This 3DAdvisors Report Covers:

✓ **Insider Trading**: Insider Trading Behavior
✓ **Accounting**: Quality of Earnings Issues
Governance: Corporate Governance Issues
✓ **Fundamentals:** Analysis of fundamentals

Cash Needs Force Land Sales; Insiders Abruptly Sell Plum Creek Timber Co. Inc. (NYSE:PCL)

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Business Description

Plum Creek Timber Co. Inc. is a REIT that owns and manages timberlands in the United States. Its products include lumber products, plywood, medium density fiberboard, and related by-products, such as wood chips. The Company sells its products to wood products retailers, home construction, and industrial customers. The Company also focuses on mineral extraction; and natural gas production, communication, and transportation. As of 12/31/07, it operated approximately 8 million acres of timberlands in the northwest, southern, and northeast United States, and owned and operated 10 wood product conversion facilities in the northwest United States. Plum Creek Timber Company was founded in 1989 and is based in Seattle, Washington.

Key Statistics

Sector:	Last Close:	Market Cap:	Avg Vol (3m):
Financial	**$38.81**	**$6.64B**	**2,788,170**
Industry:	52 Wk Range:	Trailing P/E:	Shrs Out:
REIT - Diversified	**$35.11-$60.00**	**27.22**	**171.13M**
F/T Employees:	FYE:	Forward P/E:	Short % of Float:
2,000	**31-Dec**	**29.85**	**7.10%**

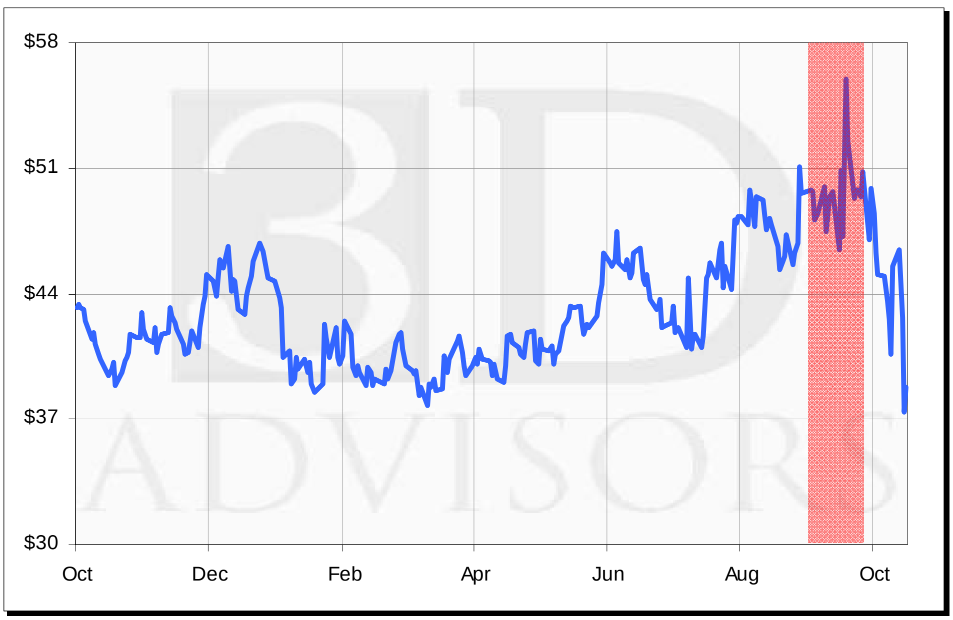
Summary of 3DAdvisors Findings for PCL

- **Fundamentals:** Shifting revenue picture reflects strains on various end markets
- **Fundamentals:** Company sells off more real estate as core revenue slows
- **Insider Trading:** On the sidelines for years, insiders suddenly emerge
- **Accounting:** Rising cost structure also pressuring margins
- **Accounting:** Creative land deal driven by need for cash; debt goes higher
- **Accounting:** Rising debt load becoming an increasing burden
- **Accounting:** Cash continues to dwindle; debt payments in question?
- **Accounting:** An interesting disclosure on debt given the times

Discussion of 3DAdvisors Findings for PCL

Our initial cautious interest in a rare round of 10b5-1plan selling at Plumb Creek Timber (PCL) quickly intensified upon further analysis of the Company's financials and business model. Early on, even though the September round of insider selling was unprecedented, we felt uneasy taking on the name given the impressive performance of PCL shares which, even into late September, continued to register new all-time highs. Now, however, as the shares have begun to look vulnerable, those insider sales at the highs have every appearance of having been quite prescient. This becomes more evident when one looks at the shifts occurring in the Company's revenue streams, no doubt forced upon it by the moribund housing market. With prices of lumber falling, PCL has turned to increasing land sales, into weakening real estate prices, in order to retain its cash levels at the point where it can continue to pay out its earnings as dividends which it must do in order to retain its REIT status.

Figure 1. PCL Daily Closing Price, 10/01/07 through 10/16/08. Red shaded area is where 5 insiders abruptly sold over 517,000 shares under 10b5-1 plans shortly after the plans were established. Source: Reuters and PCL SEC Filings.



Recent strategies incorporated by the Company have forced more leverage on the balance sheet which has pushed the total debt to equity ratio up to 1.43. The Company, however, refers to its debt load using the language of debt to *enterprise value*, which, when translated (enterprise value being market cap plus debt) drops the percentage to a more benign-looking ratio of .29. So we have a Company, finding its traditional revenue streams drying up, being forced to sell off property, much of it timber producing, at increasingly lower prices in order to keep cash coming in. The behavioral confirmation that these shifts bode ill for the shares comes in the form of insiders abruptly and significantly reducing their exposure to the stock by employing what appear to be aggressive 10b5-1 trading plan practices, right at the recent highs. This combination of fundamental and behavioral bits and pieces strongly suggests to us that the road ahead is likely to be quite bumpy indeed.

Fundamentals: Shifting revenue picture reflects strains on various end markets

It's hardly surprising that Moody's recently gave the entire industry a negative outlook due to the fact that paper demand is declining as Japan, North America and Europe undergo economic slowdowns. Ditto for crashing housing markets and their effects on timber and related product sales as well; demand is down with no pickup in sight. The effects on the PCL revenue mix are quite evident.

At the end of the 2Q08, PCL generated revenues from four segments: Timber (51% of total revenues, comprised of Northern and Southern Resources segments), Manufacturing (32.2%), Real Estate (15.2%) and Other (1.6%). What is most interesting is to take a look at how PCL has generated revenues in the past and how that revenue stream might be at risk going forward. Although the 2007 SEC Form 10-K provides us with a very basic description of the demand for lumber, it also highlights to us how sensitive PCL is to the financial crisis at hand. The 10-K says that, "the demand for lumber and manufactured wood products is affected primarily by the level of new residential construction activity, repair and remodeling activity and industrial demand, which in turn is impacted by changes in general economic and demographic factors, including population, interest rates for home mortgages and construction loans." As such, this opening line seems fraught with risks for PCL given the current market.

Certainly there seem to be several obvious headwinds and there are a few worth discussing in detail, starting with pricing. According to an article on Reuters.com[1], lumber prices hit a five-year low in January of 2008 with lumber futures falling to $208.70 per thousand board feet. The article highlights that "there is just no way anyone is making any money. There are a lot of mills losing a lot of money at that price, so there have to be more curtailments." According to the article, "while lumber supplies are burdensome, it is the lack of demand that is hurting the market rather than excess supply." Although this article was published in January of 2008, it is hard not to believe that the same commentary would be applicable today. In fact, framing lumber futures prices per thousand board feet have fluctuated since January climbing up to as high as $268.80 in August of 2008. However, yesterday's close for the November 2008 futures contract on the CME was $195.30. This is quite the drop from the $455.60 highs on 05/14/04. One can only imagine that the ongoing troubles in the housing market, which many believe will get worse before they get better, will continue to take its toll on companies such as PCL.

Indeed, PCL states in its SEC Form 10-Q that prices for sawlogs in the Northern Resources segment on a stumpage basis fell by 6% in the 1Q08 and by 11% in the 2Q08 versus the same period one-year ago. In the Southern Resources segment sawlog prices fell even further falling by 9% in the 1Q08 and by 16% in the 2Q08 versus 2007. However, due to mill curtailments woodchips have been in short supply and therefore pulpwood prices have experienced an increase. Pulpwood prices in the Southern Resources segment increased by 17% in the 1Q08 and by 11% in the 2Q08 compared to the same period one-year ago. PCL states that it is able to control its harvest to take advantage of price differentials in regional markets. For example, PCL has been harvesting more pulpwood in the Southern Resources segment to take

[1] Reuters.com "Lumber prices hit 5-year low, cutbacks seen" By Bob Burgdorfer, January 10, 2008.

advantage of higher prices. However, despite this "management" the revenue growth tables below illustrate that soft demand and falling prices remain a strong headwind.

Furthermore, the decline in lumber prices has also negatively affected the Manufacturing segment. Lumber prices in the 1Q08 fell by 6% and by 8% in the 2Q08 compared to the same period in 2007. As a result, nearly 85% of the Company's revenue stream was affected by pricing pressures at the end of 2007. As we have moved into 2008, these pricing pressures have not only continued to weigh heavily upon the Timber and Manufacturing segments but also are now negatively impacting Real Estate.

Revenue Growth Year over Year (%)	2005	2006	1Q07	2Q07	3Q07	4Q07	2007	1Q08	2Q08
Timber	10.1	5.6	-2.3	-1.6	-3.1	-5.4	-3.1	-3.8	1.05
Real Estate	-3.6	5.5	-36.1	36.5	-27.1	-2.9	30.5	33.3	-19.7
Manufacturing	-2.7	-2.2	-14.2	-0.8	-4.0	63.6	-4.5	-8.7	-6.2
Other	23.1	18.8	20.0	0.0	-20.0	25.0	5.3	-16.7	20.0
Total	3.1	3.2	-10.9	3.9	-10.4	32.9	2.9	-1.6	-4.8

Sequential Revenue Growth (%)	2005	2006	1Q07	2Q07	3Q07	4Q07	2007	1Q08	2Q08
Timber	10.1	5.6	2.4	-9.1	0.0	1.6	-3.1	4.1	-4.5
N. Resources	11.9	24.7	-1.2	-22.0	7.8	8.7	-11.6	5.3	-19.0
S. Resources	9.2	-4.4	9.5	-0.8	-4.0	-2.5	2.7	3.4	4.9
Real Estate	-3.6	5.5	-40.9	82.1	32.4	110.6	30.5	-73.7	9.6
Manufacturing	-2.7	-2.2	9.5	12.2	-7.8	-9.2	-4.5	-2.8	15.2
Other	23.1	18.8	50.0	-16.6	-20.0	25.0	5.3	0.0	20.0
Total	3.1	3.2	-2.6	7.0	3.0	23.8	2.9	-28.0	3.6

<u>Fundamentals: Company sells off more real estate as core revenue slows</u>

PCL has been able to supplement its Timber revenues through the Real Estate segment. However, that contribution appears to be in the midst of a downward trend as well, even before the current financial crisis came to a boiling point. In the 2Q08 15.2% of total revenues came from its Real Estate segment versus 18% in the 2Q07. On the surface the drop does not seem to be so significant and in fact, seems to be logical considering the market. However, when one looks at the change in ***revenue per acre*** in the 2Q08 versus the 2Q07 we see quite a different picture.

Property Type (Revenue per Acre)	2Q 2007	2Q 2008	Percentage Change in Price
Small Non-Strategic	$1,295	$1,285	-0.8%
Conservation	$6,660	$1,555	-76.6%
Higher and Better Use / Recreational	$3,150	$2,740	-13.0%
Development Properties	$21,260	$9,630	-54.7%

Looking at the above table one can see a significant drop in the revenue per acre of both development properties and conservation properties. Interestingly, PCL has announced an agreement to sell 320,000 acres of conservation land subsequent to the close of the 2Q08 (see below). Based on the information provided in the 2Q08 SEC Form 10-Q it appears that PCL will sell these conservation lands in three phases, with the first phase to be sold in December 2008, selling for $1,143 per acre or 26% below what similar land was sold for in the 2Q08. The second phase, to be sold in December 2009, shows an increase in revenue per acre to $2,985 while the third portion falls back to $1,410 per acre, to be sold in December 2010, bringing the average revenue per acre to $1,593. The recent transaction with The Campbell Group LLC places those acres at $1,725 per acre, only slightly above the conservation land figures of the 2Q08 and certainly well below the higher and better use / recreational prices of the same quarter. These figures do not seem to imply a rebound to the 2Q07 levels of $6,660 per acre any time soon.

Another interesting point worth highlighting is the fact that PCL has moved from being a net acquirer of land to a net seller over the past two years. With sales from its core revenue streams under pressure and with a balance sheet that is already highly levered, this shift is not exactly a surprise.

PCL Land Acquisitions and Dispositions	2005	2006	2007
Purchase Price (millions $)	501	111	174
Acquisitions (acres)	754,000	98,000	69,000
Dispositions (acres)	232,000	112,000	252,000

At the end of 2007, PCL owned 8 million acres of total timberlands with 25% of those acres allocated as land for sale. The 2007 SEC Form 10-K states that over the next 15 years, 1.7 million acres are expected to be sold or developed for recreational, conservation or residential purposes with 29.4% allocated to conservation, 58.8% allocated to recreational and 11.8% allocated to “development”. Furthermore, PCL has also designated an additional 300,000 acres as non-strategic timberlands that are expected to be sold over the next five years, bringing the total land allocated for sale to 25% of total acres owned.

The 2007 10-K states that these development acres are expected to be developed internally or through joint venture arrangements. The 10-K further discloses that, “It is our intent to enter into joint venture arrangements with leading land developers for larger and more complicated projects, such as master planned communities.” However, that intent may change given not only the current market conditions but also the state of the Company’s balance sheet. In fact, it almost seems as if management was hoping the real estate market could pick up the slack as the timber market was experiencing soft demand and declining prices.

Not surprisingly, some development deals have begun to fall apart and now management is selling valuable land in the Southern Resource segment “to realize its value” (read: PCL needs cash). In a footnote that appears only in the 1Q08 SEC Form 10-Q, it is disclosed that PCL had entered into six joint venture agreements with land developers but that four of these ventures were terminated due to the partner’s change in “management focus, market conditions and project priorities.” This “change of heart” again points to the fact that a recovery in the Real Estate segment is a long way off and that total company revenues are not likely to be enhanced by the segment. In fact, with the Campbell Group deal and the Montana Timberlands deal, 770,000 acres have been sold in June and August, nearly 45.3% of the total acreage allocated to be sold. Furthermore, there is a phrase in the 2007 SEC Form 10-K that states, “our remaining inventory of small non-strategic acres do not have as great of a percentage of high value properties as our sales mix during 2006.” The fact that the Company is aggressively selling off prime pieces into a soft pricing environment, leaving it with a lower quality portfolio, no doubt makes investors very uncomfortable. As will be discussed below, cash is running out and now high quality land available for sale is dwindling, and with a heavily levered balance sheet in the middle of the worse corporate credit crisis in a generation, its options are extremely limited.

If that weren’t enough, we might also have good reason to doubt the long-term viability of the Manufacturing segment. The 2007 SEC Form 10-K says that “lumber and plywood facilities obtain approximately two-thirds of their logs from our Montana timberlands.” The 10-K then goes on to state that, “our timberlands currently supply high-quality logs and preferred timber species to our lumber and plywood facilities, although future harvest levels on our Montana timberlands are expected to decline. Also, over time the average log size is expected to decline due to evolving harvest and growth patterns.” The 10-K continues, “…we expect to increase purchases of stumpage and logs from external sources as harvest levels on our Montana timberlands decline.” Although this disclosure existed in the 2006 10-K as well, what is new is the disclosure of the percentage of lumber raw materials that is sourced from PCL. According to the 2006 10-K, the Montana plant sourced 40% to 50% of its lumber raw materials from PCL. In the 2007 10-K the amount sourced fell to 30% to 40%.

Also suggesting this slow decline in harvest is the fact that inter-segment revenues too are falling. In 2005 24.2% of the Northern resources segment revenues were inter-segment sales; that is sales to the manufacturing segment. By the end of

2007 inter-segment sales had fallen to 19.7% and to 15.6% by the end of the 2Q08. Going forward it seems we can expect PCL to be sourcing even less internally given that it is selling some of its Montana timberlands for conservation. In fact, by selling 320,000 acres of Montana timberlands, the total acreage of the Montana timberlands is reduced by 26.7%. Again this reduction presumes that the need to purchase raw materials to supply the Manufacturing segment will happen sooner than originally planned, adding pressure to those margins, which are currently in a loss situation (see below).

We should point out that this situation may not be quite as grim as it appears on the surface since the Company has fiber supply in place for the next 15 years with the Montana transaction. Nevertheless, either PCL is making a bet that it will be cheaper to purchase the raw materials rather than to harvest themselves and thus realize the value from the land or they are in need of cash. But with the first phase of the Montana lands being sold at $1,143 per acre, 26% below the last sale recorded in the 2Q08 and 83% below the last sale in the 2Q07, it seems pretty obvious to us that cash is a first priority.

Insider Trading: After being on the sidelines for years, insiders suddenly emerge

After averaging 10,000 shares sold per quarter between 1Q05 and 2Q08, even as PCL shares continued their relentless rise, five key individuals acted *en masse* in September almost as if a bell went off. To blame it simply on profit taking would be to ignore the fact that PCL shares have been repeatedly setting all-time highs since 2004. Five PCL insiders dropped a total of just over 517,000 shares between 09/03/08 and 09/26/08 at prices between $46.95 and $52.50, making this the largest round of sales since 1995 (see Figure 1 above).

During September, President, CEO **Rick Holley** and COO **Thomas Lindquist** set up trading plans intended to comply with Rule 10b5-1 and, in action far from subtle, proceeded to dump 35% and 55% of their actionable holdings (common stock plus in-the-money vested options) one or two days after the plans were adopted. These individuals failed to provide details such as the amount of shares reserved for sale under their respective plans, so it is unknown at this time if we should expect further profit taking under these plans. What is known, however, is that their holdings were slashed with just the first plan sales, a tactic inconsistent with the spirit of Rule 10b5-1. Holley and Lindquist were not alone, as other key officers and one board member dumped significant percentages of their holdings without the assistance of a sales plan.

- **Rick Holley (56)** – President, Chief Executive, Director. Holley has been at the helm of Plum Creek and its predecessor partnerships since 1994. To say he has been an occasional trader during his lengthy term would be an understatement as he sold shares only in August 2001 and August 2004. So when he surfaced in September with his largest sale on record, we knew his actions were material. Holley entered into a 10b5-1 sales plan on 09/02/08 and began selling immediately without any forewarning from the Company, dumping 200,000 shares on 09/03/09 and another 50,000 on 09/08/08. Some of the shares came from options not scheduled to expire for another three or four years, with others coming out of his common stock holdings. In all, the shares **accounted for 35% of his actionable ownership**, which represents the largest percentage reduction of any of his sales to date. The 115,000 options and shares he will vest in through the end of 2009 will replace less than half of what he just sold (see Appendix A). It remains to be seen if there are more shares available for sale under his current sales plan, but as of now Holley's holdings are at their lowest level since the REIT conversion in 1999.

- **Thomas Lindquist (47)** – Executive V.P., Chief Operating Officer. It took seven years from the date Lindquist joined the Company for him to take his first profits and he took plenty off the table with his first effort. After only having previously been a buyer of PCL shares, Lindquist, who received his promotion to the COO post in April 2007, entered into a sales plan of his own on 09/24/08. Two days later (09/26/08) he commenced the plan trading with a sale of 105,000 shares at an average price of $49. The shares were acquired when Lindquist cleared out all options from three different series with expiration dates between January 2012 and February 2014 on the same day. As was the case with CEO Holley, there was no disclosure from the Company that Lindquist entered into a sales plan or intended to **drop 55% of his holdings**. He will have just 44,000 options and shares become actionable through the end of next year (see Appendix A).

- **Russell Hagen (42)** – V.P. of Real Estate. Hagen began his Plum Creek career in the financial department in 1995 and shifted between different roles before settling in his current position in October 2006, which is when he became a Section 16 filer. On 09/18/08 he surfaced with his first sale, **selling 75% of his ownership** with a 17,000 share disposition. In order to complete this transaction Hagen exercised every last vested option at his disposal, tapping into six different series with expiration dates ranging from January 2012 to February 2017. All that remains of his holdings are the 5,000 shares he is required to hold under the Company's stock ownership guidelines. The 7,600 options and shares on tap to vest through January 2010 will not replace even half of the ownership diversified away last month (see Appendix A).

- **John Scully (63)** – Director. Scully, the Co-Founder and Managing Director of investment firm SPO Partners & Co., has been involved with Plum Creek since 1992. His selling history is quite limited as he has sold PCL shares only once in the past 10 years. In November 2004 Scully lightened his position by 45% with the shares trading at $38, which proved a wise decision as PCL would not eclipse his exit price for more than two years. He now joins the group of selling officers when he resurfaced on 09/09/08 and 09/19/08 to sell 143,230 shares out of his living trust for a pre-tax profit of $7.1 million. **The shares made up almost 70% of his remaining holdings**, which will not be replenished to any degree since Plum Creek board members have not been compensated with equity since 2004 and he does not hold any unvested stock or options. We should also point out that Scully has been the chairman of Advent Software, Inc. (NASDAQ: ADVS) since 2003 but is yet to sell any of his personal shares despite their having gained 500% since he joined the board.

<u>Accounting: Rising cost structure also pressuring margins</u>

Not only does the long-term revenue stream of PCL appear to be at risk but also the operating cost structure is coming under pressure. PCL is seeing the cost to haul increase rapidly due to longer distances and of course fuel. In fact, according to the 2Q08 conference call with diesel prices hitting $4.38 per gallon ($3.70 as of this writing) versus $2.77 one year ago, fuel costs alone rose 60% in 2Q08 verses 2Q07. Such rising costs and the resulting negative impact on both the timber and manufacturing operations is discussed for the first time in the 2007 SEC Form 10-K. In addition, the 10-K states for the first time that margins in these two segments may decrease further in 2008 due to continued rising fuel costs and longer hauling distances. In fact, on the 1Q08 conference call, CEO Rick Holley discloses that regarding "fuel cost, the burden on us is about $40 million. So it has a huge impact on the Company."

Operating Margins (%)	2005	2006	1Q07	2Q07	3Q07	4Q07	2007	1Q08	2Q08
N. Resources	37.6	32.0	23.2	21.9	11.6	13.3	20.0	17.7	10.9
S. Resources	43.3	37.2	36.2	32.5	32.2	23.7	32.7	30.3	28.9
Real Estate	46.6	57.8	53.8	66.2	64.9	71.2	62.2	63.5	61.4
Manufacturing	5.8	4.5	Loss	1.6	1.7	Loss	0.4	Loss	Loss*
Other	81.3	84.2	83.3	100	75.0	100	85.0	100	83.3
Total	28.4	28.3	20.9	23.8	24.1	30.8	25.3	19.0	15.2

* PCL took a $10 million asset impairment charge in 2Q08 in the Manufacturing segment.

However, there seems to be another reason why fuel charges are impacting margins. In the 2007 10-K in the description of revenue recognition we see that there are four primary ways of recognizing revenues. What is important to note is that with delivered log sales, revenue is recognized as the timber is cut with PCL bearing all cost of logging and hauling. The burden rests on the client for pay-as-cut, timber deeds and lump-sum contracts. Looking at the table below one can see that the more lucrative methods of revenue recognition, especially lump-sum contract, are declining and PCL is finding itself bearing a greater proportion of the logging and hauling costs. Are they also perhaps recognizing revenues earlier as well?

Revenue Recognition Method of Timber Sales to External Customers (%)	2005	2006	2007
Delivered Log Sales	85.3	85.6	91.3
Pay-as-Cut	8.3	7.3	5.6
Timber Deeds	6.4	1.9	2.3
Lump-Sum Contract	0	5.1	0.8
Total	100	100	100

Accounting: Creative land deal driven by need for cash; debt goes higher

On 06/30/08 PCL entered into a transaction to sell approximately 320,000 acres of Montana timberland, from its Northern Resources segment, for $510 million. As we have discussed above, the timberlands are scheduled to be sold in three phases as follows: $200 million, approximately 175,000 acres in December 2008; $200 million, approximately 67,000 acres, in December 2009 and $110 million, approximately 78,000 acres, in December 2010. The transaction also establishes a wood fiber supply agreement for up to 15 years at market-based prices for the Company's manufacturing facilities. PCL states in its 2Q08 SEC Form 10-Q that the book basis on the lands expected to be sold in 2008 is $110 million.

On 09/27/08, PCL entered into a venture with Campbell Group LLC of Portland, OR. In the agreement, PCL will contribute 454,000 acres of timberland while the Campbell Group will contribute $783 million in cash to the venture. PCL will receive $705 million preferred interest in the joint venture and $78 million common interest. Separately, PCL will receive cash of $783 million through a loan from the joint venture. These timberlands are being sold from the Southern Resources segment. PCL states in its 2Q08 SEC Form 10-Q that the Company intends to apply 50% of the net proceeds to the repayment of debt.

We note that, with regards to the Campbell Group transaction the following: First, PCL states that the transaction seeks to capture the value of its timberlands. However, by receiving a loan as a result of the deal at a fixed interest rate of 7.375% it seems that the need to secure cash is possibly the primary motivation. Second, not only does the loan increase the debt levels carried by PCL but now the percentage of fixed rate debt increases from 64.2% to 72.7%. In these volatile financial markets this seems like a rather risky move. Finally, the 454,000 acres represents 11% of the more valuable Southern Resources properties and the combination of these two transactions, 770,000 acres, accounts for 45% of the strategic land holdings of PCL. The 2007 10-K and subsequent 10-Qs state that PCL has 1.7 million acres of land that is expected to be sold over the next 15 years. Selling 45% of those holdings over a two-month period, and at such low prices, has a twinge of desperation to us.

Accounting: Rising debt load becoming an increasing burden

Total debt stood at $2.54 billion at the end of the 2Q08 versus $2.52 billion at the end of 2007, with long-term debt increasing by 11% and the outstanding line of credit contracting by 33.6%. On the surface, these changes do not appear to be so significant; however, the fact that total debt to equity and total debt to total capital stood at 143% and 58.8%, respectively, at the end of the 2Q08 versus 133% and 57% at the end of 2007 with retained earnings falling by 37% does seem to raise a red flag. Furthermore, PCL entered into a $250 million term credit agreement on 03/28/08 in order to pay down borrowings on the line of credit. Given the Company appears strapped for cash, opening up a new line of credit to repay an old one is always of interest to us.

In addition, as mentioned above, PCL has also used the recent joint venture with The Campbell Group as a means of accessing cash. PCL will receive a loan of $783 million at a fixed interest rate of 7.375% from the joint venture. This loan then puts total debt at $3.322 billion with $2.361billion of the total at fixed rates of interest. (Note: PCL states that it will be using 50% of the proceeds from this loan to repay debt. In the 1Q08 conference call CFO **David Lambert** says they would be repaying variable rate debt.)

At the end of the 2Q08 62% of total debt was fixed rate debt bearing interest rates of 6.8% in 2008 and slowly declining to 6.2% in 2012. Clearly any drop in interest rates will negatively impact PCL. The table below, which interestingly shows up on the last page of the 2Q08 SEC Form 10-Q, highlights the severity of the Company's fixed cost of debt.

Ratio of Earnings to Fixed Charges ($m)	2004	2005	2006	2007	3 months ended 03/31/08	6 months ended 06/30/08
Pre-tax income from con. Ops.	$366	$339	$323	$279	$33	$57
Earnings	$485	$458	$468	$433	$71	$130
Interest & other financial charges	$119	$119	$140	$155	$38	$74
Ratio of Earnings to Fixed Charges	4.1	3.8	3.3	2.8	1.9	1.8

The following table compares PCL long-term debt percentages to two competitors, Weyerhaeuser Co. (NYSE:WY) and International Paper Co. (NYSE:IP).

Long-Term Debt Ratios (%)	2005	2006	2007	1Q08	2Q08
PCL					
Total Debt to Equity	95.9	111.2	132.7	139.8	142.8
Total Debt to Total Capital	49.0	52.7	57.0	58.3	58.8
WY					
Total Debt to Equity	88.3	89.9	92.7	103.5	103.5
Total Debt to Total Capital	46.9	47.3	48.1	50.9	50.9
IP					
Total Debt to Equity	146	90.7	76.3	75.2	101.8
Total Debt to Total Capital	59.4	47.6	43.3	42.9	50.4

<u>Accounting: Cash continues to dwindle; debt payments in question?</u>

The cash position has been falling at PCL since 2004. In fact, cash fell by 92% in the first 6 months of 2008 from $240 million at the end of fiscal 2007 to $125 million by 06/30/08. Cash now represents only 2.7% of total assets and 31.5% of current assets versus 5.1% and 52.6% at the end of 2007 and 7.9% and 69.5% at the end of 2004.

From a financing perspective, on the surface PCL was able to repay $989 million on its credit facility and long-term debt, pay $194 million in cash distributions in order to maintain REIT status in the 2Q08 and make share repurchases in the 1Q08. However, in order to do this PCL had to issue additional long-term debt and continue to borrow through its credit facility. With cash from operations reaching only $94 million and timberland acquisitions of $29 million in the first six months of 2008, PCL continues to see its cash and retained earnings dwindle. In fact, the $94 million provided by operations only just covered the required dividend payment of $72 million and was not able to cover capital expenditures. If PCL is not able to improve operations or improve real estate sales, the repayment of debt becomes a difficult proposition, especially in the current credit environment.

Furthermore, the 2Q08 SEC 10-Q states that:

> "…cash required to meet our financial needs will be significant. We believe, however, that cash on hand and cash flows from continuing operations will be sufficient to fund planned capital expenditures and interest payments on our indebtedness for the next year. During the next twelve months, the company has approximately $150 million of scheduled long-term debt principal payment requirements. The company intends to refinance these principal payments with the use of a combination of short-term and long-term borrowings, depending on interest rate and market conditions."

This disclosure was also made in the 1Q08; however, what is new to the 2Q08 disclosure is the following statement.

> "As discussed under 'Recent Events', if our Southern Resources Segment timberland transaction is consummated, we may use proceeds from this transaction to make certain of these principal payments."

Interestingly, the fact that PCL was pursuing this transaction with Campbell was made known in the 1Q08 SEC Form 10-Q but the inclusion of this declaration in the 2Q08 seems to imply that there is now some uncertainty as to where the cash might come from to make the upcoming principal payments. Although the Campbell Group deal now provides PCL with a loan, the Company's annual interest expense will increase by $58 million. One hopes that cash from operations can handle this. However, given that interest expense accounted for 55% of operating income during the first six months of 2008, the trend is not looking very promising.

<u>Accounting: An interesting disclosure on debt given the times</u>

One of the very first risks listed in the risk section of the 2007 SEC Form 10-K seems eerily prescient with regards to the potential squeeze that PCL could face. The risk reads as follows:

> WE DEPEND ON EXTERNAL SOURCES OF CAPITAL FOR FUTURE GROWTH
>
> Our ability to finance growth is dependent to a significant degree on external sources of capital. Our ability to access such capital on favorable terms could be hampered by a number of factors, many of which are outside of our control, including, without limitation, a decline in general market conditions, decreased market liquidity, a downgrade to our public debt rating, increases in interest rates, an unfavorable market perception of our growth potential, a decrease in our current or estimated

> future earnings or a decrease in the market price of our common stock. In addition, our ability to access additional capital may also be limited by the terms of our existing indebtedness, which, among other things, restricts our incurrence of debt and the payment of dividends. Any of these factors, individually or in combination, could prevent us from being able to obtain the capital we require on terms that are acceptable to us, and the failure to obtain necessary capital could materially adversely affect our future growth.

Given the ubiquitous nature of such credit problems these days and the fact that operating income is falling and thus causing a drain on cash and retained earnings, the ability to raise external financing seems to be a key issue facing the Company in these uncertain times.

Appendix A

Common Stock and Option Holdings for Selected Plum Creek Timber Co., Inc. (PCL) Insiders

Name	Actionable Position as of 10/16/08: Common	Options [1]	Total [2]	Derivative Equity Expected to Vest in Next 12 Months: Grant Date	Strike Price [3]	Vesting Dates	# Vesting
Russell Hagen VP of Real Estate	5,452	0	**5,452**	02/03/06	$35.74	02/03/09	1,500
				02/03/06	N/A	02/03/09	375
				02/04/08	$42.98	02/04/09	1,250
				02/04/08	N/A	02/04/09	500
				02/05/07	$40.42	02/05/09	2,000
				02/05/07	N/A	02/05/09	500
				02/09/05	$37.49	02/09/09	1,500
							7,625
Rick Holley President, CEO, Director	131,628	316,250	**447,878**	02/03/06	$35.74	02/03/09	22,500
				02/03/06	N/A	02/03/09	2,500
				02/04/08	$42.98	02/04/09	35,000
				02/04/08	N/A	02/04/09	3,500
				02/05/07	$40.42	02/05/09	25,000
				02/05/07	N/A	02/05/09	2,500
				02/09/05	$37.49	02/09/09	23,750
							114,750
James Kraft SVP, General Counsel, Secretary	38,174	94,500	**132,674**	02/03/06	$35.74	02/03/09	2,750
				02/03/06	N/A	02/03/09	550
				02/04/08	$42.98	02/04/09	3,000
				02/04/08	N/A	02/04/09	625
				02/05/07	$40.42	02/05/09	3,000
				02/05/07	N/A	02/05/09	550
				02/09/05	$37.49	02/09/09	5,000
							15,475
Thomas Lindquist EVP, COO	33,939	43,750	**77,689**	02/03/06	$35.74	02/03/09	8,750
				02/03/06	N/A	02/03/09	1,500
				02/04/08	$42.98	02/04/09	12,500
				02/04/08	N/A	02/04/09	1,500
				02/05/07	$40.42	02/05/09	10,000
				02/05/07	N/A	02/05/09	1,250
				02/09/05	$37.49	02/09/09	8,750
							44,250
Henry Ricklefs VP of Northern Resources and Manufacturing	13,256	28,000	**41,256**	02/03/06	$35.74	02/03/09	2,000
				02/03/06	N/A	02/03/09	338
				02/04/08	$42.98	02/04/09	3,000
				02/04/08	N/A	02/04/09	550
				02/05/07	$40.42	02/05/09	2,125
				02/05/07	N/A	02/05/09	350
							8,363
John Scully Director	58,000	12,000	**70,000**	--	--	--	--
							0

[1] Total number of vested, in-the-money options.
[2] Total actionable position includes common stock plus vested in-the-money options.
[3] Strike Price N/A indicates the series is restricted stock, not options.
[4] A range of dates indicates the options vest equally on a monthly basis. The total provided is the cumultive amount of equity scheduled to vest during the date range.

Note: Red text indicates series is currently out-of-the-money