

10-Q 1 a10-q20120930.htm QUARTERLY REPORT ON FORM 10-Q

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

**FORM 10-Q**

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

For the quarterly period ended September 30, 2012

**OR**

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

Commission file number 1-10239

**PLUM CREEK TIMBER COMPANY, INC.**

(Exact name of registrant as specified in its charter)

**Organized in the  
State of Delaware**

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

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

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

Yes  No

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

Yes  No

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

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

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

Yes  No

The number of outstanding shares of the registrant's common stock, as of October 31, 2012 was 161,577,170.

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**PLUM CREEK TIMBER COMPANY, INC.  
QUARTERLY REPORT ON FORM 10-Q  
For the Quarter ended September 30, 2012**

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

(In Millions, Except Per Share Amounts)	<b>Quarter Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
<b>REVENUES:</b>		
Timber	\$ 168	\$ 154
Real Estate	96	67
Manufacturing	85	67
Other	5	5
Total Revenues	354	293
<b>COSTS AND EXPENSES:</b>		
Cost of Goods Sold:		
Timber	130	119
Real Estate	40	19
Manufacturing	74	62
Other	—	—
Total Cost of Goods Sold	244	200
Selling, General and Administrative	31	24
Total Costs and Expenses	275	224
Other Operating Income (Expense), net	—	—
Operating Income	79	69
Equity Earnings from Timberland Venture	14	14
Interest Expense, net:		
Interest Expense (Debt Obligations to Unrelated Parties)	21	20
Interest Expense (Note Payable to Timberland Venture)	14	14
Total Interest Expense, net	35	34
Income before Income Taxes	58	49

Provision (Benefit) for Income Taxes	<b>(1)</b>	(1)
Net Income	<u><u>\$ 59</u></u>	<u><u>\$ 50</u></u>

**PER SHARE AMOUNTS:**

Net Income per Share – Basic	<b>\$ 0.36</b>	\$ 0.31
Net Income per Share – Diluted	<b>\$ 0.36</b>	\$ 0.31
Dividends Declared – per Common Share Outstanding	<b>\$ 0.42</b>	\$ 0.42
Weighted-Average Number of Shares Outstanding		
– Basic	<b>161.5</b>	161.9
– Diluted	<b>161.9</b>	162.2

*See accompanying Notes to Consolidated Financial Statements*

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

(In Millions, Except Per Share Amounts)	Nine Months Ended September 30,	
	2012	2011
<b>REVENUES:</b>		
Timber	\$ 480	\$ 421
Real Estate	243	208
Manufacturing	246	208
Other	16	15
Total Revenues	985	852
<b>COSTS AND EXPENSES:</b>		
Cost of Goods Sold:		
Timber	374	327
Real Estate	124	68
Manufacturing	217	190
Other	1	1
Total Cost of Goods Sold	716	586
Selling, General and Administrative	86	77
Total Costs and Expenses	802	663
Other Operating Income (Expense), net	1	3
Operating Income	184	192
Equity Earnings from Timberland Venture	42	44
Interest Expense, net:		
Interest Expense (Debt Obligations to Unrelated Parties)	61	61
Interest Expense (Note Payable to Timberland Venture)	43	43
Total Interest Expense, net	104	104
Income before Income Taxes	122	132
Provision (Benefit) for Income Taxes	(2)	—
Net Income	\$ 124	\$ 132

**PER SHARE AMOUNTS:**

Net Income per Share – Basic	\$	<b>0.77</b>	\$	0.81
Net Income per Share – Diluted	\$	<b>0.76</b>	\$	0.81
Dividends Declared – per Common Share Outstanding	\$	<b>1.26</b>	\$	1.26
Weighted-Average Number of Shares Outstanding				
– Basic		<b>161.5</b>		161.9
– Diluted		<b>161.8</b>		162.2

*See accompanying Notes to Consolidated Financial Statements*

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

(In Millions)	Quarter Ended September 30,	
	2012	2011
<b>NET INCOME</b>	<b>\$ 59</b>	<b>\$ 50</b>
<b>OTHER COMPREHENSIVE INCOME BEFORE INCOME TAXES:</b>		
Defined Benefit Pension Plans:		
Amortization of Actuarial Loss Reclassified to Pension Expense	1	—
Unrealized Gains (Losses) on Grantor Trust Assets:		
Unrealized Holding Gains (Losses) Arising During Period	1	—
Other Comprehensive Income (Loss) Before Tax	2	—
Income Tax Expense (Benefit) Related to Items of Other Comprehensive Income	—	—
Other Comprehensive Income (Loss) After Tax	2	—
Comprehensive Income	<u><u>\$ 61</u></u>	<u><u>\$ 50</u></u>

(In Millions)	Nine Months Ended September 30,	
	2012	2011
<b>NET INCOME</b>	<b>\$ 124</b>	<b>\$ 132</b>
<b>OTHER COMPREHENSIVE INCOME BEFORE INCOME TAXES:</b>		
Defined Benefit Pension Plans:		
Amortization of Actuarial Loss Reclassified to Pension Expense	3	—
Unrealized Gains (Losses) on Grantor Trust Assets:		
Unrealized Holding Gains (Losses) Arising During Period	2	2
Other Comprehensive Income (Loss) Before Tax	5	2
Income Tax Expense (Benefit) Related to Items of Other Comprehensive Income	—	—
Other Comprehensive Income (Loss) After Tax	5	2
Comprehensive Income	<u><u>\$ 129</u></u>	<u><u>\$ 134</u></u>



*See accompanying Notes to Consolidated Financial Statements*

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

(In Millions, Except Per Share Amounts)	September 30, 2012	December 31, 2011
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 320	\$ 254
Accounts Receivable	39	28
Inventories	49	48
Deferred Tax Asset	6	6
Assets Held for Sale	44	103
Other Current Assets	14	15
	<u>472</u>	<u>454</u>
Timber and Timberlands, net	3,423	3,377
Property, Plant and Equipment, net	128	138
Equity Investment in Timberland Venture	187	201
Deferred Tax Asset	18	17
Investment in Grantor Trusts (at Fair Value)	38	36
Other Assets	37	36
Total Assets	<u>\$ 4,303</u>	<u>\$ 4,259</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Current Portion of Long-Term Debt	\$ 176	\$ 352
Line of Credit	351	348
Accounts Payable	29	25
Interest Payable	25	26
Wages Payable	19	20
Taxes Payable	16	9
Deferred Revenue	31	27
Other Current Liabilities	9	8
	<u>656</u>	<u>815</u>
Long-Term Debt	1,567	1,290
Note Payable to Timberland Venture	783	783
Other Liabilities	98	108
Total Liabilities	<u>3,104</u>	<u>2,996</u>

## Commitments and Contingencies

**STOCKHOLDERS' EQUITY**

Preferred Stock, \$0.01 Par Value, Authorized Shares – 75.0, Outstanding – None	—	—
Common Stock, \$0.01 Par Value, Authorized Shares – 300.6, Outstanding (net of Treasury Stock) – 161.6 at September 30, 2012 and 161.3 at December 31, 2011	2	2
Additional Paid-In Capital	2,273	2,261
Retained Earnings (Accumulated Deficit)	(108)	(28)
Treasury Stock, at Cost, Common Shares – 26.9 at September 30, 2012 and 26.9 at December 31, 2011	(938)	(937)
Accumulated Other Comprehensive Income (Loss)	(30)	(35)
Total Stockholders' Equity	<u>1,199</u>	<u>1,263</u>
Total Liabilities and Stockholders' Equity	<u>\$ 4,303</u>	<u>\$ 4,259</u>

*See accompanying Notes to Consolidated Financial Statements*

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

(In Millions)	Nine Months Ended September 30,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 124	\$ 132
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Depreciation, Depletion and Amortization	87	70
Basis of Real Estate Sold	111	57
Equity Earnings from Timberland Venture	(42)	(44)
Distributions from Timberland Venture	56	56
Deferred Income Taxes	(1)	2
Deferred Revenue from Long-Term Gas Leases (Net of Amortization)	(6)	14
Timber Deed Acquired	(98)	—
Pension Plan Contributions	(10)	(3)
Working Capital Changes Impacting Cash Flow:		
Like-Kind Exchange Funds	—	—
Other Working Capital Changes	5	—
Other	11	10
Net Cash Provided By Operating Activities	237	294
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital Expenditures (Excluding Timberland Acquisitions)	(52)	(43)
Timberlands and Minerals Acquired	(18)	(88)
Other	(1)	—
Net Cash Used In Investing Activities	(71)	(131)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Dividends	(204)	(204)
Borrowings on Line of Credit	1,712	1,097
Repayments on Line of Credit	(1,709)	(961)
Proceeds from Issuance of Long-Term Debt	450	—
Debt Issuance Costs	(3)	—
Principal Payments and Retirement of Long-Term Debt	(350)	(49)
Proceeds from Stock Option Exercises	5	9

Acquisition of Treasury Stock	<u>(1)</u>	<u>(16)</u>
Net Cash Used In Financing Activities	<u>(100)</u>	<u>(124)</u>
Increase (Decrease) In Cash and Cash Equivalents	<b>66</b>	39
Cash and Cash Equivalents:		
Beginning of Period	<b>254</b>	252
End of Period	<u><b>\$ 320</b></u>	<u>\$ 291</u>

*See accompanying Notes to Consolidated Financial Statements*

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

**Note 1. Basis of Presentation**

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

The consolidated financial statements include all of the accounts of Plum Creek and its subsidiaries. At September 30, 2012, the company owned and managed approximately 6.4 million acres of timberlands in the Northwest, Southern, and Northeast United States, and owned 8 wood product conversion facilities in the Northwest United States (2 of which have been indefinitely curtailed). Included in the 6.4 million acres are about 900,000 acres of higher value timberlands, which are expected to be sold and/or developed over the next fifteen years for recreational, conservation or residential purposes. Included within the 900,000 acres of higher value timberlands are approximately 700,000 acres we expect to sell for recreational uses, approximately 100,000 acres we expect to sell for conservation and approximately 100,000 acres that are identified as having development potential. In addition, the company has approximately 300,000 acres of non-strategic timberlands, which are expected to be sold in smaller acreage transactions over the near and medium term. In the meantime, all of our timberlands continue to be managed productively in our business of growing and selling timber.

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

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

The consolidated financial statements included in this Form 10-Q are unaudited and do not contain all of the information required by U.S. generally accepted accounting principles to be included in a full set of financial statements. The consolidated balance sheet at December 31, 2011 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 2011 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.

**Accounting for Unconsolidated Real Estate Joint Venture Arrangements.** Under the terms of our current joint venture arrangement, the company received proceeds in connection with the sale of our land to the joint venture and will receive additional contingent consideration (i.e., joint venture earnings) as parcels of land are sold by the joint venture to unrelated third parties. Real estate revenue is recognized under the cost recovery method in connection with the sale of land to a joint venture. Under the cost recovery method, no profit is recognized until cash received from the buyer exceeds the book basis in the property sold. Proceeds in connection with the sale of land to the joint venture are recognized as Real Estate Revenue.

Joint venture earnings from the unconsolidated joint venture will be recognized under the equity method of accounting as a result of parcel sales by the joint venture to unrelated third parties. When they occur, joint venture earnings will be recognized as Equity Earnings from Real Estate Joint Ventures in our Consolidated Statements of Income.

## **New Accounting Pronouncements**

***Fair Value Measurements and Disclosures.*** In 2011, the FASB amended fair value measurement and disclosure requirements. Among other things, the amendments changed certain disclosure requirements for fair value measurements. Upon adoption in the first quarter of 2012, the amendment having the most impact on the company relates to the fair value of debt disclosures. This amendment requires classification of the level within the fair value hierarchy and, for Level 2 and Level 3 measurements, a description of the valuation technique(s) and the inputs used in the fair value measurement, except that quantitative disclosures are not required. The amendments are effective for fiscal years and interim periods within those years, beginning on or after December 15, 2011. The adoption did not have a material impact on the company's financial position, results of operations or cash flows. See Note 9 of the Notes to Consolidated Financial Statements.

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

**Note 2. Earnings Per Share**

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

	<u>Quarter Ended September 30,</u>	
	<u>2012</u>	<u>2011</u>
Net Income Available to Common Stockholders	<u>\$ 59</u>	<u>\$ 50</u>
Denominator for Basic Earnings per Share	<u>161.5</u>	161.9
Effect of Dilutive Securities – Stock Options	<u>0.3</u>	0.2
Effect of Dilutive Securities – Restricted Stock, Restricted Stock Units and Value Management Plan	<u>0.1</u>	0.1
Denominator for Diluted Earnings per Share – Adjusted for Dilutive Securities	<u>161.9</u>	<u>162.2</u>
<b>Per Share Amounts:</b>		
Net Income Per Share – Basic	<u>\$ 0.36</u>	\$ 0.31
Net Income Per Share – Diluted	<u>\$ 0.36</u>	\$ 0.31

	<u>Nine Months Ended September 30,</u>	
	<u>2012</u>	<u>2011</u>
Net Income Available to Common Stockholders	<u>\$ 124</u>	<u>\$ 132</u>
Denominator for Basic Earnings per Share	<u>161.5</u>	161.9
Effect of Dilutive Securities – Stock Options	<u>0.3</u>	0.3
Effect of Dilutive Securities – Restricted Stock, Restricted Stock Units and Value Management Plan	<u>—</u>	—
Denominator for Diluted Earnings per Share – Adjusted for Dilutive Securities	<u>161.8</u>	<u>162.2</u>
<b>Per Share Amounts:</b>		
Net Income Per Share - Basic	<u>\$ 0.77</u>	\$ 0.81
Net Income Per Share - Diluted	<u>\$ 0.76</u>	\$ 0.81

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

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

	<u>Quarter Ended September 30,</u>	
	<u>2012</u>	<u>2011</u>
Number of Options	<u>1.1</u>	2.0
Range of Exercise Prices	<u>\$41.55 to \$43.23</u>	\$35.22 to \$43.23
Expiration on or before	<u>February 2021</u>	February 2021



	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	2011
Number of Options	<b>1.1</b>	1.3
Range of Exercise Prices	<b>\$41.55 to \$43.23</b>	\$35.22 to \$43.23
Expiration on or before	<b>February 2021</b>	February 2021

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

**Note 3. Inventories**

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

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Raw Materials (primarily logs)	\$ 8	\$ 10
Work-In-Process	2	1
Finished Goods	26	24
	<u>36</u>	<u>35</u>
Supplies	13	13
Total	<u>\$ 49</u>	<u>\$ 48</u>

**Note 4. Timber and Timberlands**

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

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Timber and Logging Roads, net	\$ 2,198	\$ 2,232
Timber Deed, net	96	5
Timberlands	1,129	1,140
Timber and Timberlands, net	<u>\$ 3,423</u>	<u>\$ 3,377</u>

In January 2012, the company purchased a timber deed in the Southern Resources Segment for \$103 million, \$5 million of which was paid as a deposit in December 2011. The timber deed encompasses approximately 4.7 million tons of standing timber which along with future growth, will be harvested over the eight-year term of the deed. The timber deed purchase price has been reflected in the Consolidated Statements of Cash Flows as an outflow under Cash Provided by Operating Activities.

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

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

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Land, Buildings and Improvements	\$ 86	\$ 86
Machinery and Equipment	317	315
	<u>403</u>	<u>401</u>
Accumulated Depreciation	(275)	(263)
Property, Plant and Equipment, net	<u>\$ 128</u>	<u>\$ 138</u>



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

**Note 6. Income Taxes**

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

Plum Creek operates as a REIT through various wholly-owned subsidiaries and a joint venture partnership. The activities of the operating partnerships and joint venture partnership consist primarily of sales of standing timber under pay-as-cut sales contracts.

Plum Creek conducts certain activities through various wholly-owned taxable REIT subsidiaries, which are subject to corporate-level income tax. These activities include the company's manufacturing operations, the harvesting and sale of logs, and the development and/or sale of some of the company's higher and better use timberlands. Plum Creek's wholly-owned taxable REIT subsidiaries file a consolidated federal income tax return.

Prior to 2011, Plum Creek was generally subject to corporate-level tax (built-in gains tax) when the company made a taxable disposition of certain properties acquired in a 2001 merger. The built-in gains tax applied to gains recognized from such asset sales to the extent that the fair value of the property exceeded its tax basis at the merger date. Built-in gains tax was generally not payable on dispositions of property to the extent the proceeds from such dispositions were reinvested in qualifying like-kind replacement property.

The company's 2008 federal income tax return is currently being audited by the Internal Revenue Service ("IRS"). The IRS has indicated that it is considering whether to propose an adjustment to the company's U.S. federal income tax treatment of the Timberland Venture formation transaction, which occurred on October 1, 2008, on the basis that the transfer of the timberlands to Southern Diversified Timber, LLC was a taxable transaction to the company at the time of the transfer rather than a nontaxable capital contribution to the Timberland Venture.

If the IRS were to take this position and if it were upheld on administrative or judicial appeal, it could result in a maximum built-in gains tax liability of approximately \$100 million. In addition, the company could be required to accelerate the distribution to its stockholders of up to \$600 million of gain from the transaction. The company expects that as much as 80% of any such distribution could be made with the company's common stock, and stockholders would be subject to tax on the distribution at the applicable capital gains tax rate. The company would also pay interest and penalties, if applicable. The IRS continues to review the transaction, and there is a reasonable prospect that the IRS audit could close without any adjustment.

We believe the transfer of the timberlands was a nontaxable contribution to the Timberland Venture and not a taxable transaction. We have not accrued income taxes for financial reporting purposes with respect to this matter and do not believe it is reasonably possible any material accrual will be made within the next year. We are confident in our position and believe that any proposed re-characterization of the Timberland Venture formation transaction by the IRS would ultimately be unsuccessful. We would intend to vigorously contest any re-characterization the IRS may assert.

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

**Note 7. Borrowings**

Debt consisted of the following (in millions):

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
<b>Variable Rate Debt</b>		
Term Credit Agreement (A)	\$ 450	\$ —
Term Credit Agreement (B)	—	350
Revolving Line of Credit (C)	351	348
<b>Fixed Rate Debt</b>		
Senior Notes	1,293	1,292
Note Payable to Timberland Venture	783	783
Total Debt	<u>2,877</u>	<u>2,773</u>
Less:		
Current Portion of Long-Term Debt	176	352
Line of Credit	351	348
Long-Term Portion	<u>\$ 2,350</u>	<u>\$ 2,073</u>

- (A) On July 10, 2012, the company borrowed \$450 million under a new term credit agreement and used a portion of the proceeds to repay the \$350 million principal balance for the previous term credit agreement. The interest rate on the \$450 million term credit agreement was 1.73% as of September 30, 2012. The \$450 million term credit agreement matures on April 3, 2019. The interest rate on the \$450 million term credit agreement is based on LIBOR plus 1.50%. In addition, the company expects to receive patronage refunds under the term loan agreement. Patronage refunds are distributions of profits from banks in the farm credit system, which are cooperatives that are required to distribute profits to their members. The company expects that, after giving effect to patronage distributions, the effective net interest rate on the term loan will be LIBOR plus approximately 1%. The term loan agreement is subject to covenants that are substantially the same as those of our revolving line of credit.
- (B) The interest rate on the \$350 million term credit agreement was 0.65% as of December 31, 2011. This borrowing matured and was repaid on July 10, 2012.
- (C) On March 2, 2012, the company terminated its previous \$600 million revolving line of credit due to mature on January 30, 2015 and entered into a new \$700 million revolving line of credit agreement that matures on April 3, 2017. Subject to customary covenants, the line of credit allows for borrowings from time to time up to \$700 million, including up to \$100 million of standby letters of credit. Borrowings on the line of credit fluctuate daily based on cash needs. The interest rate on the line of credit is currently LIBOR plus 1.25%, including the facility fee. This rate can range from LIBOR plus 1% to LIBOR plus 2% depending on our debt ratings.

The weighted-average interest rate for the borrowings on the \$700 million line of credit was 1.43% as of September 30, 2012. The weighted-average interest rate on the previous \$600 million line of credit was 1.96% as of December 31, 2011. As of September 30, 2012, we had \$351 million of borrowings and \$2 million of standby

letters of credit outstanding; \$347 million remained available for borrowing under our \$700 million line of credit. As of October 1, 2012, \$313 million of the borrowings under our line of credit was repaid.

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

**Note 8. Stockholders' Equity**

The changes in the company's stockholders' equity accounts were as follows during **2012** (in millions):

	Common Stock		Paid-in Capital	Retained Earnings (Accumulated Deficit)	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Equity
	Shares	Dollars					
<b>January 1, 2012</b>	161.3	\$ 2	\$ 2,261	\$ (28)	\$ (937)	\$ (35)	\$ 1,263
Net Income				29			29
Other Comprehensive Income (Loss)						3	3
Dividends				(68)			(68)
Stock Option Exercises	0.1	—	3				3
Shares Issued under Stock Incentive Plans	0.1	—	—				—
Share-based Compensation			2				2
Common Stock Repurchased	—	—			(1)		(1)
<b>March 31, 2012</b>	161.5	\$ 2	\$ 2,266	\$ (67)	\$ (938)	\$ (32)	\$ 1,231
Net Income				36			36
Other Comprehensive Income (Loss)						—	—
Dividends				(68)			(68)
Share-based Compensation			3				3
<b>June 30, 2012</b>	161.5	\$ 2	\$ 2,269	\$ (99)	\$ (938)	\$ (32)	\$ 1,202
Net Income				59			59
Other Comprehensive Income (Loss)						2	2
Dividends				(68)			(68)
Stock Option Exercises	0.1	—	2				2
Share-based Compensation			2				2
<b>September 30, 2012</b>	<b>161.6</b>	<b>\$ 2</b>	<b>\$ 2,273</b>	<b>\$ (108)</b>	<b>\$ (938)</b>	<b>\$ (30)</b>	<b>\$ 1,199</b>

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

**Note 9. Fair Value Measurements**

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

	Balance at September 30, 2012	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets of Identical Assets (Level 1 Measurements)
Cash Equivalents <sup>(A)</sup>	\$ 318	\$ 318
Available-for-Sale Securities <sup>(B)</sup>	33	33
Trading Securities <sup>(B)</sup>	5	5
Total	<u>\$ 356</u>	<u>\$ 356</u>

  

	Balance at December 31, 2011	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets of Identical Assets (Level 1 Measurements)
Cash Equivalents <sup>(A)</sup>	\$ 253	\$ 253
Available-for-Sale Securities <sup>(B)</sup>	31	31
Trading Securities <sup>(B)</sup>	5	5
Total	<u>\$ 289</u>	<u>\$ 289</u>

**(A)** Consists of several money market funds and is included in the \$320 million and \$254 million of Cash and Cash Equivalents in the Consolidated Balance Sheets at September 30, 2012 and December 31, 2011, respectively.

**(B)** Consists of several mutual funds and is included in Investment in Grantor Trusts in the Consolidated Balance Sheets at September 30, 2012 and December 31, 2011. At September 30, 2012, investments in these mutual funds were approximately 45% in domestic (U.S.) equities, 20% in international equities and 35% in debt securities.

*Available-for-Sale Securities.* Certain investments in the grantor trusts relate to the company's non-qualified pension plans and are classified as available-for-sale securities. The company has invested in various money market, debt and equity mutual funds and plans to use these investments to fund its non-qualified pension obligations. Unrealized holding gains and losses are included as a component of accumulated other comprehensive income. The company records changes in unrealized holding gains and losses in Other Comprehensive Income, unless an other than temporary impairment has



occurred, which is then charged to expense. Changes in the fair value of available-for-sale securities were not material to the company's financial position or results of operations.

**Trading Securities.** Certain investments in the grantor trusts relate to the company's deferred compensation plans and are classified as trading securities. Deferred compensation amounts are invested in various money market, debt and equity mutual funds. The company plans to use these investments to fund deferred compensation obligations. Realized gains and losses and changes in unrealized gains and losses (and a corresponding amount of compensation expense) are recognized in the company's Consolidated Statements of Income. Deferred compensation obligations are included in Other Liabilities and were \$5 million at both September 30, 2012 and December 31, 2011. Changes in the fair value of trading securities were not material to the company's financial position or results of operations.

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**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. Summarized below is the carrying amount and fair value of the company's debt (estimated using the discounted cash flows method) at September 30, 2012, along with the categorization under the fair value hierarchy in the Accounting Standards Codification (in millions):

	Carrying Amount	Fair Value			Total
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Public Debt <sup>(A)</sup>	\$ 1,030	\$ —	\$ 1,116	\$ —	\$ 1,116
Private Debt <sup>(B)</sup>	263	—	272	—	272
Term Credit Agreement <sup>(C)</sup>	450	—	450	—	450
Line of Credit <sup>(D)</sup>	351	—	351	—	351
Note Payable to Timberland Venture <sup>(E)</sup>	783	—	—	957	957
<b>Total Debt</b>	<b>\$ 2,877</b>	<b>\$ —</b>	<b>\$ 2,189</b>	<b>\$ 957</b>	<b>\$ 3,146</b>

- (A) Fair value of the company's Public Debt (publicly issued Senior Notes) is estimated using multiple market quotes for the company's public bonds.
- (B) Fair value of the company's Private Debt (Senior Notes with various maturities and fixed interest rates which are privately placed with various lenders) is estimated using market quotes for the company's Public Debt adjusted for the different maturities and an illiquidity premium.
- (C) Fair value is estimated by adjusting the spread over LIBOR to a current market quote for comparable debt.
- (D) Fair value is estimated by adjusting the spread over LIBOR to a current market quote for comparable credit lines.
- (E) Fair value is estimated by using market quotes for the company's Public Debt adjusted by an estimated risk premium for holding company debt and the different maturity.

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis.** There were no fair value measurements of assets or liabilities measured on a nonrecurring basis during the nine-month periods ended September 30, 2012 and 2011.

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

**Note 10. Employee Pension Plans**

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

	Quarter Ended September 30,	
	2012	2011
Service Cost	\$ 2	\$ 2
Interest Cost	2	2
Expected Return on Plan Assets	(2)	(2)
Recognized Actuarial Loss	1	—
Total Pension Cost	<u>\$ 3</u>	<u>\$ 2</u>

  

	Nine Months Ended September 30,	
	2012	2011
Service Cost	\$ 6	\$ 6
Interest Cost	6	6
Expected Return on Plan Assets	(6)	(6)
Recognized Actuarial Loss	3	—
Total Pension Cost	<u>\$ 9</u>	<u>\$ 6</u>

It is the company's policy to fund its qualified plan annually such that the fair value of plan assets equals or exceeds the actuarially computed accumulated benefit obligation (the approximate actuarially computed current pension obligation if the plan were discontinued) over a market cycle (generally 3 to 5 years). During the first nine months of 2012, the company contributed \$10 million to its qualified pension plan. Depending on asset returns and interest rates, the company may contribute up to an additional \$5 million to the qualified plans during the fourth quarter of 2012. The company expects to contribute between \$0 and \$2 million to its grantor trust associated with its non-qualified pension plans during 2012.

**Note 11. Commitments and Contingencies**

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

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

**Note 12. Variable Interest Entities**

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

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

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**PLUM CREEK TIMBER COMPANY, INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
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We are not the primary beneficiary of the Timberland Venture. The company does not manage the day-to-day operations of the Timberland Venture, it has only limited protective rights and its involvement is generally limited to receiving distributions on its preferred and common interests. We are not the primary beneficiary because we do not direct the activities that most significantly impact the Timberland Venture's economic performance. We believe that the activities that most significantly impact the Timberland Venture's economic performance include managing the timberlands along with the timing and extent of the harvesting activities, neither of which we control.

The carrying amount of the investment is \$187 million at September 30, 2012 and \$201 million at December 31, 2011, and it is reported in the Consolidated Balance Sheets as Equity Investment in Timberland Venture. Our maximum exposure to loss is \$187 million, the carrying amount of the investment. Generally, losses are first allocated among the common interests based on positive capital accounts in which we hold a 9% common interest. No losses are allocated to our preferred interest (\$705 million) until the common interests have absorbed losses of approximately \$861 million.

**Note 13. Summarized Income Statement Information of Unconsolidated Subsidiary**

The earnings of the Timberland Venture are a significant component of consolidated earnings. See Note 12 of the Notes to Consolidated Financial Statements. Equity earnings for the Timberland Venture were \$42 million for the nine-month period ending September 30, 2012, and were \$44 million for the nine-month period ending September 30, 2011. Equity earnings includes the amortization of the difference between the book value of the company's investment and its proportionate share of the Timberland Venture's net assets of \$6 million and \$5 million for the nine-month periods ended September 30, 2012 and 2011, respectively. Furthermore, interest expense in connection with the loan from the Timberland Venture was \$43 million for each of the nine-month periods ended September 30, 2012 and 2011. The table below presents summarized income statement information for the Timberland Venture for the **nine months ended September 30** (in millions):

	Nine Months Ended September 30,	
	2012	2011
Revenues	\$ 10	\$ 10
Cost of Goods Sold <sup>(A)</sup>	11	11
Selling, General and Administrative Expenses	6	3
Operating Income (Loss)	(7)	(4)
Interest Income, net	43	43
Net Income before Allocation to Preferred and Common Interests	\$ 36	\$ 39

(A) Cost of Goods Sold includes Depreciation, Depletion and Amortization of \$10 million for each of the nine-month periods ended September 30, 2012 and 2011.

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

**Note 14. Segment Information**

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

	<u>Northern Resources</u>	<u>Southern Resources</u>	<u>Real Estate</u>	<u>Manufactured Products</u>	<u>Other</u>	<u>Total <sup>(B)</sup></u>
<b>Quarter Ended September 30, 2012</b>						
External Revenues	\$ 58	\$ 110	\$ 96	\$ 85	\$ 5	\$ 354
Intersegment Revenues	7	—	—	—	—	7
Depreciation, Depletion and Amortization	7	19	—	4	—	30
Basis of Real Estate Sold	—	—	36	—	—	36
Operating Income	5	23	54	9	5	96
<b>Quarter Ended September 30, 2011</b>						
External Revenues	\$ 61	\$ 93	\$ 67	\$ 67	\$ 5	\$ 293
Intersegment Revenues	7	—	—	—	—	7
Depreciation, Depletion and Amortization	7	14	—	4	—	25
Basis of Real Estate Sold	—	—	14	—	—	14
Operating Income	7	21	46	3	5	82
	<u>Northern Resources</u>	<u>Southern Resources</u>	<u>Real Estate</u>	<u>Manufactured Products</u>	<u>Other <sup>(A)</sup></u>	<u>Total <sup>(B)</sup></u>
<b>Nine Months Ended September 30, 2012</b>						
External Revenues	\$ 168	\$ 312	\$ 243	\$ 246	\$ 16	\$ 985
Intersegment Revenues	17	—	—	—	—	17
Depreciation, Depletion and Amortization	20	52	1	11	—	84
Basis of Real Estate Sold	—	—	111	—	—	111
Other Operating Gain	—	—	—	—	—	—
Operating Income	15	66	113	22	14	230
<b>Nine Months Ended September 30, 2011</b>						
External Revenues	\$ 155	\$ 266	\$ 208	\$ 208	\$ 15	\$ 852
Intersegment Revenues	12	—	—	—	—	12
Depreciation, Depletion and Amortization	19	37	1	10	—	67

Basis of Real Estate Sold	—	—	57	—	—	57
Other Operating Gain	—	—	—	—	2	2
Operating Income	17	55	134	12	16	234

- (A) During the first quarter of 2011, the company received a payment of \$2 million for the settlement of a dispute related to certain mineral rights. For the nine months ended September 30, 2011, the \$2 million payment is reported as Other Operating Gain in our Other Segment and is included in Other Operating Income (Expense), net in the Consolidated Statements of Income.
- (B) Consolidated depreciation, depletion and amortization includes unallocated corporate expense of \$1 million for each of the quarterly periods ended September 30, 2012 and September 30, 2011; and \$3 million for each of the nine-month periods ended September 30, 2012 and September 30, 2011.

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

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

	Quarter Ended September 30,	
	2012	2011
Total Segment Operating Income	\$ 96	\$ 82
Corporate and Other Unallocated Expenses	(17)	(13)
Other Unallocated Operating Income (Expense), net	—	—
Operating Income	79	69
Equity Earnings from Timberland Venture	14	14
Total Interest Expense, net	(35)	(34)
Income before Income Taxes	\$ 58	\$ 49

	Nine Months Ended September 30,	
	2012	2011
Total Segment Operating Income	\$ 230	\$ 234
Corporate and Other Unallocated Expenses	(47)	(43)
Other Unallocated Operating Income (Expense), net	1	1
Operating Income	184	192
Equity Earnings from Timberland Venture	42	44
Total Interest Expense, net	(104)	(104)
Income before Income Taxes	\$ 122	\$ 132

**Note 15. Subsequent Events**

**Quarterly Dividend.** On November 6, 2012, the Board of Directors authorized the company to make a dividend payment of \$0.42 per share, or approximately \$68 million, which will be paid on November 30, 2012 to stockholders of record on November 16, 2012.



[Table of Contents](#)**ITEM 1. FINANCIAL STATEMENTS (CONTINUED)**

Included in this item are the consolidated financial statements related to Plum Creek Timberlands, L.P., a Delaware Limited Partnership and a wholly-owned subsidiary of Plum Creek Timber Company, Inc. These financial statements are provided pursuant to Rule 3-10 of Regulation S-X in connection with the shelf registration statement on Form S-3 filed in December of 2011 pursuant to which Plum Creek Timberlands, L.P. has registered and from time to time may offer and sell debt securities. As of September 30, 2012, Plum Creek Timberlands, L.P. has publicly issued and outstanding \$1,033 million aggregate principal amount of Senior Notes ("Public Debt") pursuant to the shelf registration statement.

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

(In Millions)	Quarter Ended September 30,	
	2012	2011
<b>REVENUES:</b>		
Timber	\$ 168	\$ 154
Real Estate	96	67
Manufacturing	85	67
Other	5	5
Total Revenues	354	293
<b>COSTS AND EXPENSES:</b>		
Cost of Goods Sold:		
Timber	130	119
Real Estate	40	19
Manufacturing	74	62
Other	—	—
Total Cost of Goods Sold	244	200
Selling, General and Administrative	31	24
Total Costs and Expenses	275	224
Other Operating Income (Expense), net	—	—
Operating Income	79	69
Equity Earnings from Timberland Venture	14	14
Interest Expense, net	21	20

Income before Income Taxes	72	63
Provision (Benefit) for Income Taxes	<u>(1)</u>	<u>(1)</u>
Net Income before Allocation to Series T-1 Preferred Interest and Partners	73	64
Net Income Allocable to Series T-1 Preferred Interest	<u>(14)</u>	<u>(14)</u>
Net Income Available to Common Interest Partners	<u>\$ 59</u>	<u>\$ 50</u>

*See accompanying Notes to Consolidated Financial Statements*

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

(In Millions)	<u>Nine Months Ended September 30,</u>	
	<u>2012</u>	<u>2011</u>
<b>REVENUES:</b>		
Timber	\$ 480	\$ 421
Real Estate	243	208
Manufacturing	246	208
Other	16	15
Total Revenues	<u>985</u>	<u>852</u>
<b>COSTS AND EXPENSES:</b>		
Cost of Goods Sold:		
Timber	374	327
Real Estate	124	68
Manufacturing	217	190
Other	1	1
Total Cost of Goods Sold	<u>716</u>	<u>586</u>
Selling, General and Administrative	86	77
Total Costs and Expenses	<u>802</u>	<u>663</u>
Other Operating Income (Expense), net	<u>1</u>	<u>3</u>
Operating Income	184	192
Equity Earnings from Timberland Venture	42	44
Interest Expense, net	61	61
Income before Income Taxes	165	175
Provision (Benefit) for Income Taxes	<u>(2)</u>	<u>—</u>
Net Income before Allocation to Series T-1 Preferred Interest and Partners	167	175
Net Income Allocable to Series T-1 Preferred Interest	<u>(43)</u>	<u>(43)</u>

Net Income Available to Common Interest Partners

\$ 124 \$ 132

*See accompanying Notes to Consolidated Financial Statements*

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

(In Millions)	Quarter Ended September 30,	
	2012	2011
<b>NET INCOME BEFORE ALLOCATION TO SERIES T-1 PREFERRED INTEREST AND PARTNERS</b>	<b>\$ 73</b>	<b>\$ 64</b>
<b>OTHER COMPREHENSIVE INCOME BEFORE INCOME TAXES:</b>		
Defined Benefit Pension Plans:		
Amortization of Actuarial Loss Reclassified to Pension Expense	1	—
Unrealized Gains (Losses) on Grantor Trust Assets:		
Unrealized Holding Gains (Losses) Arising During Period	1	—
Other Comprehensive Income (Loss) Before Tax	2	—
Income Tax Expense (Benefit) Related to Items of Other Comprehensive Income	—	—
Other Comprehensive Income (Loss) After Tax	2	—
Comprehensive Income	<u><u>\$ 75</u></u>	<u><u>\$ 64</u></u>

(In Millions)	Nine Months Ended September 30,	
	2012	2011
<b>NET INCOME BEFORE ALLOCATION TO SERIES T-1 PREFERRED INTEREST AND PARTNERS</b>	<b>\$ 167</b>	<b>\$ 175</b>
<b>OTHER COMPREHENSIVE INCOME BEFORE INCOME TAXES:</b>		
Defined Benefit Pension Plans:		
Amortization of Actuarial Loss Reclassified to Pension Expense	3	—
Unrealized Gains (Losses) on Grantor Trust Assets:		
Unrealized Holding Gains (Losses) Arising During Period	2	2
Other Comprehensive Income (Loss) Before Tax	5	2
Income Tax Expense (Benefit) Related to Items of Other Comprehensive Income	—	—
Other Comprehensive Income (Loss) After Tax	5	2
Comprehensive Income	<u><u>\$ 172</u></u>	<u><u>\$ 177</u></u>

*See accompanying Notes to Consolidated Financial Statements*



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

(In Millions)	September 30, 2012	December 31, 2011
<b>ASSETS</b>		
Current Assets:		
Cash and Cash Equivalents	\$ 320	\$ 254
Accounts Receivable	39	28
Inventories	49	48
Deferred Tax Asset	6	6
Assets Held for Sale	44	103
Other Current Assets	14	15
	<u>472</u>	<u>454</u>
Timber and Timberlands, net	3,423	3,377
Property, Plant and Equipment, net	128	138
Equity Investment in Timberland Venture	187	201
Deferred Tax Asset	18	17
Investment in Grantor Trusts (\$38 and \$36 at Fair Value in 2012 and 2011)	39	37
Other Assets	37	36
Total Assets	<u>\$ 4,304</u>	<u>\$ 4,260</u>
<b>LIABILITIES</b>		
Current Liabilities:		
Current Portion of Long-Term Debt	\$ 176	\$ 352
Line of Credit	351	348
Accounts Payable	29	25
Interest Payable	18	19
Wages Payable	19	20
Taxes Payable	16	9
Deferred Revenue	31	27
Other Current Liabilities	9	8
	<u>649</u>	<u>808</u>
Long-Term Debt	1,567	1,290
Other Liabilities	99	109
Total Liabilities	<u>2,315</u>	<u>2,207</u>

## Commitments and Contingencies

**PARTNERSHIP CAPITAL**

Series T-1 Preferred Interest	<b>790</b>	790
Partners' Capital (Common Partnership Interests)	<b>1,199</b>	1,263
Total Partnership Capital	<b>1,989</b>	2,053
Total Liabilities and Partnership Capital	<b>\$ 4,304</b>	\$ 4,260

*See accompanying Notes to Consolidated Financial Statements*



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

(In Millions)	Nine Months Ended September 30,	
	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income before Allocation to Series T-1 Preferred Interest and Partners	\$ 167	\$ 175
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Depreciation, Depletion and Amortization	87	70
Basis of Real Estate Sold	111	57
Equity Earnings from Timberland Venture	(42)	(44)
Distributions from Timberland Venture	56	56
Deferred Income Taxes	(1)	2
Deferred Revenue from Long-Term Gas Leases (Net of Amortization)	(6)	14
Timber Deed Acquired	(98)	—
Pension Plan Contributions	(10)	(3)
Working Capital Changes Impacting Cash Flow:		
Like-Kind Exchange Funds	—	—
Other Working Capital Changes	5	—
Other	11	10
Net Cash Provided By Operating Activities	280	337
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Capital Expenditures (Excluding Timberland Acquisitions)	(52)	(43)
Timberlands and Minerals Acquired	(18)	(88)
Other	(1)	—
Net Cash Used In Investing Activities	(71)	(131)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Cash Distributions to Common Partners	(200)	(211)
Cash Distributions for Series T-1 Preferred Interest	(43)	(43)
Borrowings on Line of Credit	1,712	1,097
Repayments on Line of Credit	(1,709)	(961)
Proceeds from Issuance of Long-Term Debt	450	—
Debt Issuance Costs	(3)	—
Principal Payments and Retirement of Long-Term Debt	(350)	(49)

Net Cash Used In Financing Activities	<u>(143)</u>	<u>(167)</u>
Increase (Decrease) In Cash and Cash Equivalents	66	39
Cash and Cash Equivalents:		
Beginning of Period	254	252
End of Period	<u>\$ 320</u>	<u>\$ 291</u>

*See accompanying Notes to Consolidated Financial Statements*

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

**Note 1. Basis of Presentation**

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

At September 30, 2012, the Operating Partnership owned and managed approximately 6.4 million acres of timberlands in the Northwest, Southern, and Northeast United States, and owned 8 wood product conversion facilities in the Northwest United States (2 of which have been indefinitely curtailed). Included in the 6.4 million acres are about 900,000 acres of higher value timberlands, which are expected to be sold and/or developed over the next fifteen years for recreational, conservation or residential purposes. Included within the 900,000 acres of higher value timberlands are approximately 700,000 acres we expect to sell for recreational uses, approximately 100,000 acres we expect to sell for conservation and approximately 100,000 acres that are identified as having development potential. In addition, the Operating Partnership has approximately 300,000 acres of non-strategic timberlands, which are expected to be sold in smaller acreage transactions over the near and medium term. In the meantime, all of our timberlands continue to be managed productively in our business of growing and selling timber.

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

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

The consolidated financial statements included in this Form 10-Q are unaudited and do not contain all of the information required by U.S. generally accepted accounting principles to be included in a full set of financial statements. These interim consolidated financial statements in this Form 10-Q should be read in conjunction with the audited consolidated financial statements of Plum Creek Timberlands, L.P. for the three years ended December 31, 2011, which were included on Form 10-K of Plum Creek Timber Company, Inc. and filed with the SEC on February 24, 2012, 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.

**Accounting for Unconsolidated Real Estate Joint Venture Arrangements.** Under the terms of our current joint venture

arrangement, the Operating Partnership received proceeds in connection with the sale of our land to the joint venture and will receive additional contingent consideration (i.e., joint venture earnings) as parcels of land are sold by the joint venture to unrelated third parties. Real estate revenue is recognized under the cost recovery method in connection with the sale of land to a joint venture. Under the cost recovery method, no profit is recognized until cash received from the buyer exceeds the book basis in the property sold. Proceeds in connection with the sale of land to the joint venture are recognized as Real Estate Revenue.

Joint venture earnings from the unconsolidated joint venture will be recognized under the equity method of accounting as a result of parcel sales by the joint venture to unrelated third parties. When they occur, joint venture earnings will be recognized as Equity Earnings from Real Estate Joint Ventures in our Consolidated Statements of Income.

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**New Accounting Pronouncements**

**Fair Value Measurements and Disclosures.** In 2011, the FASB amended fair value measurement and disclosure requirements. Among other things, the amendments changed certain disclosure requirements for fair value measurements. Upon adoption in the first quarter of 2012, the amendment having the most impact on the Operating Partnership relates to the fair value of debt disclosures. This amendment requires classification of the level within the fair value hierarchy and, for Level 2 and Level 3 measurements, a description of the valuation technique(s) and the inputs used in the fair value measurement, except that quantitative disclosures are not required. The amendments are effective for fiscal years and interim periods within those years, beginning on or after December 15, 2011. The adoption did not have a material impact on the Operating Partnership's financial position, results of operations or cash flows. See Note 8 of the Notes to Consolidated Financial Statements.

**Note 2. Inventories**

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

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Raw Materials (primarily logs)	\$ 8	\$ 10
Work-In-Process	2	1
Finished Goods	<u>26</u>	<u>24</u>
	36	35
Supplies	<u>13</u>	<u>13</u>
Total	<u>\$ 49</u>	<u>\$ 48</u>

**Note 3. Timber and Timberlands**

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

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Timber and Logging Roads, net	\$ 2,198	\$ 2,232
Timber Deed, net	96	5
Timberlands	<u>1,129</u>	<u>1,140</u>
Timber and Timberlands, net	<u>\$ 3,423</u>	<u>\$ 3,377</u>

In January 2012, the Operating Partnership purchased a timber deed in the Southern Resources Segment for \$103 million, \$5 million of which was paid as a deposit in December 2011. The timber deed encompasses approximately 4.7 million tons of standing timber which along with future growth, will be harvested over the eight-year term of the deed. The timber deed purchase price has been reflected in the Consolidated Statements of Cash Flows as an outflow under Cash Provided by Operating Activities.



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

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

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
Land, Buildings and Improvements	\$ 86	\$ 86
Machinery and Equipment	317	315
	<u>403</u>	<u>401</u>
Accumulated Depreciation	(275)	(263)
Property, Plant and Equipment, net	<u>\$ 128</u>	<u>\$ 138</u>

**Note 5. Income Taxes**

Plum Creek Timberlands, L.P. is a wholly-owned limited partnership and therefore, not subject to income tax. Plum Creek Timberlands, L.P.'s taxable income is allocated 100% (directly and indirectly) to its parent, Plum Creek Timber Company, Inc., which has elected to be taxed as a REIT under sections 856-860 of the United States Internal Revenue Code. A REIT generally does not pay corporate-level income tax if it distributes 100% of its taxable income to shareholders and satisfies other organizational and operational requirements as set forth in the Internal Revenue Code. 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.

Plum Creek operates as a REIT through various wholly-owned subsidiaries and a joint venture partnership. The activities of the operating partnerships and joint venture partnership consist primarily of sales of standing timber under pay-as-cut sales contracts.

Plum Creek conducts certain activities through various wholly-owned taxable REIT subsidiaries, which are subject to corporate-level income tax. These activities include the company's manufacturing operations, the harvesting and sale of logs, and the development and/or sale of some of the company's higher and better use timberlands. Plum Creek's wholly-owned taxable REIT subsidiaries file a consolidated federal income tax return.

Prior to 2011, Plum Creek was generally subject to corporate-level tax (built-in gains tax) when the company made a taxable disposition of certain properties acquired in a 2001 merger. The built-in gains tax applied to gains recognized from such asset sales to the extent that the fair value of the property exceeded its tax basis at the merger date. Built-in gains tax was generally not payable on dispositions of property to the extent the proceeds from such dispositions were reinvested in qualifying like-kind replacement property.

Plum Creek's 2008 federal income tax return is currently being audited by the Internal Revenue Service ("IRS"). The IRS has indicated that it is considering whether to propose an adjustment to Plum Creek's U.S. federal income tax treatment of the Timberland Venture formation transaction, which occurred on October 1, 2008, on the basis that the transfer of the timberlands to Southern Diversified Timber, LLC was a taxable transaction to Plum Creek at the time of the transfer rather than a nontaxable capital contribution to the Timberland Venture.

If the IRS were to take this position and if it were upheld on administrative or judicial appeal, it could result in a maximum built-in gains tax liability of approximately \$100 million. In addition, Plum Creek could be required to accelerate the distribution to its stockholders of up to \$600 million of gain from the transaction. Plum Creek expects that as much as 80% of any such distribution could be made with Plum Creek's common stock, and stockholders would be subject to tax on the

distribution at the applicable capital gains tax rate. Plum Creek would also pay interest and penalties, if applicable. The IRS continues to review the transaction, and there is a reasonable prospect that the IRS audit could close without any adjustment.

We believe the transfer of the timberlands was a nontaxable contribution to the Timberland Venture and not a taxable transaction. We have not accrued income taxes for financial reporting purposes with respect to this matter and do not believe it is reasonably possible any material accrual will be made within the next year. We are confident in our position and believe that any proposed re-characterization of the Timberland Venture formation transaction by the IRS would ultimately be unsuccessful. We would intend to vigorously contest any re-characterization the IRS may assert.



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**Note 6. Borrowings**

Debt consisted of the following (in millions):

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
<b>Variable Rate Debt</b>		
Term Credit Agreement (A)	\$ 450	\$ —
Term Credit Agreement (B)	—	350
Revolving Line of Credit (C)	351	348
<b>Fixed Rate Debt</b>		
Senior Notes	1,293	1,292
Total Debt	<u>2,094</u>	<u>1,990</u>
Less:		
Current Portion of Long-Term Debt	176	352
Line of Credit	351	348
Long-Term Portion	<u>\$ 1,567</u>	<u>\$ 1,290</u>

- (A) On July 10, 2012, the Operating Partnership borrowed \$450 million under a new term credit agreement and used a portion of the proceeds to repay the \$350 million principal balance for the previous term credit agreement. The interest rate on the \$450 million term credit agreement was 1.73% as of September 30, 2012. The \$450 million term credit agreement matures on April 3, 2019. The interest rate on the \$450 million term credit agreement is based on LIBOR plus 1.50%. In addition, the Operating Partnership expects to receive patronage refunds under the term loan agreement. Patronage refunds are distributions of profits from banks in the farm credit system, which are cooperatives that are required to distribute profits to their members. The Operating Partnership expects that, after giving effect to patronage distributions, the effective net interest rate on the term loan will be LIBOR plus approximately 1%. The term loan agreement is subject to covenants that are substantially the same as those of our revolving line of credit.
- (B) The interest rate on the \$350 million term credit agreement was 0.65% as of December 31, 2011. This borrowing matured and was repaid on July 10, 2012.
- (C) On March 2, 2012, the Operating Partnership terminated its previous \$600 million revolving line of credit due to mature on January 30, 2015 and entered into a new \$700 million revolving line of credit agreement that matures on April 3, 2017. Subject to customary covenants, the line of credit allows for borrowings from time to time up to \$700 million, including up to \$100 million of standby letters of credit. Borrowings on the line of credit fluctuate daily based on cash needs. The interest rate on the line of credit is currently LIBOR plus 1.25%, including the facility fee. This rate can range from LIBOR plus 1% to LIBOR plus 2% depending on our debt ratings.

The weighted-average interest rate for the borrowings on the \$700 million line of credit was 1.43% as of September 30, 2012. The weighted-average interest rate on the previous \$600 million line of credit was 1.96% as of December 31, 2011. As of September 30, 2012, we had \$351 million of borrowings and \$2 million of standby letters of credit outstanding; \$347 million remained available for borrowing under our \$700 million line of credit.

As of October 1, 2012, \$313 million of the borrowings under our line of credit was repaid.

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**Note 7. Partners' Capital**

The changes in the Operating Partnership's capital accounts were as follows during **2012** (in millions):

	Preferred Partnership Interest	Common Partners' Capital	Accumulated Other Comprehensive Income (Loss)	Total Partnership Capital
<b>January 1, 2012</b>	\$ 790	\$ 1,298	\$ (35)	\$ 2,053
Net Income before Allocation to Series T-1 Preferred Interest and Partners		43		43
Other Comprehensive Income (Loss)			3	3
Net Income Allocation to Series T-1 Preferred Interest	14	(14)		—
Distributions to Partners (Common Partnership Interests)		(66)		(66)
Distributions for Series T-1 Preferred Interest	(14)			(14)
Capital Contributions from Parent		2		2
<b>March 31, 2012</b>	\$ 790	\$ 1,263	\$ (32)	\$ 2,021
Net Income before Allocation to Series T-1 Preferred Interest and Partners		51		51
Other Comprehensive Income (Loss)			—	—
Net Income Allocation to Series T-1 Preferred Interest	15	(15)		—
Distributions to Partners (Common Partnership Interests)		(68)		(68)
Distributions for Series T-1 Preferred Interest	(15)			(15)
Capital Contributions from Parent		3		3
<b>June 30, 2012</b>	\$ 790	\$ 1,234	\$ (32)	\$ 1,992
Net Income before Allocation to Series T-1 Preferred Interest and Partners		73		73
Other Comprehensive Income (Loss)			2	2
Net Income Allocation to Series T-1 Preferred Interest	14	(14)		—
Distributions to Partners (Common Partnership Interests)		(66)		(66)
Distributions for Series T-1 Preferred Interest	(14)			(14)
Capital Contributions from Parent		2		2
<b>September 30, 2012</b>	<u>\$ 790</u>	<u>\$ 1,229</u>	<u>\$ (30)</u>	<u>\$ 1,989</u>

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**Note 8. Fair Value Measurements**

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

	Balance at September 30, 2012	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets of Identical Assets (Level 1 Measurements)
Cash Equivalents <sup>(A)</sup>	\$ 318	\$ 318
Available-for-Sale Securities <sup>(B)</sup>	33	33
Trading Securities <sup>(B)</sup>	5	5
Total	<u>\$ 356</u>	<u>\$ 356</u>

	Balance at December 31, 2011	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets of Identical Assets (Level 1 Measurements)
Cash Equivalents <sup>(A)</sup>	\$ 253	\$ 253
Available-for-Sale Securities <sup>(B)</sup>	31	31
Trading Securities <sup>(B)</sup>	5	5
Total	<u>\$ 289</u>	<u>\$ 289</u>

**(A)** Consists of several money market funds and is included in the \$320 million and \$254 million of Cash and Cash Equivalents in the Consolidated Balance Sheets at September 30, 2012 and December 31, 2011, respectively.

**(B)** Consists of several mutual funds and is included in Investment in Grantor Trusts in the Consolidated Balance Sheets at September 30, 2012 and December 31, 2011. At September 30, 2012, investments in these mutual funds were approximately 45% in domestic (U.S.) equities, 20% in international equities and 35% in debt securities.

*Available-for-Sale Securities.* Certain investments in the grantor trusts relate to the Operating Partnership's non-qualified pension plans and are classified as available-for-sale securities. The Operating Partnership has invested in various money market, debt and equity mutual funds and plans to use these investments to fund its non-qualified pension obligations. Unrealized holding gains and losses are included as a component of accumulated other comprehensive income. The

Operating Partnership records changes in unrealized holding gains and losses in Other Comprehensive Income, unless an other than temporary impairment has occurred, which is then charged to expense. Changes in the fair value of available-for-sale securities were not material to the Operating Partnership's financial position or results of operations.

**Trading Securities.** Certain investments in the grantor trusts relate to the Operating Partnership's deferred compensation plans and are classified as trading securities. Deferred compensation amounts are invested in various money market, debt and equity mutual funds. The Operating Partnership plans to use these investments to fund deferred compensation obligations. Realized gains and losses and changes in unrealized gains and losses (and a corresponding amount of compensation expense) are recognized in the Operating Partnership's Consolidated Statements of Income. Deferred compensation obligations are included in Other Liabilities and were \$5 million at both September 30, 2012 and December 31, 2011. Changes in the fair value of trading securities were not material to the Operating Partnership's financial position or results of operations.

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**Other Instruments.** The carrying amount of notes receivable approximates fair value due to the short-term maturities of these instruments. Summarized below is the carrying amount fair value of the Operating Partnership's debt (estimated using the discounted cash flow method) at September 30, 2012, along with the categorization under the fair value hierarchy in the Accounting Standards Codification (in millions):

	Carrying Amount	Fair Value			Total
		Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Public Debt <sup>(A)</sup>	\$ 1,030	\$ —	\$ 1,116	\$ —	\$ 1,116
Private Debt <sup>(B)</sup>	263	—	272	—	272
Term Credit Agreement <sup>(C)</sup>	450	—	450	—	450
Line of Credit <sup>(D)</sup>	351	—	351	—	351
<b>Total Debt</b>	<b>\$ 2,094</b>	<b>\$ —</b>	<b>\$ 2,189</b>	<b>\$ —</b>	<b>\$ 2,189</b>

(A) Fair value of the Operating Partnership's Public Debt (publicly issued Senior Notes) is estimated using market quotes for the Operating Partnership's public bonds.

(B) Fair value of the Operating Partnership's Private Debt (Senior Notes with various maturities and fixed interest rates which are privately placed with various lenders) is estimated using market quotes for the Operating Partnership's Public Debt adjusted for the different maturities and an illiquidity premium.

(C) Fair value is estimated by adjusting the spread over LIBOR to a current market quote for comparable debt.

(D) Fair value is estimated by adjusting the spread over LIBOR to a current market quote for comparable credit lines.

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis.** There were no fair value measurements of assets or liabilities measured on a nonrecurring basis during the nine-month periods ended September 30, 2012 and 2011.

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**Note 9. Employee Pension Plans**

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

	Quarter Ended September 30,	
	2012	2011
Service Cost	\$ 2	\$ 2
Interest Cost	2	2
Expected Return on Plan Assets	(2)	(2)
Recognized Actuarial Loss	1	—
Total Pension Cost	<u>\$ 3</u>	<u>\$ 2</u>

  

	Nine Months Ended September 30,	
	2012	2011
Service Cost	\$ 6	\$ 6
Interest Cost	6	6
Expected Return on Plan Assets	(6)	(6)
Recognized Actuarial Loss	3	—
Total Pension Cost	<u>\$ 9</u>	<u>\$ 6</u>

It is the Operating Partnership's policy to fund its qualified plan annually such that the fair value of plan assets equals or exceeds the actuarially computed accumulated benefit obligation (the approximate actuarially computed current pension obligation if the plan were discontinued) over a market cycle (generally 3 to 5 years). During the first nine months of 2012, the Operating Partnership contributed \$10 million to its qualified pension plan. Depending on asset returns and interest rates, the Operating Partnership may contribute up to an additional \$5 million to the qualified plans during the fourth quarter of 2012. The Operating Partnership expects to contribute between \$0 and \$2 million to its grantor trust associated with its non-qualified pension plans during 2012.

**Note 10. Commitments and Contingencies**

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

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

**Note 11. Variable Interest Entities**

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



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

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

The carrying amount of the investment is \$187 million at September 30, 2012 and \$201 million at December 31, 2011, and it is reported in the Consolidated Balance Sheets as Equity Investment in Timberland Venture. Our maximum exposure to loss is \$187 million, the carrying amount of the investment. Generally, losses are first allocated among the common interests based on positive capital accounts in which we hold a 9% common interest. No losses are allocated to our preferred interest (\$705 million) until the common interests have absorbed losses of approximately \$861 million.

**Note 12. Summarized Income Statement Information of Unconsolidated Subsidiary**

The earnings of the Timberland Venture are a significant component of consolidated earnings. See Note 11 of the Notes to Consolidated Financial Statements. Equity earnings for the Timberland Venture were \$42 million for the nine-month period ending September 30, 2012, and were \$44 million for the nine-month period ending September 30, 2011. Equity earnings includes the amortization of the difference between the book value of the Operating Partnership's investment and its proportionate share of the Timberland Venture's net assets of \$6 million and \$5 million for the nine-month periods ended September 30, 2012 and 2011, respectively. The table below presents summarized income statement information for the Timberland Venture for the **nine months ended September 30** (in millions):

	Nine Months Ended September 30,	
	2012	2011
Revenues	\$ 10	\$ 10
Cost of Goods Sold <sup>(A)</sup>	11	11
Selling, General and Administrative Expenses	6	3
Operating Income (Loss)	(7)	(4)
Interest Income, net	43	43
Net Income before Allocation to Preferred and Common Interests	\$ 36	\$ 39

(A) Cost of Goods Sold includes Depreciation, Depletion and Amortization of \$10 million for each of the nine-month periods ended September 30, 2012 and 2011.

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**Note 13. Segment Information**

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

	<u>Northern Resources</u>	<u>Southern Resources</u>	<u>Real Estate</u>	<u>Manufactured Products</u>	<u>Other</u>	<u>Total <sup>(B)</sup></u>
<b>Quarter Ended September 30, 2012</b>						
External Revenues	\$ 58	\$ 110	\$ 96	\$ 85	\$ 5	\$ 354
Intersegment Revenues	7	—	—	—	—	7
Depreciation, Depletion and Amortization	7	19	—	4	—	30
Basis of Real Estate Sold	—	—	36	—	—	36
Operating Income	5	23	54	9	5	96
<b>Quarter Ended September 30, 2011</b>						
External Revenues	\$ 61	\$ 93	\$ 67	\$ 67	\$ 5	\$ 293
Intersegment Revenues	7	—	—	—	—	7
Depreciation, Depletion and Amortization	7	14	—	4	—	25
Basis of Real Estate Sold	—	—	14	—	—	14
Operating Income	7	21	46	3	5	82
	<u>Northern Resources</u>	<u>Southern Resources</u>	<u>Real Estate</u>	<u>Manufactured Products</u>	<u>Other <sup>(A)</sup></u>	<u>Total <sup>(B)</sup></u>
<b>Nine Months Ended September 30, 2012</b>						
External Revenues	\$ 168	\$ 312	\$ 243	\$ 246	\$ 16	\$ 985
Intersegment Revenues	17	—	—	—	—	17
Depreciation, Depletion and Amortization	20	52	1	11	—	84
Basis of Real Estate Sold	—	—	111	—	—	111
Other Operating Gain	—	—	—	—	—	—
Operating Income	15	66	113	22	14	230
<b>Nine Months Ended September 30, 2011</b>						
External Revenues	\$ 155	\$ 266	\$ 208	\$ 208	\$ 15	\$ 852
Intersegment Revenues	12	—	—	—	—	12

Depreciation, Depletion and Amortization	19	37	1	10	—	67
Basis of Real Estate Sold	—	—	57	—	—	57
Other Operating Gain	—	—	—	—	2	2
Operating Income	17	55	134	12	16	234

- (A) During the first quarter of 2011, the Operating Partnership received a payment of \$2 million for the settlement of a dispute related to certain mineral rights. For the nine months ended September 30, 2011, the \$2 million payment is reported as Other Operating Gain in our Other Segment and is included in Other Operating Income (Expense), net in the Consolidated Statements of Income.
- (B) Consolidated depreciation, depletion and amortization includes unallocated corporate expense of \$1 million for each of the quarterly periods ended September 30, 2012 and September 30, 2011; and \$3 million for each of the nine-month periods ended September 30, 2012 and September 30, 2011.

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

	<b>Quarter Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
Total Segment Operating Income	<b>\$ 96</b>	\$ 82
Corporate and Other Unallocated Expenses	<b>(17)</b>	(13)
Other Unallocated Operating Income (Expense), net	—	—
Operating Income	<b>79</b>	69
Equity Earnings from Timberland Venture	<b>14</b>	14
Interest Expense, net	<b>(21)</b>	(20)
Income before Income Taxes	<b>\$ 72</b>	\$ 63

	<b>Nine Months Ended September 30,</b>	
	<b>2012</b>	<b>2011</b>
Total Segment Operating Income	<b>\$ 230</b>	\$ 234
Corporate and Other Unallocated Expenses	<b>(47)</b>	(43)
Other Unallocated Operating Income (Expense), net	<b>1</b>	1
Operating Income	<b>184</b>	192
Equity Earnings from Timberland Venture	<b>42</b>	44
Interest Expense, net	<b>(61)</b>	(61)
Income before Income Taxes	<b>\$ 165</b>	\$ 175

[Table of Contents](#)**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, 2011. Some factors include changes in governmental, legislative and environmental restrictions, catastrophic losses from fires, floods, windstorms, earthquakes, volcanic eruptions, insect infestations or diseases, as well as changes in economic conditions and competition in our domestic and export markets and other factors described from time to time in our filings with the Securities and Exchange Commission. In addition, factors that could cause our actual results to differ from those contemplated by our projected, forecasted, estimated or budgeted results as reflected in forward-looking statements relating to our operations and business include, but are not limited to:

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

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

The following discussion and analysis should be read in conjunction with the financial information and analysis included in our 2011 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 24, 2012.

[Table of Contents](#)**Organization of the Company**

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

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

The Operating Partnership has borrowed and has currently outstanding \$2.1 billion principal amount of debt, including \$1.0 billion of publicly issued notes. PC Ventures has borrowed and has currently outstanding \$783 million in principal amount of debt ("the Note Payable to Timberland Venture") from an entity ("the Timberland Venture") in which a subsidiary of the Operating Partnership has a common and preferred equity interest. See Note 12 of the Notes to Consolidated Financial Statements. PC Ventures used the proceeds from the borrowing to make a \$783 million capital contribution to the Operating Partnership in exchange for a preferred equity interest in the Operating Partnership. PC Ventures has no other activities and the Operating Partnership has no ownership interest in PC Ventures.

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

**Recent Events**

***Clean Water Act - Ninth Circuit Ruling.*** In August, 2010, a three judge panel of the U.S. Court of Appeals for the Ninth Circuit ruled in Northwest Environmental Defense Center (NEDC) v. Brown that ditches and culverts associated with "forest roads" were "point sources" under the Clean Water Act ("CWA") and thus required National Pollution Discharge Elimination System (NPDES) permits should storm water runoff that is channeled and/or conveyed from such sources be discharged into waters of the United States. In May, 2011, the court denied a petition for rehearing, leaving its prior decision in place. The plaintiff alleged that the defendants violated the CWA by not obtaining EPA permits for stormwater runoff from logging roads into systems of ditches, culverts and channels that is then discharged into forest streams and rivers. The plaintiff further alleged that timber hauling on logging roads is a major source of sediment that flows through the stormwater collection system. A petition for review was filed with the United States Supreme Court seeking to appeal the decision, and the court recently decided to review the case. In addition, legislation passed by Congress in late December 2011 prohibits the EPA from implementing the NPDES permitting regime mandated by the Ninth Circuit decision through September 30, 2012.

If the Supreme Court does not overturn the decision, or if the Congress does not enact an effective and permanent legislative response, then the Ninth Circuit's decision would overturn a long standing regulatory regime for forest roads. Since 1976, the EPA has promulgated and amended a regulation specifically exempting from NPDES permitting requirements "point source" silviculture activities such as nursery operations, site preparation, reforestation and subsequent silvicultural treatment, thinning, prescribed burning, pest and fire control, harvesting operations, surface drainage, or road construction and maintenance from which there is "natural runoff" (the Silviculture Rule). Under the Silviculture Rule, the EPA does not require permitting for discharges from ditches, culverts and channels that collect stormwater runoff from logging roads. Instead, these forestry sources of stormwater runoff are regulated by the states, many of which do so by adopting best management practices.

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

[Table of Contents](#)**Results of Operations****Third Quarter 2012 Compared to Third Quarter 2011**

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

	<b>Quarter Ended September 30,</b>		
	<b>2012</b>	2011	Change
Operating Income by Segment			
Northern Resources	\$ 5	\$ 7	\$ (2)
Southern Resources	23	21	2
Real Estate	54	46	8
Manufactured Products	9	3	6
Other	5	5	—
Total Segment Operating Income	<u>96</u>	<u>82</u>	<u>14</u>
Other Costs and Eliminations	(17)	(13)	(4)
Other Unallocated Operating Income (Expense), net	—	—	—
Operating Income	<u>\$ 79</u>	<u>\$ 69</u>	<u>\$ 10</u>

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

	<b>Quarter Ended September 30, 2012</b>		Quarter Ended September 30, 2011	
	<b>Harvest Tons (millions)</b>	<b>Average Sales Realization</b>	Harvest Tons (millions)	Average Sales Realization
Sawlog (\$/Ton Delivered)	0.679	\$ 69	0.661	\$ 71
Pulpwood (\$/Ton Delivered)	0.441	\$ 42	0.500	\$ 42
Total	<u>1.120</u>		<u>1.161</u>	

Revenues decreased by \$3 million, or 4%, to \$65 million in the third quarter of 2012 compared to the third quarter of 2011. This decrease was due primarily to lower pulpwood harvest volumes (\$2 million) and lower sawlog prices (\$1 million).

Pulpwood harvest volumes were 12% lower in the third quarter of 2012 compared to the third quarter of 2011 due primarily to the timing of harvesting activities due to weather and the reduced demand for export chips on the west coast. Pulpwood harvest volumes for all of 2012 are expected to decrease slightly compared to the 1.7 million tons harvested in 2011.

Sawlog prices decreased 2% in the third quarter of 2012 compared to the third quarter of 2011 due primarily to weaker export markets in the Pacific Northwest as a result of lower demand from China. Sawlog harvest volumes during the third quarter of 2012 were comparable to the third quarter of the prior year. However, sawlog harvest volumes for all of 2012 are expected to increase by approximately 10% over the 2.3 million tons harvested during 2011 due to restoring sawlog harvest volumes to normal levels mid-way through 2011.

Northern Resources Segment operating income was 8% of its revenues for the third quarter of 2012 and 10% of its revenues for the third quarter of 2011. Segment costs and expenses decreased by \$1 million, or 2%, to \$60 million for the



third quarter of 2012 due primarily to lower harvest volumes.

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

	Quarter Ended September 30, 2012		Quarter Ended September 30, 2011	
	Harvest Tons (millions)	Average Sales Realization	Harvest Tons (millions)	Average Sales Realization
Sawlog (\$/Ton Stumpage)	1.533	\$ 20	1.289	\$ 20
Pulpwood (\$/Ton Stumpage)	2.151	\$ 10	1.833	\$ 9
Total	3.684		3.122	

Revenues increased by \$17 million, or 18%, to \$110 million in the third quarter of 2012 compared to the third quarter of 2011. This increase was due primarily to higher sawlog harvest volumes (\$8 million), higher pulpwood harvest volumes (\$6 million) and higher pulpwood prices (\$2 million).

Sawlog harvest volumes were 19% higher during the third quarter of 2012 compared to the third quarter of 2011. This increase is due primarily to harvesting volume from a recently acquired timber deed and the harvesting of previously deferred sawlog volume. In January 2012, we purchased a timber deed containing approximately 4.7 million tons of standing timber which along with future growth, will be harvested over the next eight years. Sawlog harvest volumes for all of 2012 are expected to increase by approximately 15% over the 5.0 million tons harvested in 2011 as a result of harvesting 0.5 million tons of sawlogs from the timber deed and the harvesting of previously deferred volume.

Pulpwood harvest volumes were 17% higher during the third quarter of 2012 compared to the third quarter of 2011. This increase was due primarily to accelerating harvesting in the third quarter from volume later in the year as a result of relatively favorable pulpwood prices and demand, and a sustained increase in growth rates. Pulpwood harvest volumes for all of 2012 are expected to increase by approximately 12% over the 6.8 million tons harvested in 2011. The increase in pulpwood volumes is due primarily to a sustained increase in growth rates which are yielding higher pulpwood volumes in connection with the thinning of timber stands and pulpwood volumes associated with the timber deed acquired earlier in the year (0.2 million tons).

Southern Resources Segment operating income was 21% of its revenues for the third quarter of 2012 and 23% of its revenues for the third quarter of 2011 due primarily to higher depletion expense. Segment costs and expenses increased by \$15 million, or 21%, to \$87 million due primarily to higher harvest volumes and a higher depletion rate per ton. On a per ton basis, depletion expense increased 22% (\$3 million) for the third quarter of 2012 as a result of the higher depletion rate associated with the recently acquired timber deed.

**Real Estate Segment.**

Property	Quarter Ended September 30, 2012			Quarter Ended September 30, 2011		
	Acres Sold	Revenues (millions)	Revenue per Acre	Acres Sold	Revenues (millions)	Revenue per Acre
Small Non-Strategic	5,750	\$ 8	\$ 1,455	11,525	\$ 14	\$ 1,230
Large Non-Strategic	99,800	67	675	—	—	—
Conservation	5,400	5	905	370	—	1,270
Higher and Better Use / Recreational	5,410	11	2,100	24,500	48	1,950
Development Properties	—	—	—	20	—	6,405
Conservation Easements	n/a	—	—	n/a	5	460
Total	116,360	\$ 91		36,415	\$ 67	

Proceeds from Real Estate Joint Venture	<u>\$</u> <u>5</u>	<u>\$</u> <u>—</u>
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Revenues increased by \$29 million, or 43%, to \$96 million in the third quarter of 2012 compared to the third quarter of 2011. This increase is due primarily to a large non-strategic sale in Wisconsin (\$67 million), offset in part by a decrease in the number of acres of higher and better use / recreational properties sold (\$37 million).

Revenue from the sale of large non-strategic timberlands was \$67 million during the third quarter of 2012. As a result of the continued weak demand for small parcels of rural real estate in many locations, the company is taking advantage of the favorable demand for large timberland parcels.

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Revenues from higher and better use / recreational properties decreased due primarily to selling approximately 19,000 fewer acres. Most of the reduction in acreage sold is the result of selling a large parcel of approximately 16,400 acres for approximately \$30 million during the third quarter of 2011. Demand for higher and better use / recreational properties (especially higher value properties) remains weak due to concerns over near-term real estate values, low consumer confidence, and the inability of buyers to secure debt financing. Additionally, many high net-worth buyers of larger higher and better use / recreational parcels are waiting for indicators of recovery in the rural real estate market.

During the third quarter of 2012, we received approximately \$5 million of proceeds from the final payment in connection with the sale of our land to a joint venture. An initial \$2 million payment from the joint venture was received in 2007. If the joint venture reaches certain sales targets from sales to third parties we will receive additional payments from the joint venture. See Note 1 of the Notes to Consolidated Financial Statements.

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

Real Estate Segment operating income was 56% of its third quarter revenues for 2012 compared to 69% for 2011. This decrease was due primarily to selling fewer higher and better use / recreational properties during the third quarter of 2012 compared to the same period in the prior year. Real Estate Segment costs and expenses increased by \$21 million to \$42 million in the third quarter of 2012 due primarily to selling more acres during 2012.

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

	Quarter Ended September 30, 2012		Quarter Ended September 30, 2011	
	Sales Volume	Average Sales Realization <sup>(A)</sup>	Sales Volume	Average Sales Realization <sup>(A)</sup>
Lumber	27,645 MBF	\$ 525	29,979 MBF	\$ 493
Plywood	48,984 MSF	\$ 432	41,632 MSF	\$ 382
MDF	54,992 MSF	\$ 636	38,485 MSF	\$ 607

(A) Represents product prices at the mill level.

Revenues increased by \$18 million, or 27%, to \$85 million in the third quarter of 2012 compared to the third quarter of 2011. This increase in revenues was due primarily to higher MDF sales volume (\$11 million), higher plywood prices (\$3 million), higher plywood sales volume (\$2 million), and higher MDF prices (\$2 million).

MDF sales volume was 43% higher during the third quarter of 2012 compared to the third quarter of 2011 due primarily to a modest increase in demand and reduced supply. MDF demand increased due primarily to replacement purchases by many of our industrial customers for such products as molding, architectural doors and store fixtures. The supply of MDF in North America has declined due primarily to lower imports and curtailed production at high cost domestic mills. The lower imports are primarily the result of foreign manufacturers targeting their production to more attractive global markets. Additionally, the reduced supply has allowed for modest MDF price increases during 2012. MDF average prices were 5% higher during the third quarter of 2012 compared to the same period in the prior year.

Plywood sales volume was 18% higher during the third quarter of 2012 compared to the same period in the prior year due primarily to a modest increase in demand and reduced supply. We have experienced improvement in demand from both

our industrial (e.g., truck trailers) and commercial (e.g., concrete form) customers. The supply of plywood in North America has declined due primarily to a combination of domestic mill curtailments and many currently operating plywood plants not adding shifts to increase production. The reduced supply has allowed for plywood price increases during 2012 and, as a result, average prices were 13% higher during the third quarter of 2012 compared to the same period in the prior year.

Manufactured Products Segment operating income was 11% of its revenues for the third quarter of 2012 compared to 4% of its revenues for the third quarter of 2011. This increase in operating performance was due primarily to higher product prices along

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with an increase in MDF and plywood sales volume which allowed us to operate our facilities at volume levels that better optimize our production costs. Manufactured Products Segment costs and expenses increased by \$12 million, or 19%, to \$76 million due primarily to increased sales volumes.

**Other Costs and Eliminations.** Other costs and eliminations (which consists of corporate overhead and intercompany profit elimination) decreased operating income by \$17 million during the third quarter of 2012 and by \$13 million during the third quarter of 2011. The increase of \$4 million was due primarily to higher compensation costs (\$2 million), which included an increase in expense for our performance-based incentive programs, and higher share-based compensation costs (\$1 million). The increase in share-based compensation expense is due primarily to fair value adjustments associated with our value management plan. We adjust the fair value of our liability quarterly based on our relative total shareholder return compared to the performance of several peer groups.

**Interest Expense, net.** Interest expense, net of interest income, increased \$1 million, or 3%, to \$35 million in the third quarter of 2012.

[Table of Contents](#)**Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011**

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

	<b>Nine Months Ended September 30,</b>		
	<b>2012</b>	2011	Change
Operating Income by Segment			
Northern Resources	\$ 15	\$ 17	\$ (2)
Southern Resources	66	55	11
Real Estate	113	134	(21)
Manufactured Products	22	12	10
Other	14	16	(2)
Total Segment Operating Income	<b>230</b>	234	(4)
Other Costs and Eliminations	<b>(47)</b>	(43)	(4)
Other Unallocated Operating Income (Expense), net	<b>1</b>	1	—
Operating Income	<b>\$ 184</b>	\$ 192	\$ (8)

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

	<b>Nine Months Ended September 30, 2012</b>		Nine Months Ended September 30, 2011	
	<b>Harvest Tons (millions)</b>	<b>Average Sales Realization</b>	Harvest Tons (millions)	Average Sales Realization
Sawlog (\$/Ton Delivered)	1.967	\$ 69	1.638	\$ 70
Pulpwood (\$/Ton Delivered)	1.209	\$ 42	1.222	\$ 41
Total	<b>3.176</b>		2.860	

Revenues increased by \$18 million, or 11%, to \$185 million in the first nine months of 2012 compared to the first nine months of 2011. This increase was due primarily to higher sawlog harvest volumes (\$22 million), partially offset by lower sawlog prices (\$2 million) and lower pulpwood volumes (\$1 million).

Sawlog harvest volumes were 20% higher in the first nine months of 2012 compared to the first nine months of 2011 due primarily to restoring sawlog harvest volumes to normal levels during the second half of 2011. As a result, sawlog harvest volumes for all of 2012 are expected to increase by approximately 10% over the 2.3 million tons harvested in 2011. Sawlog prices decreased 2% in the first nine months of 2012 compared to the first nine months of 2011 due primarily to weaker export markets in the Pacific Northwest as a result of lower demand from China. Pulpwood harvest volumes for all of 2012 are expected to decrease slightly compared to the 1.7 million tons harvested in 2011.

Northern Resources Segment operating income was 8% of its revenues for the first nine months of 2012 and 10% for the first nine months of 2011 due primarily to higher log and haul costs and lower sawlog prices. Segment costs and expenses increased by \$20 million, or 13%, to \$170 million for the first nine months of 2012 due primarily to higher harvest volumes and an increase in the log and haul rate per ton. On a per ton basis, log and haul costs increased 7% (\$7 million) for the first nine months of 2012 due to a combination of harvesting stands that require more expensive logging methods, an upward rate adjustment to cover the logger's higher operating costs (primarily equipment and labor) and higher diesel prices.





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

	Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	Harvest Tons (millions)	Average Sales Realization	Harvest Tons (millions)	Average Sales Realization
Sawlog (\$/Ton Stumpage)	4.406	\$ 20	3.701	\$ 19
Pulpwood (\$/Ton Stumpage)	5.926	\$ 10	4.919	\$ 9
Total	10.332		8.620	

Revenues increased by \$46 million, or 17%, to \$312 million during the first nine months of 2012 compared to the first nine months of 2011 due primarily to higher sawlog volumes (\$25 million), higher pulpwood volumes (\$18 million) and higher pulpwood prices (\$3 million).

Sawlog harvest volumes were 19% higher during the first nine months of 2012 compared to the first nine months of 2011. This increase is due primarily to harvesting volume from a recently acquired timber deed and the harvesting of previously deferred sawlog volume. In January 2012, we purchased a timber deed containing approximately 4.7 million tons of standing timber which along with future growth, will be harvested over the next eight years. Sawlog harvest volumes for all of 2012 are expected to increase by approximately 15% over the 5.0 million tons harvested in 2011 as a result of harvesting 0.5 million tons of sawlogs from the timber deed and the harvesting of previously deferred volume.

Pulpwood harvest volumes were 21% higher during the first nine months of 2012 compared to the first nine months of 2011. This increase was due primarily to accelerating harvesting earlier in the year from volume later in the year as a result of relatively favorable pulpwood prices and demand, and a sustained increase in growth rates. Pulpwood harvest volumes for all of 2012 are expected to increase by approximately 12% over the 6.8 million tons harvested in 2011. The increase in pulpwood volumes is due primarily to a sustained increase in growth rates which are yielding higher pulpwood volumes in connection with the thinning of timber stands and pulpwood volumes associated with the timber deed acquired earlier in the year (0.2 million tons).

Southern Resources Segment operating income was 21% of its revenues for both the first nine months of 2012 and the first nine months of 2011. Segment costs and expenses increased by \$35 million, or 17%, to \$246 million due primarily to higher harvest volumes (\$22 million) and a higher depletion rate per ton. On a per ton basis, depletion expense increased 19% (\$8 million) for the first nine months of 2012 as a result of the higher depletion rate associated with the recently acquired timber deed.

**Real Estate Segment.**

Property	Nine Months Ended September 30, 2012			Nine Months Ended September 30, 2011		
	Acres Sold	Revenues (millions)	Revenue per Acre	Acres Sold	Revenues (millions)	Revenue per Acre
Small Non-Strategic	28,005	\$ 34	\$ 1,215	16,780	\$ 20	\$ 1,180
Large Non-Strategic	169,570	151	895	30,295	43	1,405
Conservation	7,865	10	1,240	60,130	63	1,055
Higher and Better Use / Recreational	16,160	33	2,050	38,615	77	2,000
Development Properties	—	—	—	20	—	6,405
Conservation Easements	n/a	10	28	n/a	5	460
Total	221,600	\$ 238		145,840	\$ 208	

Proceeds from Real Estate Joint Venture	<u>\$</u> <u>5</u>	<u>\$</u> <u>—</u>
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Revenues increased by \$35 million, or 17%, to \$243 million in the first nine months of 2012 compared to the same period in the prior year. This increase is due primarily to an increase in non-strategic land sales (\$122 million), offset in part by a decrease in the revenue from conservation sales (\$53 million) and higher and better use / recreational sales (\$ 44 million).

Revenue from small non-strategic sales during the first nine months of 2012 increased compared to the first nine months of 2011 due primarily to selling a collection of approximately 11,000 acres to a single buyer. Furthermore, as discussed below, the demand for lower priced acreage remains the strongest.

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Revenue from the sale of large non-strategic timberlands was \$151 million during the first nine months of 2012 compared to \$43 million during the same period in 2011. As a result of the continued weak demand for small parcels of rural real estate in many locations, the company is taking advantage of the favorable demand for large timberland parcels.

Revenues from the sale of conservation properties decreased due primarily to selling large parcels in Florida, Arkansas and Louisiana during the first nine months of 2011. 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.

Revenues from our higher and better use / recreational land sales decreased due primarily to selling approximately 22,500 fewer acres. Most of the reduction in acreage sold is the result of selling a large parcel of approximately 16,400 acres for approximately \$30 million during the third quarter of 2011. Demand for higher and better use / recreational properties (especially higher value properties) remains weak due to concerns over near-term real estate values, low consumer confidence, and the inability of buyers to secure debt financing. Additionally, many high net-worth buyers of larger higher and better use / recreational parcels are waiting for indicators of recovery in the rural real estate market.

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

We expect revenues from real estate sales during 2012 to range between \$300 million and \$325 million.

Real Estate Segment operating income was 47% of its revenues for the first nine months of 2012 compared to 64% for 2011. This decrease is due primarily to selling properties in 2012 with a higher book value compared to the book value of properties sold in 2011. Most of the large non-strategic property sold in 2012 was acquired within the past decade and therefore had a higher book value than the large non-strategic property sold in 2011. Real Estate Segment costs and expenses increased by \$56 million to \$130 million during the first nine months of 2012 due primarily to selling more acres during 2012 and selling large non-strategic property during 2012 with a higher book value compared to the book value of properties sold in 2011.

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

	Nine Months Ended September 30, 2012		Nine Months Ended September 30, 2011	
	Sales Volume	Average Sales Realization <sup>(A)</sup>	Sales Volume	Average Sales Realization <sup>(A)</sup>
Lumber	<b>88,184 MBF</b>	<b>\$ 535</b>	88,883 MBF	\$ 518
Plywood	<b>153,682 MSF</b>	<b>\$ 409</b>	130,630 MSF	\$ 378
MDF	<b>152,168 MSF</b>	<b>\$ 622</b>	122,245 MSF	\$ 608

(A) Represents product prices at the mill level.

Revenues increased by \$38 million, or 18%, to \$246 million for the first nine months of 2012 compared to the first nine months of 2011. This increase in revenues was due primarily to higher MDF sales volumes (\$19 million), higher plywood sales volumes (\$7 million), higher plywood prices (\$5 million), and higher MDF prices (\$2 million).

MDF sales volume was 25% higher during the first nine months of 2012 compared to the same period in the prior year due

primarily to a modest increase in demand and reduced supply. MDF demand increased due primarily to replacement purchases by many of our industrial customers for such products as molding, architectural doors and store fixtures. The supply of MDF in North America has declined due primarily to lower imports and curtailed production at high cost domestic mills. The lower imports are primarily the result of foreign manufacturers targeting their production to more attractive global markets. Additionally, the reduced supply has allowed for modest MDF price increases during 2012. MDF average prices were 2% higher during the first nine months of 2012 compared to the same period in the prior year.

Plywood sales volume was 18% higher during the first nine months of 2012 compared to the same period in the prior year due

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primarily to a modest increase in demand and reduced supply. We have experienced improvement in demand from both our industrial (e.g., truck trailers) and commercial (e.g., concrete form) customers. The supply of plywood in North America has declined due primarily to a combination of domestic mill curtailments and many currently operating plywood plants not adding shifts to increase production. The reduced supply has allowed for plywood price increases during 2012 and, as a result, plywood average prices were 8% higher during the first nine months of 2012 compared to the same period in the prior year.

Manufactured Products Segment operating income was 9% of its revenues for the first nine months of 2012 compared to 6% of its revenues for the first nine months of 2011. This increase in operating performance was due primarily to higher product prices along with an increase in MDF and plywood sales volume which allowed us to operate our facilities at volume levels that better optimize our production costs. Manufactured Products Segment costs and expenses increased by \$28 million, or 14%, to \$224 million due primarily to increased sales volumes.

**Other Segment.** Operating income decreased \$2 million to \$14 million in the first nine months of 2012 due primarily to a payment of \$2 million that we received during the first nine months of 2011 for the settlement of a dispute that related to certain mineral rights. The \$2 million gain is recorded in our Other Segment and reported as Other Operating Income (Expense), net in our Consolidated Statements of Income.

**Other Costs and Eliminations.** Other costs and eliminations (which consist of corporate overhead and intercompany profit elimination) decreased operating income by \$47 million during the first nine months of 2012 and by \$43 million during the first nine months of 2011. The increase of \$4 million was due primarily to higher compensation costs (\$2 million), which included an increase in expense for our performance-based incentive programs, and higher share-based compensation costs (\$1 million). The increase in share-based compensation expense is due primarily to fair value adjustments associated with our value management plan. We adjust the fair value of our liability quarterly based on our relative total shareholder return compared to the performance of several peer groups.

**Selling, General and Administrative Expenses.** Corporate overhead costs along with Segment specific selling, general and administrative costs are reported in total on our Consolidated Statements of Income and decreased operating income by \$86 million during the first nine months of 2012 and by \$77 million during the first nine months of 2011. This increase in expense of \$9 million was due primarily to an increase in expense for our performance-based incentive programs (\$3 million), higher share-based compensation costs (\$2 million), and higher information technology costs related to recently installed business support systems (\$2 million).

**Interest Expense, net.** Interest expense, net of interest income was \$104 million for both the first nine months of 2012 and 2011.

**Provision (Benefit) for Income Taxes.** The benefit for income taxes was \$2 million for the first nine months of 2012 compared to a benefit for income taxes of essentially \$0 million for the first nine months of 2011. This change of \$2 million is due primarily to recording a valuation allowance of \$3 million in the first nine months of 2011. The valuation allowance is related to certain state net operating loss carryforwards and other associated deferred tax assets for which we do not believe it is more likely than not they will be realized in future periods.

Our determination of the realization of deferred tax assets is based upon management's judgment of various future events and uncertainties, including the timing, nature and amount of future taxable income earned by certain wholly-owned subsidiaries. A valuation allowance is recognized if management believes it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. At September 30, 2012, we have recorded deferred tax assets of \$61 million (net of a \$3 million valuation allowance) and deferred tax liabilities of \$37 million. Management believes that due to the reversal of various taxable temporary differences and/or the planned execution of prudent and feasible tax planning

strategies, sufficient taxable income can be generated to utilize the company's remaining deferred tax assets for which a valuation allowance was determined to be unnecessary.

[Table of Contents](#)**Financial Condition and Liquidity**

We believe we have a strong balance sheet and do not foresee any near-term liquidity issues. On March 2, 2012, we entered into a new \$700 million revolving line of credit agreement that matures on April 3, 2017 (terminating our previous \$600 million revolving line of credit). The interest rate on the line of credit is currently LIBOR plus 1.25%. This rate can range from LIBOR plus 1% to LIBOR plus 2% depending on our debt ratings. At the same time, we also entered into a \$450 million term credit agreement that matures on April 3, 2019. On July 10, 2012, we borrowed the full \$450 million under the term loan agreement and repaid the \$350 million principal balance for the previous term loan. The effective net interest rate on the \$450 million term loan is LIBOR plus approximately 1%.

At September 30, 2012, we had a cash balance of \$320 million and had availability of \$347 million under our line of credit. In addition to the discussion that follows, we have summarized our sources and uses of cash in a table later in this section.

**Cash Flow**

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

	<b>Nine Months Ended September 30,</b>		
	<b>2012</b>	2011	Change
Net Cash Provided By Operating Activities	\$ 237	\$ 294	\$ (57)
Net Cash Used In Investing Activities	(71)	(131)	60
Net Cash Used In Financing Activities	(100)	(124)	24
Change in Cash and Cash Equivalents	<u>\$ 66</u>	<u>\$ 39</u>	<u>\$ 27</u>

**Cash Flows from Operating Activities.** Net cash provided by operating activities for the nine months ended September 30, 2012 was \$237 million compared to \$294 million for the nine months ended September 30, 2011. The decrease of \$57 million is due primarily to the acquisition of a timber deed (\$98 million) and lower proceeds from the sale of oil and gas exploration rights (\$17 million), offset in part by higher proceeds from real estate sales (\$32 million) and higher harvest volumes in our Southern Resources Segment (\$26 million).

The timber deed acquisition is discussed in the next paragraph. During 2012, we received proceeds of \$4 million compared to proceeds of \$21 million during 2011, in connection with signing various long-term agreements granting the right to explore for and produce oil and gas on certain of our properties. See Results of Operations for a discussion regarding higher harvest volumes in our Southern Resources Segment and factors impacting our Real Estate Segment.

**Timber Deed Acquisition.** In January 2012, we purchased a timber deed in the Southern Resources Segment for \$103 million, \$5 million of which was paid as a deposit in December 2011. The timber deed encompasses approximately 4.7 million tons of standing timber which along with future growth, will be harvested over the eight-year term of the deed. The timber deed purchase price has been reflected in the Consolidated Statements of Cash Flows as an outflow under Cash Provided by Operating Activities.

**Capital Expenditures.** Capital expenditures (excluding timberland and mineral acquisitions) for the nine months ended September 30, 2012 were \$52 million compared to \$43 million for the same period in 2011. Planned capital expenditures for 2012 are expected to be approximately \$75 million and include approximately \$64 million for our timberlands, \$3 million for our manufacturing facilities, \$4 million for real estate development investments, and \$4 million for investments in information technology. The timberland expenditures are primarily for reforestation and other expenditures associated with the planting and growing of trees. Approximately 55% of planned capital expenditures in 2012 are discretionary, primarily expenditures for silviculture. Capital expenditures at our manufacturing facilities consist primarily of

expenditures to sustain operating activities.

***Timberland Acquisitions.*** During the first nine months of 2012, we acquired approximately 12,000 acres of timberlands primarily located in South Carolina and Georgia for a total of \$18 million. These purchases were funded with cash from operations and have been accounted for as asset acquisitions. During the first nine months of 2011, we acquired approximately 52,000 acres of timberlands in Alabama and Georgia and mineral reserves in Oregon for a total of \$88 million.



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**Future Cash Requirements.** Cash required to meet our future financial needs will be significant. As of September 30, 2012, we had \$176 million of scheduled debt principal payments over the next twelve months. We intend to refinance these maturities with proceeds from a public bond offering, a draw on our line of credit, or a combination thereof. Additionally, we believe that current cash on hand and cash flows from continuing operations will be sufficient for the next twelve months to fund planned capital expenditures, interest payments on our indebtedness and our dividend.

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

	<b>Nine Months Ended September 30,</b>		
	<b>2012</b>	2011	Change
<b>Sources of Cash:</b>			
Operations <sup>(A)</sup>	\$ 288	\$ 243	\$ 45
Changes in Working Capital	5	—	5
Cash Distributions from Timberland Venture	56	56	—
Cash from Stock Option Exercises	5	9	(4)
Increase Debt Obligations, net	100	87	13
Other Cash Changes, net <sup>(B)</sup>	(1)	—	(1)
<b>Total Sources of Cash</b>	<b>453</b>	<b>395</b>	<b>58</b>
<b>Uses of Cash:</b>			
Returned to Stockholders:			
Dividends	(204)	(204)	—
Common Stock Repurchases	(1)	(16)	15
Reinvest in the Business:			
Capital Expenditures, including Real Estate Development <sup>(C)</sup>	(56)	(45)	(11)
Timber Deed Acquired	(98)	—	(98)
Timberlands and Minerals Acquired	(18)	(88)	70
Meet Our Pension Obligations:			
Pension Contributions	(10)	(3)	(7)
<b>Total Uses of Cash</b>	<b>(387)</b>	<b>(356)</b>	<b>(31)</b>
<b>Change in Cash and Cash Equivalents</b>	<b>\$ 66</b>	<b>\$ 39</b>	<b>\$ 27</b>

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

**(B)** From the Consolidated Statements of Cash Flows, Other Investing Activities.

**(C)** Calculated from the Consolidated Statements of Cash Flows by adding Capital Expenditures (excluding Timberland and Mineral Acquisitions) and Expenditures for Real Estate Development, which are included in Other Operating Activities. Expenditures for Real Estate Development were \$4 million for the nine month period ending September 30, 2012 and \$2 million for the nine month period ending September 30, 2011.

**Borrowings**

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

**Line of Credit.** We have a \$700 million revolving line of credit agreement that matures in April 2017. Subject to customary covenants, the line of credit allows for borrowings from time to time up to \$700 million, including up to \$100 million of standby letters of credit. Borrowings on the line of credit fluctuate daily based on cash needs. The interest rate on the line of credit is

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currently LIBOR plus 1.25%, including the facility fee. This rate can range from LIBOR plus 1% to LIBOR plus 2% depending on our debt ratings.

The weighted-average interest rate for the borrowings on the \$700 million line of credit was 1.43% as of September 30, 2012. The weighted-average interest rate on our prior \$600 million line of credit was 1.96% as of December 31, 2011. As of September 30, 2012, we had \$351 million of borrowings and \$2 million of standby letters of credit outstanding; \$347 million remained available for borrowing under our line of credit. As of October 1, 2012, \$313 million of the borrowings outstanding under our line of credit was repaid.

**Term Credit Agreements.** On July 10, 2012, we borrowed \$450 million under a new term credit agreement and used the proceeds to repay the \$350 million principal balance for the previous term loan and repay \$100 million of borrowings outstanding under our line of credit. The \$450 million term credit agreement matures on April 3, 2019 and had an interest rate of 1.73% as of September 30, 2012. The interest rate on the \$450 million term credit agreement is based on LIBOR plus 1.50%. In addition, we expect to receive patronage refunds under the term loan agreement. Patronage refunds are distributions of profits from banks in the farm credit system, which are cooperatives that are required to distribute profits to their members. We expect that, after giving effect to patronage distributions, the effective net interest rate on the term loan will be LIBOR plus approximately 1%. The term loan agreement is subject to covenants that are substantially the same as those of our revolving line of credit. The agreement allows for prepayment of the borrowings at any time prior to the maturity date without premium or penalty.

We had a \$350 million term credit agreement that matured and was repaid on July 10, 2012. The interest rate on the \$350 million term credit agreement was 0.65% as of December 31, 2011. The interest rate was based on LIBOR plus 0.375%.

**Senior Notes.** The company has outstanding Senior Notes with various maturities and fixed interest rates. As of September 30, 2012, the company had \$263 million aggregate principal amount of Senior Notes outstanding that are privately placed borrowings with various lenders ("Private Debt"). The Private Debt matures serially through 2016.

As of September 30, 2012, the company had publicly issued and outstanding \$1.0 billion aggregate principal amount of Senior Notes ("Public Debt"). The Public Debt consists of \$575 million aggregate principal amount of 4.70% Public Debt which matures in 2021 and 5.875% Public Debt with an aggregate principal amount of \$458 million which matures in 2015. The Public Debt is issued by the Partnership and is fully and unconditionally guaranteed by Plum Creek Timber Company, Inc.

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

	<u>September 30, 2012</u>	<u>December 31, 2011</u>
<b>Senior Notes</b>		
Public Debt	\$ 1,030	\$ 1,029
Private Debt	263	263
Total Senior Notes	<u>\$ 1,293</u>	<u>\$ 1,292</u>

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

**Debt Covenants.** Our Senior Notes, Term Credit Agreement, and Line of Credit contain various restrictive covenants, none of which are expected to materially impact the financing of our ongoing operations. We are in compliance with all of our borrowing agreement covenants as of September 30, 2012.

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

The borrowing agreements for the Private Debt include limitations on the incurrence of indebtedness, making restricted payments (such as payments of cash dividends or stock repurchases), harvest levels and sales of assets. The restricted payments covenant is based on a computation of "available cash," which is generally our net income (excluding gains on the sale of capital assets) after adjusting for non-cash charges (such as depreciation and depletion), changes in various reserves, less capital expenditures

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and principal payments on indebtedness that are not financed. Additionally, the amount of available cash may be increased by the amount of proceeds from the sale of higher and better use properties and, under certain circumstances, by 50% of the amount of net proceeds from the sale of other assets. At September 30, 2012, our entire cash balance of \$320 million is available to make restricted payments.

As of September 30, 2012, we can borrow the entire amount available under our Line of Credit, and we expect to be able to incur at least this level of additional indebtedness for the next twelve months.

**Equity**

**Dividends.** On November 6, 2012, the Board of Directors declared a dividend of \$0.42 per share, or approximately \$68 million, which will be paid on November 30, 2012 to stockholders of record on November 16, 2012. Future dividends will be determined by our Board of Directors, in its sole discretion, based on consideration of a number of factors. The primary factors considered by the Board in declaring the current dividend amount were current period and full year forecasted cash flow and operating results, as measured by Funds from Operations (defined as net income plus non-cash charges for depletion, depreciation and amortization, and the cost basis of land sales), along with the amount of cash on hand. In addition, the Board also considers the following factors when determining dividends: the company's 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, our products; changes in our ability to sell timberlands at attractive prices; and 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.

**Share Repurchases.** 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. At September 30, 2012, \$175 million was available for share repurchases under the current Board of Directors' authorization.

**Performance and Liquidity Measures (Non-GAAP Measures)**

For a discussion of the factors impacting our operating performance see the discussion included in this Item under Results of Operations. For a discussion of the factors impacting our liquidity see the discussion included in this Item under Financial Condition and Liquidity. We have included the following Non-GAAP measurements because we believe these are commonly used by investors, lenders and rating agencies to assess our financial performance.

**Adjusted EBITDA.** We define Adjusted EBITDA as earnings from continuing operations, excluding equity method earnings, and before interest, taxes, depreciation, depletion, amortization, and basis in lands sold. Adjusted EBITDA is not considered a measure of financial performance under U.S. generally accepted accounting principles (U.S. GAAP) and the items excluded from Adjusted EBITDA are significant components of our consolidated financial statements.

We present Adjusted EBITDA as a supplemental performance measure because we believe it facilitates operating performance comparisons from period to period, and each business segment's contribution to that performance, by eliminating non-cash charges to earnings, which can vary significantly by business segment. These non-cash charges include timber depletion, depreciation of fixed assets and the basis in lands sold. We also use Adjusted EBITDA as a supplemental liquidity measure because we believe it is useful in measuring our ability to generate cash.

[Table of Contents](#)**Third Quarter 2012 Compared to Third Quarter 2011**

The following table compares Adjusted EBITDA by segment for the **quarters ended September 30** (in millions):

	<b>Quarter Ended September 30,</b>		
	<b>2012</b>	2011	Change
Adjusted EBITDA by Segment			
Northern Resources	\$ 12	\$ 14	\$ (2)
Southern Resources	42	35	7
Real Estate	90	60	30
Manufactured Products	13	7	6
Other	5	5	—
Other Costs and Eliminations, net	(16)	(13)	(3)
Total Adjusted EBITDA	<u>\$ 146</u>	<u>\$ 108</u>	<u>\$ 38</u>

The following schedules provide a reconciliation of Adjusted EBITDA to net income and net cash from operating activities, the most directly comparable U.S. GAAP performance and liquidity measures, for the **quarters ended September 30** (in millions):

	<b>Quarter Ended September 30, 2012</b>			
	Operating Income	Depreciation, Depletion and Amortization	Basis of Real Estate Sold	Adjusted EBITDA
<b>By Segment</b>				
Northern Resources	\$ 5	\$ 7	\$ —	\$ 12
Southern Resources	23	19	—	42
Real Estate	54	—	36	90
Manufacturing	9	4	—	13
Other	5	—	—	5
Other Costs and Eliminations	(17)	1	—	(16)
Other Unallocated Operating Income (Expense), net	—	—	—	—
Total	<u>\$ 79</u>	<u>\$ 31</u>	<u>\$ 36</u>	<u>\$ 146</u>

**Reconciliation to Net Income<sup>(1)</sup>**

Equity Earnings from Timberland Venture	14
Interest Expense	(35)
(Provision) Benefit for Income Taxes	1
Net Income	<u>\$ 59</u>

**Reconciliation to Net Cash Provided By Operating Activities**

Net Cash Flows from Operations	\$ 148
Interest Expense	35
Amortization of Debt Costs	—
Provision / (Benefit) for Income Taxes	(1)

Distributions from Timberland Venture	(28)
Deferred Income Taxes	—
Gain on Sale of Properties and Other Assets	—
Deferred Revenue from Long-Term Gas Leases	1
Timber Deed Acquired	—
Pension Plan Contributions	3
Working Capital Changes	(7)
Other	(5)
Adjusted EBITDA	<u>\$ 146</u>

(1) Includes reconciling items not allocated to segments for financial reporting purposes.

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	<b>Quarter Ended September 30, 2011</b>			
	<u>Operating Income</u>	<u>Depreciation, Depletion and Amortization</u>	<u>Basis of Real Estate Sold</u>	<u>Adjusted EBITDA</u>
<b>By Segment</b>				
Northern Resources	\$ 7	\$ 7	\$ —	\$ 14
Southern Resources	21	14	—	35
Real Estate	46	—	14	60
Manufacturing	3	4	—	7
Other	5	—	—	5
Other Costs and Eliminations	(13)	—	—	(13)
Other Unallocated Operating Income (Expense), net	—	—	—	—
Total	<u>\$ 69</u>	<u>\$ 25</u>	<u>\$ 14</u>	<u>\$ 108</u>
<b>Reconciliation to Net Income<sup>(1)</sup></b>				
Equity Earnings from Timberland Venture	14			
Interest Expense	(34)			
(Provision) Benefit for Income Taxes	1			
Net Income	<u>\$ 50</u>			
<b>Reconciliation to Net Cash Provided By Operating Activities</b>				
Net Cash Flows from Operations			\$ 137	
Interest Expense			34	
Amortization of Debt Costs			(1)	
Provision / (Benefit) for Income Taxes			(1)	
Distributions from Timberland Venture			(28)	
Deferred Income Taxes			2	
Gain on Sale of Properties and Other Assets			—	
Deferred Revenue from Long-Term Gas Leases			(2)	
Timber Deed Acquired			—	
Pension Plan Contributions			3	
Working Capital Changes			(31)	
Other			(5)	
Adjusted EBITDA			<u>\$ 108</u>	

(1) Includes reconciling items not allocated to segments for financial reporting purposes.

### **Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011**

The following table compares Adjusted EBITDA by segment for the **nine months ended September 30** (in millions):

<u>Nine Months Ended September 30,</u>	Change
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	<u>2012</u>	<u>2011</u>	
Adjusted EBITDA by Segment			
Northern Resources	\$ 35	\$ 36	\$ (1)
Southern Resources	118	92	26
Real Estate	225	192	33
Manufactured Products	33	22	11
Other	14	16	(2)
Other Costs and Eliminations, net	(45)	(41)	(4)
Total Adjusted EBITDA	<u>\$ 380</u>	<u>\$ 317</u>	<u>\$ 63</u>

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The following schedules provide a reconciliation of Adjusted EBITDA to net income and net cash from operating activities, the most directly comparable U.S. GAAP performance and liquidity measures, for the **nine months ended September 30** (in millions):

	<b>Nine Months Ended September 30, 2012</b>			
	Operating Income	Depreciation, Depletion and Amortization	Basis of Real Estate Sold	Adjusted EBITDA
<b>By Segment</b>				
Northern Resources	\$ 15	\$ 20	\$ —	\$ 35
Southern Resources	66	52	—	118
Real Estate	113	1	111	225
Manufacturing	22	11	—	33
Other	14	—	—	14
Other Costs and Eliminations	(47)	1	—	(46)
Other Unallocated Operating Income (Expense), net	1	—	—	1
Total	<u>\$ 184</u>	<u>\$ 85</u>	<u>\$ 111</u>	<u>\$ 380</u>
<b>Reconciliation to Net Income<sup>(1)</sup></b>				
Equity Earnings from Timberland Venture	42			
Interest Expense	(104)			
(Provision) Benefit for Income Taxes	2			
Net Income	<u>\$ 124</u>			
<b>Reconciliation to Net Cash Provided By Operating Activities</b>				
Net Cash Flows from Operations			\$	237
Interest Expense				104
Amortization of Debt Costs				(2)
Provision / (Benefit) for Income Taxes				(2)
Distributions from Timberland Venture				(56)
Deferred Income Taxes				1
Gain on Sale of Properties and Other Assets				—
Deferred Revenue from Long-Term Gas Leases				6
Timber Deed Acquired				98
Pension Plan Contributions				10
Working Capital Changes				(5)
Other				(11)
Adjusted EBITDA			<u>\$</u>	<u>380</u>

(1) Includes reconciling items not allocated to segments for financial reporting purposes.



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	<b>Nine Months Ended September 30, 2011</b>			
	<u>Operating Income</u>	<u>Depreciation, Depletion and Amortization</u>	<u>Basis of Real Estate Sold</u>	<u>Adjusted EBITDA</u>
<b>By Segment</b>				
Northern Resources	\$ 17	\$ 19	\$ —	\$ 36
Southern Resources	55	37	—	92
Real Estate	134	1	57	192
Manufacturing	12	10	—	22
Other	16	—	—	16
Other Costs and Eliminations	(43)	1	—	(42)
Other Unallocated Operating Income (Expense), net	1	—	—	1
Total	<u>\$ 192</u>	<u>\$ 68</u>	<u>\$ 57</u>	<u>\$ 317</u>
<b>Reconciliation to Net Income<sup>(1)</sup></b>				
Equity Earnings from Timberland Venture	44			
Interest Expense	(104)			
(Provision) Benefit for Income Taxes	—			
Net Income	<u>\$ 132</u>			
<b>Reconciliation to Net Cash Provided By Operating Activities</b>				
Net Cash Flows from Operations			\$ 294	
Interest Expense				104
Amortization of Debt Costs				(2)
Provision / (Benefit) for Income Taxes				—
Distributions from Timberland Venture				(56)
Deferred Income Taxes				(2)
Gain on Sale of Properties and Other Assets				—
Deferred Revenue from Long-Term Gas Leases				(14)
Timber Deed Acquired				—
Pension Plan Contributions				3
Working Capital Changes				—
Other				(10)
Adjusted EBITDA			<u>\$ 317</u>	

(1) Includes reconciling items not allocated to segments for financial reporting purposes.

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### **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 2011 Annual Report on Form 10-K. Other than the discussion below, there have been no material changes to our contractual obligations outside the normal course of business.

On March 2, 2012, the company entered into a \$450 million term credit agreement (which was drawn in July 2012) that matures on April 3, 2019. Also on March 2, 2012, the company terminated its previous \$600 million revolving line of credit maturing on January 30, 2015 and entered into a new \$700 million revolving line of credit agreement that matures on April 3, 2017. See Note 7 of the Notes to Consolidated Financial Statements.

[Table of Contents](#)**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

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

	2012	2013	2014	2015	2016	Thereafter	Total	Fair Value <sup>(A)</sup>
<b>September 30, 2012</b>								
Fixed Rate Debt								
<i>Third Party Obligations</i>								
Principal Due <sup>(B)</sup>	\$ 3	\$ 250	\$ 3	\$ 462	\$ 4	\$ 575	\$ 1,297	\$ 1,388
Average Interest Rate <sup>(C)</sup>	5.5%	5.4%	5.2%	5.2%	4.7%	4.7%		
<i>Related Party Obligations</i>								
Principal Due						\$ 783	\$ 783	\$ 957
Interest Rate						7.4%		
Variable Rate Debt <sup>(D)</sup>						\$ 450	\$ 450	\$ 450
	2011	2012	2013	2014	2015	Thereafter	Total	Fair Value
<b>September 30, 2011</b>								
Fixed Rate Debt								
<i>Third Party Obligations</i>								
Principal Due <sup>(B)</sup>	\$ 46	\$ 3	\$ 250	\$ 3	\$ 462	\$ 579	\$ 1,343	\$ 1,400
Average Interest Rate <sup>(C)</sup>	5.6%	5.5%	5.4%	5.2%	5.2%	4.7%		
<i>Related Party Obligations</i>								
Principal Due						\$ 783	\$ 783	\$ 901
Interest Rate						7.4%		
Variable Rate Debt		\$ 350					\$ 350	\$ 348

(A) The fair value of the company's Public Debt is estimated using market quotes; the fair value of the company's Private Debt with unrelated third parties is estimated using the same rates adjusted for the different maturities. The fair value of the company's Note Payable to Timberland Venture is estimated using the same rates as the Public Debt adjusted by an estimated risk premium for holding company debt and the different maturity. See Note 9 of the Notes to Consolidated Financial Statements. The decrease in fair value of our fixed rate debt

compared to September 30, 2011 (excluding related party debt) was due primarily to principal repayments of \$46 million of Private Debt during the twelve month period, offset in part by lower market interest rates. At September 30, 2012, treasury rates and credit spreads (the difference between corporate debt rates and treasury rates) were lower compared to September 30, 2011, resulting in lower market interest rates. This change in market interest rates also resulted in the increase in fair value of our Note Payable to Timberland Venture at September 30, 2012.

The fair value of our floating rate term loan (variable rate debt) as of September 30, 2012 and September 30, 2011 was determined by adjusting the spread over LIBOR to a current market spread for comparable debt as of September 30, 2012 and September 30, 2011. The increase in fair value of our variable rate debt at September 30, 2012 was due to the issuance of the \$450 million term credit agreement in July 2012, from which a portion of the proceeds were used to repay the \$350 million term credit agreement that was outstanding at September 30, 2011.

- (B)** Excludes unamortized discount of \$4 million at both September 30, 2012 and 2011.
- (C)** Represents the average interest rate of total fixed rate debt (excluding related party debt) outstanding at the end of the period.
- (D)** On July 10, 2012, the company borrowed \$450 million under a new term credit agreement and used a portion of the

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proceeds to repay the \$350 million principal balance for the previous term credit agreement. As of September 30, 2012, the interest rate for the \$450 million term credit agreement was 1.73%. The interest rate on the term credit agreement is based on LIBOR plus 1.50%. In addition, the company expects to receive patronage refunds under the term loan agreement. Patronage refunds are distributions of profits from banks in the farm credit system, which are cooperatives that are required to distribute profits to their members. The company expects that, after giving effect to patronage distributions, the effective net interest rate on the term loan will be LIBOR plus approximately 1%. This agreement matures on April 3, 2019. Not included in the above table are borrowings of \$351 million under our revolving line of credit. In March 2012, the company terminated its previous \$600 million revolving line of credit and entered into a new \$700 million revolving line of credit agreement. As of September 30, 2012, the weighted-average interest rate on the \$351 million of borrowings was 1.43%. The interest rate on the line of credit is currently LIBOR plus 1.25%, including the facility fee. This rate can range from LIBOR plus 1% to LIBOR plus 2% depending on our debt ratings. As of October 1, 2012, \$313 million of the borrowings under our line of credit was repaid.

#### ITEM 4. CONTROLS AND PROCEDURES

##### (a) Disclosure Controls and Procedures

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

##### (b) Control over Financial Reporting

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

#### PART II – OTHER INFORMATION

##### ITEM 1. LEGAL PROCEEDINGS

**Legal Proceedings.** None. (See also Note 11 of the Notes to Consolidated Financial Statements of Plum Creek Timber Company, Inc.).

**Other Material Contingencies.** The company's 2008 federal income tax return is currently being audited by the Internal Revenue Service ("IRS"). The IRS has indicated that it is considering whether to propose an adjustment to the company's U.S. federal income tax treatment of the Timberland Venture formation transaction, which occurred on October 1, 2008, on the basis that the transfer of the timberlands to Southern Diversified Timber, LLC was a taxable transaction to the company at the time of the transfer rather than a nontaxable capital contribution to the Timberland Venture.

If the IRS were to take this position and if it were upheld on administrative or judicial appeal, it could result in a maximum built-in gains tax liability of approximately \$100 million. In addition, the company could be required to accelerate the distribution to its stockholders of up to \$600 million of gain from the transaction. The company expects that as much as 80% of any such distribution could be made with the company's common stock, and stockholders would be subject to tax



on the distribution at the applicable capital gains tax rate. The company would also pay interest and penalties, if applicable. The IRS continues to review the transaction, and there is a reasonable prospect that the IRS audit could close without any adjustment.

We believe the transfer of the timberlands was a nontaxable contribution to the Timberland Venture and not a taxable transaction. We have not accrued income taxes for financial reporting purposes with respect to this matter and do not believe it is reasonably possible any material accrual will be made within the next year. We are confident in our position and believe that any proposed re-characterization of the Timberland Venture formation transaction by the IRS would ultimately be unsuccessful. We would intend to vigorously contest any re-characterization the IRS may assert.

[Table of Contents](#)**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, 2011, as filed with the Securities and Exchange Commission on February 24, 2012.

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

None.

**ITEM 3. DEFAULTS UPON SENIOR SECURITIES**

None.

**ITEM 4. MINE SAFETY DISCLOSURES**

Not Applicable.

**ITEM 5. OTHER INFORMATION**

None.

**ITEM 6. EXHIBITS****List of Exhibits**

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

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

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

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



[Table of Contents](#)**INDEX TO EXHIBITS**

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

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## SIGNATURES

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

PLUM CREEK TIMBER COMPANY, INC.  
(Registrant)

By: /s/ DAVID W. LAMBERT

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DAVID W. LAMBERT

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

Date: November 6, 2012