PLUM CREEK TIMBER CO INC
Form 10-Q
August 05, 2009
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended June 30, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
Commission file number 1-10239

PLUM CREEK TIMBER COMPANY, INC.

(Exact name of registrant as specified in its charter)

Organized in the State of Delaware	**I.R.S. Employer Identification No. 91-1912863**

999 Third Avenue, Suite 4300

Seattle, Washington 98104-4096

Telephone: (206) 467-3600

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

Yes x No ¨

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

Yes x No ¨

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

Large accelerated filer x 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 x

The number of outstanding shares of the registrant s common stock, as of July 31, 2009 was 162,812,610.

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PLUM CREEK TIMBER COMPANY, INC.

QUARTERLY REPORT ON FORM 10-Q

For the Quarter ended June 30, 2009

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PLUM CREEK TIMBER COMPANY, INC.

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

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

Weighted-Average Number of Shares Outstanding		
Basic	**162.8**	171.1
Diluted	**162.9**	171.6

See accompanying Notes to Consolidated Financial Statements

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PLUM CREEK TIMBER COMPANY, INC.

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

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

See accompanying Notes to Consolidated Financial Statements

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PLUM CREEK TIMBER COMPANY, INC.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

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

Retained Earnings		**200**		149
Treasury Stock, at Cost, Common Shares - 24.8 at June 30, 2009 and 21.5 at December 31, 2008		**(860)**		(773)
Accumulated Other Comprehensive Income (Loss)		**(30)**		(31)
Total Stockholders Equity		**1,542**		1,572
Total Liabilities and Stockholders Equity	**$**	**4,568**	$	4,780

See accompanying Notes to Consolidated Financial Statements

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PLUM CREEK TIMBER COMPANY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In Millions)	Six Months Ended June 30, 2009	2008
Cash Flows From Operating Activities		
Net Income	**$ 189**	$ 69
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Depreciation, Depletion and Amortization (Includes $10 Lumber Impairment Loss in 2009 and 2008)	**57**	76
Basis of Real Estate Sold	**118**	22
Equity Earnings from Timberland Venture	**(29)**	
Distribution from Timberland Venture	**25**	
Expenditures for Real Estate Development	**(1)**	(5)
Deferred Income Taxes	**(21)**	(8)
Gain on Extinguishment of Debt	**(1)**	
Deferred Revenue from Long-Term Gas Leases (Net of Amortization)	**(4)**	18
Working Capital Changes Impacting Cash Flow:		
Like-Kind Exchange Funds	**48**	(61)
Income Tax Receivable	**17**	
Other Working Capital Changes	**(8)**	(17)
Other	**4**	
Net Cash Provided By Operating Activities	**394**	94
Cash Flows From Investing Activities		
Capital Expenditures (Excluding Timberland Acquisitions)	**(28)**	(29)
Timberlands Acquired		(1)
Net Cash Used In Investing Activities	**(28)**	(30)
Cash Flows From Financing Activities		
Dividends	**(138)**	(144)
Borrowings on Line of Credit	**431**	755
Repayments on Line of Credit	**(456)**	(942)
Proceeds from Issuance of Long-Term Debt		250
Principal Payments and Retirement of Long-Term Debt	**(138)**	(47)
Proceeds from Stock Option Exercises		1
Acquisition of Treasury Stock	**(87)**	(51)
Other		(1)
Net Cash Used In Financing Activities	**(388)**	(179)
Increase (Decrease) In Cash and Cash Equivalents	**(22)**	(115)
Cash and Cash Equivalents:		
Beginning of Period	**369**	240
End of Period	**$ 347**	$ 125

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 June 30, 2009, the company owned and managed approximately 7.2 million acres of timberlands in the Northwest, Southern, and Northeast United States, and owned and operated eight wood product conversion facilities in the Northwest United States. Included in the 7.2 million acres are about 1.5 million acres of higher and better use timberlands, which are expected to be sold and/or developed over approximately the next 15 years for recreational, conservation or residential purposes. In addition, the company has approximately 250,000 acres of non-strategic timberlands, which are expected to be sold over the next five years. In the meantime, all of these timberlands continue to be used productively in our business of growing and selling timber.

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

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

The consolidated financial statements included in this Form 10-Q are unaudited and do not contain all of the information required by U.S. generally accepted accounting principles to be included in a full set of financial statements. The consolidated balance sheet at December 31, 2008, has been derived from the audited consolidated financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The audited financial statements in the company s 2008 Annual Report on Form 10-K include a summary of significant accounting policies of the company and should be read in conjunction with this Form 10-Q. In the opinion of management, all material adjustments necessary to present fairly the results of operations for such periods have been included in this Form 10-Q. All such adjustments are of a normal and recurring nature. The results of operations for interim periods are not necessarily indicative of the results of operations for the entire year.

New Accounting Pronouncements (Adopted during 2009)

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

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PLUM CREEK TIMBER COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

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

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

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

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

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

New Accounting Pronouncements (Not Yet Adopted)

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

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PLUM CREEK TIMBER COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

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

Note 2. Earnings Per Share

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

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

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PLUM CREEK TIMBER COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

	Six Months Ended June 30, 2009	2008
Net Income Available to Common Stockholders	**$ 189**	$ 69
Denominator for Basic Earnings per Share	**163.8**	171.4
Effect of Dilutive Securities Stock Options	**0.1**	0.3
Effect of Dilutive Securities Restricted Stock, Restricted Stock Units, Dividend Equivalents and Value Management Plan		0.1
Denominator for Diluted Earnings per Share Adjusted for Dilutive Securities	**163.9**	171.8
Per Share Amounts:		
Net Income Per Share Basic	**$ 1.15**	$ 0.40
Net Income Per Share Diluted	**$ 1.15**	$ 0.40

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

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

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

Note 3. Variable Interest Entities

On October 1, 2008, the company contributed 454,000 acres of timberlands located in its Southern Resources Segment to Southern Diversified Timber, LLC (the Timberland Venture) in exchange for a $705 million preferred interest and a 9% common interest valued at $78 million. Following the contribution, the company borrowed $783 million from the Timberland Venture (Note Payable to Timberland Venture).

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PLUM CREEK TIMBER COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

The Timberland Venture is a variable interest entity in accordance with FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities* (FIN 46(R)). Besides quarterly interest payments on the Note Payable to Timberland Venture, the company has not provided financing or other support to the venture. The venture is financed by a line of credit obtained by the Timberland Venture.

We are not the primary beneficiary of the Timberland Venture. The company does not manage the day-to-day operations of the venture, has only limited protective rights and its involvement is generally limited to receiving distributions on its preferred and common interests. We are not the primary beneficiary because we are not required to absorb the majority of the expected losses as defined by FIN 46(R). The common interests are required to absorb losses based on positive capital accounts before any losses can be allocated to our preferred interest, and we own a 9% common interest.

The carrying amount of the investment in the venture is $203 million at June 30, 2009 and $199 million at December 31, 2008, and it is reported in the Consolidated Balance Sheets as Equity Investment in Timberland Venture. The increase in the investment is a result of recognizing equity earnings of $29 million, offset by a preferred cash distribution of $25 million paid by the Timberland Venture to the company during the first quarter of 2009. Our maximum exposure to loss is $203 million, the carrying amount of the investment in the venture. Generally, losses are first allocated among the common interests based on positive capital accounts in which we hold a 9% common interest. No losses are allocated to our preferred interest ($705 million) until the common interests have absorbed losses of approximately $861 million.

Note 4. Inventory

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

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

Note 5. Timber and Timberlands

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

	June 30, 2009	December 31, 2008
Timber and Logging Roads, net	**$ 2,385**	$ 2,443
Timberlands	**1,180**	1,195
Timber and Timberlands, net	**$ 3,565**	$ 3,638

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PLUM CREEK TIMBER COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 6. Property, Plant and Equipment

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

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

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

The fair value of the impaired assets was determined by the company using expected future cash flows discounted at a risk-adjusted rate of interest. See Note 10 of the Notes to Consolidated Financial Statements.

Note 7. Income Taxes

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

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

In connection with the merger with The Timber Company, Plum Creek wrote-off all of The Timber Company s deferred income tax liability related to timber and timberlands except for $11 million. The $11 million deferred income tax liability related to the book-tax basis difference of timber and timberlands that were expected to be

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PLUM CREEK TIMBER COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

sold, and subject to, the built-in gains tax during the ten-year period ending October 6, 2011. During the period October 6, 2001 to December 31, 2008, the $11 million deferred income tax liability was reduced by $5 million due to a remeasurement of the amount of deferred income taxes needed and by $2 million due to the payment or accrual of tax in connection with sales of timberlands subject to the built-in gains tax.

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

Note 8. Borrowings

Debt consisted of the following (in millions):

	June 30, 2009	December 31, 2008
Variable Rate Debt		
Term Credit Agreement [(A)]	**$ 350**	$ 350
Term Credit Agreement [(B)]	**250**	250
Revolving Line of Credit [(C)]	**206**	231
Fixed Rate Debt		
Senior Notes	**1,213**	1,351
Note Payable to Timberland Venture	**783**	783
Total Debt	**2,802**	2,965
Less: Current Portion	**(110)**	(158)
Long-Term Portion	**$ 2,692**	$ 2,807

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

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

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

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

June 30, 2009.

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PLUM CREEK TIMBER COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

Note 9. Stockholders Equity

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

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

Note 10. Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis. The company s fair value measurements of its financial instruments, measured on a recurring basis, are categorized as Level 1 measurements under the SFAS 157 hierarchy. A Level 1 valuation is based on quoted prices in active markets at the measurement date for identical unrestricted assets or liabilities. Summarized below are the Level 1 assets reported in the company s financial statements at fair value, measured on a recurring basis (in millions):

	Balance at June 30, 2009	Fair Value Measurements at Reporting Date Using Quoted Prices in Active

		Markets of Identical Assets (Level 1 Measurements)
Cash Equivalents [(A)]	$ 342	$ 342
Available-for-Sale Securities [(B)]	21	21
Trading Securities [(B)]	5	5
Total	$ 368	$ 368

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PLUM CREEK TIMBER COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

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

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

Available-for-Sale Securities. Certain investments in the grantor trusts relate to the company s non-qualified pension plans and are classified as available-for-sale securities. The company has invested in various money market funds and debt and equity mutual funds and plans to use these investments to fund its non-qualified pension obligations. The fair value of these investments was $21 million and $20 million at June 30, 2009 and December 31, 2008, respectively. Unrealized holding gains and losses are included as a component of accumulated other comprehensive income, unless an other than temporary impairment has occurred, which is then charged to expense. Unrealized holding gains were $1 million at June 30, 2009 and unrealized holding losses were less than $1 million at December 31, 2008. The company records changes in unrealized holding gains and losses in Other Comprehensive Income. The change in unrealized holding gains and losses was approximately $1 million for the six months ended June 30, 2009. Realized gains were less than $1 million for the six months ended June 30, 2009.

Trading Securities. Certain investments in the grantor trusts relate to the company s deferred compensation plans and are classified as trading securities. Deferred compensation amounts are invested in various money market funds and debt and equity mutual funds. The company plans to use these investments to fund deferred compensation obligations. The fair value of these investments was $5 million at both June 30, 2009 and December 31, 2008. Realized gains and losses and changes in unrealized gains and losses (and a corresponding amount of compensation expense) are recognized in the company s Consolidated Statements of Income. Unrealized losses were $1 million at June 30, 2009 and were $2 million at December 31, 2008. The change in unrealized losses was approximately $1 million (unrealized gains) for the six months ended June 30, 2009. Realized losses were $1 million for the six months ended June 30, 2009. Deferred compensation obligations are included in Other Liabilities and were $5 million at both June 30, 2009 and December 31, 2008.

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PLUM CREEK TIMBER COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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Other Instruments. The carrying amount of notes receivable approximates fair value due to the short-term maturities of these instruments. The estimated fair value of the company s debt was approximately $2.68 billion and $2.69 billion at June 30, 2009 and December 31, 2008, respectively, and the carrying amount was $2.80 billion and $2.97 billion at June 30, 2009 and December 31, 2008, respectively. The fair value of the company s publicly-traded debt (i.e., Senior Notes due 2015) is estimated using market quotes. The fair value of the company s other Senior Notes is estimated using the same rates adjusted for the different maturities. The fair value of the company s Note Payable to Timberland Venture is estimated using the same rates as the publicly-traded debt adjusted by an estimated risk premium for holding company debt and the different maturity. The fair value of our Term Credit Agreements was determined by adjusting the spread over LIBOR to a current market spread for comparable debt.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis. The company s fair value measurements of its assets and liabilities, measured on a nonrecurring basis, are categorized as Level 3 measurements under the SFAS 157 hierarchy. A Level 3 valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Summarized below are the Level 3 assets and liabilities reported in the company s financial statements at fair value, measured on a nonrecurring basis, during the six-month period ended June 30 (in millions):

	Six Months Ended June 30, 2009	Fair Value Measurements Using Significant Unobservable Inputs (Level 3 Measurements)	Net Gain (Loss)
Certain Long-Lived Lumber Assets Held and Used [(A)]	$	$	$ (10)
Timberlands Held for Sale [(B)]	$ 25	$ 25	(1)
Liabilities for Road Maintenance [(C)]	$ 7	$ 7	
Total			$ (11)

(A) During the first quarter of 2009, in accordance with Statement of Financial Accounting Standards No. 144 (SFAS No. 144), *Accounting for the Impairment or Disposal of Long-Lived Assets*, certain lumber assets with a carrying value of $10 million were written down to their fair value of $0, resulting in an impairment charge of $10 million, which was included in earnings for the six month period ended June 30, 2009. The fair value was determined using a discounted cash flow model based on estimated future lumber prices, log costs and operating expenses using internal projections.

(B) During the first quarter of 2009, in accordance with SFAS No. 144, timberlands held for sale with a carrying amount of $26 million were written down to their fair value (net of estimated selling costs) of $25 million, resulting in a loss of $1 million, which was included in earnings for the six month period ended June 30, 2009. The fair value was determined based on an external appraisal which was derived from a combination of comparable sales and discounted future cash flows. The discounted future cash flows were based on estimated future timber prices and related operating expenses using internal and external projections.

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PLUM CREEK TIMBER COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

(C) The company has agreements with the federal government under which it is obligated to pay maintenance or replacement costs for certain roads. The company also has obligations under state law to maintain or upgrade certain roads. At March 31, 2009, the company concluded that most of these liabilities could be reasonably estimated. As a result, in accordance with Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations*, the company recorded road maintenance liabilities and related timberland assets with an estimated fair value of $7 million. The fair value was determined using a cost approach based on internal projections.

Note 11. Employee Pension Plans

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

	Quarter Ended June 30,	
	2009	2008
Service Cost	**$ 2**	$ 2
Interest Cost	**2**	2
Expected Return on Plan Assets	**(3)**	(2)
Recognized Actuarial Loss	**1**	
Total Pension Cost	**$ 2**	$ 2

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

Note 12. Commitments and Contingencies

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

Environmental Contingencies. In connection with the October 6, 2001 merger with The Timber Company, Plum Creek agreed to indemnify Georgia-Pacific for substantially all of the liabilities attributed to The Timber Company. During 2003, Georgia-Pacific provided Plum Creek with information about the existence of mine tailings and acidic surface water on approximately 90 acres in Hot Spring County, Arkansas, on former Georgia-Pacific properties. Barite mining and related activities were conducted on the site between 1939 and 1981 in part by lessees of an entity that was acquired by Georgia-Pacific. A remediation plan has not yet been approved. The company believes that it has strong defenses in the matter. Furthermore, to the extent Plum Creek is required to indemnify Georgia-Pacific for its share of the remediation costs, Plum Creek may be able to recover all or a portion of its cost from Georgia-Pacific s insurance policy, or indemnity obligations of the

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PLUM CREEK TIMBER COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

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

Note 13. Segment Information

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

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

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PLUM CREEK TIMBER COMPANY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

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

(A) For the six months ended June 30, 2009, and for the quarter and six months ended June 30, 2008, the Manufactured Products Segment depreciation, depletion and amortization, and operating income (loss) include a $10 million lumber manufacturing assets impairment loss. See Note 6 of the Notes to Consolidated Financial Statements.

(B) Consolidated depreciation, depletion and amortization include unallocated corporate depreciation of $1 million and $2 million for the quarter and six months ended June 30, 2009, respectively, and $2 million and $3 million for the quarter and six months ended June 30, 2008, respectively.

(C) During 2008, the company negotiated the sale of 310,000 acres in Montana for $489 million, to be closed in three phases. Proceeds of $150 million from the first phase were received during the fourth quarter of 2008. Proceeds of $250 million from the second phase were received during the first quarter of 2009. The third and final phase is expected to close in 2010. For the six months ended June 30, 2009, the Real Estate Segment includes revenue of $250 million and operating income of $162 million related to the closing of the second phase.

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

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

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

Note 14. Subsequent Events

Quarterly Dividend. On August 4, 2009, the Board of Directors authorized the company to make a dividend payment of $0.42 per share, or approximately $68 million, which will be paid on August 31, 2009 to stockholders of record on August 14, 2009.

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ITEM 1. FINANCIAL STATEMENTS (CONTINUED)

Included in this item are the consolidated financial statements relate to Plum Creek Timberlands, L.P., a Delaware Limited Partnership and a wholly-owned subsidiary of Plum Creek Timber Company, Inc. These financial statements are provided pursuant to Rule 3-10 of Regulation S-X in connection with the shelf registration statement on Form S-3 filed in April of 2009 pursuant to which Plum Creek Timberlands, L.P. has registered and from time to time may offer and sell debt securities. As of June 30, 2009, Plum Creek Timberlands, L.P. has publicly issued and outstanding $458 million aggregate principal amount of its 5.875% Senior Notes (debt securities) pursuant to the shelf registration statement.

PLUM CREEK TIMBERLANDS, L.P.

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

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

See accompanying Notes to Consolidated Financial Statements

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PLUM CREEK TIMBERLANDS, L.P.

CONSOLIDATED STATEMENTS OF INCOME

(UNAUDITED)

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

See accompanying Notes to Consolidated Financial Statements

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PLUM CREEK TIMBERLANDS, L.P.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

(In Millions)	June 30, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and Cash Equivalents	$ 347	$ 369
Accounts Receivable	34	22
Like-Kind Exchange Funds Held in Escrow		48
Taxes Receivable	6	23
Inventories	53	74
Deferred Tax Asset	9	11
Real Estate Development Properties	3	4
Assets Held for Sale	87	137
Other Current Assets	15	11
	554	699
Timber and Timberlands, net	3,565	3,638
Property, Plant and Equipment, net	160	177
Equity Investment in Timberland Venture	203	199
Deferred Tax Asset	19	
Investment in Grantor Trusts ($26 and $25 at Fair Value in 2009 and 2008)	27	26
Other Assets	41	42
Total Assets	$ 4,569	$ 4,781
LIABILITIES		
Current Liabilities:		
Current Portion of Long-Term Debt	$ 110	$ 158
Accounts Payable	31	35
Interest Payable	20	23
Wages Payable	15	28
Taxes Payable	19	18
Deferred Revenue	26	17
Other Current Liabilities	16	21
	237	300
Long-Term Debt	1,703	1,793
Line of Credit	206	231
Deferred Tax Liability		4
Other Liabilities	91	91
Total Liabilities	2,237	2,419
Commitments and Contingencies		
PARTNERSHIP CAPITAL		
Series T-1 Preferred Interest	790	790
Partners Capital (Common Limited Partnership Interests)	1,542	1,572
Total Partnership Capital	2,332	2,362

Total Liabilities and Partnership Capital	**$ 4,569**	$ 4,781

See accompanying Notes to Consolidated Financial Statements

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PLUM CREEK TIMBERLANDS, L.P.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

(In Millions)	Six Months Ended June 30, 2009	2008
Cash Flows From Operating Activities		
Net Income before Allocation to Preferred Partnership Interest and Partners	**$ 218**	$ 69
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Depreciation, Depletion and Amortization (Includes $10 Lumber Impairment Loss in 2009 and 2008)	**57**	76
Basis of Real Estate Sold	**118**	22
Equity Earnings from Timberland Venture	**(29)**	
Distribution from Timberland Venture	**25**	
Expenditures for Real Estate Development	**(1)**	(5)
Deferred Income Taxes	**(21)**	(8)
Gain on Extinguishment of Debt	**(1)**	
Deferred Revenue from Long-Term Gas Leases (Net of Amortization)	**(4)**	18
Working Capital Changes Impacting Cash Flow:		
Like-Kind Exchange Funds	**48**	(61)
Income Tax Receivable	**17**	
Other Working Capital Changes	**(8)**	(17)
Other	**4**	
Net Cash Provided By Operating Activities	**423**	94
Cash Flows From Investing Activities		
Capital Expenditures (Excluding Timberland Acquisitions)	**(28)**	(29)
Timberlands Acquired		(1)
Net Cash Used In Investing Activities	**(28)**	(30)
Cash Flows From Financing Activities		
Cash Distributions to Partners	**(225)**	(194)
Cash Distributions for Series T-1 Preferred Interest	**(29)**	
Borrowings on Line of Credit	**431**	755
Repayments on Line of Credit	**(456)**	(942)
Proceeds from Issuance of Long-Term Debt		250
Principal Payments and Retirement of Long-Term Debt	**(138)**	(47)
Other		(1)
Net Cash Used In Financing Activities	**(417)**	(179)
Increase (Decrease) In Cash and Cash Equivalents	**(22)**	(115)
Cash and Cash Equivalents:		
Beginning of Period	**369**	240
End of Period	**$ 347**	$ 125

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

At June 30, 2009, the Operating Partnership owned and managed approximately 7.2 million acres of timberlands in the Northwest, Southern, and Northeast United States, and owned and operated eight wood product conversion facilities in the Northwest United States. Included in the 7.2 million acres are about 1.5 million acres of higher and better use timberlands, which are expected to be sold and/or developed over approximately the next 15 years for recreational, conservation or residential purposes. In addition, the Operating Partnership has approximately 250,000 acres of non-strategic timberlands, which are expected to be sold over the next five years. In the meantime, all of these timberlands continue to be used productively in our business of growing and selling timber.

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

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

The consolidated financial statements included in this Form 10-Q are unaudited and do not contain all of the information required by U.S. generally accepted accounting principles to be included in a full set of financial statements. These interim consolidated financial statements in this Form 10-Q should be read in conjunction with the audited consolidated financial statements of Plum Creek Timberlands, L.P. for the three years ended December 31, 2008, which were included on Form 10-K of Plum Creek Timber Company, Inc. and filed with the SEC on February 27, 2009, and which include a summary of significant accounting policies of the Operating Partnership. In the opinion of management, all material adjustments necessary to present fairly the results of operations for such periods have been included in this Form 10-Q. All such adjustments are of a normal and recurring nature. The results of operations for interim periods are not necessarily indicative of the results of operations for the entire year.

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PLUM CREEK TIMBERLANDS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

New Accounting Pronouncements (Adopted during 2009)

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

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

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

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

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

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

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

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PLUM CREEK TIMBERLANDS, L.P.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

New Accounting Pronouncements (Not Yet Adopted)

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

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

Note 2. Variable Interest Entities

On October 1, 2008, a subsidiary of the Operating Partnership contributed 454,000 acres of timberlands located in its Southern Resources Segment to Southern Diversified Timber, LLC (the Timberland Venture) in exchange for a $705 million preferred interest and a 9% common interest valued at $78 million. Following the contribution, Plum Creek Ventures I, LLC (PC Ventures), a 100% wholly-owned subsidiary of Plum Creek Timber Company, Inc., borrowed $783 million from the Timberland Venture. PC Ventures used the proceeds from the borrowing to make a $783 million capital contribution to the Operating Partnership.

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

We are not the primary beneficiary of the Timberland Venture. The Operating Partnership does not manage the day-to-day operations of the venture, has only limited protective rights and its involvement is generally limited to receiving distributions on its preferred and common interests. We are not the primary beneficiary because we are not required to absorb the majority of the expected losses as defined by FIN 46(R). The common interests are required to absorb losses based on positive capital accounts before any losses can be allocated to our preferred interest, and we own a 9% common interest.

The carrying amount of the investment in the venture is $203 million at June 30, 2009 and $199 million at December 31, 2008, and it is reported in the Consolidated Balance Sheets as Equity Investment in Timberland Venture. The increase in the investment is a result of recognizing equity earnings of $29 million, offset by a preferred cash distribution of $25 million paid by the Timberland Venture to the Operating Partnership during the first quarter of 2009. Our maximum exposure to loss is $203 million, the carrying amount of the investment in the venture. Generally, losses are first allocated among the common interests based on positive capital accounts in which we hold a 9% common interest. No losses are allocated to our preferred interest ($705 million) until the common interests have absorbed losses of approximately $861 million.

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(UNAUDITED)

Note 3. Inventory

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

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

Note 4. Timber and Timberlands

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

	June 30, 2009	December 31, 2008
Timber and Logging Roads, net	**$ 2,385**	$ 2,443
Timberlands	**1,180**	1,195
Timber and Timberlands, net	**$ 3,565**	$ 3,638

Note 5. Property, Plant and Equipment

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

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

During the first quarter of 2009, the Operating Partnership conducted an analysis to rationalize and consolidate its lumber operations. The analysis was performed by the Operating Partnership due to the significant and sustained decline in lumber demand along with the Operating Partnership s expectations for continued weakness in this business. As a result of this analysis, the Operating Partnership concluded that certain of its lumber manufacturing assets were impaired. Consequently, during the first quarter of 2009, the Operating Partnership recorded an impairment charge of $10 million related to these lumber manufacturing assets. During the second quarter of 2008, the Operating Partnership recorded an impairment charge of $10 million related to its lumber manufacturing assets. The impairment losses are reflected in the operating income of the Manufactured Products Segment and included in Cost of Goods Sold for Manufacturing in the Consolidated Statements of Income.

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The fair value of the impaired assets was determined by the Operating Partnership using expected future cash flows discounted at a risk-adjusted rate of interest. See Note 9 of the Notes to Consolidated Financial Statements.

Note 6. Income Taxes

Plum Creek Timberlands, L.P. s taxable income is allocated 100% to its parent, Plum Creek Timber Company, Inc., which has elected to be taxed as a REIT under sections 856-860 of the United States Internal Revenue Code. A REIT generally does not pay corporate-level income tax if it distributes 100% of its taxable income to shareholders and satisfies other organizational and operational requirements as set forth in the Internal Revenue Code. However, the Operating Partnership conducts certain non-REIT activities through various wholly-owned taxable REIT subsidiaries, which are subject to corporate-level income tax. These activities include our manufacturing operations, the harvesting and sale of logs, and the development and/or sale of some higher and better use timberlands. The Operating Partnership s tax provision includes the tax expense and/or benefit associated with Plum Creek s wholly-owned taxable REIT subsidiaries, as well as any tax expense and/or benefit attributable to the REIT. The effective tax rate for the Operating Partnership is lower than the federal corporate statutory rate primarily due to Plum Creek s status as a REIT. If a company fails to qualify as a REIT in any taxable year, it will be subject to federal income taxes at regular corporate rates (including any applicable alternative minimum tax) and may not be able to qualify as a REIT for four subsequent taxable years.

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

In connection with Plum Creek s merger with The Timber Company, Plum Creek wrote-off all of The Timber Company s deferred income tax liability related to timber and timberlands except for $11 million. The $11 million deferred income tax liability related to the book-tax basis difference of timber and timberlands that were expected to be sold, and subject to, the built-in gains tax during the ten-year period ending October 6, 2011. During the period October 6, 2001 to December 31, 2008, the $11 million deferred income tax liability was reduced by $5 million due to a remeasurement of the amount of deferred income taxes needed and by $2 million due to the payment or accrual of tax in connection with sales of timberlands subject to the built-in gains tax.

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

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Note 7. Borrowings

Debt consisted of the following (in millions):

	June 30, 2009	December 31, 2008
Variable Rate Debt		
Term Credit Agreement [(A)]	**$ 350**	$ 350
Term Credit Agreement [(B)]	**250**	250
Revolving Line of Credit [(C)]	**206**	231
Fixed Rate Debt		
Senior Notes	**1,213**	1,351
Total Debt	**2,019**	2,182
Less: Current Portion	**(110)**	(158)
Long-Term Portion	**$ 1,909**	$ 2,024

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

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

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

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

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Note 8. Partners Capital

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

	Preferred Partnership Interest	Partners Capital	Accumulated Other Comprehensive Income (Loss)	Total Partnership Capital
January 1, 2009	$ 790	$ 1,603	$ (31)	$ 2,362
Net Income before Allocation to Series T-1 Preferred Interest and Partners		171		171
Other Comprehensive Income (Loss), net of tax			(2)	(2)
Total Comprehensive Income				169
Net Income Allocation to Series T-1 Preferred Interest	14	(14)		
Distributions to Partners (Common Limited Partnership Interests)		(156)		(156)
Distributions for Series T-1 Preferred Interest	(18)			(18)
Capital Contributions from Parent		3		3
March 31, 2009	786	1,607	(33)	2,360
Net Income before Allocation to Series T-1 Preferred Interest and Partners		**47**		**47**
Other Comprehensive Income (Loss), net of tax			**3**	**3**
Total Comprehensive Income				**50**
Net Income Allocation to Series T-1 Preferred Interest	**15**	**(15)**		
Distributions to Partners (Common Limited Partnership Interests)		**(69)**		**(69)**
Distributions for Series T-1 Preferred Interest	**(11)**			**(11)**
Capital Contributions from Parent		**2**		**2**
June 30, 2009	**$ 790**	**$ 1,572**	**$ (30)**	**$ 2,332**

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Note 9. Fair Value Measurements

Assets and Liabilities Measured at Fair Value on a Recurring Basis. The Operating Partnership s fair value measurements of its financial instruments, measured on a recurring basis, are categorized as Level 1 measurements under the SFAS 157 hierarchy. A Level 1 valuation is based on quoted prices in active markets at the measurement date for identical unrestricted assets or liabilities. Summarized below are the Level 1 assets reported in the Operating Partnership s financial statements at fair value, measured on a recurring basis (in millions):

	Balance at June 30, 2009	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets of Identical Assets (Level 1 Measurements)
Cash Equivalents [(A)]	$ 342	$ 342
Available-for-Sale Securities [(B)]	21	21
Trading Securities [(B)]	5	5
Total	$ 368	$ 368

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

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

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

Available-for-Sale Securities. Certain investments in the grantor trusts relate to the Operating Partnership s non-qualified pension plans and are classified as available-for-sale securities. The Operating Partnership has invested in various money market funds and debt and equity mutual funds and plans to use these investments to fund its non-qualified pension obligations. The fair value of these investments was $21 million and $20 million at June 30, 2009 and December 31, 2008, respectively. Unrealized holding gains and losses are included as a component of accumulated other comprehensive income, unless an other than temporary impairment has

occurred, which is then charged to expense. Unrealized holding gains were $1 million at June 30, 2009 and unrealized holding losses were less than $1 million at December 31, 2008. The Operating Partnership records changes in unrealized holding gains and losses in Other Comprehensive Income. The change in unrealized holding gains and losses was approximately $1 million for the six months ended June 30, 2009. Realized gains were less than $1 million for the six months ended June 30, 2009.

Trading Securities. Certain investments in the grantor trusts relate to the Operating Partnership s deferred compensation plans and are classified as trading securities. Deferred compensation amounts are invested in various money market funds and debt and equity mutual funds. The Operating Partnership plans to use these

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PLUM CREEK TIMBERLANDS, L.P.

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investments to fund deferred compensation obligations. The fair value of these investments was $5 million at both June 30, 2009 and December 31, 2008. Realized gains and losses and changes in unrealized gains and losses (and a corresponding amount of compensation expense) are recognized in the Operating Partnership s Consolidated Statements of Income. Unrealized losses were $1 million at June 30, 2009 and were $2 million at December 31, 2008. The change in unrealized losses was approximately $1 million (unrealized gains) for the six months ended June 30, 2009. Realized losses were $1 million for the six months ended June 30, 2009. Deferred compensation obligations are included in Other Liabilities and were $5 million at both June 30, 2009 and December 31, 2008.

Other Instruments. The carrying amount of notes receivable approximates fair value due to the short-term maturities of these instruments. The estimated fair value of the Operating Partnership s debt was approximately $1.96 billion and $2.05 billion at June 30, 2009 and December 31, 2008, respectively, and the carrying amount was $2.02 billion and $2.18 billion at June 30, 2009 and December 31, 2008, respectively. The fair value of the Operating Partnership s publicly-traded debt (i.e., Senior Notes due 2015) is estimated using market quotes. The fair value of the Operating Partnership s other Senior Notes is estimated using the same rates adjusted for the different maturities. The fair value of our Term Credit Agreements was determined by adjusting the spread over LIBOR to a current market spread for comparable debt.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis. The Operating Partnership s fair value measurements of its assets and liabilities, measured on a nonrecurring basis, are categorized as Level 3 measurements under the SFAS 157 hierarchy. A Level 3 valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Summarized below are the Level 3 assets and liabilities reported in the Operating Partnership s financial statements at fair value, measured on a nonrecurring basis, during the six-month period ended June 30 (in millions):

	Six Months Ended June 30, 2009	Fair Value Measurements Using Significant Unobservable Inputs (Level 3 Measurements)	Net Gain (Loss)
Certain Long-Lived Lumber Assets Held and Used [(A)]	$	$	$ (10)
Timberlands Held for Sale [(B)]	$ 25	$ 25	(1)
Liabilities for Road Maintenance [(C)]	$ 7	$ 7	
Total			$ (11)

(A) During the first quarter of 2009, in accordance with Statement of Financial Accounting Standards No. 144 (SFAS No. 144), *Accounting for the Impairment or Disposal of Long-Lived Assets*, certain lumber assets with a carrying value of $10 million were written down to their fair value of $0, resulting in an impairment charge of $10 million, which was included in earnings for the six month period ended June 30, 2009. The fair value was determined using a discounted cash flow model based on estimated future lumber prices, log costs and operating expenses using internal projections.

(B) During the first quarter of 2009, in accordance with SFAS No. 144, timberlands held for sale with a carrying amount of $26 million were written down to their fair value (net of estimated selling costs) of $25 million, resulting in a loss of $1 million, which was included in earnings for the six month period ended June 30, 2009. The fair value was determined based on an external appraisal which was derived from a combination of comparable sales and discounted future cash flows. The discounted future cash flows were based on estimated future timber prices and related operating expenses using internal and external projections.

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(C) The Operating Partnership has agreements with the federal government under which it is obligated to pay maintenance or replacement costs for certain roads. The Operating Partnership also has obligations under state law to maintain or upgrade certain roads. At March 31, 2009, the Operating Partnership concluded that most of these liabilities could be reasonably estimated. As a result, in accordance with Statement of Financial Accounting Standards No. 143, *Accounting for Asset Retirement Obligations*, the Operating Partnership recorded road maintenance liabilities and related timberland assets with an estimated fair value of $7 million. The fair value was determined using a cost approach based on internal projections.

Note 10. Employee Pension Plans

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

	Quarter Ended June 30,	
	2009	2008
Service Cost	**$ 2**	$ 2
Interest Cost	**2**	2
Expected Return on Plan Assets	**(3)**	(2)
Recognized Actuarial Loss	**1**	
Total Pension Cost	**$ 2**	$ 2

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

Note 11. Commitments and Contingencies

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

Environmental Contingencies. In connection with the October 6, 2001 merger with The Timber Company, Plum Creek agreed to indemnify Georgia-Pacific for substantially all of the liabilities attributed to The Timber Company. During 2003, Georgia-Pacific provided Plum Creek with information about the existence of mine tailings and acidic surface water on approximately 90 acres in Hot Spring County, Arkansas, on former Georgia-Pacific properties. Barite mining and related activities were conducted on the site between 1939 and 1981 in part by lessees of an entity that was acquired by Georgia-Pacific. A remediation plan has not yet been approved. The Operating Partnership believes that it has strong defenses in the matter. Furthermore, to the extent the Operating Partnership is required to indemnify Georgia-Pacific for its share of the remediation costs, the Operating Partnership may be able to recover all or a portion of its cost from Georgia-Pacific s insurance policy, or indemnity obligations of the various lessees that conducted mining operations on the property, or both. The Operating Partnership believes it will be successful in defending the claim. If the Operating Partnership is not successful in defending this claim, we believe that any loss would not be material to our financial position or results of operations.

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

Note 12. Segment Information

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

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

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

(A) For the six months ended June 30, 2009, and for the quarter and six months ended June 30, 2008, the Manufactured Products Segment depreciation, depletion and amortization, and operating income (loss) include a $10 million lumber manufacturing assets impairment loss. See Note 5 of the Notes to Consolidated Financial Statements.

(B) Consolidated depreciation, depletion and amortization include unallocated corporate depreciation of $1 million and $2 million for the quarter and six months ended June 30, 2009, respectively, and $2 million and $3 million for the quarter and six months ended June 30, 2008, respectively.

(C) During 2008, the Operating Partnership negotiated the sale of 310,000 acres in Montana for $489 million, to be closed in three phases. Proceeds of $150 million from the first phase were received during the fourth quarter of 2008. Proceeds of $250 million from the second phase were received during the first quarter of 2009. The third and final phase is expected to close in 2010. For the six months ended June 30, 2009, the Real Estate Segment includes revenue of $250 million and operating income of $162 million related to the closing of the second phase.

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

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

	Six Months Ended June 30,	
	2009	2008
Total Segment Operating Income	**$ 239**	$ 153
Corporate and Other Unallocated Expenses	**(27)**	(30)
Other Operating Income (Expense), net		3
Operating Income	**212**	126
Equity Earnings from Timberland Venture	**29**	
Total Interest Expense, net	**(47)**	(70)
Gain on Extinguishment of Debt	**1**	
Income before Income Taxes	**$ 195**	$ 56

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

Forward-Looking Statement

This Report contains forward-looking statements within the meaning of the Private Litigation Reform Act of 1995. Some of the forward-looking statements can be identified by the use of forward-looking words such as believes, expects, may, will, should, seeks, approximately, intends, plans, estimates, projects, strategy, or anticipates, or the negative of those words or other comparable terminology. Forward-looking statements involve inherent risks and uncertainties. A number of important factors could cause actual results to differ materially from those described in the forward-looking statements, including those factors described under the heading Risk Factors in our filings with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended, and Securities Act of 1933, as amended, including, but not limited to, our Annual Report on Form 10-K for the year ended December 31, 2008. Some factors include changes in governmental, legislative and environmental restrictions, catastrophic losses from fires, floods, windstorms, earthquakes, volcanic eruptions, insect infestations or diseases, as well as changes in economic conditions and competition in our domestic and export markets and other factors described from time to time in our filings with the Securities and Exchange Commission. In addition, factors that could cause our actual results to differ from those contemplated by our projected, forecasted, estimated or budgeted results as reflected in forward-looking statements relating to our operations and business include, but are not limited to:

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

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

The following discussion and analysis should be read in conjunction with the financial information and analysis included in our 2008 Annual Report on Form 10-K filed with the Securities and Exchange Commission on February 27, 2009.

Organization of the Company

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

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

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

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

Recent Events

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

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

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

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Results of Operations

Second Quarter 2009 Compared to Second Quarter 2008

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

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

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

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

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

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

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

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

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

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

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

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

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Real Estate Segment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Real Estate Segment.

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

Revenues increased by $237 million to $346 million in the first half of 2009. This increase is due primarily to higher revenues from sales of conservation properties ($258 million) and revenue of $38 million from selling 59,160 large, non-strategic acres in Wisconsin, offset in part by a decrease in the number of acres of higher and better use / recreational and small non-strategic land sales ($49 million). Revenues from the sale of conservation properties increased by $258 million due primarily to the sale of approximately 112,000 acres in Montana for $250 million during the first quarter of 2009. The $250 million conservation sale during the first quarter of 2009 was the second in a three phase transaction. The third phase of approximately 70,000 acres in Montana is expected to close late in 2010 for approximately $89 million. Conservation sales vary significantly from period to period and are primarily impacted by government and

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not-for-profit funding, the limited number of conservation buyers, and the timing of our transactions. Additionally, the price per acre for conservation properties can vary significantly due to the geographic location and the rationale for the conservation designation. From time to time, we may dispose of larger blocks of other timberlands to maximize value such as the 59,160 acres in Wisconsin we sold during the second quarter.

The number of acres of higher and better use / recreational and small non-strategic properties sold during the first six months of 2009 decreased compared to the same period in 2008 due primarily to a decrease in the demand for rural real estate. The demand for rural real estate fell due to the decline in consumer discretionary capital (e.g., declining home values and stock market losses), declining consumer confidence and the inability of buyers to secure lending sources. Additionally, the timing of real estate sales is a function of many factors, including the general state of the economy, demand in local real estate markets, the ability to obtain entitlements, the number of properties listed for sale, the seasonal nature of sales (particularly in the northern states), the plans of adjacent landowners, our expectation of future price appreciation, the timing of harvesting activities, and the availability of government and not-for-profit funding.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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At June 30, 2009, we have recorded deferred tax assets of $68 million and deferred tax liabilities of $41 million. We have not recorded a valuation allowance in connection with our deferred tax asset of $68 million. A valuation allowance is recognized if it is more likely than not that some portion, or all, of the deferred tax asset will not be realized. Management believes that due to either the reversal of various timing differences or the planned execution of prudent and feasible tax planning strategies, sufficient taxable income can be generated to fully utilize the company s deferred tax assets.

Financial Condition and Liquidity

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

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

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

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

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

The favorable working capital change of $109 million is due primarily to the timing of when proceeds from a like-kind exchange trust are either reinvested in replacement property or distributed to the company. Proceeds associated with a forward like-kind exchange are either reinvested in like-kind property within 180 days or distributed to the company at the end of either the 45-day identification period or the 180-day reinvestment period. During the six months ended June 30, 2009, we received proceeds of $48 million from our like-kind exchange trust compared to $61 million of proceeds placed in a like-kind exchange trust at June 30, 2008.

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

	Six Months Ended June 30,	
	2009	2008
Capital Expenditures (Excluding Timberland Acquisitions)	**$ 28**	$ 29
Expenditures for Real Estate Development	**1**	5
Total Capital Expenditures	**$ 29**	$ 34

Planned capital expenditures for 2009, excluding the acquisition of timberlands, are expected to range between $60 million and $65 million and include approximately $48 million for our timberlands, $4 million for our manufacturing facilities, and $7 million for investments in information technology, primarily for resource accounting system enhancements. The timberland expenditures are primarily for reforestation and other expenditures associated with the planting and growing of trees. Approximately 40% of planned capital expenditures in 2009 are discretionary. Capital expenditures at our manufacturing facilities consist primarily of expenditures to sustain operating activities and improve safety.

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

Line of Credit. The Operating Partnership has a $750 million revolving line of credit agreement that matures in June 2011. As of June 30, 2009, the weighted-average interest rate for the borrowings on the line of credit was 0.72%. The interest rate on the line of credit is based on LIBOR plus 0.425%. This rate can range from LIBOR plus 0.27% to LIBOR plus 1% depending on our debt ratings. Subject to customary covenants, the line of credit allows for borrowings from time to time up to $750 million, including up to $100 million of standby letters of credit. Borrowings on the line of credit fluctuate daily based on cash needs. As of June 30, 2009, we had $206 million of borrowings and $14 million of standby letters of credit outstanding; $530 million remained available for borrowing under our line of credit. As of July 1, 2009, all of the borrowings outstanding under our line of credit were repaid.

Term Credit Agreements. The Operating Partnership has a $250 million and a $350 million term credit agreement, each maturing in June 2012. As of June 30, 2009, the interest rate for the $250 million term credit agreement was 1.31%. The interest rate on this term credit agreement is based on LIBOR plus 1.00%. This rate can range from LIBOR plus 0.5% to LIBOR plus 1.5% depending on our debt ratings. As of June 30, 2009, the interest rate for the $350 million term credit agreement was 0.76%. The interest rate on this term credit agreement is based on LIBOR plus 0.45%. This rate can range from LIBOR plus 0.3% to LIBOR plus 1.15% depending on our debt ratings. Both term credit agreements are subject to covenants that are substantially the same as those of our revolving line of credit, and allow prepayment of the borrowings at any time prior to the maturity date without premium or penalty.

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

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

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

	June 30, 2009	December 31, 2008
Senior Notes		
Public Debt	**$ 453**	$ 458
Private Debt	**760**	893
Total Senior Notes	**$ 1,213**	$ 1,351

Plum Creek Timber Company, Inc. and the Operating Partnership have filed a shelf registration statement with the Securities and Exchange Commission which expires on April 24, 2012. Under the shelf registration statement, Plum Creek Timber Company, Inc., from time to time, may offer and sell any combination of preferred stock, common stock, depositary shares, warrants and guarantees, and the Operating Partnership may from time to time offer and sell debt securities.

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

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

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

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

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

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

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

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

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Future Cash Requirements. Cash required to meet our financial needs will be significant. We believe, however, that cash on hand and cash flows from operations will be sufficient to fund planned capital expenditures and principal and interest payments on our indebtedness for the next twelve months. During the next twelve months, the company has approximately $111 million of scheduled long-term debt principal payment requirements. We intend to use a combination of cash and the available borrowing capacity under our $750 million line of credit to fund the $111 million of debt obligations.

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

The company has no off-balance sheet debt. For information on contractual obligations, see the table Contractual Obligations in Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2008 Annual Report on Form 10-K.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Approximately $2.0 billion (including $783 million of related party obligations) of Plum Creek s long-term debt bears interest at fixed rates, and therefore the fair value of these instruments is affected by changes in market interest rates. The following table presents contractual principal cash flows based upon maturity dates of the company s debt obligations and the related weighted-average contractual interest rates by expected maturity dates for the fixed rate debt (in millions):

	2009	2010	2011	2012	2013	Thereafter	Total	Fair Value (A)
June 30, 2009								
Fixed Rate Debt								
Third Party Obligations								
Principal Due[B]	**$ 58**	**$ 56**	**$ 383**	**$ 4**	**$ 250**	**$ 469**	**$ 1,220**	**$ 1,186**
Average Interest Rate[C]	**6.7%**	**6.7%**	**6.6%**	**6.2%**	**6.1%**	**5.9%**		
Related Party Obligations								
Principal Due						**$ 783**	**$ 783**	**$ 719**
Interest Rate						**7.4%**		
Variable Rate Debt[D]			**$ 206**	**$ 600**			**$ 806**	**$ 771**

	2008	2009	2010	2011	2012	Thereafter	Total	Fair Value
June 30, 2008								
Fixed Rate Debt								
Third Party Obligations								
Principal Due[B]	$ 100	$ 200	$ 59	$ 424	$ 4	$ 791	$ 1,578	$ 1,575
Average Interest Rate[C]	6.9%	6.8%	6.7%	6.6%	6.2%	6.0%		
Variable Rate Debt				$ 369	$ 600		$ 969	$ 969

(A) The fair value of the company s publicly-traded debt (i.e., Senior Notes due 2015) is estimated using market quotes; the fair value of the company s other debt with unrelated third parties is estimated using the same rates adjusted for the different maturities. The fair value of the company s Note Payable to Timberland Venture is estimated using the same rates as the publicly-traded debt adjusted by an estimated risk premium for holding company debt and the different maturity. The decrease in fair value of our fixed rate debt compared to June 30, 2008 (excluding related party debt) was due primarily to the repayment of $219 million of senior notes in the last six months of 2008 and $138 million of senior notes in the first six months of 2009. In June 2009, interest rates were similar to June 2008, with the decline in treasury rates being offset by an increase in credit spreads. The fair value of our floating rate term loans (variable rate debt) as of June 30, 2009 was determined by adjusting the spread over LIBOR to a current market spread for comparable debt as of June 30, 2009. The fair value of our floating rate term loans as of June 30, 2008 approximated the principal balance.

(B) Excludes unamortized discount of $7 million and $8 million at June 30, 2009 and 2008, respectively.

(C) Represents the average interest rate of total fixed rate debt (excluding related party debt) outstanding at the end of the period.

(D) As of June 30, 2009, the weighted-average interest rate on the $206 million borrowings under our $750 million revolving line of credit was 0.72%. The interest rate on the line of credit is based on LIBOR plus 0.425%. This rate can range from LIBOR plus 0.27% to LIBOR plus 1.00% depending

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on our debt ratings. As of July 1, 2009, all of the borrowings outstanding under our line of credit were repaid. As of June 30, 2009, the interest rate for the $350 million term credit agreement was 0.76%. The interest rate on the $350 million term credit agreement is based on LIBOR plus 0.45%. This rate can range from LIBOR plus 0.3% to LIBOR plus 1.15% depending on our debt ratings. As of June 30, 2009, the interest rate for the $250 million term credit agreement was 1.31%. The interest rate on the $250 million term credit agreement is based on LIBOR plus 1.00%. This rate can range from LIBOR plus 0.5% to LIBOR plus 1.5% depending on our debt ratings.

ITEM 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

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

(b) Control over Financial Reporting

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

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

None. (See also Note 12 of the Notes to Consolidated Financial Statements of Plum Creek Timber Company, Inc.).

ITEM 1A. RISK FACTORS

There have been no material changes to the company s Risk Factors as disclosed in our Annual Report on Form 10-K for the year ended December 31, 2008, as filed with the Securities and Exchange Commission on February 27, 2009.

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

The following table contains information about the company s purchases of equity securities during the second quarter of 2009:

Period	*Total Number of Shares Purchased (A)*	*Average Price Paid per Share*	*Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (B)*	*Maximum Number (or Approximate Dollar Value) of Shares that May Yet Be Purchased Under the Plans or Programs (B)*
April 1, 2009 through April 30, 2009	933 shares of common stock	$ 32.07	shares of common stock	$ 50 million
May 1, 2009 through May 31, 2009	17 shares of common stock	$ 34.00	shares of common stock	$ 50 million
June 1, 2009 through June 30, 2009	shares of common stock	$	shares of common stock	$ 50 million
Total	950 shares of common stock	$ 32.10	shares of common stock	

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

(B) No shares were purchased during the period April 1, 2009 through June 30, 2009 pursuant to the $200 million share repurchase program that was publicly announced on October 21, 2008.

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

The company s 2009 Annual Meeting of Stockholders was held on May 6, 2009. Proxies were solicited pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, to vote on five proposals: (1) to elect eight individuals to the company s board of directors; (2) to amend the company s certificate of incorporation to eliminate the requirement of plurality voting in director elections; (3) to amend the company s certificate of incorporation to increase the share ownership limit from 5% of the outstanding shares to 9.8% of the outstanding shares per holder; (4) to ratify the appointment of Ernst & Young LLP as the company s

independent registered public accounting firm for 2009; and (5) a stockholder proposal to require an annual stockholder advisory vote on executive compensation for the company s named executive officers as disclosed in the company s proxy materials.

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Vote Results

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

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

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

There were no broker non-votes.

(2) The amendment to the company s certificate of incorporation to eliminate plurality voting was approved, with 132,543,946 votes For the proposal, 8,149,780 votes Against the proposal, 1,513,250 abstentions and no broker non-votes.

(3) The amendment to the company s certificate of incorporation to increase the share ownership limit to 9.8% of the outstanding shares was approved, with 135,361,024 votes For the proposal, 5,403,846 votes Against the proposal, 1,442,105 abstentions and no broker non-votes.

(4) The appointment of Ernst & Young LLP as the company s independent registered public accounting firm was ratified by the stockholders, with 140,584,812 votes For the proposal, 1,081,050 votes Against the proposal, 541,214 abstentions and no broker non-votes.

(5) A stockholder proposal to require an annual stockholder advisory vote on executive compensation for the company s named executive officers as disclosed in the company s proxy materials was included in the company s proxy materials in accordance with Rule 14a-8 of the Securities Exchange Act of 1934, as amended. The proposal was not approved under the company s amended and restated by-laws, with 55,853,854 votes For the proposal, 42,344,749 votes Against the proposal, 1,964,738 abstentions and 42,043,735 broker non-votes.

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

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ITEM 6. EXHIBITS
List of Exhibits

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

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

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

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

INDEX TO EXHIBITS

Exhibit Designation	Nature of Exhibit
2.1	Agreement and Plan of Merger by and among Georgia-Pacific Corporation, North American Timber Corp., NPI Timber, Inc., GNN Timber, Inc., GPW Timber, Inc., LRFP Timber, Inc., NPC Timber, Inc. and Plum Creek Timber Company, Inc. (Form 8-K/A, File No. 1-10239, filed July 24, 2000). Amendment No.1 to the Agreement and Plan of Merger, dated as of June 12, 2001 (Exhibit 2.1 to Form 8-K, File No. 1-10239, filed June 14, 2001).
2.2	Third Amendment to Real Estate Purchase and Sale Agreement dated as of January 13, 2009, by and among Plum Creek Timberlands, L.P., a Delaware limited partnership, and Plum Creek Land Company, a Delaware corporation, as Sellers, and The Nature Conservancy, a non-profit corporation of the District of Columbia, and The Trust for Public Land, a California non-profit public benefit corporation, as Purchasers (Exhibit 2.1 to Form 8-K, File No. 1-10239, filed January 15, 2009).
2.3	Contribution Agreement dated as of August 22, 2008 between Plum Creek Timber Operations I, LLC and TCG Member, LLC (Exhibit 2.1 to Form 8-K, File No. 1-10239, filed August 27, 2008).
2.4	Limited Liability Company Agreement of Southern Diversified Timber, LLC dated as of October 1, 2008 between Plum Creek Timber Operations I, LLC and TCG Member, LLC (Exhibit 2.2 to Form 8-K, File No. 1-10239, filed October 7, 2008).
3.1	Restated Certificate of Incorporation of Plum Creek Timber Company, Inc., as amended.

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3.2	Amended and Restated By-laws of Plum Creek Timber Company, Inc., as amended (Exhibit 3.2 to Form 10-K, File No. 1-10239, for the year ended December 31, 2007).
4.1	Indenture (including Form of Note and Guarantee), dated as of November 14, 2005, by and among Plum Creek Timberlands, L.P., as issuer, Plum Creek Timber Company, Inc., as guarantor, and U.S. Bank National Association, as trustee, governing the terms of 5.875% Senior Notes due 2015 (Exhibit 4.1 to Form 8-K, File No. 1-10239, filed November 14, 2005).
4.2	Officer s Certificate, dated November 14, 2005, establishing the terms and form of 5.875% Senior Notes due 2015 (Exhibit 4.2 to Form 8-K, File No. 1-10239, filed November 14, 2005).
4.3	Officer s Certificate, dated May 2, 2006, reopening 5.875% Senior Notes due 2015 (Exhibit 4.3 to Form 8-K, File No. 1-10239, filed on May 2, 2006).
4.4	Senior Note Agreement, dated as of October 9, 2001, governing terms of $295,000,000 Series J due October 1, 2011, $75,000,000 Series K due October 1, 2013. (Exhibit 4.1 to Form 8-K File No. 1-10239, filed October 9, 2001). First Amendment to Senior Note Agreement dated as of December 19, 2002, governing terms of $295,000,000 Series J due October 1, 2011, $75,000,000 Series K due October 1, 2013 (Exhibit 4.1 to Form 10-K, File No. 1-10239, for the year ended December 31, 2002). First Omnibus Amendment dated as of August 18, 2008 by and among Plum Creek Timberlands, L.P. and the lenders party thereto (Exhibit 4.1 to Form 8-K, File No. 1-10239, filed August 22, 2008).
4.5	The registrant agrees that it will furnish the Commission a copy of any of its debt instruments not listed herein upon request.
10.1	Credit Agreement, dated as of June 29, 2006, among Plum Creek Timberlands, L.P., Bank of America, N.A., as Administrative Agent, SunTrust Bank, as Syndication Agent, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Seattle Branch, Northwest Farm Credit Services, PCA and Cooperatieve Centrale Raiffeisen-Boerenleenbank B.A., Rabobank International , New York Branch, and Wells Fargo Bank, National Association, as Documentation Agents, Banc of America Securities LLC and SunTrust Robinson Humphrey, a division of SunTrust Capital Markets, Inc., as Joint Lead Arrangers and Joint Book Managers, and the other financial institutions party thereto (Exhibit 10.1 to Form 8-K, File No. 1-10239, filed on July 3, 2006). Amendment Agreement, dated as of June 15, 2007, among Plum Creek Timberlands, L.P., and Bank of America, N.A., as Administrative Agent under the Credit Agreement dated as of June 29, 2006 (Exhibit 10.2 to Form 8-K, File No. 1-10239, filed June 21, 2007).
10.2	Credit Agreement and Guarantee dated as of October 1, 2008 by and among Plum Creek Ventures I, LLC, Plum Creek Timber Company, Inc. and Southern Diversified Timber, LLC (Exhibit 10.1 to Form 8-K, File No. 1-10239, filed October 7, 2008).
10.3	Pledge Agreement dated as of October 1, 2008 between Plum Creek Ventures I, LLC and Southern Diversified Timber, LLC (Exhibit 10.2 to Form 8-K, File No. 1-10239, filed October 7, 2008).
10.4	Form of Amendment to Outstanding Stock Option Award Agreements.
12.1	Computation of ratio of earnings to fixed charges and computation of ratio of earnings to combined fixed charges and preferred stock dividends.
31.1	Certification of Rick R. Holley, President and Chief Executive Officer, pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.

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31.2	Certification of David W. Lambert, Senior Vice President and Chief Financial Officer, pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.
32.1	Certification of Rick R. Holley, President and Chief Executive Officer, pursuant to Rules 13a-14(b) and 15d-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of David W. Lambert, Senior Vice President and Chief Financial Officer, pursuant to Rules 13a-14(b) and 15d-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

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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
DAVID W. LAMBERT
Senior Vice President and Chief Financial Officer

(Duly Authorized Officer and Principal Financial Officer)

Date: August 5, 2009