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**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, 2010

**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 29, 2010 was 161,609,893.

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**PLUM CREEK TIMBER COMPANY, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**For the Quarter ended September 30, 2010**

**TABLE OF CONTENTS**

**PART I – FINANCIAL INFORMATION**

Item 1.	<u>Financial Statements</u>	
	<u>PLUM CREEK TIMBER COMPANY, INC.</u>	3
	<u>PLUM CREEK TIMBERLANDS, L.P.</u>	22
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	39
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	54
Item 4.	<u>Controls and Procedures</u>	55

**PART II – OTHER INFORMATION**

Item 1.	<u>Legal Proceedings</u>	55
Item 1A.	<u>Risk Factors</u>	55
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	56
Item 6.	<u>Exhibits</u>	57

	<b><u>INDEX TO EXHIBITS</u></b>	57
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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,	
	2010	2009
<b>REVENUES:</b>		
Timber	\$ 145	\$ 152
Real Estate	39	73
Manufacturing	70	65
Other	5	4
Total Revenues	259	294
<b>COSTS AND EXPENSES:</b>		
Cost of Goods Sold:		
Timber	108	120
Real Estate	18	51
Manufacturing	62	65
Other	—	—
Total Cost of Goods Sold	188	236
Selling, General and Administrative	20	20
Total Costs and Expenses	208	256
Other Operating Income (Expense), net	—	—
Operating Income	51	38
Equity Earnings from Timberland Venture	15	14
Interest Expense, net:		
Interest Expense (Debt Obligations to Unrelated Parties)	20	22
Interest Expense (Note Payable to Timberland Venture)	14	14
Total Interest Expense, net	34	36
Income before Income Taxes	32	16
Benefit for Income Taxes	—	(3)
Net Income	\$ 32	\$ 19
<b>PER SHARE AMOUNTS:</b>		
Net Income per Share – Basic	\$ 0.20	\$ 0.12
Net Income per Share – Diluted	\$ 0.20	\$ 0.12
Dividends Declared – per Common Share Outstanding	\$ 0.42	\$ 0.42
Weighted-Average Number of Shares Outstanding		
– Basic	161.6	162.8
– Diluted	161.8	162.9

*See accompanying Notes to Consolidated Financial Statements*

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

(In Millions, Except Per Share Amounts)	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>REVENUES:</b>		
Timber	\$ 429	\$ 414
Real Estate	181	419
Manufacturing	208	189
Other	16	14
Total Revenues	<b>834</b>	<b>1,036</b>
<b>COSTS AND EXPENSES:</b>		
Cost of Goods Sold:		
Timber	317	326
Real Estate	69	179
Manufacturing	184	205
Other	1	1
Total Cost of Goods Sold	<b>571</b>	<b>711</b>
Selling, General and Administrative	70	75
Total Costs and Expenses	<b>641</b>	<b>786</b>
Other Operating Income (Expense), net	<b>9</b>	<b>—</b>
Operating Income	<b>202</b>	<b>250</b>
Equity Earnings from Timberland Venture	<b>44</b>	<b>43</b>
Interest Expense, net:		
Interest Expense (Debt Obligations to Unrelated Parties)	59	69
Interest Expense (Note Payable to Timberland Venture)	43	43
Total Interest Expense, net	<b>102</b>	<b>112</b>
Gain on Extinguishment of Debt	<b>—</b>	<b>1</b>
Income before Income Taxes	<b>144</b>	<b>182</b>
Provision (Benefit) for Income Taxes	<b>1</b>	<b>(26)</b>
Income from Continuing Operations	<b>143</b>	<b>208</b>
Gain on Sale of Properties, net of tax	<b>11</b>	<b>—</b>
Net Income	<b>\$ 154</b>	<b>\$ 208</b>
<b>PER SHARE AMOUNTS:</b>		
Income from Continuing Operations – Basic	<b>\$ 0.88</b>	<b>\$ 1.27</b>
Income from Continuing Operations – Diluted	<b>\$ 0.88</b>	<b>\$ 1.27</b>
Net Income per Share – Basic	<b>\$ 0.95</b>	<b>\$ 1.27</b>
Net Income per Share – Diluted	<b>\$ 0.94</b>	<b>\$ 1.27</b>
Dividends Declared – per Common Share Outstanding	<b>\$ 1.26</b>	<b>\$ 1.26</b>
Weighted-Average Number of Shares Outstanding		
– Basic	<b>162.2</b>	<b>163.5</b>
– Diluted	<b>162.5</b>	<b>163.6</b>

*See accompanying Notes to Consolidated Financial Statements*

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

(In Millions, Except Per Share Amounts)	September 30, 2010	December 31, 2009
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 267	\$ 299
Accounts Receivable	31	24
Taxes Receivable	1	15
Inventories	46	46
Deferred Tax Asset	7	6
Assets Held for Sale	99	115
Other Current Assets	18	14
	<u>469</u>	<u>519</u>
Timber and Timberlands, net	3,436	3,487
Property, Plant and Equipment, net	148	156
Equity Investment in Timberland Venture	189	201
Deferred Tax Asset	12	14
Investment in Grantor Trusts (at Fair Value)	32	33
Other Assets	35	38
Total Assets	<u>\$ 4,321</u>	<u>\$ 4,448</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Current Portion of Long-Term Debt	\$ 51	\$ 55
Line of Credit	320	—
Accounts Payable	32	32
Interest Payable	34	25
Wages Payable	16	20
Taxes Payable	20	14
Deferred Revenue	28	16
Other Current Liabilities	10	21
	<u>511</u>	<u>183</u>
Long-Term Debt	1,577	1,625
Line of Credit	—	320
Note Payable to Timberland Venture	783	783
Other Liabilities	79	71
Total Liabilities	<u>2,950</u>	<u>2,982</u>
Commitments and Contingencies		
<b>STOCKHOLDERS' EQUITY</b>		
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, 2010 and 162.8 at December 31, 2009	2	2
Additional Paid-In Capital	2,241	2,233
Retained Earnings	59	110
Treasury Stock, at Cost, Common Shares – 26.2 at September 30, 2010 and 24.8 at December 31, 2009	(911)	(860)
Accumulated Other Comprehensive Income (Loss)	(20)	(19)
Total Stockholders' Equity	<u>1,371</u>	<u>1,466</u>
Total Liabilities and Stockholders' Equity	<u>\$ 4,321</u>	<u>\$ 4,448</u>

See accompanying Notes to Consolidated Financial Statements

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

(In Millions)	<u>Nine Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 154	\$ 208
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Depreciation, Depletion and Amortization (Includes \$10 Lumber Impairment Loss in 2009)	72	85
Basis of Real Estate Sold	57	139
Equity Earnings from Timberland Venture	(44)	(43)
Distributions from Timberland Venture	56	53
Deferred Income Taxes	1	(21)
Gain on Sale of Properties and Other Assets	(13)	—
Deferred Revenue from Long-Term Gas Leases (Net of Amortization)	5	(5)
Pension Plan Contributions	(4)	(8)
Working Capital Changes Impacting Cash Flow:		
Like-Kind Exchange Funds	—	48
Income Tax Receivable	14	17
Other Working Capital Changes	(2)	12
Other	16	7
Net Cash Provided By Operating Activities	<u>312</u>	<u>492</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital Expenditures (Excluding Timberland Acquisitions)	(51)	(45)
Timberlands Acquired	—	(1)
Proceeds from Sale of Properties and Other Assets	13	1
Other	1	(1)
Net Cash Used In Investing Activities	<u>(37)</u>	<u>(46)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends	(205)	(207)
Borrowings on Line of Credit	1,505	695
Repayments on Line of Credit	(1,505)	(662)
Principal Payments and Retirement of Long-Term Debt	(53)	(203)
Proceeds from Stock Option Exercises	2	—
Acquisition of Treasury Stock	(51)	(87)
Net Cash Used In Financing Activities	<u>(307)</u>	<u>(464)</u>
Increase (Decrease) In Cash and Cash Equivalents	(32)	(18)
Cash and Cash Equivalents:		
Beginning of Period	299	369
End of Period	<u>\$ 267</u>	<u>\$ 351</u>

*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, 2010, the company owned and managed approximately 6.9 million acres of timberlands in the Northwest, Southern, and Northeast United States, and owned eight wood product conversion facilities in the Northwest United States (two of which production has been indefinitely suspended). Included in the 6.9 million acres are about 1.35 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. In addition, the company has approximately 250,000 acres of non-strategic timberlands, which are expected to be sold over the next five years. 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, 2009 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 2009 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):

	<b>Quarter Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Net Income Available to Common Stockholders	<b>\$ 32</b>	<b>\$ 19</b>
Denominator for Basic Earnings per Share	<b>161.6</b>	162.8
Effect of Dilutive Securities – Stock Options	<b>0.1</b>	0.1
Effect of Dilutive Securities – Restricted Stock, Restricted Stock Units and Value Management Plan	<b>0.1</b>	—
Denominator for Diluted Earnings per Share – Adjusted for Dilutive Securities	<b>161.8</b>	162.9
<b>Per Share Amounts:</b>		
Net Income Per Share – Basic	<b>\$ 0.20</b>	\$ 0.12
Net Income Per Share – Diluted	<b>\$ 0.20</b>	\$ 0.12
	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Income from Continuing Operations	<b>\$ 143</b>	\$ 208
Gain on Sale of Properties, net of tax	<b>11</b>	—
Net Income Available to Common Stockholders	<b>\$ 154</b>	\$ 208
Denominator for Basic Earnings per Share	<b>162.2</b>	163.5
Effect of Dilutive Securities – Stock Options	<b>0.2</b>	0.1
Effect of Dilutive Securities – Restricted Stock, Restricted Stock Units and Value Management Plan	<b>0.1</b>	—
Denominator for Diluted Earnings per Share – Adjusted for Dilutive Securities	<b>162.5</b>	163.6
<b>Per Share Amounts – Basic:</b>		
Income from Continuing Operations	<b>\$ 0.88</b>	\$ 1.27
Gain on Sale of Properties, net of tax	<b>0.07</b>	—
Net Income	<b>\$ 0.95</b>	\$ 1.27
<b>Per Share Amounts – Diluted:</b>		
Income from Continuing Operations	<b>\$ 0.88</b>	\$ 1.27
Gain on Sale of Properties, net of tax	<b>0.07</b>	—
Net Income	<b>\$ 0.94</b>	\$ 1.27

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.



**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 options' exercise prices 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):

	<u>Quarter Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>
Number of Options	<b>2.3</b>	2.2
Range of Exercise Prices	<b>\$33.75 to \$43.23</b>	\$32.28 to \$43.23
Expiration on or before	<b>February 2020</b>	February 2019

  

	<u>Nine Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>
Number of Options	<b>2.1</b>	2.2
Range of Exercise Prices	<b>\$33.75 to \$43.23</b>	\$30.70 to \$43.23
Expiration on or before	<b>February 2020</b>	February 2019

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

**Note 3. Inventory**

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

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
Raw Materials (primarily logs)	\$ 9	\$ 9
Work-In-Process	1	1
Finished Goods	<u>23</u>	<u>23</u>
	33	33
Supplies	<u>13</u>	<u>13</u>
Total	<u>\$ 46</u>	<u>\$ 46</u>

**Note 4. Timber and Timberlands**

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

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
Timber and Logging Roads, net	\$ 2,274	\$ 2,307
Timberlands	<u>1,162</u>	<u>1,180</u>
Timber and Timberlands, net	<u>\$ 3,436</u>	<u>\$ 3,487</u>

**Note 5. Property, Plant and Equipment**

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

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
Land, Buildings and Improvements	\$ 84	\$ 86
Machinery and Equipment	<u>308</u>	<u>308</u>
	392	394
Accumulated Depreciation	<u>(244)</u>	<u>(238)</u>
Property, Plant and Equipment, net	<u>\$ 148</u>	<u>\$ 156</u>

During the first quarter of 2009, as a result of an analysis to rationalize and consolidate its lumber operations, the company recorded an impairment charge of \$10 million related to certain lumber manufacturing assets. The impairment loss is reflected in the operating income of the Manufactured Products Segment and included in Cost of Goods Sold for Manufacturing in the Consolidated Statements of Income. The fair value of the impaired assets was determined by the company using expected future cash flows discounted at a risk-adjusted rate of interest. See Note 9 of the Notes to Consolidated Financial Statements.

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

**Note 6. Income Taxes**

Plum Creek has elected to be taxed as a REIT under sections 856-860 of the United States Internal Revenue Code. A REIT generally does not pay corporate-level income tax if it distributes 100% of its taxable income to shareholders and satisfies other organizational and operational requirements as set forth in the Internal Revenue Code. If a company fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years.

As a consequence of the October 6, 2001 merger with The Timber Company, which involved merging a taxable entity into a nontaxable entity, Plum Creek has generally been subject to corporate-level tax (built-in gains tax) when the company makes a taxable disposition of certain property acquired in the merger. The built-in gains tax applies to gains recognized within the ten-year period following the merger date from such asset sales to the extent that the fair value of the property exceeds its tax basis at the merger date. Built-in gains tax is generally not payable on dispositions of property to the extent the proceeds from such dispositions are reinvested in qualifying like-kind replacement property. The built-in gains tax does not apply to income generated from the sale of timber.

Following the merger with The Timber Company, Plum Creek wrote-off all of The Timber Company's deferred income tax liability related to timber and timberlands except for \$11 million. The \$11 million deferred income tax liability related to the book-tax basis difference of timber and timberlands that were expected to be sold, and subject to, the built-in gains tax during the ten-year period ending October 6, 2011. Prior to January 1, 2009, the \$11 million deferred income tax liability was reduced by \$5 million due to a remeasurement of the amount of deferred income taxes needed and by \$2 million due to the payment or accrual of tax in connection with sales of timberlands subject to the built-in gains tax. In connection with the enactment of the American Recovery and Reinvestment Act of 2009, deferred taxes associated with timber and timberlands were reduced by an additional \$3 million, resulting in the recognition of a \$3 million deferred income tax benefit in the first nine months of 2009. Furthermore, in the first nine months of 2009, as a result of the enactment of the American Recovery and Reinvestment Act of 2009, the company reversed \$5 million of current tax expense related to the built-in gains that had been accrued in 2008. As a result of the enactment of the Small Business Jobs Act of 2010, the company concluded that it no longer needs a deferred tax liability in connection with expected sales of timberlands that are subject to the built-in-gains tax. Therefore, the company reduced its deferred tax liability by \$1 million during the first nine months of 2010.

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

**Note 7. Borrowings**

Debt consisted of the following (in millions):

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
<b>Variable Rate Debt</b>		
Term Credit Agreement <sup>(A)</sup>	\$ 350	\$ 350
Term Credit Agreement <sup>(B)</sup>	250	250
Revolving Line of Credit <sup>(C)</sup>	320	320
<b>Fixed Rate Debt</b>		
Senior Notes	1,028	1,080
Note Payable to Timberland Venture	<u>783</u>	<u>783</u>
Total Debt	2,731	2,783
Less: Current Portion <sup>(D)</sup>	<u>(371)</u>	<u>(55)</u>
Long-Term Portion	<u>\$ 2,360</u>	<u>\$ 2,728</u>

(A) As of September 30, 2010, the interest rate on the \$350 million term credit agreement was 0.71%.

(B) As of September 30, 2010, the interest rate on the \$250 million term credit agreement was 1.28%.

(C) As of September 30, 2010, the weighted-average interest rate for the borrowings on the line of credit was 0.67%. As of September 30, 2010, we had \$320 million of borrowings and \$9 million of standby letters of credit outstanding; \$421 million remained available for borrowing under our \$750 million line of credit. As of October 1, 2010, \$249 million of the borrowings under our line of credit was repaid.

(D) The current portion includes outstanding borrowings of \$320 million on our revolving line of credit as of September 30, 2010. The revolving line of credit agreement matures in June 2011.

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

**Note 8. Stockholders' Equity**

The changes in the company's stockholders' equity accounts were as follows during **2010** (in millions):

	<u>Common Stock</u>		<u>Paid-in Capital</u>	<u>Retained Earnings</u>	<u>Treasury Stock</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Equity</u>
	<u>Shares</u>	<u>Dollars</u>					
<b>January 1, 2010</b>	162.8	\$ 2	\$2,233	\$ 110	\$ (860)	\$ (19)	\$1,466
Net Income				87			87
Other Comprehensive Income (Loss), net of tax						(1)	(1)
Total Comprehensive Income							86
Dividends				(68)			(68)
Shares Issued under Stock Incentive Plans	0.1	—	1				1
Share-based Compensation			2				2
Common Stock Repurchased	—	—			(1)		(1)
<b>March 31, 2010</b>	162.9	\$ 2	\$2,236	\$ 129	\$ (861)	\$ (20)	\$1,486
Net Income				35			35
Other Comprehensive Income (Loss), net of tax						—	—
Total Comprehensive Income							35
Dividends				(68)			(68)
Stock Option Exercises	0.1	—	2				2
Share-based Compensation			1				1
Common Stock Repurchased	(1.4)	—			(50)		(50)
<b>June 30, 2010</b>	161.6	\$ 2	\$2,239	\$ 96	\$ (911)	\$ (20)	\$1,406
Net Income				32			32
Other Comprehensive Income (Loss), net of tax						—	—
Total Comprehensive Income							32
Dividends				(69)			(69)
Share-based Compensation			2				2
<b>September 30, 2010</b>	<u>161.6</u>	<u>\$ 2</u>	<u>\$2,241</u>	<u>\$ 59</u>	<u>\$ (911)</u>	<u>\$ (20)</u>	<u>\$1,371</u>

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

**Note 9. 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, 2010	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets of Identical Assets (Level 1 Measurements)
Cash Equivalents <sup>(A)</sup>	\$ 262	\$ 262
Available-for-Sale Securities <sup>(B)</sup>	28	28
Trading Securities <sup>(B)</sup>	4	4
Total	<u>\$ 294</u>	<u>\$ 294</u>

  

	Balance at December 31, 2009	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets of Identical Assets (Level 1 Measurements)
Cash Equivalents <sup>(A)</sup>	\$ 298	\$ 298
Available-for-Sale Securities <sup>(B)</sup>	28	28
Trading Securities <sup>(B)</sup>	5	5
Total	<u>\$ 331</u>	<u>\$ 331</u>

**(A)** Consists of several money market funds and is included in the \$267 million and \$299 million of Cash and Cash Equivalents in the Consolidated Balance Sheets at September 30, 2010 and December 31, 2009, respectively.

**(B)** Consists of several mutual funds and is included in Investment in Grantor Trusts in the Consolidated Balance Sheets at September 30, 2010 and December 31, 2009. At September 30, 2010, 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. The fair value of these investments was \$28 million at both September 30, 2010 and December 31, 2009. Unrealized holding gains and losses are included as a component of accumulated other comprehensive income, unless an other than temporary impairment has occurred, which is then charged to expense. Unrealized holding gains were \$4 million at September 30, 2010 and \$5 million at December 31, 2009. The company records changes in unrealized holding gains and losses in Other Comprehensive Income. Unrealized holding gains decreased \$1 million during the nine months ended September 30, 2010. Realized gains were less than \$1 million for each of the nine months ended September 30, 2010 and 2009.

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

**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. The fair value of these investments was \$4 million at September 30, 2010 and \$5 million at December 31, 2009. 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. The change in unrealized losses was less than \$1 million for the nine months ended September 30, 2010. Realized gains/losses were less than \$1 million for the nine months ended September 30, 2010 and \$1 million for the nine months ended September 30, 2009. Deferred compensation obligations are included in Other Liabilities and were \$4 million at September 30, 2010 and \$5 million at December 31, 2009.

**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 \$2.92 billion and \$2.82 billion at September 30, 2010 and December 31, 2009, respectively, and the carrying amount was \$2.73 billion and \$2.78 billion at September 30, 2010 and December 31, 2009, respectively. The fair value of the company's Public Debt (publicly issued 5.875% 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 estimated risk premium for holding company debt and the different maturity. The fair value of our Term Credit Agreements 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.** The company's fair value measurements of its assets and liabilities, measured on a nonrecurring basis, are categorized as Level 3 measurements under the fair value hierarchy in the Accounting Standards Codification. A Level 3 valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

There were no fair value measurements of assets or liabilities measured on a nonrecurring basis during the nine-month period ended September 30, 2010.

Summarized below are the Level 3 assets and liabilities reported in the company's financial statements at fair value, measured on a nonrecurring basis, during the nine-month period ended September 30, 2009 (in millions):

	Nine Months Ended September 30, 2009	Fair Value Measurements at Reporting Date Using Significant Unobservable Inputs (Level 3 Measurements)	Net Gain (Loss)
Certain Long-Lived Lumber Assets Held and Used <sup>(A)</sup>	\$ —	\$ —	\$ (10)
Timberlands Held for Sale <sup>(B)</sup>	\$ 25	\$ 25	\$ (1)
Liabilities for Road Maintenance <sup>(C)</sup>	\$ 7	\$ 7	—
Total			<u>\$ (11)</u>

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

- (A) Included in earnings for the nine months ended September 30, 2009 was an impairment charge of \$10 million to write-down certain lumber assets with a carrying value of \$10 million to their fair value of \$0. The fair value was determined using a discounted cash flow model based on estimated future lumber prices, log costs and operating expenses using internal projections.
- (B) Included in earnings for the nine months ended September 30, 2009 was a loss of \$1 million to write-down timberlands held for sale with a carrying amount of \$26 million to their fair value (net of estimated selling costs) of \$25 million. The fair value was based on an external appraisal which was derived from a combination of comparable sales and discounted future cash flows. The discounted future cash flows were based on estimated future timber prices and related operating expenses using internal and external projections. These timberlands were exchanged for other timberlands during the third quarter of 2009.
- (C) The company has agreements with the federal government and obligations under state law under which it is obligated to pay maintenance or replacement costs for certain roads or to maintain or upgrade certain roads. At March 31, 2009, the company concluded that most of these liabilities could be reasonably estimated, and in accordance with the accounting for asset retirement obligations, the company recorded road maintenance liabilities and related timberland assets with an estimated fair value of \$7 million. The fair value was determined using a cost approach based on internal projections.

**Note 10. Employee Pension Plans**

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

	<b>Quarter Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Service Cost	\$ 2	\$ 2
Interest Cost	2	2
Expected Return on Plan Assets	(2)	(2)
Settlement Loss	—	4
<b>Total Pension Cost</b>	<b>\$ 2</b>	<b>\$ 6</b>

  

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Service Cost	\$ 6	\$ 6
Interest Cost	6	6
Expected Return on Plan Assets	(6)	(6)
Recognized Actuarial Loss	—	1
Settlement Loss	—	4
<b>Total Pension Cost</b>	<b>\$ 6</b>	<b>\$ 11</b>

During 2009, the company permanently closed two lumber mills, indefinitely curtailed a third lumber mill and had additional employee terminations. The majority of the employees terminated elected to receive a lump-sum



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

distribution from the pension plan. In accordance with the accounting for settlements, curtailments and certain termination benefits, we recorded a \$4 million settlement loss as a result of the 2009 lump-sum distributions for the quarter and nine months ended September 30, 2009. The settlement loss represented a partial recognition of the actuarial pension loss reflected in accumulated other comprehensive income. It is the company's accounting policy to recognize a settlement gain or loss when total settlements for the year exceed the sum of the current period interest and service costs.

It is the company's policy to fund its qualified plan annually such that the fair value of plan assets equals or exceeds the actuarially computed accumulated benefit obligation (the approximate actuarially computed current pension obligation if the plan were discontinued) over a market cycle (generally 3 to 5 years). During the third quarter of 2010, the company contributed \$4 million to its qualified pension plan. Depending on asset returns and interest rates, the company may contribute up to an additional \$8 million to the qualified pension plan during the fourth quarter of 2010.

**Note 11. 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.

**Environmental Contingencies.** In connection with the October 6, 2001 merger with The Timber Company, Plum Creek agreed to indemnify Georgia-Pacific for substantially all of the liabilities attributed to The Timber Company. During 2003, Georgia-Pacific provided Plum Creek with information about a claim with respect to the existence of mine tailings and acidic surface water on approximately 90 acres in Hot Spring County, Arkansas, on former Georgia-Pacific properties. Barite mining and related activities were conducted on the site between 1939 and 1981 in part by lessees of an entity that was acquired by Georgia-Pacific. The parties to the case settled the matter as it pertains to Georgia-Pacific in 2010. Our indemnification of Georgia-Pacific for the amount of the settlement is less than \$1 million and was accrued in a prior period.

**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 12. 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 contributed \$783 million of cash in exchange for 91% of the Timberland Venture's common interest. Following the formation of the Timberland Venture, 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.

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

The Timberland Venture is a variable interest entity. The primary operating activities of the Timberland Venture consist of the ownership of 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 venture, 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 the managing of the timberlands along with the timing and extent of the harvesting activities, both of which we do not control.

The carrying amount of the investment in the venture is \$189 million at September 30, 2010 and \$201 million at December 31, 2009, 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 in the venture. 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 13. Summarized Income Statement Information of Affiliate**

The earnings of the Timberland Venture are a significant component of consolidated earnings. See Note 12 of the Notes to Consolidated Financial Statements. Equity earnings for the Timberland Venture were \$44 million for the nine month period ending September 30, 2010, and were \$43 million for the nine month period ending September 30, 2009. 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 \$4 million and \$6 million for the nine month periods ended September 30, 2010 and 2009, respectively. Furthermore, interest expense in connection with the loan from the Timberland Venture was \$43 million for each of the nine month periods ended September 30, 2010 and 2009. The table below presents summarized income statement information for the Timberland Venture for the **nine months ended September 30** (in millions):

	<u>Nine Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>
Revenues	\$ 13	\$ 11
Cost of Goods Sold <sup>(A)</sup>	14	15
Selling, General and Administrative Expenses	<u>2</u>	<u>2</u>
Operating Income	(3)	(6)
Interest Income, net	43	43
Net Income before Allocation to Preferred and Common Interests	<u>\$ 40</u>	<u>\$ 37</u>

(A) Cost of Goods Sold includes Depreciation, Depletion and Amortization of \$13 million for each of the nine month periods ended September 30, 2010 and 2009.

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

**Note 14. Segment Information**

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

	<u>Northern Resources</u>	<u>Southern Resources</u>	<u>Real Estate <sup>(A)</sup></u>	<u>Manufactured Products</u>	<u>Other</u>	<u>Total <sup>(D)</sup></u>
<b>Quarter Ended September 30, 2010</b>						
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
<b>Quarter Ended September 30, 2009</b>						
External Revenues	\$ 58	\$ 94	\$ 73	\$ 65	\$ 4	\$ 294
Intersegment Revenues	5	—	—	—	—	5
Depreciation, Depletion and Amortization	9	15	—	3	—	27
Basis of Real Estate Sold	—	—	21	—	—	21
Operating Income (Loss)	3	21	20	(1)	4	47
	<u>Northern Resources</u>	<u>Southern Resources</u>	<u>Real Estate <sup>(A)</sup></u>	<u>Manufactured Products <sup>(B)</sup></u>	<u>Other <sup>(C)</sup></u>	<u>Total <sup>(D)</sup></u>
<b>Nine Months Ended September 30, 2010</b>						
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
<b>Nine Months Ended September 30, 2009</b>						
External Revenues	\$ 148	\$ 266	\$ 419	\$ 189	\$ 14	\$1,036
Intersegment Revenues	7	—	—	—	—	7
Depreciation, Depletion and Amortization	22	39	1	20	—	82
Basis of Real Estate Sold	—	—	139	—	—	139
Operating Income (Loss)	(2)	64	234	(23)	13	286

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

- (A) During the third quarter of 2009, the company completed a non-cash exchange of real estate. The Real Estate Segment recognized revenue of \$25 million which represents the fair value of the exchange. No operating income was recognized in the transaction as the book value of the timberlands disposed of approximated the exchange value of \$25 million. For the quarter and nine months ended September 30, 2009, the Basis of Real Estate Sold in the table above and in the Consolidated Statements of Cash Flows does not include the \$25 million of basis for the timberlands relinquished in the non-cash exchange.

During 2008, the company negotiated the sale of 310,000 acres in Montana for \$489 million, to be closed in three phases. Proceeds of \$250 million from the second phase were received during the first quarter of 2009. The third and final phase is expected to close in the fourth quarter of 2010 for \$89 million. For the nine months ended September 30, 2009, the Real Estate Segment includes revenue of \$250 million and operating income of \$162 million related to the closing of the second phase.

- (B) For the nine months ended September 30, 2009, the Manufactured Products Segment depreciation, depletion and amortization, and operating income (loss) include a \$10 million lumber manufacturing assets impairment loss. See Note 5 of the Notes to Consolidated Financial Statements.

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.

- (C) During the first quarter of 2010, the company 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, we 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. We 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. The discounted cash flows were based on estimated future gas production, gas prices and operating and capital expenditures using internal and external sources. 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, will be amortized into revenue of the Other Segment over the expected approximate three-year term.

- (D) Consolidated depreciation, depletion and amortization includes unallocated corporate depreciation of \$1 million and \$3 million for the quarterly and nine-month periods ended September 30, 2010 and 2009.

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

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):

	<u>Quarter Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>
Total Segment Operating Income	\$ 61	\$ 47
Corporate and Other Unallocated Expenses	(10)	(9)
Other Unallocated Operating Income (Expense), net	—	—
Operating Income	51	38
Equity Earnings from Timberland Venture	15	14
Total Interest Expense, net	(34)	(36)
Income before Income Taxes	<u>\$ 32</u>	<u>\$ 16</u>

	<u>Nine Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>
Total Segment Operating Income	\$ 239	\$ 286
Corporate and Other Unallocated Expenses	(38)	(36)
Other Unallocated Operating Income (Expense), net	1	—
Operating Income	202	250
Equity Earnings from Timberland Venture	44	43
Total Interest Expense, net	(102)	(112)
Gain on Extinguishment of Debt	—	1
Income before Income Taxes	<u>\$ 144</u>	<u>\$ 182</u>

**Note 15. Subsequent Events**

**Quarterly Dividend.** On November 2, 2010, 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, 2010 to stockholders of record on November 16, 2010.

**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, 2010, Plum Creek Timberlands, L.P. has publicly issued and outstanding \$458 million aggregate principal amount of its 5.875% Senior Notes (debt securities) pursuant to the shelf registration statement.

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

<u>(In Millions)</u>	<u>Quarter Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>
<b>REVENUES:</b>		
Timber	\$ 145	\$ 152
Real Estate	39	73
Manufacturing	70	65
Other	5	4
Total Revenues	<u>259</u>	<u>294</u>
<b>COSTS AND EXPENSES:</b>		
Cost of Goods Sold:		
Timber	108	120
Real Estate	18	51
Manufacturing	62	65
Other	—	—
Total Cost of Goods Sold	<u>188</u>	<u>236</u>
Selling, General and Administrative	<u>20</u>	<u>20</u>
Total Costs and Expenses	<u>208</u>	<u>256</u>
Other Operating Income (Expense), net	<u>—</u>	<u>—</u>
Operating Income	51	38
Equity Earnings from Timberland Venture	15	14
Interest Expense, net	20	22
Income before Income Taxes	46	30
Benefit for Income Taxes	<u>—</u>	<u>(3)</u>
Net Income before Allocation to Series T-1 Preferred Interest and Partners	46	33
Net Income Allocable to Series T-1 Preferred Interest	<u>(14)</u>	<u>(14)</u>
Net Income Available to Common Interest Partners	<u>\$ 32</u>	<u>\$ 19</u>

*See accompanying Notes to Consolidated Financial Statements*

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

(In Millions)	Nine Months Ended September 30,	
	2010	2009
<b>REVENUES:</b>		
Timber	\$ 429	\$ 414
Real Estate	181	419
Manufacturing	208	189
Other	16	14
Total Revenues	834	1,036
<b>COSTS AND EXPENSES:</b>		
Cost of Goods Sold:		
Timber	317	326
Real Estate	69	179
Manufacturing	184	205
Other	1	1
Total Cost of Goods Sold	571	711
Selling, General and Administrative	70	75
Total Costs and Expenses	641	786
Other Operating Income (Expense), net	9	—
Operating Income	202	250
Equity Earnings from Timberland Venture	44	43
Interest Expense, net	59	69
Gain on Extinguishment of Debt	—	1
Income before Income Taxes	187	225
Provision (Benefit) for Income Taxes	1	(26)
Income from Continuing Operations	186	251
Gain on Sale of Properties, net of tax	11	—
Net Income before Allocation to Series T-1 Preferred Interest and Partners	197	251
Net Income Allocable to Series T-1 Preferred Interest	(43)	(43)
Net Income Available to Common Interest Partners	\$ 154	\$ 208

*See accompanying Notes to Consolidated Financial Statements*

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

(In Millions)	September 30, 2010	December 31, 2009
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 267	\$ 299
Accounts Receivable	31	24
Taxes Receivable	1	15
Inventories	46	46
Deferred Tax Asset	7	6
Assets Held for Sale	99	115
Other Current Assets	18	14
	<u>469</u>	<u>519</u>
Timber and Timberlands, net	3,436	3,487
Property, Plant and Equipment, net	148	156
Equity Investment in Timberland Venture	189	201
Deferred Tax Asset	12	14
Investment in Grantor Trusts (\$32 and \$33 at Fair Value in 2010 and 2009)	33	34
Other Assets	35	38
Total Assets	<u>\$ 4,322</u>	<u>\$ 4,449</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Current Portion of Long-Term Debt	\$ 51	\$ 55
Line of Credit	320	—
Accounts Payable	32	32
Interest Payable	27	18
Wages Payable	16	20
Taxes Payable	20	14
Deferred Revenue	28	16
Other Current Liabilities	10	21
	<u>504</u>	<u>176</u>
Long-Term Debt	1,577	1,625
Line of Credit	—	320
Other Liabilities	80	72
Total Liabilities	<u>2,161</u>	<u>2,193</u>
Commitments and Contingencies		
<b>PARTNERSHIP CAPITAL</b>		
Series T-1 Preferred Interest	790	790
Partners' Capital (Common Partnership Interests)	1,371	1,466
Total Partnership Capital	<u>2,161</u>	<u>2,256</u>
Total Liabilities and Partnership Capital	<u>\$ 4,322</u>	<u>\$ 4,449</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,	
	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income before Allocation to Preferred Partnership Interest and Partners	\$ 197	\$ 251
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Depreciation, Depletion and Amortization (Includes \$10 Lumber Impairment Loss in 2009)	72	85
Basis of Real Estate Sold	57	139
Equity Earnings from Timberland Venture	(44)	(43)
Distributions from Timberland Venture	56	53
Deferred Income Taxes	1	(21)
Gain on Sale of Properties and Other Assets	(13)	—
Deferred Revenue from Long-Term Gas Leases (Net of Amortization)	5	(5)
Pension Plan Contributions	(4)	(8)
Working Capital Changes Impacting Cash Flow:		
Like-Kind Exchange Funds	—	48
Income Tax Receivable	14	17
Other Working Capital Changes	(2)	12
Other	16	7
Net Cash Provided By Operating Activities	<u>355</u>	<u>535</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital Expenditures (Excluding Timberland Acquisitions)	(51)	(45)
Timberlands Acquired	—	(1)
Proceeds from Sale of Properties and Other Assets	13	1
Other	1	(1)
Net Cash Used In Investing Activities	<u>(37)</u>	<u>(46)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash Distributions to Common Partners	(254)	(294)
Cash Distributions for Series T-1 Preferred Interest	(43)	(43)
Borrowings on Line of Credit	1,505	695
Repayments on Line of Credit	(1,505)	(662)
Principal Payments and Retirement of Long-Term Debt	(53)	(203)
Net Cash Used In Financing Activities	<u>(350)</u>	<u>(507)</u>
Increase (Decrease) In Cash and Cash Equivalents	(32)	(18)
Cash and Cash Equivalents:		
Beginning of Period	299	369
End of Period	<u>\$ 267</u>	<u>\$ 351</u>

*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, 2010, the Operating Partnership owned and managed approximately 6.9 million acres of timberlands in the Northwest, Southern, and Northeast United States, and owned eight wood product conversion facilities in the Northwest United States (two of which production has been indefinitely suspended). Included in the 6.9 million acres are about 1.35 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. In addition, the Operating Partnership has approximately 250,000 acres of non-strategic timberlands, which are expected to be sold over the next five years. 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, 2009, which were included on Form 10-K of Plum Creek Timber Company, Inc. and filed with the SEC on February 25, 2010, 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. Inventory**

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

	September 30, 2010	December 31, 2009
Raw Materials (primarily logs)	\$ 9	\$ 9
Work-In-Process	1	1
Finished Goods	23	23
	<u>33</u>	<u>33</u>
Supplies	13	13
Total	<u>\$ 46</u>	<u>\$ 46</u>

**Note 3. Timber and Timberlands**

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

	September 30, 2010	December 31, 2009
Timber and Logging Roads, net	\$ 2,274	\$ 2,307
Timberlands	1,162	1,180
Timber and Timberlands, net	<u>\$ 3,436</u>	<u>\$ 3,487</u>

**Note 4. Property, Plant and Equipment**

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

	September 30, 2010	December 31, 2009
Land, Buildings and Improvements	\$ 84	\$ 86
Machinery and Equipment	308	308
	<u>392</u>	<u>394</u>
Accumulated Depreciation	(244)	(238)
Property, Plant and Equipment, net	<u>\$ 148</u>	<u>\$ 156</u>

During the first quarter of 2009, as a result of an analysis to rationalize and consolidate its lumber operations, the Operating Partnership recorded an impairment charge of \$10 million related to certain lumber manufacturing assets. The impairment loss is reflected in the operating income of the Manufactured Products Segment and included in Cost of Goods Sold for Manufacturing in the Consolidated Statements of Income. The fair value of the impaired assets was determined by the Operating Partnership using expected future cash flows discounted at a risk-adjusted rate of interest. See Note 8 of the Notes to Consolidated Financial Statements.

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

**Note 5. Income Taxes**

Plum Creek Timberlands, L.P. is a wholly-owned limited partnership and therefore, not subject to income tax. Plum Creek Timberlands, L.P.'s taxable income is allocated 100% (directly and indirectly) to its parent, Plum Creek Timber Company, Inc., which has elected to be taxed as a REIT under sections 856-860 of the United States Internal Revenue Code. A REIT generally does not pay corporate-level income tax if it distributes 100% of its taxable income to shareholders and satisfies other organizational and operational requirements as set forth in the Internal Revenue Code. 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 sale of logs, and the development and/or sale of some higher value timberlands. The Operating Partnership's tax provision includes the tax expense and/or benefit associated with Plum Creek's wholly-owned 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 corporate statutory rate primarily due to Plum Creek's status as a REIT. If a company fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years.

As a consequence of the October 6, 2001 merger with The Timber Company, which involved merging a taxable entity into a nontaxable entity, Plum Creek has generally been subject to corporate-level tax (built-in gains tax) when the Operating Partnership makes a taxable disposition of certain property acquired in the merger. The built-in gains tax applies to gains recognized within the ten-year period following the merger date from such asset sales to the extent that the fair value of the property exceeds its tax basis at the merger date. Built-in gains tax is generally not payable on dispositions of property to the extent the proceeds from such dispositions are reinvested in qualifying like-kind replacement property. The built-in gains tax does not apply to income generated from the sale of timber.

Following the merger with The Timber Company, Plum Creek wrote-off all of The Timber Company's deferred income tax liability related to timber and timberlands except for \$11 million. The \$11 million deferred income tax liability related to the book-tax basis difference of timber and timberlands that were expected to be sold, and subject to, the built-in gains tax during the ten-year period ending October 6, 2011. Prior to January 1, 2009, the \$11 million deferred income tax liability was reduced by \$5 million due to a remeasurement of the amount of deferred income taxes needed and by \$2 million due to the payment or accrual of tax in connection with sales of timberlands subject to the built-in gains tax. In connection with the enactment of the American Recovery and Reinvestment Act of 2009, deferred taxes associated with timber and timberlands were reduced by an additional \$3 million, resulting in the recognition of a \$3 million deferred income tax benefit in the first nine months of 2009. Furthermore, in the first nine months of 2009, as a result of the enactment of the American Recovery and Reinvestment Act of 2009, the Operating Partnership reversed \$5 million of current tax expense related to the built-in gains that had been accrued in 2008. As a result of the enactment of the Small Business Jobs Act of 2010, the Operating Partnership concluded that it no longer needs a deferred tax liability in connection with expected sales of timberlands that are subject to the built-in-gains tax. Therefore, the Operating Partnership reduced its deferred tax liability by \$1 million during the first nine months of 2010.

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

**Note 6. Borrowings**

Debt consisted of the following (in millions):

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
<b>Variable Rate Debt</b>		
Term Credit Agreement <sup>(A)</sup>	\$ 350	\$ 350
Term Credit Agreement <sup>(B)</sup>	250	250
Revolving Line of Credit <sup>(C)</sup>	320	320
<b>Fixed Rate Debt</b>		
Senior Notes	1,028	1,080
Total Debt	1,948	2,000
Less: Current Portion <sup>(D)</sup>	(371)	(55)
Long-Term Portion	<u>\$ 1,577</u>	<u>\$ 1,945</u>

(A) As of September 30, 2010, the interest rate on the \$350 million term credit agreement was 0.71%.

(B) As of September 30, 2010, the interest rate on the \$250 million term credit agreement was 1.28%.

(C) As of September 30, 2010, the weighted-average interest rate for the borrowings on the line of credit was 0.67%. As of September 30, 2010, we had \$320 million of borrowings and \$9 million of standby letters of credit outstanding; \$421 million remained available for borrowing under our \$750 million line of credit. As of October 1, 2010, \$249 million of the borrowings under our line of credit was repaid.

(D) The current portion includes outstanding borrowings of \$320 million on our revolving line of credit as of September 30, 2010. The revolving line of credit agreement matures in June 2011.

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

**Note 7. Partners' Capital**

The changes in the Operating Partnership's capital accounts were as follows during **2010** (in millions):

	<u>Preferred Partnership Interest</u>	<u>Common Partners' Capital</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Partnership Capital</u>
<b>January 1, 2010</b>	\$ 790	\$ 1,485	\$ (19)	\$ 2,256
Net Income before Allocation to Series T-1 Preferred Interest and Partners		101		101
Other Comprehensive Income (Loss), net of tax			(1)	(1)
Total Comprehensive Income				<u>100</u>
Net Income Allocation to Series T-1 Preferred Interest	14	(14)		—
Distributions to Partners (Common Partnership Interests)		(69)		(69)
Distributions for Series T-1 Preferred Interest	(14)			(14)
Capital Contributions from Parent		<u>3</u>		<u>3</u>
<b>March 31, 2010</b>	\$ 790	\$ 1,506	\$ (20)	\$ 2,276
Net Income before Allocation to Series T-1 Preferred Interest and Partners		50		50
Other Comprehensive Income (Loss), net of tax			—	—
Total Comprehensive Income				<u>50</u>
Net Income Allocation to Series T-1 Preferred Interest	15	(15)		—
Distributions to Partners (Common Partnership Interests)		(116)		(116)
Distributions for Series T-1 Preferred Interest	(15)			(15)
Capital Contributions from Parent		<u>1</u>		<u>1</u>
<b>June 30, 2010</b>	\$ 790	\$ 1,426	\$ (20)	\$ 2,196
Net Income before Allocation to Series T-1 Preferred Interest and Partners		46		46
Other Comprehensive Income (Loss), net of tax			—	—
Total Comprehensive Income				<u>46</u>
Net Income Allocation to Series T-1 Preferred Interest	14	(14)		—
Distributions to Partners (Common Partnership Interests)		(69)		(69)
Distributions for Series T-1 Preferred Interest	(14)			(14)
Capital Contributions from Parent		<u>2</u>		<u>2</u>
<b>September 30, 2010</b>	<u>\$ 790</u>	<u>\$ 1,391</u>	<u>\$ (20)</u>	<u>\$ 2,161</u>

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

**Note 8. 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, 2010	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets of Identical Assets (Level 1 Measurements)
Cash Equivalents <sup>(A)</sup>	\$ 262	\$ 262
Available-for-Sale Securities <sup>(B)</sup>	28	28
Trading Securities <sup>(B)</sup>	4	4
Total	<u>\$ 294</u>	<u>\$ 294</u>

	Balance at December 31, 2009	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets of Identical Assets (Level 1 Measurements)
Cash Equivalents <sup>(A)</sup>	\$ 298	\$ 298
Available-for-Sale Securities <sup>(B)</sup>	28	28
Trading Securities <sup>(B)</sup>	5	5
Total	<u>\$ 331</u>	<u>\$ 331</u>

**(A)** Consists of several money market funds and is included in the \$267 million and \$299 million of Cash and Cash Equivalents in the Consolidated Balance Sheets at September 30, 2010 and December 31, 2009, respectively.

**(B)** Consists of several mutual funds and is included in Investment in Grantor Trusts in the Consolidated Balance Sheets at September 30, 2010 and December 31, 2009. At September 30, 2010, 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. The fair value of these investments was \$28 million at both September 30, 2010 and December 31, 2009. Unrealized holding gains and losses are included as a component of accumulated other comprehensive income, unless an other than temporary impairment has occurred, which is then charged to expense. Unrealized holding gains were \$4 million at September 30, 2010 and \$5 million at December 31, 2009. The Operating Partnership records changes in unrealized holding gains and losses in Other Comprehensive Income. Unrealized holding gains decreased \$1 million during the nine months ended September 30, 2010. Realized gains were less than \$1 million for each of the nine months ended September 30, 2010 and 2009.

**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

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

to fund deferred compensation obligations. The fair value of these investments was \$4 million at September 30, 2010 and \$5 million at December 31, 2009. 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. The change in unrealized losses was less than \$1 million for the nine months ended September 30, 2010. Realized gains/losses were less than \$1 million for the nine months ended September 30, 2010 and \$1 million for the nine months ended September 30, 2009. Deferred compensation obligations are included in Other Liabilities and were \$4 million at September 30, 2010 and \$5 million at December 31, 2009.

**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 \$2.03 billion at both September 30, 2010 and December 31, 2009, respectively, and the carrying amount was \$1.95 billion and \$2.00 billion at September 30, 2010 and December 31, 2009, respectively. The fair value of the Operating Partnership's Public Debt (publicly issued 5.875% 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 Agreements 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.** The Operating Partnership's fair value measurements of its assets and liabilities, measured on a nonrecurring basis, are categorized as Level 3 measurements under the fair value hierarchy in the Accounting Standards Codification. A Level 3 valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

There were no fair value measurements of assets or liabilities measured on a nonrecurring basis during the nine-month period ended September 30, 2010.

Summarized below are the Level 3 assets and liabilities reported in the Operating Partnership's financial statements at fair value, measured on a nonrecurring basis, during the nine-month period ended September 30, 2009 (in millions):

	Nine Months Ended September 30, 2009	Fair Value Measurements at Reporting Date Using Significant Unobservable Inputs (Level 3 Measurements)	Net Gain (Loss)
Certain Long-Lived Lumber Assets Held and Used <sup>(A)</sup>	\$ —	\$ —	\$ (10)
Timberlands Held for Sale <sup>(B)</sup>	\$ 25	\$ 25	\$ (1)
Liabilities for Road Maintenance <sup>(C)</sup>	\$ 7	\$ 7	—
Total			<u>\$ (11)</u>

- (A)** Included in earnings for the nine months ended September 30, 2009 was an impairment charge of \$10 million to write-down certain lumber assets with a carrying value of \$10 million to their fair value of \$0. The fair value was determined using a discounted cash flow model based on estimated future lumber prices, log costs and operating expenses using internal projections.
- (B)** Included in earnings for the nine months ended September 30, 2009 was a loss of \$1 million to write-down timberlands held for sale with a carrying amount of \$26 million to their fair value (net of estimated selling costs) of \$25 million. The fair value was based on an external appraisal which was derived from a combination of comparable sales and discounted future cash flows. The discounted future cash flows were based on estimated future timber prices and related operating expenses using internal and external projections. These timberlands were exchanged for other timberlands during the third quarter of 2009.



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

(C) The Operating Partnership has agreements with the federal government and obligations under state law under which it is obligated to pay maintenance or replacement costs for certain roads or to maintain or upgrade certain roads. At March 31, 2009, the Operating Partnership concluded that most of these liabilities could be reasonably estimated, and in accordance with the accounting for asset retirement obligations, the Operating Partnership recorded road maintenance liabilities and related timberland assets with an estimated fair value of \$7 million. The fair value was determined using a cost approach based on internal projections.

**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):

	<b>Quarter Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Service Cost	\$ 2	\$ 2
Interest Cost	2	2
Expected Return on Plan Assets	(2)	(2)
Settlement Loss	—	4
<b>Total Pension Cost</b>	<b>\$ 2</b>	<b>\$ 6</b>

  

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
Service Cost	\$ 6	\$ 6
Interest Cost	6	6
Expected Return on Plan Assets	(6)	(6)
Recognized Actuarial Loss	—	1
Settlement Loss	—	4
<b>Total Pension Cost</b>	<b>\$ 6</b>	<b>\$ 11</b>

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

During 2009, the Operating Partnership permanently closed two lumber mills, indefinitely curtailed a third lumber mill and had additional employee terminations. The majority of the employees terminated elected to receive a lump-sum distribution from the pension plan. In accordance with the accounting for settlements, curtailments and certain termination benefits, we recorded a \$4 million settlement loss as a result of the 2009 lump-sum distributions for the quarter and nine months ended September 30, 2009. The settlement loss represented a partial recognition of the actuarial pension loss reflected in accumulated other comprehensive income. It is the Operating Partnership's accounting policy to recognize a settlement gain or loss when total settlements for the year exceed the sum of the current period interest and service costs.

It is the Operating Partnership's policy to fund its qualified plan annually such that the fair value of plan assets equals or exceeds the actuarially computed accumulated benefit obligation (the approximate actuarially computed current pension obligation if the plan were discontinued) over a market cycle (generally 3 to 5 years). During the third quarter of 2010, the Operating Partnership contributed \$4 million to its qualified pension plan. Depending on asset returns and interest rates, the Operating Partnership may contribute up to an additional \$8 million to the qualified pension plan during the fourth quarter of 2010.

**Note 10. 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.

**Environmental Contingencies.** In connection with the October 6, 2001 merger with The Timber Company, Plum Creek agreed to indemnify Georgia-Pacific for substantially all of the liabilities attributed to The Timber Company. During 2003, Georgia-Pacific provided Plum Creek with information about a claim with respect to the existence of mine tailings and acidic surface water on approximately 90 acres in Hot Spring County, Arkansas, on former Georgia-Pacific properties. Barite mining and related activities were conducted on the site between 1939 and 1981 in part by lessees of an entity that was acquired by Georgia-Pacific. The parties to the case settled the matter as it pertains to Georgia-Pacific in 2010. Our indemnification of Georgia-Pacific for the amount of the settlement is less than \$1 million and was accrued in a prior period.

**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 11. 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 the ownership of 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 venture, 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 the managing of the timberlands along with the timing and extent of the harvesting activities, both of which we do not control.

The carrying amount of the investment in the venture is \$189 million at September 30, 2010 and \$201 million at December 31, 2009, 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 in the venture. 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, 2010, and were \$43 million for the nine month period ending September 30, 2009. 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 \$4 million and \$6 million for the nine month periods ended September 30, 2010 and 2009, respectively. The table below presents summarized income statement information for the Timberland Venture for the **nine months ended September 30** (in millions):

	<u>Nine Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>
Revenues	\$ 13	\$ 11
Cost of Goods Sold <sup>(A)</sup>	14	15
Selling, General and Administrative Expenses	<u>2</u>	<u>2</u>
Operating Income	(3)	(6)
Interest Income, net	<u>43</u>	<u>43</u>
Net Income before Allocation to Preferred and Common Interests	<u>\$ 40</u>	<u>\$ 37</u>

(A) Cost of Goods Sold includes Depreciation, Depletion and Amortization of \$13 million for each of the nine month periods ended September 30, 2010 and 2009.

**PLUM CREEK TIMBERLANDS, L.P.**  
**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 <sup>(A)</sup>	Manufactured Products	Other	Total <sup>(D)</sup>
<b>Quarter Ended September 30, 2010</b>						
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

<b>Quarter Ended September 30, 2009</b>						
External Revenues	\$ 58	\$ 94	\$ 73	\$ 65	\$ 4	\$ 294
Intersegment Revenues	5	—	—	—	—	5
Depreciation, Depletion and Amortization	9	15	—	3	—	27
Basis of Real Estate Sold	—	—	21	—	—	21
Operating Income (Loss)	3	21	20	(1)	4	47

	Northern Resources	Southern Resources	Real Estate <sup>(A)</sup>	Manufactured Products <sup>(B)</sup>	Other <sup>(C)</sup>	Total <sup>(D)</sup>
<b>Nine Months Ended September 30, 2010</b>						
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

<b>Nine Months Ended September 30, 2009</b>						
External Revenues	\$ 148	\$ 266	\$ 419	\$ 189	\$ 14	\$1,036
Intersegment Revenues	7	—	—	—	—	7
Depreciation, Depletion and Amortization	22	39	1	20	—	82
Basis of Real Estate Sold	—	—	139	—	—	139
Operating Income (Loss)	(2)	64	234	(23)	13	286

(A) During the third quarter of 2009, the Operating Partnership completed a non-cash exchange of real estate. The Real Estate Segment recognized revenue of \$25 million which represents the fair value of the exchange. No operating income was recognized in the transaction as the book value of the timberlands

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

disposed of approximated the exchange value of \$25 million. For the quarter and nine months ended September 30, 2009, the Basis of Real Estate Sold in the table above and in the Consolidated Statements of Cash Flows does not include the \$25 million of basis for the timberlands relinquished in the non-cash exchange.

During 2008, the Operating Partnership negotiated the sale of 310,000 acres in Montana for \$489 million, to be closed in three phases. Proceeds of \$250 million from the second phase were received during the first quarter of 2009. The third and final phase is expected to close in the fourth quarter of 2010 for \$89 million. For the nine months ended September 30, 2009, the Real Estate Segment includes revenue of \$250 million and operating income of \$162 million related to the closing of the second phase.

- (B) For the nine months ended September 30, 2009, the Manufactured Products Segment depreciation, depletion and amortization, and operating income (loss) include a \$10 million lumber manufacturing assets impairment loss. See Note 4 of the Notes to Consolidated Financial Statements.

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.

- (C) 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, we 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. We 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. The discounted cash flows were based on estimated future gas production, gas prices and operating and capital expenditures using internal and external sources. 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, will be amortized into revenue of the Other Segment over the expected approximate three-year term.

- (D) Consolidated depreciation, depletion and amortization includes unallocated corporate depreciation of \$1 million and \$3 million for the quarterly and nine-month periods ended September 30, 2010 and 2009.

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

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):

	<u>Quarter Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>
Total Segment Operating Income	\$ 61	\$ 47
Corporate and Other Unallocated Expenses	(10)	(9)
Other Unallocated Operating Income (Expense), net	—	—
Operating Income	51	38
Equity Earnings from Timberland Venture	15	14
Total Interest Expense, net	(20)	(22)
Income before Income Taxes	<u>\$ 46</u>	<u>\$ 30</u>

	<u>Nine Months Ended September 30,</u>	
	<u>2010</u>	<u>2009</u>
Total Segment Operating Income	\$ 239	\$ 286
Corporate and Other Unallocated Expenses	(38)	(36)
Other Unallocated Operating Income (Expense), net	1	—
Operating Income	202	250
Equity Earnings from Timberland Venture	44	43
Total Interest Expense, net	(59)	(69)
Gain on Extinguishment of Debt	—	1
Income before Income Taxes	<u>\$ 187</u>	<u>\$ 225</u>

## **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, 2009. 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 2009 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 25, 2010.

### **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 \$1.954 billion principal amount (excluding unamortized discount) of debt, including \$458 million 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 12 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.



## Results of Operations

### Third Quarter 2010 Compared to Third Quarter 2009

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

	<u>Quarter Ended September 30,</u>		Change
	<u>2010</u>	<u>2009</u>	
Operating Income (Loss) by Segment			
Northern Resources	\$ 5	\$ 3	\$ 2
Southern Resources	25	21	4
Real Estate	19	20	(1)
Manufactured Products	7	(1)	8
Other	<u>5</u>	<u>4</u>	<u>1</u>
Total Segment Operating Income	61	47	14
Other Costs and Eliminations	<u>(10)</u>	<u>(9)</u>	<u>(1)</u>
Operating Income	<u>\$ 51</u>	<u>\$ 38</u>	<u>\$ 13</u>

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

	<u>Quarter Ended September 30, 2010</u>		<u>Quarter Ended September 30, 2009</u>	
	<u>Harvest Tons (millions)</u>	<u>Average Sales Realization</u>	<u>Harvest Tons (millions)</u>	<u>Average Sales Realization</u>
Sawlog (\$/Ton Delivered)	0.537	\$ 66	0.632	\$ 56
Pulpwood (\$/Ton Delivered)	0.517	\$ 39	0.691	\$ 38
Total	<u>1.054</u>		<u>1.323</u>	

Revenues decreased by \$6 million, or 10%, to \$57 million in the third quarter of 2010 compared to the third quarter of 2009. This decrease was due primarily to lower pulpwood volumes (\$7 million) and lower sawlog harvest volumes (\$5 million), partially offset by higher sawlog prices (\$5 million). Pulpwood harvest volumes were 25% lower compared to the third quarter of 2009 due primarily to temporarily increasing harvest levels in prior years to capture favorable pulpwood pricing. Sawlog harvest volumes were 15% lower compared to the third quarter of 2009. This decrease in harvest volume during the third quarter of 2010 is due primarily to accelerating 2010 planned harvesting into the first and second quarters to take advantage of favorable log prices. Sawlog harvest levels for all of 2010 are expected to be comparable to the 2.1 million tons harvested during 2009 due primarily to continued harvest deferrals because of weak log prices and limited demand. Pulpwood harvest levels for all of 2010 are expected to decrease by approximately 20% compared to the 2.3 million tons harvested during 2009 due primarily to temporarily increasing harvest levels in prior years to capture favorable pulpwood prices.

Sawlog prices were 18% higher in the third quarter of 2010 compared to the third quarter of 2009. The higher prices were due primarily to increased lumber production compared to the prior year quarter and improved export demand for sawlogs (primarily from China).

Northern Resources Segment operating income was 9% of its revenues for the third quarter of 2010 and 5% for the third quarter of 2009. This increase was due primarily to higher sawlog prices. Segment costs and expenses decreased by \$8 million, or 13%, to \$52 million for the third quarter of 2010 due primarily to lower harvest levels.

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

	Quarter Ended September 30, 2010		Quarter Ended September 30, 2009	
	Harvest Tons (millions)	Average Sales Realization	Harvest Tons (millions)	Average Sales Realization
Sawlog (\$/Ton Stumpage)	1.209	\$ 23	1.250	\$ 22
Pulpwood (\$/Ton Stumpage)	1.674	\$ 11	2.014	\$ 9
<b>Total</b>	<b>2.883</b>		<b>3.264</b>	

Revenues were \$93 million for the third quarter of 2010 compared to \$94 million for the third quarter of 2009. Revenues were essentially flat as higher pulpwood prices (\$4 million) and higher sawlog prices (\$2 million) were offset by lower pulpwood harvest volumes (\$7 million). Pulpwood prices on a stumpage basis were 13% higher in the third quarter of 2010 compared to the third quarter of 2009 and on a delivered basis increased by 12%. This increase was due primarily to improving world-wide demand for pulp and paper products, as a result of the strengthening global economy, favorable exchange rates and a reduced supply of wood chips from solid wood products manufacturers.

Pulpwood harvest volumes were 17% lower during the third quarter of 2010 compared to the third quarter of the prior year due primarily to accelerating harvest levels during the first half of 2010 to capture favorable pulpwood prices and our planned reduction in pulpwood harvest for the year. Total harvest levels for all of 2010 are expected to approximate the 11.4 million tons harvested during 2009; however, sawlog volume is expected to increase approximately 0.7 million tons and pulpwood volume is expected to decrease by 0.8 million tons. During the past several years we have concentrated on thinning young timber stands (i.e., first thinnings) to maintain vigorous growth rates and capture favorable pulpwood prices. The timber harvested during these first thinnings is predominately pulpwood. In 2010, a greater proportion of our harvest volume is from more mature timber stands that contain both pulpwood and small diameter sawlogs.

Southern Resources Segment operating income was 27% of its revenues for the third quarter of 2010 and 22% for the third quarter of 2009. This increase was due primarily to higher pulpwood prices. Segment costs and expenses decreased by \$5 million, or 7%, to \$68 million due primarily to lower harvest levels.

**Real Estate Segment.**

Property	Quarter Ended September 30, 2010			Quarter Ended September 30, 2009		
	Acres Sold	Revenues (millions)	Revenue per Acre	Acres Sold	Revenues (millions)	Revenue per Acre
Small Non-Strategic	10,270	\$ 11	\$ 1,025	5,545	\$ 5	\$ 970
Conservation	2,870	5	1,865	43,695	15	350
Higher and Better Use / Recreational Development Properties	9,870	23	2,335	10,440	22	2,115
Subtotal	23,010	39		60,195	48	
Revenue from Non-Cash Exchange	—	—	—	20,600	25	1,205
<b>Total</b>	<b>23,010</b>	<b>\$ 39</b>		<b>80,795</b>	<b>\$ 73</b>	

Revenues decreased by \$34 million, or 47%, to \$39 million in 2010. Revenues for the third quarter of 2009 include a non-cash exchange valued at \$25 million. Excluding the non-cash exchange, revenues decreased \$9 million, or 19%, to \$39 million in 2010. This decrease is due primarily to lower revenues from sales of conservation properties (\$10 million) and development properties (\$5 million), offset in part by an increase in the number of acres of small non-strategic properties sold (\$5 million). During the third quarter of 2009,

we completed a non-cash exchange with the State of Washington. We recognized \$25 million of revenue which represents the fair value of the lands we received. No operating income was recognized in the transaction as the book value of the timberlands we disposed of approximated the exchange value of \$25 million.

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. The lower price per acre for conservation properties in the third quarter of 2009 reflects that nearly all of the acres sold were in Maine and were either associated with the approval of our Concept Plan for the Moosehead Lake region or were properties with diverse ecological value but relatively low timber value.

Real Estate Segment operating income was 48% of its third quarter revenues for 2010 compared to 27% for 2009. This change was due primarily to the non-cash exchange, as the book value of the timberlands we disposed of approximated the exchange value of \$25 million, and selling lower value conservation properties during the third quarter of 2009. Real Estate Segment costs and expenses decreased by \$33 million to \$20 million in the third quarter of 2010 due primarily to the non-cash exchange during 2009 (\$25 million) and selling fewer acres during 2010.

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

	Quarter Ended September 30, 2010		Quarter Ended September 30, 2009	
	Sales Volume	Average Sales Realization	Sales Volume	Average Sales Realization
Lumber	29,305 MBF	\$ 490	40,590 MBF	\$ 448
Plywood	44,223 MSF	\$ 388	41,479 MSF	\$ 361
Fiberboard	39,394 MSF	\$ 629	34,282 MSF	\$ 596

Revenues increased by \$5 million, or 8%, to \$70 million in the third quarter of 2010 compared to the third quarter of 2009. This increase was due primarily to higher MDF sales volume (\$2 million), higher MDF prices (\$2 million), higher plywood sales volume (\$2 million), higher plywood prices (\$1 million) and higher lumber prices (\$1 million), offset in part by lower lumber sales volumes (\$4 million).

MDF sales volume was 15% higher and MDF sales prices were 6% higher during the third quarter of 2010 due primarily to limited supply. The supply of MDF has been constrained due to a decline in imports as a result of the weak U.S. dollar and the continuing, although diminishing, impact of the February 2010 earthquake in Chile.

Plywood sales prices were 8% higher and plywood sales volume was 7% higher during the third quarter of 2010 due primarily to limited supply. The supply of plywood has been constrained due to a decline in imports as a result of the continuing, although diminishing, impact of the February 2010 earthquake in Chile.

Lumber sales volume declined 28% during the third quarter of 2010 due primarily to weak demand for boards used in residential remodeling as a result of declining home values. Lumber sales prices increased 9% during the third quarter of 2010 due primarily to prices rebounding off extremely low prices in the prior year.

Manufactured Products Segment operating income was \$7 million for the third quarter of 2010 compared to an operating loss of \$1 million for the third quarter of 2009. This increase in operating performance was due primarily to an increase in MDF, lumber and plywood sales prices and pension settlement expense recorded in the third quarter of 2009 (\$4 million) in connection with mill closures and curtailments. Manufactured Products Segment costs and expenses decreased by \$3 million, or 5%, to \$63 million for the third quarter of 2010 due primarily to lower lumber sales volume and no pension settlement expense in the third quarter of 2010, offset in part by higher MDF sales volume.

**Other Costs and Eliminations.** Other costs and eliminations (which consists of corporate overhead and intercompany profit elimination) decreased operating income by \$10 million during the third quarter of 2010 and by \$9 million during the third quarter of 2009.

**Interest Expense, net.** Interest expense, net of interest income, decreased \$2 million, or 6%, to \$34 million in the third quarter of 2010. This decrease was due primarily to debt retirements in 2010 and refinancing a portion of our fixed rate debt maturities on our line of credit. Current interest rates on fixed rate debt are substantially higher than interest rates on variable rate debt borrowings on our line of credit. Interest expense for both periods included \$14 million related to our Note Payable to Timberland Venture.

**Provision (Benefit) for Income Taxes.** The provision for income taxes was zero for the third quarter of 2010 compared to a benefit for income taxes of \$3 million for the third quarter of 2009. The increase in tax expense of \$3 million is due primarily to improved results in our manufacturing business which increased operating income by \$8 million during the third quarter of 2010 compared to the third quarter of 2009 (resulting in \$3 million higher tax expense in 2010).

#### **Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009**

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

	<b>Nine Months Ended September 30,</b>		<b>Change</b>
	<b>2010</b>	<b>2009</b>	
<b>Operating Income (Loss) by Segment</b>			
Northern Resources	\$ 12	\$ (2)	\$ 14
Southern Resources	79	64	15
Real Estate	107	234	(127)
Manufactured Products	21	(23)	44
Other	20	13	7
<b>Total Segment Operating Income</b>	<b>239</b>	<b>286</b>	<b>(47)</b>
Other Costs and Eliminations	(38)	(36)	(2)
Other Unallocated Operating Income (Expense), net	1	—	1
<b>Operating Income</b>	<b>\$ 202</b>	<b>\$ 250</b>	<b>\$ (48)</b>

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

	<b>Nine Months Ended September 30, 2010</b>		<b>Nine Months Ended September 30, 2009</b>	
	<b>Harvest Tons (millions)</b>	<b>Average Sales Realization</b>	<b>Harvest Tons (millions)</b>	<b>Average Sales Realization</b>
Sawlog (\$/Ton Delivered)	1.648	\$ 63	1.528	\$ 55
Pulpwood (\$/Ton Delivered)	1.392	\$ 38	1.701	\$ 40
<b>Total</b>	<b>3.040</b>		<b>3.229</b>	

Revenues increased by \$7 million, or 5%, to \$162 million in the first nine months of 2010 compared to the first nine months of 2009. This increase was due primarily to higher sawlog prices (\$15 million) and higher sawlog harvest volumes (\$6 million), partially offset by lower pulpwood harvest volumes (\$12

million) and lower pulpwood prices (\$2 million). Sawlog harvest volumes were 8% higher compared to the same period of 2009. This increase in harvest volume is due primarily to accelerating harvesting into the first half of 2010 from future quarters of 2010 to take advantage of favorable sawlog prices. Pulpwood harvest volumes were 18% lower due primarily to temporarily increasing harvest levels in prior years to capture favorable pulpwood prices. Sawlog harvest levels for all of 2010 are expected to be comparable to the 2.1 million tons harvested during 2009 due primarily to continued harvest deferrals because of weak log prices and limited demand. Pulpwood harvest levels for all of 2010 are expected to decrease by approximately 20% compared to the 2.3 million tons harvested during 2009 due primarily to temporarily increasing harvest levels in prior years to capture favorable pulpwood prices.

Sawlog prices were 16% higher in the first nine months of 2010 compared to the first nine months of 2009. The higher prices were due primarily to a temporary improvement in demand during the spring building season as a result of low mill log inventories and improving lumber and plywood prices. Sawlog prices have also been impacted by increased lumber production over the prior year and improved export demand for sawlogs (primarily from China).

Northern Resources Segment operating income was \$12 million for the first nine months of 2010 compared to an operating loss of \$2 million for the first nine months of 2009. This increase of \$14 million was due primarily to higher sawlog prices. Segment costs and expenses decreased by \$7 million, or 5%, to \$150 million for the first nine months of 2010 due primarily to lower pulpwood harvest levels.

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

	Nine Months Ended September 30, 2010		Nine Months Ended September 30, 2009	
	Harvest Tons (millions)	Average Sales Realization	Harvest Tons (millions)	Average Sales Realization
Sawlog (\$/Ton Stumpage)	3.605	\$ 23	3.409	\$ 23
Pulpwood (\$/Ton Stumpage)	4.648	\$ 12	5.350	\$ 10
<b>Total</b>	<b>8.253</b>		<b>8.759</b>	

Revenues increased by \$14 million, or 5%, to \$280 million in the first nine months of 2010 compared to the first nine months of 2009. This increase was due primarily to higher pulpwood prices (\$16 million), higher sawlog harvest volumes (\$7 million) and higher sawlog prices (\$5 million), partially offset by lower pulpwood volumes (\$16 million). Pulpwood prices on a stumpage basis were 22% higher in the first nine months of 2010 compared to the first nine months of 2009 and on a delivered basis increased by 15%. This increase was due primarily to a temporary shortage of logs and improved demand. Throughout most of the U.S. South, pulpwood was in short supply during the first quarter of 2010 due to extremely wet weather conditions. However, as a result of our extensive ownership, we were able to continue to make log deliveries while other timberland owners had to curtail production. Demand for pulpwood improved due primarily to the improvement in global economic conditions, a reduced supply of wood chips from solid wood products manufacturers, and the temporary supply-chain disruption of market pulp as a result of the February 2010 earthquake in Chile.

Sawlog harvest volumes were 6% higher compared to the first nine months of 2009 due primarily to a planned increase in sawlog harvest levels as a result of a shift in our standing inventory. Pulpwood harvest volumes were 13% lower due primarily to our planned decrease in pulpwood harvests. Total harvest levels for all of 2010 are expected to approximate the 11.4 million tons harvested during 2009; however, sawlog volume is expected to increase approximately 0.7 million tons and pulpwood volume is expected to decrease by 0.8 million tons. During the past several years we have concentrated on thinning young timber stands (i.e., first thinnings) to maintain vigorous growth rates and capture favorable pulpwood prices. The timber harvested during these first thinnings is predominately pulpwood. In 2010, a greater proportion of our harvest volume is from more mature timber stands that contain both pulpwood and small diameter sawlogs.

Sawlog prices during the first nine months of 2010 improved 2% over the same period in the prior year but remain at historically low levels due primarily to weak U.S. housing starts and adequate log supply at current lumber production levels.

Southern Resources Segment operating income was 28% of its revenues for the first nine months of 2010 and 24% for the first nine months of 2009. This increase was due primarily to higher sawlog and pulpwood prices. Segment costs and expenses decreased by \$1 million to \$201 million. Despite lower total harvest volumes, segment costs and expenses were flat due primarily to selling a higher percentage of delivered log sales as compared to stumpage sales during the first nine months of 2010 compared to the first nine months of 2009.

### *Real Estate Segment.*

Property	Nine Months Ended September 30, 2010			Nine Months Ended September 30, 2009		
	Acres Sold	Revenues (millions)	Revenue per Acre	Acres Sold	Revenues (millions)	Revenue per Acre
Small Non-Strategic Conservation	41,860	\$ 39	\$ 930	17,050	\$ 16	\$ 965
Higher and Better Use / Recreational Development Properties	38,205	25	650	160,945	274	1,700
	37,125	82	2,225	23,575	54	2,275
	790	3	3,270	2,025	11	5,480
Subtotal	117,980	149		203,595	355	
Large Non-Strategic	24,310	32	1,320	59,160	38	650
Revenue from Non-Cash Exchange	—	—	—	20,600	25	1,205
Total	142,290	\$ 181		283,355	\$ 419	

Revenues decreased by \$238 million to \$181 million in the first nine months of 2010. This decrease is due primarily to lower revenues from sales of conservation properties (\$249 million) and a non-cash exchange valued at \$25 million, offset in part by an increase in the number of acres of higher and better use / recreational properties sold (\$30 million), and revenues from small non-strategic land sales (\$23 million). During the first quarter of 2010, we sold approximately 83,000 acres in several large sales that included approximately 35,000 acres of conservation properties for \$19 million, approximately 23,000 acres of small non-strategic properties for \$21 million, and approximately 24,000 acres of large non-strategic properties for \$32 million.

Revenues from the sale of conservation properties decreased due primarily to the sale of approximately 112,000 acres in Montana for \$250 million during the first quarter of 2009. The \$250 million conservation sale during the first quarter of 2009 was the second in a three phase transaction. The third phase of approximately 70,000 acres in Montana is expected to close during the fourth quarter of 2010 for approximately \$89 million. 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.

The number of higher and better use / recreational acres sold increased from 23,575 acres to 37,125 acres during the first nine months of 2010. This increase is due primarily to low demand during the first part of 2009 as a result of the financial crisis and recession in the U.S. Additionally, more than a year ago we began listing more lower valued properties as the demand weakened for higher valued recreational and development properties. The demand for our higher valued properties remains weak due to low consumer confidence, the decline in consumer discretionary capital 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 number of 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.

During the third quarter of 2009, we completed a non-cash exchange with the State of Washington. We recognized \$25 million of revenue which represents the fair value of the lands we received. No operating income was recognized in the transaction as the book value of the timberlands we disposed of approximated the exchange value of \$25 million.

We expect revenues from real estate sales during 2010 to range between \$320 million and \$340 million of which approximately \$89 million is from the expected closing of the third phase of our large Montana sale during the fourth quarter 2010. In addition to the aforementioned expected revenues, from time to time, we may dispose of larger blocks of other timberlands to maximize value.

Real Estate Segment operating income was 59% of its revenues for the first nine months of 2010 compared to 56% for 2009. Real Estate Segment costs and expenses decreased by \$111 million to \$74 million for the first nine months of 2010 due primarily to selling fewer acres during 2010.

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

	Nine Months Ended September 30, 2010		Nine Months Ended September 30, 2009	
	Sales Volume	Average Sales Realization	Sales Volume	Average Sales Realization
Lumber	88,909 MBF	\$ 505	136,084 MBF	\$ 381
Plywood	136,329 MSF	\$ 379	117,647 MSF	\$ 359
Fiberboard	124,751 MSF	\$ 608	101,128 MSF	\$ 597

Revenues increased by \$19 million, or 10%, to \$208 million in the first nine months of 2010 compared to the first nine months of 2009. This increase was due primarily to higher MDF sales volume (\$15 million), higher plywood sales volume (\$9 million), and higher lumber prices (\$8 million), offset in part by lower lumber sales volume (\$14 million).

MDF sales volume increased by 23% in the first nine months of 2010 compared to the first nine months of 2009 due primarily to limited supply. The supply of MDF has been constrained due to the impact of the February 2010 earthquake in Chile and the weak U.S. dollar.

Plywood sales volume was 16% higher during the first nine months of 2010 due primarily to limited supply. The supply of plywood has been constrained due to a decline in imports as a result of the impact of the February 2010 earthquake in Chile.

Lumber sales prices were 33% higher during the first nine months of 2010 due primarily to limited supply, increased demand and the closure and curtailment of mills in 2009 which generally sold a lower-value product. The supply of lumber was constrained due to weather-related log shortages and extensive mill curtailments during 2009. The temporary improvement in demand was primarily due to the restocking of lumber inventories in anticipation of the spring building season. Lumber prices peaked during the second quarter of 2010 but have declined as demand for housing remains weak. Lumber sales volume declined 35% during the first nine months of 2010 due primarily to curtailed production. During 2009, we permanently closed two lumber mills and indefinitely suspended production at two other lumber mills as a result of historically low housing starts.

Manufactured Products Segment operating income was \$21 million for the first nine months of 2010 compared to a \$23 million operating loss for the first nine months of 2009. This increase in operating performance was due primarily to impairments, write-downs, severance and pension settlement charges in 2009 (\$20 million), various cost-saving initiatives (\$3 million), an increase in MDF and plywood sales volumes, and improved lumber prices. During the first nine months of 2009, we recorded a lumber mill

impairment (\$10 million), a related write-down of spare parts (\$2 million), a write-down of mill inventories (\$2 million), severance charges (\$2 million), and pension settlement charges (\$4 million). See Note 5 of the Notes to Consolidated Financial Statements. Manufactured Products Segment costs and expenses decreased by \$25 million, or 12%, to \$187 million for the first nine months of 2010 due primarily to no impairments, write-downs, severance charges, or pension settlement charges, various cost-saving initiatives and lower lumber production in 2010, offset in part by higher MDF sales volume. For the past year we have been aggressively managing discretionary manufacturing costs at all of our mills.

**Other Segment.** Operating income increased \$7 million to \$20 million in the first nine months of 2010 compared to the first nine months of 2009 due primarily to consideration of \$5 million in connection with the termination of a land lease in 2010. The \$5 million is recorded as an operating gain in our Other Segment since the consideration was primarily for the release of mineral rights and is 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 approximate three-year term. See Note 14 of the Notes to Consolidated Financial Statements.

**Other Costs and Eliminations.** Other costs and eliminations (which consist of corporate overhead and intercompany profit elimination) decreased operating income by \$38 million during the first nine months of 2010 and by \$36 million during the first nine months of 2009.

**Interest Expense, net.** Interest expense, net of interest income, decreased \$10 million, or 9%, to \$102 million in the first nine months of 2010. This decrease was due primarily to debt retirements in 2009 and 2010 of some of our higher fixed rate debt and refinancing a portion of our fixed rate debt maturities on our line of credit. Current interest rates on fixed rate debt are substantially higher than interest rates on variable rate debt borrowings on our line of credit. Interest expense for both periods included \$43 million related to our Note Payable to Timberland Venture.

**Provision (Benefit) for Income Taxes.** The provision for income taxes was \$1 million for the first nine months of 2010 compared to a benefit for income taxes of \$26 million for the first nine months of 2009. The decrease in the tax benefit of \$27 million is due primarily to improved results in our manufacturing business which increased operating income by \$44 million during the first nine months of 2010 compared to the first nine months of 2009 (resulting in \$18 million higher tax expense in 2010). Additionally, in the first nine months of 2009, we recorded a tax benefit related to the reversal of \$5 million of previously accrued built-in gains tax and a reduction to our deferred tax liability of \$3 million, compared to a reduction to our deferred tax liability of \$1 million during the first nine months of 2010. See Note 6 of the Notes to Consolidated Financial Statements.

At September 30, 2010, we have recorded deferred tax assets of \$54 million and deferred tax liabilities of \$35 million. We have not recorded a valuation allowance in connection with our deferred tax asset of \$54 million. A valuation allowance is recognized if it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. Management believes that due to either the reversal of various timing differences or the planned execution of prudent and feasible tax planning strategies, sufficient taxable income can be generated to fully utilize the company's deferred tax assets.

**Gain on Sale of Properties, net of tax.** During the first nine months of 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

During the nine months ended September 30, 2010, we generated cash from operating activities of \$312 million, which was sufficient to fund our year-to-date quarterly dividend distributions of \$205 million, capital expenditures of \$52 million and principal payments on our outstanding indebtedness of \$53 million. We believe we have a strong balance sheet and do not foresee any short-term liquidity issues. At September 30, 2010, we had a cash balance of \$267 million and had availability of \$421 million under our line of credit. For all of 2010, we expect to generate cash from operating activities of between \$430 million and \$450 million. 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
	2010	2009	
Net Cash Provided By Operating Activities	\$ 312	\$ 492	\$ (180)
Net Cash Used In Investing Activities	(37)	(46)	9
Net Cash Used In Financing Activities	(307)	(464)	157
Change in Cash and Cash Equivalents	\$ (32)	\$ (18)	\$ (14)

**Cash Flows from Operating Activities.** Net cash provided by operating activities for the nine months ended September 30, 2010 totaled \$312 million compared to \$492 million for the same period in 2009. This decrease of \$180 million is due primarily to net lower proceeds from real estate sales of \$203 million and a \$48 million favorable working capital change in 2009, offset in part by a combined \$64 million increase in operating income from our Resources Segments and our Manufactured Products Segments (net of a \$10 million non-cash impairment charge) and a lease bonus we received of \$10 million from a modification of certain gas exploration rights. See Results of Operations for a discussion of the factors impacting operating income for our segments.

The net lower proceeds from real estate sales of \$203 million was due primarily to the \$250 million of proceeds received during the first quarter of 2009 from the closing of the second phase of a three phase transaction, partially offset by increased small non-strategic and higher and better use/recreational sales in the first nine months of 2010. The favorable working capital change of \$48 million in 2009 is due to the timing of when proceeds from a like-kind exchange escrow account are either reinvested in replacement property or distributed to the company. Proceeds associated with a forward like-kind exchange are either reinvested in like-kind property within 180 days or distributed to the company at the end of either the 45-day identification period or the 180-day reinvestment period. At September 30, 2010, there were no funds held in a like-kind exchange escrow account as no like-kind exchange transactions were entered into during 2010. Whereas, during the nine months ended September 30, 2009, we received proceeds of \$48 million from our like-kind exchange escrow account related to transactions entered into during 2008. At present, we do not expect to enter into like-kind exchange transactions for the remainder of 2010. During the first quarter of 2010, we received proceeds of \$10 million for a lease modification for gas exploration rights that were originally granted in 2008. The \$10 million will be amortized into revenue over the remaining approximate three-year exploration term. See Other Segment in Results of Operations for further discussion.

**Capital Expenditures.** Capital expenditures for the nine months ended September 30, 2010 were \$52 million compared to \$46 million for the same period in 2009. These amounts include \$1 million of real estate development expenditures for each of the nine month periods ended September 30, 2010 and 2009. Planned capital expenditures for 2010, excluding the acquisition of timberlands, are expected to be approximately \$75 million and include approximately \$65 million for our timberlands, \$3 million for our manufacturing facilities, \$3 million for real estate development investments, and \$4 million for investments

in information technology, primarily for resource accounting system enhancements. The timberland expenditures are primarily for reforestation and other expenditures associated with the planting and growing of trees. Approximately 60% of planned capital expenditures in 2010 are discretionary, primarily expenditures for silviculture. Capital expenditures at our manufacturing facilities consist primarily of expenditures to sustain operating activities and improve safety.

**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, the company's objective is to maintain its 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").

**Line of Credit.** The company has a \$750 million revolving line of credit agreement that matures in June 2011. See Future Cash Requirements in this section for discussion regarding the refinancing of the line of credit. As of September 30, 2010, the weighted-average interest rate for the borrowings on the line of credit was 0.67%. The interest rate on the line of credit is based on LIBOR plus 0.425%. This rate can range from LIBOR plus 0.27% to LIBOR plus 1% depending on our debt ratings. Subject to customary covenants, the line of credit allows for borrowings from time to time up to \$750 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, 2010, we had \$320 million of borrowings and \$9 million of standby letters of credit outstanding; \$421 million remained available for borrowing under our line of credit. As of October 1, 2010, \$249 million of the borrowings under our line of credit was repaid.

**Term Credit Agreements.** The company has two term credit agreements under which there is \$250 million and \$350 million outstanding. These borrowings mature in 2012. The agreements allow for prepayment of the borrowings at any time prior to the maturity date without premium or penalty.

As of September 30, 2010, the interest rate for the \$250 million term credit agreement was 1.28%. The interest rate on this term credit agreement is based on LIBOR plus 1.00%. This rate can range from LIBOR plus 0.5% to LIBOR plus 1.5% depending on our debt ratings. As of September 30, 2010, the interest rate for the \$350 million term credit agreement was 0.71%. The interest rate on this term credit agreement is based on LIBOR plus 0.45%. This rate can range from LIBOR plus 0.3% to LIBOR plus 1.15% depending on our debt ratings.

**Senior Notes.** The Company has outstanding Senior Notes with various maturities and fixed interest rates. Approximately half of the Senior Notes are privately placed borrowings with various lenders ("Private Debt"). The Private Debt matures serially through 2016.

As of September 30, 2010, the Company has publicly issued and outstanding \$458 million aggregate principal amount of its 5.875% Senior Notes ("Public Debt"). The Public Debt, which was issued by the Partnership, matures in 2015 and is fully and unconditionally guaranteed by Plum Creek Timber Company, Inc.

Plum Creek Timber Company, Inc. and the Partnership have filed a shelf registration statement with the Securities and Exchange Commission which expires on April 24, 2012. 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, depositary 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.

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

	<u>September 30, 2010</u>	<u>December 31, 2009</u>
<b>Senior Notes</b>		
Public Debt	\$ 454	\$ 453
Private Debt	574	627
Total Senior Notes	<u>\$ 1,028</u>	<u>\$ 1,080</u>

**Debt Covenants.** Our Senior Notes, Term Credit Agreements 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, 2010.

These restrictive covenants 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. Furthermore, our Line of Credit and Term Credit Agreements 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 compliance with any of our debt covenants because the debt is an obligation of Plum Creek Timber Company, Inc. and not an obligation of the Partnership.

As of September 30, 2010, we can borrow (in compliance with our debt incurrence covenant) the entire \$750 million available under our Line of Credit. We expect that we will be able to maintain full borrowing capacity under this facility or replacement facility over the next twelve months.

Our borrowing agreements for the Private Debt also limit our ability to make restricted payments based on a computation of "available cash," which is generally defined as 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, 2010, our entire cash balance of \$267 million is available to make restricted payments.

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

	<u>Nine Months Ended September 30,</u>		<u>Change</u>
	<u>2010</u>	<u>2009</u>	
<b>Sources of Cash:</b>			
Operations <sup>(A)</sup>	\$ 249	\$ 371	\$ (122)
Changes in Working Capital	12	77	(65)
Cash Distributions from Timberland Venture	56	53	3
Cash from Stock Option Exercises	2	—	2
Cash from Sale of Properties and Other Assets	13	1	12
Other Cash Changes, net	1	(1)	2
<b>Total Sources of Cash</b>	<u>333</u>	<u>501</u>	<u>(168)</u>
<b>Uses of Cash:</b>			
Returned to Stockholders:			
Dividends	(205)	(207)	2
Common Stock Repurchases	(51)	(87)	36
Reinvest in the Business:			
Capital Expenditures	(52)	(46)	(6)
Acquire Timberlands	—	(1)	1
Meet our Pension Obligations:			
Pension Contributions	(4)	(8)	4
Reduce Debt Obligations, net	(53)	(170)	117
<b>Total Uses of Cash</b>	<u>(365)</u>	<u>(519)</u>	<u>154</u>
<b>Change in Cash and Cash Equivalents</b>	<u>\$ (32)</u>	<u>\$ (18)</u>	<u>\$ (14)</u>

(A) Calculated from the Consolidated Statements of Cash Flows. Amount is calculated by adding back non-cash items and other operating activities to Net Income.

**Equity.** On November 2, 2010, the Board of Directors declared a dividend of \$0.42 per share, or approximately \$68 million, which will be paid on November 30, 2010 to stockholders of record on November 16, 2010. 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.

The Board of Directors, from time to time, has authorized a share repurchase program that may be increased from time to time at their discretion. For the nine months ended September 30, 2010, the company repurchased approximately 1.37 million shares of common stock at a total cost of \$50 million, or an average cost per share of \$36.37. At September 30, 2010, \$200 million is available for share repurchases under the current authorization.

**Future Cash Requirements.** Cash required to meet our future financial needs will be significant. We believe, however, that cash on hand and cash flows from operations will be sufficient to fund planned capital expenditures and principal and interest payments on our indebtedness for the next twelve months. Our \$750 million revolving line of credit agreement matures in June 2011. We expect to enter into a new line of credit in the fourth quarter of 2010. Based on current market conditions, we expect to incur higher

facility fees under the new line of credit agreement. As the current \$750 million facility has provided more liquidity than needed and to minimize our financing costs while maintaining adequate levels of liquidity, we expect to reduce the size of the facility. We expect the new credit facility will allow up to \$600 million in outstanding borrowings and will mature after four years. During the remainder of 2010 and for all of 2011, the company is required to make approximately \$310 million of scheduled long-term debt principal payments. We expect to refinance these maturities at favorable interest rates during the fourth quarter of 2010.

**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 2009 Annual Report on Form 10-K.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Approximately \$1.8 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. 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 rate debt (in millions):

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value (A)</u>
<b>September 30, 2010</b>								
Fixed Rate Debt								
<i>Third Party Obligations</i>								
Principal Due <sup>(B)</sup>	\$ 3	\$308	\$ 3	\$250	\$ 3	\$ 467	\$1,034	\$ 1,121
Average Interest Rate <sup>(C)</sup>	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 <sup>(D)</sup>	—	\$320	\$600	—	—	—	\$ 920	\$ 907

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value</u>
<b>September 30, 2009</b>								
Fixed Rate Debt								
<i>Third Party Obligations</i>								
Principal Due <sup>(B)</sup>	—	\$ 56	\$376	\$ 3	\$250	\$ 469	\$1,154	\$ 1,212
Average Interest Rate <sup>(C)</sup>	—	6.7%	6.6%	6.2%	6.1%	5.9%		
<i>Related Party Obligations</i>								
Principal Due						\$ 783	\$ 783	\$ 808
Interest Rate						7.4%		
Variable Rate Debt	—	—	\$264	\$600	—	—	\$ 864	\$ 828

(A) The fair value of the company's Public Debt (i.e., Senior Notes due 2015) 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 decrease in fair value of our fixed rate debt compared to September 30, 2009 (excluding related party debt) was due primarily to the principal repayments and refinancings of \$121 million of senior notes during the twelve month period, offset in part by declining market interest rates. In September 2010, treasury rates and credit spreads (the difference between corporate debt rates and treasury rates) were lower than September 2009, resulting in lower market interest rates. This change in market interest rates also resulted in the increase in fair value of our Note Payable to Timberland Venture at September 30, 2010 compared to September 30, 2009. The fair value of our floating rate term loans (variable rate debt) as of September 30, 2010 and September 30, 2009 was determined by adjusting the spread over LIBOR to a current market spread for comparable debt as of September 30, 2010 and September 30, 2009.

(B) Excludes unamortized discount of \$6 million and \$7 million at September 30, 2010 and 2009, 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, 2010, the weighted-average interest rate on the \$320 million borrowings under our \$750 million revolving line of credit was 0.67%. The interest rate on the line of credit is based on LIBOR plus 0.425%. This rate can range from LIBOR plus 0.27% to LIBOR plus 1.00% depending on our debt ratings. As of October 1, 2010, \$249 million of the borrowings outstanding under our line of credit was repaid. As of September 30, 2010, the interest rate for the \$350 million term credit agreement was 0.71%. The interest rate on the \$350 million term credit agreement is based on LIBOR plus 0.45%. This rate can range from LIBOR plus 0.3% to LIBOR plus 1.15% depending on our debt ratings. As of September 30, 2010, the interest rate for the \$250 million term credit agreement was 1.28%. The interest rate on the \$250 million term credit agreement is based on LIBOR plus 1.00%. This rate can range from LIBOR plus 0.5% to LIBOR plus 1.5% depending on our debt ratings.

#### **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 11 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, 2009, as filed with the Securities and Exchange Commission on February 25, 2010.

**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 2010:

<i>Period</i>	<i>Total Number of Shares Purchased <sup>(A)</sup></i>	<i>Average Price Paid per Share</i>	<i>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(B)</sup></i>	<i>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs <sup>(B)</sup></i>
July 1, 2010 through July 31, 2010	648 shares of common stock	\$ 35.36	— shares of common stock	\$ — million
August 1, 2010 through August 31, 2010	13 shares of common stock	\$ 36.68	— shares of common stock	\$ 200 million
September 1, 2010 through September 30, 2010	325 shares of common stock	\$ 35.56	— shares of common stock	\$ 200 million
Total	986 shares of common stock	\$ 35.44	— shares of common stock	

(A) Represents 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 an additional \$200 million share repurchase program, which was publicly announced on August 4, 2010. At September 30, 2010, the remaining share repurchase authorization was \$200 million.

**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

<u>Exhibit Designation</u>	<u>Nature of Exhibit</u>
2.1	Agreement and Plan of Merger by and among Georgia-Pacific Corporation, North American Timber Corp., NPI Timber, Inc., GNN Timber, Inc., GPW Timber, Inc., LRF Timber, Inc., NPC Timber, Inc. and Plum Creek Timber Company, Inc. (Form 8-K/A, File No. 1-10239, filed July 24, 2000). Amendment No.1 to the Agreement and Plan of Merger, dated as of June 12, 2001 (Exhibit 2.1 to Form 8-K, File No. 1-10239, filed June 14, 2001).
2.2	Real Estate Purchase and Sale Agreement dated as of June 30, 2008, by and among Plum Creek Timberlands, L.P., a Delaware limited partnership, and Plum Creek Land Company, a Delaware corporation, as Sellers, and The Nature Conservancy, a non-profit corporation of the District of Columbia, and The Trust for Public Land, a California non-profit public benefit corporation, as Purchasers (Exhibit 2.1 to Form 8-K, File No. 1-10239, filed June 30, 2008). Third Amendment to Real Estate Purchase and Sale Agreement dated as of January 13, 2009, by and among Plum Creek Timberlands, L.P., a Delaware limited partnership, and Plum Creek Land Company, a Delaware corporation, as Sellers, and The Nature Conservancy, a non-profit corporation of the District of Columbia, and The Trust for Public Land, a California non-profit public benefit corporation, as Purchasers (Exhibit 2.1 to Form 8-K, File No. 1-10239, filed January 15, 2009).
2.3	Credit Agreement, dated as of June 15, 2007, among Plum Creek Timberlands, L.P., Bank of America, N.A., as Administrative Agent, SunTrust Bank, as Syndication Agent, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Seattle Branch, and The Royal Bank of Scotland, as Documentation Agents, Banc of America Securities LLC and SunTrust Robinson Humphrey, a division of SunTrust Capital Markets, Inc., as Joint Lead Arrangers and Joint Book Managers, and the Other Financial Institutions Party Thereto (Exhibit 10.1 to Form 8-K, File No. 1-10239, filed June 21, 2007).

- 2.4 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).
- 2.5 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, 2009).
- 4.1 Indenture (including Form of Note and Guarantee), dated as of November 14, 2005, by and among Plum Creek Timberlands, L.P., as issuer, Plum Creek Timber Company, Inc., as guarantor, and U.S. Bank National Association, as trustee, governing the terms of 5.875% Senior Notes due 2015 (Exhibit 4.1 to Form 8-K, File No. 1-10239, filed November 14, 2005).
- 4.2 Officer's Certificate, dated November 14, 2005, establishing the terms and form of 5.875% Senior Notes due 2015 (Exhibit 4.2 to Form 8-K, File No. 1-10239, filed November 14, 2005).
- 4.3 Officer's Certificate, dated May 2, 2006, reopening 5.875% Senior Notes due 2015 (Exhibit 4.3 to Form 8-K, File No. 1-10239, filed on May 2, 2006).
- 4.4 Senior Note Agreement, dated as of October 9, 2001, governing terms of \$295,000,000 Series J due October 1, 2011, \$75,000,000 Series K due October 1, 2013. (Exhibit 4.1 to Form 8-K File No. 1-10239, filed October 9, 2001). First Amendment to Senior Note Agreement dated as of December 19, 2002, governing terms of \$295,000,000 Series J due October 1, 2011, \$75,000,000 Series K due October 1, 2013 (Exhibit 4.1 to Form 10-K, File No. 1-10239, for the year ended December 31, 2002). First Omnibus Amendment dated as of August 18, 2008 by and among Plum Creek Timberlands, L.P. and the lenders party thereto (Exhibit 4.1 to Form 8-K, File No. 1-10239, filed August 22, 2008).
- 4.5 The registrant agrees that it will furnish the Commission a copy of any of its debt instruments not listed herein upon request.
- 10.1 Credit Agreement, dated as of June 29, 2006, among Plum Creek Timberlands, L.P., Bank of America, N.A., as Administrative Agent, SunTrust Bank, as Syndication Agent, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Seattle Branch, Northwest Farm Credit Services, PCA and Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., "Rabobank International", New York Branch, and Wells Fargo Bank, National Association, as Documentation Agents, Banc of America Securities LLC and SunTrust Robinson Humphrey, a division of SunTrust Capital Markets, Inc., as Joint Lead Arrangers and Joint Book Managers, and the other financial institutions party thereto (Exhibit 10.1 to Form 8-K, File No. 1-10239, filed on July 3, 2006). Amendment Agreement, dated as of June 15, 2007, among Plum Creek Timberlands, L.P., and Bank of America, N.A., as Administrative Agent under the Credit Agreement dated as of June 29, 2006 (Exhibit 10.2 to Form 8-K, File No. 1-10239, filed June 21, 2007).
- 10.2 Credit Agreement and Guarantee dated as of October 1, 2008 by and among Plum Creek Ventures I, LLC, Plum Creek Timber Company, Inc. and Southern Diversified Timber, LLC (Exhibit 10.1 to Form 8-K, File No. 1-10239, filed October 7, 2008).

- 10.3 Pledge Agreement dated as of October 1, 2008 between Plum Creek Ventures I, LLC and Southern Diversified Timber, LLC (Exhibit 10.2 to Form 8-K, File No. 1-10239, filed October 7, 2008).
- 12.1 Statements regarding computation of ratios.
- 31.1 Certification of Rick R. Holley, President and Chief Executive Officer, 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, Senior Vice President and Chief Financial Officer, 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 3, 2010

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

(Dollars in Millions)	9 Months Ended September 30, 2010	Years Ended December 31,				
		2009	2008	2007	2006	2005
Consolidated Pretax Income from Continuing Operations	\$ 99	\$150	\$193	\$279	\$328	\$339
Fixed Charges (per below)	106	153	158	155	140	119
Distributed Income of Equity Investees	56	53	—	—	—	—
Interest Capitalized	(1)	(1)	(1)	(1)	—	—
Earnings	<u>\$ 260</u>	<u>\$355</u>	<u>\$350</u>	<u>\$433</u>	<u>\$468</u>	<u>\$458</u>
Interest and Other Financial Charges	\$ 104	\$150	\$154	\$151	\$138	\$118
Interest Portion of Rental Expense	2	3	4	4	2	1
Fixed Charges	<u>\$ 106</u>	<u>\$153</u>	<u>\$158</u>	<u>\$155</u>	<u>\$140</u>	<u>\$119</u>
Ratio of Earnings to Fixed Charges	<u>2.5</u>	<u>2.3</u>	<u>2.2</u>	<u>2.8</u>	<u>3.3</u>	<u>3.8</u>

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

(Dollars in Millions)	9 Months Ended September 30, 2010	Years Ended December 31,				
		2009	2008	2007	2006	2005
Consolidated Pretax Income from Continuing Operations	\$ 142	\$208	\$207	\$279	\$328	\$339
Fixed Charges (per below)	63	95	144	155	140	119
Distributed Income of Equity Investees	56	53	—	—	—	—
Interest Capitalized	(1)	(1)	(1)	(1)	—	—
Earnings	<u>\$ 260</u>	<u>\$355</u>	<u>\$350</u>	<u>\$433</u>	<u>\$468</u>	<u>\$458</u>
Interest and Other Financial Charges	\$ 61	\$ 92	\$140	\$151	\$138	\$118
Interest Portion of Rental Expense	2	3	4	4	2	1
Fixed Charges	<u>\$ 63</u>	<u>\$ 95</u>	<u>\$144</u>	<u>\$155</u>	<u>\$140</u>	<u>\$119</u>
Ratio of Earnings to Fixed Charges	<u>4.1</u>	<u>3.7</u>	<u>2.4</u>	<u>2.8</u>	<u>3.3</u>	<u>3.8</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, 2009, which were included on Form 10-K of Plum Creek Timber Company, Inc. and filed with the SEC on February 25, 2010.

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

I, **Rick R. Holley, President and Chief Executive Officer**, 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 3, 2010

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, Senior Vice President and Chief Financial Officer**, 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 3, 2010

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, 2010, 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 3, 2010

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, 2010, 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 3, 2010

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.