

RAYONIER INC
Form 10-Q
July 30, 2010
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2010

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

COMMISSION FILE NUMBER 1-6780

RAYONIER INC.

Incorporated in the State of North Carolina

I.R.S. Employer Identification Number 13-2607329

50 North Laura Street, Jacksonville, FL 32202

(Principal Executive Office)

Telephone Number: (904) 357-9100

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

YES NO

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

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YES NO

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

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

As of July 22, 2010, there were outstanding 80,254,551 Common Shares of the Registrant.

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Table of Contents**PART I. FINANCIAL INFORMATION****Item1. Financial Statements****RAYONIER INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF INCOME****AND COMPREHENSIVE INCOME****(Unaudited)****(Dollars in thousands, except per share data)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|------------------------------------|-------------|----------------------------------|-------------|
| | 2010 | 2009 | 2010 | 2009 |
| SALES | \$ 312,210 | \$ 278,698 | \$ 622,410 | \$ 558,083 |
| Costs and Expenses | | | | |
| Cost of sales | 242,940 | 216,674 | 475,794 | 441,021 |
| Selling and general expenses | 15,172 | 14,349 | 32,139 | 28,991 |
| Other operating income, net (Note 2) | (1,260) | (87,165) | (5,828) | (91,177) |
| | 256,852 | 143,858 | 502,105 | 378,835 |
| Equity in income (loss) of New Zealand joint venture | 986 | (602) | 531 | (1,839) |
| OPERATING INCOME BEFORE GAIN ON SALE OF A PORTION OF THE INTEREST IN THE NEW ZEALAND JOINT VENTURE | 56,344 | 134,238 | 120,836 | 177,409 |
| Gain on sale of a portion of the interest in the New Zealand joint venture (Note 3) | - | - | 12,367 | - |
| OPERATING INCOME | 56,344 | 134,238 | 133,203 | 177,409 |
| Interest expense | (12,250) | (12,248) | (24,736) | (24,840) |
| Interest and miscellaneous income, net | 408 | 216 | 598 | 283 |
| INCOME BEFORE INCOME TAXES | 44,502 | 122,206 | 109,065 | 152,852 |
| Income tax expense | (5,944) | (14,453) | (13,554) | (19,178) |
| NET INCOME | 38,558 | 107,753 | 95,511 | 133,674 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| Foreign currency translation adjustments | (2,045) | 15,825 | (3,261) | 10,947 |
| Joint venture cash flow hedges | 816 | (277) | 1,026 | (2,627) |
| Amortization of pension and postretirement benefit costs, net of income tax expense (benefit) of \$221 and \$200, and (\$2,366) and \$666 | 535 | 691 | 4,639 | 1,116 |

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| | | | | |
|----------------------------------|-----------|------------|-----------|------------|
| COMPREHENSIVE INCOME | \$ 37,864 | \$ 123,992 | \$ 97,915 | \$ 143,110 |
| EARNINGS PER COMMON SHARE | | | | |
| Basic earnings per share | \$ 0.48 | \$ 1.37 | \$ 1.20 | \$ 1.70 |
| Diluted earnings per share | \$ 0.48 | \$ 1.35 | \$ 1.18 | \$ 1.68 |

See Notes to Condensed Consolidated Financial Statements.

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RAYONIER INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(Dollars in thousands)

| | June 30, 2010 | December 31, 2009 |
|--|------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 344,184 | \$ 74,964 |
| Accounts receivable, less allowance for doubtful accounts of \$1,278 and \$1,150 | 95,710 | 103,740 |
| Inventory | | |
| Finished goods | 69,170 | 70,548 |
| Work in process | 7,004 | 8,884 |
| Raw materials | 13,850 | 6,829 |
| Manufacturing and maintenance supplies | 2,269 | 2,243 |
| Total inventory | 92,293 | 88,504 |
| Income tax and alternative fuel mixture credit receivable | 121 | 192,579 |
| Prepaid and other current assets | 62,381 | 49,909 |
| Total Current Assets | 594,689 | 509,696 |
| TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION | 1,146,216 | 1,188,559 |
| PROPERTY, PLANT AND EQUIPMENT | | |
| Land | 24,787 | 24,789 |
| Buildings | 125,827 | 126,443 |
| Machinery and equipment | 1,318,628 | 1,275,955 |
| Total property, plant and equipment, gross | 1,469,242 | 1,427,187 |
| Less - accumulated depreciation | (1,097,801) | (1,082,248) |
| Total property, plant and equipment, net | 371,441 | 344,939 |
| INVESTMENT IN JOINT VENTURE | 63,784 | 50,999 |
| OTHER ASSETS | 176,459 | 158,738 |
| TOTAL ASSETS | \$ 2,352,589 | \$ 2,252,931 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 64,261 | \$ 58,584 |
| Bank loans and current maturities | - | 4,650 |
| Accrued interest | 6,312 | 6,512 |
| Accrued customer incentives | 9,421 | 25,644 |
| Current liabilities for dispositions and discontinued operations (Note 11) | 11,038 | 10,648 |

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| | | |
|---|---------------------|---------------------|
| Other current liabilities | 85,972 | 69,073 |
| TOTAL CURRENT LIABILITIES | 177,004 | 175,111 |
| LONG-TERM DEBT | 764,057 | 694,999 |
| NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS (Note 11) | 83,264 | 87,943 |
| PENSION AND OTHER POSTRETIREMENT BENEFITS (Note 13) | 111,795 | 111,662 |
| OTHER NON-CURRENT LIABILITIES | 34,606 | 37,010 |
| COMMITMENTS AND CONTINGENCIES (Notes 10 and 12) | | |
| SHAREHOLDERS EQUITY | | |
| Common Shares, 240,000,000 and 120,000,000 shares authorized, 80,253,894 and 79,541,974 shares issued and outstanding | 580,108 | 561,962 |
| Retained earnings | 679,093 | 663,986 |
| Accumulated other comprehensive loss | (77,338) | (79,742) |
| TOTAL SHAREHOLDERS EQUITY | 1,181,863 | 1,146,206 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 2,352,589 | \$ 2,252,931 |

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**RAYONIER INC. AND SUBSIDIARIES****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(Dollars in thousands)**

| | Six Months Ended June 30, | |
|---|----------------------------------|-----------------|
| | 2010 | 2009 |
| OPERATING ACTIVITIES | | |
| Net income | \$ 95,511 | \$ 133,674 |
| Adjustments to reconcile net income to total cash provided by operating activities: | | |
| Depreciation, depletion and amortization | 76,522 | 86,675 |
| Non-cash cost of real estate sold | 3,434 | 5,232 |
| Stock-based incentive compensation expense | 7,960 | 8,162 |
| Gain on sale of a portion of the interest in the New Zealand joint venture | (11,545) | - |
| Amortization of convertible debt discount | 4,058 | 2,883 |
| Deferred income tax expense (benefit) | 385 | (3,177) |
| Excess tax benefits on stock-based compensation | (3,951) | (891) |
| Other | 1,747 | 4,965 |
| Changes in operating assets and liabilities: | | |
| Receivables | 7,952 | (5,802) |
| Inventories | (7,359) | (8,383) |
| Accounts payable | 841 | (3,988) |
| Income tax and alternative fuel mixture credit receivable | 192,458 | (83,218) |
| Other current assets | (11,796) | (19,463) |
| Accrued liabilities | 4,459 | 9,446 |
| Other assets | (91) | (46) |
| Other non-current liabilities | (466) | 5,247 |
| Expenditures for dispositions and discontinued operations | (4,319) | (4,102) |
| CASH PROVIDED BY OPERATING ACTIVITIES | 355,800 | 127,214 |
| INVESTING ACTIVITIES | | |
| Capital expenditures | (71,348) | (50,107) |
| Change in restricted cash | (10,043) | (1,144) |
| Other | 4,875 | (2,137) |
| CASH USED FOR INVESTING ACTIVITIES | (76,516) | (53,388) |
| FINANCING ACTIVITIES | | |
| Issuance of debt | 127,000 | 30,000 |
| Repayment of debt | (66,650) | (30,000) |
| Dividends paid | (79,990) | (78,929) |
| Proceeds from the issuance of common shares | 12,232 | 3,698 |
| Excess tax benefits on stock-based compensation | 3,951 | 891 |
| Debt issuance costs | (535) | - |
| Repurchase of common shares | (5,997) | (1,388) |
| CASH USED FOR FINANCING ACTIVITIES | (9,989) | (75,728) |

| | | |
|--|------|-----|
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | (75) | 106 |
|--|------|-----|

CASH AND CASH EQUIVALENTS

| | | |
|--|----------------|---------------|
| Increase (decrease) in cash and cash equivalents | 269,220 | (1,796) |
| Balance, beginning of year | 74,964 | 61,685 |
| Balance, end of period | \$ 344,184 | \$ 59,889 |

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

| | | |
|-------------------------------------|------------|--------------|
| Cash paid during the period: | | |
| Interest | \$ 19,700 | \$ 21,270 |
| Income taxes | \$ 144 | \$ 4,612 |
| Non-cash investing activity: | | |
| Capital assets purchased on account | \$ 13,595 | \$ 8,644 |

See Notes to Condensed Consolidated Financial Statements.

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Dollars in thousands unless otherwise stated)

1. BASIS OF PRESENTATION AND NEW ACCOUNTING PRONOUNCEMENTS

Basis of Presentation

The unaudited condensed consolidated financial statements and notes thereto of Rayonier Inc. and its subsidiaries (Rayonier or the Company) have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and in accordance with the rules and regulations of the Securities and Exchange Commission (SEC). Accordingly, certain information in the financial statements of the Company s Annual Report on Form 10-K have been condensed. In the opinion of management, these financial statements and notes reflect all adjustments (including normal recurring adjustments) necessary for a fair presentation of the results of operations, financial position and cash flows for the periods presented. These statements and notes should be read in conjunction with the financial statements and supplementary data included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the SEC.

Subsequent Events

The Company evaluated events and transactions that occurred after the balance sheet date but before financial statements were issued, and one subsequent event warranted disclosure. See Note 16 *Consolidating Financial Statements* for information about changes in the Company s guarantor structure.

New or Recently Adopted Accounting Pronouncements

In June 2009, the Financial Accounting Standards Board (FASB) issued new guidance related to consolidation which replaced the quantitative-based risks and rewards calculation for determining which enterprise has a controlling interest in a variable interest entity with an approach primarily qualitative in nature. This Standard requires additional disclosures about an enterprise s involvement in variable interest entities and was effective January 1, 2010 for Rayonier. The Company s application of this guidance had no effect on the accompanying condensed consolidated financial statements. See Note 9 *Fair Value Measurements* for additional information about the Company s variable interest entity.

Also in June 2009, the FASB issued new guidance related to the accounting for transfers of financial assets. The new standard eliminates the concept of a qualifying special-purpose entity (QSPE) and associated guidance and creates more stringent conditions for reporting a transfer of a portion of a financial asset as a sale. Entities formerly classified as QSPEs are now evaluated for consolidation under the provisions related to the consolidation of controlling and non-controlling interests in an entity. Under the new guidance, the Company s investment in a special purpose entity does not require consolidation. See Note 9 *Fair Value Measurements* for additional information about this entity.

2. ALTERNATIVE FUEL MIXTURE CREDIT (AFMC)

The U.S. Internal Revenue Code allowed a tax credit for taxpayers that produced and used an alternative fuel in the operation of their business. Rayonier produces and uses an alternative fuel (black liquor) at its Jesup, Georgia and Fernandina Beach, Florida Performance Fibers mills, which qualified for the \$0.50 per gallon credit of alternative fuel used in operations through December 31, 2009. Accordingly, the Condensed Consolidated Statements of Income and Comprehensive Income for the three and six months ended June 30, 2009, include income of approximately \$85.9 million, net of associated expenses, recorded in Other operating income, net for black liquor produced and used.

3. JOINT VENTURE INVESTMENT

The Company owns an interest in Matariki Forestry Group (Matariki), a joint venture (JV) that owns or leases approximately 0.3 million acres of New Zealand timberlands. In addition to this investment, Rayonier New Zealand Limited (RNZ), a wholly-owned subsidiary of Rayonier serves as the manager of the JV forests and operates a log trading business.

Rayonier s investment in the JV is accounted for using the equity method of accounting. Income from the JV is reported in the Timber segment as operating income since the Company manages the forests and its JV interest is an extension of the Company s operations. A portion of Rayonier s investment is recorded at historical cost which generates a difference between the book value of the Company s investment and its proportionate share of the JV s net assets. The difference represents the Company s unrecognized gain from RNZ s sale of timberlands to the JV in 2005. The deferred gain is recognized on a straight-line basis over the estimated number of years the JV expects to harvest the timberlands.

Table of Contents**RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands unless otherwise stated)**

In the third quarter of 2008, Rayonier's Board of Directors approved a plan to offer to sell the Company's 40 percent interest in the JV as well as the operations of RNZ. As a result, the operating results of the JV and RNZ were segregated from continuing operations in the Condensed Consolidated Statements of Income and Comprehensive Income and reported as discontinued operations.

In the second quarter of 2009, as a result of distressed capital markets and the weak global economic conditions, Rayonier and its joint venture partners decided to discontinue the sale process and continue with ongoing operations. Accordingly, the operating results of the joint venture are included in continuing operations in the Condensed Consolidated Statements of Income and Comprehensive Income for all periods presented.

In December of 2009, the JV signed an agreement to sell a 35 percent interest in the JV to a new investor for NZ\$167 million. Matariki issued new shares to the investor and used the proceeds entirely to pay down a portion of its outstanding NZ\$367 million debt. Consummation of this transaction occurred in February 2010. Upon closing, Rayonier's ownership interest in Matariki declined from 40 percent to 26 percent. As a result of this transaction, results for 2010 include a gain of \$11.5 million, net of \$0.9 million in tax, or \$0.14 per diluted share.

4. EARNINGS PER COMMON SHARE

The following table provides details of the calculation of basic and diluted earnings per common share:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|------------|------------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| Net income | \$ 38,558 | \$ 107,753 | \$ 95,511 | \$ 133,674 |
| Shares used for determining basic earnings per common share | 80,104,004 | 78,913,563 | 79,923,790 | 78,860,562 |
| Dilutive effect of: | | | | |
| Stock options | 374,768 | 427,016 | 387,399 | 317,981 |
| Performance and restricted shares | 613,931 | 448,496 | 592,281 | 358,654 |
| Shares used for determining diluted earnings per common share | 81,092,703 | 79,789,075 | 80,903,470 | 79,537,197 |
| Basic earnings per common share: | \$ 0.48 | \$ 1.37 | \$ 1.20 | \$ 1.70 |
| Diluted earnings per common share: | \$ 0.48 | \$ 1.35 | \$ 1.18 | \$ 1.68 |

5. INCOME TAXES

Rayonier is a real estate investment trust (REIT). In general, only Rayonier TRS Holdings Inc. (TRS), the Company s wholly-owned taxable subsidiary whose businesses include the Company s non-REIT qualified activities, is subject to corporate income taxes. However, Rayonier Inc. is subject to U.S. federal corporate income tax on built-in gains (the excess of fair market value over tax basis for property held upon REIT election at January 1, 2004) on taxable sales of such property during the first 10 years following the election to be taxed as a REIT. Accordingly, the provision for corporate income taxes relates principally to current and deferred taxes on certain property sales and on TRS income.

The Company s effective tax rate is below the 35 percent U.S. statutory tax rate primarily due to tax benefits associated with being a REIT and like-kind exchange (LKE) transactions. Effective tax rates before discrete items were 19.1 percent and 21.5 percent for the three months ended June 30, 2010 and 2009, respectively. Year-to-date effective tax rates before discrete items were 17.6 percent and 20.2 percent in 2010 and 2009, respectively. The lower rate in 2010 was due to proportionately higher earnings from the REIT.

Including discrete items, the effective tax rates for the quarter and year-to-date were 13.4 percent and 12.4 percent compared to 11.9 percent and 12.6 percent in 2009, respectively.

Table of Contents**RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands unless otherwise stated)****6. RESTRICTED DEPOSITS**

In order to qualify for LKE treatment, the proceeds from real estate sales must be deposited with a third party intermediary. These proceeds are accounted for as restricted cash until a suitable replacement property is acquired. In the event that LKE purchases are not completed, the proceeds are returned to the Company after 180 days and reclassified as available cash. As of June 30, 2010 and December 31, 2009, the Company had \$10.1 million and \$0.1 million, respectively, of proceeds from real estate sales classified as restricted cash in Other Assets, which were deposited with an LKE intermediary.

7. SHAREHOLDERS EQUITY

An analysis of shareholders' equity for the six months ended June 30, 2010 and the year ended December 31, 2009 is shown below (share amounts not in thousands):

| | Common Shares | | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Shareholders Equity |
|--|---------------|------------|-------------------|---|---------------------|
| | Shares | Amount | | | |
| Balance, December 31, 2008 | 78,814,431 | \$ 527,302 | \$ 509,931 | \$ (98,296) | \$ 938,937 |
| Net income | - | - | 312,541 | - | 312,541 |
| Dividends (\$2.00 per share) | - | - | (158,486) | - | (158,486) |
| Issuance of shares under incentive stock plans | 776,905 | 11,115 | - | - | 11,115 |
| Equity portion of convertible debt | - | 8,850 | - | - | 8,850 |
| Warrants and hedge, net | - | (2,391) | - | - | (2,391) |
| Stock-based compensation | - | 15,754 | - | - | 15,754 |
| Excess tax benefit on stock-based compensation | - | 2,720 | - | - | 2,720 |
| Repurchase of common shares | (49,362) | (1,388) | - | - | (1,388) |
| Net gain from pension and postretirement plans | - | - | - | 4,879 | 4,879 |
| Foreign currency translation adjustment | - | - | - | 15,980 | 15,980 |
| Joint venture cash flow hedges | - | - | - | (2,305) | (2,305) |
| Balance, December 31, 2009 | 79,541,974 | \$ 561,962 | \$ 663,986 | \$ (79,742) | \$ 1,146,206 |
| Net income | - | - | 95,511 | - | 95,511 |
| Dividends (\$1.00 per share) | - | - | (80,404) | - | (80,404) |
| Issuance of shares under incentive stock plans | 847,366 | 12,232 | - | - | 12,232 |
| Stock-based compensation | - | 7,960 | - | - | 7,960 |
| Excess tax benefit on stock-based compensation | - | 3,951 | - | - | 3,951 |
| Repurchase of common shares | (135,446) | (5,997) | - | - | (5,997) |
| Amortization of pension and postretirement benefit costs | - | - | - | 4,639 | 4,639 |
| Foreign currency translation adjustment | - | - | - | (3,261) | (3,261) |
| Joint venture cash flow hedges | - | - | - | 1,026 | 1,026 |

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| | | | | | |
|-------------------------------|------------|------------|------------|-------------|--------------|
| Balance, June 30, 2010 | 80,253,894 | \$ 580,108 | \$ 679,093 | \$ (77,338) | \$ 1,181,863 |
|-------------------------------|------------|------------|------------|-------------|--------------|

8. SEGMENT INFORMATION

Rayonier operates in four reportable business segments: Timber, Real Estate, Performance Fibers, and Wood Products. Timber sales include all activities that relate to the harvesting of timber. Real Estate sales include all property sales, including those designated for higher and better use (HBU). The assets of the Real Estate segment include HBU property held by the Company s real estate subsidiary, TerraPointe LLC. The Performance Fibers segment includes two major product lines, cellulose specialties and absorbent materials. The Wood Products segment is comprised of lumber operations. The Company s remaining operations include harvesting and selling timber acquired from third parties (log trading). These operations are reported in Other Operations. Sales between operating segments are made based on fair market value, and intercompany sales, purchases and profits (losses) are eliminated in consolidation. The Company evaluates financial performance based on the operating income of the segments.

Table of Contents**RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands unless otherwise stated)**

Operating income (loss) as presented in the Condensed Consolidated Statements of Income and Comprehensive Income is equal to segment income (loss). Certain income (loss) items in the Condensed Consolidated Statements of Income and Comprehensive Income are not allocated to segments. These items, which include gains (losses) from certain asset dispositions, interest income (expense), miscellaneous income (expense) and income tax (expense) benefit, are not considered by Company management to be part of segment operations.

Total assets, sales, operating income (loss) and depreciation, depletion and amortization by segment including Corporate were as follows:

| | June 30, 2010 | December 31, 2009 |
|---------------------|---------------------|----------------------|
| ASSETS | | |
| Timber | \$ 1,275,635 | \$ 1,259,675 |
| Real Estate | 79,550 | 71,118 |
| Performance Fibers | 543,182 | 517,941 |
| Wood Products | 21,474 | 21,972 |
| Other Operations | 25,944 | 19,432 |
| Corporate and other | 406,804 | 362,793 |
| TOTAL | \$ 2,352,589 | \$ 2,252,931 |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---------------------------|--------------------------------|-------------------|------------------------------|-------------------|
| | 2010 | 2009 | 2010 | 2009 |
| SALES | | | | |
| Timber | \$ 48,917 | \$ 43,591 | \$ 96,025 | \$ 78,518 |
| Real Estate | 12,712 | 41,378 | 45,729 | 67,970 |
| Performance Fibers | 201,947 | 177,109 | 401,719 | 380,743 |
| Wood Products | 21,573 | 12,495 | 37,505 | 24,247 |
| Other Operations | 30,246 | 8,959 | 47,354 | 14,659 |
| Intersegment Eliminations | (3,185) | (4,834) | (5,922) | (8,054) |
| TOTAL | \$ 312,210 | \$ 278,698 | \$ 622,410 | \$ 558,083 |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--------------------------------|--------------------------------|---------|------------------------------|------------|
| | 2010 | 2009 | 2010 | 2009 |
| OPERATING INCOME (LOSS) | | | | |
| Timber | \$ 8,663 | \$ 432 | \$ 16,872 | \$ (1,906) |
| Real Estate | 4,183 | 24,155 | 21,537 | 38,568 |
| Performance Fibers | 44,990 | 34,687 | 89,847 | 75,536 |
| Wood Products | 4,270 | (2,571) | 4,311 | (6,144) |
| Other Operations | 726 | (2,068) | 1,336 | (1,330) |

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| | | | | |
|---------------------|-----------|------------|------------|------------|
| Corporate and other | (6,488) | 79,603 (a) | (700) (b) | 72,685(a) |
| TOTAL | \$ 56,344 | \$ 134,238 | \$ 133,203 | \$ 177,409 |

- (a) Includes \$85.9 million relating to the AFMC. For additional information, see Note 2 *Alternative Fuel Mixture Credit (AFMC)*.
- (b) Includes a gain of \$12.4 million from the sale of a portion of the Company's interest in its New Zealand joint venture. See Note 3 *Joint Venture Investment* for additional information.

Table of Contents**RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands unless otherwise stated)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|------------------|------------------------------|------------------|
| | 2010 | 2009 | 2010 | 2009 |
| DEPRECIATION, DEPLETION AND AMORTIZATION | | | | |
| Timber | \$ 17,269 | \$ 21,951 | \$ 34,005 | \$ 39,432 |
| Real Estate | 2,486 | 12,055 | 12,002 | 17,445 |
| Performance Fibers | 12,203 | 12,708 | 28,007 | 26,996 |
| Wood Products | 1,078 | 1,214 | 2,144 | 2,432 |
| Other Operations | 1 | 1 | 2 | 2 |
| Corporate and other | 170 | 182 | 362 | 368 |
| TOTAL | \$ 33,207 | \$ 48,111 | \$ 76,522 | \$ 86,675 |

9. FAIR VALUE MEASUREMENTS

The following table presents the carrying amount and estimated fair values of financial instruments held by the Company at June 30, 2010 and December 31, 2009, using market information and what the Company believes to be appropriate valuation methodologies under generally accepted accounting principles:

| Asset (liability) | June 30, 2010 | | December 31, 2009 | |
|---------------------------|--------------------|------------|--------------------|------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Cash and cash equivalents | \$ 344,184 | \$ 344,184 | \$ 74,964 | \$ 74,964 |
| Short-term debt | - | - | (4,650) | (4,650) |
| Long-term debt | (764,057) | (848,298) | (694,999) | (790,763) |

Rayonier uses the following methods and assumptions in estimating the fair value of its financial instruments:

Cash and cash equivalents - The carrying amount is equal to fair market value.

Debt - The Company's short-term bank loans and floating rate debt approximate fair value. The fair value of fixed rate long-term debt is based upon quoted market prices for debt with similar terms and maturities.

Assets and liabilities measured at fair value on a recurring basis are summarized below:

| Asset | Carrying Value at June 30, 2010 | Level 2 | Carrying Value at December 31, 2009 | Level 2 |
|-------|------------------------------------|---------|--|---------|
| | | | | |

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| | | | | | | | | |
|--------------------------------------|----|-------|----|-------|----|-------|----|-------|
| Investment in special-purpose entity | \$ | 2,733 | \$ | 2,733 | \$ | 2,733 | \$ | 2,733 |
|--------------------------------------|----|-------|----|-------|----|-------|----|-------|

Variable Interest Entity

Rayonier holds a variable interest in a bankruptcy-remote, limited liability subsidiary (special-purpose entity) which was created in 2004 when Rayonier monetized a \$25.0 million installment note and letter of credit received in connection with a timberland sale. The Company contributed the note and a letter of credit to the special-purpose entity and using the installment note and letter of credit as collateral, the special-purpose entity issued \$22.6 million of 15-year Senior Secured Notes and remitted cash of \$22.6 million to the Company. There are no restrictions that relate to the transferred financial assets. Rayonier maintains a \$2.6 million interest in the entity and receives immaterial cash payments equal to the excess of interest received on the installment

Table of Contents**RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands unless otherwise stated)**

note over the interest paid on the Senior Secured Notes. The Company's interest is recorded at fair value and is included in "Other Assets" in the Condensed Consolidated Balance Sheets. In addition, the Company calculated and recorded a de minimus guarantee liability to reflect its obligation of up to \$2.6 million under a make-whole agreement pursuant to which it guaranteed certain obligations of the entity. This guarantee obligation is also collateralized by the letter of credit. The Company's interest in the entity, together with the make-whole agreement, represents the maximum exposure to loss as a result of the Company's involvement with the special-purpose entity. Upon maturity of the Senior Secured Notes in 2019 and termination of the special purpose entity, Rayonier will receive the remaining \$2.6 million of cash. The Company determined, based upon an analysis under the variable interest entity guidance, that it does not have the power to direct activities that most significantly impact the entity's economic success. Therefore, Rayonier is not the primary beneficiary and is not required to consolidate the entity.

10. GUARANTEES

The Company provides financial guarantees as required by creditors, insurance programs, and state and foreign governmental agencies. As of June 30, 2010, the following financial guarantees were outstanding:

| | Maximum Potential Payment | Carrying Amount of Liability |
|-------------------------------|---------------------------------|------------------------------------|
| Standby letters of credit (1) | \$ 43,807 | \$ 38,110 |
| Guarantees (2) | 2,555 | 43 |
| Surety bonds (3) | 11,605 | 1,851 |
| Total | \$ 57,967 | \$ 40,004 |

- (1) Approximately \$39 million of the standby letters of credit serve as credit support for industrial revenue bonds. The remaining letters of credit support obligations under various insurance related agreements, primarily workers' compensation and pollution liability policy requirements. These letters of credit expire at various dates during 2010 and 2011 and will be renewed as required.
- (2) In conjunction with a timberland sale and note monetization in the first quarter of 2004, the Company issued a make-whole agreement pursuant to which it guaranteed \$2.6 million of obligations of a special-purpose entity that was established to complete the monetization. At June 30, 2010 the Company has recorded a de minimus liability to reflect the fair market value of its obligation to perform under the make-whole agreement.
- (3) Rayonier issued surety bonds primarily to secure timber in the State of Washington and to provide collateral for the Company's workers' compensation self-insurance program in Washington and Georgia. These surety bonds expire at various dates during 2010, 2011 and 2014, and are expected to be renewed as required.

11. LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS

An analysis of activity in the liabilities for dispositions and discontinued operations for the six months ended June 30, 2010 and the year ended December 31, 2009, is as follows:

| | June 30, 2010 | December 31, 2009 |
|-------------------------------------|---------------|-------------------|
| Balance, January 1 | \$ 98,591 | \$ 104,575 |
| Expenditures charged to liabilities | (4,319) | (8,095) |
| Increase (reduction) to liabilities | 30 | 2,111 |
| Balance, end of period | 94,302 | 98,591 |
| Less: Current portion | (11,038) | (10,648) |
| Non-current portion | \$ 83,264 | \$ 87,943 |

Subject to the factors described in the next paragraph of this footnote and in Note 16 *Liabilities for Dispositions and Discontinued Operations* in the 2009 Annual Report on Form 10-K, the Company believes established liabilities are sufficient for costs expected to be incurred over the next 20 years with respect to its dispositions and discontinued operations. Remedial actions

Table of Contents**RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands unless otherwise stated)**

for these sites vary, but can include, among other remedies, on-site (and in certain cases off-site) removal or treatment of contaminated soils and sediments, recovery and treatment/remediation of groundwater, and source remediation and/or control.

In addition, the Company is exposed to the risk of reasonably possible additional losses in excess of the established liabilities. As of June 30, 2010, it is estimated that this amount could range up to \$36 million and arises from uncertainty over the availability or effectiveness of certain remediation technologies, additional or different contamination that may be discovered, development of new or improved environmental remediation technologies, changes in applicable law and the exercise of discretion in interpretation of applicable law and regulations by governmental agencies.

For additional information on the Company's environmental liabilities refer to Note 16 *Liabilities for Dispositions and Discontinued Operations* in the 2009 Annual Report on Form 10-K.

12. CONTINGENCIES

Rayonier is engaged in various legal actions, including certain environmental proceedings. The Company has been named as a defendant in various other lawsuits and claims arising in the normal course of business. While the Company has procured reasonable and customary insurance covering risks normally occurring in connection with its businesses, it has in certain cases retained some risk through the operation of self-insurance, primarily in the areas of workers' compensation, property insurance and general liability. These other lawsuits and claims, either individually or in the aggregate, are not expected to have a material effect on the Company's financial position, results of operations, or cash flow.

There have been no material changes in the status of the other specific matters referenced in Note 16 *Liabilities for Dispositions and Discontinued Operations* in the 2009 Annual Report on Form 10-K.

13. EMPLOYEE BENEFIT PLANS

The Company has four qualified non-contributory defined benefit pension plans covering the majority of its employees and an unfunded plan that provides benefits in excess of amounts allowable under current tax law in the qualified plans. Three of the qualified plans, as well as the unfunded plan, are closed to new participants. Employee benefit plan liabilities are calculated using actuarial estimates and management assumptions. These estimates are based on historical information, along with certain assumptions about future events. Changes in assumptions, as well as changes in actual experience, could cause the estimates to change.

The net periodic benefit costs of the Company's pension and postretirement plans (medical and life insurance) are shown in the following table:

| Components of Net Periodic Benefit Cost | Pension | | Postretirement | |
|---|--------------------|----------|--------------------|-------|
| | Three Months Ended | | Three Months Ended | |
| | June 30, | | June 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Service cost | \$ 1,452 | \$ 1,842 | \$ 146 | \$ 90 |

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| | | | | |
|------------------------------------|----------|----------|----------|----------|
| Interest cost | 4,291 | 4,349 | 257 | 301 |
| Expected return on plan assets | (5,416) | (5,291) | - | - |
| Amortization of prior service cost | 518 | 354 | 22 | 22 |
| Amortization of plan amendment | - | - | (2,392) | (2,392) |
| Amortization of losses | 1,130 | 1,349 | 1,478 | 1,558 |
| Net periodic benefit cost | \$ 1,975 | \$ 2,603 | \$ (489) | \$ (421) |

Table of Contents**RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollars in thousands unless otherwise stated)**

| | Pension | | Postretirement | |
|--|------------------------------|----------|------------------------------|----------|
| | Six Months Ended June 30, | | Six Months Ended June 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Components of Net Periodic Benefit Cost | | | | |
| Service cost | \$ 3,098 | \$ 3,685 | \$ 292 | \$ 180 |
| Interest cost | 8,870 | 8,698 | 514 | 601 |
| Expected return on plan assets | (10,826) | (10,582) | - | - |
| Amortization of prior service cost | 829 | 708 | 44 | 44 |
| Amortization of plan amendment | - | - | (4,784) | (4,784) |
| Amortization of losses | 3,228 | 2,698 | 2,956 | 3,116 |
| Net periodic benefit cost | \$ 5,199 | \$ 5,207 | \$ (978) | \$ (843) |

The Company made no discretionary contributions to the pension plans during the six months ended June 30, 2010. The Company's 2010 full year discretionary pension contributions may be in the \$40 million to \$50 million range in order to improve funded status.

14. DEBT

In March 2010, TRS borrowed \$75 million under a five-year term loan agreement with a group of banks at LIBOR plus 275 basis points. There were no other significant changes to the Company's outstanding debt as reported in Note 13 *Debt* of the Company's 2009 Annual Report on Form 10-K.

15. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated Other Comprehensive Income (Loss) was comprised of the following:

| | June 30, 2010 | December 31, 2009 |
|---|---------------|-------------------|
| Foreign currency translation adjustments | \$ 23,508 | \$ 26,769 |
| Joint venture cash flow hedges | (1,279) | (2,305) |
| Unrecognized components of employee benefit plans, net of tax | (99,567) | (104,206) |
| Total | \$ (77,338) | \$ (79,742) |

16. CONSOLIDATING FINANCIAL STATEMENTS

In October 2007, TRS issued \$300 million of 3.75% Senior Exchangeable Notes due 2012, and in August 2009 TRS issued \$172.5 million of 4.50% Senior Exchangeable Notes due 2015. The notes for both transactions are guaranteed by Rayonier and are non-callable. In connection with these exchangeable notes, the Company provides the following condensed consolidating financial information in accordance with SEC

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Regulation S-X Rule 3-10, *Financial Statements of Guarantors and Issuers of Guaranteed Securities Registered or Being Registered*. Each entity in the consolidating financial information follows the same accounting policies as described in the consolidated financial statements, except for the use of the equity method of accounting to reflect ownership interests in wholly-owned subsidiaries which are eliminated upon consolidation and the allocation of certain expenses of Rayonier incurred for the benefit of its subsidiaries.

Subsequent Event

On July 29, 2010, Rayonier Inc. reorganized its operating structure by creating a new wholly owned operating entity Rayonier Operating Company LLC (ROC), and entering into a contribution agreement under which Rayonier Inc. contributed all assets and liabilities to ROC. As part of this agreement, ROC guarantees the TRS notes mentioned above. Rayonier Inc. 's guarantee of the TRS notes was unchanged by the transaction.

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RAYONIER INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

(Dollars in thousands unless otherwise stated)

The new operating structure will allow Rayonier Inc. to adopt an umbrella real estate investment trust (UPREIT) structure. An UPREIT structure allows for the acquisition of timberlands in exchange for ROC equity and can be attractive to timberland sellers, because by accepting ROC equity interests in exchange for their assets, sellers may be able to defer taxable gains. ROC equity interests may also offer sellers diversification and liquidity in their investments and comparable dividends to Rayonier Inc. shareholders.

Table of Contents**RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

CONDENSED CONSOLIDATING STATEMENTS OF INCOME

For the Three Months Ended June 30, 2010

| | Rayonier Inc. (Parent Guarantor) | Rayonier TRS Holdings Inc. (Issuer) | Rayonier TRS Holdings Inc. (Non-guarantors) | All Other Subsidiaries (Non- guarantors) | Consolidating Adjustments | Total Consolidated |
|---|--|--|--|---|------------------------------|-----------------------|
| SALES | \$ - | \$ - | \$ 294,765 | \$ 33,410 | \$ (15,965) | \$ 312,210 |
| Costs and Expenses | | | | | | |
| Cost of sales | - | - | 240,382 | 23,712 | (21,154) | 242,940 |
| Selling and general expenses | 2,856 | - | 11,539 | 777 | - | 15,172 |
| Other operating expense (income), net | 24 | - | 425 | (1,709) | - | (1,260) |
| | 2,880 | - | 252,346 | 22,780 | (21,154) | 256,852 |
| Equity in income of New Zealand joint venture | 836 | - | 150 | - | - | 986 |
| OPERATING (LOSS) INCOME | (2,044) | - | 42,569 | 10,630 | 5,189 | 56,344 |
| Interest expense | 260 | (7,333) | (5,148) | (29) | - | (12,250) |
| Interest and miscellaneous income (expense), net | 1,332 | (1,299) | (4,740) | 5,115 | - | 408 |
| Equity in income from subsidiaries | 39,350 | 23,926 | - | - | (63,276) | - |
| INCOME BEFORE INCOME TAXES | 38,898 | 15,294 | 32,681 | 15,716 | (58,087) | 44,502 |
| Income tax (expense) benefit | (340) | 3,151 | (8,755) | - | - | (5,944) |
| NET INCOME | \$ 38,558 | \$ 18,445 | \$ 23,926 | \$ 15,716 | \$ (58,087) | \$ 38,558 |

Table of Contents**RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

| CONDENSED CONSOLIDATING STATEMENTS OF INCOME | | | | | | |
|--|----------------------|---------------------|-------------------------|---------------------|----------------------|---------------------|
| For the Three Months Ended June 30, 2009 | | | | | | |
| | Rayonier Inc. | Rayonier TRS | Rayonier | All Other | Consolidating | Total |
| | (Parent | Holdings | TRS | Subsidiaries | Adjustments | Consolidated |
| | Guarantor) | Inc. | Holdings Inc. | (Non- | | |
| | \$ | \$ | (Non-guarantors) | guarantors) | \$ | \$ |
| SALES | - | - | 220,184 | 66,806 | (8,292) | 278,698 |
| Costs and Expenses | | | | | | |
| Cost of sales | - | - | 183,764 | 42,636 | (9,726) | 216,674 |
| Selling and general expenses | 2,409 | - | 11,101 | 834 | 5 | 14,349 |
| Other operating expense (income), net | 193 | - | (85,210) | (2,148) | - | (87,165) |
| | 2,602 | - | 109,655 | 41,322 | (9,721) | 143,858 |
| Equity in (loss) income of New Zealand joint venture | (807) | - | 205 | - | - | (602) |
| OPERATING (LOSS) INCOME | (3,409) | - | 110,734 | 25,484 | 1,429 | 134,238 |
| Interest expense | (126) | (4,607) | (6,360) | (1,155) | - | (12,248) |
| Interest and miscellaneous income (expense), net | 781 | (774) | (1,062) | 1,305 | (34) | 216 |
| Equity in income from subsidiaries | 112,043 | 88,431 | - | - | (200,474) | - |
| INCOME BEFORE INCOME TAXES | 109,289 | 83,050 | 103,312 | 25,634 | (199,079) | 122,206 |
| Income tax (expense) benefit | (1,536) | 1,964 | (14,881) | - | - | (14,453) |
| NET INCOME | \$ 107,753 | \$ 85,014 | \$ 88,431 | \$ 25,634 | \$ (199,079) | \$ 107,753 |

Table of Contents**RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

| CONDENSED CONSOLIDATING STATEMENTS OF INCOME | | | | | | |
|--|----------------------|---------------------|----------------------|---------------------|----------------------|---------------------|
| For the Six Months Ended June 30, 2010 | | | | | | |
| Subsidiaries of | | | | | | |
| | Rayonier Inc. | Rayonier TRS | Rayonier | All Other | Consolidating | Total |
| | (Parent | Holdings | TRS | Subsidiaries | Adjustments | Consolidated |
| | Guarantor) | Inc. | Holdings Inc. | (Non- | | |
| | \$ | \$ | \$ | guarantors) | \$ | \$ |
| SALES | - | - | 579,333 | 134,868 | (91,791) | 622,410 |
| Costs and Expenses | | | | | | |
| Cost of sales | - | - | 474,223 | 65,882 | (64,311) | 475,794 |
| Selling and general expenses | 4,856 | - | 25,730 | 1,553 | - | 32,139 |
| Other operating expense (income), net | 20 | - | (1,635) | (4,213) | - | (5,828) |
| | 4,876 | - | 498,318 | 63,222 | (64,311) | 502,105 |
| Equity in income of New Zealand joint venture | 26 | - | 505 | - | - | 531 |
| OPERATING (LOSS) INCOME BEFORE GAIN ON SALE OF A PORTION OF THE INTEREST IN THE NEW ZEALAND JOINT VENTURE | | | | | | |
| | (4,850) | - | 81,520 | 71,646 | (27,480) | 120,836 |
| Gain on sale of a portion of the interest in the New Zealand joint venture | 4,670 | - | 7,697 | - | - | 12,367 |
| OPERATING (LOSS) INCOME | (180) | - | 89,217 | 71,646 | (27,480) | 133,203 |
| Interest expense | 150 | (14,723) | (10,084) | (79) | - | (24,736) |
| Interest and miscellaneous income (expense), net | 10,259 | (2,598) | (16,347) | 9,284 | - | 598 |
| Equity in income from subsidiaries | 86,824 | 44,452 | - | - | (131,276) | - |
| INCOME BEFORE INCOME TAXES | 97,053 | 27,131 | 62,786 | 80,851 | (158,756) | 109,065 |
| Income tax (expense) benefit | (1,542) | 6,322 | (18,334) | - | - | (13,554) |
| NET INCOME | \$ 95,511 | \$ 33,453 | \$ 44,452 | \$ 80,851 | \$ (158,756) | \$ 95,511 |

Table of Contents**RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollar amounts in thousands unless otherwise stated)****CONDENSED CONSOLIDATING STATEMENTS OF INCOME****For the Six Months Ended June 30, 2009**

| | Rayonier Inc. (Parent Guarantor) | Rayonier TRS Holdings Inc. (Issuer) | Subsidiaries of Rayonier TRS Holdings Inc. (Non-guarantors) | All Other Subsidiaries (Non- guarantors) | Consolidating Adjustments | Total Consolidated |
|---|---|--|--|---|--------------------------------------|-------------------------------|
| SALES | \$ - | \$ - | \$ 457,859 | \$ 118,022 | \$ (17,798) | \$ 558,083 |
| Costs and Expenses | | | | | | |
| Cost of sales | - | - | 383,982 | 77,179 | (20,140) | 441,021 |
| Selling and general expenses | 4,898 | - | 22,413 | 1,675 | 5 | 28,991 |
| Other operating expense (income), net | 88 | - | (86,779) | (4,486) | - | (91,177) |
| | 4,986 | - | 319,616 | 74,368 | (20,135) | 378,835 |
| Equity in loss of New Zealand joint venture | (1,560) | - | (279) | - | - | (1,839) |
| OPERATING (LOSS) INCOME | (6,546) | - | 137,964 | 43,654 | 2,337 | 177,409 |
| Interest expense | (236) | (9,214) | (13,077) | (2,313) | - | (24,840) |
| Interest and miscellaneous income (expense), net | 1,576 | (1,547) | (2,271) | 2,588 | (63) | 283 |
| Equity in income from subsidiaries | 141,506 | 102,136 | - | - | (243,642) | - |
| INCOME BEFORE INCOME TAXES | 136,300 | 91,375 | 122,616 | 43,929 | (241,368) | 152,852 |
| Income tax (expense) benefit | (2,626) | 3,928 | (20,480) | - | - | (19,178) |
| NET INCOME | \$ 133,674 | \$ 95,303 | \$ 102,136 | \$ 43,929 | \$ (241,368) | \$ 133,674 |

Table of Contents**RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollar amounts in thousands unless otherwise stated)****CONDENSED CONSOLIDATING BALANCE SHEETS****As of June 30, 2010**

| | Rayonier Inc. (Parent Guarantor) | Rayonier TRS Holdings Inc. (Issuer) | Subsidiaries of Rayonier TRS Holdings Inc. (Non-guarantors) | All Other Subsidiaries (Non- guarantors) | Consolidating Adjustments | Total Consolidated |
|--|---|--|--|---|--------------------------------------|-------------------------------|
| ASSETS | | | | | | |
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents | \$ 41,277 | \$ - | \$ 254,093 | \$ 48,814 | \$ - | \$ 344,184 |
| Accounts receivable, less allowance for doubtful accounts | 8 | - | 93,104 | 2,598 | - | 95,710 |
| Inventory | - | - | 104,474 | - | (12,181) | 92,293 |
| Intercompany interest receivable | - | - | - | 4,264 | (4,264) | - |
| Income tax and alternative fuel mixture credit receivable | - | - | 121 | - | - | 121 |
| Prepaid and other current assets | 2,121 | 776 | 58,107 | 1,377 | - | 62,381 |
| Total current assets | 43,406 | 776 | 509,899 | 57,053 | (16,445) | 594,689 |
| TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION | | | | | | |
| | 1,807 | - | 62,936 | 1,081,473 | - | 1,146,216 |
| NET PROPERTY, PLANT AND EQUIPMENT | | | | | | |
| | 1,344 | - | 368,513 | 826 | 758 | 371,441 |
| INVESTMENT IN JOINT VENTURE | 75,233 | - | (11,449) | - | - | 63,784 |
| INVESTMENT IN SUBSIDIARIES | 1,215,080 | 882,980 | - | - | (2,098,060) | - |
| OTHER ASSETS | 23,350 | 10,148 | 684,671 | 14,578 | (556,288) | 176,459 |
| TOTAL ASSETS | \$ 1,360,220 | \$ 893,904 | \$ 1,614,570 | \$ 1,153,930 | \$ (2,670,035) | \$ 2,352,589 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | | | |
| CURRENT LIABILITIES | | | | | | |
| Accounts payable | \$ 1,284 | \$ - | \$ 62,355 | \$ 622 | \$ - | \$ 64,261 |
| Accrued interest | 237 | 5,286 | 768 | 21 | - | 6,312 |
| Accrued customer incentives | - | - | 9,421 | - | - | 9,421 |
| Current liabilities for dispositions and discontinued operations | - | - | 11,038 | - | - | 11,038 |
| Other current liabilities | 17,659 | - | 47,780 | 20,533 | - | 85,972 |

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| | | | | | | |
|--|---------------------|-------------------|---------------------|---------------------|-----------------------|---------------------|
| Total current liabilities | 19,180 | 5,286 | 131,362 | 21,176 | - | 177,004 |
| LONG-TERM DEBT | - | 445,391 | 318,666 | - | - | 764,057 |
| NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS | - | - | 83,264 | - | - | 83,264 |
| PENSION AND OTHER POSTRETIREMENT BENEFITS | 87,061 | - | 24,734 | - | - | 111,795 |
| OTHER NON-CURRENT LIABILITIES | 11,112 | - | 22,886 | 608 | - | 34,606 |
| INTERCOMPANY PAYABLE | 61,004 | - | 150,678 | 8,749 | (220,431) | - |
| TOTAL LIABILITIES | 178,357 | 450,677 | 731,590 | 30,533 | (220,431) | 1,170,726 |
| TOTAL SHAREHOLDERS EQUITY | 1,181,863 | 443,227 | 882,980 | 1,123,397 | (2,449,604) | 1,181,863 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 1,360,220 | \$ 893,904 | \$ 1,614,570 | \$ 1,153,930 | \$ (2,670,035) | \$ 2,352,589 |

Table of Contents**RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

(Dollar amounts in thousands unless otherwise stated)

CONDENSED CONSOLIDATING BALANCE SHEETS

As of December 31, 2009

| | Rayonier Inc. (Parent Guarantor) | Rayonier TRS Holdings Inc. (Issuer) | Subsidiaries of Rayonier TRS Holdings Inc. (Non-guarantors) | All Other Subsidiaries (Non- guarantors) | Consolidating Adjustments | Total Consolidated |
|--|--|--|--|---|------------------------------|-----------------------|
| ASSETS | | | | | | |
| CURRENT ASSETS | | | | | | |
| Cash and cash equivalents | \$ 2,895 | \$ - | \$ 69,722 | \$ 2,347 | \$ - | \$ 74,964 |
| Accounts receivable, less allowance for doubtful accounts | - | - | 101,710 | 2,030 | - | 103,740 |
| Inventory | - | - | 114,187 | - | (25,683) | 88,504 |
| Intercompany interest receivable | - | - | - | 1,081 | (1,081) | - |
| Income tax and alternative fuel mixture credit receivable | - | - | 192,579 | - | - | 192,579 |
| Prepaid and other current assets | 1,430 | 758 | 44,722 | 2,999 | - | 49,909 |
| Total current assets | 4,325 | 758 | 522,920 | 8,457 | (26,764) | 509,696 |
| TIMBER AND TIMBERLANDS, NET OF DEPLETION AND AMORTIZATION | | | | | | |
| | 1,807 | - | 87,747 | 1,099,005 | - | 1,188,559 |
| NET PROPERTY, PLANT AND EQUIPMENT | | | | | | |
| | 1,493 | - | 341,790 | 1,147 | 509 | 344,939 |
| INVESTMENT IN JOINT VENTURE | 75,248 | - | (24,249) | - | - | 50,999 |
| INVESTMENT IN SUBSIDIARIES | 1,173,256 | 869,169 | - | - | (2,042,425) | - |
| OTHER ASSETS | 23,135 | 11,668 | 496,195 | 4,313 | (376,573) | 158,738 |
| TOTAL ASSETS | \$ 1,279,264 | \$ 881,595 | \$ 1,424,403 | \$ 1,112,922 | \$ (2,445,253) | \$ 2,252,931 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | | | | | |
| CURRENT LIABILITIES | | | | | | |
| Accounts payable | \$ 3,057 | \$ - | \$ 54,871 | \$ 656 | \$ - | \$ 58,584 |
| Bank loans and current maturities | - | - | 4,650 | - | - | 4,650 |
| Accrued interest | 519 | 5,286 | 707 | - | - | 6,512 |
| Accrued customer incentives | - | - | 25,644 | - | - | 25,644 |
| Current liabilities for dispositions and discontinued operations | - | - | 10,648 | - | - | 10,648 |
| Other current liabilities | 18,885 | - | 37,726 | 12,462 | - | 69,073 |

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| | | | | | | |
|--|--------------|------------|--------------|--------------|----------------|--------------|
| Total current liabilities | 22,461 | 5,286 | 134,246 | 13,118 | - | 175,111 |
| LONG-TERM DEBT | 5,000 | 441,332 | 243,667 | 5,000 | - | 694,999 |
| NON-CURRENT LIABILITIES FOR DISPOSITIONS AND DISCONTINUED OPERATIONS | - | - | 87,943 | - | - | 87,943 |
| PENSION AND OTHER POSTRETIREMENT BENEFITS | 86,522 | - | 25,140 | - | - | 111,662 |
| OTHER NON-CURRENT LIABILITIES | 13,352 | - | 23,035 | 23,553 | (22,930) | 37,010 |
| INTERCOMPANY PAYABLE | 5,723 | - | 41,203 | 8,706 | (55,632) | - |
| TOTAL LIABILITIES | 133,058 | 446,618 | 555,234 | 50,377 | (78,562) | 1,106,725 |
| TOTAL SHAREHOLDERS EQUITY | 1,146,206 | 434,977 | 869,169 | 1,062,545 | (2,366,691) | 1,146,206 |
| TOTAL LIABILITIES AND SHAREHOLDERS EQUITY | \$ 1,279,264 | \$ 881,595 | \$ 1,424,403 | \$ 1,112,922 | \$ (2,445,253) | \$ 2,252,931 |

Table of Contents**RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

(Unaudited)

(Dollars in thousands unless otherwise stated)

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

For the Six Months Ended June 30, 2010

Subsidiaries of

| | Rayonier Inc. (Parent Guarantor) | Rayonier TRS Holdings, Inc. (Issuer) | Rayonier TRS Holdings Inc. (Non-guarantors) | All Other Subsidiaries (Non- guarantors) | Consolidating Adjustments | Total Consolidated |
|---|--|---|--|---|------------------------------|-----------------------|
| CASH PROVIDED BY OPERATING ACTIVITIES | \$ 117,276 | \$ 25,000 | \$ 231,519 | \$ 118,793 | \$ (136,788) | \$ 355,800 |
| INVESTING ACTIVITIES | | | | | | |
| Capital expenditures | (139) | - | (58,842) | (12,367) | - | (71,348) |
| Purchase of timberlands | - | - | - | (22,936) | 22,936 | - |
| Purchase of real estate | - | - | (41,254) | - | 41,254 | - |
| Change in restricted cash | - | - | - | (10,043) | - | (10,043) |
| Other | - | - | 6,855 | (1,980) | - | 4,875 |
| CASH USED FOR INVESTING ACTIVITIES | (139) | - | (93,241) | (47,326) | 64,190 | (76,516) |
| FINANCING ACTIVITIES | | | | | | |
| Issuance of debt | - | - | 75,000 | 52,000 | - | 127,000 |
| Repayment of debt | (5,000) | - | (4,650) | (57,000) | - | (66,650) |
| Dividends paid | (79,990) | - | - | - | - | (79,990) |
| Proceeds from the issuance of common shares | 12,232 | - | - | - | - | 12,232 |
| Excess tax benefits on stock-based compensation | - | - | 3,951 | - | - | 3,951 |
| Debt issuance costs | - | - | (535) | - | - | (535) |
| Repurchase of common shares | (5,997) | - | - | - | - | (5,997) |
| Distributions to parent | - | (25,000) | (27,598) | (20,000) | 72,598 | - |
| CASH (USED FOR) PROVIDED BY FINANCING ACTIVITIES | (78,755) | (25,000) | 46,168 | (25,000) | 72,598 | (9,989) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | - | - | (75) | - | - | (75) |
| CASH AND CASH EQUIVALENTS | | | | | | |
| Change in cash and cash equivalents | 38,382 | - | 184,371 | 46,467 | - | 269,220 |

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| | | | | | | |
|----------------------------|-----------|------|------------|-----------|------|------------|
| Balance, beginning of year | 2,895 | - | 69,722 | 2,347 | - | 74,964 |
| Balance, end of period | \$ 41,277 | \$ - | \$ 254,093 | \$ 48,814 | \$ - | \$ 344,184 |

Table of Contents**RAYONIER INC. AND SUBSIDIARIES****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****(Dollar amounts in thousands unless otherwise stated)****CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS
For the Six Months Ended June 30, 2009**

| | Rayonier Inc. (Parent Guarantor) | Rayonier TRS Holdings Inc. (Issuer) | Subsidiaries of Rayonier TRS Holdings Inc. (Non-guarantors) | All Other Subsidiaries (Non- guarantors) | Consolidating Adjustments | Total Consolidated |
|--|---|--|--|---|--------------------------------------|-------------------------------|
| CASH PROVIDED BY OPERATING ACTIVITIES | \$ 80,210 | \$ 15,000 | \$ 11,925 | \$ 125,320 | \$ (105,241) | \$ 127,214 |
| INVESTING ACTIVITIES | | | | | | |
| Capital expenditures | (4) | - | (36,215) | (16,482) | 2,594 | (50,107) |
| Change in restricted cash | - | - | - | (1,144) | - | (1,144) |
| Other | - | - | (1,693) | (444) | - | (2,137) |
| CASH USED FOR INVESTING ACTIVITIES | (4) | - | (37,908) | (18,070) | 2,594 | (53,388) |
| FINANCING ACTIVITIES | | | | | | |
| Issuance of debt | - | - | - | 30,000 | - | 30,000 |
| Repayment of debt | - | - | - | (30,000) | - | (30,000) |
| Dividends paid | (78,929) | - | - | - | - | (78,929) |
| Proceeds from the issuance of common shares | 3,698 | - | - | - | - | 3,698 |
| Excess tax benefits on stock-based compensation | - | - | 891 | - | - | 891 |
| Repurchase of common shares | (1,388) | - | - | - | - | (1,388) |
| Distributions to Parent | - | (15,000) | (16,647) | (71,000) | 102,647 | - |
| CASH USED FOR FINANCING ACTIVITIES | (76,619) | (15,000) | (15,756) | (71,000) | 102,647 | (75,728) |
| EFFECT OF EXCHANGE RATE CHANGES ON CASH | - | - | 106 | - | - | 106 |
| CASH AND CASH EQUIVALENTS | | | | | | |
| Change in cash and cash equivalents | 3,587 | - | (41,633) | 36,250 | - | (1,796) |
| Balance, beginning of year | 9,741 | - | 47,082 | 4,862 | - | 61,685 |
| Balance, end of period | \$ 13,328 | \$ - | \$ 5,449 | \$ 41,112 | \$ - | \$ 59,889 |

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

When we refer to we, us, our, the Company, or Rayonier, we mean Rayonier Inc. and its consolidated subsidiaries. References herein to Financial Statements refer to the Notes to the Condensed Consolidated Financial Statements of Rayonier Inc. included in Item 1 of this Report.

The Management's Discussion and Analysis of Financial Condition and Results of Operations (MD&A) is intended to provide a reader of our financial statements with a narrative from the perspective of management on our financial condition, results of operations, liquidity, and certain other factors which may affect future results. Our MD&A should be read in conjunction with the 2009 Annual Report on Form 10-K.

Forward - Looking Statements

Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, provide a safe harbor for forward-looking statements to encourage companies to provide prospective information about their companies. Certain statements in this document regarding anticipated financial outcomes including earnings guidance, if any, business and market conditions, outlook and other similar statements relating to Rayonier's future financial and operational performance, are forward-looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. These forward-looking statements are identified by the use of words such as may, will, should, expect, estimate, believe, anticipate and other similar language.

Forward looking statements are subject to future events, risks and uncertainties (many of which are beyond our control or are currently unknown to us) as well as potentially inaccurate estimates, assumptions and judgments by us that could cause actual results to differ materially from results contemplated by our forward-looking statements. Some of these events, risks and uncertainties are set forth in Item 1A *Risk Factors* in our 2009 Annual Report on Form 10-K. Forward-looking statements are not guarantees of future performance and undue reliance should not be placed on these statements.

Critical Accounting Policies and Use of Estimates

The preparation of our consolidated financial statements requires us to make estimates, assumptions and judgments that affect our assets, liabilities, revenues and expenses and disclosure of contingent assets and liabilities. We base these estimates and assumptions on historical data and trends, current fact patterns, expectations and other sources of information we believe are reasonable. Actual results may differ from these estimates under different conditions. For a full description of our critical accounting policies, see Item 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations* in the 2009 Annual Report on Form 10-K.

Segments

We are a leading international forest products company primarily engaged in timberland management, the sale and entitlement of real estate, and the production and sale of high value specialty cellulose fibers and fluff pulp. We operate in four reportable business segments: Timber, Real Estate, Performance Fibers, and Wood Products. The Timber sales include all activities which relate to the harvesting of timber. Real Estate sales include all property sales, including those designated for higher and better use (HBU). The assets of the Real Estate segment include HBU property held by the Company's real estate subsidiary, TerraPointe LLC. The Performance Fibers segment includes two major product lines, cellulose specialties and absorbent materials. The Wood Products segment is comprised of lumber operations. Our remaining operations include harvesting and selling timber acquired from third parties (log trading). These operations are combined and reported in Other Operations. Sales between operating segments are made based on fair market value, and intercompany sales, purchases and profits or losses are eliminated in consolidation.

We evaluate financial performance based on the operating income of the segments. Operating income, as presented in the Condensed Consolidated Statements of Income and Comprehensive Income, is equal to segment income (loss). Certain income (loss) items in the Condensed Consolidated Statements of Income and Comprehensive Income are not allocated to segments. These items, which include gains (losses) from certain asset dispositions, interest income (expense), miscellaneous income (expense) and income tax (expense) benefit, are not considered by Company management to be part of segment operations.

Table of Contents**Results of Operations, Three and Six Months Ended June 30, 2010 Compared to Three and Six Months Ended June 30, 2009.**

| Financial Information (in millions) | Three Months Ended | | Six Months Ended | |
|--|--------------------|------------------|------------------|------------------|
| | June 30, 2010 | June 30, 2009 | June 30, 2010 | June 30, 2009 |
| Sales | | | | |
| Timber | \$ 48.9 | \$ 43.6 | \$ 96.0 | \$ 78.5 |
| Real Estate | | | | |
| Development | 0.4 | 1.2 | 1.6 | 1.4 |
| Rural | 4.2 | 5.8 | 7.6 | 9.6 |
| Non-Strategic Timberlands | 8.1 | 34.4 | 36.5 | 57.0 |
| Total Real Estate | 12.7 | 41.4 | 45.7 | 68.0 |
| Performance Fibers | | | | |
| Cellulose specialties | 162.6 | 134.7 | 319.9 | 291.4 |
| Absorbent materials | 39.3 | 42.4 | 81.8 | 89.3 |
| Total Performance Fibers | 201.9 | 177.1 | 401.7 | 380.7 |
| Wood Products | 21.6 | 12.5 | 37.5 | 24.3 |
| Other operations | 30.3 | 9.0 | 47.4 | 14.7 |
| Intersegment Eliminations | (3.2) | (4.9) | (5.9) | (8.1) |
| Total Sales | \$ 312.2 | \$ 278.7 | \$ 622.4 | \$ 558.1 |
| Operating Income (Loss) | | | | |
| Timber | \$ 8.7 | \$ 0.4 | \$ 16.9 | \$ (1.9) |
| Real Estate | 4.1 | 24.2 | 21.5 | 38.6 |
| Performance Fibers | 45.0 | 34.7 | 89.9 | 75.5 |
| Wood Products | 4.3 | (2.6) | 4.3 | (6.1) |
| Other operations | 0.7 | (2.1) | 1.3 | (1.3) |
| Corporate and other expenses / eliminations ¹ | (6.5) | 79.6 | (0.7) | 72.6 |
| Total Operating Income | 56.3 | 134.2 | 133.2 | 177.4 |
| Interest Expense | (12.2) | (12.2) | (24.7) | (24.8) |
| Interest / Other income | 0.4 | 0.3 | 0.6 | 0.3 |
| Income tax expense | (5.9) | (14.5) | (13.6) | (19.2) |
| Net Income | \$ 38.6 | \$ 107.8 | \$ 95.5 | \$ 133.7 |
| Diluted Earnings Per Share | \$ 0.48 | \$ 1.35 | \$ 1.18 | \$ 1.68 |

- ¹ The six months ended June 30, 2010 includes a first quarter gain of \$12.4 million from the sale of a portion of the Company's interest in its New Zealand joint venture. See Note 3 *Joint Venture Investment* for additional information. The three and six months ended June 30, 2009 include \$85.9 million related to the alternative fuel mixture credit. See Note 2 *Alternative Fuel Mixture Credit (AFMC)* for additional information.

Table of Contents**TIMBER**

| Sales (in millions) | Changes Attributable to: | | | | |
|------------------------------------|--------------------------|----------------|-----------------|---------------|----------------|
| | 2009 | Price | Volume/Mix | Other | 2010 |
| Three months ended June 30, | | | | | |
| Eastern | \$ 30.9 | \$ 5.6 | \$ (7.0) | \$ 0.3 | \$ 29.8 |
| Western | 10.7 | 5.7 | - | 0.2 | 16.6 |
| New Zealand | 2.0 | - | - | 0.5 | 2.5 |
| Total Sales | \$ 43.6 | \$ 11.3 | \$ (7.0) | \$ 1.0 | \$ 48.9 |
| Six months ended June 30, | | | | | |
| Eastern | \$ 54.7 | \$ 8.8 | \$ (4.7) | \$ 0.5 | \$ 59.3 |
| Western | 20.0 | 8.2 | 3.7 | - | 31.9 |
| New Zealand | 3.8 | - | - | 1.0 | 4.8 |
| Total Sales | \$ 78.5 | \$ 17.0 | \$ (1.0) | \$ 1.5 | \$ 96.0 |

In the Eastern region, average prices rose 33 percent and 35 percent in the three and six months ended June 30, 2010 compared to the prior year periods, respectively, primarily from restricted timber supply caused by wet weather conditions. Prices in 2010 were also impacted by improved timber demand and a shift in sales mix. Volumes declined 28 percent and 20 percent in second quarter and year-to-date 2010 from the prior year periods, respectively, primarily due to lower thinning volumes in second quarter 2010. Year-to-date volumes were also unfavorably impacted by the restricted hardwood supply in first quarter 2010 caused by wet weather.

In the Western region, prices increased 51 percent and 34 percent in the three and six months ended June 30, 2010 from the respective 2009 periods reflecting improved export demand and tight supply. Overall volumes declined 7 percent for second quarter but increased 15 percent for the six months as we accelerated the year's harvest schedule to first quarter to capitalize on increased prices. The sales impact of the volume decline in second quarter 2010 was offset by a mix shift to higher-priced delivered logs.

New Zealand sales represent timberland management fees for services provided to the joint venture, of which Rayonier has a 26 percent equity interest.

| Operating Income (Loss) (in millions) | Changes Attributable to: | | | | |
|---------------------------------------|--------------------------|----------------|-----------------|-----------------|----------------|
| | 2009 | Price | Volume/Mix | Cost/Other | 2010 |
| Three months ended June 30, | | | | | |
| Eastern | \$ 3.4 | \$ 5.6 | \$ (2.1) | \$ (1.5) | \$ 5.4 |
| Western | (2.4) | 5.7 | (0.6) | (0.3) | 2.4 |
| New Zealand/Other | (0.6) | - | - | 1.5 | 0.9 |
| Total Operating Income | \$ 0.4 | \$ 11.3 | \$ (2.7) | \$ (0.3) | \$ 8.7 |
| Six months ended June 30, | | | | | |
| Eastern | \$ 6.3 | \$ 8.8 | \$ (2.9) | \$ 1.5 | \$ 13.7 |
| Western | (6.3) | 8.2 | (0.2) | 1.1 | 2.8 |
| New Zealand/Other | (1.9) | - | - | 2.3 | 0.4 |
| Total Operating Income (Loss) | \$ (1.9) | \$ 17.0 | \$ (3.1) | \$ 4.9 | \$ 16.9 |

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In the Eastern region, second quarter operating income improved from the 2009 period as higher sales prices more than offset lower volumes as well as increased costs primarily from depletion and logging expenses due to sales mix. For year-to-date 2010, operating income improved from the prior year period reflecting increased sales as well as lower costs due to geographic sales mix and improved production and transportation costs.

In the Western region, operating income in the second quarter improved from the prior year period as higher prices more than offset the decline in volume and slight increase in costs. In the six months ended June 30, 2010, operating income increased from the prior year period reflecting higher prices and favorable logging costs. Year-to-date operating income was also impacted by an unfavorable shift in sales mix.

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New Zealand operating income primarily represents equity earnings related to the joint venture's timber activities which have increased from the prior year periods due primarily to improved export demand.

REAL ESTATE

| Sales (in millions) | Changes Attributable to: | | | |
|------------------------------------|--------------------------|-----------------|------------------|----------------|
| | 2009 | Price | Volume/Mix | 2010 |
| Three months ended June 30, | | | | |
| Development | \$ 1.2 | \$ 0.1 | \$ (0.9) | \$ 0.4 |
| Rural | 5.8 | (1.9) | 0.3 | 4.2 |
| Non-Strategic Timberlands | 34.4 | 1.1 | (27.4) | 8.1 |
| Total Sales | \$ 41.4 | \$ (0.7) | \$ (28.0) | \$ 12.7 |
| Six months ended June 30, | | | | |
| Development | \$ 1.4 | \$ (0.7) | \$ 0.9 | \$ 1.6 |
| Rural | 9.6 | (3.8) | 1.8 | 7.6 |
| Non-Strategic Timberlands | 57.0 | 1.8 | (22.3) | 36.5 |
| Total Sales | \$ 68.0 | \$ (2.7) | \$ (19.6) | \$ 45.7 |

| Operating Income (in millions) | Changes Attributable to: | | | | |
|------------------------------------|--------------------------|-----------------|------------------|-----------------|----------------|
| | 2009 | Price | Volume/Mix | Cost/Other | 2010 |
| Three months ended June 30, | | | | | |
| Total Operating Income | \$ 24.2 | \$ (0.7) | \$ (17.9) | \$ (1.5) | \$ 4.1 |
| Six months ended June 30, | | | | | |
| Total Operating Income | \$ 38.6 | \$ (2.7) | \$ (11.8) | \$ (2.6) | \$ 21.5 |

For second quarter 2010, sales and operating income were \$29 million and \$20 million below 2009, respectively. Year-to-date, sales and operating income were \$22 million and \$17 million below 2009, respectively. The unfavorable results were primarily driven by fewer non-strategic timberland acres sold. Second quarter 2009 included 31,000 acres of non-strategic timberland sales compared to 6,000 in second quarter 2010. The 2010 periods were also negatively impacted by a decline in rural prices primarily due to geographic mix.

PERFORMANCE FIBERS

| Sales (in millions) | Changes Attributable to: | | | |
|------------------------------------|--------------------------|-----------------|----------------|-----------------|
| | 2009 | Price | Volume/Mix | 2010 |
| Three months ended June 30, | | | | |
| Cellulose specialties | \$ 134.7 | \$ (7.9) | \$ 35.8 | \$ 162.6 |
| Absorbent materials | 42.4 | 6.1 | (9.2) | 39.3 |
| Total Sales | \$ 177.1 | \$ (1.8) | \$ 26.6 | \$ 201.9 |

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| Six months ended June 30, | | | | | |
|----------------------------------|----|-------|-----------|---------|----------|
| Cellulose specialties | \$ | 291.4 | \$ (10.8) | \$ 39.3 | \$ 319.9 |
| Absorbent materials | | 89.3 | 4.0 | (11.5) | 81.8 |
| Total Sales | \$ | 380.7 | \$ (6.8) | \$ 27.8 | \$ 401.7 |

Cellulose specialties sales improved in both 2010 periods as increased volume reflecting stronger demand more than offset a decline in prices from the prior year periods due to the third quarter 2009 removal of a cost-based surcharge. Volumes rose 27

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percent and 14 percent for the three and six months ended June 30, 2010, respectively, while prices declined five percent and three percent for the quarter and six months ended June 30, 2010 from the prior year periods.

While absorbent materials prices improved by 19 percent and five percent for the three and six months ended June 30, 2010 due to strong demand, sales declined in both periods reflecting a 22 percent and 14 percent decrease in volumes for the three and six months, respectively, due to the timing of customer orders, a shift in production to cellulose specialties and pre-shutdown production issues.

| Operating Income (in millions) | Changes Attributable to: | | | | 2010 |
|------------------------------------|--------------------------|----------|------------|-------------|---------|
| | 2009 | Price | Volume/Mix | Costs/Other | |
| Three months ended June 30, | | | | | |
| Total Operating Income | \$ 34.7 | \$ (1.8) | \$ 11.5 | \$ 0.6 | \$ 45.0 |
| Six months ended June 30, | | | | | |
| Total Operating Income | \$ 75.5 | \$ (6.8) | \$ 11.3 | \$ 9.9 | \$ 89.9 |

Operating income improved in both 2010 periods primarily due to increased cellulose specialties volumes, higher absorbent materials prices and lower chemical costs offset in part by higher wood costs.

WOOD PRODUCTS

| Sales (in millions) | Changes Attributable to: | | | 2010 |
|------------------------------------|--------------------------|---------|--------|---------|
| | 2009 | Price | Volume | |
| Three months ended June 30, | | | | |
| Total Sales | \$ 12.5 | \$ 7.4 | \$ 1.7 | \$ 21.6 |
| Six months ended June 30, | | | | |
| Total Sales | \$ 24.3 | \$ 11.0 | \$ 2.2 | \$ 37.5 |

| Operating (Loss) Income (in millions) | Changes Attributable to: | | | 2010 |
|---------------------------------------|--------------------------|---------|------------------|--------|
| | 2009 | Price | Volume/Mix/Costs | |
| Three months ended June 30, | | | | |
| Total Operating (Loss) Income | \$ (2.6) | \$ 7.4 | \$ (0.5) | \$ 4.3 |
| Six months ended June 30, | | | | |
| Total Operating (Loss) Income | \$ (6.1) | \$ 11.0 | \$ (0.6) | \$ 4.3 |

Sales and operating income improved from the prior year periods primarily due to increased prices resulting from supply constraints caused by wet weather conditions. Prices rose 52 percent and 41 percent for the three and six months ended June 30, 2010 from the prior year periods. Although below historical averages, volumes increased 13 percent and nine percent in second quarter and year-to-date 2010 from the 2009 periods, respectively, reflecting higher production to capitalize on improved pricing. Operating income was unfavorably impacted by higher costs, primarily wood prices, in both 2010 periods.

OTHER OPERATIONS

Sales and operating income increased from the prior year periods. The improvement in operating income was primarily driven by foreign exchange gains and higher earnings from log trading.

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Corporate and Other Expenses

The six months ended June 30, 2010 results include a first quarter gain of \$12 million from the sale of a portion of the Company's interest in its New Zealand joint venture. See Note 3 *Joint Venture Investment* for additional information. The three and six months ended June 30, 2009 results include \$86 million relating to the alternative fuel mixture credit. See Note 2 *Alternative Fuel Mixture Credit (AFMC)* for additional information. Excluding these special items, corporate and other expenses were \$6 million for the three months ended June 30, 2010 and 2009 and \$13 million for the six months ended June 30, 2010 and 2009.

Interest Expense and Other Income, Net

For the three and six months ended June 30, 2010, interest and other expenses were comparable to the prior year periods as higher average debt balances were offset by interest income related to a favorable IRS settlement and lower average interest rates.

Income Tax Expense

Second quarter effective tax rates before discrete items were 19.1 percent and 21.5 percent in 2010 and 2009, respectively. For the six months, the effective tax rates were 17.6 percent and 20.2 percent in 2010 and 2009, respectively. The decreased rates in 2010 were due to proportionately higher earnings from the REIT.

Including discrete items, the effective tax rates for the quarter and year-to-date were 13.4 percent and 12.4 percent compared to 11.9 percent and 12.6 percent in 2009, respectively.

Outlook

With solid performance in the first half, we are well positioned for strong full year results. In Timber, by acting quickly to pull forward stumpage volume, we effectively locked in higher prices. In Real Estate, we are expecting an increase in rural and conservation sales in the second half while reducing our sales of non-strategic timberland. With strategic investments in our mills lowering costs and enabling us to meet increasing demand for our cellulose specialties and absorbent materials products, we are on track for another strong year in Performance Fibers.

As a result we are again increasing our 2010 guidance. We now expect earnings of \$2.05 per share to \$2.20 per share for 2010, excluding the gain on the New Zealand joint venture transaction, and Cash Available for Distribution of \$360 million to \$380 million.

Employee Relations

In April 2010, collective bargaining agreements covering approximately 240 hourly employees at our Fernandina Beach, Florida Performance Fibers mill expired. Negotiations have now been successfully concluded and on July 29 the unions ratified a new four-year agreement. See Item 1 *Business* and Item 1A *Risk Factors*, respectively, in the 2009 Annual Report on Form 10-K for more information on employee relations.

Liquidity and Capital Resources

Historically, our operations have generally produced consistent cash flows and required limited capital resources. Short-term borrowings have helped fund cyclical and seasonality in working capital needs and long-term debt has been used to fund major acquisitions.

\$75 million Five-Year Term Loan Agreement

In March 2010, TRS borrowed \$75 million under a five-year term loan agreement with a group of banks at LIBOR plus 275 basis points. We expect to use these funds for general corporate purposes.

Table of Contents**Summary of Liquidity and Financing Commitments (in millions of dollars)**

| | As of June 30, 2010 | As of December 31, 2009 |
|---|------------------------|----------------------------|
| Cash and cash equivalents ¹ | \$ 344 | \$ 75 |
| Total debt | 764 | 700 |
| Shareholders' equity | 1,182 | 1,146 |
| Total capitalization (total debt plus equity) | 1,946 | 1,846 |
| Debt to capital ratio | 39% | 38% |

¹ Cash and cash equivalents consisted primarily of time deposits with original maturities of 90 days or less.

Cash Provided by Operating Activities (in millions of dollars)

| | 2010 | 2009 | Increase |
|---------------------------|--------|--------|----------|
| Six months ended June 30, | \$ 356 | \$ 127 | \$ 229 |

Cash provided by operating activities for the six months ended June 30, 2010 increased primarily due to a cash refund of \$189 million related to the AFMC received in April 2010. See Note 2 *Alternative Fuel Mixture Credit (AFMC)* for additional information. Excluding the impact of the AFMC, cash provided by operating activities increased by approximately \$40 million primarily due to improved operating results and lower working capital requirements related to the timing of payments.

Cash Used for Investing Activities (in millions of dollars)

| | 2010 | 2009 | Increase |
|---------------------------|-------|-------|----------|
| Six months ended June 30, | \$ 77 | \$ 53 | \$ 24 |

Cash used for investing activities increased primarily due to a planned increase in capital expenditures for cost reduction and efficiency projects as well as environmental expenditures at our Jesup, Georgia Performance Fibers mill required under a 2008 consent decree. Additionally, restricted cash increased over prior year due to the timing of a like-kind exchange (LKE) transaction.

Cash Used for Financing Activities (in millions of dollars)

| | 2010 | 2009 | Decrease |
|---------------------------|-------|-------|----------|
| Six months ended June 30, | \$ 10 | \$ 76 | \$ 66 |

Cash used for financing activities decreased mainly due to higher net borrowings of \$60 million in 2010 versus no net borrowings in 2009.

Expected 2010 Expenditures

The amount of tax payments were de minimus during the first six months of 2010 compared to payments of \$5 million in the same period 2009. Cash payments for income taxes during 2010 are anticipated to be between \$18 million and \$22 million. A cash refund of \$189 million related to the AFMC was received in April 2010. The credit was effective for alternative fuel used in operations through December 31, 2009. See Note 2 *Alternative Fuel Mixture Credit (AFMC)* for additional information. We made no discretionary pension contributions in the first six months of 2010; however, discretionary pension contributions may be in the \$40 million to \$50 million range later in the year, funded primarily by proceeds from the AFMC. Capital expenditures in 2010 are forecasted to be between \$140 million and \$145 million compared to \$92 million in 2009. Expenditures related to dispositions and discontinued operations were \$4 million for the first six months of 2010 and 2009. Full year 2010 expenditures of approximately \$10 million are anticipated.

Performance and Liquidity Indicators

The discussion below is presented to enhance the reader's understanding of our operating performance, liquidity, ability to generate cash and satisfy rating agency and creditor requirements. This information includes two measures of financial results:

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Earnings before Interest, Taxes, Depreciation, Depletion and Amortization (EBITDA) and Adjusted Cash Available for Distribution (Adjusted CAD). These measures are not defined by Generally Accepted Accounting Principles (GAAP) and the discussion of EBITDA and Adjusted CAD is not intended to conflict with or change any of the GAAP disclosures described above. Management considers these measures to be important to estimate the enterprise and shareholder values of the Company as a whole and of its core segments, and for allocating capital resources. In addition, analysts, investors and creditors use these measures when analyzing our operating performance, financial condition and cash generating ability. Management uses EBITDA as a performance measure and Adjusted CAD as a liquidity measure. EBITDA is defined by the Securities and Exchange Commission. Adjusted CAD as defined, however, may not be comparable to similarly titled measures reported by other companies.

We reconcile EBITDA to Net Income for the consolidated Company and Operating Income for the Segments, as those are the nearest GAAP measures for each. Below is a reconciliation of Net Income to EBITDA for the respective periods (in millions of dollars):

| | Three Months Ended | | Six Months Ended | |
|--|--------------------|-----------------|------------------|-----------------|
| | June 30, | | June 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Net Income | \$ 38.6 | \$ 107.8 | \$ 95.5 | \$ 133.7 |
| Income tax expense | 5.9 | 14.5 | 13.6 | 19.2 |
| Interest, net | 11.8 | 11.9 | 24.1 | 24.5 |
| Depreciation, depletion and amortization | 33.2 | 48.2 | 76.5 | 86.7 |
| EBITDA | \$ 89.5 | \$ 182.4 | \$ 209.7 | \$ 264.1 |

EBITDA by segment is a critical valuation measure used by our Chief Operating Decision Maker, existing shareholders and potential shareholders to measure how the Company is performing relative to the assets under management. EBITDA by segment for the respective periods was as follows (millions of dollars):

| EBITDA by Segment | Three Months Ended | | Six Months Ended | |
|---------------------|--------------------|----------|------------------|----------|
| | June 30, | | June 30, | |
| | 2010 | 2009 | 2010 | 2009 |
| Timber | \$ 25.9 | \$ 22.4 | \$ 50.9 | \$ 37.5 |
| Real Estate | 6.6 | 36.3 | 33.5 | 56.1 |
| Performance Fibers | 57.2 | 47.4 | 117.9 | 102.5 |
| Wood Products | 5.4 | (1.3) | 6.5 | (3.7) |
| Other Operations | 0.7 | (2.1) | 1.3 | (1.3) |
| Corporate and other | (6.3) | 79.7(a) | (0.4)(b) | 73.0(a) |
| Total | \$ 89.5 | \$ 182.4 | \$ 209.7 | \$ 264.1 |

(a) 2009 results include \$85.9 million related to the AFMC.

(b) Six months ended June 30, 2010 includes a gain of \$12.4 million from the sale of a portion of the Company's interest in the New Zealand joint venture. See Note 3 - *Joint Venture Investment* for additional information.

For the three months ended June 30, 2010, EBITDA was \$93 million below the prior year period primarily due to the inclusion of \$86 million in the 2009 results related to the AFMC. Excluding the AFMC, lower sales in the Real Estate segment were partially offset by higher operating results in the other segments.

For the six months ended June 30, 2010, EBITDA was \$54 million below the prior year period primarily due to the inclusion of \$86 million in the 2009 results related to the AFMC. Excluding the AFMC, EBITDA was \$32 million above prior year primarily due to higher operating results

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and a \$12 million gain from the sale of a portion of Rayonier's interest in its New Zealand joint venture in the 2010 period.

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The following tables reconcile Operating Income by segment to EBITDA by segment (millions of dollars):

| | Timber | Real Estate | Performance Fibers | Wood Products | Other Operations | Corporate and other | Total |
|---|----------|-------------|--------------------|---------------|------------------|---------------------|----------|
| Three Months Ended June 30, 2010 | | | | | | | |
| Operating income (loss) | \$ 8.7 | \$ 4.1 | \$ 45.0 | \$ 4.3 | \$ 0.7 | \$ (6.5) | \$ 56.3 |
| Add: Depreciation, depletion and amortization | 17.2 | 2.5 | 12.2 | 1.1 | - | 0.2 | 33.2 |
| EBITDA | \$ 25.9 | \$ 6.6 | \$ 57.2 | \$ 5.4 | \$ 0.7 | \$ (6.3) | \$ 89.5 |
| Three Months Ended June 30, 2009 | | | | | | | |
| Operating income (loss) | \$ 0.4 | \$ 24.2 | \$ 34.7 | \$ (2.6) | \$ (2.1) | \$ 79.6(a) | \$ 134.2 |
| Add: Depreciation, depletion and amortization | 22.0 | 12.1 | 12.7 | 1.3 | - | 0.1 | 48.2 |
| EBITDA | \$ 22.4 | \$ 36.3 | \$ 47.4 | \$ (1.3) | \$ (2.1) | \$ 79.7 | \$ 182.4 |
| Six Months Ended June 30, 2010 | | | | | | | |
| Operating income (loss) | \$ 16.9 | \$ 21.5 | \$ 89.9 | \$ 4.3 | \$ 1.3 | \$ (0.7)(b) | \$ 133.2 |
| Add: Depreciation, depletion and amortization | 34.0 | 12.0 | 28.0 | 2.2 | - | 0.3 | 76.5 |
| EBITDA | \$ 50.9 | \$ 33.5 | \$ 117.9 | \$ 6.5 | \$ 1.3 | \$ (0.4) | \$ 209.7 |
| Six Months Ended June 30, 2009 | | | | | | | |
| Operating (loss) income | \$ (1.9) | \$ 38.6 | \$ 75.5 | \$ (6.1) | \$ (1.3) | \$ 72.6(a) | \$ 177.4 |
| Add: Depreciation, depletion and amortization | 39.4 | 17.5 | 27.0 | 2.4 | - | 0.4 | 86.7 |
| EBITDA | \$ 37.5 | \$ 56.1 | \$ 102.5 | \$ (3.7) | \$ (1.3) | \$ 73.0 | \$ 264.1 |

(a) 2009 results include \$85.9 million related to the AFMC.

(b) Six months ended June 30, 2010 results include a gain of \$12.4 million from the sale of a portion of the Company's interest in the New Zealand joint venture. See Note 3 *Joint Venture Investment* for additional information.

Adjusted CAD is a non-GAAP measure of cash generated during a period which is available for dividend distribution, repurchasing common shares, debt reduction and for strategic acquisitions net of associated financing (e.g. realizing LKE tax benefits). We define Cash Available for Distribution (CAD) as Cash Provided by Operating Activities adjusted for capital spending, the tax benefits associated with certain strategic acquisitions, the change in committed cash, and other items which include cash provided by discontinued operations, proceeds from matured energy forward contracts, excess tax benefits on stock based compensation and the change in capital expenditures purchased on account. Committed cash represents outstanding checks that have been drawn on our zero balance bank accounts but have not been paid. In compliance with Securities and Exchange Commission requirements for non-GAAP measures, we reduce CAD by mandatory debt repayments which results in the measure entitled Adjusted CAD.

Below is a reconciliation of Cash Provided by Operating Activities to Adjusted CAD (in millions of dollars):

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| | Six Months Ended June 30, | |
|---------------------------------------|---------------------------|----------------|
| | 2010 | 2009 |
| Cash used for investing activities | \$ (76.5) | \$ (53.4) |
| Cash used for financing activities | \$ (10.0) | \$ (75.7) |
| Cash provided by operating activities | \$ 355.8 | \$ 127.2 |
| Capital expenditures | (71.3) | (50.1) |
| Change in committed cash | 9.9 | 20.5 |
| Other | 8.8 | (1.2) |
| CAD | 303.2 | 96.4 |
| Mandatory debt repayments | - | - |
| Adjusted CAD | \$ 303.2 | \$ 96.4 |

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For the six months ended June 30, 2010, adjusted CAD was \$207 million higher than the prior year period primarily due to the receipt of \$189 million related to the AFMC and lower working capital requirements. Adjusted CAD generated in any period is not necessarily indicative of amounts that may be generated in future periods.

Liquidity Facilities

We have a \$250 million unsecured revolving credit facility at an interest rate of LIBOR plus 40 basis points. The facility expires in August 2011. At June 30, 2010, the available borrowing capacity was \$245 million.

In connection with our installment notes, \$75 million five-year term loan agreement, and \$250 million revolving credit facility, covenants must be met, including ratios based on the facility's definition of EBITDA, Funds from Operations, and ratios of cash flows to fixed charges. At June 30, 2010, we are in compliance with all of these covenants.

In addition to these financial covenants, the installment notes, five-year term loan agreement and credit facility include customary covenants that limit the incurrence of debt, the disposition of assets, and the making of certain payments between RFR and Rayonier among others. An asset sales covenant in the RFR installment note-related agreements requires us, subject to certain exceptions, to either reinvest cumulative timberland sales proceeds for individual sales greater than \$10 million (the excess proceeds) in timberland-related investments and activities or, once the amount of excess proceeds not reinvested exceeds \$50 million, to offer the note holders prepayment of the notes ratably in the amount of the excess proceeds. As of December 31, 2009, the excess proceeds were \$19.8 million. During March 2010, the excess proceeds exceeded the \$50 million limit and as a result, repayment of \$53.0 million was offered to the note holders. The note holders declined the offer and the excess proceeds were reset to zero. As of June 30, 2010, the excess proceeds were \$12.2 million.

Contractual Financial Obligations and Off-Balance Sheet Arrangements

We have no material changes to the Contractual Financial Obligations table as presented in Item 7 *Management's Discussion and Analysis of Financial Condition and Results of Operations* of our 2009 Annual Report on Form 10-K. See Note 10 *Guarantees* for details on the letters of credit, surety bonds and guarantees as of June 30, 2010.

New or Recently Adopted Accounting Pronouncements

For information on new or recently adopted accounting pronouncements, see Note 1 *Basis of Presentation and New Accounting Pronouncements*.

Table of Contents*Sales Volumes by Segment:*

| | Three Months Ended June 30, Six Months Ended June 30, | | | |
|--|---|---------------|---------------|---------------|
| | 2010 | 2009 | 2010 | 2009 |
| Timber | | | | |
| Western region, in millions of board feet | 40 | 43 | 87 | 75 |
| Eastern region, in thousands of short green tons | 1,449 | 2,019 | 2,864 | 3,591 |
| Real Estate | | | | |
| Acres sold | | | | |
| Development | 64 | 213 | 374 | 223 |
| Rural | 2,948 | 2,793 | 4,950 | 4,162 |
| Non-strategic timberlands | 6,227 | 30,594 | 30,223 | 49,663 |
| Total | 9,239 | 33,600 | 35,547 | 54,048 |
| Performance Fibers | | | | |
| Sales Volume | | | | |
| Cellulose specialties, in thousands of metric tons | 115 | 91 | 226 | 199 |
| Absorbent materials, in thousands of metric tons | 51 | 65 | 112 | 130 |
| Lumber | | | | |
| Sales volume, in millions of board feet | 65 | 57 | 120 | 110 |

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**Item 3. Quantitative and Qualitative Disclosures about Market Risk
Market and Other Economic Risks**

Our exposures to market risk have not changed materially since December 31, 2009. For quantitative and qualitative disclosures about market risk, see Item 7A - *Quantitative and Qualitative Disclosures about Market Risk* in our 2009 Annual Report on Form 10-K.

Item 4. Controls and Procedures

Rayonier management is responsible for establishing and maintaining adequate disclosure controls and procedures. Disclosure controls and procedures (as defined in Exchange Act Rule 13a-15(e) of the Securities Exchange Act of 1934 (the Exchange Act)), are designed with the objective of ensuring that information required to be disclosed by the Company in reports filed under the Exchange Act, such as this quarterly report on Form 10-Q, is (1) recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's (SEC) rules and forms and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Because of the inherent limitations in all control systems, no control evaluation can provide absolute assurance that all control exceptions and instances of fraud have been prevented or detected on a timely basis. Even systems determined to be effective can provide only reasonable assurance that their objectives are achieved.

Based on an evaluation of our disclosure controls and procedures as of the end of the period covered by this quarterly report on Form 10-Q, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that the design and operation of the disclosure controls and procedures were effective as of June 30, 2010.

In the quarter ended June 30, 2010, based upon the evaluation required by paragraph (d) of SEC Rule 13a-15, there were no changes in our internal control over financial reporting that would materially affect or are reasonably likely to materially affect our internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****Item 5. Other Information**

On July 29, 2010, we completed a reorganization of our operating structure (the Restructuring). In connection with the Restructuring, Rayonier Inc. (Rayonier) formed a new operating entity, named Rayonier Operating Company LLC (ROC), and entered into a contribution, conveyance and assumption agreement with ROC pursuant to which Rayonier contributed all of its assets to ROC in exchange for the assumption by ROC of all of Rayonier's liabilities and obligations. Rayonier now conducts and intends to continue to conduct its business through ROC, which owns all of the assets previously owned by Rayonier. As the sole member of ROC, Rayonier generally has the exclusive power under ROC's operating agreement to manage and conduct the business of ROC. Currently, ROC is wholly owned by Rayonier.

Among other advantages, the Restructuring will allow Rayonier to adopt a structure commonly referred to as an umbrella partnership real estate investment trust (or UPREIT). The UPREIT structure may enable us to acquire timberland assets and other properties from sellers on a tax deferred basis, because by accepting ROC equity interests in exchange for such assets sellers may be able to defer taxable gain otherwise required to be recognized by them upon disposition of these assets. ROC equity interests may also offer sellers diversification and liquidity in their investments and other benefits afforded to REIT shareholders. If Rayonier ever decides to acquire timberlands or other properties in exchange for equity interests in ROC (such that ROC would no longer be a wholly owned subsidiary of Rayonier), we would expect to amend and restate ROC's operating agreement.

In addition, as a result of the Restructuring, ROC became (i) a borrower under Rayonier's \$250 million unsecured revolving credit facility, and a guarantor of the obligations of the other borrowers (who, like ROC, are also subsidiaries of Rayonier) under the revolving credit facility, by entering into an assignment and assumption agreement and joinder agreement, respectively, each for the benefit of the lenders under the revolving credit facility and (ii) a guarantor of the outstanding 3.75% Senior Exchangeable Notes due 2012 and 4.50% Senior Exchangeable Notes due 2015 (collectively, the Exchangeable Notes) issued by Rayonier TRS Holdings Inc., by entering into, in each case, a supplemental indenture to the respective indenture governing such Exchangeable Notes.

Copies of the limited liability company agreement for ROC, the contribution, conveyance and assumption agreement relating to the Restructuring, the assignment and assumption agreement and the joinder to the guarantee agreement relating to the revolving credit facility, and the supplemental indentures relating to the Exchangeable Notes are filed as exhibits to this Quarterly Report on Form 10-Q.

Item 6. Exhibits

| | | |
|------|--|--|
| 3.1 | Amended and Restated Articles of Incorporation | Incorporated by reference to Exhibit 3.1 to the Registrant's May 25, 2010 Form 8-K |
| 3.2 | Bylaws | Incorporated by reference to Exhibit 3.2 to the Registrant's October 21, 2009 Form 8-K |
| 3.3 | Limited Liability Company Agreement of Rayonier Operating Company LLC | Filed herewith |
| 10.1 | Rayonier Incentive Stock Plan, as amended | Incorporated by reference to Exhibit 10.1 to the Registrant's May 25, 2010 Form 8-K |
| 10.2 | Rayonier Inc. Excess Benefit Plan, as amended | Filed herewith |
| 10.3 | Rayonier Inc. Excess Savings and Deferred Compensation Plan, as amended | Filed herewith |
| 10.4 | Form of Rayonier Inc. Excess Savings and Deferred Compensation Plan Agreements | Filed herewith |

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| | | |
|-------|--|--|
| 10.5 | Election Form for the Performance Share Deferral Program | Filed herewith |
| 10.6 | Five Year Revolving Credit Agreement, dated as of August 4, 2006, among Rayonier Inc., Rayonier TRS Holdings Inc., and Rayonier Forest Resources, L.P., as borrowers, and the lenders and issuing banks from time to time parties thereto | Filed herewith |
| 10.7 | Contribution, Conveyance and Assumption Agreement, dated as of July 29, 2010, between Rayonier Inc. and Rayonier Operating Company LLC relating to the Restructuring. | Filed herewith |
| 10.8 | Assignment and Assumption Agreement, dated as of July 29, 2010, between Rayonier Inc. and Rayonier Operating Company LLC relating to the Revolving Credit Agreement. | Filed herewith |
| 10.9 | Joinder to Guarantee Agreement, dated as of July 29, 2010, between Rayonier Operating Company LLC and Credit Suisse AG (formerly known as Credit Suisse) acting through its Cayman Islands Branch, as administrative agent, relating to the Revolving Credit Agreement. | Filed herewith |
| 10.10 | First Supplemental Indenture, dated as of July 29, 2010, to the Indenture related to the 3.75% Senior Exchangeable Notes due 2012 dated as of October 16, 2007, among Rayonier TRS Holdings Inc., Rayonier Inc., Rayonier Operating Company LLC and The Bank of New York Mellon Trust Company, N.A., as trustee. | Filed herewith |
| 10.11 | First Supplemental Indenture, dated as of July 29, 2010, to the Indenture related to the 4.50% Senior Exchangeable Notes due 2015 dated as of August 12, 2009, among Rayonier TRS Holdings Inc., Rayonier Inc., Rayonier Operating Company LLC and The Bank of New York Mellon Trust Company, N.A., as trustee. | Filed herewith |
| 31.1 | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act | Filed herewith |
| 31.2 | Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act | Filed herewith |
| 32 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act | Furnished herewith |
| 101 | The following financial information from our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2010, formatted in Extensible Business Reporting Language (XBRL), includes: (i) the Condensed Consolidated Statements of Income and Comprehensive Income for the Three and Six Months Ended June 30, 2010 and 2009; (ii) the Condensed Consolidated Balance Sheets as of June 30, 2010 and December 31, 2009; (iii) the Condensed Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2010 and 2009; and (iv) the Notes to Condensed Consolidated Financial Statements, tagged as blocks of text. | Furnished herewith pursuant to Rule 406T of Regulation S-T |

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SIGNATURE

Pursuant to the requirements of Section 13 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.

RAYONIER INC.

By: /s/ HANS E. VANDEN NOORT
Hans E. Vanden Noort

*Senior Vice President and Chief Financial Officer
(Principal Accounting Officer)*

July 30, 2010