
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549**

FORM 10-Q

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 30, 2011

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number 1-10239

PLUM CREEK TIMBER COMPANY, INC.
(Exact name of registrant as specified in its charter)

**Organized in the
State of Delaware**

**I.R.S. Employer Identification No.
91-1912863**

**999 Third Avenue, Suite 4300
Seattle, Washington 98104-4096
Telephone: (206) 467-3600**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of outstanding shares of the registrant's common stock, as of October 24, 2011 was 161,277,720.

**PLUM CREEK TIMBER COMPANY, INC.
QUARTERLY REPORT ON FORM 10-Q
For the Quarter ended September 30, 2011**

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

**PLUM CREEK TIMBER COMPANY, INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)**

(In Millions, Except Per Share Amounts)	Quarter Ended September 30,	
	2011	2010
REVENUES:		
Timber	\$ 154	\$ 145
Real Estate	67	39
Manufacturing	67	70
Other	5	5
Total Revenues	293	259
COSTS AND EXPENSES:		
Cost of Goods Sold:		
Timber	119	108
Real Estate	19	18
Manufacturing	62	62
Other	—	—
Total Cost of Goods Sold	200	188
Selling, General and Administrative	24	20
Total Costs and Expenses	224	208
Other Operating Income (Expense), net	—	—
Operating Income	69	51
Equity Earnings from Timberland Venture	14	15
Interest Expense, net:		
Interest Expense (Debt Obligations to Unrelated Parties)	20	20
Interest Expense (Note Payable to Timberland Venture)	14	14
Total Interest Expense, net	34	34
Income before Income Taxes	49	32
Benefit for Income Taxes	(1)	—
Net Income	\$ 50	\$ 32
PER SHARE AMOUNTS:		
Net Income per Share – Basic	\$ 0.31	\$ 0.20
Net Income per Share – Diluted	\$ 0.31	\$ 0.20
Dividends Declared – per Common Share Outstanding	\$ 0.42	\$ 0.42
Weighted-Average Number of Shares Outstanding		
– Basic	161.9	161.6
– Diluted	162.2	161.8

See accompanying Notes to Consolidated Financial Statements

**PLUM CREEK TIMBER COMPANY, INC.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)**

(In Millions, Except Per Share Amounts)	Nine Months Ended September 30,	
	2011	2010
REVENUES:		
Timber	\$ 421	\$ 429
Real Estate	208	181
Manufacturing	208	208
Other	15	16
Total Revenues	852	834
COSTS AND EXPENSES:		
Cost of Goods Sold:		
Timber	327	317
Real Estate	68	69
Manufacturing	190	184
Other	1	1
Total Cost of Goods Sold	586	571
Selling, General and Administrative	77	70
Total Costs and Expenses	663	641
Other Operating Income (Expense), net	3	9
Operating Income	192	202
Equity Earnings from Timberland Venture	44	44
Interest Expense, net:		
Interest Expense (Debt Obligations to Unrelated Parties)	61	59
Interest Expense (Note Payable to Timberland Venture)	43	43
Total Interest Expense, net	104	102
Income before Income Taxes	132	144
Provision for Income Taxes	—	1
Income from Continuing Operations	132	143
Gain on Sale of Properties, net of tax	—	11
Net Income	\$ 132	\$ 154
PER SHARE AMOUNTS:		
Income from Continuing Operations – Basic	\$ 0.81	\$ 0.88
Income from Continuing Operations – Diluted	\$ 0.81	\$ 0.88
Net Income per Share – Basic	\$ 0.81	\$ 0.95
Net Income per Share – Diluted	\$ 0.81	\$ 0.94
Dividends Declared – per Common Share Outstanding	\$ 1.26	\$ 1.26
Weighted-Average Number of Shares Outstanding		
– Basic	161.9	162.2
– Diluted	162.2	162.5

See accompanying Notes to Consolidated Financial Statements

PLUM CREEK TIMBER COMPANY, INC.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(In Millions, Except Per Share Amounts)	September 30, 2011	December 31, 2010
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 291	\$ 252
Accounts Receivable	36	21
Inventories	44	49
Deferred Tax Asset	7	7
Assets Held for Sale	34	57
Other Current Assets	15	24
	<u>427</u>	<u>410</u>
Timber and Timberlands, net	3,443	3,405
Property, Plant and Equipment, net	140	146
Equity Investment in Timberland Venture	189	201
Deferred Tax Asset	8	10
Investment in Grantor Trusts (at Fair Value)	36	35
Other Assets	39	44
Total Assets	<u>\$ 4,282</u>	<u>\$ 4,251</u>
LIABILITIES		
Current Liabilities:		
Current Portion of Long-Term Debt	\$ 395	\$ 94
Line of Credit	302	166
Accounts Payable	27	25
Interest Payable	26	23
Wages Payable	16	23
Taxes Payable	17	12
Deferred Revenue	33	25
Other Current Liabilities	8	7
	<u>824</u>	<u>375</u>
Long-Term Debt	1,294	1,643
Note Payable to Timberland Venture	783	783
Other Liabilities	80	76
Total Liabilities	<u>2,981</u>	<u>2,877</u>
Commitments and Contingencies		
STOCKHOLDERS' EQUITY		
Preferred Stock, \$0.01 Par Value, Authorized Shares – 75.0, Outstanding – None	—	—
Common Stock, \$0.01 Par Value, Authorized Shares – 300.6, Outstanding (net of Treasury Stock) – 161.6 at September 30, 2011 and 161.6 at December 31, 2010	2	2
Additional Paid-In Capital	2,258	2,243
Retained Earnings (Accumulated Deficit)	(21)	51
Treasury Stock, at Cost, Common Shares – 26.6 at September 30, 2011 and 26.2 at December 31, 2010	(927)	(911)
Accumulated Other Comprehensive Income (Loss)	(11)	(11)
Total Stockholders' Equity	<u>1,301</u>	<u>1,374</u>
Total Liabilities and Stockholders' Equity	<u>\$ 4,282</u>	<u>\$ 4,251</u>

See accompanying Notes to Consolidated Financial Statements

PLUM CREEK TIMBER COMPANY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In Millions)	Nine Months Ended September 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 132	\$ 154
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Depreciation, Depletion and Amortization	70	72
Basis of Real Estate Sold	57	57
Equity Earnings from Timberland Venture	(44)	(44)
Distributions from Timberland Venture	56	56
Deferred Income Taxes	2	1
Gain on Sale of Properties and Other Assets	—	(13)
Deferred Revenue from Long-Term Gas Leases (Net of Amortization)	14	5
Pension Plan Contributions	(3)	(4)
Working Capital Changes	—	12
Other	10	16
Net Cash Provided By Operating Activities	294	312
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Expenditures (Excluding Timberland Acquisitions)	(43)	(51)
Timberlands and Minerals Acquired	(88)	—
Proceeds from Sale of Properties and Other Assets	—	13
Other	—	1
Net Cash Used In Investing Activities	(131)	(37)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends	(204)	(205)
Borrowings on Line of Credit	1,097	1,505
Repayments on Line of Credit	(961)	(1,505)
Principal Payments and Retirement of Long-Term Debt	(49)	(53)
Proceeds from Stock Option Exercises	9	2
Acquisition of Treasury Stock	(16)	(51)
Net Cash Used In Financing Activities	(124)	(307)
Increase (Decrease) In Cash and Cash Equivalents	39	(32)
Cash and Cash Equivalents:		
Beginning of Period	252	299
End of Period	\$ 291	\$ 267

See accompanying Notes to Consolidated Financial Statements

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Basis of Presentation

General. When we refer to “Plum Creek,” “the company,” “we,” “us,” or “our,” we mean Plum Creek Timber Company, Inc., a Delaware Corporation and a real estate investment trust, or “REIT,” and all of its wholly-owned consolidated subsidiaries.

The consolidated financial statements include all of the accounts of Plum Creek and its subsidiaries. At September 30, 2011, the company owned and managed approximately 6.7 million acres of timberlands in the Northwest, Southern, and Northeast United States, and owned 8 wood product conversion facilities in the Northwest United States (2 of which have been indefinitely curtailed). Included in the 6.7 million acres are about 1.0 million acres of higher value timberlands, which are expected to be sold and/or developed over the next fifteen years for recreational, conservation or residential purposes. Included within the 1.0 million acres of higher value timberlands are approximately 800,000 acres we expect to sell for recreational uses, approximately 100,000 acres we expect to sell for conservation and approximately 100,000 acres that are identified as having development potential. In addition, the company has approximately 300,000 acres of non-strategic timberlands, which are expected to be sold in smaller acreage transactions over the near and medium term. In the meantime, all of our timberlands continue to be managed productively in our business of growing and selling timber.

Plum Creek has elected to be taxed as a REIT under sections 856-860 of the United States Internal Revenue Code and, as such, generally does not pay corporate-level income tax. However, the company conducts certain non-REIT activities through various taxable REIT subsidiaries, which are subject to corporate-level income tax. These activities include our manufacturing operations, the harvesting and selling of logs, and the development and/or sales of some of our higher value timberlands. Plum Creek’s overall effective tax rate is lower than the federal statutory corporate rate due to Plum Creek’s status as a REIT.

Intercompany transactions and accounts have been eliminated in consolidation. All transactions are denominated in United States dollars.

The consolidated financial statements included in this Form 10-Q are unaudited and do not contain all of the information required by U.S. generally accepted accounting principles to be included in a full set of financial statements. The consolidated balance sheet at December 31, 2010 has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The audited financial statements in the company’s 2010 Annual Report on Form 10-K include a summary of significant accounting policies of the company and should be read in conjunction with this Form 10-Q. In the opinion of management, all material adjustments necessary to present fairly the results of operations for such periods have been included in this Form 10-Q. All such adjustments are of a normal and recurring nature. The results of operations for interim periods are not necessarily indicative of the results of operations for the entire year.

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 2. Earnings Per Share

The following tables set forth the reconciliation of basic and diluted earnings per share for the **quarterly and nine-month periods ended September 30** (in millions, except per share amounts):

	Quarter Ended September 30,	
	2011	2010
Net Income Available to Common Stockholders	\$ 50	\$ 32
Denominator for Basic Earnings per Share	161.9	161.6
Effect of Dilutive Securities – Stock Options	0.2	0.1
Effect of Dilutive Securities – Restricted Stock, Restricted Stock Units and Value Management Plan	0.1	0.1
Denominator for Diluted Earnings per Share – Adjusted for Dilutive Securities	162.2	161.8
Per Share Amounts:		
Net Income Per Share – Basic	\$ 0.31	\$ 0.20
Net Income Per Share – Diluted	\$ 0.31	\$ 0.20
	Nine Months Ended September 30,	
	2011	2010
Income from Continuing Operations	\$ 132	\$ 143
Gain on Sale of Properties, net of tax	—	11
Net Income Available to Common Stockholders	\$ 132	\$ 154
Denominator for Basic Earnings per Share	161.9	162.2
Effect of Dilutive Securities – Stock Options	0.3	0.2
Effect of Dilutive Securities – Restricted Stock, Restricted Stock Units and Value Management Plan	—	0.1
Denominator for Diluted Earnings per Share – Adjusted for Dilutive Securities	162.2	162.5
Per Share Amounts – Basic:		
Income from Continuing Operations	\$ 0.81	\$ 0.88
Gain on Sale of Properties, net of tax	\$ —	\$ 0.07
Net Income	\$ 0.81	\$ 0.95
Per Share Amounts – Diluted:		
Income from Continuing Operations	\$ 0.81	\$ 0.88
Gain on Sale of Properties, net of tax	\$ —	\$ 0.07
Net Income	\$ 0.81	\$ 0.94

Basic and diluted per share amounts are computed independently for each caption presented. Therefore, the sum of the per share components from the table above may not equal the per share amount presented.

Under the company's Stock Incentive Plan, the company grants restricted stock units, which prior to vesting, are entitled to non-forfeitable cash payments equal to dividends paid on the company's common shares. These awards are considered participating securities for purposes of computing basic and diluted earnings per share.

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Antidilutive options were excluded for certain periods from the computation of diluted earnings per share because the exercise prices of the options were greater than the average market price of the common shares. Antidilutive options were as follows for the **quarterly and nine-month periods ended September 30** (shares in millions):

	Quarter Ended September 30,	
	2011	2010
Number of Options	2.0	2.3
Range of Exercise Prices	\$35.22 to \$43.23	\$33.75 to \$43.23
Expiration on or before	February 2021	February 2020

	Nine Months Ended September 30,	
	2011	2010
Number of Options	1.3	2.1
Range of Exercise Prices	\$35.22 to \$43.23	\$33.75 to \$43.23
Expiration on or before	February 2021	February 2020

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 3. Inventories

Inventories, accounted for using the lower of average cost or market, consisted of the following (in millions):

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Raw Materials (primarily logs)	\$ 6	\$ 12
Work-In-Process	1	1
Finished Goods	25	24
	<u>32</u>	<u>37</u>
Supplies	12	12
Total	<u>\$ 44</u>	<u>\$ 49</u>

Note 4. Timber and Timberlands

Timber and Timberlands consisted of the following (in millions):

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Timber and Logging Roads, net	\$ 2,262	\$ 2,261
Timberlands	1,181	1,144
Timber and Timberlands, net	<u>\$ 3,443</u>	<u>\$ 3,405</u>

Note 5. Property, Plant and Equipment

Property, Plant and Equipment consisted of the following (in millions):

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Land, Buildings and Improvements	\$ 86	\$ 84
Machinery and Equipment	315	309
	<u>401</u>	<u>393</u>
Accumulated Depreciation	(261)	(247)
Property, Plant and Equipment, net	<u>\$ 140</u>	<u>\$ 146</u>

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 6. Borrowings

Debt consisted of the following (in millions):

	September 30, 2011	December 31, 2010
Variable Rate Debt		
Term Credit Agreement ^(A)	\$ 350	\$ 350
Revolving Line of Credit ^(B)	302	166
Fixed Rate Debt		
Senior Notes	1,339	1,387
Note Payable to Timberland Venture	783	783
Total Debt	2,774	2,686
Less:		
Current Portion of Long-Term Debt	395	94
Line of Credit	302	166
Long-Term Portion	<u>\$ 2,077</u>	<u>\$ 2,426</u>

- (A) As of September 30, 2011, the interest rate on the \$350 million term credit agreement was 0.60%. This agreement matures July 10, 2012.
- (B) As of September 30, 2011, the weighted-average interest rate for the borrowings on the line of credit was 1.69%. As of September 30, 2011, we had \$302 million of borrowings and \$2 million of standby letters of credit outstanding; \$296 million remained available for borrowing under our \$600 million line of credit. As of October 3, 2011, \$243 million of the borrowings under our line of credit was repaid.

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 7. Stockholders' Equity

The changes in the company's stockholders' equity accounts were as follows during **2011** (in millions):

	Common Stock		Paid-in Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Equity
	Shares	Dollars					
January 1, 2011	161.6	\$ 2	\$ 2,243	\$ 51	\$ (911)	\$ (11)	\$ 1,374
Net Income				38			38
Other Comprehensive Income (Loss), net of tax						1	1
Total Comprehensive Income							39
Dividends				(68)			(68)
Stock Option Exercises	0.2	—	7				7
Shares Issued under Stock Incentive Plans	0.1	—	—				—
Share-based Compensation			2				2
Common Stock Repurchased	—	—			(1)		(1)
March 31, 2011	161.9	\$ 2	\$ 2,252	\$ 21	\$ (912)	\$ (10)	\$ 1,353
Net Income				44			44
Other Comprehensive Income (Loss), net of tax						1	1
Total Comprehensive Income							45
Dividends				(68)			(68)
Stock Option Exercises	0.1	—	2				2
Share-based Compensation			2				2
June 30, 2011	162.0	\$ 2	\$ 2,256	\$ (3)	\$ (912)	\$ (9)	\$ 1,334
Net Income				50			50
Other Comprehensive Income (Loss), net of tax						(2)	(2)
Total Comprehensive Income							48
Dividends				(68)			(68)
Share-based Compensation			2				2
Common Stock Repurchased	(0.4)	—			(15)		(15)
September 30, 2011	<u>161.6</u>	<u>\$ 2</u>	<u>\$ 2,258</u>	<u>\$ (21)</u>	<u>\$ (927)</u>	<u>\$ (11)</u>	<u>\$ 1,301</u>

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 8. Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis. The company's fair value measurements of its financial instruments, measured on a recurring basis, are categorized as Level 1 measurements under the fair value hierarchy in the Accounting Standards Codification. A Level 1 valuation is based on quoted prices in active markets at the measurement date for identical unrestricted assets or liabilities. Summarized below are the Level 1 assets reported in the company's financial statements at fair value, measured on a recurring basis (in millions):

	Balance at September 30, 2011	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets of Identical Assets (Level 1 Measurements)
Cash Equivalents ^(A)	\$ 290	\$ 290
Available-for-Sale Securities ^(B)	31	31
Trading Securities ^(B)	5	5
Total	<u>\$ 326</u>	<u>\$ 326</u>

	Balance at December 31, 2010	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets of Identical Assets (Level 1 Measurements)
Cash Equivalents ^(A)	\$ 249	\$ 249
Available-for-Sale Securities ^(B)	30	30
Trading Securities ^(B)	5	5
Total	<u>\$ 284</u>	<u>\$ 284</u>

(A) Consists of several money market funds and is included in the \$291 million and \$252 million of Cash and Cash Equivalents in the Consolidated Balance Sheets at September 30, 2011 and December 31, 2010, respectively.

(B) Consists of several mutual funds and is included in Investment in Grantor Trusts in the Consolidated Balance Sheets at September 30, 2011 and December 31, 2010. At September 30, 2011, investments in these mutual funds were approximately 40% in domestic (U.S.) equities, 20% in international equities and 40% in debt securities.

Available-for-Sale Securities. Certain investments in the grantor trusts relate to the company's non-qualified pension plans and are classified as available-for-sale securities. The company has invested in various money market, debt and equity mutual funds and plans to use these investments to fund its non-qualified pension obligations. Unrealized holding gains and losses are included as a component of accumulated other comprehensive income. The company records changes in unrealized holding gains and losses in Other Comprehensive Income, unless an other than temporary impairment has occurred, which is then charged to expense. Changes in the fair value of available-for-sale securities were not material to the company's financial position or results of operations.

Trading Securities. Certain investments in the grantor trusts relate to the company's deferred compensation plans and are classified as trading securities. Deferred compensation amounts are invested in various money market, debt and equity mutual funds. The company plans to use these investments to fund deferred compensation obligations. Realized gains and losses and changes in unrealized gains and losses (and a corresponding amount of compensation expense) are recognized in the company's Consolidated Statements of Income. Deferred compensation obligations are included in Other Liabilities and were \$5 million at September 30, 2011 and \$5 million at December 31, 2010. Changes in the fair value of trading securities were not material to the company's financial position or results of operations.

Other Instruments. The carrying amount of notes receivable approximates fair value due to the short-term maturities of these instruments. The estimated fair value of the company's debt was approximately \$2.95 billion and \$2.83 billion at September 30, 2011 and December 31, 2010, respectively, and the carrying amount was \$2.77 billion and \$2.69 billion at September 30, 2011 and December 31, 2010, respectively. The fair value of the company's Public Debt (publicly issued Senior Notes) is estimated using market quotes. The fair value of the company's Private Debt (Senior Notes with various maturities and fixed interest rates which are privately placed with various lenders) is estimated using the same rates adjusted for the different maturities. The fair value of the company's Note Payable to Timberland Venture is estimated using the same rates as the Public Debt adjusted by an

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

estimated risk premium for holding company debt and the different maturity. The fair value of our Term Credit Agreement was determined by adjusting the spread over LIBOR to a current market spread for comparable debt.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis. There were no fair value measurements of assets or liabilities measured on a nonrecurring basis during the nine-month periods ended September 30, 2011 and 2010.

Note 9. Employee Pension Plans

The components of pension cost were as follows for the **quarterly and nine-month periods ended September 30** (in millions):

	Quarter Ended September 30,	
	2011	2010
Service Cost	\$ 2	\$ 2
Interest Cost	2	2
Expected Return on Plan Assets	(2)	(2)
Total Pension Cost	<u>\$ 2</u>	<u>\$ 2</u>
	Nine Months Ended September 30,	
	2011	2010
Service Cost	\$ 6	\$ 6
Interest Cost	6	6
Expected Return on Plan Assets	(6)	(6)
Total Pension Cost	<u>\$ 6</u>	<u>\$ 6</u>

Note 10. Commitments and Contingencies

Contingencies. The company is subject to regulations regarding forest, harvest and manufacturing practices and is, from time to time, involved in various legal proceedings, including environmental and regulatory matters, incidental to its business. Reserves have been established for any probable losses.

Unrecorded Contingencies. Management currently believes that resolving other pending legal proceedings against the company, individually or in aggregate, will not have a material adverse impact on our financial position or results of operations. However, these matters are subject to inherent uncertainties and management's view on these matters may change in the future. Were an unfavorable final outcome in one or multiple legal proceedings to occur, there exists the possibility of a material adverse impact on our financial position and the results of operations for the period in which any unfavorable outcome becomes reasonably estimable.

Note 11. Variable Interest Entities

On October 1, 2008, the company contributed 454,000 acres of timberlands located in its Southern Resources Segment to Southern Diversified Timber, LLC ("the Timberland Venture") in exchange for a \$705 million preferred interest and a 9% common interest valued at \$78 million. The Timberland Venture's other member, an affiliate of The Campbell Group LLC, contributed \$783 million of cash in exchange for 91% of the Timberland Venture's common interest. Following the contribution, the company borrowed \$783 million from the Timberland Venture ("Note Payable to Timberland Venture"). The company accounts for its interest in the Timberland Venture under the equity method of accounting.

The Timberland Venture is a variable interest entity. The primary operating activities of the Timberland Venture consist of owning timberlands and entering into cutting contracts with an affiliate of the other member. Besides quarterly interest payments on the Note Payable to Timberland Venture, the company has not provided financing or other support to the venture. The venture is financed by a \$15 million line of credit obtained by the Timberland Venture.

We are not the primary beneficiary of the Timberland Venture. The company does not manage the day-to-day operations of the

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Timberland Venture, it has only limited protective rights and its involvement is generally limited to receiving distributions on its preferred and common interests. We are not the primary beneficiary because we do not direct the activities that most significantly impact the Timberland Venture's economic performance. We believe that the activities that most significantly impact the Timberland Venture's economic performance include managing the timberlands along with the timing and extent of the harvesting activities, neither of which we control.

The carrying amount of the investment is \$189 million at September 30, 2011 and \$201 million at December 31, 2010, and it is reported in the Consolidated Balance Sheets as Equity Investment in Timberland Venture. Our maximum exposure to loss is \$189 million, the carrying amount of the investment. Generally, losses are first allocated among the common interests based on positive capital accounts in which we hold a 9% common interest. No losses are allocated to our preferred interest (\$705 million) until the common interests have absorbed losses of approximately \$861 million.

Note 12. Summarized Income Statement Information of Affiliate

The earnings of the Timberland Venture are a significant component of consolidated earnings. See Note 11 of the Notes to Consolidated Financial Statements. Equity earnings for the Timberland Venture were \$44 million for the nine-month period ending September 30, 2011, and were \$44 million for the nine-month period ending September 30, 2010. Equity earnings includes the amortization of the difference between the book value of the company's investment and its proportionate share of the Timberland Venture's net assets of \$5 million and \$4 million for the nine-month periods ended September 30, 2011 and 2010, respectively. Furthermore, interest expense in connection with the loan from the Timberland Venture was \$43 million and \$43 million for each of the nine-month periods ended September 30, 2011 and 2010. The table below presents summarized income statement information for the Timberland Venture for the **nine months ended September 30** (in millions):

	Nine Months Ended September 30,	
	2011	2010
Revenues	\$ 10	\$ 13
Cost of Goods Sold ^(A)	12	14
Selling, General and Administrative Expenses	2	2
Operating Income (Loss)	(4)	(3)
Interest Income, net	43	43
Net Income before Allocation to Preferred and Common Interests	\$ 39	\$ 40

(A) Cost of Goods Sold includes Depreciation, Depletion and Amortization of \$10 million and \$13 million for the nine-month periods ended September 30, 2011 and 2010, respectively.

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 13. Segment Information

The tables below present information about reported segments for the **quarterly and nine-month periods ended September 30** (in millions):

	Northern Resources	Southern Resources	Real Estate	Manufactured Products	Other	Total ^(C)
Quarter Ended September 30, 2011						
External Revenues	\$ 61	\$ 93	\$ 67	\$ 67	\$ 5	\$ 293
Intersegment Revenues	7	—	—	—	—	7
Depreciation, Depletion and Amortization	7	14	—	4	—	25
Basis of Real Estate Sold	—	—	14	—	—	14
Operating Income	7	21	46	3	5	82
Quarter Ended September 30, 2010						
External Revenues	\$ 52	\$ 93	\$ 39	\$ 70	\$ 5	\$ 259
Intersegment Revenues	5	—	—	—	—	5
Depreciation, Depletion and Amortization	8	12	—	3	—	23
Basis of Real Estate Sold	—	—	14	—	—	14
Operating Income	5	25	19	7	5	61
Nine Months Ended September 30, 2011						
External Revenues	\$ 155	\$ 266	\$ 208	\$ 208	\$ 15	\$ 852
Intersegment Revenues	12	—	—	—	—	12
Depreciation, Depletion and Amortization	19	37	1	10	—	67
Basis of Real Estate Sold	—	—	57	—	—	57
Other Operating Gain	—	—	—	—	2	2
Operating Income	17	55	134	12	16	234
Nine Months Ended September 30, 2010						
External Revenues	\$ 149	\$ 280	\$ 181	\$ 208	\$ 16	\$ 834
Intersegment Revenues	13	—	—	—	—	13
Depreciation, Depletion and Amortization	22	37	1	9	—	69
Basis of Real Estate Sold	—	—	57	—	—	57
Other Operating Gain	1	—	—	2	5	8
Operating Income	12	79	107	21	20	239

(A) During the second quarter of 2010, the company sold certain lumber manufacturing assets for a gain of \$2 million. For the nine months ended September 30, 2010, the \$2 million gain is reported as Other Operating Gain in our Manufactured Products Segment and is included in Other Operating Income (Expense), net in the Consolidated Statements of Income.

(B) During the first quarter of 2011, the company received a payment of \$2 million for the settlement of a dispute that related to certain mineral rights. For the nine months ended September 30, 2011, the \$2 million payment is reported as Other Operating Gain in our Other Segment and is included in Other Operating Income (Expense), net in the Consolidated Statements of Income.

During the first quarter of 2010, the company agreed to terminate a land lease for consideration of \$5 million from the

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

lessor. The land lease had been accounted for as an operating lease. For the nine months ended September 30, 2010, the \$5 million consideration is reported as Other Operating Gain in our Other Segment since the consideration was primarily for the release of mineral rights. For the nine months ended September 30, 2010, the \$5 million is included in Other Operating Income (Expense), net in the Consolidated Statements of Income.

During the first quarter of 2010, the company received \$21 million for the sale of an undivided 50% interest in natural gas rights on approximately 110,000 acres in West Virginia and to modify an existing natural gas lease on the same acres. The company allocated the proceeds based on relative fair value and determined that \$11 million was for the sale of the natural gas rights and \$10 million was for a lease bonus related to the modification of exploration rights under the existing lease. The fair value of the undivided 50% interest in natural gas rights was derived using an income approach based on discounted future cash flows. For the nine months ended September 30, 2010, the sale is reported as Gain on Sale of Properties, net of tax in the Consolidated Statements of Income and was not included in the Other Segment's operating income. The fair value of the modification to the exploration rights under the existing lease was based on market analyses and comparable leases. The \$10 million, along with the remaining deferred revenue at the time of the modification of \$12 million associated with the original granting of exploration rights in 2008, is being amortized into revenue of the Other Segment over the expected three-year term.

- (C) Consolidated depreciation, depletion and amortization includes unallocated corporate depreciation of \$1 million for each of the quarterly periods ended September 30, 2011 and September 30, 2010; and \$3 million for each of the nine-month periods ended September 30, 2011 and September 30, 2010.

A reconciliation of total segment operating income to income before income taxes is presented below for the **quarterly and nine-month periods ended September 30** (in millions):

	Quarter Ended September 30,	
	2011	2010
Total Segment Operating Income	\$ 82	\$ 61
Corporate and Other Unallocated Expenses	(13)	(10)
Other Unallocated Operating Income (Expense), net	—	—
Operating Income	69	51
Equity Earnings from Timberland Venture	14	15
Total Interest Expense, net	(34)	(34)
Income before Income Taxes	\$ 49	\$ 32

	Nine Months Ended September 30,	
	2011	2010
Total Segment Operating Income	\$ 234	\$ 239
Corporate and Other Unallocated Expenses	(43)	(38)
Other Unallocated Operating Income (Expense), net	1	1
Operating Income	192	202
Equity Earnings from Timberland Venture	44	44
Total Interest Expense, net	(104)	(102)
Income before Income Taxes	\$ 132	\$ 144

PLUM CREEK TIMBER COMPANY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 14. Subsequent Events

Quarterly Dividend. On November 1, 2011, the Board of Directors authorized the company to make a dividend payment of \$0.42 per share, or approximately \$68 million, which will be paid on November 30, 2011 to stockholders of record on November 15, 2011.

ITEM 1. FINANCIAL STATEMENTS (CONTINUED)

Included in this item are the consolidated financial statements related to Plum Creek Timberlands, L.P., a Delaware Limited Partnership and a wholly-owned subsidiary of Plum Creek Timber Company, Inc. These financial statements are provided pursuant to Rule 3-10 of Regulation S-X in connection with the shelf registration statement on Form S-3 filed in April of 2009 pursuant to which Plum Creek Timberlands, L.P. has registered and from time to time may offer and sell debt securities. As of September 30, 2011, Plum Creek Timberlands, L.P. has publicly issued and outstanding \$1.033 billion aggregate principal amount of Senior Notes ("Public Debt") pursuant to the shelf registration statement.

**PLUM CREEK TIMBERLANDS, L.P.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)**

(In Millions)	Quarter Ended September 30,	
	2011	2010
REVENUES:		
Timber	\$ 154	\$ 145
Real Estate	67	39
Manufacturing	67	70
Other	5	5
Total Revenues	293	259
COSTS AND EXPENSES:		
Cost of Goods Sold:		
Timber	119	108
Real Estate	19	18
Manufacturing	62	62
Other	—	—
Total Cost of Goods Sold	200	188
Selling, General and Administrative	24	20
Total Costs and Expenses	224	208
Other Operating Income (Expense), net	—	—
Operating Income	69	51
Equity Earnings from Timberland Venture	14	15
Interest Expense, net	20	20
Income before Income Taxes	63	46
Benefit for Income Taxes	(1)	—
Net Income before Allocation to Series T-1 Preferred Interest and Partners	64	46
Net Income Allocable to Series T-1 Preferred Interest	(14)	(14)
Net Income Available to Common Interest Partners	\$ 50	\$ 32

See accompanying Notes to Consolidated Financial Statements

PLUM CREEK TIMBERLANDS, L.P.
CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

(In Millions)	Nine Months Ended September 30,	
	2011	2010
REVENUES:		
Timber	\$ 421	\$ 429
Real Estate	208	181
Manufacturing	208	208
Other	15	16
Total Revenues	852	834
COSTS AND EXPENSES:		
Cost of Goods Sold:		
Timber	327	317
Real Estate	68	69
Manufacturing	190	184
Other	1	1
Total Cost of Goods Sold	586	571
Selling, General and Administrative	77	70
Total Costs and Expenses	663	641
Other Operating Income (Expense), net	3	9
Operating Income	192	202
Equity Earnings from Timberland Venture	44	44
Interest Expense, net	61	59
Income before Income Taxes	175	187
Provision for Income Taxes	—	1
Income from Continuing Operations	175	186
Gain on Sale of Properties, net of tax	—	11
Net Income before Allocation to Series T-1 Preferred Interest and Partners	175	197
Net Income Allocable to Series T-1 Preferred Interest	(43)	(43)
Net Income Available to Common Interest Partners	\$ 132	\$ 154

See accompanying Notes to Consolidated Financial Statements

PLUM CREEK TIMBERLANDS, L.P.
CONSOLIDATED BALANCE SHEETS
(UNAUDITED)

(In Millions)	September 30, 2011	December 31, 2010
ASSETS		
Current Assets:		
Cash and Cash Equivalents	\$ 291	\$ 252
Accounts Receivable	36	21
Inventories	44	49
Deferred Tax Asset	7	7
Assets Held for Sale	34	57
Other Current Assets	15	24
	<u>427</u>	<u>410</u>
Timber and Timberlands, net	3,443	3,405
Property, Plant and Equipment, net	140	146
Equity Investment in Timberland Venture	189	201
Deferred Tax Asset	8	10
Investment in Grantor Trusts (\$36 and \$35 at Fair Value in 2011 and 2010)	37	36
Other Assets	39	44
Total Assets	<u>\$ 4,283</u>	<u>\$ 4,252</u>
LIABILITIES		
Current Liabilities:		
Current Portion of Long-Term Debt	\$ 395	\$ 94
Line of Credit	302	166
Accounts Payable	27	25
Interest Payable	19	16
Wages Payable	16	23
Taxes Payable	17	12
Deferred Revenue	33	25
Other Current Liabilities	8	7
	<u>817</u>	<u>368</u>
Long-Term Debt	1,294	1,643
Other Liabilities	81	77
Total Liabilities	<u>2,192</u>	<u>2,088</u>
Commitments and Contingencies		
PARTNERSHIP CAPITAL		
Series T-1 Preferred Interest	790	790
Partners' Capital (Common Partnership Interests)	1,301	1,374
Total Partnership Capital	<u>2,091</u>	<u>2,164</u>
Total Liabilities and Partnership Capital	<u>\$ 4,283</u>	<u>\$ 4,252</u>

See accompanying Notes to Consolidated Financial Statements

PLUM CREEK TIMBERLANDS, L.P.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

(In Millions)	Nine Months Ended September 30,	
	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income before Allocation to Preferred Partnership Interest and Partners	\$ 175	\$ 197
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Depreciation, Depletion and Amortization	70	72
Basis of Real Estate Sold	57	57
Equity Earnings from Timberland Venture	(44)	(44)
Distributions from Timberland Venture	56	56
Deferred Income Taxes	2	1
Gain on Sale of Properties and Other Assets	—	(13)
Deferred Revenue from Long-Term Gas Leases (Net of Amortization)	14	5
Pension Plan Contributions	(3)	(4)
Working Capital Changes	—	12
Other	10	16
Net Cash Provided By Operating Activities	337	355
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital Expenditures (Excluding Timberland Acquisitions)	(43)	(51)
Timberlands and Minerals Acquired	(88)	—
Proceeds from Sale of Properties and Other Assets	—	13
Other	—	1
Net Cash Used In Investing Activities	(131)	(37)
CASH FLOWS FROM FINANCING ACTIVITIES		
Cash Distributions to Common Partners	(211)	(254)
Cash Distributions for Series T-1 Preferred Interest	(43)	(43)
Borrowings on Line of Credit	1,097	1,505
Repayments on Line of Credit	(961)	(1,505)
Principal Payments and Retirement of Long-Term Debt	(49)	(53)
Net Cash Used In Financing Activities	(167)	(350)
Increase (Decrease) In Cash and Cash Equivalents	39	(32)
Cash and Cash Equivalents:		
Beginning of Period	252	299
End of Period	\$ 291	\$ 267

See accompanying Notes to Consolidated Financial Statements

PLUM CREEK TIMBERLANDS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 1. Basis of Presentation

General. Plum Creek Timberlands, L.P. is a Delaware Limited Partnership and a wholly-owned subsidiary of Plum Creek Timber Company, Inc. (“Parent”), a Delaware Corporation and a real estate investment trust, or “REIT”. References herein to “the Operating Partnership,” “we,” “us,” or “our” relate to Plum Creek Timberlands, L.P. and all of its wholly-owned consolidated subsidiaries; references to “Plum Creek” or “Parent” relate to Plum Creek Timber Company, Inc. and all of its wholly-owned consolidated subsidiaries.

At September 30, 2011, the Operating Partnership owned and managed approximately 6.7 million acres of timberlands in the Northwest, Southern, and Northeast United States, and owned 8 wood product conversion facilities in the Northwest United States (2 of which have been indefinitely curtailed). Included in the 6.7 million acres are about 1.0 million acres of higher value timberlands, which are expected to be sold and/or developed over the next fifteen years for recreational, conservation or residential purposes. Included within the 1.0 million acres of higher value timberlands are approximately 800,000 acres we expect to sell for recreational uses, approximately 100,000 acres we expect to sell for conservation and approximately 100,000 acres that are identified as having development potential. In addition, the Operating Partnership has approximately 300,000 acres of non-strategic timberlands, which are expected to be sold in smaller acreage transactions over the near and medium term. In the meantime, all of our timberlands continue to be managed productively in our business of growing and selling timber.

The consolidated financial statements of the Operating Partnership include the accounts of Plum Creek Timberlands, L.P. and its subsidiaries. The Operating Partnership is 100% owned by Plum Creek. Plum Creek has no assets or liabilities other than its direct and indirect ownership interests in Plum Creek Timberlands, L.P. and its interest in Plum Creek Ventures I, LLC (“PC Ventures”), a 100% owned subsidiary of Plum Creek. The Parent has no operations other than its investment in these subsidiaries and transactions in its own equity, such as the issuance and/or repurchase of common stock and the receipt of proceeds from stock option exercises. Intercompany transactions and accounts between Plum Creek Timberlands, L.P. and its subsidiaries have been eliminated in consolidation. All transactions are denominated in United States dollars.

Plum Creek Timber Company, Inc. has elected to be taxed as a REIT under sections 856-860 of the United States Internal Revenue Code and, as such, generally does not pay corporate-level income tax. However, the Operating Partnership conducts certain non-REIT activities through various wholly-owned taxable REIT subsidiaries, which are subject to corporate-level income tax. These activities include our manufacturing operations, the harvesting and selling of logs, and the development and/or sale of some of our higher value timberlands. The Operating Partnership’s tax provision includes the tax expense and/or benefit associated with Plum Creek’s taxable REIT subsidiaries, as well as any tax expense and/or benefit incurred by the REIT. The effective tax rate for the Operating Partnership is lower than the federal statutory corporate rate due to Plum Creek’s status as a REIT.

The consolidated financial statements included in this Form 10-Q are unaudited and do not contain all of the information required by U.S. generally accepted accounting principles to be included in a full set of financial statements. These interim consolidated financial statements in this Form 10-Q should be read in conjunction with the audited consolidated financial statements of Plum Creek Timberlands, L.P. for the three years ended December 31, 2010, which were included on Form 10-K of Plum Creek Timber Company, Inc. and filed with the SEC on February 25, 2011, and which include a summary of significant accounting policies of the Operating Partnership. In the opinion of management, all material adjustments necessary to present fairly the results of operations for such periods have been included in this Form 10-Q. All such adjustments are of a normal and recurring nature. The results of operations for interim periods are not necessarily indicative of the results of operations for the entire year.

PLUM CREEK TIMBERLANDS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 2. Inventories

Inventories, accounted for using the lower of average cost or market, consisted of the following (in millions):

	September 30, 2011	December 31, 2010
Raw Materials (primarily logs)	\$ 6	\$ 12
Work-In-Process	1	1
Finished Goods	25	24
	32	37
Supplies	12	12
Total	\$ 44	\$ 49

Note 3. Timber and Timberlands

Timber and Timberlands consisted of the following (in millions):

	September 30, 2011	December 31, 2010
Timber and Logging Roads, net	\$ 2,262	\$ 2,261
Timberlands	1,181	1,144
Timber and Timberlands, net	\$ 3,443	\$ 3,405

Note 4. Property, Plant and Equipment

Property, Plant and Equipment consisted of the following (in millions):

	September 30, 2011	December 31, 2010
Land, Buildings and Improvements	\$ 86	\$ 84
Machinery and Equipment	315	309
	401	393
Accumulated Depreciation	(261)	(247)
Property, Plant and Equipment, net	\$ 140	\$ 146

PLUM CREEK TIMBERLANDS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 5. Borrowings

Debt consisted of the following (in millions):

	September 30, 2011	December 31, 2010
Variable Rate Debt		
Term Credit Agreement ^(A)	\$ 350	\$ 350
Revolving Line of Credit ^(B)	302	166
Fixed Rate Debt		
Senior Notes	1,339	1,387
Total Debt	1,991	1,903
Less:		
Current Portion of Long-Term Debt	395	94
Line of Credit	302	166
Long-Term Portion	<u>\$ 1,294</u>	<u>\$ 1,643</u>

- (A) As of September 30, 2011, the interest rate on the \$350 million term credit agreement was 0.60%. This agreement matures July 10, 2012.
- (B) As of September 30, 2011, the weighted-average interest rate for the borrowings on the line of credit was 1.69%. As of September 30, 2011, we had \$302 million of borrowings and \$2 million of standby letters of credit outstanding; \$296 million remained available for borrowing under our \$600 million line of credit. As of October 3, 2011, \$243 million of the borrowings under our line of credit was repaid.

PLUM CREEK TIMBERLANDS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 6. Partners' Capital

The changes in the Operating Partnership's capital accounts were as follows during **2011** (in millions):

	Preferred Partnership Interest	Common Partners' Capital	Accumulated Other Comprehensive Income (Loss)	Total Partnership Capital
January 1, 2011	\$ 790	\$ 1,385	\$ (11)	\$ 2,164
Net Income before Allocation to Series T-1 Preferred Interest and Partners		52		52
Other Comprehensive Income (Loss), net of tax			1	1
Total Comprehensive Income				53
Net Income Allocation to Series T-1 Preferred Interest	14	(14)		—
Distributions to Partners (Common Partnership Interests)		(62)		(62)
Distributions for Series T-1 Preferred Interest	(14)			(14)
Capital Contributions from Parent		2		2
March 31, 2011	\$ 790	\$ 1,363	\$ (10)	\$ 2,143
Net Income before Allocation to Series T-1 Preferred Interest and Partners		59		59
Other Comprehensive Income (Loss), net of tax			1	1
Total Comprehensive Income				60
Net Income Allocation to Series T-1 Preferred Interest	15	(15)		—
Distributions to Partners (Common Partnership Interests)		(66)		(66)
Distributions for Series T-1 Preferred Interest	(15)			(15)
Capital Contributions from Parent		2		2
June 30, 2011	\$ 790	\$ 1,343	\$ (9)	\$ 2,124
Net Income before Allocation to Series T-1 Preferred Interest and Partners		64		64
Other Comprehensive Income (Loss), net of tax			(2)	(2)
Total Comprehensive Income				62
Net Income Allocation to Series T-1 Preferred Interest	14	(14)		—
Distributions to Partners (Common Partnership Interests)		(83)		(83)
Distributions for Series T-1 Preferred Interest	(14)			(14)
Capital Contributions from Parent		2		2
September 30, 2011	\$ 790	\$ 1,312	\$ (11)	\$ 2,091

PLUM CREEK TIMBERLANDS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

Note 7. Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis. The Operating Partnership's fair value measurements of its financial instruments, measured on a recurring basis, are categorized as Level 1 measurements under the fair value hierarchy in the Accounting Standards Codification. A Level 1 valuation is based on quoted prices in active markets at the measurement date for identical unrestricted assets or liabilities. Summarized below are the Level 1 assets reported in the Operating Partnership's financial statements at fair value, measured on a recurring basis (in millions):

	Balance at September 30, 2011	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets of Identical Assets (Level 1 Measurements)
Cash Equivalents ^(A)	\$ 290	\$ 290
Available-for-Sale Securities ^(B)	31	31
Trading Securities ^(B)	5	5
Total	<u>\$ 326</u>	<u>\$ 326</u>

	Balance at December 31, 2010	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets of Identical Assets (Level 1 Measurements)
Cash Equivalents ^(A)	\$ 249	\$ 249
Available-for-Sale Securities ^(B)	30	30
Trading Securities ^(B)	5	5
Total	<u>\$ 284</u>	<u>\$ 284</u>

(A) Consists of several money market funds and is included in the \$291 million and \$252 million of Cash and Cash Equivalents in the Consolidated Balance Sheets at September 30, 2011 and December 31, 2010, respectively.

(B) Consists of several mutual funds and is included in Investment in Grantor Trusts in the Consolidated Balance Sheets at September 30, 2011 and December 31, 2010. At September 30, 2011, investments in these mutual funds were approximately 40% in domestic (U.S.) equities, 20% in international equities and 40% in debt securities.

Available-for-Sale Securities. Certain investments in the grantor trusts relate to the Operating Partnership's non-qualified pension plans and are classified as available-for-sale securities. The Operating Partnership has invested in various money market, debt and equity mutual funds and plans to use these investments to fund its non-qualified pension obligations. Unrealized holding gains and losses are included as a component of accumulated other comprehensive income. The Operating Partnership records changes in unrealized holding gains and losses in Other Comprehensive Income, unless an other than temporary impairment has occurred, which is then charged to expense. Changes in the fair value of available-for-sale securities were not material to the Operating Partnership's financial position or results of operations.

Trading Securities. Certain investments in the grantor trusts relate to the Operating Partnership's deferred compensation plans and are classified as trading securities. Deferred compensation amounts are invested in various money market, debt and equity mutual funds. The Operating Partnership plans to use these investments to fund deferred compensation obligations. Realized gains and losses and changes in unrealized gains and losses (and a corresponding amount of compensation expense) are recognized in the Operating Partnership's Consolidated Statements of Income. Deferred compensation obligations are included in Other Liabilities and were \$5 million at September 30, 2011 and \$5 million at December 31, 2010. Changes in the fair value of trading securities were not material to the Operating Partnership's financial position or results of operations.

Other Instruments. The carrying amount of notes receivable approximates fair value due to the short-term maturities of these instruments. The estimated fair value of the Operating Partnership's debt was approximately \$2.05 billion and \$1.95 billion at September 30, 2011 and December 31, 2010, respectively, and the carrying amount was \$1.99 billion and \$1.90 billion at September 30, 2011 and December 31, 2010, respectively. The fair value of the Operating Partnership's Public Debt (publicly

PLUM CREEK TIMBERLANDS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

issued Senior Notes) is estimated using market quotes. The fair value of the Operating Partnership's Private Debt (Senior Notes with various maturities and fixed interest rates which are privately placed with various lenders) is estimated using the same rates adjusted for the different maturities. The fair value of our Term Credit Agreement was determined by adjusting the spread over LIBOR to a current market spread for comparable debt.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis. There were no fair value measurements of assets or liabilities measured on a nonrecurring basis during the nine-month periods ended September 30, 2011 and 2010.

Note 8. Employee Pension Plans

The components of pension cost were as follows for the **quarterly and nine-month periods ended September 30** (in millions):

	Quarter Ended September 30,	
	2011	2010
Service Cost	\$ 2	\$ 2
Interest Cost	2	2
Expected Return on Plan Assets	(2)	(2)
Total Pension Cost	<u>\$ 2</u>	<u>\$ 2</u>
	Nine Months Ended September 30,	
	2011	2010
Service Cost	\$ 6	\$ 6
Interest Cost	6	6
Expected Return on Plan Assets	(6)	(6)
Total Pension Cost	<u>\$ 6</u>	<u>\$ 6</u>

Note 9. Commitments and Contingencies

Contingencies. The Operating Partnership is subject to regulations regarding forest, harvest and manufacturing practices and is, from time to time, involved in various legal proceedings, including environmental and regulatory matters, incidental to its business. Reserves have been established for any probable losses.

Unrecorded Contingencies. Management currently believes that resolving other pending legal proceedings against the Operating Partnership, individually or in aggregate, will not have a material adverse impact on our financial position or results of operations. However, these matters are subject to inherent uncertainties and management's view on these matters may change in the future. Were an unfavorable final outcome in one or multiple legal proceedings to occur, there exists the possibility of a material adverse impact on our financial position and the results of operations for the period in which any unfavorable outcome becomes reasonably estimable.

Note 10. Variable Interest Entities

On October 1, 2008, a subsidiary of the Operating Partnership, Plum Creek Timber Operations I, LLC ("PC Member"), contributed 454,000 acres of timberlands located in its Southern Resources Segment to Southern Diversified Timber, LLC ("the Timberland Venture") in exchange for a \$705 million preferred interest and a 9% common interest valued at \$78 million. The Timberland Venture's other member, an affiliate of The Campbell Group LLC, contributed \$783 million of cash in exchange for 91% of the Timberland Venture's common interest. Following the formation of the Timberland Venture, Plum Creek Ventures I, LLC ("PC Ventures"), a 100% wholly-owned subsidiary of Plum Creek Timber Company, Inc., borrowed \$783 million from the Timberland Venture. PC Ventures used the proceeds from the borrowing to make a \$783 million capital contribution to the Operating Partnership. The Operating Partnership accounts for its interest in the Timberland Venture under the equity method of accounting.

PLUM CREEK TIMBERLANDS, L.P.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

The Timberland Venture is a variable interest entity. The primary operating activities of the Timberland Venture consist of owning timberlands and entering into cutting contracts with an affiliate of the other member. Besides quarterly distributions to PC Ventures which it uses to fund interest payments on the loan owed by PC Ventures, the Operating Partnership has not provided financing or other support to the venture. The venture is financed by a \$15 million line of credit obtained by the Timberland Venture.

We are not the primary beneficiary of the Timberland Venture. PC Member does not manage the day-to-day operations of the Timberland Venture, it has only limited protective rights and its involvement is generally limited to receiving distributions on its preferred and common interests. We are not the primary beneficiary because we do not direct the activities that most significantly impact the Timberland Venture's economic performance. We believe that the activities that most significantly impact the Timberland Venture's economic performance include managing the timberlands along with the timing and extent of the harvesting activities, neither of which we control.

The carrying amount of the investment is \$189 million at September 30, 2011 and \$201 million at December 31, 2010, and it is reported in the Consolidated Balance Sheets as Equity Investment in Timberland Venture. Our maximum exposure to loss is \$189 million, the carrying amount of the investment. Generally, losses are first allocated among the common interests based on positive capital accounts in which we hold a 9% common interest. No losses are allocated to our preferred interest (\$705 million) until the common interests have absorbed losses of approximately \$861 million.

Note 11. Summarized Income Statement Information of Affiliate

The earnings of the Timberland Venture are a significant component of consolidated earnings. See Note 10 of the Notes to Consolidated Financial Statements. Equity earnings for the Timberland Venture were \$44 million for the nine-month period ending September 30, 2011, and were \$44 million for the nine-month period ending September 30, 2010. Equity earnings includes the amortization of the difference between the book value of the Operating Partnership's investment and its proportionate share of the Timberland Venture's net assets of \$5 million and \$4 million for the nine-month periods ended September 30, 2011 and 2010, respectively. The table below presents summarized income statement information for the Timberland Venture for the **nine months ended September 30** (in millions):

	Nine Months Ended September 30,	
	2011	2010
Revenues	\$ 10	\$ 13
Cost of Goods Sold ^(A)	12	14
Selling, General and Administrative Expenses	2	2
Operating Income (Loss)	(4)	(3)
Interest Income, net	43	43
Net Income before Allocation to Preferred and Common Interests	<u>\$ 39</u>	<u>\$ 40</u>

(A) Cost of Goods Sold includes Depreciation, Depletion and Amortization of \$10 million and \$13 million for the nine-month periods ended September 30, 2011 and 2010, respectively.

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Note 12. Segment Information

The tables below present information about reported segments for the **quarterly and nine-month periods ended September 30** (in millions):

	Northern Resources	Southern Resources	Real Estate	Manufactured Products	Other	Total ^(C)
Quarter Ended September 30, 2011						
External Revenues	\$ 61	\$ 93	\$ 67	\$ 67	\$ 5	\$ 293
Intersegment Revenues	7	—	—	—	—	7
Depreciation, Depletion and Amortization	7	14	—	4	—	25
Basis of Real Estate Sold	—	—	14	—	—	14
Operating Income	7	21	46	3	5	82

Quarter Ended September 30, 2010

External Revenues	\$ 52	\$ 93	\$ 39	\$ 70	\$ 5	\$ 259
Intersegment Revenues	5	—	—	—	—	5
Depreciation, Depletion and Amortization	8	12	—	3	—	23
Basis of Real Estate Sold	—	—	14	—	—	14
Operating Income	5	25	19	7	5	61

	Northern Resources	Southern Resources	Real Estate	Manufactured Products ^(A)	Other ^(B)	Total ^(C)
Nine Months Ended September 30, 2011						
External Revenues	\$ 155	\$ 266	\$ 208	\$ 208	\$ 15	\$ 852
Intersegment Revenues	12	—	—	—	—	12
Depreciation, Depletion and Amortization	19	37	1	10	—	67
Basis of Real Estate Sold	—	—	57	—	—	57
Other Operating Gain	—	—	—	—	2	2
Operating Income	17	55	134	12	16	234

Nine Months Ended September 30, 2010

External Revenues	\$ 149	\$ 280	\$ 181	\$ 208	\$ 16	\$ 834
Intersegment Revenues	13	—	—	—	—	13
Depreciation, Depletion and Amortization	22	37	1	9	—	69
Basis of Real Estate Sold	—	—	57	—	—	57
Other Operating Gain	1	—	—	2	5	8
Operating Income	12	79	107	21	20	239

(A) During the second quarter of 2010, the Operating Partnership sold certain lumber manufacturing assets for a gain of \$2 million. For the nine months ended September 30, 2010, the \$2 million gain is reported as Other Operating Gain in our Manufactured Products Segment and is included in Other Operating Income (Expense), net in the Consolidated Statements of Income.

(B) During the first quarter of 2011, the Operating Partnership received a payment of \$2 million for the settlement of a dispute that related to certain mineral rights. For the nine months ended September 30, 2011, the \$2 million payment is reported as Other Operating Gain in our Other Segment and is included in Other Operating Income (Expense), net in the Consolidated Statements of Income.

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During the first quarter of 2010, the Operating Partnership agreed to terminate a land lease for consideration of \$5 million from the lessor. The land lease had been accounted for as an operating lease. For the nine months ended September 30, 2010, the \$5 million consideration is reported as Other Operating Gain in our Other Segment since the consideration was primarily for the release of mineral rights. For the nine months ended September 30, 2010, the \$5 million is included in Other Operating Income (Expense), net in the Consolidated Statements of Income.

During the first quarter of 2010, the Operating Partnership received \$21 million for the sale of an undivided 50% interest in natural gas rights on approximately 110,000 acres in West Virginia and to modify an existing natural gas lease on the same acres. The Operating Partnership allocated the proceeds based on relative fair value and determined that \$11 million was for the sale of the natural gas rights and \$10 million was for a lease bonus related to the modification of exploration rights under the existing lease. The fair value of the undivided 50% interest in natural gas rights was derived using an income approach based on discounted future cash flows. For the nine months ended September 30, 2010, the sale is reported as Gain on Sale of Properties, net of tax in the Consolidated Statements of Income and was not included in the Other Segment's operating income. The fair value of the modification to the exploration rights under the existing lease was based on market analyses and comparable leases. The \$10 million, along with the remaining deferred revenue at the time of the modification of \$12 million associated with the original granting of exploration rights in 2008, is being amortized into revenue of the Other Segment over the expected three-year term.

- (C) Consolidated depreciation, depletion and amortization includes unallocated corporate depreciation of \$1 million for each of the quarterly periods ended September 30, 2011 and September 30, 2010; and \$3 million for each of the nine-month periods ended September 30, 2011 and September 30, 2010.

A reconciliation of total segment operating income to income before income taxes is presented below for the **quarterly and nine-month periods ended September 30** (in millions):

	Quarter Ended September 30,	
	2011	2010
Total Segment Operating Income	\$ 82	\$ 61
Corporate and Other Unallocated Expenses	(13)	(10)
Other Unallocated Operating Income (Expense), net	—	—
Operating Income	69	51
Equity Earnings from Timberland Venture	14	15
Interest Expense, net	(20)	(20)
Income before Income Taxes	\$ 63	\$ 46

	Nine Months Ended September 30,	
	2011	2010
Total Segment Operating Income	\$ 234	\$ 239
Corporate and Other Unallocated Expenses	(43)	(38)
Other Unallocated Operating Income (Expense), net	1	1
Operating Income	192	202
Equity Earnings from Timberland Venture	44	44
Interest Expense, net	(61)	(59)
Income before Income Taxes	\$ 175	\$ 187

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

Forward-Looking Statement

This Report contains forward-looking statements within the meaning of the Private Litigation Reform Act of 1995. Some of the forward-looking statements can be identified by the use of forward-looking words such as “believes,” “expects,” “may,” “will,” “should,” “seeks,” “approximately,” “intends,” “plans,” “estimates,” “projects,” “strategy,” or “anticipates,” or the negative of those words or other comparable terminology. Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those described in the forward-looking statements, including those factors described under the heading “Risk Factors” in our filings with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, and Securities Act of 1933, as amended, including, but not limited to, our Annual Report on Form 10-K for the year ended December 31, 2010. Some factors include changes in governmental, legislative and environmental restrictions, catastrophic losses from fires, floods, windstorms, earthquakes, volcanic eruptions, insect infestations or diseases, as well as changes in economic conditions and competition in our domestic and export markets and other factors described from time to time in our filings with the Securities and Exchange Commission. In addition, factors that could cause our actual results to differ from those contemplated by our projected, forecasted, estimated or budgeted results as reflected in forward-looking statements relating to our operations and business include, but are not limited to:

- the failure to meet our expectations with respect to our likely future performance;
- an unanticipated reduction in the demand for timber products and/or an unanticipated increase in supply of timber products;
- an unanticipated reduction in demand for higher and better use timberlands or non-strategic timberlands;
- our failure to make strategic acquisitions or to integrate any such acquisitions effectively or, conversely, our failure to make strategic divestitures; and
- our failure to qualify as a real estate investment trust, or REIT.

It is likely that if one or more of the risks materializes, or if one or more assumptions prove to be incorrect, the current expectations of Plum Creek and its management will not be realized. Forward-looking statements speak only as of the date made, and neither Plum Creek nor its management undertakes any obligation to update or revise any forward-looking statements.

The following discussion and analysis should be read in conjunction with the financial information and analysis included in our 2010 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 25, 2011.

Organization of the Company

In management's discussion and analysis of financial condition and results of operations (Item 2 of this form), when we refer to "Plum Creek," "the company," "we," "us," or "our," we mean Plum Creek Timber Company, Inc. and its consolidated subsidiaries. References to Notes to Consolidated Financial Statements refer to the Notes to the Consolidated Financial Statements of Plum Creek Timber Company, Inc. included in Item 1 of this Form 10-Q.

Plum Creek Timber Company, Inc., a Delaware Corporation and a real estate investment trust, or "REIT", for federal income tax purposes, is the parent company of Plum Creek Timberlands, L.P., a Delaware Limited Partnership (the "Operating Partnership" or "Partnership"), and Plum Creek Ventures I, LLC, a Delaware Limited Liability Company ("PC Ventures"). Plum Creek conducts substantially all of its activities through the Operating Partnership and various wholly-owned subsidiaries of the Operating Partnership.

The Operating Partnership has borrowed and has currently outstanding \$2.0 billion principal amount of debt, including \$1.0 billion of publicly issued notes. PC Ventures has borrowed and has currently outstanding \$783 million in principal amount of debt ("the Note Payable to Timberland Venture") from an entity ("the Timberland Venture") in which a subsidiary of the Operating Partnership has a common and preferred equity interest. See Note 11 of the Notes to Consolidated Financial Statements. PC Ventures used the proceeds from the borrowing to make a \$783 million capital contribution to the Operating Partnership in exchange for a preferred equity interest in the Operating Partnership. PC Ventures has no other activities and the Operating Partnership has no ownership interest in PC Ventures.

The Note Payable to Timberland Venture is an obligation of PC Ventures and not an obligation of the Operating Partnership. Therefore, any discussion of the Note Payable to Timberland Venture below is not applicable to the Operating Partnership. Unless otherwise specified, all other discussion and analysis below are applicable to both Plum Creek and the Operating Partnership.

Recent Events

Clean Water Act - Ninth Circuit Ruling. In August, 2010, a three judge panel of the U.S. Court of Appeals for the Ninth Circuit ruled in *Northwest Environmental Defense Center (NEDC) v. Brown* that ditches and culverts associated with "forest roads" were "point sources" under the Clean Water Act ("CWA") and thus required National Pollution Discharge Elimination System (NPDES) permits should storm water runoff that is channeled and/or conveyed from such sources be discharged into waters of the United States. In May, 2011, the court denied a petition for rehearing, leaving its prior decision in place. The plaintiff alleged that the defendants violated the CWA by not obtaining EPA permits for stormwater runoff from logging roads into systems of ditches, culverts and channels that is then discharged into forest streams and rivers. The plaintiff further alleged that timber hauling on logging roads is a major source of sediment that flows through the stormwater collection system.

This decision overturns a long standing EPA rule that had exempted such sources of runoff from CWA permitting. Since 1976, the EPA has promulgated and amended a regulation specifically exempting from NPDES permitting requirements "point source" silviculture activities such as nursery operations, site preparation, reforestation and subsequent silvicultural treatment, thinning, prescribed burning, pest and fire control, harvesting operations, surface drainage, or road construction and maintenance from which there is "natural runoff" (the Silviculture Rule). Under the Silviculture Rule, the EPA did not require permitting for discharges from ditches, culverts and channels that collect stormwater runoff from logging roads. Instead, these forestry sources of stormwater runoff are regulated by the states, many of which do so by adopting best management practices.

The outcome of the court's decision is uncertain. A petition for review has been filed with the United States Supreme Court seeking to appeal the decision. In addition, legislation is being considered in Congress that would restore the Silviculture Rule exemption.

Should the decision stand, its impact on the company and the timber industry is unknown. It is unclear whether the EPA would require NPDES permits for forest roads outside of the area covered by the Ninth Circuit. It is also unclear what, if any, additional regulatory restrictions would be imposed by the NPDES permitting process. Further, if logging and other forest management roads and operations currently within the scope of the Silviculture Rule were placed within the NPDES permitting regime, it is possible that CWA "Total Maximum Daily Load" (TMDL) allocations in various stream drainages, "anti-degradation," and other NPDES requirements could be affected. A significant increase in operational and compliance costs for landowners and operators is possible depending upon the regulatory response to the court's decision.

Results of Operations

Third Quarter 2011 Compared to Third Quarter 2010

The following tables and narrative compare operating results by segment for the **quarters ended September 30** (in millions):

	Quarter Ended September 30,		Change
	2011	2010	
Operating Income by Segment			
Northern Resources	\$ 7	\$ 5	\$ 2
Southern Resources	21	25	(4)
Real Estate	46	19	27
Manufactured Products	3	7	(4)
Other	5	5	—
Total Segment Operating Income	82	61	21
Other Costs and Eliminations	(13)	(10)	(3)
Operating Income	\$ 69	\$ 51	\$ 18

Northern Resources Segment. Key operating statistics for the segment are as follows:

	Quarter Ended September 30, 2011		Quarter Ended September 30, 2010	
	Harvest Tons (millions)	Average Sales Realization	Harvest Tons (millions)	Average Sales Realization
Sawlog (\$/Ton Delivered)	0.661	\$ 71	0.537	\$ 66
Pulpwood (\$/Ton Delivered)	0.500	\$ 42	0.517	\$ 39
Total	1.161		1.054	

Revenues increased by \$11 million, or 19%, to \$68 million in the third quarter of 2011 compared to the third quarter of 2010. This increase was due primarily to higher sawlog harvest volumes (\$8 million) and higher sawlog prices (\$4 million).

Sawlog harvest volumes were 23% higher in the third quarter of 2011 compared to the third quarter of 2010. This increase was due primarily to a temporary reduction in harvest levels during the third quarter of 2010. During 2010, we accelerated harvests from the second half of 2010 into the first six months of 2010 in response to improving lumber and plywood prices and to fulfill commitments under log supply agreements that were deferred in 2009 due to weak product prices. Sawlog prices were 7% higher in the third quarter of 2011 due primarily to the increase in demand from China for the export of sawlogs from the Pacific Northwest. Log shipments from the U.S. to China during the first seven months of 2011 increased more than three times over shipments during the same period of the prior year.

Northern Resources Segment operating income was 10% of its revenues for the third quarter of 2011 and 9% for the third quarter of 2010 due primarily to higher sawlog prices, partially offset by higher log and haul costs. On a per ton basis, costs increased 14% (\$5 million) due primarily to more expensive harvesting methods, longer hauling distances, and higher fuel costs. Segment costs and expenses increased by \$9 million, or 17%, to \$61 million for the third quarter of 2011 due primarily to higher log and haul costs and higher harvest volume.

Southern Resources Segment. Key operating statistics for the segment are as follows:

	Quarter Ended September 30, 2011		Quarter Ended September 30, 2010	
	Harvest Tons (millions)	Average Sales Realization	Harvest Tons (millions)	Average Sales Realization
Sawlog (\$/Ton Stumpage)	1.289	\$ 20	1.209	\$ 23
Pulpwood (\$/Ton Stumpage)	1.833	\$ 9	1.674	\$ 11
Total	3.122		2.883	

Revenues were flat at \$93 million in the third quarter of 2011 compared to the third quarter of 2010 as higher pulpwood volumes (\$4 million) and sawlog volumes (\$3 million) were offset by lower pulpwood prices (\$3 million) and lower sawlog prices (\$3 million). Pulpwood harvest volumes were 9% higher during the third quarter of 2011 and sawlog harvest volumes were 7% higher compared to the same period in the prior year. These increases were due primarily to favorable harvesting conditions and good demand for pulpwood as a result of customers building log inventories in anticipation of winter weather-related harvesting constraints.

Pulpwood prices were 17% lower on a stumpage basis (7% lower on a delivered basis) in the third quarter of 2011 compared to the third quarter of 2010. This decrease was due primarily to an ample supply of pulpwood as a result of favorable harvesting conditions during 2011 compared to a limited supply in the prior year due to weather-related harvesting constraints.

Sawlog prices were 16% lower on a stumpage basis (7% lower on a delivered basis) in the third quarter of 2011 compared to the third quarter of 2010. This decrease was due primarily to an ample supply of logs as a result of favorable harvesting conditions, weak demand and, to a lesser extent, selling a greater proportion of smaller diameter sawlogs. The demand for sawlogs remained weak due to depressed plywood and lumber prices and near record low housing starts.

Southern Resources Segment operating income was 23% of its revenues for the third quarter of 2011 and 27% for the third quarter of 2010. This decrease was due primarily to lower sawlog and pulpwood prices and higher log and haul costs. Segment costs and expenses increased by \$4 million, or 6%, to \$72 million due primarily to an increase in the cost of fuel. Log and haul costs on a per ton basis increased 7% (\$3 million) in the third quarter of 2011 compared to the third quarter of 2010.

Real Estate Segment.

Property	Quarter Ended September 30, 2011			Quarter Ended September 30, 2010		
	Acres Sold	Revenues (millions)	Revenue per Acre	Acres Sold	Revenues (millions)	Revenue per Acre
Small Non-Strategic	11,525	\$ 14	\$ 1,230	10,270	\$ 11	\$ 1,025
Large Non-Strategic	—	—	—	—	—	—
Conservation	370	—	1,270	2,870	5	1,865
Higher and Better Use / Recreational	24,500	48	1,950	9,870	23	2,335
Development Properties	20	—	6,405	—	—	—
Conservation Easements	n/a	5	460	n/a	—	—
Total	36,415	\$ 67		23,010	\$ 39	

Revenues increased by \$28 million, or 72%, to \$67 million in the third quarter of 2011 compared to the third quarter of 2010. This increase is due primarily to an increase in the number of acres of higher and better use / recreational properties sold (\$34 million), offset in part by a decrease in the average sales realization per acre for higher and better use / recreational properties (\$9 million).

Revenues from higher and better use / recreational properties increased due primarily to selling a large parcel of approximately 16,400 acres in the U.S. South for approximately \$30 million. Our other higher and better use / recreational properties sold for an average per acre price of \$2,240 during the third quarter of 2011 compared to an average price of \$2,335 during the third quarter of 2010. Demand for higher and better use / recreational properties (especially our higher value properties) remains weak due to concerns over near-term real estate values, low consumer confidence, and the inability of buyers to secure debt financing.

Additionally, the timing of real estate sales is a function of many factors, including the general state of the economy, demand in local real estate markets, the ability to obtain entitlements, the ability of buyers to obtain financing, the number of competing properties listed for sale, the seasonal nature of sales (particularly in the northern states), the plans of adjacent landowners, our expectation of future price appreciation, the timing of harvesting activities, and the availability of government and not-for-profit funding (especially for conservation sales). Also, in any period the sales average will vary based on the location and physical characteristics of the parcels sold.

Real Estate Segment operating income was 69% of its third quarter revenues for 2011 compared to 49% for 2010. This increase was due primarily to having a greater percentage of the third quarter of 2011 real estate revenue from higher and better use / recreational sales and revenue of \$5 million from a conservation easement for which there is no book basis included in cost of goods sold. Real Estate Segment costs and expenses increased by \$1 million to \$21 million in the third quarter of 2011.

Manufactured Products Segment. Key operating statistics for the segment are as follows:

	Quarter Ended September 30, 2011		Quarter Ended September 30, 2010	
	Sales Volume	Average Sales Realization ^(A)	Sales Volume	Average Sales Realization ^(A)
Lumber	29,979 MBF	\$ 493	29,305 MBF	\$ 490
Plywood	41,632 MSF	\$ 382	44,223 MSF	\$ 388
Fiberboard	38,485 MSF	\$ 607	39,394 MSF	\$ 629

(A) Represents product prices at the mill level.

Revenues decreased by \$3 million, or 4%, to \$67 million in the third quarter of 2011 compared to the third quarter of 2010. This decrease in revenues was due primarily to lower plywood sales volume (\$2 million) and lower MDF prices (\$1 million).

Plywood sales volume was 6% lower during the third quarter of 2011 compared to the same period in the prior year due primarily to weaker demand. The demand for plywood has weakened due primarily to the slowing U.S. economy and declining consumer confidence.

Manufactured Products Segment operating income was 4% of its revenues for the third quarter of 2011 compared to 10% of its revenues for the third quarter of 2010. This decrease in operating performance was due primarily to decreases in plywood sales volumes and MDF prices. Manufactured Products Segment costs and expenses increased by \$1 million, or 2%, to \$64 million for the third quarter of 2011. We continue to operate our manufacturing facilities at a reduced capacity.

Other Costs and Eliminations. Other costs and eliminations (which consists of corporate overhead and intercompany profit elimination) decreased operating income by \$13 million during the third quarter of 2011 and by \$10 million during the third quarter of 2010. The increase of \$3 million was due primarily to higher legal and regulatory compliance costs and higher share-based compensation expense.

Interest Expense, net. Interest expense, net of interest income, was \$34 million in the third quarters of 2011 and 2010.

Benefit for Income Taxes. The benefit for income taxes was \$1 million for the third quarter of 2011 compared to zero for the third quarter of 2010. This benefit of \$1 million is due primarily to lower operating income of \$4 million in our manufacturing business.

Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010

The following tables and narrative compare operating results by segment for the **nine months ended September 30** (in millions):

	Nine Months Ended September 30,		Change
	2011	2010	
Operating Income by Segment			
Northern Resources	\$ 17	\$ 12	\$ 5
Southern Resources	55	79	(24)
Real Estate	134	107	27
Manufactured Products	12	21	(9)
Other	16	20	(4)
Total Segment Operating Income	234	239	(5)
Other Costs and Eliminations	(43)	(38)	(5)
Other Unallocated Operating Income (Expense), net	1	1	—
Operating Income	\$ 192	\$ 202	\$ (10)

Northern Resources Segment. Key operating statistics for the segment are as follows:

	Nine Months Ended September 30, 2011		Nine Months Ended September 30, 2010	
	Harvest Tons (millions)	Average Sales Realization	Harvest Tons (millions)	Average Sales Realization
Sawlog (\$/Ton Delivered)	1.638	\$ 70	1.648	\$ 63
Pulpwood (\$/Ton Delivered)	1.222	\$ 41	1.392	\$ 38
Total	2.860		3.040	

Revenues increased by \$5 million, or 3%, to \$167 million in the first nine months of 2011 compared to the first nine months of 2010. This increase was due primarily to higher sawlog prices (\$12 million) partially offset by lower pulpwood harvest volumes (\$7 million).

Sawlog prices were 12% higher in the first nine months of 2011 compared to the first nine months of 2010. Higher sawlog prices were due primarily to the increase in demand from China for the export of sawlogs from the Pacific Northwest. Log shipments from the U.S. to China during the first seven months of 2011 increased more than three times over shipments during the same period of the prior year.

Pulpwood harvest volumes were 12% lower due primarily to our planned decrease in pulpwood harvests. Total harvest levels for all of 2011 are expected to be comparable to the 4.0 million tons harvested during 2010; however, the mix of sawlogs is expected to increase from 54% to approximately 59% to capture favorable prices.

Northern Resources Segment operating income was 10% of its revenues for the first nine months of 2011 and 7% for the first nine months of 2010. This increase was due primarily to higher sawlog prices. Segment costs and expenses were \$150 million for both the first nine months of 2011 and 2010. Segment costs were flat despite lower harvest levels due to an increase in the log and haul rate per ton. On a per ton basis, costs increased 10% (\$9 million) in the first nine months of 2011 due primarily to more expensive harvesting methods, longer hauling distances, and higher fuel costs.

Southern Resources Segment. Key operating statistics for the segment are as follows:

	Nine Months Ended September 30, 2011		Nine Months Ended September 30, 2010	
	Harvest Tons (millions)	Average Sales Realization	Harvest Tons (millions)	Average Sales Realization
Sawlog (\$/Ton Stumpage)	3.701	\$ 19	3.605	\$ 23
Pulpwood (\$/Ton Stumpage)	4.919	\$ 9	4.648	\$ 12
Total	8.620		8.253	

Revenues decreased by \$14 million, or 5%, to \$266 million in the first nine months of 2011 compared to the first nine months of 2010. This decrease was due primarily to lower pulpwood prices (\$13 million) and lower sawlog prices (\$8 million), partially offset by higher pulpwood volumes (\$7 million). Pulpwood prices were 25% lower on a stumpage basis (10% lower on a delivered basis) in the first nine months of 2011 compared to the first nine months of 2010. This decrease was due primarily to unusually dry harvesting conditions during the first nine months of 2011 compared to unusually wet harvesting conditions, along with the temporary supply-chain disruption of pulp as a result of the February 2010 earthquake in Chile, during the first nine months of 2010.

Sawlog prices were 16% lower on a stumpage basis (7% lower on a delivered basis) in the first nine months of 2011 compared to the first nine months of 2010. This decrease was due primarily to an ample supply of logs as a result of favorable harvesting conditions, weak demand and, to a lesser extent, selling a greater proportion of smaller diameter sawlogs. The demand for sawlogs remained weak due to depressed lumber and plywood prices and near record low housing starts. Housing starts in the U.S. were 4% lower during the first nine months of 2011 compared to the first nine months of 2010.

Pulpwood harvest volumes were 6% higher during the first nine months of 2011 compared to the first nine months of 2010 due primarily to favorable harvesting conditions and good demand for pulpwood during the past several months as a result of customers building log inventories in anticipation of winter weather-related harvesting constraints. Total harvest levels (sawlogs and pulpwood) and mix for all of 2011 are expected to be comparable to the 11.5 million tons and mix harvested during 2010.

Southern Resources Segment operating income was 21% of its revenues for the first nine months of 2011 and 28% for the first nine months of 2010. This decrease was due primarily to lower sawlog and pulpwood prices and higher log and haul costs. Segment costs and expenses increased by \$10 million, or 5%, to \$211 million due primarily to an increase in the cost of fuel. Log and haul costs on a per ton basis increased 8% (\$9 million) in the first nine months of 2011 compared to the first nine months of 2010.

Real Estate Segment.

Property	Nine Months Ended September 30, 2011			Nine Months Ended September 30, 2010		
	Acres Sold	Revenues (millions)	Revenue per Acre	Acres Sold	Revenues (millions)	Revenue per Acre
Small Non-Strategic	16,780	\$ 20	\$ 1,180	41,860	\$ 39	\$ 930
Large Non-Strategic	30,295	43	1,405	24,310	32	1,320
Conservation	60,130	63	1,055	38,205	25	650
Higher and Better Use / Recreational	38,615	77	2,000	37,125	82	2,225
Development Properties	20	—	6,405	790	3	3,270
Conservation Easements	n/a	5	460	n/a	—	—
Total	145,840	\$ 208		142,290	\$ 181	

Revenues increased by \$27 million, or 15%, to \$208 million in the first nine months of 2011 compared to the same period in the prior year. Revenue during the first nine months of 2011 was primarily from selling large parcels of conservation properties in Florida, Arkansas and Louisiana and approximately 30,000 acres of large non-strategic properties. In comparison, during the first nine months of 2010, we sold approximately 83,000 acres in several large sales that included approximately 35,000 acres of conservation properties, approximately 23,000 acres of small non-strategic properties, and approximately 24,000 acres of large non-strategic properties. The acres of higher and better use / recreational properties sold each period was comparable and in both periods included the sale of large parcels. Markets remain weak due to concerns over near-term real estate values, low consumer confidence, and the inability of buyers to secure debt financing.

Conservation sales vary significantly from period to period and are primarily impacted by government and not-for-profit funding, the limited number of conservation buyers, and the timing of our transactions. Additionally, the price per acre for conservation properties can vary significantly due to the geographic location and the rationale for the conservation designation.

Additionally, the timing of real estate sales is a function of many factors, including the general state of the economy, demand in local real estate markets, the ability to obtain entitlements, the ability of buyers to obtain financing, the number of competing properties listed for sale, the seasonal nature of sales (particularly in the northern states), the plans of adjacent landowners, our expectation of future price appreciation, the timing of harvesting activities, and the availability of government and not-for-profit funding (especially for conservation sales). Also, in any period the sales average will vary based on the location and physical characteristics of the parcels sold.

We expect revenues from real estate sales during 2011 to range between \$290 million and \$305 million which includes selling timberlands that are less strategic to the company (large non-strategic sales).

Real Estate Segment operating income was 64% of its revenues for the first nine months of 2011 compared to 59% for 2010. Real Estate Segment costs and expenses were \$74 million for the first nine months of 2011 and 2010.

Manufactured Products Segment. Key operating statistics for the segment are as follows:

	Nine Months Ended September 30, 2011		Nine Months Ended September 30, 2010	
	Sales Volume	Average Sales Realization ^(A)	Sales Volume	Average Sales Realization ^(A)
Lumber	88,883 MBF	\$ 518	88,909 MBF	\$ 505
Plywood	130,630 MSF	\$ 378	136,329 MSF	\$ 379
Fiberboard	122,245 MSF	\$ 608	124,751 MSF	\$ 608

(A) Represents product prices at the mill level.

Revenues were flat at \$208 million for the first nine months of 2011 compared to the first nine months of 2010 as lower MDF sales volumes (\$2 million) and lower plywood sales volumes (\$1 million) were mostly offset by higher lumber sales prices (\$1 million). The Manufactured Products Segment continues to be impacted by weakness in the U.S. housing market and low levels of demand for wood products.

Manufactured Products Segment operating income was 6% of its revenues for the first nine months of 2011 compared to 10% of its revenues for the first nine months of 2010. This decrease in operating performance was due primarily to increased raw materials costs and a \$2 million gain from the sale of certain lumber manufacturing assets during the first nine months of 2010. The \$2 million gain is included in Other Operating Income (Expense), net in the Consolidated Statements of Income for the nine months ended September 30, 2010. Manufactured Products Segment costs and expenses increased by \$7 million, or 4%, to \$196 million for the first nine months of 2011 due primarily to higher raw materials costs, consisting mostly of higher resin costs at MDF (\$2 million), higher costs of supplies to produce specialty plywood products (\$2 million) and higher log costs (\$1 million). We continue to operate our manufacturing facilities at a reduced capacity.

Other Segment. Operating income decreased \$4 million to \$16 million in the first nine months of 2011 compared to the first nine months of 2010 due primarily to a \$5 million operating gain in connection with the termination of a land lease (primarily for the release of mineral rights) in the first quarter of 2010. Partially offsetting the decrease in operating income was a payment of \$2 million that we received during the first quarter of 2011 for the settlement of a dispute that related to certain mineral rights. The \$2 million and \$5 million gains are recorded in our Other Segment and reported as Other Operating Income (Expense), net in our Consolidated Statements of Income.

During the first quarter of 2010, we received cash proceeds of \$21 million for the sale of an undivided 50% interest in mineral rights (natural gas reserves on properties located in West Virginia) and to amend an agreement covering existing exploration rights. We allocated \$11 million to the sale of mineral rights and \$10 million to the modification of exploration rights. The sale of mineral rights is reported as Gain on Sale of Properties, net of tax in our Consolidated Statements of Income and was not included in the Other Segment's operating income. The remaining consideration of \$10 million related to the modified exploration rights, along

with the remaining deferred revenue at the time of the modification of \$12 million associated with the original granting of exploration rights in 2008, is being amortized into revenue of the Other Segment over the expected three-year term.

Other Costs and Eliminations. Other costs and eliminations (which consist of corporate overhead and intercompany profit elimination) decreased operating income by \$42 million during the first nine months of 2011 and by \$37 million during the first nine months of 2010. The increase of \$5 million was due primarily to higher legal and regulatory compliance costs (\$2 million) and higher share-based compensation expense (\$2 million).

The increase in share-based compensation expense in 2011 is due primarily to fair value adjustments. We adjust the fair value of our liability associated with our value management plan quarterly based on our relative total shareholder return compared to the performance of several peer groups.

Interest Expense, net. Interest expense, net of interest income, increased \$2 million, or 2%, to \$104 million in the first nine months of 2011. This increase was due primarily to an increase in the proportion of fixed-rate debt outstanding in the first nine months of 2011 compared to the same period in the prior year. Current interest rates on our fixed-rate debt are higher than interest rates on our variable-rate debt.

Provision for Income Taxes. The provision for income taxes was zero for the first nine months of 2011 compared to \$1 million for the first nine months of 2010. This decrease in tax expense of \$1 million was due primarily to a \$9 million decrease in operating income from our manufacturing business during the first nine months of 2011 compared to the same period in the prior year (resulting in lower tax expense of \$4 million), offset in part by a \$3 million valuation allowance recorded during the first nine months of 2011. The valuation allowance is related to certain state net operating loss carryforwards and other associated deferred tax assets for which we do not believe it is more likely than not they will be realized in future periods.

Our determination of the realization of deferred tax assets is based upon management's judgment of various future events and uncertainties, including the timing, nature and amount of future taxable income earned by certain wholly-owned subsidiaries. A valuation allowance is recognized if management believes it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. At September 30, 2011, we have recorded deferred tax assets of \$47 million (net of a \$3 million valuation allowance) and deferred tax liabilities of \$32 million. Management believes that due to the reversal of various taxable temporary differences and/or the planned execution of prudent and feasible tax planning strategies, sufficient taxable income can be generated to utilize the company's remaining deferred tax assets for which a valuation allowance was determined to be unnecessary.

Gain on Sale of Properties, net of tax. During 2010, we sold an undivided 50% interest in mineral rights (natural gas reserves) on properties located in West Virginia for \$11 million. See Other Segment above for detailed discussion of the transaction.

Financial Condition and Liquidity

We believe we have a strong balance sheet and do not foresee any near-term liquidity issues. At September 30, 2011, we had a cash balance of \$291 million and had availability of \$296 million under our line of credit. During the nine months ended September 30, 2011, we generated cash from operating activities of \$294 million and we refinanced \$49 million of maturing 7.83% senior notes with our line of credit. We have summarized our sources and uses of cash in a table near the end of this section.

The following table summarizes total cash flows for operating, investing and financing activities for the **nine months ended September 30** (in millions):

	Nine Months Ended September 30,		Change
	2011	2010	
Net Cash Provided By Operating Activities	\$ 294	\$ 312	\$ (18)
Net Cash Used In Investing Activities	(131)	(37)	(94)
Net Cash Used In Financing Activities	(124)	(307)	183
Change in Cash and Cash Equivalents	<u>\$ 39</u>	<u>\$ (32)</u>	<u>\$ 71</u>

Cash Flows from Operating Activities. Net cash provided by operating activities for the nine months ended September 30, 2011 totaled \$294 million and was generally comparable to the \$312 million we generated during the nine months ended September 30, 2010.

Capital Expenditures. Capital expenditures (excluding timberland and mineral acquisitions) for the nine months ended September 30, 2011 were \$45 million compared to \$52 million for the same period in 2010. These amounts include \$2 million and \$1 million of real estate development expenditures for each of the nine month periods ended September 30, 2011 and 2010, respectively. During the first nine months of 2011, we acquired timberlands and mineral reserves for \$88 million. Planned capital expenditures for 2011 (excluding timberland and mineral acquisitions) are expected to be approximately \$75 million and include approximately \$62 million for our timberlands, \$4 million for our manufacturing facilities, \$3 million for real estate development investments, and \$6 million for investments in information technology. The timberland expenditures are primarily for reforestation and other expenditures associated with the planting and growing of trees. Approximately 55% of planned capital expenditures in 2011 are discretionary, primarily expenditures for silviculture. Capital expenditures at our manufacturing facilities consist primarily of expenditures to sustain operating activities.

Debt Financing. We strive to maintain a balance sheet that provides the financial flexibility to pursue our strategic objectives. In order to maintain this financial flexibility, our objective is to maintain an investment grade credit rating. This is reflected in our moderate use of debt, established access to credit markets and no material covenant restrictions in our debt agreements that would prevent us from prudently using debt capital. All of our borrowings, except for the Note Payable to Timberland Venture, are made by Plum Creek Timberlands, L.P., the company's wholly-owned operating partnership ("the Partnership"). Furthermore, all of the outstanding indebtedness of the Partnership is unsecured.

Line of Credit. We have a \$600 million revolving line of credit agreement that matures in January 2015. As of September 30, 2011, the weighted-average interest rate for the borrowings on the line of credit was 1.69%. The interest rate on the line of credit is based on LIBOR plus 1.50%. This rate can range from LIBOR plus 1.275% to LIBOR plus 2% depending on our debt ratings. In addition to interest expense on outstanding borrowings, we pay an annual facility fee equal to 0.25% of the entire line regardless of the amount drawn on the line during the year. Subject to customary covenants, the line of credit allows for borrowings from time to time up to \$600 million, including up to \$100 million of standby letters of credit. Borrowings on the line of credit fluctuate daily based on cash needs. As of September 30, 2011, we had \$302 million of borrowings and \$2 million of standby letters of credit outstanding; \$296 million remained available for borrowing under our line of credit. As of October 3, 2011, \$243 million of the borrowings outstanding under our line of credit was repaid.

Term Credit Agreement. The company has a \$350 million term credit agreement that matures in July 2012. As of September 30, 2011, the interest rate for the term credit agreement was 0.60%. The interest rate is based on LIBOR plus 0.375%. This rate can range from LIBOR plus 0.3% to LIBOR plus 1.15% depending on our debt ratings. The term credit agreement is subject to covenants that are substantially the same as those of the revolving line of credit. The agreement allows for prepayment of the borrowings at any time prior to the maturity date without premium or penalty.

Senior Notes. The company has outstanding Senior Notes with various maturities and fixed interest rates. As of September 30, 2011, the company had \$310 million aggregate principal amount of Senior Notes outstanding that are privately placed borrowings

with various lenders (“Private Debt”). The Private Debt matures serially through 2016.

As of September 30, 2011, the company had publicly issued and outstanding \$1.0 billion aggregate principal amount of Senior Notes (“Public Debt”). The Public Debt consists of \$575 million aggregate principal amount of 4.70% Public Debt which matures in 2021 and 5.875% Public Debt with an aggregate principal amount of \$458 million which matures in 2015. The Public Debt is issued by the Partnership and is fully and unconditionally guaranteed by Plum Creek Timber Company, Inc.

Senior Notes outstanding, including unamortized discount, consisted of the following (in millions):

	<u>September 30, 2011</u>	<u>December 31, 2010</u>
Senior Notes		
Public Debt	\$ 1,029	\$ 1,029
Private Debt	310	358
Total Senior Notes	<u>\$ 1,339</u>	<u>\$ 1,387</u>

Plum Creek Timber Company, Inc. and the Partnership have filed a shelf registration statement with the Securities and Exchange Commission. Under the shelf registration statement, Plum Creek Timber Company, Inc., from time to time, may offer and sell any combination of preferred stock, common stock, depository shares, warrants and guarantees, and the Partnership, from time to time, may offer and sell debt securities. The company and the Partnership intend to maintain a shelf registration statement with respect to such securities.

Debt Covenants. Our Senior Notes, Term Credit Agreement and Line of Credit contain various restrictive covenants, none of which are expected to materially impact the financing of our ongoing operations. We are in compliance with all of our borrowing agreement covenants as of September 30, 2011.

Our Line of Credit and Term Credit Agreement require that we maintain certain interest coverage and maximum leverage ratios. We have no covenants and restrictions associated with changes in our debt ratings. Furthermore, there are no material covenants associated with our Note Payable to Timberland Venture, and this indebtedness is not considered in computing any of our debt covenants since the debt is an obligation of Plum Creek Timber Company, Inc. and not the Partnership.

The borrowing agreements for the Private Debt include limitations on the incurrence of indebtedness, making restricted payments (such as payments of cash dividends or stock repurchases), harvest levels and sales of assets. The restricted payments covenant is based on a computation of “available cash,” which is generally our net income (excluding gains on the sale of capital assets) after adjusting for non-cash charges (such as depreciation and depletion), changes in various reserves, less capital expenditures and principal payments on indebtedness that are not financed. Additionally, the amount of available cash may be increased by the amount of proceeds from the sale of higher and better use properties and, under certain circumstances, by 50% of the amount of net proceeds from the sale of other assets. At September 30, 2011, our entire cash balance of \$291 million is available to make restricted payments.

As of September 30, 2011, we can borrow the entire amount available under our Line of Credit, and we expect to be able to incur at least this level of additional indebtedness for the next twelve months.

Future Cash Requirements. Cash required to meet our future financial needs will be significant. In the next twelve months, we have \$395 million of scheduled debt principal payment requirements. We expect to fund these debt payments at or near maturity with new borrowings or a combination of cash and new borrowings. Additionally, we believe that our current cash on hand and cash flows from continuing operations will be sufficient for the next twelve months to fund planned capital expenditures, interest payments on our indebtedness and our dividend.

The following table summarizes our sources and uses of cash for the **nine months ended September 30** (in millions):

	Nine Months Ended September 30,		
	2011	2010	Change
Sources of Cash:			
Operations ^(A)	\$ 243	\$ 249	\$ (6)
Changes in Working Capital	—	12	(12)
Cash Distributions from Timberland Venture	56	56	—
Cash from Stock Option Exercises	9	2	7
Cash from Sale of Properties and Other Assets	—	13	(13)
Other Cash Changes, net	—	1	(1)
Increase Debt Obligations, net	87	—	87
Total Sources of Cash	395	333	62
Uses of Cash:			
Returned to Stockholders:			
Dividends	(204)	(205)	1
Common Stock Repurchases	(16)	(51)	35
Reinvest in the Business:			
Capital Expenditures, including Real Estate Development ^(B)	(45)	(52)	7
Timberlands and Minerals Acquired	(88)	—	(88)
Meet our Pension Obligations:			
Pension Contributions	(3)	(4)	1
Reduce Debt Obligations, net	—	(53)	53
Total Uses of Cash	(356)	(365)	9
Change in Cash and Cash Equivalents	\$ 39	\$ (32)	\$ 71

(A) Calculated from the Consolidated Statements of Cash Flows by adding Depreciation, Depletion and Amortization, Basis of Real Estate Sold, Equity Earnings from Timberland Venture, Gain on Sales of Properties and Other Assets, Deferred Revenue from Long-Term Gas Leases (Net of Amortization), Deferred Income Taxes and Other Operating Activities (excluding Expenditures for Real Estate Development - see Footnote B) to Net Income.

(B) Calculated from the Consolidated Statements of Cash Flows by adding Capital Expenditures (excluding Timberland and Mineral Acquisitions) and Expenditures for Real Estate Development, which are included in Other Operating Activities. Expenditures for Real Estate Development were \$2 million and \$1 million for the nine month periods ending September 30, 2011 and 2010, respectively.

Equity. On November 1, 2011, the Board of Directors declared a dividend of \$0.42 per share, or approximately \$68 million, which will be paid on November 30, 2011 to stockholders of record on November 15, 2011. Future dividends will be determined by our Board of Directors, in its sole discretion, based on consideration of a number of factors including, but not limited to, our results of operations, cash flow and capital requirements, economic conditions, tax considerations, debt covenant restrictions that may impose limitations on the company's ability to make cash payments, borrowing capacity, changes in the prices of and demand for Plum Creek's products, and changes in our ability to sell timberlands at attractive prices. Other factors that our Board of Directors considers include the appropriate timing of timber harvests, acquisition and divestiture opportunities, stock repurchases, debt repayment and other means by which the company could deliver value to its stockholders.

Plum Creek's Board of Directors has authorized a common stock repurchase program that may be increased from time to time at the Board of Directors' discretion. For the nine months ended September 30, 2011, we repurchased 0.4 million shares of common stock at a total cost of \$15 million, or an average cost per share of \$34.80. At September 30, 2011, \$185 million was available for share repurchases under the current Board of Directors' authorization. Subsequent to September 30, 2011, we repurchased an additional 0.3 million shares of common stock at a total cost of \$10 million, or an average cost per share of \$34.88. Following these repurchases, \$175 million is available for share repurchases under the current Board of Directors' authorization.

Other Information - New Accounting Standards

Presentation of Comprehensive Income. In June 2011, the Financial Accounting Standards Board (“FASB”) revised the manner in which entities present comprehensive income in their financial statements. The new guidance will require entities to report the components of comprehensive income in either a continuous statement of comprehensive income or two separate but consecutive statements. The new accounting standard does not change the items that are reported in other comprehensive income. The accounting standard is effective for Plum Creek beginning January 1, 2012. We expect the adoption of this new accounting standard will result in a separate financial statement for comprehensive income and do not expect any impact on our financial condition, results of operations or cash flows.

Fair Value Measurements and Disclosures. In May 2011, the FASB issued revised guidance on how to measure fair value and the related disclosures for such fair value measurements. While the revised guidance is largely consistent with existing fair value measurement principles under current accounting standards, the guidance does expand certain disclosure requirements. The revised accounting standard is effective for Plum Creek beginning January 1, 2012. While we are still evaluating the revised standard, we expect to make additional disclosures regarding fair value measurements in our financial statements but do not expect any impact on our financial condition, results of operations or cash flows.

Off-Balance Sheet Arrangements, Contractual Obligations, Contingent Liabilities and Commitments

The company has no off-balance sheet debt. For information on contractual obligations, see the table Contractual Obligations in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our 2010 Annual Report on Form 10-K.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Approximately \$2.1 billion (including \$783 million of related party obligations) of Plum Creek’s long-term debt bears interest at fixed rates, and therefore the fair value of these instruments is affected by changes in market interest rates. We also have variable rate debt that is affected by changes in market interest rates. The following table presents contractual principal cash flows based upon maturity dates of the company’s debt obligations and the related weighted-average contractual interest rates by expected maturity dates for the fixed and variable rate debt (in millions):

	2011	2012	2013	2014	2015	Thereafter	Total	Fair Value ^(A)
September 30, 2011								
Fixed Rate Debt								
<i>Third Party Obligations</i>								
Principal Due ^(B)	\$ 46	\$ 3	\$ 250	\$ 3	\$ 462	\$ 579	\$ 1,343	\$ 1,400
Average Interest Rate ^(C)	5.6%	5.5%	5.4%	5.2%	5.2%	4.7%		
<i>Related Party Obligations</i>								
Principal Due						\$ 783	\$ 783	\$ 901
Interest Rate						7.4%		
Variable Rate Debt ^(D)		\$ 350					\$ 350	\$ 348

	2010	2011	2012	2013	2014	Thereafter	Total	Fair Value
September 30, 2010								
Fixed Rate Debt								
<i>Third Party Obligations</i>								
Principal Due ^(B)	3	\$ 308	\$ 3	\$ 250	\$ 3	\$ 467	\$ 1,034	\$ 1,121
Average Interest Rate ^(C)	6.7%	6.5%	6.2%	6.1%	5.9%	5.9%		
<i>Related Party Obligations</i>								
Principal Due						\$ 783	\$ 783	\$ 894
Interest Rate						7.4%		
Variable Rate Debt			\$ 600				\$ 600	\$ 587

(A) The fair value of the company’s Public Debt is estimated using market quotes; the fair value of the company’s Private Debt with unrelated third parties is estimated using the same rates adjusted for the different maturities. The fair value of the company’s Note Payable to Timberland Venture is estimated using the same rates as the Public Debt adjusted by an estimated risk premium for holding company debt and the different maturity. The increase in fair value of our fixed rate debt compared to September 30, 2010 (excluding related party debt) was due primarily to the issuance of \$575 million of Public Debt in November of 2010, partially offset by principal repayments of \$265 million of Private Debt during the twelve month period and an increase in credit spreads (the difference between corporate debt rates and treasury rates). Despite a decline in treasury rates, increased credit spreads for debt with similar maturities led to higher market interest rates, on average, at September 30, 2011, resulting in a slight decrease in fair value. In contrast, the decline in treasury rates exceeded the increase in credit spreads for debt with a similar maturity for our Note Payable to Timberland Venture, resulting in an increase in the fair value at September 30, 2011 compared to September 30, 2010.

The fair value of our floating rate term loan (variable rate debt) as of September 30, 2011 and September 30, 2010 was determined by adjusting the spread over LIBOR to a current market spread for comparable debt as of September 30, 2011 and September 30, 2010.

- (B) Excludes unamortized discount of \$4 million and \$6 million at September 30, 2011 and 2010, respectively.
- (C) Represents the average interest rate of total fixed rate debt (excluding related party debt) outstanding at the end of the period.
- (D) As of September 30, 2011, the interest rate for the \$350 million term credit agreement was 0.60%. The interest rate on the term credit agreement is based on LIBOR plus 0.375%. This rate can range from LIBOR plus 0.3% to LIBOR plus 1.15% depending on our debt ratings. Not included in the above table are borrowings under our \$600 million revolving line of credit of \$302 million. As of September 30, 2011, the weighted-average interest rate on the \$302 million of

borrowings was 1.69%. The interest rate on the line of credit is based on LIBOR plus 1.50%. This rate can range from LIBOR plus 1.275% to LIBOR plus 2% depending on our debt ratings. As of October 3, 2011, \$243 million of the borrowings under our line of credit was repaid.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

The company's management, with the participation of the company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the company's disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended) as of the end of the period covered by this report. Based on that evaluation, the company's management, including the Chief Executive Officer and Chief Financial Officer, has concluded that the company's disclosure controls and procedures were effective as of the end of such period.

(b) Control over Financial Reporting

There have been no changes in the company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended) during the quarter to which this report relates that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None. (See also Note 10 of the Notes to Consolidated Financial Statements of Plum Creek Timber Company, Inc.).

ITEM 1A. RISK FACTORS

There have been no material changes to the company's Risk Factors as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2010, as filed with the Securities and Exchange Commission on February 25, 2011.

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

The following table contains information about the company’s purchases of equity securities during the third quarter of 2011:

<i>Period</i>	<i>Total Number of Shares Purchased^(A)</i>	<i>Average Price Paid per Share</i>	<i>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs^(B)</i>	<i>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs^(B)</i>
July 1, 2011 through July 31, 2011	150 shares of common stock	\$ 41.31	— shares of common stock	\$ 200 million
August 1, 2011 through August 31, 2011	— shares of common stock	\$ —	— shares of common stock	\$ 200 million
September 1, 2011 through September 30, 2011	419,200 shares of common stock	\$ 34.80	419,200 shares of common stock	\$ 185 million
Total	419,350 shares of common stock	\$ 34.81	419,200 shares of common stock	

(A) Includes shares of the company’s common stock purchased from employees in non-open market transactions. The shares of stock were sold by the employees to the company in exchange for cash that was used to pay withholding taxes associated with the vesting of restricted stock unit awards under the company’s stock incentive plan. The price per share surrendered is based on the closing price of the company’s stock on the vesting dates of the awards.

(B) The Board of Directors, from time to time, has authorized a share repurchase program. On August 3, 2010, the Board of Directors authorized a \$200 million share repurchase program, which was publicly announced on August 4, 2010. At September 30, 2011, the remaining share repurchase authorization was \$185 million. Subsequent to September 30, 2011, we repurchased an additional 0.3 million shares of common stock at a total cost of \$10 million, or an average cost per share of \$34.88. Following these repurchases, \$175 million is available for share repurchases under the current Board of Directors' authorization.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4. (REMOVED AND RESERVED)

ITEM 5. OTHER INFORMATION

None.

ITEM 6. EXHIBITS

List of Exhibits

Each exhibit set forth below in the Index to Exhibits is filed as a part of this report. All exhibits not filed herewith are incorporated herein by reference to a prior filing as indicated.

The agreements included as exhibits to this report are included to provide information about their terms and not to provide any other factual or disclosure information about the company or the other parties to the agreements. The agreements may contain representations and warranties by each of the parties to the applicable agreement that were made solely for the benefit of the other parties to the agreement and:

- should not be treated as categorical statements of fact, but rather as a way of allocating the risk among the parties if those statements prove to be inaccurate;
- may have been qualified by disclosures that were made to the other party in connection with the negotiation of the applicable agreement, which disclosures are not necessarily reflected in the agreement;
- may apply standards of materiality in a way that is different from what may be viewed as material to investors; and
- were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement and are subject to more recent developments.

Accordingly, these representations and warranties may not describe the actual state of affairs as of the date they were made or at any other time.

INDEX TO EXHIBITS

Exhibit Designation	Nature of Exhibit
2.1	Contribution Agreement dated as of August 22, 2008 between Plum Creek Timber Operations I, LLC and TCG Member, LLC (Exhibit 2.1 to Form 8-K, File No. 1-10239, filed August 27, 2008).
2.2	Limited Liability Company Agreement of Southern Diversified Timber, LLC dated as of October 1, 2008 between Plum Creek Timber Operations I, LLC and TCG Member, LLC (Exhibit 2.2 to Form 8-K, File No. 1-10239, filed October 7, 2008).
3.1	Restated Certificate of Incorporation of Plum Creek Timber Company, Inc., as amended (Exhibit 3.1 to Form 10-Q, File No. 1-10239, for the quarter ended June 30, 2009).
3.2	Amended and Restated By-laws of Plum Creek Timber Company, Inc., as amended (Exhibit 3.2 to Form 10-K, File No. 1-10239, for the year ended December 31, 2010).
3.3	Amended and Restated Agreement of Limited Partnership of Plum Creek Timberlands, L.P. (Exhibit 3.3 to Form 10-K, File No. 1-10239, for the year ended December 31, 2010).
12.1	Statements regarding computation of ratios.
31.1	Certification of Rick R. Holley pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
31.2	Certification of David W. Lambert pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Rick R. Holley, President and Chief Executive Officer, pursuant to Rules 13a-14(b) and 15d-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of David W. Lambert, Senior Vice President and Chief Financial Officer, pursuant to Rules 13a-14(b) and 15d-14(b) of the Securities Exchange Act of 1934, as amended, and 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 Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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.

PLUM CREEK TIMBER COMPANY, INC.

(Registrant)

By: /S/ DAVID W. LAMBERT

DAVID W. LAMBERT

Senior Vice President and Chief Financial Officer
(Duly Authorized Officer and Principal Financial
Officer)

Date: November 1, 2011

Plum Creek Timber Company, Inc.
Ratio of Earnings to Fixed Charges

(Dollars in Millions)	Years Ended December 31,					
	9 Months Ended September 30, 2011	2010	2009	2008	2007	2006
Consolidated Pretax Income from Continuing Operations	\$ 88	\$ 146	\$ 150	\$ 193	\$ 279	\$ 328
Fixed Charges (per below)	109	143	153	158	155	140
Distributed Income of Equity Investees	56	57	53	—	—	—
Interest Capitalized	(1)	(1)	(1)	(1)	(1)	—
Earnings	<u>\$ 252</u>	<u>\$ 345</u>	<u>\$ 355</u>	<u>\$ 350</u>	<u>\$ 433</u>	<u>\$ 468</u>
Interest and Other Financial Charges	\$ 107	\$ 140	\$ 150	\$ 154	\$ 151	\$ 138
Interest Portion of Rental Expense	2	3	3	4	4	2
Fixed Charges	<u>\$ 109</u>	<u>\$ 143</u>	<u>\$ 153</u>	<u>\$ 158</u>	<u>\$ 155</u>	<u>\$ 140</u>
Ratio of Earnings to Fixed Charges	<u>2.3</u>	<u>2.4</u>	<u>2.3</u>	<u>2.2</u>	<u>2.8</u>	<u>3.3</u>

Plum Creek Timberlands, L.P.
Ratio of Earnings to Fixed Charges

(Dollars in Millions)	Years Ended December 31,					
	9 Months Ended September 30, 2011	2010	2009	2008	2007	2006
Consolidated Pretax Income from Continuing Operations	\$ 131	\$ 204	\$ 208	\$ 207	\$ 279	\$ 328
Fixed Charges (per below)	65	86	95	144	155	140
Distributed Income of Equity Investees	56	57	53	—	—	—
Interest Capitalized	(1)	(1)	(1)	(1)	(1)	—
Earnings	<u>\$ 251</u>	<u>\$ 346</u>	<u>\$ 355</u>	<u>\$ 350</u>	<u>\$ 433</u>	<u>\$ 468</u>
Interest and Other Financial Charges	\$ 63	\$ 83	\$ 92	\$ 140	\$ 151	\$ 138
Interest Portion of Rental Expense	2	3	3	4	4	2
Fixed Charges	<u>\$ 65</u>	<u>\$ 86</u>	<u>\$ 95</u>	<u>\$ 144</u>	<u>\$ 155</u>	<u>\$ 140</u>
Ratio of Earnings to Fixed Charges	<u>3.9</u>	<u>4.0</u>	<u>3.7</u>	<u>2.4</u>	<u>2.8</u>	<u>3.3</u>

During 2008, PC Ventures I, LLC (“PC Ventures”), a 100% wholly-owned subsidiary of Plum Creek Timber Company, Inc., made a \$783 million capital contribution to Plum Creek Timberlands, L.P. in exchange for a Series T-1 Redeemable Preferred Limited Partnership Interest (“Series T-1 Preferred Interest”), a preferred interest in Plum Creek Timberlands, L.P. The Series T-1 Preferred Interest provides for a return of 7.375% per annum (approximately \$58 million) on its contributed capital of \$783 million. In the computation of the ratio of earnings to fixed charges for Plum Creek Timberlands, L.P. above, the Series T-1 Preferred Interest is not subtracted from Consolidated Pretax Income from Continuing Operations and has been excluded from the calculation of Fixed Charges because these transactions are between affiliated entities. Further discussion of the Series T-1 Preferred Interest in Plum Creek Timberlands, L.P. can be found in the audited consolidated financial statements of Plum Creek Timberlands, L.P. for the three years ended December 31, 2010, which were included on Form 10-K of Plum Creek Timber Company, Inc. and filed with the SEC on February 25, 2011.

**Certification Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, **Rick R. Holley**, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Plum Creek Timber Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2011

By: /s/ RICK R. HOLLEY

RICK R. HOLLEY

President and Chief Executive Officer

**Certification Pursuant to
Section 302 of the Sarbanes-Oxley Act of 2002**

I, **David W. Lambert**, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Plum Creek Timber Company, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's Board of Directors (or persons performing the equivalent function):
 - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 1, 2011

By: /s/ DAVID W. LAMBERT

DAVID W. LAMBERT

Senior Vice President and Chief Financial
Officer

**Certification Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Plum Creek Timber Company, Inc. (the "Company") for the period ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Rick R. Holley, as Chief Executive Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 1, 2011

By: /s/ RICK R. HOLLEY

RICK R. HOLLEY

President and Chief Executive Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification Pursuant to
18 U.S.C. Section 1350,
As Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q of Plum Creek Timber Company, Inc. (the "Company") for the period ended September 30, 2011, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), David W. Lambert, as Chief Financial Officer of the Company, hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of his knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: November 1, 2011

By: /s/ DAVID W. LAMBERT

DAVID W. LAMBERT

Senior Vice President and Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.