduction from tax benefits generated by the deduction of goodwill amortization for tax purposes in Brazil.

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In millions	Industrial Packaging	Printing Papers	Consumer Packaging	Distribution	Total
Balance as of January 1, 2009					
Goodwill	$ 989	$ 2,302	$ 1,766	$ 399	$ 5,456
Accumulated impairment losses (a)	0	(1,765)	(1,664)	0	(3,429)
	989	537	102	399	2,027
Reclassifications and other (b)	3	135	0	0	138
Additions/reductions	140(c)	(18)(d)	0	1	123
Balance as of September 30, 2009					
Goodwill	1,132	2,419	1,766	400	5,717
Accumulated impairment losses (a)	0	(1,765)	(1,664)	0	(3,429)
Total	$ 1,132	$ 654	$ 102	$ 400	$ 2,288

(a) Represents accumulated goodwill impairment charges since the adoption of ASC 350, Intangibles Goodwill and Other in 2002.
(b) Represents the effects of foreign currency translations and reclassifications.
(c) Reflects purchase accounting adjustments related to the CBPR acquisition.
(d) Reflects a reduction from tax benefits generated by the deduction of goodwill amortization for tax purposes in Brazil.

The net carrying amount of identifiable intangible assets, excluding goodwill, was as follows:

In millions	September 30, 2010	December 31, 2009
Intangible assets	**$ 276**	$ 248

The Company recognized the following amounts as amortization expense related to intangible assets:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions	2010	2009	2010	2009
Amortization expense related to intangible assets	**$ 7**	$ 8	**$ 22**	$ 25

NOTE 10 INCOME TAXES

The following table presents a rollforward of unrecognized tax benefits and related accrued estimated interest and penalties for the nine months ended September 30, 2010:

In millions	Unrecognized Tax Benefits	Accrued Estimated Interest and Tax Penalties
Balance at December 31, 2009	$ (308)	$ (95)
Activity for three months ended March 31, 2010	116	9
Activity for the three months ended June 30, 2010	4	(3)
Activity for the three months ended September 30, 2010	8	(2)
Balance at September 30, 2010	$ (180)	$ (91)

The Company currently estimates that, as a result of ongoing discussions, pending tax settlements and expirations of statutes of limitations, the amount of unrecognized tax benefits could be reduced by approximately $80 million during the next 12 months.

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During the three months ended March 31, 2010, the Company recorded in Income tax provision (benefit), charges totaling $46 million, consisting of a $14 million adjustment of deferred income tax assets relating to incentive compensation payments during the quarter and a $32 million charge to reduce deferred income tax assets related to post-retirement prescription drug coverage (Medicare Part D reimbursement) as a result of the recently enacted Health Care and Education Reconciliation Act of 2010.

During the three months ended June 30, 2009, in connection with the ongoing evaluation of the Company s Etienne mill in France, the Company determined that the future realization of previously recorded deferred tax assets in France, including net operating loss carryforwards, no longer met the more likely than not standard for asset recognition. Accordingly, a charge of $156 million, before and after taxes, was recorded in the quarter to establish a valuation allowance for all of these assets. Additionally, during the quarter, as a result of an agreement on the 2004 and 2005 U.S. federal income tax audit and the related state income tax effects, a $26 million credit was recorded.

During the three months ended March 31, 2009, the Company recorded in Income tax provision (benefit), charges totaling $20 million, consisting of a $14 million adjustment of deferred income taxes relating to incentive compensation payments during the quarter and a $6 million charge relating to recent state income tax legislation.

NOTE 11 COMMITMENTS AND CONTINGENCIES

During the three months ended September 30, 2009, in connection with an environmental site remediation action under CERCLA, International Paper submitted to the EPA a feasibility study for the site. The EPA has indicated that it intends to select a proposed remedial action alternative from those identified in the study and present this proposal for public comment. Since it is not currently possible to determine the final remedial action that will be required, the Company has accrued an estimate of the minimum costs that could be required for this site. When the remediation plan is finalized by the EPA, it is possible that the remediation costs could be significantly higher than amounts currently recorded.

In June 2010, the South Carolina Department of Health and Environmental Control (DHEC) finalized its previously proposed consent order to the Company with a civil penalty of $115,000. The penalty was levied for self-disclosed failures by the Company s Georgetown mill to operate within carbon monoxide and total reduced sulfur emission limits under the mill s Part 70 (Title V) Air Quality Operating Permit.

International Paper is involved in various inquiries, administrative proceedings and litigation relating to contracts, sales of property, intellectual property, environmental and safety matters, tax, personal injury, labor and employment and other matters, some of which allege substantial monetary damages. While any proceeding or litigation has the element of uncertainty, the Company believes that the outcome of any of the lawsuits or claims that are pending or threatened, or all of them combined, will not have a material adverse effect on its consolidated financial statements.

NOTE 12 VARIABLE INTEREST ENTITIES AND PREFERRED SECURITIES OF SUBSIDIARIES

Variable Interest Entities:

In connection with the 2006 sale of approximately 5.6 million acres of forestlands, International Paper received installment notes (the Timber Notes) totaling approximately $4.8 billion. The Timber Notes, which do not require principal payments prior to their August 2016 maturity, are supported by irrevocable letters of credit obtained by the buyers of the forestlands. During the three months ended December 31, 2006, International Paper contributed the Timber Notes to newly formed entities (the Borrower Entities) in exchange for Class A and Class B interests in these entities. Subsequently, International Paper contributed its $200 million Class A interests in the Borrower Entities, along with approximately $400 million of

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International Paper promissory notes, to other newly formed entities (the Investor Entities, and together with the Borrower Entities, the Entities) in exchange for Class A and Class B interests in these entities, and simultaneously sold its Class A interests in the Investor Entities to a third party investor. As a result, at December 31, 2006, International Paper held Class B interests in the Borrower Entities and Class B interests in the Investor Entities valued at approximately $5.0 billion. International Paper has no obligation to make any further capital contributions to these Entities and did not provide any financial support that was not previously contractually required for the nine months ended September 30, 2010 and the year ended December 31, 2009.

Also during 2006, the Entities acquired approximately $4.8 billion of International Paper debt obligations for cash, resulting in a total of approximately $5.2 billion of International Paper debt obligations held by the Entities at December 31, 2006. The various agreements entered into in connection with these transactions provide that International Paper has, and International Paper intends to effect, a legal right to offset its obligation under these debt instruments with its investments in the Entities. Accordingly, for financial reporting purposes, International Paper has offset approximately $5.1 billion of Class B interests in the Entities against $5.1 billion of International Paper debt obligations held by these Entities at September 30, 2010 and December 31, 2009. Remaining borrowings of $129 million and $144 million at September 30, 2010 and December 31, 2009, respectively, are included in Long-term debt in the accompanying consolidated balance sheet. Additional debt related to the above transaction of $38 million and $46 million is included in short-term debt at September 30, 2010 and December 31, 2009, respectively.

International Paper also holds variable interests in two financing entities that were used to monetize long-term notes received from the sale of forestlands in 2002 and 2001. International Paper transferred notes (the Monetized Notes) and cash having a value of approximately $1.0 billion to these entities in exchange for preferred interests, and accounted for the transfers as a sale of the notes with no associated gain or loss. In the same period, the entities acquired approximately $1.0 billion of International Paper debt obligations for cash. International Paper has no obligation to make any further capital contributions to these entities and did not provide any financial support that was not previously contractually required during the nine months ended September 30, 2010 and the year ended December 31, 2009. At September 30, 2010, International Paper s $543 million preferred interest in one of the entities has been offset against related debt obligations since International Paper has, and intends to effect, a legal right of offset to net-settle these two amounts. International Paper s preferred interest in the remaining entity of $485 million is included in Investments in the accompanying consolidated balance sheets at September 30, 2010 and December 31, 2009. Other outstanding debt related to the above transactions of $345 million and $465 million is included in Long-term debt and $124 million and $7 million is included in short-term debt in the accompanying consolidated balance sheets at September 30, 2010 and December 31, 2009, respectively.

Based on an analysis of these entities under guidance that considers the potential magnitude of the variability in the structures and which party has a controlling financial interest, International Paper determined that it is not the primary beneficiary of the above entities, and therefore, should not consolidate its investments in these entities. It was also determined that the source of variability in the structures is the value of the Timber Notes and Monetized Notes, the assets most significantly impacting each structure s economic performance. The credit quality of the Timber Notes and Monetized Notes are supported by irrevocable letters of credit obtained by the third party buyers which are 100% cash collateralized. International Paper analyzed which party has control over the economic performance of each entity, and concluded International Paper does not have control over significant decisions surrounding the Timber Notes, Monetized Notes and letters of credit and therefore is not the primary beneficiary. The Company s maximum exposure to loss equals the value of the Timber Notes and Monetized Notes, however, an analysis performed by the Company concluded the likelihood of this exposure is remote.

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Preferred Securities of Subsidiaries:

In March 2003, Southeast Timber, Inc. (Southeast Timber), a consolidated subsidiary of International Paper, issued $150 million of preferred securities to a private investor with future dividend payments based on LIBOR. Southeast Timber, which through a subsidiary initially held approximately 1.5 million acres of forestlands in the southern United States, was International Paper s primary vehicle for sales of southern forestlands. As of September 30, 2010, substantially all of these forestlands have been sold. These preferred securities may be put back to International Paper by the private investor upon the occurrence of certain events, and have a liquidation preference that approximates their face amount. The $150 million preferred third-party interest is included in Noncontrolling interests in the accompanying consolidated balance sheet. Distributions paid to the third-party investor were $4 million and $5 million for the nine months ended September 30, 2010 and 2009, respectively. The expense related to these preferred securities is shown in Net earnings (loss) attributable to noncontrolling interests in the accompanying consolidated statement of operations.

NOTE 13 DEBT

During the three months ended September 30, 2010, International Paper repaid approximately $111 million of notes with interest rates ranging from 5.375% to 6.8% and original maturities from 2016 to 2024.

In May 2010, International Paper repaid approximately $108 million of notes with interest rates ranging from 5.3% to 9.375% and original maturities from 2015 to 2019. Pre-tax early debt retirement costs of $21 million related to these debt repayments are included in Restructuring and other charges in the accompanying consolidated statement of operations (offset by a $3 million gain on associated interest rate swaps as discussed in Note 14).

During the three months ended March 31, 2010, International Paper repaid approximately $120 million of notes with interest rates ranging from 5.25% to 7.4% and original maturities from 2010 to 2027. Pre-tax early debt retirement costs of $5 million related to first-quarter debt repayments are included in Restructuring and other charges in the accompanying consolidated statement of operations (offset by a $1 million gain on associated interest rate swaps as discussed in Note 14).

During the three months ended September 30, 2009, International Paper repaid approximately $1.1 billion of the $2.5 billion of long-term debt issued in connection with the CBPR business acquisition. As of December 31, 2009, this debt was repaid. In August 2009, International Paper issued $1.0 billion of 7.5% senior unsecured notes with a maturity date in August 2021. The proceeds from this borrowing were used to repay approximately $942 million of notes with interest rates ranging from 5.125% to 7.4% and original maturities from 2012 to 2026. Pre-tax early debt retirement costs of $118 million related to third quarter debt repayments are included in Restructuring and other charges in the accompanying consolidated statement of operations (offset by a $16 million gain on associated interest rate swaps as discussed in Note 14).

In May 2009, International Paper issued $1 billion of 9.375% senior unsecured notes with a maturity date in May 2019. The proceeds from this borrowing were used, along with available cash, to repay approximately $875 million of notes with interest rates ranging from 4.0% to 9.25% and original maturities from 2010 to 2012. In April 2009, International Paper repaid $313 million of the $2.5 billion long-term debt issued in connection with the CBPR business acquisition. Also in April 2009, International Paper Company Europe Ltd, a wholly-owned subsidiary of International Paper, repaid $75 million of notes issued in connection with the Ilim Holdings S.A. joint ventures that matured. Pre-tax early debt retirement costs of $46 million related to these debt repayments are included in Restructuring and other charges in the accompanying consolidated statement of operations (offset by a $21 million gain on associated interest rate swaps as discussed in Note 14).

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In March 2009, International Paper Investments (Luxembourg) S.a.r.l, a wholly-owned subsidiary of International Paper, borrowed $468 million of long-term debt with an initial interest rate of LIBOR plus a margin of 450 basis points that varied upon the credit rating of the Company, and a maturity date in March 2012. International Paper used the $468 million of proceeds from the loan and cash of approximately $170 million to repay its 500 million euro-denominated debt (equivalent to $638 million at date of payment) with an original maturity date in August 2009. As of July 31, 2009, the $468 million loan was repaid. Other debt activities during the three months ended March 31, 2009 included the repayment of approximately $366 million of notes with interest rates ranging from 4.25% to 5.0% that had matured.

At September 30, 2010 and December 31, 2009, International Paper classified $100 million and $450 million, respectively, of current maturities of long-term debt as Long-term debt. International Paper has the intent and ability, as evidenced by its contractually committed credit facility, to renew or convert these obligations.

At September 30, 2010, International Paper had $8.7 billion of debt with a fair value of approximately $9.9 billion. The fair value of the Company s long-term debt is estimated based on the quoted market prices for the same or similar issues.

Maintaining an investment-grade credit rating is an important element of International Paper s financing strategy. At September 30, 2010, the Company held long-term credit ratings of BBB (stable outlook) and Baa3 (stable outlook) by S&P and Moody s, respectively.

NOTE 14 DERIVATIVES AND HEDGING ACTIVITIES

International Paper periodically uses derivatives and other financial instruments to hedge exposures to interest rate, commodity and currency risks. International Paper does not hold or issue financial instruments for trading purposes. For hedges that meet the hedge accounting criteria, International Paper, at inception, formally designates and documents the instrument as a fair value hedge, a cash flow hedge or a net investment hedge of a specific underlying exposure, as well as the risk management objective and strategy for undertaking each hedge transaction. Derivatives are recorded in the consolidated balance sheet at fair value, determined using available market information or other appropriate valuation methodologies, in Other current assets, Deferred charges and other assets, Other accrued liabilities and Other liabilities. The earnings impact resulting from changes in the fair value of derivative instruments is recorded in the same line item in the consolidated statement of operations as the underlying exposure being hedged or in Accumulated other comprehensive income (AOCI) for derivatives that qualify as cash flow hedges. Any ineffective portion of a financial instrument s change in fair value is recognized currently in earnings together with changes in the fair value of any derivatives not designated as hedges.

Foreign exchange contracts are used by International Paper to offset the earnings impact relating to the variability in exchange rates on certain monetary assets and liabilities denominated in non-functional currencies and are not designated as hedges. Changes in the fair value of these instruments, recognized currently in earnings to offset the remeasurement of the related assets and liabilities, were a gain of $30 million for the nine months ended September 30, 2010 and a loss of approximately $50 million for the nine months ended September 30, 2009. As of September 30, 2010 and December 31, 2009, outstanding undesignated foreign exchange contracts included the following:

Undesignated Volumes

In millions	September 30, 2010	December 31, 2009
Sell / Buy	**Sell Notional**	Sell Notional
U.S. dollar / European euro	**431**	108
European euro / Great British pounds	**39**	29

European euro / Polish zloty	**0**	39
European euro/ U.S. dollar	**13**	9
South Korean won / U.S. dollar	**8,076**	3,629

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Fair Value Hedges

For derivative instruments that are designated and qualify as fair value hedges, the gain or loss on the derivative, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized in earnings.

International Paper utilizes interest rate swaps as fair value hedges of the benchmark interest rates of fixed-rate debt. At September 30, 2010 and December 31, 2009, the outstanding notional amounts of interest rate swap agreements that qualify as fully effective fair value hedges were approximately $274 million and $1.1 billion, respectively.

During the three months ended June 30, 2010, in connection with early debt extinguishment, interest rate swap hedges with a notional value of $2 million were undesignated as effective fair value hedges. The resulting gain was immaterial. Also, related to early debt extinguishment, deferred gains of $3 million related to previously terminated effective interest rate swaps were recognized in earnings. This gain is included in Restructuring and other charges in the accompanying consolidated statement of operations.

In June 2010, interest rate swap agreements designated as fair value hedges with a notional value of $100 million were terminated. The termination was not in connection with early retirement of debt. The resulting gain of $3 million was deferred and recorded in Long-term debt and will be amortized as an adjustment of interest expense over the life of the underlying debt through 2019.

In January 2010, approximately $700 million fixed-to-floating interest rate swaps that were issued in 2009 were terminated, $100 million of which was issued in the third quarter of 2009 as discussed below. These terminations were not in connection with early debt retirements. The resulting $2 million gain was deferred and recorded in Long-term debt and is being amortized as an adjustment of interest expense over the life of the underlying debt through 2015.

During the three months ended March 31, 2010, a previously deferred gain of $1 million was recognized in earnings in connection with early debt retirements. This gain is included in Restructuring and other charges in the accompanying consolidated statement of operations.

In the third quarter of 2009, the Company entered into a fixed-to-floating interest rate swap agreement with a notional value of $100 million. The interest rate swap was effective August 2009 with an original maturity date in April 2015. The interest rate swap was designated as a fully effective fair value hedge of the benchmark interest rate. Subsequently, in January 2010, the interest rate swap agreement was terminated.

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During the three months ended June 30, 2009, the Company entered into a series of fixed-to-floating interest rate swap agreements with a notional amount of $500 million. In the third quarter of 2009, these interest rate swap agreements plus interest rate swap agreements that were previously issued with a notional of $20 million were terminated or undesignated as effective fair value hedges in connection with various early debt retirements resulting in a gain of approximately $9 million. In addition, a previously deferred gain of $17 million related to earlier swap terminations was recognized in earnings. These gains are included in Restructuring and other charges in the accompanying consolidated statement of operations.

Also in May 2009, in connection with various early debt retirements, unamortized deferred gains of $21 million related to earlier swap terminations were reclassified from Long-term debt and included in Restructuring and other charges in the accompanying consolidated statement of operations.

During the three months ended March 31, 2009, an interest rate swap agreement designated as a fair value hedge with a notional value of $100 million was terminated. The termination was not in connection with early retirement of debt. The resulting gain of $11 million was deferred and recorded in Long-term debt and will be amortized as an adjustment of interest expense over the life of the underlying debt through 2016.

Cash Flow Hedges

For derivative instruments that are designated and qualify as cash flow hedges, the effective portion of the gain or loss on the derivative is reported as a component of AOCI and reclassified into earnings in the same period or periods in which the hedged transaction affects earnings. Financial instruments designated as cash flow hedges are assessed both at inception and quarterly thereafter to ensure they are effective in offsetting changes in the cash flows of the related underlying exposures. The fair value of the hedge instruments are reclassified out of AOCI to earnings if the hedge ceases to be highly effective or if the hedged transaction is no longer probable.

Interest Rate Risk

International Paper utilizes interest rate swaps as cash flow hedges of the benchmark interest rate of future interest payments. At September 30, 2010 and December 31, 2009, there were no outstanding interest rate swap agreements that qualified as cash flow hedges.

On September 30, 2009, the Company undesignated $1 billion of interest rate swaps that qualified as cash flow hedges and had a maturity date in September 2010 and entered into an offsetting $1 billion fixed-to-floating interest rate swap with a maturity date in September 2010 to minimize the earnings exposure from the undesignated swaps. These swaps resulted in a $22 million gain that was to be recognized in earnings for the nine months ended September 2010. There was no earnings impact for the nine months ended September 2009.

Also, during the three months ended September 30, 2009, in connection with various early debt retirements, unamortized deferred losses of approximately $10 million related to earlier swap terminations were reclassified from Accumulated other comprehensive loss and included in Restructuring and other charges in the accompanying consolidated statement of operations.

Commodity Risk

To minimize volatility in earnings due to large fluctuations in the price of commodities, International Paper utilizes swap contracts to manage risks associated with market fluctuations in energy prices. These contracts are designated as cash flow hedges of forecasted commodity purchases. At September 30, 2010, the hedged volumes of these energy contracts totaled 300,000 barrels of fuel oil and 14 million MMBTU (Million British Thermal Units) of natural gas. These contracts had maturities of two years or less as of September 30, 2010. At December 31, 2009, the hedged volumes totaled 900,000 barrels of fuel oil and 21 million MMBTUs of natural gas. Deferred losses totaling $17 million after taxes at September 30, 2010 are expected to be recognized through earnings within the next 12 months.

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Foreign Currency Risk

Foreign exchange contracts are also used as cash flow hedges of certain forecasted transactions denominated in foreign currencies to manage volatility associated with these transactions and to protect International Paper from currency fluctuations between the contract date and ultimate settlement. At September 30, 2010, these contracts have maturities of three years or less. Deferred gains of $14 million after taxes at September 30, 2010 are expected to be recognized through earnings within the next 12 months. As of September 30, 2010 and December 31, 2009, the following outstanding foreign exchange contracts were entered into as cash flow hedges of forecasted transactions:

Designated Volumes

In millions	September 30, 2010	December 31, 2009
Sell / Buy	**Sell Notional**	Sell Notional
European euro / Brazilian real	**5**	11
U.S. dollar / Brazilian real	**95**	265
Great British pounds / Brazilian real	**9**	12
European euro / Polish zloty	**230**	164

On June 30, 2010, foreign exchange contracts to sell 123 million U.S. dollars and buy Brazilian reals were undesignated as cash flow hedges of an International Paper wholly-owned subsidiary s foreign exchange risk due to the forecasted transactions not being probable. In July 2010, the undesignated foreign exchange contracts were terminated resulting in cash received of $5 million. The change, a $3 million gain, in the fair value of the contracts since they were undesignated was recognized in earnings. The fair value of the contracts when they were undesignated, a $1 million gain after tax, was deferred in AOCI since the forecasted transactions remained reasonably possible. The deferred gain will be reclassified out of AOCI to earnings when the forecasted transactions are no longer reasonably possible or when the hedged transactions affect earnings. As of September 30, 2010, the forecasted transactions remained reasonably possible.

Fair Value Measurements

International Paper s financial assets and liabilities that are recorded at fair value on a recurring basis consist of derivative contracts, including interest rate swaps, foreign currency forward contracts, and other financial instruments that are used to hedge exposures to interest rate, commodity and currency risks. In addition, a consolidated subsidiary of International Paper contains an embedded derivative. For these financial instruments and the embedded derivative, fair value is determined at each balance sheet date using an income approach. Below is a description of the valuation calculation and the inputs used for each class of contract:

Interest Rate Contracts

Interest rate forward contracts are valued using swap curves obtained from an independent market data provider. The market value of each contract is the sum of the fair value of all future interest payments between the contract counterparties, discounted to present value. The fair value of the future interest payments is determined by comparing the contract rate to the derived forward interest rate and present valued using the appropriate derived interest rate curve.

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Fuel Oil Contracts

Fuel oil forward contracts are valued using the average of two forward fuel oil curves as quoted by third parties. The fair value of each contract is determined by comparing the strike price to the forward price of the corresponding fuel oil contract and present valued using the appropriate interest rate curve.

Natural Gas Contracts

All natural gas contracts are traded over-the-counter and settled using the NYMEX last day settle price; therefore, forward contracts are valued using the closing prices of the NYMEX natural gas future contracts. The fair value of each contract is determined by comparing the strike price to the closing price of the corresponding natural gas future contract and present valued using the appropriate interest rate curve.

Foreign Exchange Contracts

Foreign currency forward contracts are valued using foreign currency forward and interest rate curves obtained directly from an independent market data provider. The fair value of each contract is determined by comparing the contract rate to the forward rate. The fair value is present valued using the applicable interest rate from an independent market data provider.

Embedded Derivative

The embedded derivative is valued using a hypothetical interest rate derivative with identical terms. The hypothetical interest rate derivative contracts are fair valued as described above under Interest Rate Contracts.

Since the volume and level of activity of the markets that each of the above contracts are traded in has been normal, the fair value calculations have not been adjusted for inactive markets or disorderly transactions.

The guidance for fair value measurements and disclosures sets out a fair value hierarchy that groups fair value measurement inputs into three classifications: Level 1, Level 2 and Level 3. Level 1 inputs are quoted prices in an active market for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs for the asset or liability. Transfers between levels are recognized at the end of the reporting period. All of International Paper s fair value measurements use Level 2 inputs. The following table provides a summary of the impact of our derivative instruments in the consolidated balance sheet:

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Fair Value Measurements

Level 2 Significant Other Observable Inputs

	Assets		Liabilities	
In millions	**September 30, 2010**	**December 31, 2009**	**September 30, 2010**	**December 31, 2009**
Derivatives designated as hedging instruments				
Interest rate contracts fair value	**$ 20(a)**	$ 5(e)	**$ 0**	$ 20(h)
Fuel oil contracts cash flow	**5(b)**	16(f)	**0**	4(i)
Natural gas contracts cash flow	**0**	0	**43(g)**	38(j)
Foreign exchange contracts cash flow	**23(c)**	32(b)	**1(h)**	0
Total derivatives designated as hedging instruments	**$ 48**	$ 53	**$ 44**	$ 62
Derivatives not designated as hedging instruments				
Interest rate contracts	**$ 0**	$ 1(b)	**$ 10(h)**	$ 29(k)
Embedded derivatives	**10(d)**	6(d)	**0**	0
Foreign exchange contracts	**30(b)**	2(b)	**3(i)**	2(i)
Total derivatives not designated as hedging instruments	**$ 40**	$ 9	**$ 13**	$ 31
Total derivatives	**$ 88**	$ 62	**$ 57**	$ 93

(a) Includes $4 million recorded in Accounts and notes receivable, net, and $16 million recorded in Deferred charges and other assets in the accompanying consolidated balance sheet.
(b) Included in Other current assets in the accompanying consolidated balance sheet.
(c) Includes $18 million recorded in Other current assets and $5 million recorded in Deferred charges and other assets.
(d) Included in Deferred charges and other assets in the accompanying consolidated balance sheet.
(e) Includes $2 million recorded in Accounts and notes receivable, net, and $3 million recorded in Deferred charges and other assets in the accompanying consolidated balance sheet.
(f) Includes $13 million recorded in Other current assets and $3 million recorded in Deferred charges and other assets in the accompanying consolidated balance sheet.
(g) Includes $34 million recorded in Other accrued liabilities and $9 million recorded in Other liabilities in the accompanying consolidated balance sheet.
(h) Included in Other liabilities in the accompanying consolidated balance sheet.
(i) Included in Other accrued liabilities in the accompanying consolidated balance sheet.
(j) Includes $26 million recorded in Other accrued liabilities and $12 million recorded in Other liabilities in the accompanying consolidated balance sheet.
(k) Includes $23 million recorded in Other accrued liabilities and $6 million recorded in Other liabilities in the accompanying consolidated balance sheet.

The following table provides the change in AOCI, net of tax, related to derivative instruments for the nine months ended September 30:

	Gain or (Loss) Recognized in OCI (Effective Portion)		Location of Gain or (Loss) Reclassified from OCI into Income	(Gain) or Loss Reclassified from OCI into Income (Effective Portion)	
In millions	**2010**	**2009**	**(Effective Portion)**	**2010**	**2009**
Interest rate contracts	**$ 0**	$ (6)	Interest expense, net	**$ 0**	$ 21
Fuel oil contracts	**(2)**	16	Cost of products sold	**(2)**	5
Natural gas contracts	**(14)**	(18)	Cost of products sold	**9**	22
Foreign exchange contracts	**28**	39	Cost of products sold	**(29)**	(8)
Total	**$ 12**	$ 31		**$ (22)**	$ 40

Credit-Risk-Related Contingent Features

International Paper evaluates credit risk by monitoring its exposure with each counterparty to ensure that exposure stays within acceptable policy limits. Credit risk is also mitigated by contractual provisions with the majority of our banks. Most of the contracts include a credit support annex that requires the posting of collateral by the counterparty or International Paper based on each party s rating and level of exposure. Based on the Company s current credit rating, the collateral threshold is generally $10 million. If the lower of the Company s credit rating by Moody s or S&P were to drop below investment grade, the Company

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would be required to post collateral for all derivatives in a net liability position, although no derivatives would terminate. The fair values of derivative instruments containing credit-risk-related contingent features in a net liability position were $33 million as of September 30, 2010 and $65 million as of December 31, 2009. The Company was not required to post collateral as of September 30, 2010 and an immaterial amount of collateral as of December 31, 2009 due to exceeding the counterparty s collateral threshold in the normal course of business. In addition, existing derivative contracts (except foreign exchange contracts) provide for netting across derivative positions in the event a counterparty defaults on a payment obligation. International Paper currently does not expect any of the counterparties to default on their obligations.

NOTE 15 RETIREMENT PLANS

International Paper maintains pension plans that provide retirement benefits to substantially all salaried U.S. employees hired prior to July 1, 2004 and substantially all hourly and union employees regardless of hire date. These employees generally are eligible to participate in the plans upon completion of one year of service and attainment of age 21. Salaried employees hired after June 30, 2004, who are not eligible for these pension plans, receive an additional company contribution to their individual savings plans.

The pension plans provide defined benefits based on years of credited service and either final average earnings (salaried employees), hourly job rates or specified benefit rates (hourly and union employees). A detailed discussion of these plans is presented in Note 16 to the financial statements included in International Paper s 2009 Form 10-K.

Net periodic pension expense for our qualified and nonqualified U.S. defined benefit plans comprised the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In millions	**2010**	**2009**	**2010**	**2009**
Service cost	**$ 29**	$ 30	**$ 87**	$ 90
Interest cost	**136**	134	**406**	402
Expected return on plan assets	**(158)**	(159)	**(473)**	(475)
Actuarial loss	**44**	40	**131**	120
Amortization of prior service cost	**7**	8	**23**	23
Net periodic pension expense (a)	**$ 58**	$ 53	**$ 174**	$ 160

(a) Excludes charges of $15 million and $62 million for the three months and nine months ended September 30, 2009, respectively, for termination benefits related to cost reduction programs recorded in Restructuring and other charges in the consolidated statement of operations.

The Company s funding policy for its qualified pension plans is to contribute amounts sufficient to meet legal funding requirements, plus any additional amounts that the Company may determine to be appropriate considering the funded status of the plan, tax deductibility, the cash flows generated by the Company, and other factors. The Company periodically reassesses the amount and timing of any discretionary contributions and made voluntary contributions totaling $1.15 billion during the three months ended September 30, 2010. The nonqualified defined benefit plans are funded to the extent of benefit payments, which totaled $32 million for the nine months ended September 30, 2010.

NOTE 16 STOCK-BASED COMPENSATION

International Paper has an Incentive Compensation Plan (ICP) which, upon the approval by the Company s shareholders in May 2009, replaced the Company s Long-Term Incentive Compensation Plan (LTICP). The ICP authorizes the grants of restricted stock, restricted or deferred stock units, performance awards payable in cash or stock upon the attainment of specified performance goals, dividend equivalents, stock options, stock appreciation rights, other stock-based awards in the discretion of the Committee, and cash-based

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awards. The ICP is administered by the Management Development and Compensation Committee of the Board of Directors (the Committee). A detailed discussion of the ICP and LTICP, including the stock option program and executive continuity award program that provided for tandem grants of restricted stock and stock options, is presented in Note 18 to the financial statements included in International Paper s 2009 Form 10-K. As of September 30, 2010, 17.1 million shares were available for grant under the ICP.

Total stock-based compensation cost recognized in Selling and administrative expenses in the accompanying consolidated statement of operations for the nine months ended September 30, 2010 and 2009 was $38 million and $72 million, respectively. The actual tax deduction realized for stock-based compensation costs related to non-qualified stock options was zero for both of the nine months ended September 30, 2010 and 2009. The actual tax deduction realized for stock-based compensation costs related to restricted and performance shares was $75 million and $28 million for the nine months ended September 30, 2010 and 2009, respectively. At September 30, 2010, $69 million, net of estimated forfeitures, of compensation cost related to unvested restricted performance shares, executive continuity awards and restricted stock attributable to future performance had not yet been recognized. This amount will be recognized in expense over a weighted-average period of 1.6 years.

Performance-Based Restricted Share Program:

Under the Performance Share Program (PSP), contingent awards of International Paper common stock are granted by the Committee to approximately 1,200 employees. Awards are earned based on the achievement of defined performance rankings of return on investment (ROI) and total shareholder return (TSR) compared to peer groups. Awards are weighted 75% for ROI and 25% for TSR for all participants except for officers for whom awards are weighted 50% for ROI and 50% for TSR. The ROI component of the PSP awards is valued at the closing stock price on the day prior to the grant date. As the ROI component contains a performance condition, compensation expense, net of estimated forfeitures, is recorded over the requisite service period based on the most probable number of awards expected to vest. The TSR component of the PSP awards is valued using a Monte Carlo simulation as the TSR component contains a market condition. The Monte Carlo simulation estimates the fair value of the TSR component based on the expected term of the award, the risk-free rate, expected dividends, and the expected volatility for the Company and its competitors. The expected term was estimated based on the vesting period of the awards, the risk-free rate was based on the yield on U.S. Treasury securities matching the vesting period, the expected dividends were assumed to be zero for all companies, and the volatility was based on the Company s historical volatility over the expected term.

PSP awards issued to certain members of senior management are liability awards, which are required to be remeasured at fair value at each balance sheet date. The valuation of these PSP liability awards is computed based on the same methodology as other PSP awards.

The following table sets forth the assumptions used to determine compensation cost for the market condition component of the PSP plan:

	Three Months Ended September 30, 2010	Nine Months Ended September 30, 2010
Expected volatility	**33.83% - 57.95%**	**33.83% - 57.95%**
Risk-free interest rate	**0.16% - 1.49%**	**0.16% - 1.49%**

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The following summarizes the activity for PSP for the nine months ended September 30, 2010:

	Nonvested Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2009	6,066,050	$ 24.28
Granted	**3,842,626**	**28.93**
Shares Issued (a)	**(2,791,387)**	**33.30**
Forfeited	**(244,477)**	**21.62**
Outstanding at September 30, 2010	**6,872,812**	**$ 23.31**

(a) Includes 149,126 shares held for payout at the end of the performance period.

Stock Option Program:

The Company discontinued its stock option program in 2004 for members of executive management, and in 2005 for all other eligible U.S. and non-U.S. employees.

The following summarizes the option activity under the plan for the nine months ended September 30, 2010:

	Options	Weighted Average Exercise Price	Weighted Average Remaining Life (years)	Aggregate Intrinsic Value (millions)
Outstanding at December 31, 2009	22,217,057	$ 39.24		
Forfeited	**(40,575)**	**34.25**		
Expired	**(2,295,279)**	**56.03**		
Outstanding at September 30, 2010	**19,881,203**	**$ 37.31**	**2.35**	**$ 0**

All options were fully vested and exercisable as of September 30, 2010.

Executive Continuity and Restricted Stock Award Program:

The following summarizes the activity of the Executive Continuity and Restricted Stock Award Program for the nine months ended September 30, 2010:

	Nonvested Shares	Weighted Average Grant Date Fair Value
Outstanding at December 31, 2009	83,000	$ 33.93
Granted	**168,000**	**25.65**
Shares Issued	**(51,000)**	**31.96**
Forfeited	**0**	**0.00**
Outstanding at September 30, 2010	**200,000**	**$ 27.48**

NOTE 17 INDUSTRY SEGMENT INFORMATION

International Paper s industry segments, Industrial Packaging, Printing Papers, Consumer Packaging, Distribution and Forest Products, are consistent with the internal structure used to manage these businesses. All segments are differentiated on a common product, common customer basis consistent with the business segmentation generally used in the Forest Products industry.

The Company also has a 50% equity interest in Ilim in Russia that is a separate reportable industry segment.

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(Unaudited)

Sales by industry segment for the three months and nine months ended September 30, 2010 and 2009 were as follows:

In millions	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Industrial Packaging	**$ 2,610**	$ 2,230	**$ 7,270**	$ 6,680
Printing Papers	**1,550**	1,470	**4,400**	4,155
Consumer Packaging	**870**	790	**2,520**	2,275
Distribution	**1,755**	1,665	**4,965**	4,850
Forest Products	**205**	5	**220**	20
Corporate and Intersegment Sales	**(270)**	(241)	**(727)**	(591)
Net Sales	**$ 6,720**	$ 5,919	**$ 18,648**	$ 17,389

Operating profit by industry segment for the three months and nine months ended September 30, 2010 and 2009 were as follows:

In millions	Three Months Ended September 30, 2010	2009	Nine Months Ended September 30, 2010	2009
Industrial Packaging	**$ 332**	$ 410(b,c,d)	**$ 565(g)**	$ 1,152(b,c,d)
Printing Papers	**278**	363(b,e)	**247(h)**	954(b,e)
Consumer Packaging	**71**	144(b,f)	**147(f)**	370(b,f)
Distribution	**22**	21	**69**	24
Forest Products	**49**	2	**97**	7
Operating Profit (a)	**752**	940	**1,125**	2,507
Interest expense, net	**(152)**	(169)	**(458)**	(506)
Noncontrolling interests/equity earnings adjustment (i)	**5**	5	**20**	19
Corporate items, net	**(58)**	(46)	**(163)**	(141)
Restructuring and other charges	**0**	(141)	**(34)**	(252)
Earnings (loss) from continuing operations before income taxes and equity earnings	**$ 547**	$ 589	**$ 490**	$ 1,627
Equity earnings (loss), net of taxes Ilim (a)	**$ 22**	$ 0	**$ 24**	$ (56)

(a) In addition to the operating profits shown above, International Paper recorded equity earnings, net of taxes, of $22 million and $24 million for the three months and nine months ended September 30, 2010, respectively, no equity earnings for the three months ended

September 30, 2009 and equity losses, net of taxes, of $56 million for the nine months ended September 30, 2009, related to its equity investment in Ilim Holding S.A., a separate reportable industry segment.

(b) Includes gains of $221 million and $637 million for the Industrial Packaging segment, $226 million and $663 million for the Printing Papers segment, and $78 million and $247 million for the Consumer Packaging segment for the three months and nine months ended September 30, 2009, respectively, relating to alternative fuel mixture credits.

(c) Includes charges of $18 million and $72 million for the three months and nine months ended September 30, 2009, respectively, for CBPR integration costs.

(d) Includes charges of $7 million and $22 million for the three months and nine months ended September 30, 2009, respectively for severance and other costs related to the planned closure of the Etienne mill in France and $48 million for the nine months ended September 30, 2009 to write down the assets of the Etienne mill to estimated fair value.

(e) Includes charges of $1 million and $11 million for the three and nine months ended September 30, 2009, respectively, for shutdown costs for the Louisiana mill and the Franklin lumber mill, sheet converting plant and converting innovations center, and a charge of $23 million for the nine months ended September 30, 2009 for the closure of the Inverurie, Scotland mill.

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(f) Includes charges of $2 million for the three months ended September 30, 2009, and $4 million and $5 million for the nine months ended September 30, 2010 and 2009, respectively, related to the reorganization of the Company s Shorewood operations.

(g) Includes charges of $3 million for additional closure costs for the Etienne mill in France for the nine months ended September 30, 2010 and $3 million of additional closure costs for U.S. mills for the nine months ended September 30, 2010.

(h) Includes charges of $315 for the nine months ended September 30, 2010 for shutdown costs for the Franklin mill.

(i) Operating profits for industry segments include each segment s percentage share of the profits of subsidiaries included in that segment that are less than wholly owned. The pre-tax noncontrolling interest and equity earnings for these subsidiaries are adjusted here to present consolidated earnings before income taxes and equity earnings.

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

EXECUTIVE SUMMARY

International Paper produced record earnings per share before special items of $0.91 in the third quarter of 2010 (on an equivalent-share basis), up from $0.42 in the 2010 second quarter and $0.37 in the 2009 third quarter. Excluding earnings from land sales, earnings per share would have been $0.83 in the 2010 third quarter, also a record. The strong earnings were driven by excellent results across all our mill business segments and geographic regions. We experienced modest increases in volume from our printing papers and consumer packaging businesses and stronger increases in our North American distribution business, but equally important was the strong performance of our European operations where we did not experience as large of a seasonal drop as normal in our box and printing papers business. Improved price realizations from previously announced price increases drove solid margin expansion that was also enhanced by the realization of benefits from our 2008 and 2009 restructuring efforts and strong operations at our mills and converting plants. Reduced mill maintenance outages and an improved contribution from our Ilim joint venture also contributed to the earnings growth. Strong free cash flow allowed us to contribute nearly $1.2 billion to our pension plan and to repay approximately $200 million of balance sheet debt.

Looking ahead to the fourth quarter, we expect to continue to generate strong, but seasonally lower, earnings and free cash flow. We expect paper and packaging volumes to decline in line with typical seasonal demand declines, accompanied by stable prices and higher costs for recycled fiber and certain chemicals. Maintenance outages are expected to increase by approximately $30 million. Our North American distribution business, xpedx, is expected to experience a seasonal decline in earnings, while the contribution from our Ilim joint venture is expected to be in line with third quarter results. Fourth quarter earnings will be lower than the third quarter due to the absence of two non-recurring items: a $16 million bad debt recovery and a $50 million gain from land sales, both occurring in the third quarter.

Earnings per share attributable to International Paper Company shareholders before special items is a non-GAAP measure. Diluted earnings (loss) per share attributable to International Paper Company common shareholders is the most direct comparable GAAP measure. The Company calculates earnings per share before special items by excluding the after-tax effect of items considered by management to be unusual from the earnings reported under GAAP. Management uses this measure to focus on on-going operations, and believes that it is useful to investors because it enables them to perform meaningful comparisons of past and present operating results. The Company believes that using this information, along with the most direct comparable GAAP measure, provides for a more complete analysis of the results of operations by quarter. The following is a reconciliation of earnings per share attributable to International Paper Company common shareholders before special items to diluted earnings (loss) per share attributable to International Paper Company common shareholders.

	Three Months Ended September 30,		Three Months Ended June 30,
	2010	**2009**	**2010**
Earnings Per Share Before Special Items	**$ 0.91**	$ 0.37	$ 0.42
Restructuring and other charges	**0**	(0.22)	(0.21)
CBPR business integration costs	**0**	(0.03)	0
Alternative fuel mixture credits	**0**	0.75	0
Diluted Earnings Per Common Share as Reported	**$ 0.91**	$ 0.87	$ 0.21

RESULTS OF OPERATIONS

For the third quarter of 2010, International Paper Company reported net sales of $6.7 billion, compared with $5.9 billion in the third quarter of 2009 and $6.1 billion in the second quarter of 2010.

Net earnings attributable to International Paper Company totaled $397 million, or $0.91 per share, in the 2010 third quarter. This compared with earnings of $371 million, or $0.87 per share, in the third quarter of 2009 and $93 million, or $0.21 per share, in the second quarter of 2010.

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Compared with the third quarter of 2009, earnings in the 2010 third quarter benefited from higher average sales price realizations ($285 million), higher sales volumes and lower lack-of-order downtime ($29 million), higher earnings from land sales ($33 million), the partial reversal of a second quarter 2010 provision for bad debt related to a large envelope company ($11 million), and lower net interest expense ($13 million). These benefits were partially offset by the net impact of higher operating costs and a more favorable mix of products sold ($9 million), higher mill outage costs ($2 million), higher raw material and freight costs ($132 million), slightly higher corporate items and other costs ($4 million), and a higher income tax expense ($6 million) reflecting a higher estimated tax rate. Equity earnings, net of taxes, relating to International Paper s investment in Ilim Holding S.A. were $22 million higher in the 2010 third quarter than in the 2009 third quarter. There were no special items in the 2010 third quarter, compared with a net special item gain of $214 million in the 2009 third quarter.

Compared with the second quarter of 2010, earnings benefited from higher average sales price realizations ($116 million), higher sales volumes ($17 million), lower mill outage costs ($45 million), slightly lower raw material and freight costs ($1 million), higher earnings from land sales ($6 million), a provision for bad debt for a large envelope company recorded in the second quarter and partially reversed in the third quarter ($33 million), and decreased corporate items and other costs ($1 million). These benefits were partially offset by higher operating costs and a less favorable mix of products sold ($21 million) and a higher income tax provision ($1 million). Net interest expense decreased ($2 million). Equity earnings, net of taxes for Ilim Holding, S.A. increased by $17 million versus the second quarter. There were no special items in the 2010 third quarter, compared with net special items losses of $88 million in the 2010 second quarter.

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To measure the performance of the Company s business segments from period to period without variations caused by special or unusual items, International Paper s management focuses on business segment operating profit. This is defined as earnings before taxes, equity earnings and noncontrolling interests net of taxes, excluding interest expense, corporate charges and special items that include restructuring charges and (gains) losses on sales and impairments of businesses.

The following table presents a reconciliation of net earnings attributable to International Paper to its operating profit:

	Three Months Ended September 30,		June 30,
In millions	**2010**	**2009**	**2010**
Net Earnings (Loss) Attributable to International Paper Company	**$ 397**	$ 371	$ 93
Add back (deduct):			
Income tax provision (benefit)	**170**	212	25
Equity (earnings) loss, net of taxes	**(22)**	0	(7)
Noncontrolling interests, net of taxes	**2**	6	7
Earnings (Loss) From Continuing Operations Before Income Taxes and Equity Earnings	**547**	589	118
Interest expense, net	**152**	169	157
Noncontrolling interests / equity earnings included in operations	**(5)**	(5)	(7)
Corporate items	**58**	46	54
Special items:			
Restructuring and other charges	**0**	141	31
	$ 752	$ 940	$ 353
Industry Segment Operating Profit			
Industrial Packaging	**$ 332**	$ 410	$ 192
Printing Papers	**278**	363	47
Consumer Packaging	**71**	144	48
Distribution	**22**	21	26
Forest Products	**49**	2	40
Total Industry Segment Operating Profit (1)	**$ 752**	$ 940	$ 353

(1) In addition to the operating profits shown above, International Paper recorded equity earnings, net of taxes, of $22 million and $5 million for the three months ended September 30, 2010 and June 30, 2010, respectively, and no equity earnings for the three months ended September 30, 2009 related to its equity investment in Ilim Holding S.A., a separate reportable industry segment.

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Industry Segment Operating Profit

Industry segment operating profits of $752 million in the 2010 third quarter were lower than the $940 million in the 2009 third quarter, but higher than the $353 million in the 2010 second quarter. Compared with the third quarter of 2009, earnings in the current quarter benefited from higher average sales price realizations ($408 million), higher sales volumes and decreased lack-of-order downtime ($42 million), higher gains from land sales ($47 million), the partial reversal of a provision for bad debt for a large envelope company ($16 million), and slightly lower corporate items and other costs ($1 million). These benefits were partially offset by the net impact of higher operating costs and a more favorable mix of products sold ($13 million), higher mill outage costs ($3 million), and higher raw material and freight costs ($189 million). There were no special items in the 2010 third quarter compared to a gain of $497 million in the 2009 third quarter (primarily related to alternative fuel mixture credits).

Compared with the 2010 second quarter, operating profits benefited from higher average sales price realizations ($169 million), higher sales volumes ($24 million), lower mill outage costs ($65 million), slightly lower raw material and freight costs ($1 million), higher gains from land sales ($9 million), and a bad debt provision for a large envelope company recorded in the second quarter and partially reversed in the third quarter ($49 million). These benefits were partially offset by higher operating costs and a less favorable mix of products sold ($31 million). There were no special items in the 2010 third quarter compared to a loss of $113 million in the 2010 second quarter.

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During the 2010 third quarter, International Paper took approximately 144,000 tons of downtime, which included 29,000 tons that were market related compared with approximately 715,000 tons of downtime in the third quarter of 2009, which included approximately 101,000 tons that were market-related and 454,000 tons related to capacity reductions at our Albany, Pineville, Franklin and Valliant mills. During the 2010 second quarter, International Paper took approximately 214,000 tons of downtime of which essentially none was market related. Market-related downtime is taken to balance internal supply with our customer demand to help manage inventory levels, while maintenance downtime, which makes up the majority of the difference between total downtime and market-related downtime, is taken periodically during the year.

Sales Volumes by Product (1)

Sales volumes of major products for the three-month and nine-month periods ended September 30, 2010 and 2009 were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
In thousands of short tons	**2010**	**2009**	**2010**	**2009**
Industrial Packaging				
Corrugated Packaging	**1,928**	1,856	**5,693**	5,531
Containerboard	**634**	580	**1,867**	1,581
Recycling	**636**	566	**1,860**	1,759
Saturated Kraft	**45**	33	**136**	83
Bleached Kraft	**23**	22	**66**	52
European Industrial Packaging	**251**	252	**768**	790
Asian Box	**114**	43	**197**	109
Asian Distribution	**87**	157	**270**	318
Industrial Packaging	**3,718**	3,509	**10,857**	10,223
Printing Papers				
U.S. Uncoated Papers	**684**	753	**2,051**	2,148
European and Russian Uncoated Papers	**311**	304	**929**	1,006
Brazilian Uncoated Papers	**262**	282	**792**	696
Asian Uncoated Papers	**24**	25	**75**	40
Uncoated Papers	**1,281**	1,364	**3,847**	3,890
Market Pulp (2)	**385**	422	**1,053**	1,114
Consumer Packaging				
U.S. Coated Paperboard	**364**	324	**1,057**	932
European Coated Paperboard	**88**	86	**264**	265
Asian Coated Paperboard	**213**	221	**651**	628
Other Consumer Packaging	**45**	42	**129**	130
Consumer Packaging	**710**	673	**2,101**	1,955

(1) Sales volumes include third party and inter-segment sales and exclude sales of equity investees.
(2) Includes internal sales to mills.

Income Taxes

The income tax provision was $170 million for the 2010 third quarter reflecting an effective income tax rate for continuing operations of 31% for the quarter.

The income tax provision was $25 million for the 2010 second quarter. Excluding a benefit of $56 million relating to the tax effects of special items, the effective income tax rate for continuing operations was 31% for the quarter.

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The income tax provision was $212 million for the 2009 third quarter. Excluding expense of $142 million relating to the tax effects of special items, the effective income tax rate for continuing operations was 30% for the quarter.

Interest Expense and Corporate Items

Net interest expense for the 2010 third quarter was $152 million compared with $157 million in the 2010 second quarter and $169 million in the 2009 third quarter. The lower net expense compared with the third quarter of 2009 is due to the repayment of $3.1 billion of debt in 2009.

Corporate items, net, of $58 million in the 2010 third quarter were higher than the $54 million of net expense in the 2010 second quarter and the $46 million of net expense in the 2009 third quarter. The increase compared to the prior year reflects higher supply chain initiative costs and higher pension costs, partially offset by the reversal of an environmental reserve.

Special Items

Restructuring and Other Charges

2010:

Restructuring and other charges during the three months ended September 30, 2010 were immaterial.

During the three months ended June 30, 2010, restructuring and other charges totaling $144 million before taxes ($88 million after taxes) were recorded, including a $111 million pre-tax charge ($68 million after taxes) for closure costs related to the paper mill and associated operations in Franklin, Virginia (including $46 million of accelerated depreciation and $36 million of environmental closure costs), a $2 million pre-tax charge ($1 million after taxes) for costs associated with the Company s S&A reduction initiative, an $18 million pre-tax charge ($11 million after taxes) for costs related to the early extinguishment of debt, an $11 million pre-tax charge ($7 million after taxes) to write off an Ohio Commercial Activity tax receivable and a $2 million pre-tax charge ($1 million after taxes) for other items.

During the three months ended March 31, 2010, restructuring and other charges totaling $215 million before taxes ($132 million after taxes) were recorded, including a $204 million pre-tax charge ($124 million after taxes) for closure costs related to the paper mill and associated operations in Franklin, Virginia (including accelerated depreciation of $190 million), a $4 million pre-tax charge ($2 million after taxes) for costs related to the early extinguishment of debt, a $3 million pre-tax charge ($2 million after taxes) for costs associated with the reorganization of the Company s Shorewood Packaging operations and charges of $4 million (before and after taxes) for other items. Additionally, a $46 million after-tax charge was recorded for tax adjustments related to incentive compensation and postretirement prescription drug coverage.

2009:

During the three months ended September 30, 2009, restructuring and other charges totaling $151 million before taxes ($95 million after taxes) were recorded, including a $102 million charge before taxes ($62 million after taxes) for costs related to the early extinguishment of debt (see Note 13), a $39 million charge before taxes ($24 million after taxes) for severance and benefit costs associated with the Company s 2008 overhead reduction program, a $7 million charge, before and after taxes, for severance and other costs related to the planned closure of the Company s Etienne mill in France, and a $3 million charge before taxes ($2 million after taxes) for other closure costs.

During the three months ended June 30, 2009, restructuring and other charges totaling $79 million before taxes ($55 million after taxes) were recorded, including a $34 million charge before taxes ($21 million after

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taxes) for severance and benefit costs associated with the Company s 2008 overhead reduction program, a $25 million charge before taxes ($16 million after taxes) related to early debt extinguishment costs, a $15 million charge, before and after taxes, for severance and other costs related to the Company s Etienne mill in France, and a $5 million charge before taxes ($3 million after taxes) for other closure costs. Additionally, the second quarter income tax provision included a $156 million charge to establish a valuation allowance for deferred tax assets in France, and a $26 million credit related to the settlement of certain tax issues.

During the three months ended March 31, 2009, restructuring and other charges totaling $83 million before taxes ($65 million after taxes) were recorded, including a $52 million charge before taxes ($32 million after taxes) for severance and benefits associated with the Company s 2008 overhead reduction program, a $23 million charge before taxes ($28 million after taxes) for closure costs related to the Inverurie mill in Scotland, a $6 million charge before taxes ($4 million after taxes) related to the shutdown of certain operations at the Franklin, Virginia mill, and a $2 million pre-tax charge ($1 million after taxes) for costs associated with the reorganization of the Company s Shorewood Packaging operations. Additionally, a $20 million charge was recorded for certain tax adjustments.

Net (Gains)Losses on Sales and Impairments of Businesses

2009:

During the three months ended June 30, 2009, based on a current strategic plan update of projected future operating results of the Company s Etienne, France mill, a determination was made that the current book value of the mill s long-lived assets exceeded their estimated fair value, calculated using the probability-weighted present value of projected future cash flows. As a result, a $48 million charge, before and after taxes, was recorded to write down the long-lived assets of the mill to their estimated fair value. This charge is included in Net (gains) losses on sales and impairments of businesses in the accompanying consolidated statement of operations.

BUSINESS SEGMENT OPERATING RESULTS

The following presents business segment discussions for the third quarter of 2010.

Industrial Packaging

		2010			2009	
In millions	**3rd Quarter**	**2nd Quarter**	**Nine Months**	**3rd Quarter**	**2nd Quarter**	**Nine Months**
Sales	**$ 2,610**	$ 2,440	$ 7,270	$ 2,230	$ 2,270	$ 6,680
Operating Profit	**332**	192	565	410	382	1,152

Industrial Packaging net sales for the third quarter of 2010 were 7% higher than in the second quarter of 2010 and 17% higher than in the third quarter of 2009. Operating profits included $1 million in the second quarter of 2010 of expenses related to the closure of the Etienne mill in France. Operating profits in the third quarter of 2009 included a gain of $221 million relating to alternative fuel mixture credits, $7 million of costs associated with the closure of the Etienne mill and $18 million for costs associated with the integration of the CBPR acquisition. Excluding these items, operating profits in the third quarter of 2010 were 72% higher than in the second quarter of 2010, and 55% higher than in the third quarter of 2009.

North American Industrial Packaging net sales were $2.2 billion in the third quarter of 2010 compared with $2.1 billion in the second quarter of 2010 and $1.9 billion in the third quarter of 2009. Operating earnings were $320 million in the third quarter of 2010 compared with $172 million in the second quarter of 2010 and $404 million ($201 million excluding alternative fuel mixture credits and integration costs related to Weyerhaeuser Company s Containerboard, Packaging and Recycling (CBPR) business) in the third quarter of 2009.

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Sales volumes in the third quarter of 2010 increased slightly compared with the second quarter of 2010 reflecting higher export linerboard shipments partially offset by seasonally weaker demand in North American box markets. Average sales price realizations were significantly higher due to the full-quarter impact of price increases effective in the second quarter for containerboard and boxes. Input costs decreased due to lower wood and recycled fiber costs, partially offset by higher natural gas and chemical costs. Manufacturing operating costs decreased due to good performance at the mills and increased efficiencies at the box plants, however overhead costs for incentive compensation were higher. Planned maintenance downtime costs were $38 million lower than in the second quarter of 2010 with no major outages occurring in the third quarter.

Compared with the third quarter of 2009, sales volumes improved in the third quarter of 2010 due to stronger customer demand for boxes and for exported linerboard. The year-to-date cumulative impact of 2010 announced price increases resulted in significantly higher average sales price realizations than in the third quarter of 2009 which was negatively impacted by poor economic conditions. Input costs have increased sharply, primarily for recycled fiber, but also for wood, natural gas and chemicals. Manufacturing operating costs were favorable reflecting the fixed cost savings from the closures of the Albany and Pineville mills in the 2009 fourth quarter. Planned maintenance downtime costs were about the same as in the third quarter of 2009. In 2010, capacity was reduced by 377,000 tons per quarter related to the 2009 shutdowns of the Albany and Pineville mills and idling of a paper machine at the Valliant mill. In the third quarter of 2009, the business took about 465,000 tons of lack-of-order downtime including 98,000 tons associated with the idling of a paper machine at the Valliant mill.

Entering the fourth quarter of 2010, sales volumes are expected to seasonally decline due to fewer operating days in the box business. Average sales price realizations should continue to improve slightly reflecting a more favorable customer mix for containerboard and boxes. Input costs are expected to slightly increase primarily due to higher costs for recycled fiber. Planned maintenance downtime costs should be about $23 million higher with major outages scheduled at the Pine Hill and Prattville mills.

European Industrial Packaging net sales were $235 million in both the third and second quarters of 2010 and $240 million in the third quarter of 2009. Operating earnings were $14 million in the third quarter of 2010 compared with $18 million ($19 million excluding facility closure costs) in the second quarter of 2010 and $6 million ($13 million excluding facility closure costs) in the third quarter of 2009.

Sales volumes in the third quarter of 2010 were lower than the second quarter of 2010 due to normal seasonality, the European holiday season and the Ramadan period in Morocco. Demand in industrial markets continues to recover, while the improvement in the fruit and vegetable markets was hampered by poor weather conditions throughout Europe. Average sales margins decreased as box price increases only partially offset higher costs for kraft and recycled containerboard. Also, sales margins were negatively impacted by a higher percentage of export shipments from Italy and Morocco and an unfavorable mix in the fruit and vegetable markets. Other input costs were about the same as in the 2010 second quarter.

Compared with the third quarter of 2009, total sales volumes increased reflecting improved demand for packaging in the industrial markets, but a weaker fruit and vegetable season. Average sales margins were lower as prices for kraft and recycled linerboard have increased from the record low levels of the 2009 third quarter. Operating costs were favorable, but energy costs were higher. Earnings were favorably impacted by savings from the closure of the Etienne mill. Foreign exchange effects had a $2 million more negative impact on earnings in the third quarter of 2010 than in the third quarter of 2009.

Looking ahead to the fourth quarter of 2010, sales volumes are expected to be higher with the start of the winter fruit and vegetable season in Spain, Morocco and Turkey and the continued strengthening of demand in the industrial markets. Average sales prices for boxes should be stable, but average margins are expected to improve as costs for containerboard remain at or below third quarter levels.

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Asian Industrial Packaging net sales were $165 million in the third quarter of 2010 compared with $85 million in the second quarter of 2010 and $100 million in the third quarter of 2009. Operating earnings for the packaging operations were a loss of $2 million in the third quarter of 2010 compared with a gain of about $1 million in both the second quarter of 2010 and the third quarter of 2009. The third quarter of 2010 included the results of the SCA Packaging Asia acquisition on June 30, 2010. SCA was about breakeven from operations for the quarter before incurring incremental integration expenses. Operating earnings for the distribution activities of the business were about breakeven in the third quarter of 2010 compared with a gain of about $1 million in the second quarter of 2010 and a loss of about $1 million in the third quarter of 2009.

Printing Papers

		2010			2009	
In millions	**3rd Quarter**	**2nd Quarter**	**Nine Months**	**3rd Quarter**	**2nd Quarter**	**Nine Months**
Sales	**$ 1,550**	$ 1,445	$ 4,400	$ 1,470	$ 1,360	$ 4,155
Operating Profit	**278**	47	247	363	279	954

Printing Papers net sales for the third quarter of 2010 were 7% higher than in the second quarter of 2010 and 5% higher than in the third quarter of 2009. Operating profits included $111 million in the second quarter of 2010 for closure costs for the Franklin mill. Operating profits in the third quarter of 2009 included a gain of $226 million for alternative fuel mixture credits and costs of $1 million for facility closures. Excluding these items, operating profits in the third quarter of 2010 were 76% higher than in the second quarter of 2010 and double the third quarter of 2009.

North American Printing Papers net sales were $715 million in the third quarter of 2010 compared with $675 million in the second quarter of 2010 and $725 million in the third quarter of 2009. Operating earnings were $125 million in the third quarter of 2010 compared with a loss of $65 million (a gain of $46 million excluding facility closure costs) in the second quarter of 2010 and income of $254 million ($92 million excluding alternative fuel mixture credits and facility closure costs) in the third quarter of 2009.

Compared with the second quarter of 2010, sales volumes in the third quarter of 2010 increased due to seasonally stronger demand for uncoated freesheet paper in North America and higher export shipments. Average sales price realizations improved reflecting the full-quarter impact of the realization of a May price increase for uncoated freesheet paper. Input costs for wood were lower, but were partially offset by higher energy and chemical costs. Freight costs were stable as higher domestic fuel costs were offset by lower ocean freight rates on export shipments. Manufacturing operations continued to be strong, but costs were slightly less favorable than in the 2010 second quarter. Planned maintenance downtime costs were $4 million lower than in the 2010 second quarter. In addition, operating earnings in the second quarter of 2010 included a $33 million bad debt expense of which $16 million was reversed in the third quarter of 2010.

Sales volumes in the third quarter of 2010 decreased from the third quarter of 2009 partially due to reduced capacity related to the permanent closure of the Franklin mill. Average sales price realizations improved reflecting sales price increases announced during 2010. Input costs were higher for wood, purchased fiber, energy and chemicals. Freight costs were also higher. Planned maintenance downtime costs were slightly higher in the third quarter of 2010, while operating costs were unfavorable. In the third quarter of 2009, 42,000 tons of lack-of-order downtime was taken, but capacity has been reduced by 150,000 tons per quarter in 2010 due to the closure of the Franklin mill.

Entering the fourth quarter of 2010, domestic market conditions are expected to remain steady; however, sales volumes are expected to be impacted by a seasonally weaker period. Average sales price realizations should be stable. Average margins are expected to decrease due to an increase in lower-margin export shipments. Operating costs and planned mill maintenance downtime costs should be about flat. Input costs for wood are expected to decrease, but be largely offset by higher energy and chemical costs.

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European Printing Papers net sales were $325 million in the third quarter of 2010 compared with $320 million in the second quarter of 2010 and $300 million in the third quarter of 2009. Operating earnings were $58 million in the third quarter of 2010 compared with $55 million in the second quarter of 2010 and $28 million in the third quarter of 2009.

Sales volumes for uncoated freesheet paper were higher in the third quarter of 2010 than in the second quarter of 2010 as market demand in Russia continues to strengthen, more than offsetting seasonal declines in the rest of Europe. Pulp shipments increased in Russia and Poland. Average sales price realizations improved as price increases were realized, primarily in Western Europe, for uncoated freesheet paper. Manufacturing operating costs were favorable, but planned maintenance downtime costs for an outage at the Kwidzyn mill in the third quarter of 2010 were $2 million higher than for an outage at the Svetogorsk mill in the second quarter of 2010. Input costs for wood, energy, chemicals and purchased pulp all increased slightly.

Compared with the 2009 third quarter, sales volumes for uncoated freesheet paper in the 2010 third quarter increased, reflecting stronger market demand. Average sales price realizations for uncoated freesheet paper increased due to improved market conditions, and market pulp prices were significantly higher. Manufacturing operating costs and planned maintenance downtime costs were each about flat. Input costs for wood and energy were higher, but were partially offset by lower costs for chemicals.

In the 2010 fourth quarter, average sales price realizations for uncoated freesheet paper are expected to improve, but should be partially offset by significantly lower pulp sales prices. Planned maintenance downtime costs should be higher due to an outage at the Saillat mill in France. Sales volumes are expected to be higher overall, but lower in Russia due to capacity constraints. Input costs for wood are expected to be about flat, but costs for energy and chemicals are expected to be higher. Operating costs should be seasonally higher.

Brazilian Printing Papers net sales were $275 million in both the third and second quarters of 2010 and the third quarter of 2009. Operating earnings were $46 million in the third quarter of 2010 compared with $39 million in the second quarter of 2010 and $36 million in the third quarter of 2009.

Sales volumes in the third quarter of 2010 decreased compared with the second quarter of 2010 as higher sales volumes in the domestic Brazilian market were more than offset by lower export shipments. Market demand in Brazil and the rest of Latin America remains strong. Average sales price realizations were higher reflecting the realization of uncoated freesheet paper sales price increases in the Latin American and European export markets. Average margins were favorably impacted by a greater proportion of higher-margin domestic sales. Input costs for purchased pulp and energy were higher, but wood costs were lower. Manufacturing operating costs were favorable, but overhead costs and planned maintenance downtime costs were higher.

Compared with the third quarter of 2009, sales volumes decreased for both domestic and export sales of uncoated freesheet paper and for pulp. Average sales price realizations for uncoated freesheet paper increased significantly in export markets, but decreased slightly in domestic markets. Average sales price realizations for pulp increased. Input costs were higher primarily reflecting increased costs for purchased pulp at the Tres Lagoas mill. Manufacturing operating costs were unfavorable and planned maintenance downtime costs were $3 million higher with outages at the Luis Antonio and Mogi Guacu mills in the third quarter of 2010 and at only the Luis Antonio mill in the third quarter of 2009.

Entering the 2010 fourth quarter, sales volumes are expected to increase, and average margins are expected to rise due to stable domestic market demand for uncoated freesheet paper. Average sales price realizations should improve particularly in export markets with the full-quarter impact of the realization of previously announced price increases. Costs associated with planned maintenance downtime are expected to be lower with no outages scheduled for the fourth quarter. Input costs are expected to increase as purchased pulp prices moderate slightly, and operating costs should be about flat.

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Asian Printing Papers net sales were $25 million in the third quarter of 2010 compared with $15 million in both the second quarter of 2010 and the third quarter of 2009. Operating earnings were about breakeven in all periods presented.

U.S. Market Pulp net sales were $210 million in the third quarter of 2010 compared with $160 million in the second quarter of 2010 and $155 million in the third quarter of 2009. Operating earnings were $49 million in the third quarter of 2010 compared with $18 million in the second quarter of 2010 and $45 million (a loss of $18 million excluding alternative fuel mixture credits) in the third quarter of 2009.

Sales volumes in the third quarter of 2010 were higher than in the second quarter of 2010 reflecting strong market demand, particularly for fluff pulp. Average sales price realizations increased for fluff pulp, but this benefit was partially offset by decreases for softwood and hardwood pulp. Input costs decreased reflecting lower wood costs, but higher energy and chemical costs. Freight costs increased due to higher fuel costs. Planned maintenance downtime costs were about $11 million higher than in the 2010 second quarter. Operating costs were favorable due to strong performance at the mills.

Compared with the third quarter of 2009, sales volumes were slightly higher. Average sales price realizations increased significantly, reflecting the impact of stronger market demand. Input costs for wood and energy were higher, and freight costs were also higher. Planned maintenance downtime costs were about the same as in the third quarter of 2009. Operating costs were lower reflecting strong mill performance.

Looking ahead to the fourth quarter of 2010, average sales price realizations are expected to decrease reflecting competitive pressure on softwood, hardwood and fluff pulp prices. Sales volumes are also expected to decrease reflecting seasonal weakness. No planned maintenance outages are scheduled in the fourth quarter. Input costs for energy and chemicals are expected to increase, but should be partially offset by lower wood costs. Manufacturing operating costs should be seasonally higher.

Consumer Packaging

		2010			2009	
In millions	**3rd Quarter**	**2nd Quarter**	**Nine Months**	**3rd Quarter**	**2nd Quarter**	**Nine Months**
Sales	**$ 870**	$ 845	$ 2,520	$ 790	$ 770	$ 2,275
Operating Profit	**71**	48	147	144	114	370

Consumer Packaging net sales for the third quarter of 2010 were 3% higher than in the second quarter of 2010 and 10% higher than in the third quarter of 2009. Operating earnings in the second quarter of 2010 included $1 million of costs associated with the reorganization of the Shorewood business, while operating earnings in the third quarter of 2009 included a gain of $78 million for alternative fuel mixture credits and costs of $2 million related to the Shorewood reorganization. Excluding these items, operating earnings in the third quarter of 2010 were 45% higher than in the second quarter of 2010 and 4% higher than in the third quarter of 2009.

North American Consumer Packaging net sales were $615 million in the third quarter of 2010 compared with $580 million in the second quarter of 2010 and $565 million in the third quarter of 2009. Operating earnings in the third quarter of 2010 were $51 million compared with $16 million ($17 million excluding Shorewood reorganization costs) in the second quarter of 2010 and earnings of $120 million ($44 million excluding alternative fuel mixture credits and Shorewood reorganization costs) in the third quarter of 2009.

Coated Paperboard sales volumes in the third quarter of 2010 increased compared with the second quarter of 2010 reflecting continued strong market demand across all product lines. Average sales price realizations were higher due to the full-quarter realization of price increases announced in June. Input costs for wood

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decreased and were only partially offset by increased costs for energy and chemicals. Planned maintenance downtime costs were $19 million lower in the third quarter with no mills taking outages compared with two in the second quarter. Manufacturing costs were about flat as the mills continued to perform well.

Compared with the third quarter of 2009, sales volumes were higher reflecting stronger market demand. Average sales price realizations increased due to the flow through of previously announced price increases. Input costs have increased for wood, energy and chemicals, and freight costs are also higher. Manufacturing operating costs were favorable compared with the third quarter of 2009 primarily reflecting cost savings associated with the closure of the Franklin mill. Planned maintenance downtime costs were slightly lower. In the third quarter of 2009, the business took 51,000 tons of lack-of-order downtime. Capacity in 2010 has been reduced by 35,000 tons per quarter related to the shutdown of the paperboard machine at the Franklin mill at the end of 2009.

Shorewood sales in the third quarter of 2010 were higher than in the second quarter of 2010 primarily reflecting a seasonal increase in the home entertainment segment. Lower sales in the tobacco segment were partially offset by increases in the consumer products and display segments. Average margins declined slightly reflecting lower prices in the Korean tobacco market and higher board costs. Operating costs were unfavorable primarily due to the start-up of new equipment. Compared with the third quarter of 2009, sales declined in all segments. Input costs increased, primarily for board. Operating costs were higher, but were more than offset with favorable overhead cost savings.

Foodservice sales volumes in the third quarter of 2010 were up slightly from the second quarter of 2010. Average margins decreased slightly due to a change in product mix. Average sales price realizations increased reflecting the impact of passing on higher raw material costs through mid-year contract price increases. Input costs for board increased, but were partially offset by lower resin costs. Compared with the third quarter of 2009, sales volumes in the third quarter of 2010 improved. Average sales price realizations were higher, but the timing of higher input costs for board and resins squeezed margins. Operating and overhead costs were favorable.

Looking forward to the fourth quarter of 2010, coated paperboard sales volumes are expected to be seasonally lower. Average sales price realizations should increase as a previously announced price increase for folding carton board effective in October is realized. Planned maintenance downtime costs are expected to be about $16 million higher than in the third quarter. Input costs are expected to remain stable. Operating costs should reflect seasonally higher fuel consumption. Shorewood s sales volumes are expected to increase reflecting seasonally higher demand in the home entertainment segment. Input costs for board are expected to be about flat, but operating costs should be lower. Sales volumes for Foodservice should be seasonally lower, but average margins should improve due to a more favorable product mix. Average sales price realizations should increase reflecting the pass-through of earlier input cost increases. Input costs for resins are expected to be lower in the fourth quarter, but should be partially offset by higher board costs. Freight costs are also expected to increase.

European Consumer Packaging net sales were $85 million in the third quarter of 2010 compared with $80 million in both the second quarter of 2010 and the third quarter of 2009. Operating earnings were $17 million in the third quarter of 2010 compared with $19 million in the second quarter of 2010 and $17 million in the third quarter of 2009.

Sales volumes in the third quarter of 2010 were slightly higher than in the second quarter of 2010. Average sales price realizations increased in both Europe and Russia. A planned maintenance outage was taken at the Kwidzyn mill in the third quarter while one was taken at the Svetogorsk mill in the second quarter, but costs were about $2 million higher in the third quarter. Input costs were higher for wood and energy. Compared with the third quarter of 2009, sales volumes in the third quarter of 2010 were slightly higher. Average sales price realizations improved. Input costs for wood and energy increased.

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Operating results in the 2010 fourth quarter are expected to reflect an increase in average sales price realizations in Europe, but a decrease in Russia. Operating profits are expected to be adversely affected by seasonally higher input costs, but should benefit from a reduction in planned maintenance downtime expenses.

Asian Consumer Packaging net sales were $170 million in the third quarter of 2010 compared with $185 million in the second quarter of 2010 and $145 million in the third quarter of 2009. Operating earnings were $3 million in the third quarter of 2010 compared with $13 million in the second quarter of 2010 and $7 million in the third quarter of 2009.

Average sales price realizations in the third quarter of 2010 were lower than in the second quarter of 2010 primarily for folding carton board and coated bristols reflecting competitive pricing pressures. Sales volumes were about flat and market demand remained solid. Manufacturing costs were favorable, but this benefit was offset by higher input costs for pulp, energy and chemicals. Compared with the third quarter of 2009, average sales price realizations were significantly higher, but were offset by increased input costs, primarily for pulp, but also for energy and chemicals. Sales volumes decreased slightly.

Entering the fourth quarter of 2010, average sales price realizations are expected to improve as tobacco board, folding carton board and coated bristols prices begin to increase during the quarter. Pulp costs in the Chinese market are volatile and if they increase, average margins will be negatively impacted.

Distribution

		2010			2009	
In millions	**3rd Quarter**	**2nd Quarter**	**Nine Months**	**3rd Quarter**	**2nd Quarter**	**Nine Months**
Sales	**$ 1,755**	$ 1,630	$ 4,965	$ 1,665	$ 1,595	$ 4,850
Operating Profit	**22**	26	69	21	10	24

Distribution s 2010 third quarter sales were 8% higher than in the second quarter of 2010 and 5% higher than the third quarter of 2009. Operating earnings in the third quarter of 2010 were 15% lower than in the second quarter of 2010, and 5% higher than earnings in the third quarter of 2009.

Sales of papers and graphic arts supplies and equipment in the third quarter of 2010 totaled $1.1 billion compared with $1.0 billion in the second quarter of 2010 and $1.1 billion in the third quarter of 2009. Trade margins as a percent of sales for printing papers declined from the second quarter of 2010 due to a higher proportion of lower-margin sales shipped directly from the manufacturer versus sales shipped from warehouses, but increased from the third quarter of 2009 as a result of higher resale prices. Packaging sales were $400 million in both the third and second quarters of 2010 and $350 million in third quarter of 2009. Trade margins as a percent of sales for packaging products decreased from both the second quarter of 2010 and third quarter of 2009 reflecting changing product and service mix. Sales of facility supply products totaled $300 million in the third quarter of 2010, compared with $250 million in the second quarter of 2010 and $300 million in the third quarter of 2009.

Operating profits were $22 million in the third quarter of 2010 compared with $26 million in the second quarter of 2010 and $21 million in the third quarter of 2009. Compared with the second quarter of 2010, operating profits declined due to a change in sales mix and higher inventory valuation adjustment charges. Increased sales volume and improved margins were the primary causes of the earnings improvement compared with the 2009 third quarter.

Looking ahead to the 2010 fourth quarter, operating results are expected to be seasonally lower.

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Forest Products

	2010			2009		
In millions	**3rd Quarter**	**2nd Quarter**	**Nine Months**	**3rd Quarter**	**2nd Quarter**	**Nine Months**
Sales	**$ 205**	$ 5	$ 220	$ 5	$ 10	$ 20
Operating Profit	**49**	40	97	2	3	7

Forest Products sales and profits are driven mainly by land and mineral rights sales, which varied from quarter to quarter due to various factors. Operating earnings in the third quarter of 2010 included a $50 million gain on the sale of 163,000 acres of land in the southeastern U.S. Operating earnings in the second quarter of 2010 were primarily due to a $39 million gain on the sale of mineral rights on more than 7 million acres throughout the U.S.

The Company has substantially completed its land sales, and earnings for future land sales are expected to be insignificant in any given quarter.

Equity Earnings, Net of Taxes Ilim Holding S.A.

On October 5, 2007, International Paper and Ilim Holding S.A. (Ilim) announced the completion of a 50:50 joint venture to operate in Russia. Due to the complex organizational structure of Ilim s operations, and the extended time required to prepare consolidated financial information in accordance with accounting principles generally accepted in the United States, the Company reports its share of Ilim s operating results on a one-quarter lag basis. Accordingly, the accompanying consolidated statement of operations for the three months ended September 30, 2010 includes the Company s 50% share of Ilim s operating results for the three-month period ended June 30, 2010 under the caption Equity earnings (losses) net of taxes. Ilim is reported as a separate reportable industry segment.

The Company recorded equity earnings, net of taxes, of $22 million in the third quarter of 2010 related to operations in the second quarter of 2010 compared with $5 million recorded in the second quarter of 2010 related to operations in the first quarter of 2010. Sales volumes in the second quarter of 2010 decreased from the prior quarter due to lower market pulp and containerboard shipments. Market demand for pulp was strong throughout most of the quarter due to the first-quarter Chilean earthquake, but demand in the Chinese market decreased sharply in the second half of June. Average sales price realizations increased significantly for market pulp with more modest increases for linerboard in both domestic and export markets. Input costs for wood were unfavorable reflecting seasonal difficulties in harvesting and transportation. Operating costs were favorable primarily due to seasonally lower energy consumption. Additionally, in the second quarter of 2010, the after-tax foreign exchange impact was a loss of $6 million compared with a slight loss recorded in the first quarter of 2010.

In the third quarter of 2009, the Company had recorded equity earnings, net of taxes, for Ilim of about breakeven related to operations in the second quarter of 2009. Compared to the second quarter of 2009, sales volumes in the second quarter of 2010 increased, primarily for market pulp, reflecting strong demand. Average sales price realizations were significantly higher for softwood and hardwood pulp in the domestic and Chinese export markets as well as for linerboard. A foreign exchange gain of $10 million on the remeasurement of U.S. dollar-denominated debt was recorded in the second quarter of 2009.

Looking forward to the results we expect to record in the Company s fourth quarter of 2010 for Ilim s third quarter, sales volumes are expected to increase as domestic market demand remains strong. Average sales price realizations are expected to be lower reflecting the decline in market demand for pulp, particularly in China, although sales prices are expected to begin to recover toward the end of the quarter. Input costs are expected to decrease, primarily for wood, and operating costs should be favorable. Earnings will be negatively impacted by the recognition of a fixed asset retirement charge. A highly favorable foreign exchange impact is expected.

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LIQUIDITY AND CAPITAL RESOURCES

Cash provided by continuing operations totaled $587 million for the first nine months of 2010, down from $3.6 billion for the comparable 2009 nine-month period. Earnings from continuing operations adjusted for non-cash charges were $1.3 billion for the first nine months of 2010 compared to $2.9 billion for the first nine months of 2009. Cash used for working capital components totaled $692 million for the first nine months of 2010, down from a source of $685 million for the comparable 2009 nine-month period.

The Company generated free cash flow of approximately $1.1 billion and $1.9 billion in the first nine months of 2010 and 2009, respectively. Free cash flow is a non-GAAP measure and the most comparable GAAP measure is cash provided by operations. Management uses free cash flow as a liquidity metric because it measures the amount of cash generated that is available to maintain our assets, make investments or acquisitions, pay dividends and reduce debt. The following is a reconciliation of free cash flow to cash provided by operations:

	Nine Months Ended September 30,	
In millions	**2010**	**2009**
Cash provided by operations	**$ 587**	$ 3,570
Less/Add:		
Cash invested in capital projects	**(457)**	(367)
Cash contribution to pension plan	**1,150**	
Cash received from alternative fuel mixture credits	**(132)**	(1,295)
Free Cash Flow	**$ 1,148**	$ 1,908

Investments in capital projects totaled $457 million in the first nine months of 2010 compared to $367 million in the first nine months of 2009. Full-year 2010 capital spending is currently expected to be approximately $800 million, or about 55% of depreciation and amortization expense for our current businesses. Cash used for acquisitions (net of cash acquired) for the first nine months of 2010 totaled $152 million related to the Company s purchase of SCA Packaging Asia.

Financing activities for the first nine months of 2010 included a $328 million net reduction in debt versus a $2.4 billion net reduction during the comparable 2009 nine-month period.

During the three months ended September 30, 2010, International Paper repaid approximately $111 million of notes with interest rates ranging from 5.375% to 6.8% and original maturities from 2016 to 2024.

In the second quarter of 2010, International Paper repaid approximately $108 million of notes with interest rates ranging from 5.3% to 9.375% and original maturities from 2015 to 2019. In connection with these early debt extinguishments, interest rate swap hedges with a notional value of $2 million were undesignated as effective fair value hedges. The resulting gain was immaterial. Pre-tax early debt retirement costs of $18 million related to these debt repayments, net of gains on swap terminations, are included in Restructuring and other charges in the accompanying consolidated statement of operations.

In June 2010, interest rate swap agreements designated as fair value hedges with a notional value of $100 million were terminated. The termination was not in connection with the early retirement of debt. The resulting gain of $3 million was deferred and recorded in Long-term debt and will be amortized as an adjustment of interest expense over the life of the underlying debt through 2019.

In the first quarter of 2010, International Paper repaid approximately $120 million of notes with interest rates ranging from 5.25% to 7.4% and original maturities from 2010 to 2027. In connection with these early debt retirements, previously deferred gains of $1 million related to earlier swap terminations were recognized in

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earnings. Pre-tax early debt retirement costs of $4 million related to these debt repayments, net of gains on swap terminations, are included in Restructuring and other charges in the accompanying consolidated statement of operations.

Also in the first quarter of 2010, approximately $700 million of fixed-to-floating interest rate swaps, issued in 2009, were terminated, $100 million of which was issued in the third quarter of 2009 as discussed below. These terminations were not in connection with early debt retirements. The resulting $2 million gain was deferred and recorded in Long-term debt and is being amortized as an adjustment of interest expense over the life of the underlying debt through 2015.

During the three months ended September 30, 2009, International Paper repaid approximately $1.1 billion of the $2.5 billion of long-term debt issued in connection with the CBPR business acquisition. As of December 31, 2009, the remainder of this debt had been repaid.

In August 2009, International Paper issued $1.0 billion of 7.5% senior unsecured notes with a maturity date in August 2021. The proceeds from this borrowing were used to repay approximately $942 million of notes with interest rates ranging from 5.125% to 7.4% and original maturities from 2012 to 2026.

Also during the third quarter of 2009, in connection with these early debt retirements, interest rate swaps with a notional value of $520 million, including $500 million of swaps issued in the second quarter of 2009, were terminated or undesignated as effective fair value hedges, resulting in a gain of approximately $9 million. In addition, previously deferred net gains of $7 million related to earlier swap terminations were recognized in earnings. Pre-tax early debt retirement costs of $102 million related to these debt repayments, net of the gains on swap terminations, are included in Restructuring and other charges in the accompanying consolidated statement of operations.

Also in August 2009, International Paper entered into a fixed-to-floating interest rate swap agreement with a notional amount of $100 million due in 2015 to manage interest rate exposure.

In May 2009, International Paper issued $1 billion of 9.375% senior unsecured notes with a maturity date in May 2019. The proceeds from this borrowing were used, along with available cash, to repay approximately $875 million of notes with interest rates ranging from 4.0% to 9.25% and original maturities from 2010 to 2012. In April 2009, International Paper repaid $313 million of the $2.5 billion long-term debt issued in connection with the CBPR business acquisition. Also in April 2009, International Paper Company Europe Ltd, a wholly-owned subsidiary of International Paper, repaid $75 million of notes issued in connection with the Ilim Holdings S.A. joint venture that matured. Pre-tax early debt retirement costs of $25 million related to these debt repayments, net of gains on swap terminations, are included in Restructuring and other charges in the accompanying consolidated statement of operations.

In March 2009, International Paper Investments (Luxembourg) S.ar.l, a wholly-owned subsidiary of International Paper, borrowed $468 million of long-term debt with an initial interest rate of LIBOR plus a margin of 450 basis points that varied upon the credit rating of the Company, and a maturity date in March 2012. International Paper used the $468 million of proceeds from the loan and cash of approximately $170 million to repay its 500 million euro-denominated debt (equivalent to $638 million at date of payment) with an original maturity date in August 2009. As of July 2009, the $468 million loan was repaid. Other debt activity for the three months ended March 2009 included the repayment of approximately $366 million of notes with interest rates ranging from 4.25% to 5.0% that had matured.

Also in the first quarter of 2009, International Paper terminated an interest rate swap with a notional value of $100 million designated as a fair value hedge, resulting in a gain of $11 million that was deferred and recorded in Long-term debt in the accompanying consolidated balance sheet. As the swap agreement was terminated early, the resulting gain will be amortized to earnings over the life of the related debt through April 2016.

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At September 30, 2010 and December 31, 2009, International Paper classified $100 million and $450 million, respectively, of Current maturities of long-term debt as Long-term debt. International Paper has the intent and ability, as evidenced by its fully committed credit facility, to renew or convert these obligations.

During the first nine months of 2010, International Paper issued approximately 2.7 million shares of treasury stock, net of restricted stock withholding, and 1.4 million shares of common stock for various plans. Payments of restricted stock withholding taxes totaled $26 million. During the first nine months of 2009, the Company issued approximately 2.4 million shares of treasury stock, net of restricted stock withholding, and 3.1 million shares of common stock for various plans. Payments of restricted stock withholding taxes totaled $10 million. Common stock dividend payments totaled $120 million and $129 million for the first nine months of 2010 and 2009, respectively. Dividends were $0.275 per share and $0.30 per share for the first nine months in 2010 and 2009, respectively. In March 2009, the Company had announced that the quarterly dividend would be reduced to $0.025 per share in the 2009 second quarter. In April 2010, International Paper announced that the quarterly dividend would be increased from $0.025 per share to $0.125 per share, effective for the 2010 second quarter.

At September 30, 2010, contractual obligations for future payments of debt maturities by calendar year were as follows (in millions): $143 in 2010; $296 in 2011; $226 in 2012; $136 in 2013; $558 in 2014; $784 in 2015; and $6,597 thereafter.

Maintaining an investment-grade credit rating is an important element of International Paper s financing strategy. At September 30, 2010, the Company held long-term credit ratings of BBB (stable outlook) and Baa3 (stable outlook) by S&P and Moody s, respectively.

At September 30, 2010, International Paper s contractually committed credit agreements totaled $2.5 billion which management believes are adequate to cover expected operating cash flow variability during the current economic cycle. The credit agreements generally provide for interest rates at a floating rate index plus a pre-determined margin dependent upon International Paper s credit rating. The committed liquidity facilities include a $1.5 billion contractually committed bank credit agreement that expires in November 2012 and has a facility fee of 0.50% payable quarterly. The liquidity facilities also include up to $1.0 billion of commercial paper-based financings based on eligible receivable balances ($1.0 billion at September 30, 2010) under a receivables securitization program. On January 13, 2010, the Company amended the receivables securitization program to, among other things, extend the maturity date from January 2010 to January 2011. The amended agreement has a facility fee of 0.50% payable monthly.

International Paper expects to be able to meet projected capital expenditures, service existing debt and meet working capital and dividend requirements through 2010 through current cash balances and cash from operations, supplemented as required by its existing credit facilities. The Company plans to rely upon debt and capital markets for the majority of any necessary long-term funding not provided by operating cash flows. Funding decisions will be guided by our capital structure planning objectives. The primary goals of the Company s capital structure planning are to maximize financial flexibility and preserve liquidity while reducing interest expense. The majority of International Paper s debt is accessed through global public capital markets where we have a wide base of investors.

Ilim Holding S.A. Shareholder s Agreement

In October 2007, in connection with the formation of the Ilim Holding S.A. joint venture (Ilim), International Paper entered into a shareholders agreement that includes provisions relating to the reconciliation of disputes among the partners. This agreement provides that at any time after the second anniversary of the formation of Ilim, either the Company or its partners may commence procedures specified under the deadlock provisions. Under certain circumstances, the Company would be required to purchase its partners 50% interest in Ilim. Any such transaction would be subject to review and approval by Russian and other relevant anti-trust authorities. Based on the provisions of the agreement, International Paper estimates that

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the current purchase price for its partners 50% interests would be approximately $425 million to $450 million, which could be satisfied by payment of cash or International Paper common stock, or some combination of the two, at the Company s option. Any such purchase by International Paper would result in the consolidation of Ilim s financial position and results of operations in all subsequent periods. The parties have informed each other that they have no current intention to commence procedures specified under the deadlock provision of the shareholders agreement, although they have the right to do so.

Alternative Fuel Mixture Credits

The U.S. Internal Revenue Code provided a tax credit for companies that use alternative fuel mixtures to produce energy to operate their businesses. The credit, available for companies that applied for and were qualified by the Internal Revenue Service (IRS) as alternative fuel mixers, expired on December 31, 2009. For paper companies, the credit of $0.50 per gallon applied to black liquor (which is a by-product of paper production) mixed with a small amount of diesel fuel that is then used by the company as a fuel.

In January 2009, the Company received notification that its application to be registered as an alternative fuel mixer had been approved. The Company s credit applied to approximately 4.2 billion gallons used through the credit s expiry date (of which 3.8 billion was produced in 2009). During the first nine months of 2009, the Company filed claims for alternative fuel mixture credits covering eligible periods subsequent to November 2008 totaling approximately $1.5 billion, including $251 million recorded in Accounts and notes receivable at September 30, 2009, and $1.3 billion that was received in cash. Accordingly, the accompanying consolidated statement of operations includes credits of approximately $525 million and $1.5 billion for the three and nine months ended September 30, 2009, respectively, in Cost of products sold ($320 million and $944 million after taxes), representing eligible alternative fuel mixture credits earned through September 30, 2009.

In a memorandum dated June 28, 2010, the IRS concluded that black liquor would also qualify for a taxable cellulosic bio-fuel credit of $1.01 per gallon of bio-fuel produced in 2009. On October 15, 2010, the IRS ruled that companies may qualify for the $.50 per gallon alternative fuel mixture credit and the $1.01 cellulosic bio-fuel producer credit for 2009, but not for the same gallons.

The Company plans to file an application with the IRS to receive the required registration code to become a registered cellulosic bio-fuel producer. The difference between the two credits is that the $1.01 credit must be credited against a company s taxable earnings, and the credit may be carried forward against taxable earnings through 2015. In contrast, the $0.50 credit provided cash or tax credit to a taxpayer. Consequently, the Company will evaluate the optimal use of the two credits with respect to gallons produced in 2009. This may result in the Company repaying some or all of the cash received with respect to the $0.50 credit, and amendment of the Company s 2009 tax return.

As is the case with other tax credits, taxpayer claims are subject to possible future review by the IRS which has the authority to propose adjustments to the amounts claimed, or credits received.

CRITICAL ACCOUNTING POLICIES AND SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires International Paper to establish accounting policies and to make estimates that affect both the amounts and timing of the recording of assets, liabilities, revenues and expenses. Some of these estimates require judgments about matters that are inherently uncertain.

Accounting policies whose application may have a significant effect on the reported results of operations and financial position of International Paper, and that can require judgments by management that affect their application, include the accounting for contingencies, impairment or disposal of long-lived assets, goodwill and other intangible assets, pensions, postretirement benefits other than pensions, and income taxes.

The Company has included in its 2009 Form 10-K a discussion of these critical accounting policies, which are important to the portrayal of the Company s financial condition and results of operations and require management s judgments. The Company has not made any changes in these critical accounting policies during the first nine months of 2010.

Impairment of Long-Lived Assets and Goodwill

An impairment of a long-lived asset exists when the asset s carrying amount exceeds its fair value, and is recorded when the carrying amount is not recoverable through future operations. A goodwill impairment exists when the carrying amount of goodwill exceeds its fair value. Assessments of possible impairments of long-lived assets and goodwill are made when events or changes in circumstances indicate that the carrying value of the asset may not be recoverable through future operations. Additionally, testing for possible impairment of recorded goodwill and intangible asset balances is required annually. The amount and timing of any impairment charges based on these assessments require the estimation of future cash flows and the fair market value of the related assets based on management s best estimates of certain key factors,

including future selling prices and volumes, operating, raw material, energy and freight costs, and various other projected operating and economic factors. As these key factors change in future periods, the Company will update its impairment analyses to reflect its latest estimates and projections.

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Pension Accounting

Net pension expense totaled approximately $174 million for International Paper s U.S. plans for the nine months ended September 30, 2010, or about $14 million more than the pension expense for the first nine months of 2009. Net pension expense for non-U.S. plans was about $3 million and $5 million for the first nine months of 2010 and 2009, respectively. This excludes a $1.5 million curtailment gain and a $2.3 million settlement gain booked by our subsidiary in Brazil during the three months ended September 30, 2010 to reflect the conversion of their defined benefit plan into a defined contribution plan. The increase in U.S. plan pension expense was principally due to a decrease in the assumed discount rate to 5.80% in 2010 from 6.00% in 2009 and higher amortization of unrecognized actuarial losses.

After consultation with our actuaries, International Paper determines key actuarial assumptions on December 31 of each year that are used to calculate liability information as of that date and pension expense for the following year. Key assumptions affecting pension expense include the discount rate, the expected long-term rate of return on plan assets, the expected rate of future salary increases, and various demographic assumptions including expected mortality. The discount rate assumption is determined based on a yield curve that incorporates approximately 500 Aa-graded bonds. The plan s projected cash payments are then matched to the yield curve to develop the discount rate. The expected long-term rate of return on plan assets is based on projected rates of return for current and planned asset classes in the plan s investment portfolio. At September 30, 2010, the market value of plan assets for International Paper s U.S. plans totaled approximately $8 billion, consisting of approximately 45% equity securities, 36% fixed income securities, and 19% real estate and other assets.

The Company s funding policy for its qualified pension plans is to contribute amounts sufficient to meet legal funding requirements, plus any additional amounts that the Company may determine to be appropriate considering the funded status of the plans, tax deductibility, the cash flow generated by the Company, and other factors. The Company continually reassesses the amount and timing of any discretionary contributions and elected to make voluntary contributions totaling $1.15 billion during the three months ended September 30, 2010. The U.S. nonqualified plans are only funded to the extent of benefits paid which are expected to be $36 million in 2010.

Accounting for Uncertainty in Income Taxes

The guidance for accounting for uncertainty in income taxes requires management to make judgments regarding the probability that certain income tax positions taken by the Company in filing tax returns in the various jurisdictions in which it operates will be sustained upon examination by the respective tax authorities based on the technical merits of these tax positions, and to make estimates of the amount of tax benefits that will be realized upon the settlement of these positions.

FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on Form 10-Q, and in particular, statements found in Item 2, Management s Discussion and Analysis of Financial Condition and Results of Operations, that are not historical in nature may constitute forward-looking statements. These statements are often identified by the words, will, may, should, continue, anticipate, believe, expect, plan, appear, project, estimate, similar nature. Such statements reflect the current views of International Paper with respect to future events and are subject to risks and uncertainties that could cause actual results to differ materially from those expressed or implied in these statements. Factors that could cause actual results

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to differ include, among other things, the following: changes in the cost or availability of raw materials, energy and transportation; economic cyclicality and changes in consumer preferences in the industries in which we operate; changes in the pricing and demand for our products; the effects of competition in the United States and internationally; adverse business and economic conditions; downgrades in credit ratings; the impairment of financial institutions with which we execute transactions; pension and health care costs; the amount of our debt obligations and our ability to refinance or repay our debt; pension plan funding obligations that could be material over the next several years; changes in international conditions; unanticipated expenditures relating to the cost of compliance with environmental and other governmental regulations; results of legal proceedings; material disruptions at one of our manufacturing facilities; and risks related to operations conducted by joint ventures. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Information relating to quantitative and qualitative disclosures about market risk is shown on page 46 of International Paper s 2009 10-K, which information is incorporated herein by reference. There have been no material changes in the Company s exposure to market risk since December 31, 2009.

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ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures:

Disclosure controls and procedures are controls and procedures that are designed to ensure that information required to be disclosed in our reports filed or submitted under the Securities Exchange Act of 1934, as amended (Exchange Act), is recorded, processed, summarized and completely and accurately reported (and accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, to allow timely decisions regarding required disclosure) within the time periods specified in the Securities and Exchange Commission s rules and forms. As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rules 13a-15(e) and 15d-15(e) of the Exchange Act. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective.

Changes in Internal Controls over Financial Reporting:

There have been no changes in our internal controls during the quarter ended September 30, 2010 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

During the 2010 second quarter, the Company completed the acquisition of SCA Packaging Asia. Integration activities, including a preliminary assessment of internal controls over financial reporting, are currently in process. The initial annual assessment of internal controls over financial reporting for SCA Packaging Asia business will be conducted over the course of our 2011 assessment cycle.

The Company has ongoing initiatives to standardize and upgrade its financial, operating and supply chain systems. The system upgrades will be implemented in stages, by business, over the next several years. Management believes the necessary procedures are in place to maintain effective internal controls over financial reporting as these initiatives continue.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

A discussion of material developments in the Company s litigation and settlement matters occurring in the period covered by this report is found in Note 11 to the Financial Statements in this Form 10-Q.

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

PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of a Publicly Announced Plan or Program	Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs
August 1, 2010 August 31, 2010	3,079	$ 21.01	N/A	N/A

(a) Shares acquired from employees from share withholdings to pay income taxes under the Company s restricted stock programs.
No activity occurred in months during the quarter not presented above.

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ITEM 6. EXHIBITS

(a) Exhibits

10.1	Form of Change of Control Agreement - Tier I, approved July 2010.
10.2	Form of Change of Control Agreement - Tier II, approved July 2010.
11	Statement of Computation of Per Share Earnings.
12	Computation of Ratio of Earnings to Fixed Charges and Preferred Stock Dividends.
31.1	Certification of principal executive officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification of principal financial officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document.*
101.SCH	XBRL Taxonomy Extension Schema.*
101.CAL	XBRL Taxonomy Extension Calculation Linkbase.*
101.DEF	XBRL Taxonomy Extension Definition Linkbase.*
101.LAB	XBRL Taxonomy Extension Label Linkbase.*
101.PRE	XBRL Taxonomy Extension Presentation Linkbase.*

*- Furnished herewith.

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SIGNATURES

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

INTERNATIONAL PAPER COMPANY

(Registrant)

Date: November 5, 2010	By	/s/ Tim S. Nicholls **Tim S. Nicholls** **Senior Vice President and Chief Financial Officer**
Date: November 5, 2010	By	/s/ Robert J. Grillet **Robert J. Grillet** **Vice President Finance and Controller**