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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 June 30, 2009

**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 July 31, 2009 was 162,812,610.

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**PLUM CREEK TIMBER COMPANY, INC.**  
**QUARTERLY REPORT ON FORM 10-Q**  
**For the Quarter ended June 30, 2009**

**TABLE OF CONTENTS**

**PART I – FINANCIAL INFORMATION**

Item 1.	<u>Financial Statements</u>	
	<u>PLUM CREEK TIMBER COMPANY, INC.</u>	2
	<u>PLUM CREEK TIMBERLANDS, L.P.</u>	20
Item 2.	<u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	37
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	53
Item 4.	<u>Controls and Procedures</u>	54

**PART II – OTHER INFORMATION**

Item 1.	<u>Legal Proceedings</u>	54
Item 1A.	<u>Risk Factors</u>	54
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	55
Item 4.	<u>Submission of Matters to a Vote of Security Holders</u>	55
Item 6.	<u>Exhibits</u>	57

**INDEX TO EXHIBITS**

57

**PART I – FINANCIAL INFORMATION**

**ITEM 1. FINANCIAL STATEMENTS**

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

(In Millions, Except Per Share Amounts)	<u>Quarter Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
<b>REVENUES:</b>		
Timber	\$ 123	\$ 192
Real Estate	78	57
Manufacturing	66	121
Other	5	6
Total Revenues	<u>272</u>	<u>376</u>
<b>COSTS AND EXPENSES:</b>		
Cost of Goods Sold:		
Timber	98	137
Real Estate	33	20
Manufacturing	64	128
Other	1	1
Total Cost of Goods Sold	<u>196</u>	<u>286</u>
Selling, General and Administrative	23	33
Total Costs and Expenses	<u>219</u>	<u>319</u>
Other Operating Income (Expense), net	<u>—</u>	<u>—</u>
Operating Income	53	57
Equity Earnings from Timberland Venture	14	—
Interest Expense, net:		
Interest Expense (Debt Obligations to Unrelated Parties)	23	34
Interest Expense (Note Payable to Timberland Venture)	15	—
Total Interest Expense, net	<u>38</u>	<u>34</u>
Income before Income Taxes	29	23
Benefit for Income Taxes	<u>(3)</u>	<u>(8)</u>
Net Income	<u>\$ 32</u>	<u>\$ 31</u>
<b>PER SHARE AMOUNTS:</b>		
Net Income per Share – Basic	\$ 0.19	\$ 0.18
Net Income per Share – Diluted	\$ 0.19	\$ 0.18
Dividends Declared – per Common Share Outstanding	\$ 0.42	\$ 0.42
Weighted-Average Number of Shares Outstanding		
– Basic	162.8	171.1
– Diluted	162.9	171.6

*See accompanying Notes to Consolidated Financial Statements*

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

(In Millions, Except Per Share Amounts)	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>REVENUES:</b>		
Timber	\$ 262	\$ 393
Real Estate	346	109
Manufacturing	124	226
Other	10	11
Total Revenues	<u>742</u>	<u>739</u>
<b>COSTS AND EXPENSES:</b>		
Cost of Goods Sold:		
Timber	206	276
Real Estate	128	36
Manufacturing	140	240
Other	1	1
Total Cost of Goods Sold	<u>475</u>	<u>553</u>
Selling, General and Administrative	55	63
Total Costs and Expenses	<u>530</u>	<u>616</u>
Other Operating Income (Expense), net	—	3
Operating Income	212	126
Equity Earnings from Timberland Venture	29	—
Interest Expense, net:		
Interest Expense (Debt Obligations to Unrelated Parties)	47	70
Interest Expense (Note Payable to Timberland Venture)	29	—
Total Interest Expense, net	<u>76</u>	<u>70</u>
Gain on Extinguishment of Debt	1	—
Income before Income Taxes	166	56
Benefit for Income Taxes	(23)	(13)
Net Income	<u>\$ 189</u>	<u>\$ 69</u>
<b>PER SHARE AMOUNTS:</b>		
Net Income per Share – Basic	\$ 1.15	\$ 0.40
Net Income per Share – Diluted	\$ 1.15	\$ 0.40
Dividends Declared – per Common Share Outstanding	\$ 0.84	\$ 0.84
Weighted-Average Number of Shares Outstanding		
– Basic	163.8	171.4
– Diluted	163.9	171.8

*See accompanying Notes to Consolidated Financial Statements*

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

(In Millions, Except Per Share Amounts)	June 30, 2009	December 31, 2008
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 347	\$ 369
Accounts Receivable	34	22
Like-Kind Exchange Funds Held in Escrow	—	48
Taxes Receivable	6	23
Inventories	53	74
Deferred Tax Asset	9	11
Real Estate Development Properties	3	4
Assets Held for Sale	87	137
Other Current Assets	15	11
	<u>554</u>	<u>699</u>
Timber and Timberlands, net	3,565	3,638
Property, Plant and Equipment, net	160	177
Equity Investment in Timberland Venture	203	199
Deferred Tax Asset	19	—
Investment in Grantor Trusts (at Fair Value)	26	25
Other Assets	41	42
Total Assets	<u>\$ 4,568</u>	<u>\$ 4,780</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Current Portion of Long-Term Debt	\$ 110	\$ 158
Accounts Payable	31	35
Interest Payable	27	30
Wages Payable	15	28
Taxes Payable	19	18
Deferred Revenue	26	17
Other Current Liabilities	16	21
	<u>244</u>	<u>307</u>
Long-Term Debt	1,703	1,793
Line of Credit	206	231
Note Payable to Timberland Venture	783	783
Deferred Tax Liability	—	4
Other Liabilities	90	90
Total Liabilities	<u>3,026</u>	<u>3,208</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) - 162.8 at June 30, 2009 and 166.0 at December 31, 2008	2	2
Additional Paid-In Capital	2,230	2,225
Retained Earnings	200	149
Treasury Stock, at Cost, Common Shares - 24.8 at June 30, 2009 and 21.5 at December 31, 2008	(860)	(773)
Accumulated Other Comprehensive Income (Loss)	(30)	(31)
Total Stockholders' Equity	<u>1,542</u>	<u>1,572</u>
Total Liabilities and Stockholders' Equity	<u>\$ 4,568</u>	<u>\$ 4,780</u>

See accompanying Notes to Consolidated Financial Statements

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

(In Millions)	<u>Six Months Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 189	\$ 69
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Depreciation, Depletion and Amortization (Includes \$10 Lumber Impairment Loss in 2009 and 2008)	57	76
Basis of Real Estate Sold	118	22
Equity Earnings from Timberland Venture	(29)	—
Distribution from Timberland Venture	25	—
Expenditures for Real Estate Development	(1)	(5)
Deferred Income Taxes	(21)	(8)
Gain on Extinguishment of Debt	(1)	—
Deferred Revenue from Long-Term Gas Leases (Net of Amortization)	(4)	18
Working Capital Changes Impacting Cash Flow:		
Like-Kind Exchange Funds	48	(61)
Income Tax Receivable	17	—
Other Working Capital Changes	(8)	(17)
Other	4	—
Net Cash Provided By Operating Activities	<u>394</u>	<u>94</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital Expenditures (Excluding Timberland Acquisitions)	(28)	(29)
Timberlands Acquired	—	(1)
Net Cash Used In Investing Activities	<u>(28)</u>	<u>(30)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends	(138)	(144)
Borrowings on Line of Credit	431	755
Repayments on Line of Credit	(456)	(942)
Proceeds from Issuance of Long-Term Debt	—	250
Principal Payments and Retirement of Long-Term Debt	(138)	(47)
Proceeds from Stock Option Exercises	—	1
Acquisition of Treasury Stock	(87)	(51)
Other	—	(1)
Net Cash Used In Financing Activities	<u>(388)</u>	<u>(179)</u>
Increase (Decrease) In Cash and Cash Equivalents	(22)	(115)
Cash and Cash Equivalents:		
Beginning of Period	369	240
End of Period	<u>\$ 347</u>	<u>\$ 125</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 June 30, 2009, the company owned and managed approximately 7.2 million acres of timberlands in the Northwest, Southern, and Northeast United States, and owned and operated eight wood product conversion facilities in the Northwest United States. Included in the 7.2 million acres are about 1.5 million acres of higher and better use timberlands, which are expected to be sold and/or developed over approximately the next 15 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 these timberlands continue to be used 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 and better use 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, 2008, 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 2008 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.

**New Accounting Pronouncements (Adopted during 2009)**

**SFAS No. 165.** In May 2009, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 165, *Subsequent Events* (“SFAS No. 165”). SFAS No. 165 establishes principles and requirements for subsequent events and sets forth the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures an entity shall make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for interim or annual periods ending after June 15, 2009, and is applied prospectively. The company adopted SFAS No. 165 in the second quarter of 2009; this adoption did not have any impact on the company’s financial condition, results of operations or cash flows.

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

The company has evaluated subsequent events for recognition or disclosure through the date these financial statements were issued, August 5, 2009, which is the date the financial statements were filed with the Securities and Exchange Commission (“SEC”).

**SFAS No. 157.** In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, *Fair Value Measurement* (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements, but does not require any new fair value measurements. SFAS No. 157 supersedes the definition of fair value in most existing pronouncements under generally accepted accounting principles that require or permit the use of fair value, including (but not limited to) business combinations, impairments and exchanges of nonmonetary assets. SFAS No. 157 established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to unobservable inputs (Level III measurements).

SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, which delayed the effective date of SFAS No. 157 for certain non-financial assets and liabilities to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years.

The company adopted SFAS No. 157 for its financial assets and liabilities in the first quarter of 2008 and adopted SFAS No. 157 for its non-financial assets and liabilities in the first quarter of 2009. The adoption did not result in recognition of a transition adjustment to retained earnings or have a material impact on the company’s financial condition, results of operations or cash flows.

**SFAS No. 141(R).** In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (“SFAS No. 141(R)”), which is a revision of SFAS No. 141. In general, SFAS No. 141(R) expands the definition of a business and transactions that are accounted for as business combinations. In addition, SFAS No. 141(R) generally requires all assets and liabilities of acquired entities to be recorded at fair value, and changes the recognition and measurement of related aspects of business combinations. SFAS No. 141(R) is effective for business combinations with an acquisition date within fiscal years beginning on or after December 15, 2008. The standard is required to be adopted prospectively and early adoption is not allowed. The company adopted SFAS No. 141(R) in the first quarter of 2009; this adoption did not have any impact on the company’s financial condition, results of operations or cash flows.

**SFAS No. 160.** In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51* (“SFAS No. 160”). In general, SFAS No. 160 requires that a noncontrolling interest in a consolidated subsidiary be presented in the consolidated statement of financial position as a separate component of equity and also establishes a framework for recognition of changes in control for a consolidated subsidiary that is not 100% owned. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. The standard is required to be adopted prospectively and early adoption is not allowed. All consolidated subsidiaries of the company are wholly-owned; and therefore, the adoption of SFAS No. 160 did not have any impact on the company’s financial condition, results of operations or cash flows.

**New Accounting Pronouncements (Not Yet Adopted)**

**SFAS No. 166.** In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140* (“SFAS No. 166”). In general, SFAS No. 166 amends FASB Statement 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities* (“SFAS No. 140”) to address accounting practices that have developed since the issuance of SFAS No. 140 that are not consistent with the original intent and key requirements of that Statement and to address concerns that many financial assets and related obligations that have been derecognized should continue to be reported in the financial statements of the transferors. SFAS No. 166 is effective for fiscal years beginning after November 15,



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

2009, for interim periods within those fiscal years, and for interim and annual reporting periods thereafter. The company does not expect the adoption of SFAS No. 166 will have a material impact on the company's financial condition, results of operations or cash flows.

**SFAS No. 167.** In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* ("SFAS No. 167"). Among other things, SFAS No. 167 amends certain guidance for determining whether an entity is a variable interest entity ("VIE"), requires a qualitative rather than quantitative analysis to determine the primary beneficiary of a VIE, requires continuous assessments of whether an enterprise is the primary beneficiary of a VIE and requires enhanced disclosures about an enterprise's involvement with a VIE. SFAS No. 167 is effective for fiscal years beginning after November 15, 2009, for interim periods within those fiscal years, and for interim and annual reporting periods thereafter. The company is in the process of determining the effect the adoption of SFAS No. 167 will have on the company's financial condition, results of operations or cash flows.

**Note 2. Earnings Per Share**

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

	<u>Quarter Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Net Income Available to Common Stockholders	<u>\$ 32</u>	<u>\$ 31</u>
Denominator for Basic Earnings per Share	162.8	171.1
Effect of Dilutive Securities – Stock Options	0.1	0.4
Effect of Dilutive Securities – Restricted Stock, Restricted Stock Units, Dividend Equivalents and Value Management Plan	—	0.1
Denominator for Diluted Earnings per Share – Adjusted for Dilutive Securities	<u>162.9</u>	<u>171.6</u>
<b>Per Share Amounts:</b>		
Net Income Per Share – Basic	\$ 0.19	\$ 0.18
Net Income Per Share – Diluted	\$ 0.19	\$ 0.18

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

	<u>Six Months Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Net Income Available to Common Stockholders	<u>\$ 189</u>	<u>\$ 69</u>
Denominator for Basic Earnings per Share	<b>163.8</b>	171.4
Effect of Dilutive Securities – Stock Options	<b>0.1</b>	0.3
Effect of Dilutive Securities – Restricted Stock, Restricted Stock Units, Dividend Equivalents and Value Management Plan	<u>—</u>	<u>0.1</u>
Denominator for Diluted Earnings per Share – Adjusted for Dilutive Securities	<u><b>163.9</b></u>	<u>171.8</u>

**Per Share Amounts:**

Net Income Per Share – Basic	<b>\$ 1.15</b>	\$ 0.40
Net Income Per Share – Diluted	<b>\$ 1.15</b>	\$ 0.40

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 six-month periods ended June 30** (shares in millions):

	<u>Quarter Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Number of Options	<b>2.2</b>	1.0
Range of Exercise Prices	<b>\$33.75 to \$43.23</b>	\$39.31 to \$43.23
Expiration on or before	<b>February 2019</b>	May 2018

	<u>Six Months Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Number of Options	<b>2.3</b>	0.9
Range of Exercise Prices	<b>\$30.70 to \$43.23</b>	\$39.31 to \$43.23
Expiration on or before	<b>February 2019</b>	May 2018

**Note 3. 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. Following the contribution, the company borrowed \$783 million from the Timberland Venture (“Note Payable to Timberland Venture”).

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

The Timberland Venture is a variable interest entity in accordance with FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities* ("FIN 46(R)"). 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 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 are not required to absorb the majority of the expected losses as defined by FIN 46(R). The common interests are required to absorb losses based on positive capital accounts before any losses can be allocated to our preferred interest, and we own a 9% common interest.

The carrying amount of the investment in the venture is \$203 million at June 30, 2009 and \$199 million at December 31, 2008, and it is reported in the Consolidated Balance Sheets as Equity Investment in Timberland Venture. The increase in the investment is a result of recognizing equity earnings of \$29 million, offset by a preferred cash distribution of \$25 million paid by the Timberland Venture to the company during the first quarter of 2009. Our maximum exposure to loss is \$203 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 4. Inventory**

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

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Raw Materials (primarily logs)	\$ 8	\$ 23
Work-In-Process	2	3
Finished Goods	<u>31</u>	<u>36</u>
	41	62
Supplies	<u>12</u>	<u>12</u>
Total	<u>\$ 53</u>	<u>\$ 74</u>

**Note 5. Timber and Timberlands**

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

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Timber and Logging Roads, net	\$ 2,385	\$ 2,443
Timberlands	<u>1,180</u>	<u>1,195</u>
Timber and Timberlands, net	<u>\$ 3,565</u>	<u>\$ 3,638</u>

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

**Note 6. Property, Plant and Equipment**

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

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Land, Buildings and Improvements	\$ 86	\$ 92
Machinery and Equipment	306	310
	<u>392</u>	<u>402</u>
Accumulated Depreciation	(232)	(225)
Property, Plant and Equipment, net	<u>\$ 160</u>	<u>\$ 177</u>

During the first quarter of 2009, the company conducted an analysis to rationalize and consolidate its lumber operations. The analysis was performed by the company due to the significant and sustained decline in lumber demand along with the company's expectations for continued weakness in this business. As a result of this analysis, the company concluded that certain of its lumber manufacturing assets were impaired. Consequently, during the first quarter of 2009, the company recorded an impairment charge of \$10 million related to these lumber manufacturing assets. During the second quarter of 2008, the company recorded an impairment charge of \$10 million related to its lumber manufacturing assets. The impairment losses are 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 10 of the Notes to Consolidated Financial Statements.

**Note 7. 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 will generally be subject to corporate-level tax (built-in gains tax) if the company makes a taxable disposition of certain property acquired in the merger within the ten-year period following the merger date. The built-in gains tax applies to gains 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 harvesting and sale of timber.

In connection with 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

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

sold, and subject to, the built-in gains tax during the ten-year period ending October 6, 2011. During the period October 6, 2001 to December 31, 2008, 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.

At December 31, 2008, the company estimated it needed a deferred tax liability of approximately \$4 million based on projected timberland sales subject to the built-in gains tax for the period January 1, 2009 to October 6, 2011, and Plum Creek's ability to successfully reinvest proceeds in like-kind properties. During the first quarter of 2009, because of a change in tax law the company estimated it needs a deferred tax liability of \$1 million in connection with expected sales of timberlands that are subject to the built-in gains tax. Therefore, in accordance with the remeasurement requirements of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, the company reduced its deferred tax liability by \$3 million during the first quarter of 2009. Furthermore in the first quarter of 2009, because of the change in tax law the company reversed \$5 million of tax expense related to built-in gains that had been accrued in 2008.

**Note 8. Borrowings**

Debt consisted of the following (in millions):

	<u>June 30, 2009</u>	<u>December 31, 2008</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>	206	231
<b>Fixed Rate Debt</b>		
Senior Notes	1,213	1,351
Note Payable to Timberland Venture	783	783
Total Debt	<u>2,802</u>	<u>2,965</u>
Less: Current Portion	<u>(110)</u>	<u>(158)</u>
Long-Term Portion	<u>\$ 2,692</u>	<u>\$ 2,807</u>

(A) As of June 30, 2009, the interest rate on the \$350 million term credit agreement was 0.76%.

(B) As of June 30, 2009, the interest rate on the \$250 million term credit agreement was 1.31%.

(C) As of June 30, 2009, the weighted-average interest rate for the borrowings on the line of credit was 0.72%. As of June 30, 2009, we had \$206 million of borrowings and \$14 million of standby letters of credit outstanding; \$530 million remained available for borrowing under our \$750 million line of credit. As of July 1, 2009, all of the borrowings outstanding under our line of credit were repaid.

During March 2009, the company paid approximately \$4 million to retire \$5 million of principal for Senior Notes due in 2015. As a result, the company recognized a gain of \$1 million which was net of associated unamortized discount and debt issuance costs. The \$1 million gain is classified as Gain on Extinguishment of Debt in the Consolidated Statements of Income for the six-months ended June 30, 2009.

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

**Note 9. Stockholders' Equity**

The changes in the company's stockholders' equity accounts were as follows during 2009 (in millions):

	Common Stock			Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Equity
	Shares	Dollars	Paid-in Capital				
<b>January 1, 2009</b>	166.0	\$ 2	\$2,225	\$ 149	\$ (773)	\$ (31)	\$1,572
Net Income	—	—	—	157	—	—	157
Other Comprehensive Income (Loss), net of tax	—	—	—	—	—	(2)	(2)
Total Comprehensive Income							155
Dividends	—	—	—	(69)	—	—	(69)
Shares Issued under Stock Incentive Plans	0.1	—	1	—	—	—	1
Share-based Compensation	—	—	2	—	—	—	2
Common Stock Repurchased	(3.3)	—	—	—	(87)	—	(87)
<b>March 31, 2009</b>	162.8	2	2,228	237	(860)	(33)	1,574
Net Income	—	—	—	32	—	—	32
Other Comprehensive Income (Loss), net of tax	—	—	—	—	—	3	3
Total Comprehensive Income							35
Dividends	—	—	—	(69)	—	—	(69)
Share-based Compensation	—	—	2	—	—	—	2
<b>June 30, 2009</b>	<u>162.8</u>	<u>\$ 2</u>	<u>\$2,230</u>	<u>\$ 200</u>	<u>\$ (860)</u>	<u>\$ (30)</u>	<u>\$1,542</u>

**Note 10. 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 SFAS 157 hierarchy. 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 June 30, 2009	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets of Identical Assets (Level 1 Measurements)
Cash Equivalents <sup>(A)</sup>	\$ 342	\$ 342
Available-for-Sale Securities <sup>(B)</sup>	21	21
Trading Securities <sup>(B)</sup>	5	5
Total	<u>\$ 368</u>	<u>\$ 368</u>

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

	Balance at December 31, 2008	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets of Identical Assets (Level 1 Measurements)
Cash Equivalents <sup>(A)</sup>	\$ 346	\$ 346
Available-for-Sale Securities <sup>(B)</sup>	20	20
Trading Securities <sup>(B)</sup>	5	5
Total	<u>\$ 371</u>	<u>\$ 371</u>

(A) Consists of several money market funds and is included in the \$347 million and \$369 million of Cash and Cash Equivalents in the Consolidated Balance Sheets at June 30, 2009 and December 31, 2008, respectively.

(B) Consists of several mutual funds which are invested in domestic (U.S.) and international equity and debt securities and is included in Investment in Grantor Trusts in the Consolidated Balance Sheets at June 30, 2009 and December 31, 2008.

**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 funds and 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 \$21 million and \$20 million at June 30, 2009 and December 31, 2008, respectively. 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 \$1 million at June 30, 2009 and unrealized holding losses were less than \$1 million at December 31, 2008. The company records changes in unrealized holding gains and losses in Other Comprehensive Income. The change in unrealized holding gains and losses was approximately \$1 million for the six months ended June 30, 2009. Realized gains were less than \$1 million for the six months ended June 30, 2009.

**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 funds and debt and equity mutual funds. The company plans to use these investments to fund deferred compensation obligations. The fair value of these investments was \$5 million at both June 30, 2009 and December 31, 2008. 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. Unrealized losses were \$1 million at June 30, 2009 and were \$2 million at December 31, 2008. The change in unrealized losses was approximately \$1 million (unrealized gains) for the six months ended June 30, 2009. Realized losses were \$1 million for the six months ended June 30, 2009. Deferred compensation obligations are included in Other Liabilities and were \$5 million at both June 30, 2009 and December 31, 2008.

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

**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 \$2.68 billion and \$2.69 billion at June 30, 2009 and December 31, 2008, respectively, and the carrying amount was \$2.80 billion and \$2.97 billion at June 30, 2009 and December 31, 2008, respectively. The fair value of the company's publicly-traded debt (i.e., Senior Notes due 2015) is estimated using market quotes. The fair value of the company's other Senior Notes 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 publicly-traded 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 SFAS 157 hierarchy. 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. 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 six-month period ended June 30 (in millions):

	Six Months Ended June 30, 2009	Fair Value Measurements 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)** During the first quarter of 2009, in accordance with Statement of Financial Accounting Standards No. 144 ("SFAS No. 144"), *Accounting for the Impairment or Disposal of Long-Lived Assets*, certain lumber assets with a carrying value of \$10 million were written down to their fair value of \$0, resulting in an impairment charge of \$10 million, which was included in earnings for the six month period ended June 30, 2009. 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)** During the first quarter of 2009, in accordance with SFAS No. 144, timberlands held for sale with a carrying amount of \$26 million were written down to their fair value (net of estimated selling costs) of \$25 million, resulting in a loss of \$1 million, which was included in earnings for the six month period ended June 30, 2009. The fair value was determined 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.



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

(C) The company has agreements with the federal government under which it is obligated to pay maintenance or replacement costs for certain roads. The company also has obligations under state law to maintain or upgrade certain roads. At March 31, 2009, the company concluded that most of these liabilities could be reasonably estimated. As a result, in accordance with Statement of Financial Accounting Standards No. 143, *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 11. Employee Pension Plans**

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

	<b>Quarter Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Service Cost	\$ 2	\$ 2
Interest Cost	2	2
Expected Return on Plan Assets	(3)	(2)
Recognized Actuarial Loss	1	—
<b>Total Pension Cost</b>	<b>\$ 2</b>	<b>\$ 2</b>

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
Service Cost	\$ 4	\$ 4
Interest Cost	4	3
Expected Return on Plan Assets	(4)	(3)
Recognized Actuarial Loss	1	—
<b>Total Pension Cost</b>	<b>\$ 5</b>	<b>\$ 4</b>

**Note 12. Commitments and Contingencies**

**Contingencies.** The company is subject to regulations regarding forest and harvest 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 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. A remediation plan has not yet been approved. The company believes that it has strong defenses in the matter. Furthermore, to the extent Plum Creek is required to indemnify Georgia-Pacific for its share of the remediation costs, Plum Creek may be able to recover all or a portion of its cost from Georgia-Pacific's insurance policy, or indemnity obligations of the

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

various lessees that conducted mining operations on the property, or both. The company believes it will be successful in defending the claim. If the company is not successful in defending this claim, we believe that any loss would not be material to our financial position or results of operations.

**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 13. Segment Information**

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

	<u>Northern Resources</u>	<u>Southern Resources</u>	<u>Real Estate</u>	<u>Manufactured Products <sup>(A)</sup></u>	<u>Other</u>	<u>Total <sup>(B)</sup></u>
<b>Quarter Ended June 30, 2009</b>						
External Revenues	\$ 34	\$ 89	\$ 78	\$ 66	\$ 5	\$ 272
Intersegment Revenues	1	—	—	—	—	1
Depreciation, Depletion and Amortization	6	13	1	3	—	23
Basis of Real Estate Sold	—	—	29	—	—	29
Operating Income (Loss)	(7)	23	44	—	4	64
<b>Quarter Ended June 30, 2008</b>						
External Revenues	\$ 64	\$ 128	\$ 57	\$ 121	\$ 6	\$ 376
Intersegment Revenues	10	—	—	—	—	10
Depreciation, Depletion and Amortization	7	16	1	17	—	41
Basis of Real Estate Sold	—	—	12	—	—	12
Operating Income (Loss)	7	37	35	(11)	5	73

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

	<u>Northern Resources</u>	<u>Southern Resources</u>	<u>Real Estate <sup>(C)</sup></u>	<u>Manufactured Products <sup>(A)</sup></u>	<u>Other</u>	<u>Total <sup>(B)</sup></u>
<b>Six Months Ended June 30, 2009</b>						
External Revenues	\$ 90	\$ 172	\$ 346	\$ 124	\$ 10	\$ 742
Intersegment Revenues	2	—	—	—	—	2
Depreciation, Depletion and Amortization	13	24	1	17	—	55
Basis of Real Estate Sold	—	—	118	—	—	118
Operating Income (Loss)	(5)	43	214	(22)	9	239
<b>Six Months Ended June 30, 2008</b>						
External Revenues	\$ 143	\$ 250	\$ 109	\$ 226	\$ 11	\$ 739
Intersegment Revenues	25	—	—	—	—	25
Depreciation, Depletion and Amortization	17	31	1	24	—	73
Basis of Real Estate Sold	—	—	22	—	—	22
Operating Income (Loss)	21	74	68	(20)	10	153

- (A) For the six months ended June 30, 2009, and for the quarter and six months ended June 30, 2008, the Manufactured Products Segment depreciation, depletion and amortization, and operating income (loss) include a \$10 million lumber manufacturing assets impairment loss. See Note 6 of the Notes to Consolidated Financial Statements.
- (B) Consolidated depreciation, depletion and amortization include unallocated corporate depreciation of \$1 million and \$2 million for the quarter and six months ended June 30, 2009, respectively, and \$2 million and \$3 million for the quarter and six months ended June 30, 2008, respectively.
- (C) During 2008, the company negotiated the sale of 310,000 acres in Montana for \$489 million, to be closed in three phases. Proceeds of \$150 million from the first phase were received during the fourth quarter of 2008. 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 2010. For the six months ended June 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.

**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 six-month periods ended June 30** (in millions):

	<u>Quarter Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Total Segment Operating Income	\$ 64	\$ 73
Corporate and Other Unallocated Expenses	(11)	(16)
Other Operating Income (Expense), net	—	—
Operating Income	53	57
Equity Earnings from Timberland Venture	14	—
Total Interest Expense, net	(38)	(34)
Income before Income Taxes	<u>\$ 29</u>	<u>\$ 23</u>

	<u>Six Months Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Total Segment Operating Income	\$ 239	\$ 153
Corporate and Other Unallocated Expenses	(27)	(30)
Other Operating Income (Expense), net	—	3
Operating Income	212	126
Equity Earnings from Timberland Venture	29	—
Total Interest Expense, net	(76)	(70)
Gain on Extinguishment of Debt	1	—
Income before Income Taxes	<u>\$ 166</u>	<u>\$ 56</u>

**Note 14. Subsequent Events**

**Quarterly Dividend.** On August 4, 2009, 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 August 31, 2009 to stockholders of record on August 14, 2009.

**ITEM 1. FINANCIAL STATEMENTS (CONTINUED)**

Included in this item are the consolidated financial statements relate 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 June 30, 2009, 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)**

(In Millions)	<b>Quarter Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>REVENUES:</b>		
Timber	\$ 123	\$ 192
Real Estate	78	57
Manufacturing	66	121
Other	5	6
Total Revenues	<u>272</u>	<u>376</u>
<b>COSTS AND EXPENSES:</b>		
Cost of Goods Sold:		
Timber	98	137
Real Estate	33	20
Manufacturing	64	128
Other	1	1
Total Cost of Goods Sold	<u>196</u>	<u>286</u>
Selling, General and Administrative	23	33
Total Costs and Expenses	<u>219</u>	<u>319</u>
Other Operating Income (Expense), net	<u>—</u>	<u>—</u>
Operating Income	53	57
Equity Earnings from Timberland Venture	14	—
Interest Expense, net	23	34
Income before Income Taxes	44	23
Benefit for Income Taxes	(3)	(8)
Net Income before Allocation to Series T-1 Preferred Interest and Partners	47	31
Net Income Allocable to Series T-1 Preferred Interest	(15)	—
Net Income Available to Common Interest Partners	<u>\$ 32</u>	<u>\$ 31</u>

*See accompanying Notes to Consolidated Financial Statements*

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

(In Millions)	<u>Six Months Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
<b>REVENUES:</b>		
Timber	\$ 262	\$ 393
Real Estate	346	109
Manufacturing	124	226
Other	10	11
Total Revenues	<u>742</u>	<u>739</u>
<b>COSTS AND EXPENSES:</b>		
Cost of Goods Sold:		
Timber	206	276
Real Estate	128	36
Manufacturing	140	240
Other	1	1
Total Cost of Goods Sold	<u>475</u>	<u>553</u>
Selling, General and Administrative	55	63
Total Costs and Expenses	<u>530</u>	<u>616</u>
Other Operating Income (Expense), net	<u>—</u>	<u>3</u>
Operating Income	212	126
Equity Earnings from Timberland Venture	29	—
Interest Expense, net	47	70
Gain on Extinguishment of Debt	1	—
Income before Income Taxes	195	56
Benefit for Income Taxes	<u>(23)</u>	<u>(13)</u>
Net Income before Allocation to Series T-1 Preferred Interest and Partners	218	69
Net Income Allocable to Series T-1 Preferred Interest	(29)	—
Net Income Available to Common Interest Partners	<u>\$ 189</u>	<u>\$ 69</u>

*See accompanying Notes to Consolidated Financial Statements*

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

(In Millions)	June 30, 2009	December 31, 2008
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 347	\$ 369
Accounts Receivable	34	22
Like-Kind Exchange Funds Held in Escrow	—	48
Taxes Receivable	6	23
Inventories	53	74
Deferred Tax Asset	9	11
Real Estate Development Properties	3	4
Assets Held for Sale	87	137
Other Current Assets	15	11
	<u>554</u>	<u>699</u>
Timber and Timberlands, net	3,565	3,638
Property, Plant and Equipment, net	160	177
Equity Investment in Timberland Venture	203	199
Deferred Tax Asset	19	—
Investment in Grantor Trusts (\$26 and \$25 at Fair Value in 2009 and 2008)	27	26
Other Assets	41	42
Total Assets	<u>\$ 4,569</u>	<u>\$ 4,781</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Current Portion of Long-Term Debt	\$ 110	\$ 158
Accounts Payable	31	35
Interest Payable	20	23
Wages Payable	15	28
Taxes Payable	19	18
Deferred Revenue	26	17
Other Current Liabilities	16	21
	<u>237</u>	<u>300</u>
Long-Term Debt	1,703	1,793
Line of Credit	206	231
Deferred Tax Liability	—	4
Other Liabilities	91	91
Total Liabilities	<u>2,237</u>	<u>2,419</u>
Commitments and Contingencies		
<b>PARTNERSHIP CAPITAL</b>		
Series T-1 Preferred Interest	790	790
Partners' Capital (Common Limited Partnership Interests)	1,542	1,572
Total Partnership Capital	<u>2,332</u>	<u>2,362</u>
Total Liabilities and Partnership Capital	<u>\$ 4,569</u>	<u>\$ 4,781</u>

*See accompanying Notes to Consolidated Financial Statements*

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

(In Millions)	<u>Six Months Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income before Allocation to Preferred Partnership Interest and Partners	\$ 218	\$ 69
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Depreciation, Depletion and Amortization (Includes \$10 Lumber Impairment Loss in 2009 and 2008)	57	76
Basis of Real Estate Sold	118	22
Equity Earnings from Timberland Venture	(29)	—
Distribution from Timberland Venture	25	—
Expenditures for Real Estate Development	(1)	(5)
Deferred Income Taxes	(21)	(8)
Gain on Extinguishment of Debt	(1)	—
Deferred Revenue from Long-Term Gas Leases (Net of Amortization)	(4)	18
Working Capital Changes Impacting Cash Flow:		
Like-Kind Exchange Funds	48	(61)
Income Tax Receivable	17	—
Other Working Capital Changes	(8)	(17)
Other	4	—
Net Cash Provided By Operating Activities	<u>423</u>	<u>94</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital Expenditures (Excluding Timberland Acquisitions)	(28)	(29)
Timberlands Acquired	—	(1)
Net Cash Used In Investing Activities	<u>(28)</u>	<u>(30)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash Distributions to Partners	(225)	(194)
Cash Distributions for Series T-1 Preferred Interest	(29)	—
Borrowings on Line of Credit	431	755
Repayments on Line of Credit	(456)	(942)
Proceeds from Issuance of Long-Term Debt	—	250
Principal Payments and Retirement of Long-Term Debt	(138)	(47)
Other	—	(1)
Net Cash Used In Financing Activities	<u>(417)</u>	<u>(179)</u>
Increase (Decrease) In Cash and Cash Equivalents	(22)	(115)
Cash and Cash Equivalents:		
Beginning of Period	369	240
End of Period	<u>\$ 347</u>	<u>\$ 125</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. Plum Creek Timber Company, Inc. (“Parent”) is a Delaware Corporation and 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” relate to Plum Creek Timber Company, Inc. and all of its wholly-owned consolidated subsidiaries.

At June 30, 2009, the Operating Partnership owned and managed approximately 7.2 million acres of timberlands in the Northwest, Southern, and Northeast United States, and owned and operated eight wood product conversion facilities in the Northwest United States. Included in the 7.2 million acres are about 1.5 million acres of higher and better use timberlands, which are expected to be sold and/or developed over approximately the next 15 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 these timberlands continue to be used 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 the Parent. The Parent has no assets or liabilities other than its ownership interests in Plum Creek Timberlands, L.P. and Plum Creek Ventures I, LLC (“PC Ventures”), a 100% owned subsidiary. Plum Creek Timber Company, Inc. 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 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 and better use 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 attributable to 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, 2008, which were included on Form 10-K of Plum Creek Timber Company, Inc. and filed with the SEC on February 27, 2009, 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)**

**New Accounting Pronouncements (Adopted during 2009)**

**SFAS No. 165.** In May 2009, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 165, *Subsequent Events* (“SFAS No. 165”). SFAS No. 165 establishes principles and requirements for subsequent events and sets forth the period after the balance sheet date during which management shall evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements, the circumstances under which an entity shall recognize events or transactions occurring after the balance sheet date in its financial statements, and the disclosures an entity shall make about events or transactions that occurred after the balance sheet date. SFAS No. 165 is effective for interim or annual periods ending after June 15, 2009, and is applied prospectively. The Operating Partnership adopted SFAS No. 165 in the second quarter of 2009; this adoption did not have any impact on the Operating Partnership’s financial condition, results of operations or cash flows.

The Operating Partnership has evaluated subsequent events for recognition or disclosure through the date these financial statements were issued, August 5, 2009, which is the date the financial statements were filed with the Securities and Exchange Commission (“SEC”).

**SFAS No. 157.** In September 2006, the Financial Accounting Standards Board (“FASB”) issued SFAS No. 157, *Fair Value Measurement* (“SFAS No. 157”). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements, but does not require any new fair value measurements. SFAS No. 157 supersedes the definition of fair value in most existing pronouncements under generally accepted accounting principles that require or permit the use of fair value, including (but not limited to) business combinations, impairments and exchanges of nonmonetary assets. SFAS No. 157 established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level I measurements) and the lowest priority to unobservable inputs (Level III measurements).

SFAS No. 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. In February 2008, the FASB issued FASB Staff Position No. FAS 157-2, which delayed the effective date of SFAS No. 157 for certain non-financial assets and liabilities to fiscal years beginning after November 15, 2008 and interim periods within those fiscal years.

The Operating Partnership adopted SFAS No. 157 for its financial assets and liabilities in the first quarter of 2008 and adopted SFAS No. 157 for its non-financial assets and liabilities in the first quarter of 2009. The adoption did not result in recognition of a transition adjustment to retained earnings or have a material impact on the Operating Partnership’s financial condition, results of operations or cash flows.

**SFAS No. 141(R).** In December 2007, the FASB issued SFAS No. 141 (revised 2007), *Business Combinations* (“SFAS No. 141(R)”), which is a revision of SFAS No. 141. In general, SFAS No. 141(R) expands the definition of a business and transactions that are accounted for as business combinations. In addition, SFAS No. 141(R) generally requires all assets and liabilities of acquired entities to be recorded at fair value, and changes the recognition and measurement of related aspects of business combinations. SFAS No. 141 (R) is effective for business combinations with an acquisition date within fiscal years beginning on or after December 15, 2008. The standard is required to be adopted prospectively and early adoption is not allowed. The Operating Partnership adopted SFAS No. 141 (R) in the first quarter of 2009; this adoption did not have any impact on the Operating Partnership’s financial condition, results of operations or cash flows.

**SFAS No. 160.** In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements, an Amendment of ARB No. 51* (“SFAS No. 160”). In general, SFAS No. 160 requires that a noncontrolling interest in a consolidated subsidiary be presented in the consolidated statement of financial position as a separate component of equity and also establishes a framework for recognition of changes in control for a consolidated subsidiary that is not 100% owned. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008 and interim periods within those fiscal years. The standard is required to be adopted prospectively and early adoption is not allowed. All consolidated subsidiaries of the Operating Partnership are wholly-owned; and therefore, the adoption of SFAS No. 160 did not have any impact on the Operating Partnership’s financial condition, results of operations or cash flows.

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

**New Accounting Pronouncements (Not Yet Adopted)**

**SFAS No. 166.** In June 2009, the FASB issued SFAS No. 166, *Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140* (“SFAS No. 166”). In general, SFAS No. 166 amends FASB Statement 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities* (“SFAS No. 140”) to address accounting practices that have developed since the issuance of SFAS No. 140 that are not consistent with the original intent and key requirements of that Statement and to address concerns that many financial assets and related obligations that have been derecognized should continue to be reported in the financial statements of the transferors. SFAS No. 166 is effective for fiscal years beginning after November 15, 2009, for interim periods within those fiscal years, and for interim and annual reporting periods thereafter. The Operating Partnership does not expect the adoption of SFAS No. 166 will have a material impact on the Operating Partnership’s financial condition, results of operations or cash flows.

**SFAS No. 167.** In June 2009, the FASB issued SFAS No. 167, *Amendments to FASB Interpretation No. 46(R)* (“SFAS No. 167”). Among other things, SFAS No. 167 amends certain guidance for determining whether an entity is a variable interest entity (“VIE”), requires a qualitative rather than quantitative analysis to determine the primary beneficiary of a VIE, requires continuous assessments of whether an enterprise is the primary beneficiary of a VIE and requires enhanced disclosures about an enterprise’s involvement with a VIE. SFAS No. 167 is effective for fiscal years beginning after November 15, 2009, for interim periods within those fiscal years, and for interim and annual reporting periods thereafter. The Operating Partnership is in the process of determining the effect the adoption of SFAS No. 167 will have on the Operating Partnership’s financial condition, results of operations or cash flows.

**Note 2. Variable Interest Entities**

On October 1, 2008, a subsidiary of the Operating Partnership 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. Following the contribution, 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 Timberland Venture is a variable interest entity in accordance with FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (“FIN 46(R)”). Besides quarterly interest payments on the loan by PC Ventures, the Operating Partnership has not provided financing or other support to the venture. The venture is financed by a line of credit obtained by the Timberland Venture.

We are not the primary beneficiary of the Timberland Venture. The Operating Partnership 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 are not required to absorb the majority of the expected losses as defined by FIN 46(R). The common interests are required to absorb losses based on positive capital accounts before any losses can be allocated to our preferred interest, and we own a 9% common interest.

The carrying amount of the investment in the venture is \$203 million at June 30, 2009 and \$199 million at December 31, 2008, and it is reported in the Consolidated Balance Sheets as Equity Investment in Timberland Venture. The increase in the investment is a result of recognizing equity earnings of \$29 million, offset by a preferred cash distribution of \$25 million paid by the Timberland Venture to the Operating Partnership during the first quarter of 2009. Our maximum exposure to loss is \$203 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.

**PLUM CREEK TIMBERLANDS, L.P.**  
**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>June 30, 2009</u>	<u>December 31, 2008</u>
Raw Materials (primarily logs)	\$ 8	\$ 23
Work-In-Process	2	3
Finished Goods	31	36
	<u>41</u>	<u>62</u>
Supplies	12	12
Total	<u>\$ 53</u>	<u>\$ 74</u>

**Note 4. Timber and Timberlands**

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

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Timber and Logging Roads, net	\$ 2,385	\$ 2,443
Timberlands	1,180	1,195
Timber and Timberlands, net	<u>\$ 3,565</u>	<u>\$ 3,638</u>

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

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

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
Land, Buildings and Improvements	\$ 86	\$ 92
Machinery and Equipment	306	310
	<u>392</u>	<u>402</u>
Accumulated Depreciation	(232)	(225)
Property, Plant and Equipment, net	<u>\$ 160</u>	<u>\$ 177</u>

During the first quarter of 2009, the Operating Partnership conducted an analysis to rationalize and consolidate its lumber operations. The analysis was performed by the Operating Partnership due to the significant and sustained decline in lumber demand along with the Operating Partnership's expectations for continued weakness in this business. As a result of this analysis, the Operating Partnership concluded that certain of its lumber manufacturing assets were impaired. Consequently, during the first quarter of 2009, the Operating Partnership recorded an impairment charge of \$10 million related to these lumber manufacturing assets. During the second quarter of 2008, the Operating Partnership recorded an impairment charge of \$10 million related to its lumber manufacturing assets. The impairment losses are 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.

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

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 9 of the Notes to Consolidated Financial Statements.

**Note 6. Income Taxes**

Plum Creek Timberlands, L.P.'s taxable income is allocated 100% 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 and better use 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 attributable to 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 will generally be subject to corporate-level tax (built-in gains tax) if Plum Creek makes a taxable disposition of certain property acquired in the merger within the ten-year period following the merger date. The built-in gains tax applies to gains 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 harvesting and sale of timber.

In connection with Plum Creek's 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. During the period October 6, 2001 to December 31, 2008, 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.

At December 31, 2008, it was estimated that Plum Creek needed a deferred tax liability of approximately \$4 million based on projected timberland sales subject to the built-in gains tax for the period January 1, 2009 to October 6, 2011, and Plum Creek's ability to successfully reinvest proceeds in like-kind properties. During the first quarter of 2009, because of a change in tax law it is estimated that Plum Creek needs a deferred tax liability of \$1 million in connection with expected sales of timberlands that are subject to the built-in gains tax. Therefore, in accordance with the remeasurement requirements of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, the deferred tax liability was reduced by \$3 million during the first quarter of 2009. Furthermore in the first quarter of 2009, because of the change in tax law \$5 million of tax expense related to built-in gains that had been accrued in 2008 was reversed.

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

**Note 7. Borrowings**

Debt consisted of the following (in millions):

	<u>June 30, 2009</u>	<u>December 31, 2008</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>	206	231
<b>Fixed Rate Debt</b>		
Senior Notes	<u>1,213</u>	<u>1,351</u>
Total Debt	<u>2,019</u>	<u>2,182</u>
Less: Current Portion	<u>(110)</u>	<u>(158)</u>
Long-Term Portion	<u>\$ 1,909</u>	<u>\$ 2,024</u>

(A) As of June 30, 2009, the interest rate on the \$350 million term credit agreement was 0.76%.

(B) As of June 30, 2009, the interest rate on the \$250 million term credit agreement was 1.31%.

(C) As of June 30, 2009, the weighted-average interest rate for the borrowings on the line of credit was 0.72%. As of June 30, 2009, we had \$206 million of borrowings and \$14 million of standby letters of credit outstanding; \$530 million remained available for borrowing under our \$750 million line of credit. As of July 1, 2009, all of the borrowings outstanding under our line of credit were repaid.

During March 2009, the Operating Partnership paid approximately \$4 million to retire \$5 million of principal for Senior Notes due in 2015. As a result, the Operating Partnership recognized a gain of \$1 million which was net of associated unamortized discount and debt issuance costs. The \$1 million gain is classified as Gain on Extinguishment of Debt in the Consolidated Statements of Income for the six-months ended June 30, 2009.

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

**Note 8. Partners' Capital**

The changes in the Operating Partnership's capital accounts were as follows during 2009 (in millions):

	Preferred Partnership Interest	Partners' Capital	Accumulated Other Comprehensive Income (Loss)	Total Partnership Capital
<b>January 1, 2009</b>	\$ 790	\$ 1,603	\$ (31)	\$ 2,362
Net Income before Allocation to Series T-1 Preferred Interest and Partners	—	171	—	171
Other Comprehensive Income (Loss), net of tax	—	—	(2)	(2)
Total Comprehensive Income				<u>169</u>
Net Income Allocation to Series T-1 Preferred Interest	14	(14)	—	—
Distributions to Partners (Common Limited Partnership Interests)	—	(156)	—	(156)
Distributions for Series T-1 Preferred Interest	(18)	—	—	(18)
Capital Contributions from Parent	<u>—</u>	<u>3</u>	<u>—</u>	<u>3</u>
<b>March 31, 2009</b>	786	1,607	(33)	2,360
Net Income before Allocation to Series T-1 Preferred Interest and Partners	—	47	—	47
Other Comprehensive Income (Loss), net of tax	—	—	3	3
Total Comprehensive Income				<u>50</u>
Net Income Allocation to Series T-1 Preferred Interest	15	(15)	—	—
Distributions to Partners (Common Limited Partnership Interests)	—	(69)	—	(69)
Distributions for Series T-1 Preferred Interest	(11)	—	—	(11)
Capital Contributions from Parent	<u>—</u>	<u>2</u>	<u>—</u>	<u>2</u>
<b>June 30, 2009</b>	<u>\$ 790</u>	<u>\$ 1,572</u>	<u>\$ (30)</u>	<u>\$ 2,332</u>

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

**Note 9. 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 SFAS 157 hierarchy. 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 June 30, 2009	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets of Identical Assets (Level 1 Measurements)
Cash Equivalents <sup>(A)</sup>	\$ 342	\$ 342
Available-for-Sale Securities <sup>(B)</sup>	21	21
Trading Securities <sup>(B)</sup>	5	5
Total	<u>\$ 368</u>	<u>\$ 368</u>

	Balance at December 31, 2008	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets of Identical Assets (Level 1 Measurements)
Cash Equivalents <sup>(A)</sup>	\$ 346	\$ 346
Available-for-Sale Securities <sup>(B)</sup>	20	20
Trading Securities <sup>(B)</sup>	5	5
Total	<u>\$ 371</u>	<u>\$ 371</u>

**(A)** Consists of several money market funds and is included in the \$347 million and \$369 million of Cash and Cash Equivalents in the Consolidated Balance Sheets at June 30, 2009 and December 31, 2008, respectively.

**(B)** Consists of several mutual funds which are invested in domestic (U.S.) and international equity and debt securities and is included in Investment in Grantor Trusts in the Consolidated Balance Sheets at June 30, 2009 and December 31, 2008.

**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 funds and 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 \$21 million and \$20 million at June 30, 2009 and December 31, 2008, respectively. 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 \$1 million at June 30, 2009 and unrealized holding losses were less than \$1 million at December 31, 2008. The Operating Partnership records changes in unrealized holding gains and losses in Other Comprehensive Income. The change in unrealized holding gains and losses was approximately \$1 million for the six months ended June 30, 2009. Realized gains were less than \$1 million for the six months ended June 30, 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 funds and debt and equity mutual funds. The Operating Partnership plans to use these



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

investments to fund deferred compensation obligations. The fair value of these investments was \$5 million at both June 30, 2009 and December 31, 2008. 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. Unrealized losses were \$1 million at June 30, 2009 and were \$2 million at December 31, 2008. The change in unrealized losses was approximately \$1 million (unrealized gains) for the six months ended June 30, 2009. Realized losses were \$1 million for the six months ended June 30, 2009. Deferred compensation obligations are included in Other Liabilities and were \$5 million at both June 30, 2009 and December 31, 2008.

**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 \$1.96 billion and \$2.05 billion at June 30, 2009 and December 31, 2008, respectively, and the carrying amount was \$2.02 billion and \$2.18 billion at June 30, 2009 and December 31, 2008, respectively. The fair value of the Operating Partnership's publicly-traded debt (i.e., Senior Notes due 2015) is estimated using market quotes. The fair value of the Operating Partnership's other Senior Notes 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 SFAS 157 hierarchy. 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. 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 six-month period ended June 30 (in millions):

	Six Months Ended June 30, 2009	Fair Value Measurements 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)** During the first quarter of 2009, in accordance with Statement of Financial Accounting Standards No. 144 ("SFAS No. 144"), *Accounting for the Impairment or Disposal of Long-Lived Assets*, certain lumber assets with a carrying value of \$10 million were written down to their fair value of \$0, resulting in an impairment charge of \$10 million, which was included in earnings for the six month period ended June 30, 2009. 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)** During the first quarter of 2009, in accordance with SFAS No. 144, timberlands held for sale with a carrying amount of \$26 million were written down to their fair value (net of estimated selling costs) of \$25 million, resulting in a loss of \$1 million, which was included in earnings for the six month period ended June 30, 2009. The fair value was determined 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.

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

(C) The Operating Partnership has agreements with the federal government under which it is obligated to pay maintenance or replacement costs for certain roads. The Operating Partnership also has obligations under state law to maintain or upgrade certain roads. At March 31, 2009, the Operating Partnership concluded that most of these liabilities could be reasonably estimated. As a result, in accordance with Statement of Financial Accounting Standards No. 143, *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 10. Employee Pension Plans**

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

	Quarter Ended June 30,	
	2009	2008
Service Cost	\$ 2	\$ 2
Interest Cost	2	2
Expected Return on Plan Assets	(3)	(2)
Recognized Actuarial Loss	1	—
<b>Total Pension Cost</b>	<b>\$ 2</b>	<b>\$ 2</b>

	Six Months Ended June 30,	
	2009	2008
Service Cost	\$ 4	\$ 4
Interest Cost	4	3
Expected Return on Plan Assets	(4)	(3)
Recognized Actuarial Loss	1	—
<b>Total Pension Cost</b>	<b>\$ 5</b>	<b>\$ 4</b>

**Note 11. Commitments and Contingencies**

**Contingencies.** The Operating Partnership is subject to regulations regarding forest and harvest 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 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. A remediation plan has not yet been approved. The Operating Partnership believes that it has strong defenses in the matter. Furthermore, to the extent the Operating Partnership is required to indemnify Georgia-Pacific for its share of the remediation costs, the Operating Partnership may be able to recover all or a portion of its cost from Georgia-Pacific's insurance policy, or indemnity obligations of the various lessees that conducted mining operations on the property, or both. The Operating Partnership believes it will be successful in defending the claim. If the Operating Partnership is not successful in defending this claim, we believe that any loss would not be material to our financial position or results of operations.

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

*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 12. Segment Information**

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

	<u>Northern Resources</u>	<u>Southern Resources</u>	<u>Real Estate</u>	<u>Manufactured Products (A)</u>	<u>Other</u>	<u>Total (B)</u>
<b>Quarter Ended June 30, 2009</b>						
External Revenues	\$ 34	\$ 89	\$ 78	\$ 66	\$ 5	\$ 272
Intersegment Revenues	1	—	—	—	—	1
Depreciation, Depletion and Amortization	6	13	1	3	—	23
Basis of Real Estate Sold	—	—	29	—	—	29
Operating Income (Loss)	(7)	23	44	—	4	64
<b>Quarter Ended June 30, 2008</b>						
External Revenues	\$ 64	\$ 128	\$ 57	\$ 121	\$ 6	\$ 376
Intersegment Revenues	10	—	—	—	—	10
Depreciation, Depletion and Amortization	7	16	1	17	—	41
Basis of Real Estate Sold	—	—	12	—	—	12
Operating Income (Loss)	7	37	35	(11)	5	73

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

	<u>Northern Resources</u>	<u>Southern Resources</u>	<u>Real Estate (C)</u>	<u>Manufactured Products (A)</u>	<u>Other</u>	<u>Total (B)</u>
<b>Six Months Ended June 30, 2009</b>						
External Revenues	\$ 90	\$ 172	\$ 346	\$ 124	\$ 10	\$ 742
Intersegment Revenues	2	—	—	—	—	2
Depreciation, Depletion and Amortization	13	24	1	17	—	55
Basis of Real Estate Sold	—	—	118	—	—	118
Operating Income (Loss)	(5)	43	214	(22)	9	239
<b>Six Months Ended June 30, 2008</b>						
External Revenues	\$ 143	\$ 250	\$ 109	\$ 226	\$ 11	\$ 739
Intersegment Revenues	25	—	—	—	—	25
Depreciation, Depletion and Amortization	17	31	1	24	—	73
Basis of Real Estate Sold	—	—	22	—	—	22
Operating Income (Loss)	21	74	68	(20)	10	153

- (A) For the six months ended June 30, 2009, and for the quarter and six months ended June 30, 2008, 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.
- (B) Consolidated depreciation, depletion and amortization include unallocated corporate depreciation of \$1 million and \$2 million for the quarter and six months ended June 30, 2009, respectively, and \$2 million and \$3 million for the quarter and six months ended June 30, 2008, respectively.
- (C) 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 \$150 million from the first phase were received during the fourth quarter of 2008. 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 2010. For the six months ended June 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.

**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 six-month periods ended June 30** (in millions):

	<u>Quarter Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Total Segment Operating Income	\$ 64	\$ 73
Corporate and Other Unallocated Expenses	(11)	(16)
Other Operating Income (Expense), net	—	—
Operating Income	53	57
Equity Earnings from Timberland Venture	14	—
Interest Expense, net	(23)	(34)
Income before Income Taxes	<u>\$ 44</u>	<u>\$ 23</u>

	<u>Six Months Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Total Segment Operating Income	\$ 239	\$ 153
Corporate and Other Unallocated Expenses	(27)	(30)
Other Operating Income (Expense), net	—	3
Operating Income	212	126
Equity Earnings from Timberland Venture	29	—
Total Interest Expense, net	(47)	(70)
Gain on Extinguishment of Debt	1	—
Income before Income Taxes	<u>\$ 195</u>	<u>\$ 56</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, 2008. 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 the company and its management will not be realized. Forward-looking statements speak only as of the date made, and neither the company 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 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2009.

### **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”), and Plum Creek Ventures I, LLC, a Delaware Limited Liability Company (“PC Ventures”). Plum Creek conducts substantially all of its activities through the Operating Partnership and various wholly-owned subsidiaries of the Operating Partnership.

The Operating Partnership has borrowed and has currently outstanding \$2.019 billion principal amount of debt, including \$458 million of publicly issued notes. PC Ventures has borrowed and has currently outstanding \$783 million in principal amount of debt from an entity (the Timberland Venture) in which a subsidiary of the Operating Partnership has an equity interest. PC Ventures has a preferred partnership interest in the Operating Partnership. Interest payments for this borrowing are funded by distributions to PC Ventures directly from the Operating Partnership. PC Ventures has no other activities.

As a result of this structure, Interest Expense (Note Payable to Timberland Venture) discussed below is not applicable to the Operating Partnership. Unless otherwise specified, all other discussion and analysis below are applicable to Plum Creek and the Operating Partnership.

## Recent Events

**Manufactured Products Restructure.** As a result of the continuing decline in demand for wood products, during the first six months of 2009, we announced the permanent closure of two lumber mills and indefinitely suspended production at a third. We have also reduced production at our MDF and plywood facilities. The table below provides information on the status of our current manufacturing operations, by facility, and their practical annual production capacities and expected production for 2009.

<u>Product and Facility</u>	<u>2009 Production Capacity (in millions)</u>	<u>2009 Estimated Production (in millions)</u>
<b>Operating</b>		
Lumber – board feet		
Columbia Falls, MT	72	53
Meridian, ID (Remanufacturing)	70	64
Plywood – square feet (3/8")		
Columbia Falls, MT	120	72
Evergreen, MT	160	73
MDF – square feet (3/4")		
Columbia Falls, MT (Thick Line MDF)	145	61
Columbia Falls, MT (Thin Line MDF)	122	71
<b>Indefinitely Curtailed</b>		
Lumber – board feet		
Evergreen, MT	92	12
Evergreen, MT (Remanufacturing)	65	8
<b>Permanently Closed</b>		
Lumber – board feet		
Pablo, MT	N/A	23
Fortine, MT	N/A	12

A period-to-period comparison for our Manufactured Products Segment is included in the following.

## Results of Operations

### Second Quarter 2009 Compared to Second Quarter 2008

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

	Quarter Ended June 30,		Change
	2009	2008	
Operating Income (Loss) by Segment			
Northern Resources	\$ (7)	\$ 7	\$ (14)
Southern Resources	23	37	(14)
Real Estate	44	35	9
Manufactured Products	—	(11)	11
Other	4	5	(1)
<b>Total Segment Operating Income</b>	<b>64</b>	<b>73</b>	<b>(9)</b>
Other Costs and Eliminations	(11)	(16)	5
Other Operating Income (Expense), net	—	—	—
<b>Operating Income</b>	<b>\$ 53</b>	<b>\$ 57</b>	<b>\$ (4)</b>

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

	Quarter Ended June 30, 2009		Quarter Ended June 30, 2008	
	Harvest Tons (millions)	Average Sales Realization	Harvest Tons (millions)	Average Sales Realization
Sawlog (\$/Ton Delivered)	0.371	\$ 50	0.739	\$ 68
Pulpwood (\$/Ton Delivered)	0.397	\$ 38	0.504	\$ 43
<b>Total</b>	<b>0.768</b>		<b>1.243</b>	

Revenues decreased by \$39 million, or 53%, to \$35 million in the second quarter of 2009 compared to the second quarter of 2008. This decrease was due primarily to lower sawlog harvest volumes (\$25 million), lower sawlog prices (\$7 million), lower pulpwood harvest volumes (\$5 million) and lower pulpwood prices (\$2 million). Total harvest volumes for the second quarter of 2009 decreased by 38% compared to the second quarter of 2008. Sawlog harvest volumes were 50% lower compared to the second quarter of 2008 due primarily to harvest deferrals as a result of weak demand and recent timberland sales. We intend to realize the harvest of these deferred timber volumes once log prices improve. Pulpwood harvest volumes were 21% lower due primarily to temporarily increasing harvest levels in 2008 to capture favorable pulpwood prices, harvest deferrals in 2009 as a result of weak markets and recent timberland sales. Sawlog harvest levels for all of 2009 are expected to decrease by approximately 34% compared to the 3.4 million tons harvested during 2008 due primarily to harvest deferrals as a result of weak demand and recent timberland sales. Pulpwood harvest levels for all of 2009 are expected to decrease by approximately 21% compared to the 2.6 million tons harvested during 2008 due primarily to harvest levels in 2008 that were temporarily increased to capture favorable pulpwood prices, harvest deferrals in 2009 as a result of weak markets and recent timberland sales.

Sawlog prices were 26% lower in the second quarter of 2009 compared to the second quarter of 2008 due primarily to the decline in housing starts as a result of the recession in the U.S. Pulpwood prices declined in the second quarter of 2009 by 11% compared to the second quarter of 2008 as a result of the global recession which has reduced the demand for paper and packaging materials.



Northern Resources Segment operating loss was \$7 million for the second quarter of 2009 compared to operating income of \$7 million for the second quarter of 2008. This decrease of \$14 million was due primarily to weaker sawlog prices and lower harvest volumes. Segment costs and expenses decreased by \$25 million, or 37%, to \$42 million due primarily to lower harvest volumes and lower log and haul rates per ton. Log and haul rates per ton decreased 12% (\$3 million) from the second quarter of 2008 due primarily to lower fuel costs.

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

	Quarter Ended June 30, 2009		Quarter Ended June 30, 2008	
	Harvest Tons (millions)	Average Sales Realization	Harvest Tons (millions)	Average Sales Realization
Sawlog (\$/Ton Stumpage)	1.217	\$ 22	1.666	\$ 26
Pulpwood (\$/Ton Stumpage)	1.849	\$ 9	2.221	\$ 10
<b>Total</b>	<b>3.066</b>		<b>3.887</b>	

Revenues decreased by \$39 million, or 31%, to \$89 million in the second quarter of 2009 compared to the second quarter of 2008. This decrease was due primarily to lower sawlog harvest volumes (\$20 million), lower pulpwood harvest volumes (\$9 million), lower sawlog prices (\$6 million) and lower pulpwood prices (\$5 million). During the fourth quarter of 2008, we contributed 454,000 acres of timberlands in our Southern Resources Segment to Southern Diversified Timber, LLC (“the Timberland Venture”). Excluding the 0.308 million tons of sawlogs harvested in the second quarter of 2008 related to the Timberland Venture properties, sawlog harvest volumes decreased by 10% due primarily to harvest deferrals as a result of weak demand. We intend to realize the harvest of these deferred timber volumes once log prices improve. Excluding the 0.261 million tons of pulpwood harvested in the second quarter of 2008 related to the Timberland Venture properties, pulpwood harvest volumes decreased by 6% due primarily to temporarily increasing harvest levels in 2008 to capture favorable pulpwood prices. Sawlog harvest volumes for all of 2009 (excluding the 0.690 million tons of sawlogs harvested during 2008 from the Timberland Venture properties) are expected to decrease by 7% compared to the 4.9 million tons harvested in 2008 due primarily to continuing the deferral of harvests as a result of weak demand. Pulpwood harvest volumes for all of 2009 (excluding the 0.667 million tons of pulpwood harvested during 2008 from the Timberland Venture properties) are expected to decrease by 9% compared to the 7.3 million tons harvested in 2008 due primarily to the temporary increase in harvest levels in 2008 to capture favorable pulpwood prices.

Sawlog prices on a stumpage basis were 15% lower in the second quarter of 2009 compared to the second quarter of 2008 due primarily to the decline in housing starts as a result of the recession in the U.S. Sawlog prices on a delivered basis decreased by 12%. Pulpwood prices declined in the second quarter of 2009 by 3% compared to the second quarter of 2008 as a result of the global recession which has reduced the demand for paper and packaging materials.

Southern Resources Segment operating income was 26% of its revenues for the second quarter of 2009 and 29% for the second quarter of 2008. This decrease was due primarily to weaker sawlog prices and lower harvest volumes. Segment costs and expenses decreased by \$25 million, or 28%, to \$66 million. This decrease was due primarily to lower harvest levels and lower log and haul rates per ton. Log and haul rates per ton decreased 13% (\$6 million) due primarily to lower fuel costs.

**Real Estate Segment.**

Property	Quarter Ended June 30, 2009			Quarter Ended June 30, 2008		
	Acres Sold	Revenues (millions)	Revenue per Acre	Acres Sold	Revenues (millions)	Revenue per Acre
Small Non-Strategic Conservation	9,840	\$ 9	\$ 900	13,215	\$ 17	\$1,285
Higher and Better Use / Recreational Development Properties	3,895	7	1,705	595	1	1,555
	10,955	24	2,200	11,785	32	2,740
	25	—	13,650	700	7	9,630
Subtotal	24,715	40		26,295	57	
Large Non-Strategic	59,160	38	650	—	—	—
Total	83,875	\$ 78		26,295	\$ 57	

Revenues increased by \$21 million, or 37%, to \$78 million in 2009. This increase is due primarily to revenue of \$38 million from selling 59,160 large, non-strategic acres in Wisconsin and increased revenues from the sale of conservation properties (\$6 million), offset in part by decreased revenue from development properties (\$7 million), lower prices from higher and better use / recreational properties (\$6 million), decrease in the number of acres of small non-strategic properties sold (\$4 million), and lower prices from small non-strategic properties (\$4 million).

From time to time, we may dispose of larger blocks of other timberlands to maximize value. Excluding the large non-strategic acres in Wisconsin, real estate revenues during the second quarter of 2009 decreased compared to the second quarter of 2008 due primarily to a decrease in the demand for rural real estate. The demand for rural real estate fell due to the decline in consumer discretionary capital (e.g., declining home values and stock market losses), declining consumer confidence and the inability of buyers to secure lending sources. Our average sales price per acre for higher and better use / recreational lands decreased approximately 20% compared to the second quarter of 2008 due primarily to selling more lower valued recreational properties. In the latter part of 2008, we changed our focus to listing for sale more of our lower valued recreational properties as demand and price for properties with a higher value per acre significantly weakened due to the recession. Our average sales price per acre for small non-strategic properties declined approximately 30% compared to the second quarter of 2008 due primarily to selling a mix of less valuable timberlands during 2009. During 2008, we sold a greater percentage of properties from higher value regions. Our remaining small non-strategic acres do not have as great of a percentage of high value properties as our sales mix in prior periods. 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.

Real Estate Segment operating income was 56% of its second quarter revenues for 2009 compared to 61% for 2008. Real Estate Segment costs and expenses increased by \$12 million to \$34 million in the second quarter of 2009 due primarily to the large, non-strategic land sale during 2009 (\$16 million).

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

	Quarter Ended June 30, 2009		Quarter Ended June 30, 2008	
	Sales Volume	Sales Realization	Sales Volume	Sales Realization
Lumber	60,371 MBF	\$ 340	83,477 MBF	\$ 367
Plywood	40,729 MSF	\$ 353	68,616 MSF	\$ 404
Fiberboard	32,802 MSF	\$ 593	63,205 MSF	\$ 600

Revenues decreased by \$55 million, or 46%, to \$66 million in the second quarter of 2009 compared to the second quarter of 2008. This decrease was due primarily to lower MDF sales volume (\$18 million), lower plywood sales volume (\$11 million), lower lumber sales volume (\$7 million), lower lumber prices (\$3 million) and lower plywood prices (\$2 million). Additionally, freight charges (which is a component of both Revenues and Cost of Goods Sold) decreased by \$6 million compared to the prior period due to significantly lower sales volume.

MDF sales volume decreased by 48% in the second quarter of 2009 compared to the second quarter of 2008. MDF demand has weakened considerably and is expected to remain weak until the housing market recovers. The weaker demand was due primarily to the significant decline in housing starts and increased competition from foreign MDF manufacturers due to favorable exchange rates.

Plywood sales volume was 41% lower during the second quarter of 2009 due primarily to weakness in specialty markets, such as recreational vehicle, transportation and concrete forming applications. The decline in these markets is due primarily to weak economic conditions in the U.S. Plywood sales prices were 13% lower during the second quarter of 2009.

Lumber sales volume declined 28% during the second quarter of 2009 due primarily to the weak demand for lumber as a result of declining housing starts. Housing starts for all of 2008 were 905,000 homes compared to average annual starts of 1.7 million earlier in the decade. Housing starts for 2009 are now forecasted to be approximately 550,000. As a result of the weak outlook for housing starts, we have permanently closed two lumber mills during 2009 and have curtailed production at our other lumber mills.

The Manufactured Products Segment operated at essentially break-even for the second quarter of 2009 compared to an \$11 million operating loss for the second quarter of 2008. This increase in operating performance was due primarily to a \$10 million lumber assets impairment charge we recorded in the second quarter of 2008. See Note 6 of the Notes to Consolidated Financial Statements. Manufactured Products Segment costs and expenses decreased by \$66 million, or 50%, to \$66 million for the second quarter of 2009. This decrease was due primarily to lower lumber, plywood and MDF sales volume and by the lumber assets impairment charge recorded during the second quarter of 2008.

**Other Costs and Eliminations.** Other costs and eliminations (which consists of corporate overhead and intercompany profit elimination) decreased operating income by \$11 million during the second quarter of 2009 and by \$16 million during the second quarter of 2008. The decrease of \$5 million was due primarily to lower share-based compensation expense (\$3 million), reduced depreciation on information technology assets (\$1 million) and higher legal and other advisory costs incurred in the second quarter of 2008 related to the Timberland Venture (\$1 million) transaction in 2008.

The decrease in share-based compensation expense is due to a decrease in the fair value of our value management plan awards in the second quarter of 2009. We adjust the fair value of our liability associated with our value management plan quarterly based on our relative total shareholder return compared to the performance of several peer groups.

**Equity Earnings from Timberland Venture.** On October 1, 2008, we contributed 454,000 acres of timberlands to Southern Diversified Timber, LLC ("SDT") in exchange for a common and preferred interest. Both interests are accounted for under the equity method of accounting. During the second quarter of 2009, we recorded our share of equity earnings from SDT of \$14 million, which includes amortization (\$2 million increase in equity earnings) of the difference between the book value of the company's investment and its proportionate share of SDT's net assets.

**Interest Expense, net (Debt Obligations to Unrelated Parties).** Interest expense, net of interest income, for debt obligations to unrelated parties decreased \$11 million, or 32%, to \$23 million in the second quarter of 2009. This decrease was due primarily to lower borrowings outstanding compared to the second quarter of 2008 (\$6 million) and lower interest rates on our variable rate debt (\$5 million). During the fourth quarter of 2008, we paid down approximately \$420 million of debt, consisting of \$219 million of debt principal payments and a \$201 million reduction of outstanding borrowings on our line of credit. During the first six months of 2009, we paid down approximately \$163 million of debt, consisting of \$138 million of debt principal payments (\$33 million during the second quarter of 2009) and a \$25 million reduction of outstanding borrowings on our line of credit (\$5 million during the second quarter of 2009).

**Interest Expense (Note Payable to Timberland Venture).** On October 1, 2008, we borrowed \$783 million from SDT (a related party) for a ten-year term at a fixed annual interest rate of 7.375%. During the second quarter of 2009, we recorded \$15 million of interest expense related to the note.

**Benefit for Income Taxes.** The benefit for income taxes was \$3 million for the second quarter of 2009 compared to a benefit for income taxes of \$8 million for the second quarter of 2008. The decrease in the tax benefit of \$5 million is due primarily to higher losses in our manufacturing business (resulting in a tax benefit of \$5 million) in the prior period. In the second quarter of 2008, the losses were higher in our manufacturing business primarily as a result of a \$10 million lumber assets impairment charge during the quarter. See Note 6 of the Notes to Consolidated Financial Statements.

**Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008**

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

	<u>Six Months Ended June 30,</u>		<u>Change</u>
	<u>2009</u>	<u>2008</u>	
Operating Income (Loss) by Segment			
Northern Resources	\$ (5)	\$ 21	\$ (26)
Southern Resources	43	74	(31)
Real Estate	214	68	146
Manufactured Products	(22)	(20)	(2)
Other	<u>9</u>	<u>10</u>	<u>(1)</u>
Total Segment Operating Income	239	153	86
Other Costs and Eliminations	(27)	(30)	3
Other Operating Income (Expense), net	<u>—</u>	<u>3</u>	<u>(3)</u>
Operating Income	<u>\$ 212</u>	<u>\$ 126</u>	<u>\$ 86</u>

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

	Six Months Ended June 30, 2009		Six Months Ended June 30, 2008	
	Harvest Tons (millions)	Average Sales Realization	Harvest Tons (millions)	Average Sales Realization
Sawlog (\$/Ton Delivered)	<b>0.896</b>	<b>\$ 54</b>	1.717	\$ 67
Pulpwood (\$/Ton Delivered)	<b>1.010</b>	<b>\$ 41</b>	1.242	\$ 41
<b>Total</b>	<b>1.906</b>		<b>2.959</b>	

Revenues decreased by \$76 million, or 45%, to \$92 million in the first six months of 2009 compared to the first six months of 2008. This decrease was due primarily to lower sawlog harvest volumes (\$54 million), lower sawlog prices (\$13 million) and lower pulpwood harvest volumes (\$10 million). Total harvest volumes for the first six months of 2009 decreased by 36% compared to the same period of 2008. Sawlog harvest volumes were 48% lower compared to 2008 due primarily to harvest deferrals as a result of weak demand and recent timberland sales. We intend to realize the harvest of these deferred timber volumes once log prices improve. Pulpwood harvest volumes were 19% lower due primarily to temporarily increasing harvest levels in 2008 to capture favorable pulpwood prices, harvest deferrals in 2009 as a result of weak markets and recent timberland sales. Sawlog harvest levels for all of 2009 are expected to decrease by approximately 34% compared to the 3.4 million tons harvested during 2008 due primarily to harvest deferrals as a result of weak demand and recent timberland sales. Pulpwood harvest levels for all of 2009 are expected to decrease by approximately 21% compared to the 2.6 million tons harvested during 2008 due primarily to harvest levels in 2008 that were temporarily increased to capture favorable pulpwood prices, harvest deferrals in 2009 as a result of weak markets and recent timberland sales.

Sawlog prices were 20% lower in the first six months of 2009 compared to the same period of 2008 due primarily to the decline in housing starts as a result of the recession in the U.S. Pulpwood prices in the first six months of 2009 were essentially flat compared to the same period of 2008. During the first quarter of 2009, pulpwood prices were higher compared to the first quarter of 2008 due primarily to pulpwood sales contracts negotiated during the fourth quarter of 2008 when pulpwood demand was stronger. Pulpwood market prices declined in the second quarter of 2009 by 11% compared to the second quarter of 2008 as a result of the global recession which has reduced the demand for paper and packaging materials.

Northern Resources Segment operating loss was \$5 million for the first six months of 2009 compared to operating income of \$21 million for the first six months of 2008. This decrease of \$26 million was due primarily to weaker sawlog prices and lower harvest volumes. Segment costs and expenses decreased by \$50 million, or 34%, to \$97 million due primarily to lower harvest volumes and lower log and haul rates per ton. Log and haul rates per ton decreased 7% (\$5 million) due primarily to lower fuel costs.

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

	Six Months Ended June 30, 2009		Six Months Ended June 30, 2008	
	Harvest Tons (millions)	Average Sales Realization	Harvest Tons (millions)	Average Sales Realization
Sawlog (\$/Ton Stumpage)	<b>2.159</b>	<b>\$ 23</b>	3.125	\$ 27
Pulpwood (\$/Ton Stumpage)	<b>3.336</b>	<b>\$ 10</b>	4.197	\$ 10
<b>Total</b>	<b>5.495</b>		<b>7.322</b>	

Revenues decreased by \$78 million, or 31%, to \$172 million in the first six months of 2009 compared to the first six months of 2008. This decrease was due primarily to lower sawlog harvest volumes (\$42 million), lower pulpwood harvest volumes (\$21 million), lower sawlog prices (\$9 million) and lower pulpwood prices (\$5 million). During the fourth quarter of 2008, we contributed 454,000 acres of

timberlands in our Southern Resources Segment to Southern Diversified Timber, LLC (“the Timberland Venture”). Excluding the 0.441 million tons of sawlogs harvested in the first six months of 2008 related to the Timberland Venture properties, sawlog harvest volumes decreased by 20% due primarily to harvest deferrals as a result of weak demand. We intend to realize the harvest of these deferred timber volumes once log prices improve. Excluding the 0.411 million tons of pulpwood harvested in the first six months of 2008 related to the Timberland Venture properties, pulpwood harvest volumes decreased by 12% due primarily to temporarily increasing harvest levels in 2008 to capture favorable pulpwood prices. Sawlog harvest volumes for all of 2009 (excluding the 0.690 million tons of sawlogs harvested during 2008 from the Timberland Venture properties) are expected to decrease by 7% compared to the 4.9 million tons harvested in 2008 due primarily to continuing the deferral of harvests as a result of weak demand. Pulpwood harvest volumes for all of 2009 (excluding the 0.667 million tons of pulpwood harvested during 2008 from the Timberland Venture properties) are expected to decrease by 9% compared to the 7.3 million tons harvested in 2008 due primarily to the temporary increase in harvest levels in 2008 to capture favorable pulpwood prices.

Sawlog prices on a stumpage basis were 15% lower in the first six months of 2009 compared to the first six months of 2008 due primarily to the decline in housing starts as a result of the recession in the U.S. Sawlog prices on a delivered basis decreased by 12%. Pulpwood prices declined during the first six months of 2009 compared to the same period in the prior year as a result of the global recession which has reduced the demand for paper and packaging materials.

Southern Resources Segment operating income was 25% of its revenues for the first six months of 2009 and 30% for the first six months of 2008. This decrease was due primarily to weaker sawlog prices and lower harvest volumes. Segment costs and expenses decreased by \$47 million, or 27%, to \$129 million. This decrease was due primarily to lower harvest levels, lower log and haul rates per ton and lower forest management and administrative expenses. Log and haul rates per ton decreased 10% (\$8 million) due primarily to lower fuel costs. Various forest management and administrative expenses have decreased by 15% (\$5 million) due primarily to timberland dispositions and cost reduction initiatives.

#### *Real Estate Segment.*

<u>Property</u>	<u>Six Months Ended June 30, 2009</u>			<u>Six Months Ended June 30, 2008</u>		
	<u>Acres Sold</u>	<u>Revenues (millions)</u>	<u>Revenue per Acre</u>	<u>Acres Sold</u>	<u>Revenues (millions)</u>	<u>Revenue per Acre</u>
Small Non-Strategic Conservation	11,505	\$ 11	\$ 960	30,360	\$ 37	\$1,225
Higher and Better Use / Recreational Development Properties	117,250	259	2,205	1,610	1	820
	13,135	32	2,400	22,420	63	2,805
	1,510	6	4,225	765	7	9,300
Subtotal	143,400	308		55,155	109	
Large Non-Strategic	59,160	38	650	—	—	—
Total	202,560	\$ 346		55,155	\$ 109	

Revenues increased by \$237 million to \$346 million in the first half of 2009. This increase is due primarily to higher revenues from sales of conservation properties (\$258 million) and revenue of \$38 million from selling 59,160 large, non-strategic acres in Wisconsin, offset in part by a decrease in the number of acres of higher and better use / recreational and small non-strategic land sales (\$49 million). Revenues from the sale of conservation properties increased by \$258 million 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 late in 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. From time to time, we may dispose of larger blocks of other timberlands to maximize value such as the 59,160 acres in Wisconsin we sold during the second quarter.

The number of acres of higher and better use / recreational and small non-strategic properties sold during the first six months of 2009 decreased compared to the same period in 2008 due primarily to a decrease in the demand for rural real estate. The demand for rural real estate fell due to the decline in consumer discretionary capital (e.g., declining home values and stock market losses), declining consumer confidence and the inability of buyers to secure lending sources. 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.

We expect revenues during 2009 from real estate sales, including the large non-strategic sale in Wisconsin, to range between \$460 million and \$480 million. We expect sales in 2009 will consist of up to 350,000 acres. We expect sales activity for the remainder of the year for small non-strategic and higher and better use / recreational properties to improve due to the seasonal nature of real estate sales, additional listings in markets with good demand, listings in new areas, and sales through new channels, such as sealed bids and specialty brokers. In addition to the aforementioned expected revenues and acres, from time to time, we may dispose of larger blocks of other timberlands to maximize value.

Real Estate Segment operating income was 62% of its revenues for the first six months of 2009 and 2008. Real Estate Segment costs and expenses increased by \$91 million to \$132 million for the first six months of 2009 due primarily to the selling of more acres during 2009.

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

	<u>Six Months Ended June 30, 2009</u>		<u>Six Months Ended June 30, 2008</u>	
	<u>Sales Volume</u>	<u>Sales Realization</u>	<u>Sales Volume</u>	<u>Sales Realization</u>
Lumber	95,494 MBF	\$ 353	153,073 MBF	\$ 367
Plywood	76,168 MSF	\$ 357	137,362 MSF	\$ 401
Fiberboard	66,846 MSF	\$ 597	121,989 MSF	\$ 596

Revenues decreased by \$102 million, or 45%, to \$124 million in the first six months of 2009 compared to the first six months of 2008. This decrease was due primarily to lower MDF sales volume (\$33 million), lower plywood sales volume (\$25 million), lower lumber sales volume (\$17 million), lower lumber prices (\$5 million) and lower plywood prices (\$3 million). Additionally, freight charges (which is a component of both Revenues and Cost of Goods Sold) decreased by \$12 million compared to the prior period due to significantly lower sales volume.

MDF sales volume decreased by 45% in the first six months of 2009 compared to the first six months of 2008. MDF demand has weakened considerably and is expected to remain weak until the housing market recovers. The weaker demand was due primarily to the significant decline in housing starts and increased competition from foreign MDF manufacturers due to favorable exchange rates.

Plywood sales volume was 45% lower during the first six months of 2009 due primarily to weakness in specialty markets, such as recreational vehicle, transportation and concrete forming applications. The decline in these markets is due primarily to weak economic conditions in the U.S. Plywood sales prices were 11% lower during the first six months of 2009.

Lumber sales volume declined 38% during the first six months of 2009 due primarily to the weak demand for lumber as a result of declining housing starts. Housing starts for all of 2008 were 905,000 homes compared to average annual starts of 1.7 million earlier in the decade. Housing starts for 2009 are now forecasted to be approximately 550,000. As a result of the weak outlook for housing starts, we have permanently closed two lumber mills during 2009 and have curtailed production at our other lumber mills. Lumber sales prices were 4% lower during the first six months of 2009.

Manufactured Products Segment operating loss was \$22 million for the six months of 2009 compared to a \$20 million operating loss for the first six months of 2008. During the first six months of 2009, we recorded a \$12 million charge resulting from a \$10 million lumber assets impairment and a \$2 million write-down of related spare parts. In the same period of 2008, we recorded a \$10 million lumber assets impairment. See Note 6 of the Notes to Consolidated Financial Statements. Manufactured Products Segment costs and expenses decreased by \$100 million, or 41%, to \$146 million for the first six months of 2009. This decrease was due primarily to lower lumber, plywood and MDF sales volume and lower costs for MDF raw materials. MDF raw material costs decreased by \$4 million due primarily to lower resin prices.

**Other Costs and Eliminations.** Other costs and eliminations (which consists of corporate overhead and intercompany profit elimination) decreased operating income by \$27 million during the first six months of 2009 and by \$30 million during the first six months of 2008. The decrease of \$3 million was due primarily to lower share-based compensation expense (\$2 million) and higher legal and other advisory costs incurred in the same period of 2008 related to the Timberland Venture (\$1 million) transaction in 2008.

The decrease in share-based compensation expense is due to a decrease in the fair value of our value management plan awards in the second quarter of 2009. We adjust the fair value of our liability associated with our value management plan quarterly based on our relative total shareholder return compared to the performance of several peer groups.

**Equity Earnings from Timberland Venture.** On October 1, 2008, we contributed 454,000 acres of timberlands to Southern Diversified Timber, LLC (“SDT”) in exchange for a common and preferred interest. Both interests are accounted for under the equity method of accounting. During the first six months of 2009, we recorded our share of equity earnings from SDT of \$29 million, which includes amortization (\$4 million increase in equity earnings) of the difference between the book value of the company’s investment and its proportionate share of SDT’s net assets. We received cash distributions of \$25 million from SDT during the first six months of 2009.

**Interest Expense, net (Debt Obligations to Unrelated Parties).** Interest expense, net of interest income, for debt obligations to unrelated parties decreased \$23 million, or 33%, to \$47 million in the first six months of 2009. This decrease was due primarily to lower interest rates on our variable rate debt (\$13 million) and lower borrowings outstanding for the first six months of 2009 compared to the same period of 2008 (\$10 million). During the fourth quarter of 2008, we paid down approximately \$420 million of debt, consisting of \$219 million of debt principal payments and a \$201 million reduction of outstanding borrowings on our line of credit. During the first six months of 2009, we paid down approximately \$163 million of debt, consisting of \$138 million of debt principal payments and a \$25 million reduction of outstanding borrowings on our line of credit.

**Interest Expense (Note Payable to Timberland Venture).** On October 1, 2008, we borrowed \$783 million from SDT (a related party) for a ten-year term at a fixed annual interest rate of 7.375%. During the first six months of 2009, we recorded \$29 million of interest expense related to the note.

**Benefit for Income Taxes.** The benefit for income taxes was \$23 million for the first six months of 2009 compared to a benefit for income taxes of \$13 million for the first six months of 2008. The increase in the tax benefit of \$10 million is due primarily to the reversal of \$5 million of previously accrued built-in gains tax and a reduction to our deferred tax liability of \$3 million. See Note 7 of the Notes to Consolidated Financial Statements.



At June 30, 2009, we have recorded deferred tax assets of \$68 million and deferred tax liabilities of \$41 million. We have not recorded a valuation allowance in connection with our deferred tax asset of \$68 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.

### Financial Condition and Liquidity

During the six months ended June 30, 2009, our operating cash flows increased \$300 million compared to the six months ended June 30, 2008. This increase was due primarily to completion of the second phase of our sale of 310,000 acres in Montana for which we received proceeds of \$250 million (for 112,000 acres) in February 2009 and favorable working capital changes related to like-kind exchange transactions of \$109 million.

We believe we have a strong balance sheet and do not foresee any short-term liquidity issues. At June 30, 2009, we had a cash balance of \$347 million and had availability of \$530 million under our line of credit. Additionally, we expect Net Cash Provided by Operating Activities for 2009 to exceed the \$420 million we reported for 2008. We believe based on our strong balance sheet and liquidity, and the cash we expect to generate from operating activity, that we will meet all of our long-term interest and principal payments, required capital expenditures and quarterly dividend distributions in 2009.

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

	<u>Six Months Ended June 30,</u>		
	<u>2009</u>	<u>2008</u>	<u>Change</u>
Net Cash Provided By Operating Activities	\$ 394	\$ 94	\$ 300
Net Cash Used In Investing Activities	(28)	(30)	2
Net Cash Used In Financing Activities	(388)	(179)	(209)
Change in Cash and Cash Equivalents	<u>\$ (22)</u>	<u>\$ (115)</u>	<u>\$ 93</u>

**Cash Flows from Operating Activities.** Net cash provided by operating activities for the six months ended June 30, 2009 totaled \$394 million, compared to \$94 million for the same period in 2008. This increase of \$300 million is due primarily to higher proceeds from real estate sales of \$232 million, favorable working capital changes related to like-kind exchange transactions of \$109 million and the receipt of \$18 million for income tax refunds. The increase in cash flows from operating activities was offset in part by lower operating income of \$57 million from our Resources Segments. The higher proceeds from real estate sales was due primarily to the \$250 million of proceeds received in February 2009 in connection with the second phase of a three phase transaction of 310,000 acres in Montana. The lower operating income from our Resources Segments was due primarily to weaker sawlog prices and lower harvest levels.

The favorable working capital change of \$109 million is due primarily to the timing of when proceeds from a like-kind exchange trust 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. During the six months ended June 30, 2009, we received proceeds of \$48 million from our like-kind exchange trust compared to \$61 million of proceeds placed in a like-kind exchange trust at June 30, 2008.

**Capital Expenditures.** Capital expenditures were as follows for the **six months ended June 30** (in millions):

	<u>Six Months Ended June 30,</u>	
	<u>2009</u>	<u>2008</u>
Capital Expenditures (Excluding Timberland Acquisitions)	\$ 28	\$ 29
Expenditures for Real Estate Development	1	5
<b>Total Capital Expenditures</b>	<b>\$ 29</b>	<b>\$ 34</b>

Planned capital expenditures for 2009, excluding the acquisition of timberlands, are expected to range between \$60 million and \$65 million and include approximately \$48 million for our timberlands, \$4 million for our manufacturing facilities, and \$7 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 40% of planned capital expenditures in 2009 are discretionary. Capital expenditures at our manufacturing facilities consist primarily of expenditures to sustain operating activities and improve safety.

**Debt Financing.** Our financial policy is to maintain a balance sheet that provides the financial flexibility to pursue our strategic objectives. In order to maintain this financial flexibility, our objective is to maintain an investment grade credit rating. This is reflected in our moderate use of debt, good access to credit markets and no material covenant restrictions in our debt agreements that would prevent us from prudently using debt capital.

**Line of Credit.** The Operating Partnership has a \$750 million revolving line of credit agreement that matures in June 2011. As of June 30, 2009, the weighted-average interest rate for the borrowings on the line of credit was 0.72%. 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 June 30, 2009, we had \$206 million of borrowings and \$14 million of standby letters of credit outstanding; \$530 million remained available for borrowing under our line of credit. As of July 1, 2009, all of the borrowings outstanding under our line of credit were repaid.

**Term Credit Agreements.** The Operating Partnership has a \$250 million and a \$350 million term credit agreement, each maturing in June 2012. As of June 30, 2009, the interest rate for the \$250 million term credit agreement was 1.31%. 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 June 30, 2009, the interest rate for the \$350 million term credit agreement was 0.76%. 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. Both term credit agreements are subject to covenants that are substantially the same as those of our revolving line of credit, and allow prepayment of the borrowings at any time prior to the maturity date without premium or penalty.

**Senior Notes.** The Operating Partnership has outstanding Senior Notes with various maturities and fixed interest rates. Most of our Senior Notes are privately placed debt with various lenders (“Private Debt”). The Private Debt matures serially through 2016.

As of June 30, 2009, the Operating Partnership has publicly issued and outstanding \$458 million aggregate principal amount of its 5.875% Senior Notes (“Public Debt”). The notes mature in 2015 and are fully and unconditionally guaranteed by Plum Creek Timber Company, Inc.

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

	<u>June 30, 2009</u>	<u>December 31, 2008</u>
<b>Senior Notes</b>		
Public Debt	\$ 453	\$ 458
Private Debt	760	893
Total Senior Notes	<u>\$ 1,213</u>	<u>\$ 1,351</u>

Plum Creek Timber Company, Inc. and the Operating 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 Operating Partnership may from time to time offer and sell debt securities.

**Debt Principal Payments.** During the six months ended June 30, 2009, we made debt payments totaling \$163 million, consisting of \$138 million of debt principal payments and a \$25 million reduction of outstanding borrowings on our line of credit (from \$231 million at December 31, 2008 to \$206 million at June 30, 2009). In addition to scheduled debt payments on our Private Debt of \$49 million, we prepaid, without prepayment premiums, approximately \$84 million of principal on our outstanding private Senior Notes that were scheduled to mature in the third quarter of 2009 and the fourth quarter of 2011. During the first quarter of 2009, we paid approximately \$4 million to retire \$5 million of principal for our Public Debt resulting in a \$1 million gain reported as a Gain on Extinguishment of Debt in our Consolidated Statements of Income for the six months ended June 30, 2009.

**Debt Covenants.** The Term Credit Agreements, Senior Notes and Line of Credit contain various restrictive covenants, including limitations on harvest levels, sales of assets, the incurrence of indebtedness and making restricted payments (such as payments of cash dividends or stock repurchases). The borrowing agreements limit our ability to make restricted payments based on a computation of "available cash," which is generally our net income (excluding gains on the sale of capital assets) after adjusting for non-cash charges (such as depreciation and depletion), changes in various reserves, less capital expenditures and principal payments on indebtedness that are not financed. Additionally, the amount of available cash may be increased by the amount of proceeds from the sale of higher and better use properties and, under certain circumstances, by 50% of the amount of net proceeds from the sale of other assets. Furthermore, our line of credit and term credit agreements require that we maintain certain interest coverage and maximum leverage ratios. We are in compliance with all of our borrowing agreement covenants as of June 30, 2009.

The following table details our sources and uses of cash for the **six months ended June 30** (in millions):

	<u>Six Months Ended June 30,</u>		<u>Change</u>
	<u>2009</u>	<u>2008</u>	
<b>Sources of Cash:</b>			
Operations <sup>(A)</sup>	\$ 338	\$ 177	\$ 161
Changes in Working Capital	57	(78)	135
Cash from Stock Option Exercises	—	1	(1)
Increase in Debt Obligations, net	—	16	(16)
Other Cash Changes, net <sup>(B)</sup>	—	(1)	1
<b>Total Sources of Cash</b>	<b>395</b>	<b>115</b>	<b>280</b>
<b>Uses of Cash:</b>			
Returned to Stockholders:			
Dividends	(138)	(144)	6
Common Stock Repurchases	(87)	(51)	(36)
Reinvest in the Business:			
Capital Expenditures	(29)	(34)	5
Acquire Timberlands	—	(1)	1
Reduce Debt Obligations, net	(163)	—	(163)
<b>Total Uses of Cash</b>	<b>(417)</b>	<b>(230)</b>	<b>(187)</b>
<b>Change in Cash and Cash Equivalents</b>	<b>\$ (22)</b>	<b>\$ (115)</b>	<b>\$ 93</b>

(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.

(B) From the Consolidated Statement of Cash Flows, Other Investing and Financing Activities.

**Equity.** On August 4, 2009, the Board of Directors of Plum Creek Timber Company, Inc. declared a dividend of \$0.42 per share, or approximately \$68 million, which will be paid on August 31, 2009 to stockholders of record on August 14, 2009. Future dividends will be determined by our Board of Directors, in its sole discretion, based on consideration of a number of factors including, but not limited to, our results of operations, cash flow and capital requirements, economic conditions, tax considerations, debt covenant restrictions that may impose limitations on the company's ability to make cash payments, borrowing capacity, changes in the prices of and demand for Plum Creek's products, and changes in our ability to sell timberlands at attractive prices. Other factors that our Board of Directors considers include the appropriate timing of timber harvests, acquisition and divestiture opportunities, stock repurchases, debt repayment and other means by which the company could deliver value to its stockholders.

Plum Creek's Board of Directors has authorized a common stock repurchase program that may be increased from time to time at the Board of Directors' discretion. For the six months ended June 30, 2009, we repurchased approximately 3.3 million shares of common stock at a total cost of \$87 million, or an average cost per share of \$26.57. At June 30, 2009, \$50 million is available for share repurchases under the current authorization.

***Future Cash Requirements.*** Cash required to meet our 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. During the next twelve months, the company has approximately \$111 million of scheduled long-term debt principal payment requirements. We intend to use a combination of cash and the available borrowing capacity under our \$750 million line of credit to fund the \$111 million of debt obligations.

**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 2008 Annual Report on Form 10-K.

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

Approximately \$2.0 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>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value (A)</u>
<b>June 30, 2009</b>								
Fixed Rate Debt								
<i>Third Party Obligations</i>								
Principal Due <sup>(B)</sup>	\$ 58	\$ 56	\$ 383	\$ 4	\$ 250	\$ 469	\$1,220	\$ 1,186
Average Interest Rate <sup>(C)</sup>	6.7%	6.7%	6.6%	6.2%	6.1%	5.9%		
<i>Related Party Obligations</i>								
Principal Due						\$ 783	\$ 783	\$ 719
Interest Rate						7.4%		
Variable Rate Debt <sup>(D)</sup>	—	—	\$ 206	\$ 600	—	—	\$ 806	\$ 771
	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Value</u>
<b>June 30, 2008</b>								
Fixed Rate Debt								
<i>Third Party Obligations</i>								
Principal Due <sup>(B)</sup>	\$ 100	\$ 200	\$ 59	\$ 424	\$ 4	\$ 791	\$1,578	\$ 1,575
Average Interest Rate <sup>(C)</sup>	6.9%	6.8%	6.7%	6.6%	6.2%	6.0%		
Variable Rate Debt	—	—	—	\$ 369	\$ 600	—	\$ 969	\$ 969

- (A) The fair value of the company's publicly-traded debt (i.e., Senior Notes due 2015) is estimated using market quotes; the fair value of the company's other 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 publicly-traded 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 June 30, 2008 (excluding related party debt) was due primarily to the repayment of \$219 million of senior notes in the last six months of 2008 and \$138 million of senior notes in the first six months of 2009. In June 2009, interest rates were similar to June 2008, with the decline in treasury rates being offset by an increase in credit spreads. The fair value of our floating rate term loans (variable rate debt) as of June 30, 2009 was determined by adjusting the spread over LIBOR to a current market spread for comparable debt as of June 30, 2009. The fair value of our floating rate term loans as of June 30, 2008 approximated the principal balance.
- (B) Excludes unamortized discount of \$7 million and \$8 million at June 30, 2009 and 2008, 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 June 30, 2009, the weighted-average interest rate on the \$206 million borrowings under our \$750 million revolving line of credit was 0.72%. 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 July 1, 2009, all of the borrowings outstanding under our line of credit were repaid. As of June 30, 2009, the interest rate for the \$350 million term credit agreement was 0.76%. 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 June 30, 2009, the interest rate for the \$250 million term credit agreement was 1.31%. 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 12 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, 2008, as filed with the Securities and Exchange Commission on February 27, 2009.

## 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 second quarter of 2009:

<i>Period</i>	<i>Total Number of Shares Purchased (A)</i>	<i>Average Price Paid per Share</i>	<i>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (B)</i>	<i>Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (B)</i>
April 1, 2009 through April 30, 2009	933 shares of common stock	\$ 32.07	— shares of common stock	\$ 50 million
May 1, 2009 through May 31, 2009	17 shares of common stock	\$ 34.00	— shares of common stock	\$ 50 million
June 1, 2009 through June 30, 2009	— shares of common stock	\$ —	— shares of common stock	\$ 50 million
Total	950 shares of common stock	\$ 32.10	— 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) No shares were purchased during the period April 1, 2009 through June 30, 2009 pursuant to the \$200 million share repurchase program that was publicly announced on October 21, 2008.

## ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The company's 2009 Annual Meeting of Stockholders was held on May 6, 2009. Proxies were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, to vote on five proposals: (1) to elect eight individuals to the company's board of directors; (2) to amend the company's certificate of incorporation to eliminate the requirement of plurality voting in director elections; (3) to amend the company's certificate of incorporation to increase the share ownership limit from 5% of the outstanding shares to 9.8% of the outstanding shares per holder; (4) to ratify the appointment of Ernst & Young LLP as the company's independent registered public accounting firm for 2009; and (5) a stockholder proposal to require an annual stockholder advisory vote on executive compensation for the company's named executive officers as disclosed in the company's proxy materials.



## **Vote Results**

Following are the vote results for each proposal submitted to a vote of the stockholders at the meeting:

- (1) Eight individuals nominated by the board for re-election to one-year terms expiring at the 2010 Annual Meeting of Stockholders were re-elected to the company's Board of Directors, with no solicitations in opposition, as follows:

<u>Nominee</u>	<u>Votes Cast</u>		
	<u>For</u>	<u>Against</u>	<u>Abstain</u>
Rick R. Holley	140,072,658	1,347,616	786,702
Robin Josephs	139,727,439	1,685,962	793,576
John G. McDonald	139,201,742	2,212,645	792,589
Robert B. McLeod	139,693,527	1,693,367	820,083
John F. Morgan, Sr.	140,101,694	1,295,402	809,880
John H. Scully	139,841,541	1,563,214	802,221
Stephen C. Tobias	136,745,907	4,651,122	809,949
Martin A. White	139,688,008	1,717,681	801,288

There were no broker non-votes.

- (2) The amendment to the company's certificate of incorporation to eliminate plurality voting was approved, with 132,543,946 votes "For" the proposal, 8,149,780 votes "Against" the proposal, 1,513,250 abstentions and no broker non-votes.
- (3) The amendment to the company's certificate of incorporation to increase the share ownership limit to 9.8% of the outstanding shares was approved, with 135,361,024 votes "For" the proposal, 5,403,846 votes "Against" the proposal, 1,442,105 abstentions and no broker non-votes.
- (4) The appointment of Ernst & Young LLP as the company's independent registered public accounting firm was ratified by the stockholders, with 140,584,812 votes "For" the proposal, 1,081,050 votes "Against" the proposal, 541,214 abstentions and no broker non-votes.
- (5) A stockholder proposal to require an annual stockholder advisory vote on executive compensation for the company's named executive officers as disclosed in the company's proxy materials was included in the company's proxy materials in accordance with Rule 14a-8 of the Securities Exchange Act of 1934, as amended. The proposal was not approved under the company's amended and restated by-laws, with 55,853,854 votes "For" the proposal, 42,344,749 votes "Against" the proposal, 1,964,738 abstentions and 42,043,735 broker non-votes.

Items 3 and 5 of Part II are not applicable and have been omitted.

## 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., LRFPT 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	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	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).
2.4	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.

- 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, 2007).
- 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).
- 10.4 Form of Amendment to Outstanding Stock Option Award Agreements.
- 12.1 Computation of ratio of earnings to fixed charges and computation of ratio of earnings to combined fixed charges and preferred stock dividends.
- 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: August 5, 2009

RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
PLUM CREEK TIMBER COMPANY, INC.

The undersigned, James A. Kraft, certifies that he is the Senior Vice President, General Counsel and Secretary of Plum Creek Timber Company, Inc., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), and does hereby further certify as follows:

- (1) The name of the Corporation is Plum Creek Timber Company, Inc.
- (2) The original Certificate of Incorporation of the Corporation was filed with the Secretary of State of the State of Delaware on June 5, 1998.
- (3) The Restated Certificate of Incorporation of the Corporation (the "Restated Certificate of Incorporation") was duly adopted by in accordance with the provisions of Section 245 of the General Corporation Law of the State of Delaware.
- (4) The Restated Certificate of Incorporation only restates and integrates and does not further amend the provisions of the Certificate of Incorporation of the Corporation (the "Existing Certificate of Incorporation"), and there is no discrepancy between the provisions of the Existing Certificate of Incorporation and the provisions of the Restated Certificate of Incorporation.
- (5) The text of the Restated Certificate of Incorporation hereby is restated to read in its entirety as set forth in Exhibit A hereto.

IN WITNESS WHEREOF, Plum Creek Timber Company, Inc., has caused this Certificate to be duly executed in its corporate name this 5<sup>th</sup> day of April, 2002.

PLUM CREEK TIMBER COMPANY, INC.

By: \_\_\_\_\_ /s/ James A. Kraft  
Name: James A. Kraft  
Title: Senior Vice President, General Counsel  
and Secretary

RESTATED  
CERTIFICATE OF INCORPORATION  
OF  
PLUM CREEK TIMBER COMPANY, INC.

- I. FIRST: The name of the corporation is: Plum Creek Timber Company, Inc. (hereinafter, the “Corporation”).
- II. SECOND: The address of the registered office of the Corporation in the State of Delaware is The Corporation Trust Company, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.
- III. THIRD: The nature of the business or purposes to be conducted or promoted is to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of the State of Delaware (the “GCL”).
- IV. FOURTH:
  - A. The total number of shares of all classes of capital stock that the Corporation shall have authority to issue is 525,634,567 shares of which (i) 300,634,566 shares shall be shares of Common Stock, par value \$.01 per share (the “Common Stock”), (ii) 150,000,001 shares shall be shares of Excess Stock, par value \$.01 per share (the “Excess Stock”), and (iii) 75,000,000 shares shall be shares of Preferred Stock, par value \$.01 per share (the “Preferred Stock”).
  - B. The number of authorized shares of any class or classes of capital stock may be increased or decreased (but not below the number of shares thereof then outstanding) by the affirmative vote of the holders of a majority of the total voting power of the shares of capital stock entitled to vote thereon, voting together as a single class, and without the vote of the holders of such class or each such class.
  - C. The following is a statement of the powers, preferences, and relative participating, optional or other special rights and qualifications, limitations and restrictions of the Common Stock of the Corporation:

1. Subject to the rights of the holders of Preferred Stock, and subject to any other provisions of this Certificate of Incorporation, holders of Common Stock shall be entitled to receive such dividends and other distributions in cash, stock or property of the Corporation as may be declared thereon by the Board of Directors of the Corporation from time to time out of assets or funds of the Corporation legally available therefor.



2. (a) At every meeting of the stockholders of the Corporation, every holder of Common Stock shall be entitled to one vote in person or by proxy for each share of Common Stock standing in such holder's name on the transfer books of the Corporation.

(b) The provisions of this Certificate of Incorporation shall not be modified, revised, altered or amended, repealed or rescinded in whole or in part, without the approval of a majority (or such greater percentage as is required by Article TENTH of this Certificate of Incorporation) of the votes entitled to be cast by the holders of the Common Stock or, in the case of amendments or changes to this Certificate of Incorporation to be effected by a merger, without the approval of the agreement of merger by a majority of the votes entitled to be cast by the holders of the Common Stock.

3. In the event of any dissolution, liquidation or winding up of the affairs of the Corporation, whether voluntary or involuntary, after payment in full of the amounts required to be paid to the holders of Preferred Stock, the remaining assets and funds of the Corporation shall be distributed pro rata to the holders of Common Stock based on the aggregate number of shares of Common Stock outstanding. For the purposes of this section C.3, the voluntary sale, conveyance, lease, exchange or transfer (for cash, shares of stock, securities or other consideration) of all or substantially all of the assets of the Corporation or a consolidation or merger of the Corporation with one or more other corporations (whether or not the Corporation is the corporation surviving such consolidation or merger) shall not be deemed to be a liquidation, dissolution or winding up, voluntary or involuntary.

4. All rights to vote and all voting power (including, without limitation thereto, the right to elect directors) shall be vested exclusively in the holders of Common Stock, except as otherwise expressly provided in this Certificate of Incorporation, in a Preferred Stock Designation (as defined in section D of this Article FOURTH) or as otherwise expressly required by applicable law.

D. The Board of Directors is hereby authorized to provide by resolution or resolutions from time to time for the issuance of shares of Preferred Stock in one or more series and, by filing a certificate pursuant to the GCL (hereinafter, along with any similar designation relating to any other series of Preferred Stock which may hereafter be authorized, referred to as a "Preferred Stock Designation," each of which shall be part of this Certificate of Incorporation), to establish from time to time the number of shares to be included in each such series, and to fix the designation, powers (including voting powers), preferences and rights of the shares of each such series and the qualifications, limitations and restrictions thereof.

E. Restrictions on Ownership and Transfer of Equity Stock.

1. (a) Limitation on Beneficial Ownership.

(i) Except as provided in section E.3 of this Article FOURTH, no person shall Beneficially Own (as hereinafter defined) shares of Equity Stock (as hereinafter defined) in excess of the Ownership Limit (as hereinafter defined).

(ii) Except as provided in section E.3 of this Article FOURTH, any purported Transfer that, if effective, would result in any Person Beneficially Owning shares of Equity Stock in excess of the Ownership Limit shall be void *ab initio* as to the Transfer of that number of shares of Equity Stock which would cause the transferee to Beneficially Own Equity Stock in excess of the Ownership Limit, and the intended transferee shall acquire no rights in such shares of Equity Stock.

(b) Transfers Resulting in “Closely Held” Status. Any purported Transfer of shares of Equity Stock that, if effective, would result in the Corporation being “closely held” within the meaning of section 856(h) of the Code (as hereinafter defined) shall be void *ab initio* as to the Transfer of that number of shares of Equity Stock that would cause the Corporation to be “closely held” within the meaning of Section 856(h) of the Code, and the intended transferee shall acquire no rights in such shares of Equity Stock.

(c) Transfers Resulting in Ownership by fewer than 100 Persons. Any purported Transfer of shares of Equity Stock that, if effective, would result in shares of Equity Stock being beneficially owned by fewer than 100 persons within the meaning of Section 856(a)(5) of the Code shall be void *ab initio* and the intended transferee shall acquire no rights in such shares of Equity Stock.

(d) Transfers Resulting in Corporation Failing to Qualify as a “Domestically Controlled REIT”. Any purported Transfer of shares of Equity Stock that, if effective, would result in the failure of the Corporation to qualify as a “domestically controlled REIT” within the meaning of Section 897(h)(4)(B) of the Code shall be void *ab initio* and the intended transferee shall acquire no rights in the shares of Equity Stock which are the subject of such purported Transfer.

(e) Transfers Resulting in Corporation Failing to Qualify as a REIT. Any purported Transfer of shares of Equity Stock that, if effective, would cause the Corporation to fail to qualify as a REIT (as hereinafter defined) shall be void *ab initio* and the intended transferee shall acquire no rights in the shares of Equity Stock which are the subject of such purported Transfer.

## 2. Beneficial Owners Required to Provide Information.

(a) Annual Disclosure. Every Beneficial Owner of more than 3%, or such lower percentages as are then required pursuant to regulations under the Code, of the outstanding shares of any class or series of Equity Stock of the Corporation shall, within 30 days after January 1 of each year, provide to the Corporation a written statement or affidavit stating the name and address of such Beneficial Owner, the number

of shares of Equity Stock Beneficially Owned by such Beneficial Owner and a description of how such shares are held. Each such Beneficial Owner shall provide to the Corporation such additional information as the Corporation may request in order to determine the effect, if any, of such Beneficial Ownership on the Corporation's status as a REIT and to ensure compliance with the Ownership Limit.

(b) Disclosure at the Request of the Corporation. Each Person who is a Beneficial Owner of shares of Equity Stock and each Person (including the stockholder of record) who is holding shares of Equity Stock for a Beneficial Owner shall provide to the Corporation a written statement or affidavit stating such information as the Corporation may request in order to determine the Corporation's status as a REIT and to ensure compliance with the Ownership Limit. In addition, the Excluded Holder shall promptly notify the Corporation upon any transfer of Equity Stock.

3. Waiver of the Ownership Limit. The Board of Directors, upon receipt of a ruling from the Internal Revenue Service or an opinion of counsel or other evidence or undertakings acceptable to it, may, in its sole discretion, waive the application of the Ownership Limit to a Person subject to such limit, provided that (A) the Board of Directors obtains such representations and undertakings from such Person as are reasonably necessary to ascertain that such Person's Beneficial Ownership or Constructive Ownership of shares of Equity Stock will now and in the future (i) not result in the Corporation being "closely held" within the meaning of Section 856(h) of the Code, (ii) not result in the shares of Equity Stock of the Corporation being Beneficially Owned by fewer than 100 persons within the meaning of Section 856(a)(5) of the Code, (iii) not result in the Corporation failing to qualify as a "domestically controlled REIT" within the meaning of Section 897(h)(4)(B) of the Code and (iv) will not otherwise result in the Corporation failing to qualify as a REIT, and (B) such Person agrees in writing that any violation or attempted violation of any other limitations, restrictions and conditions that the Board of Directors may in its sole discretion impose at the time of such waiver with respect to such Person will result, as of the time of such violation even if discovered after such violation, in the conversion of such shares in excess of the original limit applicable to such Person into shares of Excess Stock pursuant to section F.1 of this Article FOURTH.

4. Settlement. Notwithstanding any provision contained herein to the contrary, nothing in this Certificate of Incorporation shall preclude the settlement of any transaction entered into through the facilities of the New York Stock Exchange or any other national securities exchange or the NASDAQ Stock Market, Inc. or any other automated quotation system. In no event shall the existence or application of the preceding sentence have the effect of deterring or preventing the conversion of Equity Stock into Excess Stock as contemplated herein.

#### F. Excess Stock

1. (a) Transfers in Excess of Ownership Limit. If, notwithstanding the other provisions contained in this Article FOURTH, there is a purported Transfer or Non-Transfer Event (as hereinafter defined) such that any Person would Beneficially Own

shares of Equity Stock in excess of the Ownership Limit, then, (i) except as otherwise provided in section E.3 of this Article FOURTH, the Purported Record Transferee (as hereinafter defined) (and the Purported Beneficial Transferee (as hereinafter defined), if different) shall acquire no right or interest (or, in the case of a Non-Transfer Event, the Person holding record title to the shares of Equity Stock Beneficially Owned by such Beneficial Owner shall cease to own any right or interest) in such number of shares of Equity Stock which would cause such Beneficial Owner to Beneficially Own shares of Equity Stock in excess of the Ownership Limit, (ii) such number of shares (rounded up to the nearest whole share) of Equity Stock in excess of the Ownership Limit shall be automatically converted into an equal number of shares of Excess Stock and transferred to a Trust (as hereinafter defined) in accordance with section F.4 of this Article FOURTH and (iii) such Purported Record Transferee (and such Purported Beneficial Transferee, if different) or, in the case of a Non-Transfer Event, the Person who, immediately prior to such automatic conversion, was the holder of record title to the shares of Equity Stock automatically converted, shall submit the certificates representing such number of shares of Equity Stock to the Corporation, accompanied by all requisite and duly executed assignments of Transfer thereof, for registration in the name of the Trustee (as hereinafter defined) of the Trust. Such conversion into Excess Stock and Transfer to a Trust shall be effective as of the close of trading on the Trading Day (as hereinafter defined) prior to the date of the purported Transfer or Non-Transfer Event, as the case may be, even though the certificates representing the shares of Equity Stock so converted may be submitted to the Corporation at a later date.

(b) Other Prohibited Transfers. If, notwithstanding the other provisions contained in this Article FOURTH, there is a purported Transfer or Non-Transfer Event that, if effective, would (i) result in the Corporation being “closely held” within the meaning of Section 856(h) of the Code, (ii) result in the shares of Equity Stock being beneficially owned by fewer than 100 persons within the meaning of Section 856(a)(5) of the Code, (iii) result in the Corporation failing to qualify as a “domestically controlled REIT” within the meaning of Section 897(h)(4)(B) of the Code, or (iv) otherwise cause the Corporation to fail to qualify as a REIT, then (x) the Purported Record Transferee (and the Purported Beneficial Transferee, if different) shall acquire no right or interest, and, in the case of a Non-Transfer Event, the Person holding record title to the shares of Equity Stock Beneficially Owned by the Person whose Beneficial Ownership of Equity Stock would result in any of the events referred to in clauses (i)—(v) above shall cease to own any right or interest, in such number of shares of Equity Stock the ownership of which would (A) result in the Corporation being “closely held” within the meaning of Section 856(h) of the Code, (B) result in the shares of Equity Stock being beneficially owned by fewer than 100 persons within the meaning of Section 856(a)(5) of the Code, (C) result in the Corporation failing to qualify as a “domestically controlled REIT” within the meaning of Section 897(h)(4)(B) of the Code, or (D) otherwise cause the Corporation to fail to qualify as a REIT, (y) such number of shares of Equity Stock (rounded up to the nearest whole share) shall be automatically converted into an equal number of shares of Excess Stock and transferred to a Trust in accordance with section F.4 of this Article FOURTH and (z) the Purported Record Transferee (and the Purported Beneficial Transferee, if different) or, in the case of a Non-Transfer Event, the Person who, immediately prior to such automatic conversion, was the holder of

record title to the shares of Equity Stock automatically converted, shall submit such number of shares of Equity Stock to the Corporation, accompanied by all requisite and duly executed assignments of Transfer thereof, for registration in the name of the Trustee of the Trust. Such conversion into Excess Stock and Transfer to a Trust shall be effective as of the close of trading on the Trading Day prior to the date of the purported Transfer or Non-Transfer Event, as the case may be, even though the certificates representing the shares of Equity Stock so converted may be submitted to the Corporation at a later date.

(c) Conversion to Excess Stock. Upon the occurrence of such a conversion of shares of Equity Stock into an equal number of shares of Excess Stock, such shares of Equity Stock shall be automatically retired and canceled, without any action required by the Board of Directors of the Corporation, and shall thereupon be restored to the status of authorized but unissued shares of the particular class or series of Equity Stock from which such Excess Stock was converted and may be reissued by the Corporation as that particular class or series of Equity Stock.

2. Remedies for Breach. If the Corporation, or its designees, shall at any time determine in good faith that a Transfer has taken place in violation of section E.1 of this Article FOURTH or that a Person intends to acquire or has attempted to acquire Beneficial Ownership or Constructive Ownership of any shares of Equity Stock in violation of section E.1 of this Article FOURTH, the Corporation shall take such action as it deems advisable to refuse to give effect to or to prevent such Transfer or acquisition, including, but not limited to, refusing to give effect to such Transfer on the stock transfer books of the Corporation or instituting proceedings to enjoin such Transfer or acquisition, but the failure to take any such action shall not affect the automatic conversion of shares of Equity Stock into Excess Stock and their Transfer to a Trust in accordance with section F.4.

3. Notice of Restricted Transfer. Any Person who acquires or attempts to acquire shares of Equity Stock in violation of section E.1 of this Article FOURTH, or any Person who owns shares of Equity Stock that were converted into shares of Excess Stock and transferred to a Trust pursuant to section F.4 of this Article FOURTH, shall immediately give written notice to the Corporation of such event and shall provide to the Corporation such other information as the Corporation may request in order to determine the effect, if any, of such Transfer or Non-Transfer Event, as the case may be, on the Corporation's status as a REIT.

4. Transfer in Trust. Upon any purported Transfer or Non-Transfer Event that results in Excess Stock pursuant to section F.1 of this Article FOURTH, (i) the Corporation shall create, or cause to be created, a Trust, and shall designate a Trustee and name a Beneficiary (as hereinafter defined) thereof and (ii) such Excess Stock shall be automatically transferred to such Trust to be held for the exclusive benefit of the Beneficiary. Any conversion of shares of Equity Stock into shares of Excess Stock and transfer to a Trust shall be effective as of the close of trading on the Trading Day prior to the date of the purported Transfer or Non-Transfer Event that results in the conversion. Shares of Excess Stock so held in trust shall be issued and outstanding shares of stock of the Corporation.

5. Dividend Rights. Each share of Excess Stock shall be entitled to the same dividends and distributions (as to both timing and amount) as may be declared by the Board of Directors of the Corporation with respect to each share of Equity Stock which was converted into such Excess Stock. The Trustee, as record holder of the shares of Excess Stock, shall be entitled to receive all dividends and distributions and shall hold all such dividends or distributions in trust for the benefit of the Beneficiary. The Prohibited Owner (as hereinafter defined) with respect to such shares of Excess Stock shall repay to the Trust the amount of any dividends or distributions received by it (i) that are attributable to any shares of Equity Stock that have been converted into shares of Excess Stock and (ii) the record date of which was on or after the date that such shares were converted into shares of Excess Stock. The Corporation shall take all measures that it determines are reasonably necessary to recover the amount of any such dividend or distribution paid to a Prohibited Owner, including, if necessary, withholding any portion of future dividends or distributions payable on shares of Equity Stock Beneficially Owned by the Person who, but for the provisions of this Article FOURTH, would Constructively Own or Beneficially Own the shares of Equity Stock that were converted into shares of Excess Stock; and, as soon as reasonably practicable following the Corporation's receipt or withholding thereof, shall pay over to the Trust for the benefit of the Beneficiary the dividends so received or withheld, as the case may be.

6. Liquidation of the Corporation. In the event of any voluntary or involuntary liquidation of, or winding up of, or any distribution of the assets of, the Corporation, each holder of shares of Excess Stock shall be entitled to receive, ratably with each other holder of shares of the same class and series of Equity Stock which was converted into such Excess Stock, that portion of the assets of the Corporation that is available for distribution to the holders of the same class and series of Equity Stock which was converted into such Excess Stock. The Trust shall distribute to the Prohibited Owner the amounts received upon such liquidation, dissolution, or winding up, or distribution; provided, however, that the Prohibited Owner shall not be entitled to receive amounts in excess of, in the case of a purported Transfer in which the Prohibited Owner gave value for shares of Equity Stock and which Transfer resulted in the conversion of such shares of Equity Stock into shares of Excess Stock, the product of (x) the price per share, if any, such Prohibited Owner paid for the shares of Equity Stock and (y) the number of shares of Equity Stock which were so converted into Excess Stock, and, in the case of a Non-Transfer Event or purported Transfer in which the Prohibited Owner did not give value for such shares (e.g., if the shares were received through a gift or devise) and which Non-Transfer Event or purported Transfer, as the case may be, resulted in the conversion of the shares into shares of Excess Stock, the product of (x) the price per share equal to the Market Price (as hereinafter defined) on the date of such Non-Transfer Event or purported Transfer and (y) the number of shares of Equity Stock which were so converted into Excess Stock. Any remaining amount in such Trust shall be distributed to the Beneficiary.

7. Voting Rights. Each share of Excess Stock shall entitle the holder to no voting rights other than those voting rights which accompany a class of capital stock under Delaware law. The Trustee, as record holder of the Excess Stock, shall be entitled to vote all shares of Excess Stock. Any vote by a Prohibited Owner as a purported holder

of shares of Equity Stock prior to the discovery by the Corporation that such shares of Equity Stock have been converted into shares of Excess Stock shall, subject to applicable law, be rescinded and shall be void *ab initio* with respect to such shares of Excess Stock.

8. Restrictions on Transfer. (a) As soon as practicable after the Trustee acquires Excess Stock and complies with the last sentence of this Section 8(a), but in an orderly fashion so as not to materially adversely affect the trading price of the same class and series of Equity Stock from which such Excess Stock was converted, the Trustee shall designate one or more Persons as Permitted Transferees (as hereinafter defined) and sell to such Permitted Transferees any shares of Excess Stock held by the Trustee; provided, however, that (i) any Permitted Transferee so designated purchases for valuable consideration (whether in a public or private sale) the shares of Excess Stock and (ii) any Permitted Transferee so designated may acquire the shares of the same class and series of Equity Stock from which such Excess Stock was converted without violating any of the restrictions set forth in section E.1 of this Article FOURTH and without such acquisition resulting in the conversion of such shares of Equity Stock into shares of Excess Stock and the Transfer of such shares to a Trust pursuant to sections F.1 and F.4 of this Article FOURTH. The Trustee shall have the exclusive and absolute right to designate Permitted Transferees of any and all shares of Excess Stock. Prior to any Transfer by the Trustee of shares of Excess Stock to a Permitted Transferee, the Trustee shall give not less than five Trading Days prior written notice to the Corporation of such intended Transfer and the Corporation must have waived in writing its purchase rights under section F.10 of this Article FOURTH if such intended Transfer would occur during the 90-day period referred to therein.

(b) Upon the designation by the Trustee of a Permitted Transferee in accordance with the provisions of this section F.8, the Trustee shall cause to be Transferred to the Permitted Transferee shares of Excess Stock acquired by the Trustee pursuant to section F.4 of this Article FOURTH. Upon such Transfer of shares of Excess Stock to the Permitted Transferee, such shares of Excess Stock shall be automatically converted into an equal number of shares of Equity Stock of the same class and series from which such Excess Stock was converted. Upon the occurrence of such a conversion of shares of Excess Stock into an equal number of shares of Equity Stock, such shares of Excess Stock shall be automatically retired and canceled, without any action required by the Board of Directors of the Corporation, and shall thereupon be restored to the status of authorized but unissued shares of Excess Stock and may be reissued by the Corporation as Excess Stock. The Trustee shall (i) cause to be recorded on the stock transfer books of the Corporation that the Permitted Transferee is the holder of record of such number of shares of Equity Stock, and (ii) distribute to the Beneficiary any and all amounts held with respect to such shares of Excess Stock after making payment to the Prohibited Owner pursuant to section F.9 of this Article FOURTH.

(c) If the Transfer of shares of Excess Stock to a purported Permitted Transferee would or does violate any of the transfer restrictions set forth in Section E.1 of this Article FOURTH, such Transfer shall be void *ab initio* as to that number of shares of Excess Stock that cause the violation of any such restriction when such shares are converted into shares of Equity Stock (as described in section 8(b) above)

and the purported Permitted Transferee shall be deemed to be a Prohibited Owner and shall acquire no rights in such shares of Excess Stock or Equity Stock. Such shares of Equity Stock shall be automatically converted into Excess Stock and transferred to the Trust from which they were originally Transferred. Such conversion and transfer to the Trust shall be effective as of the close of trading on the Trading Day prior to the date of the Transfer to the purported Permitted Transferee and the provisions of this Article FOURTH shall apply to such shares, including, without limitation, the provisions of sections F.8 through F.10 with respect to any future transfer of such shares by the Trust.

9. Any Prohibited Owner shall be entitled (following acquisition of the shares of Excess Stock and subsequent designation of and sale of Excess Stock to a Permitted Transferee in accordance with section F.8 of this Article FOURTH or following the acceptance of the offer to purchase such shares in accordance with section F.10 of this Article FOURTH) to receive from the Trustee following the sale or other disposition of such shares of Excess Stock the lesser of (a)(i) in the case of a purported Transfer in which the Prohibited Owner gave value for shares of Equity Stock and which Transfer resulted in the conversion of such shares into shares of Excess Stock, the product of (x) the price per share, if any, such Prohibited Owner paid for the shares of Equity Stock and (y) the number of shares of Equity Stock which were so converted into Excess Stock and (ii) in the case of a Non-Transfer Event or purported Transfer in which the Prohibited Owner did not give value for such shares (e.g., if the shares were received through a gift or devise) and which Non-Transfer Event or purported Transfer, as the case may be, resulted in the conversion of such shares into shares of Excess Stock, the product of (x) the price per share equal to the Market Price on the date of such Non-Transfer Event or purported Transfer and (y) the number of shares of Equity Stock which were so converted into Excess Stock or (b) the proceeds received by the Trustee from the sale or other disposition of such shares of Excess Stock in accordance with section F.8 or section F.10 of this Article FOURTH. Any amounts received by the Trustee in respect of such shares of Excess Stock which are in excess of such amounts to be paid to the Prohibited Owner pursuant to this section F.9 shall be distributed to the Beneficiary in accordance with the provisions of section F.8 of this Article FOURTH. The Trustee and the Trust shall not be liable for, and each Beneficiary and Prohibited Owner shall be deemed to have irrevocably waived, any claim by a Beneficiary or Prohibited Owner arising out of the disposition of shares of Excess Stock, except for claims arising out of the gross negligence or willful misconduct of, or any failure to make payments in accordance with this section F of this Article FOURTH by, such Trustee.

10. Purchase Right in Stock Transferred to Trustee. Shares of Excess Stock shall be deemed to have been offered for sale to the Corporation, or its designee, at a price per share equal to the lesser of (a) the price per share in the transaction that created such shares of Excess Stock (or, in the case of a Non-Transfer Event or Transfer in which the Prohibited Owner did not give value for the shares (e.g., if the shares were received through a gift or devise), the Market Price on the date of such Non Transfer Event or Transfer in which the Prohibited Owner did not give value for the shares) or (b) the Market Price on the date the Corporation, or its designee, accepts such offer. The Corporation shall have the right to accept such offer for a period of 90 days following the later of (x) the date of the Non-Transfer Event or purported Transfer which results in



such shares of Excess Stock or (y) the date the Board of Directors of the Corporation first determined that a Transfer or Non-Transfer Event resulting in shares of Excess Stock has occurred, if the Corporation does not receive a notice of such Transfer or Non-Transfer Event pursuant to section F.3 of this Article FOURTH.

- G. Remedies Not Limited. Except as set forth in section E.4 of this Article FOURTH, nothing contained in this Article FOURTH shall limit the authority of the Corporation to take such other action as it deems necessary or advisable to protect the Corporation and the interests of its stockholders by preservation of the Corporation's status as a REIT and to ensure compliance with the Ownership Limit.
- H. Ambiguity. In the case of an ambiguity in the application of any of the provisions of this Article FOURTH, including any definition contained in Article ELEVENTH hereof, the Board of Directors shall have the power to determine the application of the provisions of this Article FOURTH with respect to any situation based on the facts known to it and any such determination made in good faith shall be binding on all stockholders of the Corporation.
- I. Legend. Each certificate for shares of Equity Stock shall bear the following legend:

"The shares of Plum Creek Timber Company, Inc. (the "Corporation") represented by this certificate are subject to restrictions set forth in the Corporation's Certificate of Incorporation which prohibit in general (a) any Person from Beneficially Owning shares of Equity Stock in excess of the Ownership Limit and (b) any Person from acquiring or maintaining any ownership interest in the capital stock of the Corporation that is inconsistent with (i) the requirements of the Code pertaining to real estate investment trusts or (ii) the Certificate of Incorporation of the Corporation, and the holder of this certificate by his acceptance hereof consents to be bound by such restrictions. Any purported transfer of Equity Stock in violation of such restrictions shall be void *ab initio* and the Equity Stock in violation of such restrictions, whether as a result of a Transfer or the Non-Transfer Event, shall be automatically converted into shares of Excess Stock and transferred to a Trust for disposition as provided in the Certificate of Incorporation. Capitalized terms used in this paragraph and not defined herein are defined in the Corporation's Certificate of Incorporation. The Corporation will furnish without charge, to each stockholder who so requests, a copy of the Certificate of Incorporation of the Corporation, containing, among other things, a statement of the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock or series thereof that the Corporation is authorized to issue and the qualifications, limitations or restrictions of such preferences and/or rights. Any such request shall be addressed to the Secretary of the Corporation.

- J. Each provision of this Article FOURTH shall be severable and any such provision determined to be invalid by a court having jurisdiction shall in no way affect the validity of any other provision.
- V. FIFTH: A. At each annual meeting of stockholders, the directors shall be elected by a plurality of the votes of the shares present in person or represented by proxy at such meeting and entitled to vote on the election of directors, and each director so elected shall hold office for a term expiring at the next annual meeting of stockholders and until such director's successor is duly elected and qualified or until such director's earlier death, resignation or removal. Notwithstanding the foregoing, directors in office as of October 9, 2001 shall serve until the expiration of their respective current terms of office in 2002, 2003 or 2004. The Board of Directors shall have the authority, upon the approval and at the direction of a majority of its members, to designate a Nominating Committee and one or more committees, each committee to consist of one or more of the directors of the Corporation as selected by a majority of the members of the Board of Directors. To the extent permitted by law and provided in the resolution authorizing such committee, any such committee shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation.

Notwithstanding the foregoing, whenever, pursuant to the provisions of Article FOURTH of this Certificate, the holders of any one or more series of Preferred Stock shall have the right, voting separately as a series or together with holders of other such series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of this Certificate of Incorporation, including any Preferred Stock Designation applicable thereto.

During any period when the holders of any series of Preferred Stock have the right to elect additional directors as provided for or fixed pursuant to the provisions of Article FOURTH of this Certificate of Incorporation, then upon commencement and for the duration of the period during which such right continues: (a) the then otherwise total authorized number of directors of the Corporation shall automatically be increased by such specified number of directors, and the holders of such Preferred Stock shall be entitled to elect the additional directors so provided for or fixed pursuant to said provisions and (b) each such additional director shall serve until such director's successor shall have been duly elected and qualified, or until such director's right to hold such office terminates pursuant to said provisions, whichever occurs earlier, subject to such director's earlier death, disqualification, resignation or removal. Except as otherwise provided by the Board of Directors in the resolution or resolutions establishing such series, whenever the holders of any series of Preferred Stock having such right to elect additional directors are divested of such right pursuant to the provisions of such stock, the terms of office of all such additional directors elected by the holders of such stock, or elected to fill any vacancies resulting from the death, resignation, disqualification or removal of such additional directors,

shall forthwith terminate and the total authorized number of directors of the Corporation shall be reduced accordingly.

- B. Subject to the rights, if any, of the holders of any series of Preferred Stock to elect directors and to remove any director whom such holders have the right to elect, any director (including persons elected by directors to fill vacancies in the Board of Directors) may be removed from office only by the affirmative vote of the holders of at least 66 2/3% of the total voting power of the shares of capital stock of the Corporation then entitled to vote at a meeting of the stockholders called for that purpose. At least 30 days prior to any meeting of stockholders at which it is proposed that any director be removed from office, written notice of such proposed removal shall be sent to the director whose removal will be considered at the meeting.
  - C. Subject to the rights, if any, of the holders of any series of Preferred Stock to elect directors and to fill vacancies in the Board of Directors relating thereto, any and all vacancies in the Board of Directors, however occurring, including, without limitation, through death, resignation, removal, an increase in the number of directors or otherwise may be filled only by a majority of the directors then in office, though less than a quorum, or by a sole remaining director, and the directors so chosen shall hold office until the end of the term of office to which they are appointed and until their successors are duly elected and qualified, or until their earlier death, resignation or removal. Any director appointed in accordance with the preceding sentence shall hold office until the end of the term of office to which they are appointed and until such director's successor is duly elected and qualified, or until such director's earlier death, resignation or removal. If such director was designated by the Principals, pursuant to the Conversion Agreement or such increase in the number of directors would result in the Principals no longer having designated a majority of the Board of Directors at a time when the Principals are entitled under the Conversion Agreement to designate a majority of the Board of Directors, such vacancy shall be filled by a designee of the Principals. In the event of a vacancy in the Board of Directors, the remaining directors, except as otherwise provided by law, may exercise the powers of the full Board of Directors until such vacancy is filled.
- VI. SIXTH: Any action required to be taken at any annual or special meeting of stockholders of the Corporation, or any action which may be taken at any annual or special meeting of the stockholders, may be taken only at a duly called annual or special meeting of stockholders and may not be taken by written consent of the stockholders in lieu of such meeting.
- VII. SEVENTH: The Board of Directors is expressly authorized to make, amend or repeal the bylaws of the Corporation, without any action on the part of the

stockholders, solely by the affirmative vote of at least 66 2/3% of the directors of the Corporation then in office. In addition to any other vote required by law, the bylaws may be amended or repealed by the stockholders by the affirmative vote of the holders of shares representing at least 66 2/3% of the combined voting power of the outstanding shares of capital stock of the corporation entitled to vote.

VIII. EIGHTH: No director of the Corporation shall be liable to the Corporation or its stockholders for monetary damages for breach of fiduciary duty as a director, except for liability (i) for any breach of the director's duty of loyalty to the Corporation or its stockholders, (ii) for acts or omissions not in good faith or which involve intentional misconduct or a knowing violation of law, (iii) under Section 174 of the GCL, or (iv) for any transaction from which the director derived an improper personal benefit.

If the GCL hereafter is amended to further eliminate or limit the liability of directors, then the liability of a director of the Corporation, in addition to the limitation on personal liability provided herein, shall be limited to the fullest extent permitted by the amended GCL. Any repeal or modification of this Article EIGHTH by the stockholders of the Corporation shall be prospective only, and shall not adversely affect any limitation on the liability of a director of the Corporation existing at the time of such repeal or modification.

IX. NINTH: The Corporation shall seek to satisfy the requirements for qualification as a REIT under the Code until such time as the Board of Directors shall determine otherwise, such determination being approved by the affirmative vote of at least 66 2/3% of the directors of the Corporation then in office.

X. TENTH: In addition to any other vote required by law, the amendment or repeal of, or adoption of any provisions inconsistent with, Articles FIFTH, SIXTH, SEVENTH, EIGHTH, NINTH or this Article TENTH or any term defined in Article ELEVENTH to the extent such term is used in any such Article shall require the approval of the holders of at least 66 2/3% of the total voting power of the shares of capital stock entitled to vote thereon, voting as a single class.

XI. ELEVENTH: For purposes of this Certificate of Incorporation, the following terms shall have the meanings set forth below:

"Affiliate" shall mean, with respect to any Person or Persons, (i) any natural person who is related by blood or marriage to any such Person, (ii) any trust of which there are no principal beneficiaries other than any such Person or Permitted Transferees of such Person, (iii) any charitable foundation over which any such Person has discretionary authority and (iv) any heirs or executors of any such Person.

"Beneficial Ownership," shall be calculated as follows:

(i) when used in sections E and F of Article FOURTH or in any defined term used therein, shall mean ownership of Equity Stock by a Person who would be treated as an owner of Equity Stock either

directly or indirectly under Section 542(a)(2) of the Code, taking into account, for this purpose, constructive ownership determined under Section 544 of the Code, as modified by Section 856(h) of the Code (except where expressly provided otherwise); and

(ii) when used elsewhere in this Certificate of Incorporation, shall mean beneficial ownership determined under Rule 13d-3 under the Exchange Act (as hereinafter defined).

The terms “Beneficial Owner,” “Beneficially Owns” and “Beneficially Owned” shall have the correlative meanings.

“Beneficiary” shall mean, with respect to any Trust, one or more organizations described in each of Section 170(b)(1)(A) (other than clauses (vii) and (viii) thereof) and Section 170(c)(2) of the Code that are named by the Corporation as the beneficiary or beneficiaries of such Trust, in accordance with the provisions of section F.4 of Article FOURTH.

“Code” shall mean the Internal Revenue Code of 1986, as amended.

“Constructive Ownership” shall mean ownership of shares of Equity Stock by a Person who is or would be treated as a direct or indirect owner of such shares of Equity Stock through the application of Section 318 of the Code. The terms “Constructive Owner,” “Constructively Owns” and “Constructively Owned” shall have correlative meanings.

“Conversion Agreement” shall mean the Agreement and Plan of Conversion, dated as of June 5, 1998, by and among Plum Creek Timber Company, L.P., the Corporation and PCMC Partners, as amended by the Amended and Restated Agreement and Plan of Conversion, dated as of July 17, 1998.

“Equity Stock” shall mean the Common Stock and the Preferred Stock of the Corporation.

“Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

“Excluded Holder” shall mean Mr. John H. Scully, Mr. William J. Patterson and Mr. William E. Oberndorf and their respective Affiliates, collectively.

“Market Price” of Equity Stock on any date shall mean the average of the closing price for shares of such Equity Stock for the five consecutive Trading Days ending on the Trading Day immediately prior to such date. The “Closing Price” on any date shall mean the last sale price, regular way, or, in case no such sale takes place on such day, the average of the closing bid and asked prices, regular way, in either case as reported in the principal consolidated transactions reporting system with respect to securities listed or admitted to trading on the New York Stock Exchange or, if the shares of Equity Stock are not listed or admitted to trading on the New York Stock Exchange, as reported in the principal consolidated transaction reporting system with respect to securities listed on the

principal national securities exchange on which the shares of Equity Stock are listed or admitted to trading or, if the shares of Equity Stock are not listed or admitted to trading on any national securities exchange, the last quoted price, or if not so quoted, the average of the high bid and low asked prices in the over-the-counter market, as reported by the Nasdaq Stock Market, Inc. or, if such system is no longer in use, the principal other automated quotation system that may be in use or, if the shares of Equity Stock are not quoted by any such organization, the average of the closing bid and asked prices as furnished by a professional market maker selected by the Board of Directors making a market in the shares of Equity Stock.

“Non-Transfer Event” shall mean an event other than a purported Transfer that would cause or result in an increase in the percentage of any Person’s Beneficial Ownership of the outstanding shares of Equity Stock.

“Ownership Limit” shall mean (i) with respect to Persons other than the Excluded Holder (a) with respect to the Common Stock, 5% of the lesser of (1) the total number of shares of Common Stock outstanding, or (2) the value of the outstanding shares of Common Stock, or (b) with respect to Preferred Stock, 5% of the lesser of (1) the total number of shares of Preferred Stock outstanding, or (2) the value of the outstanding shares of Preferred Stock (or such other number or value of Preferred Stock as the Board of Directors may determine in fixing the terms of the Preferred Stock); and (ii) with respect to the Excluded Holder, the Ownership Limit shall be the lesser of 27% of the outstanding Common Stock and the lowest percentage of the outstanding Common Stock either Beneficially Owned or Constructively Owned by the Excluded Holder at any time.

“PCMC Partners” shall mean PC Advisory Partners I, L.P., a Delaware limited partnership, and PC Intermediate Holdings, L.P., a Delaware limited partnership.

“Permitted Transferee” shall mean any Person designated as a Permitted Transferee in accordance with the provisions of section F.8 of Article FOURTH.

“Person” shall mean (a) an individual or any corporation, partnership, estate, trust, association, private foundation, joint stock company or any other entity and (b) a “group” as the term is used for purposes of Section 13(d)(3) of the Exchange Act; but shall not include an underwriter that participates in a public offering of Equity Stock for a period of 90 days following purchase by such underwriter of such Equity Stock.

“Principals” shall mean Mr. John H. Scully, Mr. William J. Patterson and Mr. William E. Oberndorf, collectively.

“Prohibited Owner” shall mean, with respect to any purported Transfer or Non-Transfer Event, any Person who is prevented from becoming or remaining the owner of record title to shares of Equity Stock by the provisions of section F.1 of Article FOURTH.

“Purported Beneficial Transferee” shall mean, with respect to any purported Transfer of Beneficial Ownership of shares of Equity Stock that results in the automatic conversion of such shares into Excess Stock, the purported transferee of Beneficial

Ownership of such shares if such purported Transfer had been valid under Section E.1 of Article FOURTH.

“Purported Record Transferee” shall mean, with respect to any purported Transfer of Beneficial Ownership of shares of Equity Stock that results in the automatic conversion of such shares into Excess Stock, the purported record transferee of such shares if such purported Transfer had been valid under Section E.1 of Article FOURTH.

“REIT” shall mean a real estate investment trust under Section 856 et seq. of the Code.

“Subsidiary” shall mean any Person in which the Corporation beneficially owns, directly or indirectly, more than 50% of the voting power of the outstanding voting equity securities.

“Trading Day” shall mean a day on which the principal national securities exchange on which any of the shares of Equity Stock are listed or admitted to trading is open for the transaction of business or, if none of the shares of Equity Stock are listed or admitted to trading on any national securities exchange, any day other than a Saturday, a Sunday or a day on which banking institutions in the State of New York are authorized or obligated by law or executive order to close.

“Transfer” (as a noun) shall mean any sale, transfer, gift, assignment, devise or other disposition of Beneficial Ownership of Equity Stock, whether voluntary or involuntary and whether by operation of law or otherwise. “Transfer” (as a verb) shall have the correlative meaning.

“Trust” shall mean any separate trust created and administered in accordance with the terms of section F of Article FOURTH, for the exclusive benefit of any Beneficiary.

“Trustee” shall mean any Person, unaffiliated with both the Corporation and any Prohibited Owner (and, if different than the Prohibited Owner, the Person who would have had Beneficial Ownership of the Shares that would have been owned of record by the Prohibited Owner), designated by the Corporation to act as trustee of any Trust, or any successor trustee thereof.

CERTIFICATE OF AMENDMENT  
TO THE  
RESTATED CERTIFICATE OF INCORPORATION  
OF  
PLUM CREEK TIMBER COMPANY, INC.

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Pursuant to Section 242 of the  
Delaware General Corporation Law

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Plum Creek Timber Company, Inc. (the "Corporation"), a Delaware corporation, does hereby certify as follows:

FIRST: Paragraph E.2 of Article FOURTH of the Corporation's Restated Certificate of Incorporation is hereby amended to read in its entirety as set forth below:

2. Beneficial Owners Required to Provide Information.

- (a) Annual Disclosure. Every Beneficial Owner of more than 3%, or such lower percentages as are then required pursuant to regulations under the Code, of the outstanding shares of any class or series of Equity Stock of the Corporation shall, within 30 days after January 1 of each year, provide to the Corporation a written statement or affidavit stating the name and address of such Beneficial Owner, the number of shares of Equity Stock Beneficially Owned by such Beneficial Owner and a description of how such shares are held. Each such Beneficial Owner shall provide to the Corporation such additional information as the Corporation may request in order to determine the effect, if any, of such Beneficial Ownership on the Corporation's status as a REIT and to ensure compliance with the Ownership Limit.
- (b) Disclosure at the Request of the Corporation. Each Person who is a Beneficial Owner of shares of Equity Stock and each Person (including the stockholder of record) who is holding shares of Equity Stock for a Beneficial Owner shall provide to the Corporation a written statement or affidavit stating such information as the Corporation may request in order to determine the Corporation's status as a REIT and to ensure compliance with the Ownership Limit.

SECOND: Paragraph A of Article FIFTH of the Corporation's Restated Certificate of Incorporation is hereby amended to read in its entirety as set forth below:

- A. Each director elected at each annual meeting of stockholders shall hold office for a term expiring at the next annual meeting of stockholders and until such director's successor is duly elected and qualified or until such director's earlier



death, resignation or removal. The Board of Directors shall have the authority, upon the approval and at the direction of a majority of its members, to designate a Nominating Committee and one or more committees, each committee to consist of one or more of the directors of the Corporation as selected by a majority of the members of the Board of Directors. To the extent permitted by law and provided in the resolution authorizing such committee, any such committee shall have and may exercise all the powers and authority of the Board of Directors in the management of the business and affairs of the Corporation.

Notwithstanding the foregoing, whenever, pursuant to the provisions of Article FOURTH of this Certificate, the holders of any one or more series of Preferred Stock shall have the right, voting separately as a series or together with holders of other such series, to elect directors at an annual or special meeting of stockholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of this Certificate of Incorporation, including any Preferred Stock Designation applicable thereto.

During any period when the holders of any series of Preferred Stock have the right to elect additional directors as provided for or fixed pursuant to the provisions of Article FOURTH of this Certificate of Incorporation, then upon commencement and for the duration of the period during which such right continues: (a) the then otherwise total authorized number of directors of the Corporation shall automatically be increased by such specified number of directors, and the holders of such Preferred Stock shall be entitled to elect the additional directors so provided for or fixed pursuant to said provisions and (b) each such additional director shall serve until such director's successor shall have been duly elected and qualified, or until such director's right to hold such office terminates pursuant to said provisions, whichever occurs earlier, subject to such director's earlier death, disqualification, resignation or removal. Except as otherwise provided by the Board of Directors in the resolution or resolutions establishing such series, whenever the holders of any series of Preferred Stock having such right to elect additional directors are divested of such right pursuant to the provisions of such stock, the terms of office of all such additional directors elected by the holders of such stock, or elected to fill any vacancies resulting from the death, resignation, disqualification or removal of such additional directors, shall forthwith terminate and the total authorized number of directors of the Corporation shall be reduced accordingly.

THIRD: The definition of "Ownership Limit," as set forth in Article ELEVENTH of the Corporation's Restated Certificate of Incorporation, is hereby amended to read in its entirety as set forth below:

"Ownership Limit" shall mean (a) with respect to the Common Stock, 9.8% of the lesser of (1) the total number of shares of Common Stock outstanding, or (2) the value of the outstanding shares of Common Stock, or (b) with respect to Preferred Stock, 9.8% of the lesser of (1) the total number of shares of Preferred Stock

outstanding, or (2) the value of the outstanding shares of Preferred Stock (or such other number or value of Preferred Stock as the Board of Directors may determine in fixing the terms of the Preferred Stock).

FOURTH: Article ELEVENTH of the Corporation's Restated Certificate of Incorporation is hereby amended to delete the definition of "Excluded Holder."

FIFTH: The foregoing amendments were duly adopted in accordance with Section 242 of the General Corporation Law of the State of Delaware.

IN WITNESS WHEREOF, the Corporation has caused this Certificate to be executed in its corporate name this 6th day of May, 2009.

PLUM CREEK TIMBER COMPANY, INC.

By: /s/ JAMES A. KRAFT  
Name: James A. Kraft  
Title: Senior Vice President, General Counsel and  
Secretary

**FORM OF  
OMNIBUS AMENDMENT TO STOCK INCENTIVE PLAN AWARD  
AGREEMENTS**

This Omnibus AMENDMENT (“**Amendment**”), dated as of May 4, 2009, amends the terms and conditions of those certain stock incentive plan award agreements governing the terms of incentive awards granted under the Company’s 2000 Stock Incentive Plan and its Amended and Restated Stock Incentive Plan (together, the “**Plan**”), by and between Plum Creek Timber Company, Inc., a Delaware corporation (the “**Company**”), and [Name of Employee] (“**Employee**”), an employee of Plum Creek Timberlands, L.P., a Delaware limited partnership and wholly owned subsidiary of the Company. Terms used herein, unless otherwise defined herein, shall have the meanings ascribed to them in the Plan and in the specified award agreement.

RECITALS

WHEREAS, the Administrator is empowered pursuant to Section 10 of the Plan to amend, without Participant consent, the terms of any award previously granted under the Plan if such amendment does not impair the Participant’s rights under the existing terms of the award and does not otherwise violate any provision of the Plan.

WHEREAS, the Administrator has approved an amendment to each outstanding stock option award issued under the Plan to define early retirement eligibility and to extend the exercise period for vested stock options from 30 days to three years from the date of such early retirement (or the Expiration Date of the stock option, if earlier).

AMENDMENT

**A. Agreements Amended**

1. The following award agreements are hereby amended as set forth in Sections B, C and D of this Amendment:
  - (a) Stock Option, Dividend Equivalent and Value Management Award Agreement dated as of May 10, 2000 by and between the Company and Employee; Stock Option and Dividend Equivalent Award Agreement dated as of January 25, 2001 by and between the Company and Employee; Stock Option, Dividend Equivalent and Value Management Award Agreement dated as of January 24, 2002 by and between the Company and Employee; Stock Option and Dividend Equivalent Award Agreement dated as of January 28, 2003 by and between the Company and Employee (collectively, “**Award Agreements for Plan Years 2000 through 2003**”).
  - (b) Stock Incentive Plan 2004 Award Agreement dated as of February 2, 2004 by and between the Company and Employee; and Stock Incentive Plan 2005 Award Agreement dated as of February 9, 2005 by and between the Company and Employee (collectively, “**Award Agreements for Plan Years 2004 and 2005**”).

- (c) Stock Incentive Plan 2006 Award Agreement dated as of February 3, 2006 by and between the Company and Employee; Stock Incentive Plan 2007 Award Agreement dated as of February 5, 2007 by and between the Company and Employee; Stock Incentive Plan 2008 Award Agreement dated as of February 4, 2008 by and between the Company and Employee; and Stock Incentive Plan 2009 Award Agreement dated as of February 9, 2009 by and between the Company and Employee (collectively, “Award Agreements for Plan Years 2006 through 2009”).

**B. Amendment to Award Agreements for Plan Years 2000 through 2003**

- 1. Each of the Award Agreements for Plan Years 2000 through 2003, respectively, is hereby amended by deleting Paragraph A.3(c) in its entirety and inserting in its place Paragraph A.3(c) as follows:

If Employee’s employment with the Company terminates by reason of normal retirement at or after age 65 or other retirement with the consent of the Company’s Compensation Committee (the “Committee”), the portion of the Option vested on the date of such retirement may be exercised by Employee at any time during the period ending on the Expiration Date (as defined below). If Employee’s employment with the Company terminates by reason of early retirement at or after age 55 with ten or more years of service with the Company, the portion of the Option vested on the date of such early retirement may be exercised by Employee at any time during the period ending on the earlier of the Expiration Date or the third anniversary of the date of such early retirement. If Employee dies after any retirement (normal, early or other retirement approved by the Committee), the vested portion of the Option may be exercised by Employee’s estate (or the person who acquires the Option by will or the laws of descent and distribution or otherwise by reason of the death of the Employee) during the period ending on the earlier of the Expiration Date or the third anniversary of the date of Employee’s death.

**C. Amendment to Award Agreements for Plan Years 2004 and 2005**

- 1. Each of the Award Agreements for Plan Years 2004 and 2005, respectively, is hereby amended by deleting Paragraph A.3 (b) in its entirety and inserting in its place Paragraph A.3(b) as follows:

If Employee’s employment with the Company terminates by reason of normal retirement at or after age 65 or other retirement with the consent of the Company’s Compensation Committee (the “Committee”), the portion of the Option vested on the date of such retirement may be exercised by Employee at any time during the period ending on the Expiration Date (as defined below). If Employee’s employment with the Company terminates by reason of early retirement at or after age 55 with ten or more years of service with the Company, the portion of the Option vested on the date of

such early retirement may be exercised by Employee at any time during the period ending on the earlier of the Expiration Date or the third anniversary of the date of such early retirement. If Employee dies after any retirement (normal, early or other retirement approved by the Committee), the vested portion of the Option may be exercised by Employee's estate (or the person who acquires the Option by will or the laws of descent and distribution or otherwise by reason of the death of the Employee) during the period ending on the earlier of the Expiration Date or the third anniversary of the date of Employee's death.

**D. Amendment to Award Agreements for Plan Years 2006 through 2009**

1. Each of the Award Agreements for Plan Years 2006 through 2009, respectively, is hereby amended by deleting Paragraph B.3(b) in its entirety and inserting in its place Paragraph B.3(b) as follows:

If Employee's employment with the Company terminates by reason of normal retirement at or after age 65 or other retirement with the consent of the Committee, the portion of the Stock Option that is Vested on the date of such retirement may be exercised by Employee at any time during the period ending on the Expiration Date (as defined below). If Employee's employment with the Company terminates by reason of early retirement at or after age 55 with ten or more years of service with the Company, the portion of the Stock Option that is Vested on the date of such early retirement may be exercised by Employee at any time during the period ending on the earlier of the Expiration Date or the third anniversary of the date of such early retirement. If Employee dies after any retirement (normal, early or other retirement approved by the Committee), the portion of the Stock Option that is Vested may be exercised by Employee's estate (or the person who acquires the Option by will or the laws of descent and distribution or otherwise by reason of the death of the Employee) during the period ending on the earlier of the Expiration Date or the third anniversary of the date of Employee's death.

**E. Miscellaneous.**

1. Continuing Effect. Except as specifically provided herein, the award agreements amended by this Amendment shall remain in full force and effect in accordance with their respective terms and are hereby ratified and confirmed in all respects.

2. No Waiver. This Amendment is limited as specified and the execution, delivery and effectiveness of this Amendment shall not operate as a modification, acceptance or waiver of any provision of any of the award agreements except as specifically set forth herein.

3. Binding Effect. This Amendment shall be binding upon and inure to the benefit of any successors to the Company and all persons lawfully claiming under Employee.

4. Governing Law. This Amendment shall be governed by, and construed in accordance with, the laws of the State of Washington.

IN WITNESS WHEREOF, the Company has caused this Amendment to be duly executed by its officer thereunto duly authorized as of the date referred to above.

Plum Creek Timber Company, Inc.

By: \_\_\_\_\_  
Barbara L. Crowe  
Vice President, Human Resources

*Note: The foregoing Exhibit 10.4 to this Form 10-Q for the quarter ended June 30, 2009 is a Form of Amendment to award agreements governing the terms of long-term incentive awards issued under the Registrant's stock incentive plan. The award agreements identified in Section A of the Form of Amendment constitute the agreements governing the terms of incentive awards granted to officers each year, but do not reflect the dates of any "off-cycle" awards made in connection with hiring and/or promotion of certain employees. Amendments identical in substance to the foregoing Form of Amendment have been executed and made to all such agreements that govern the terms of previously granted stock option awards in addition to those identified in Section A.*

**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: August 5, 2009

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: August 5, 2009

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 June 30, 2009, 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: August 5, 2009

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 June 30, 2009, 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: August 5, 2009

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.